Financing for Jax-Florida

A) <u>What are the financing alternatives to bring Jax-Florida to Collier County</u>?

The productivity committee has identified 7 funding alternatives: a franchise fee, three property tax options, non-ad valorem revenue, a combined franchise fee/property tax and a sales tax.

The alternatives address basic provisions, cost, bonding, payout requirements, advantages and disadvantages. Calculations are based on current assumptions and reasonable expectations.

Most calculations are general estimates, since future economic conditions (cost increases, revenue increases due to growth, etc.) over the funding timeframe are not factored into the analysis. However, these estimates are sufficient to compare the provisions and costs of the different alternatives.

B) <u>What is the estimated payout of county match by year?</u>

The Jackson Laboratory Proposed Business Plan (June 2010) provided a graphical schedule of when combined state and local funds would be required by calendar year.

The initial assumption is that state funding and local match funding would be required in equal amounts each year based on the Business Plan. The $130 million county's local match payout, by fiscal year, would be:

$28 million in FY11
$36 million in FY12
$17 million in FY13
$ 9 million in FY14
$10 million in FY15
$ 9 million in FY16
$ 8 million in FY17
$ 6 million in FY18
$ 4 million in FY19
<u>$ 3 million</u> in FY20
$130 million all years

The state's initial $50 million appropriation would run out the middle of FY12. Collier County should consider the economic viability of the project if the additional state funding is not provided in FY12 and FY13. Jackson Laboratory has said the project cannot go forward without the state's future $80 million.

C) <u>Who is contributing to county's $130 million share?</u>

1) During the last 5 years, the Florida Legislature has provided $450 million to bring

earlier biomedical research institutes to seven other counties under the Innovation Incentive Program. The productivity committee reviewed how some of the largest local matches were financed.

The Burnham Institute for Medical Research is located in Orlando/Orange County. The required local match of $155 million (identical to the state share) is being paid by:

-- City of Orlando	$33 million
-- Orange County	$41 million
-- Private donations	$15 million
-- Developer (land)	$23 million
-- Hospital (in-kind)	$31 million
-- Walt Disney (in-kind)	$11 million

Max Planck Florida is located in Jupiter/Palm Beach County. The required local match of $93 million (nearly identical to the state share) is being paid by Palm Beach County through a series of non-ad valorem revenue bonds, which didn't require a voter referendum. There are 1.2 million people living in Palm Beach County.

Huffman Institute for Human Genomics is located in Miami/Dade County. State funding is $80 million and the local match is at least $100 million in private funds. The Miller School of Medicine, at the University of Miami where the institute is co-located, is providing the donation.

2) Barron Collier Companies is donating 50 acres to Jax-Florida. The actual value of the land will need to be determined. Donated land has generally been counted as part of the local match.

The Jackson Laboratory Business Plan states that $125 million of the County's $130 million local match must be in cash, or infrastructure agreed to by Jackson Lab, and up to $5 million may be the value of the land donated to the Laboratory.

With the actual value of the land unknown at this time, the full $130 million local match was used in the cost calculations of the various alternatives.

3) Donations from medical schools, hospitals, cities, private sources or federal stimulus/job creation funds should be pursued, as they have in prior Innovation Incentive programs, to reduce the amount of the $130 million local match that Collier County residents would otherwise be required to pay. Some of these organizations have expressed written support for, and would benefit from, Jax-Florida and their financial support should be solicited.

Jackson Laboratory acknowledges that Barron Collier Companies plans to donate $10 million (exclusive of land) to Jax-Florida. However, that amount will be counted as a private donation to Jax-Florida and will not be included as part of the county's local match.

Barron Collier Companies stands to make a lot of money if county taxpayers spend $130 million for Jax-Florida to anchor a biomedical cluster on their property.

They should make a substantial donation to the local match and other contributions to the county, such as a large parcel of land within Ave Maria. They are donating $10 million directly to Jax-Florida, but that money would not be applied against the county's local match.

Other landowners, with sufficient property to house a biomedical cluster, should be contacted to see if they would be willing to donate 50 acres to Jax-Florida and also agree to a substantial contribution toward the local match.

4) Collier County should ask Lee County to contribute to the local match.

The potential benefits of proximity to Jax-Florida would be felt regionally in Southwest Florida. In fact, the Washington Economic Group report identifies substantial "regional benefits" and a large part would apply to Lee County.

