

SOUTH WALTON FEASIBILITY STUDY SUMMARY

INTRODUCTION

This document is a summary of the full South Walton Feasibility Study and is intended to provide a short version of the full study that includes the key content points and findings. Some additional information is included in this summary for readability and to assist the reader in understanding the overall context. The current version of the full study can be found on the ABSW, Inc. web site at: www.ABetterSouthWalton.org.

When a new municipality is being proposed, Florida Statutes (Chapter 165) require a study be submitted to the legislature for consideration along with the proposed charter and associated local bill. Such studies are not intended to show exactly what will happen if a community incorporates. Rather they address the rationale for incorporation and show that incorporation is feasible. The South Walton Feasibility Study developed by ABSW, Inc. and experts is such a study and shows what could be done via incorporation. What actually happens if incorporation is approved by the legislature, the governor and the citizens of South Walton will be determined by the elected officials with the community's input.

The study addresses the following (s. 165.041(b)1-11):

- Boundaries of the area being considered
- Rationale for incorporation
- Characteristics of the area including land use and zoning
- List of public agencies and current services provided in the area
- List of proposed services to be provided with cost estimates
- Evidence of fiscal capacity - tax base, revenue sources and 5-year operating plan
- Data, assumptions and analysis that support the financial feasibility of incorporation
- Description of the alternatives considered to address the concerns
- Evidence that the new municipality meets all statutory requirements

ABSW, Inc. commissioned the feasibility study because the South Walton community, if left on its current course, will rapidly lose what has made it a special and unique place with its natural beauty and distinctive character that attracts residents, visitors and small businesses. The opportunity exists to alter the course if we can achieve:

- Increased local representation with South Walton perspective and stewardship as a prime motivator
- Better planning, growth management and enforcement
- More opportunities for additional investment in local infrastructure
- More balanced allocation of tax revenues generated by South Walton

KEY STUDY FINDINGS

- Incorporation of South Walton into a new municipality is feasible and offers the best solution for addressing the concerns of the local citizens, property owners and businesses.

- Significant benefits are provided by a new South Walton municipality.
- There would be no tax impact on South Walton property owners and local businesses in the scenario outlined in the study (detailed below) as no additional ad valorem taxes would be required for providing the existing level of services.

