CAPITAL REVENUE OPPORTUNITIES

LAKE COUNTY SCHOOL BOARD, FLORIDA

DRAFT

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EXECUTIVE SUMMARY

OVERVIEW

Tischler & Associates, Inc., is under contract with the Lake County School Board to conduct a Growth Study for use in future school facility planning. As part of this effort, TA conducted a "Cost of Land Use Analysis" for new residential and nonresidential development. A Cost of Land Use Analysis examines the fiscal impact of prototypical land uses anticipated to be developed in the County in the future. (See *Cost of Land Use Fiscal Analysis Report*, January 12, 2005, for further information.) A subtask of the fiscal analysis component of the study is an assessment of revenue needs due to new development as well as from existing development. The results of this analysis are provided under separate cover in the report *Net Fiscal Impacts/Revenue Needs*. Another subtask of the fiscal analysis is to identify potential financing mechanisms to address the revenue needs. This report discusses the results of this subtask.

This report will address the following major topics:

- Summary of projected growth, existing capital revenue sources, and net fiscal results from the Revenue Needs analysis
- Potential financing mechanisms for school capital needs
- Planning approaches to address school capital needs
- Evaluation of financing mechanisms and planning approaches

TA examined capital revenue needs separately for existing and new development. Over the next 15 years, Lake County is projected to generate a cumulative net deficit for capital improvements serving *existing development* of approximately $15.5 million. However, in the first five years, net deficits for these existing needs are much deeper at $225 million due to an existing backlog of capital projects. Net deficits decrease over time because of amelioration of existing deficiencies and accumulating tax revenues directed toward capacity for existing development. For *new development*, while a net surplus is shown over the 15-year projection period, the total net fiscal impact over the life of the debt is a net deficit of $241 million. This is because revenues earmarked for new development—impact fees—are one-time upfront payments while the majority of capital costs are spread out over 20 years due to debt financing.

Currently, local sources of capital revenues for Lake County Schools are the 2 mill ad valorem property tax (also called the District Local Capital Improvement Tax) collected from residential and nonresidential development, the retail sales tax (one-third of one percent sales tax directed to school capital needs), and impact fees (collected from new non-age restricted residential development).

The potential capital financing mechanisms identified and evaluated in this report are as follows:

- Certificates of Participation
- District Capital Improvement Tax
- General Obligation and Revenue Bonds
- Voter-Approved Additional Millage
- Local Discretionary Sales Surtaxes
    - Local Government Infrastructure Surtax
    - School Capital Outlay Surtax
- Impact Fees
- Special Assessment Districts
    - Educational Facilities Benefit District
    - Community Development District
- Qualified Zone Academy Bonds
- Public-Private Partnerships
- Mechanisms Requiring State Action
    - Increase Cap on District Capital Improvement Tax
    - Real Estate Transfer Tax

Three non-financing mechanisms are also discussed and evaluated—interlocal agreements, school concurrency, and shared facilities.

The potential financing mechanisms are evaluated according to the following criteria:

- Revenue Potential
- Technical Ease
- Proportionality
- Public Acceptability

SUMMARY OF EVALUATION

A summary of the evaluation of the potential financing mechanisms identified in this report is provided below in Figure 1.

Figure 1. Evaluation of Potential Financing Mechanisms

	Revenue Potential	*Technical Ease*	*Proportionality*	*Public Acceptance*
Certificates of Participation	positive	positive	negative	positive
District Capital Improvement Tax	positive	positive	negative	neutral
General Obligation/Revenue Bonds	positive	negative	negative	negative
Voter-Approved Additional Millage	positive	neutral	negative	negative
Discretionary Sales Surtaxes *(School Capital Outlay Surtax)*	positive	neutral	negative	negative
Impact Fees	positive	negative	positive	positive
Special Assessment Districts *(Educational Facilities Benefit District & Community Development District)*	neutral	negative	positive	positive
Qualified Zone Academy Bond	negative	negative	neutral	neutral
Public-Private Partnerships	neutral	negative	positive	positive
Mechanisms Requiring State Action *(Increase in 2 mill cap & Transfer Tax)*	positive	negative	negative	negative/ neutral

The following is a summary of the potential financing mechanisms and results of the evaluation. Conclusions regarding the mechanisms appear at the end of this section.