The multiplier effect of the new Jax-Florida and cluster jobs would have a spillover effect for new/expanding supporting businesses, jobs and expenditures in Lee County, including increased activity at the SW Regional airport.

New residential housing would be built in Lee County, as new employees look for housing in a variety of price ranges. Many parts of Lee County, from Bonita Springs to Lehigh Acres and even western Hendry County, would be an easy commute to Ave Maria.

5) Jax-Florida should also consider applying for Recovery Zone Facility Bonds, which are used for the financing of private activity business in a Recovery Zone. They are tax-exempt private activity bonds, available under the American Recovery and Reinvestment Act (ARRA) of 2009. Recovery Zone bonds must be issued no later than January 31, 2010.

6) Every effort should be made to secure additional revenue from other sources to reduce county tax outlays.

There are 316,000 people in Collier County to pay the $130 million local match. No other county in the state has had to pay such a large per capita cost to secure a biotechnology research institute under the Innovation Incentive Program.

Chuck Hewett, in an interview with Jeff Lytle, left the door open for Collier County to partner in royalties from new patents. There may be other ways for the county to recover some of our investment from the future profitability of Jax-Florida.

D) <u>What revenue sources could be used to pay the $130 million?</u>

1) A <u>Franchise Fee</u>, for use of county right-of-way, could be added to utility bills. Electric companies would pass fee collections to Collier County.

A franchise fee could be instituted by a simple majority vote of the Board of County Commissioners. An ordinance would be prepared and collections could start shortly thereafter.

The county can only establish a franchise fee in unincorporated areas of the county, which would exclude the City of Naples, Marco Island and Everglades City, about 10% of the county's population.

In the unincorporated areas, a franchise fee would be collected from both Florida Power & Light (FPL) and Lee County Elective Co-Op (LCEC).

The maximum franchise fee that could be established is 5.9%, which would produce $22.3 million annually.

If a franchise fee rate of 2.4% was established, $8.8 million would be collected annually. This amount would be sufficient to pay the debt on two bond sales ($80 million in FY11 and $50 million in FY13), assuming a 4.5% interest rate, retiring the bonds in a maximum of 25 years. The franchise fee could be eliminated once the bonds were retired.

A residence with an average $120 monthly electric bill would pay less than $3 monthly, $34 annually and about $840 over the 25 year period.

A residence with a $200 monthly electric bill, would pay about $4.60 monthly, $56 annually and $1,400 over the 25 year period.

An average commercial property would pay about $14 monthly, $170 annually and $4,200 over the 25 year period.

An average industrial property would pay about $8.50 monthly, $102 annually and $2,550 over the 25 year period.

Advantages:

Bonding the franchise fee would spread the cost over the 10 to 20 year period required to achieve projected full benefits of extended job creation.

Disadvantages:

The franchise fee would not paid by all Collier County residents, which would be a fairness issue for an economic development effort of this size.

A franchise fee is regressive, hitting the lower income taxpayer harder than those with a higher income.

2) <u>Property taxes</u> could be used on a pay-as-you-go basis. (#1)
The FY11 county budget has been developed at a millage neutral level. Property values dropped 12% and FY11 General Fund revenues are $31.9 million lower that the FY10 level.

Non-homesteaded properties will pay 12% less than last year.

Some homesteaded properties will pay less than last year, and some will pay 2.8% more than last year due to the Florida “recapture” provision.

According to the assumptions provided, property values and tax revenues in future years are not expected to increase dramatically.

Property values for the FY12 county budget are expected to drop 6% and, at a millage neutral level, General Fund revenues would be $13 million lower than in FY11.

Property values are expected to stabilize in FY13 and FY14 and General Fund revenues would remain constant.

Property values in FY15 through FY20 are expected to increase at a 5.5% rate, providing additional revenue of $11 million to $15 million in those years.

Funding Jax-Florida on a pay-as-you-go basis from property taxes would require tax rate increases. This alternative assumes that state funds and the local match must be paid equally each year.

The Board of County Commissioners would set the property tax rate to fund Jackson Lab for FY11 with a majority vote, and collections would start in November 2010. In subsequent fiscal years, the appropriate millage rate would need to be included for Jax-Florida.