BENEFITS TO SOUTH WALTON OF INCORPORATION

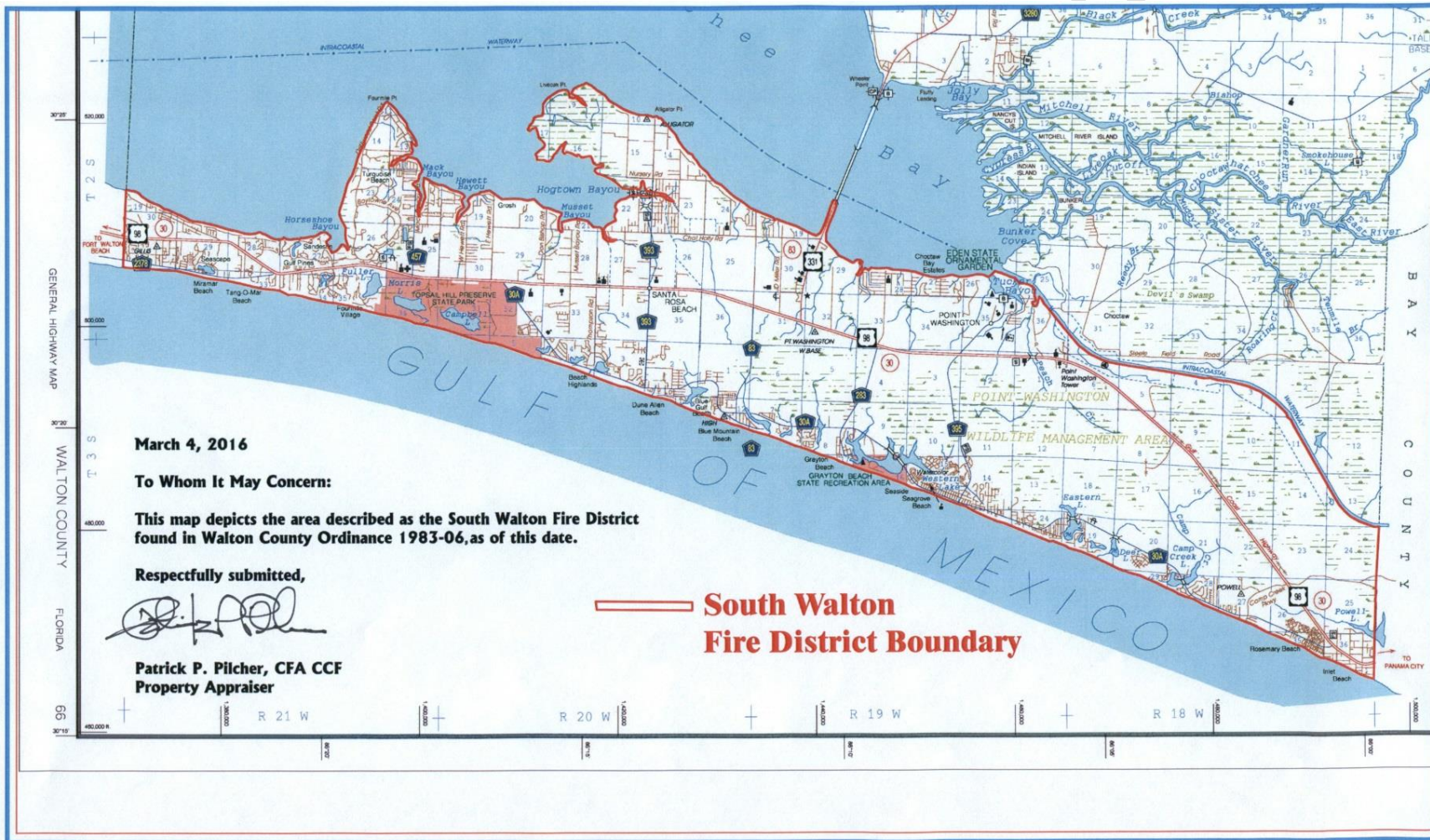
- Planning and Code Enforcement would be handled by the municipality as soon as possible
 - New Comprehensive Plan and Land Development Code
 - Planning decisions are made by people who live and work in the community
 - Focus on long-range planning
- Funds will be available each year to augment county and TDC spending on infrastructure improvements
 - Continuous focus on grants to leverage these dollars into more substantial investments
- As a municipality, South Walton could have significant influence on various issues with the county, regional planning, the state and the federal government
 - We will have one large voice speaking for our community with
 - Walton County
 - School Board
 - Regional Planning Council (Transportation planning and prioritization)
 - Water Management District
 - South Walton Tourist Development Council (TDC)
 - Walton County Economic Development Alliance
 - Other regional and state governments, as well as federal government
 - Today we are an unincorporated area of Walton County with no unified voice
- Self-determination with Local Representatives
 - We will elect our leaders and they will represent us
 - Elected officials and staff are focused exclusively on our challenges and opportunities
- Top Priorities Get Attention
 - Our local leadership will set and address those priorities most important to the community
 - A municipality will help residents, visitors and business owners providing a centralized focus of attention on specific issues that are unique to our area
- More Local Tax Dollars Spent Locally
 - Local fees and taxes form the base of a municipality's revenue structure and those dollars are spent locally for municipal services

NEW MUNICIPALITY SCOPE AND APPROACH

Geographic Area Proposed for Incorporation

Attached hereto as Exhibit A below is a map which identifies the proposed incorporated area that is signed and sealed by Patrick Pilcher, Walton County Property Appraiser. This proposed incorporation area is identical to that of the South Walton Fire District.