SUMMARY OF FINANCING MECHANISMS

- *Certificates of Participation (COP)* are popular financing mechanisms for school construction in Florida. With a COP, a school district enters into a lease-purchase agreement to build needed facilities. In Lake County, COPs are used to finance a significant portion of the District's new construction with most backed from a portion of the 2 mill District Capital Improvement Tax.

- The District currently levies a 2 mill *District Capital Improvement Tax*. Current Board policy is to use this revenue source to correct existing deficiencies and to limit the amount of the tax to be used to back debt to 50 percent of the levy, or 1 mill. Increasing the amount of the tax used to back debt higher than 1 mill would provide additional debt capacity. For example, increasing the cap to 1.1 mills, provides additional capacity to finance $59 million.

- *General obligation bonds* represent an alternative financing mechanism for the District. General obligation bonds require voter approval and often carry lower interest rates than other debt financing mechanisms. Issuance of a general obligation bond requires adequate debt capacity backed by a predictable revenue stream such as property taxes.

- *Revenue bonds* are not as prevalent as general obligation bonds with debt retired from revenue received from the users of the capital facility. These bonds are backed by revenue from sources more specifically defined than those backing general obligation bonds. Examples include user fees, or special assessment district fees.

- The State of Florida provides the opportunity for *additional millages* to be assessed for operating and capital purposes through voter approval. An additional millage above the ten-mill cap can be approved for debt service, which could be done in conjunction with a general obligation bond referendum.

- Lake County currently implements the *Local Government Infrastructure Surtax*, which is categorized by the State as a "Local Discretionary Sales Surtax." Lake County Schools have received a third of the one percent sales tax since January 2003 when voters approved a 15-year extension of the tax. Another local discretionary sales surtax available to Florida counties is the *School Capital Outlay Surtax*. Eligible counties can levy a sales tax of up to .5 percent for school capital expenditures. The surtax must be approved by referendum.

- Lake County recently (2004) recalculated its *school impact fees* to better reflect current capital costs. The School District and County should annually update the school impact fees to reflect changes in construction and other capital costs. For example, as official State student station costs are revised, the impact fees should be updated to reflect the higher cost and adopted by the County. Also, TA recommends a recalculation of impact fees every 2 to 3 years in rapidly growing jurisdictions such as Lake County.

- *Special assessment districts* are generally created to link costs and benefits resulting from new or upgraded infrastructure in a limited geographic area. An Educational Facilities Benefit District (EFBD) is a type of special assessment district authorized by the State to assist in financing the construction and maintenance of educational facilities. Another type of special assessment district is a Community Development District (CDD). Both types of assessment districts are likely to be used in conjunction with revenue bonds or other debt-financing mechanisms and paid over time by the benefiting property owners, usually by means of an additional charge on the property tax bill. In general, special assessment districts are easier to implement in areas where relatively few property owners control large tracts of land.

- A *Qualified Zone Academy Bond (QZAB)* is a financing mechanism authorized by the federal government that allows local districts to save on interest costs on debt issued to repair and renovate existing school facilities, but not new construction. The federal government covers, on average, all of the interest on these bonds, which is actually provided as a tax credit, in lieu of cash, to financial institutions that hold the bonds.

- *Public-private partnerships* for school facility financing are another potential mechanism. Typically, a public-private partnership involves a developer or private entity providing upfront funding to construct a facility with the district repaying the developer over a fixed amount of time. While similar to other funding mechanisms identified in this report involving debt or lease-purchase arrangements, one potential difference is the flexibility in revenues used to make payments. For example, since these arrangements do not represent traditional debt, impact fee revenues could potentially be used for repayments. Examples of public-private partnership arrangements are: municipal/capital leases, operating leases, and service contracts. Each is discussed in turn in the report.