Using the assumptions on property values and the county's payout schedule listed above, the following tax rate increases would be required over the FY11 millage neutral rate. Tax impacts on some assessed property values are provided.

Year	Millage Increase	Tax increase $200k property	Tax increase $300k property
FY11	.45	$ 90	$135
FY12	.62	$116	$174
FY13	.29	$ 55	$ 83
FY14	.15	$ 28	$ 42
FY15	.16	$ 32	$ 48
FY16	.14	$ 29	$ 44
FY17	.12	$ 26	$ 39
FY18	.08	$ 19	$ 28
FY19	.05	$ 12	$ 18
FY20	.04	$ 10	$ 15
		$417	$626

Advantages:

Property taxes, unlike franchise fees, would be paid by all county property owners and indirectly by all renters.

No bonding is required so there are no interest costs.

Proposed millage increase could be halted if the project does not proceed beyond a certain timeframe.

Disadvantages:

Costs are front-loaded, over a 10-year period (with 60% of the costs paid in the first 3 years), for a project whose full benefits would probably not be realized for 10 to 20 years.

During the 10-year payment period, additional millage rate increases would be required for other county operations (costs increase for purchases, wages and other expenses, as well as delayed infrastructure needs). Without millage increases, the county would probably need to reduce services below the levels generally expected by Collier County residents.

3) Property taxes could be used on another pay-as-you-go basis. (#2)
Funding Jax-Florida on a different pay-as-you-go basis, out of property taxes, would

also require tax rate increases.

This alternative assumes that all state funds are paid out as soon as they are available in the first 3 years and then the county's local match is used, as required, to meet the Jackson Lab payout schedule. It is possible, that this payout schedule could be negotiated to our advantage with the state's Office of Tourism, Trade and Economic Development.

The Board of County Commissioners would set the property tax rate to fund Jackson Lab for FY11 with a majority vote, and collections would start in November 2010. In subsequent fiscal years, the appropriate millage rate would need to be included for Jax-Florida.

Using the assumptions on property values and the county's payout schedule listed above, the following tax rate increases would be required over the FY11 millage neutral rate. Tax impacts on some assessed property values are provided.

Year	Millage Increase	Tax increase $200k property	Tax increase $300k property
FY11	.26	$ 52	$ 78
FY12	.27	$ 54	$ 81
FY13	.27	$ 54	$ 81
FY14	.24	$ 48	$ 72
FY15	.23	$ 46	$ 69
FY16	.18	$ 36	$ 54
FY17	.18	$ 36	$ 54
FY18	.15	$ 30	$ 45
FY19	.10	$ 20	$ 30
FY20	.07	$ 14	$ 21
		$390	$585

This methodology costs less than the property tax #1 method because the state's funding is spent first, then the county's local match. The state probably would not agree to use their funding until Jax-Florida would meet certain milestones.

Advantages:

Property taxes, unlike franchise fees, would be paid by all county property owners and indirectly by all renters.

No bonding is required so there are no interest costs.

Proposed millage increase could be halted if the project does not proceed beyond a certain timeframe.

Annual costs would be more uniform over the 10-year period, unlike the front-loaded costs of the prior #1 pay-as-you-go alternative.

Disadvantages:

During the 10-year payment period, additional millage rate increases would be required for other county operations (costs increase for purchases, wages and other expenses, as well as delayed infrastructure needs). Without millage increases, the county would probably need to reduce services below the levels generally expected by Collier County residents.

4) Property taxes could be used as a pledge for a general obligation bond. (#3) Funding Jax-Florida by pledging ad valorem (property) taxes, to pay bond debt service, would require a voter referendum on November 2, 2010. August 24th is the deadline for referendum language to be sent to the Supervisor of Elections office to be included on the November 2nd ballot.

Two staggered bond offerings, an $80 million bond in FY11 and a $50 million bond in FY13, at 4.5% interest over a maximum 25-year period, would meet the payout requirements. A dedicated property tax of .143 mil would produce $8.8 million in annual revenue to pay the debt service on these bonds.

The impact of a .143 mil increase in property taxes on typical properties is provided. Other property values can be extrapolated.

A $200k taxable value property would pay about $29 more per year and about $715 over 25 years.

A $300k taxable value property would pay about $43 more per year and about $1,070 over 25 years.

Advantages:

All property owners, in the cities and unincorporated areas of Collier County, would pay to support this major economic development project.