Exhibit A – Map of Proposed Incorporation Area



Services Overview

Due to the perceived desire of the community to minimize any new fees or taxes to be levied upon the citizens of South Walton, a very lean municipal government which only directly provides legal support, solid waste management, planning and code enforcement services and infrastructure improvement funding to augment what the county spends in South Walton was assumed. Services and functions assumed to be provided by the new municipality include the following:

- A municipal administrative staff of five full-time employees in Year 1 which grows to seven by Year 5
- Administrative expenses including rent, insurance, utilities, IT services, etc.
- Legal expenses
- Solid waste management fees paid to Walton County to continue that service in the first five years at a minimum
- Costs to contract with a private firm for Planning and Zoning and Code Enforcement services
- Funds in excess of \$2 million annually to be spent on infrastructure improvements to supplement what the county is investing in infrastructure improvements. The expectation is that the municipal staff would focus on seeking state and federal grants for infrastructure improvements that would either not require any local matching funds or require matching funds of 20% to 50%. This could greatly increase the municipality's ability to fund improvements.

The planning assumption is that South Walton would contract with Walton County for many of the base services that the county provides today. South Walton citizens would continue to pay county ad valorem taxes. The municipality would pursue agreements with the county to keep the current level of services or enhance services, including:

- Law Enforcement / Animal Control
- Fire and EMS (Special District)
- Mosquito Control (Special District)
- Building Department - permits, inspections
- Public Works - streets, sidewalks, street lighting, etc.
- Parks and Recreation
- Other – I.e. Library, GIS

The expectation is that due to the fact that the vast majority of taxes will continue to be generated in South Walton, Walton County would be willing to work with the municipality and would treat the people of South Walton fairly.

Planning and Code Enforcement

The municipality would develop its own Comprehensive Plan and Land Development Code as quickly as possible and contract with Walton County for these services until new codes and processes are in place. The cost to develop new plans and codes is included in the Planning Services expense item in Years 1 and 2 totaling \$1,000,000. The goal would be to bring Planning and Code Enforcement functions into the municipality as quickly as possible. We recommend contracting with an outside firm for these services once they come into the municipality. We also assume a full-blown cost recovery system would be implemented so that fees charged to developers would cover the majority of these expenses as is

common in many local governments in Florida and other states. These fees and related expenses can be seen in the Five-Year Operating Plan as equal and offsetting revenue and expense line items titled *Charges for Services (Recoverable)*.

Augment County Infrastructure Spending

This proposed plan assumes that any available funds after covering administrative, legal and planning costs would be directed to infrastructure improvements to augment what Walton County Public Works, Parks and Recreation and the TDC is doing regarding infrastructure and destination improvements. These improvements could include:

- Roadway improvements
- Pedestrian and cyclist facilities
- Public park and recreation facilities
- Landscape and streetscape improvements
- Beach access facilities
- Parking improvements, etc.

It is assumed and expected that municipal staff would focus on seeking grant opportunities, and operating revenues can provide matching funds for grants. State and federal grants are available to municipalities that can provide the opportunity to leverage municipal funds up to five times over and some do not require matching funds.

If the residents and stakeholders of South Walton wished to significantly increase spending on priority infrastructure needs beyond the funds shown in the Operating Plan in the Study plus grants, then the new municipality's governing council responding to the will of the people of South Walton would need to identify additional sources of funding. This additional funding could be from other government entities such as Walton County and the South Walton Tourist Development Council. If the need and urgency was such that more funding was needed beyond that identified from other sources, the new municipality's governing council could levy municipal-level ad valorem or other taxes or fees for such a purpose.

Relationship to Walton County and the TDC

As described in the Benefits section above, the new municipality could have significant influence on various issues with the county, regional planning, the state and the federal governments. The new city council would consist of local residents elected and accountable to focus specifically on the issues and opportunities of South Walton. With the exception of services that the new municipality takes on that replace the similar services provided by Walton County today (such as Planning and Code Enforcement), Walton County, the TDC, and regional entities would continue to operating under their charters with responsibilities as defined today. However as described for Infrastructure Spending above, the new municipality can at the discretion of the new city council acting on the wishes of the South Walton residents augment services provided by the county or TDC today.