Payment would be over the 10 to 20 years needed to realize full benefits of the project.

Annual financial impact would not be excessive.

Disadvantages:

Costs for this option are higher than the property tax pay-as-you-go alternative because of the length of payment (25 years versus 10 years) and the bond interest cost. A $200,000 house would pay a total cost of $715 with bonding versus $417 without.

5) Non-ad valorem revenue could be used as a pledge for bonding.
Reviewing other Innovation Incentive programs in Florida, only Palm Beach County has a local funding match even close ($93 million) to Collier County's $130 million requirement. They are using a series of non-ad valorem revenue bonds (which don't require a voter referendum) to bring Max Planck to Jupiter.

There is sufficient non-ad valorem revenue capacity (sales tax, revenue sharing, communications fee, etc.) available to cover the $130 million bond requirement.

Two staggered bond offerings, an $80 million bond in FY11 and a $50 million bond in FY13, at 4.5% interest over a maximum 25-year period, would meet the payout requirements. Non-ad valorem revenues would be used to pay the $8.8 million annual debt service on the combined bonds.

Adding $8.8 million in debt would bring our total general government debt ratio up to an estimated 12.2% (from 9.3% at the end of FY09), which is just under the 13% maximum adopted in the Collier County BCC Debt Policy. It is unclear whether this level of debt would affect bond ratings. If a new $8.8 million revenue source was added, the debt ratio would be reduced below 12.2%.

If another revenue source was not provided, county General Fund operations would need to be reduced by $8.8 million.

With a reduction in property tax revenue of $32 million (12%) in FY11 and another projected reduction of $13 million (6%) in FY12, there is limited flexibility to find $8.8 million in cost reductions without affecting the level of services provided to county residents.

Other revenue sources could be instituted or increased to pay for General Fund operations.

Franchise fees have already been discussed and the impact on typical properties has been calculated, as well as advantages and disadvantages.

Property taxes could be increased to provide additional revenues for essential county operations. A .143 mil increase, for 25 years, would generate $8.8 million in additional income. The impact on typical properties has already been calculated, as well as advantages and disadvantages.

6) <u>A combination of franchise fee and property taxes</u> could be used.
Another alternative, evaluated by the Office of Management and Budget, would combine a .1 mill property tax increase with a 2.5% franchise fee to fund the $130 million according to the required payout schedule.

The franchise fee revenue would be pledged on a $50 million bond at 5% interest for 15 years. Debt service on the bond would be $4.8 million per year.

The franchise fee revenue would produce $9 million per year and the .1 mil increase in property taxes would produce about $6 million per year until the debt service and payout options were completed.

The following table shows the annual cost for typical single family residences and typical condos in the City of Naples, the City of Marco Island and the unincorporated county. As stated earlier, all county property owners would pay the property tax, while only unincorporated residents would pay the franchise fee. An average residential home was considered to have a $120 monthly electric bill.

Typical Single Family Residential Property Owner

	Unincorp. County	Naples	Marco Island
Tax Value - Avg	$244,000	$1,200,000	$484,000
Prop Tax .1 mil	$ 24	$ 120	$ 48
Franchise Fee 2.5%	$ 36	$ 0	$ 0
Total/year	$ 60	$ 120	$ 48
Total/15 years	$900	$1,800	$720

Typical Single Family Condo Property Owner

	Unincorp. County	Naples	Marco Island
Tax Value - Avg	$200,000	$477,000	$355,000
Prop Tax .1 mil	$ 20	$ 48	$ 36
Franchise Fee 2.5%	$ 36	$ 0	$ 0
Total/year	$ 56	$ 48	$ 36
Total/15 years	$840	$720	$540

An average commercial property would pay about $15 monthly, $180 annually and $2,700 over the 15-year period for the franchise fee, plus the cost of the .1 mill increase in property taxes annually for 15 years.

An average industrial property would pay about $9 monthly, $110 annually and $1,640 over the 15-year period, plus the cost of the .1 mill increase in property taxes annually for 15 years.

Advantages:

Bonding the franchise fee and paying property taxes over 15 years, would spread the cost over the 10 to 20 year period required to achieve projected full benefits of the extended job creation.