The TDC is of particular interest in this regard as the TDC's concern, authority, and responsibilities significantly impact the land, infrastructure, people and businesses of South Walton. The working relationship with the TDC would be one of the first orders of business for the newly elected city council. While the TDC is established and governed by separate Florida statutes and under the oversight of the

Walton County Commission, the new municipality would seek every effective way to influence and partner with the TDC for the long term benefit of all of South Walton.

FIVE-YEAR OPERATING PLAN

Key Revenue Assumptions

State Shared Revenues (SSR) are the primary revenue source. State Shared Revenues are primarily sales taxes that are distributed back to counties and municipalities by the state. SSR estimates are based on population and are provided by the Florida Department of Revenue. SSR are estimated to provide approximately \$8.7 million in Year 1 of the first five years of the new municipality. Our consultant assumed an annual growth rate of 1.5% which leads to revenue of approximately \$9.2 million in Year 5.

New municipalities must qualify to receive State Shared Revenues. They must generate a dollar equivalent of 3 mills of certain types of taxes within the municipality (State Statute 218.23). This shows that the municipality “has some skin in the game”. The Florida Legislature generally exempts new municipalities for the first three to four years; we would apply for that exemption. Since South Walton pays almost 90% of the ad valorem tax for the entire county we would ask the legislature to allow us to count forms of revenue levied in South Walton toward qualification for State Shared Revenues other than what is generally allowed by statute.

Per Florida Statute 218.23(1), the following fees and taxes count toward qualification.

- Municipal ad valorem/property taxes
- Utility services taxes
- Occupational license taxes

Currently none of these taxes or fees are levied exclusively on South Walton residents and are not proposed to be. We will request an exception to allow the following taxes to count toward the three mill test as we pay 88.58% of county ad valorem taxes.

- South Walton Mosquito District ad valorem - .1628 mills
- South Walton Fire District ad valorem - .9799 mills
- Sheriff's Office ad valorem – 1.9482 mills
- Total – 3.0909 mills

A similar exception was approved by the legislature in 2015 when the community of Panacea attempted incorporation. If South Walton receives State Shared Revenues which are currently going to Walton County with minor amounts going to other municipalities in Walton County, no ad valorem tax would be required to fund proposed operations.

Five-Year Operating Plan Assuming State Shared Revenues Are Approved

The following schedule shows the Revenues and Expenses for the most probably case where State Shared Revenues are available for the entire five years of the plan.

Revenue	Year 1	Year 2	Year 3	Year 4	Year 5
Prior Year Fund Balance Carryover	\$ -	\$ 113,318	\$ 126,025	\$ 113,239	\$ 123,729
Ad Valorem Taxes	-	-	-	-	-
State Shared Revenue ¹	-	-	-	-	-
Revenue Sharing Sales Tax Portion	414,249	420,463	426,770	433,171	439,669
Revenue Sharing Fuel Tax Portion ²	128,673	130,603	132,562	134,551	136,569
1/2 Cent Sales Tax	2,923,905	2,967,764	3,012,280	3,057,464	3,103,326
Discretionary Surtax 1%	5,219,691	5,297,986	5,377,456	5,458,118	5,539,990
Charges for Services (Recoverable)	-	-	800,000	800,000	800,000
Miscellaneous Revenue	5,000	5,075	5,151	5,228	5,307
Total	\$ 8,691,518	\$ 8,935,209	\$ 9,880,244	\$ 10,001,771	\$ 10,148,590
Expenses	Year 1	Year 2	Year 3	Year 4	Year 5
Council Expenses ³	\$ 60,000	\$ 61,200	\$ 62,424	\$ 63,672	\$ 64,946
Administrative Staff					
Municipal Manager ⁴	145,000	147,900	150,858	153,875	156,953
Finance Director ⁵	95,000	96,900	98,838	137,815	140,571
Clerk ⁶	65,000	66,300	67,626	68,979	105,358
Community Development ⁷	72,000	73,440	74,909	76,407	77,935
Admin Assistant ⁷	35,000	35,700	36,414	37,142	37,885
Employee Benefits (35%)	165,200	168,504	171,874	188,262	204,277
Contract Services	-	-	-	-	-
Legal ⁸	500,000	500,000	450,000	400,000	400,000
Garbage/Solid Waste and Landfill ⁹	4,410,000	4,498,200	4,588,164	4,679,927	4,733,526
Planning Services ¹⁰	500,000	500,000	700,000	700,000	700,000
Office, Administrative and Technology	-	-	-	-	-
Rent for Offices ¹¹	64,000	64,960	64,317	63,680	63,050
Utilities	12,000	12,180	12,363	12,548	12,736
Communications (phone/Internet)	12,000	12,240	12,485	12,734	12,989
IT Services	10,000	13,000	16,900	21,970	28,561
Office Equipment	150,000	25,000	25,500	26,010	26,530
Office Supplies	15,000	15,300	15,606	15,918	16,236
Insurance ¹²	18,000	18,360	18,727	19,102	19,484
Charges for Services (Recoverable)	-	-	800,000	800,000	800,000
Infrastructure Improvement	2,000,000	2,250,000	2,150,000	2,150,000	2,175,000
Contingency	200,000	200,000	200,000	200,000	200,000
Reserve Contribution	50,000	50,000	50,000	50,000	50,000
Total ¹³	\$ 8,578,200	\$ 8,809,184	\$ 9,767,005	\$ 9,878,041	\$ 10,026,036
Excess Revenue Over/(Under) Expenses	\$ 113,318	\$ 126,025	\$ 113,239	\$ 123,729	\$ 122,554

¹ All Year 1 state shared revenue estimates provided by Florida Department of Revenue based on the 2015 Census estimated population for South Walton at 22,254 and the Walton County Property Appraiser assessed taxable value for real and intangible personal property in South Walton of \$12,565,290,263 as of January 2016

² The fuel tax portion of municipal revenue sharing is calculated based on the 2015 Local Government Information Handbook prepared by the Florida Department of Revenue.

³ \$1,000/month compensation for five (5) Commissioners beginning in FY2017-18

⁴ Prevailing salaries for similar sized communities; Source: By Savannah Vasquez, Northwest Florida Daily News, 4/15.

⁵ Certified Government Finance Officer, CPA, CPFO or similar designation with the prevailing salary; Accounting Coordinator FTE added Year 4; Source: Classification schedule, City of Fort Walton Beach

⁶ Administrative Assistant FTE added in Year 5; Source: Classification schedule, City of Fort Walton Beach

⁷ Source: Classification schedule, City of Fort Walton Beach

⁸ Contracted municipal attorney services needed to implement Code of Ordinances, Comprehensive Plan, Land Development Regulations in Years 1 and 2 and ongoing legal fees needed thereafter

⁹ Estimate is pro-rata share of current costs based on population

¹⁰ Costs for consulting firm assistance in writing codes and regulations in Years 1 and 2; outside planning and development services contract (subject to change) for non-recoverable expenses Years 3 – 5

¹¹ Rents were estimated using local realtor information for a 3,150 sq ft property in plaza in Walton County

¹² Estimate based on current costs for other municipalities in Florida

¹³ Assumes all other necessary services will continue to be provided by the county through Interlocal Agreements

Five-Year Operating Plan Assuming State Shared Revenues Are NOT Approved

If the legislature does not approve the exception for qualification for State Shared Revenues beyond the first three years, the municipality would need to levy an ad valorem tax of approximately 0.2950 mills in order to fund operations at similar levels to those described above. The impact of an additional 0.2950 mills of property tax would be:

<u>Property Taxable Value</u>	<u>Yearly Tax Increase</u>	<u>Monthly Tax Increase</u>
\$ 100,000	\$ 30	\$ 2
200,000	59	5
400,000	118	10
600,000	177	15
800,000	236	20
1,000,000	295	25

Because of South Walton’s substantial tax base any incremental increase would produce significant revenues for the municipality. In addition, if the citizens of South Walton desire levels of service and/or investment greater than those described above, the municipality would need to levy additional fees or taxes in order to fund those levels of service/investment.