Disadvantages:

Using a combination approach attempts to equalize the tax burden between franchise fees (where only unincorporated residents pay a fee) and property taxes (where city taxpayers pay more on higher property values). However, the combination would still be regressive, hitting the lower income taxpayer harder than those with a higher income.

7) A Sales tax increase could be used as a revenue source.
Florida Statute 212.055 allows a discretionary sales surtax of either 0.5% or 1%. Under the Local Government Infrastructure surtax option:

Collier County would need to own the land and infrastructure (building) and the Jackson Laboratory building would have to qualify as a "public facility" to use the discretionary sales surtax.

Florida Statute paragraph (2)(d)2 would allow 15% of the proceeds to be put into a trust fund for economic development projects.

The sales surtax would have to be approved in a voter referendum and a sunset provision could be included.

A discretionary sales surtax must start on January 1st according to Florida Statute and end on December 31st.

If the referendum were approved by voters and certified before November 16, 2010, the sales surtax could be made effective January 1, 2011, with monthly checks remitted to the county starting March 2011. A 1/2% sales tax would generate about $22.3 million per year, starting in 2011.

Sales tax revenue does not fit the required payout schedule. Insufficient funds would be available without bonding and too much money would be available with bonding.

If the sales tax started on January 1, 2011, a property tax rate increase for 2 years, combined with the sales tax for 5 years, could meet payout requirements.

An FY11 millage increase of .2 mil ($12.4 million) and an FY12 millage increase of .2 mil ($11.7 million), added to the annual $22.3 million in sales tax revenue would cover the higher payouts in the first 2 years.

A .2 mil would be $40 in both FY11 and FY12 on a $200,000 taxable property, and $60 each year on a $300,000 taxable property. The cost of the sales tax increase depends on purchases of taxable items.

In FY15, the sales tax would bring in about $10 million more than needed, depending on the health of the local economy and tourism. This excess could be accommodated if the ballot language were to allow any remainder sales tax revenue to be used on county infrastructure in the Jackson Lab area.

The Florida Statute says that any sales surtax would be distributed to the county and the municipalities. The cities would have to sign an interlocal agreement to use their share of the sales tax revenue for Jax-Florida.

The County Attorney is of the opinion that the term "public facility" refers to buildings such as Courthouses, and that the remaining 85% of the entire infrastructure sales tax cannot be used to fund the Jackson Labs Building.

He believes that by carving out the 15% to fund economic development projects, the Legislature implicitly negates a local government using the remaining portion of the sales to fund economic development by any method. Our outside bond counsel is of the same view.

However, they agree there is little case law on this issue. The Board could put the sales surtax on the ballot, and if it passed, we would need to go through a bond validation process in order to satisfy the bond market. This entails going to the circuit court to seek validation that the bond is lawful, and if appealed (and it likely would be), the issue would go directly to the Florida Supreme Court for review.

The estimated timeline for this process is a minimum of 9 months and a maximum of a year and a half. If we put it the issue on the November 2010 ballot, the funding would be contingent on a validation that, if successful (which the County Attorney does not believe is likely), would not be until sometime between August 2011 and May 2012.

As an alternative, the 1/2% sales surtax option could possibly be improved by fully utilizing the permitted uses found in state law.

The sales surtax can be used for purposes of financing, planning and construction of infrastructure, as well as the acquisition of recreation or conservation lands.

The definition of infrastructure includes the purchase of emergency vehicles such as fire apparatus, EMS vehicles, and sheriff's office vehicles (equipment outfitting for official operational use is also included).

To the extent that the county may have current infrastructure appropriations, new sales tax revenues could potentially be utilized to supplant the existing appropriations, thereby releasing these funds for allocation to the Jax-Florida project. Such purpose use could obviously be employed on a prospective basis.

The authorizing referendum question would necessarily have to be carefully crafted such that it would incorporate language describing these potential uses.

This alternative sales surtax option was identified at our last meeting and requires legal and budget validation.

Advantages:

The property tax increases in FY11 and FY12 would not be large.

Non-residents would pay a significant percentage of the sales surtax, lowering the burden on county residents.

Disadvantages:

According to the County Attorney, the “public facility” designation could be challenged in court, either delaying implementation of the sales tax until 2011 or 2012 or, more likely, denying the use of the sales surtax altogether.

A sales tax would be regressive, hitting the lower income taxpayer harder than those with a higher income. However that impact would be mitigated by the exclusion of food and medical purchases.