The following schedule shows the Revenues and Expenses for the less probably case where State Shared Revenues are available for only the first three years of the five year of the plan.

Five-Year Operating Plan - State Shared Revenue Exceptions NOT Approved

Revenue	Year 1	Year 2	Year 3	Year 4	Year 5
Prior Year Fund Balance Carryover	\$ -	\$ 113,318	\$ 126,025	\$ 113,239	\$ 103,365
Ad Valorem Taxes ¹	-	-	-	3,978,940	4,018,729
State Shared Revenue	-	-	-	-	-
Revenue Sharing Sales Tax Portion	414,249	420,463	426,770	-	-
Revenue Sharing Fuel Tax Portion	128,673	130,603	132,562	-	-
1/2 Cent Sales Tax	2,923,905	2,967,764	3,012,280	-	-
Discretionary Surtax 1%	5,219,691	5,297,986	5,377,456	-	-
Charges for Services (Recoverable)	-	-	800,000	800,000	800,000
Miscellaneous Revenue	5,000	5,075	5,151	5,228	5,307
Total	\$ 8,691,518	\$ 8,935,209	\$ 9,880,244	\$ 4,897,407	\$ 4,927,401

Expenses	Year 1	Year 2	Year 3	Year 4	Year 5
Council Expenses	\$ 60,000	\$ 61,200	\$ 62,424	\$ 63,672	\$ 64,946
Administrative Staff					
Municipal Manager	145,000	147,900	150,858	150,858	153,875
Finance Director	95,000	96,900	98,838	137,815	140,571
Clerk	65,000	66,300	67,626	68,979	105,358
Community Development	72,000	73,440	74,909	76,407	77,935
Admin Assistant	35,000	35,700	36,414	37,142	37,885
Employee Benefits (35%)	165,200	168,504	171,874	187,206	203,199
Contract Services	-	-	-	-	-
Legal	500,000	500,000	450,000	400,000	400,000
Garbage/Solid Waste and Landfill ²	4,410,000	4,498,200	4,588,164	-	-
Planning Services	500,000	500,000	700,000	700,000	700,000
Office, Administrative and Technology	-	-	-	-	-
Rent for Offices	64,000	64,960	64,317	63,680	63,050
Utilities	12,000	12,180	12,363	12,548	12,736
Communications (phone/Internet)	12,000	12,240	12,485	12,734	12,989
IT Services	10,000	13,000	16,900	21,970	28,561
Office Equipment	150,000	25,000	25,500	26,010	26,530
Office Supplies	15,000	15,300	15,606	15,918	16,236
Insurance	18,000	18,360	18,727	19,102	19,484
Charges for Services (Recoverable)	-	-	800,000	800,000	800,000
Infrastructure Improvement	2,000,000	2,250,000	2,150,000	1,750,000	1,700,000
Contingency	200,000	200,000	200,000	200,000	200,000
Reserve Contribution	50,000	50,000	50,000	50,000	50,000
Total	\$ 8,578,200	\$ 8,809,184	\$ 9,767,005	\$ 4,794,041	\$ 4,813,355

Excess Revenue Over/(Under) Expenses	\$ 113,318	\$ 126,025	\$ 113,239	\$ 103,365	\$ 114,046
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¹ Municipal ad valorem taxes at 0.2950 mills added in Year 4 to compensate for the loss of state shared revenues if qualification exceptions are not approved

² Expenses for solid waste management return to Walton County beginning in Year 4 if the 1% Discretionary Surtax goes back to the county as they allocate those funds for this purpose.