- Two other financing mechanisms are identified in this report that require *state authorization*. One is increasing the District Capital Improvement Tax above the 2 mills limit currently mandated. An additional one mill would provide the District with $13.5 million in revenue (based on FY 2004-05 taxable values). The other is a real estate transfer tax, which is a tax on the transfer, sale or conveyance of real property and applied against the price of the property.

- Finally, three non-financing mechanisms are addressed: interlocal agreements, school concurrency, and shared facilities. *Interlocal agreements* are required under Florida law for coordination among local governments and school boards. The agreements are intended to formalize roles and responsibilities among schools, county government, and municipalities regarding land use and school facilities planning. *School concurrency*, also known nationally as adequate public facilities ordinances, requires the provision of sufficient school capacity to serve new development. It requires a school district, county, and municipalities to adopt agreements and standards through a formal process. Lastly, in contrast to pursuing additional funding, many school districts are searching for ways to cut costs. One way is to *share facilities* with other entities such as community agencies and institutions of higher education; or reduce the space needed to serve the student population by allowing some students to spend part of their day outside the school building in internships, community service work or through "distance education" methods.

CONCLUSIONS

- Top-ranking mechanisms include impact fees, sales surtax, and district capital improvement tax/voter-approved millage.

- Impact fees are typically characterized by strong support from existing residents, due to the allocation to and collection from new growth of their fair share of relevant capital costs. To fully capture new growth's costs, Lake County's school fees should include interest costs reflecting the District's financing plans. At a minimum, the County's school fees should be updated annually to reflect increased costs for construction and land.

- School capital outlay sales surtax is identified as a top-ranked mechanism even though it receives a negative mark on public acceptance. Sales taxes have the potential to capture revenue from *outside the County*. This may make it an attractive additional capital revenue source for schools.

- Lake County Schools currently leverages a portion of the 2 mill District Capital Improvement Tax to support COPs. The current practice is to use 1 of the 2 mills to make payments on COPs. An additional amount above the 1 mill could support additional COPs or another type of debt. For example, 1.1 mills could support financing of $59 million worth of improvements; 1.2 mills could support $78 million.

- A voter-approved millage has high revenue potential but low public acceptance due to the implementation of a new tax. However, if done in conjunction with a general obligation bond for a finite amount of time for specific projects, public acceptance may increase.

- A general obligation bond is a vehicle for financing, rather than a revenue source. Revenue potential is ranked positively due to the potential for an influx of funding to address major projects at one time, such as the backlog of existing capacity needs. However, a general obligation bond does not provide a *new revenue source.* Instead, it would have to be backed by a predictable revenue stream sufficient to support the issued debt. This could take the form of a portion of the *existing* 2 mill ad valorem property tax or a *new* voter-approved millage.

BACKGROUND

SUMMARY OF PROJECTED GROWTH

Over the next 15 years, Lake County is projected to grow as follows:

- Population increase of approximately 140,000, from approximately 260,000 to 400,000 in 2019
- Increase of around 68,000 housing units, from almost 127,000 total housing units to almost 195,000
- Increase of 30 million square feet of nonresidential floor area.
- Increase of approximately 23,600 students, from approximately 35,000 to 58,000

EXISTING CAPITAL FUNDING SOURCES

Local sources of capital revenues in Lake County are the 2 mill ad valorem property tax (also called the District Local Capital Improvement Tax), the retail sales tax, and impact fees. The 2 mill Capital Improvement Tax is assessed on both residential and nonresidential development; impact fees are one-time fees collected from new non-age restricted residential development; and the retail sales tax is a voter-approved rate of one (1) cent on the dollar, of which a third goes to the schools for school construction and buses; a third goes to the cities in the County; and a third goes to the County. [1] The Capital Improvement Tax and retail sales tax are earmarked by Board policy for capital needs to serve existing development. Impact fees are to be used for capacity expansions (of schools, ancillary facilities, land, and buses) to serve new development only.

The District receives a small amount of capital funding from the state from the following programs: Public Education Capital Outlay (PECO), Capital Outlay & Debt Service Fund (CO&DS), and Capital Outlay Bond Issue Funds (COBI). PECO is funded from gross receipts taxes and is distributed to districts in two separate allocations for (1) remodeling, renovation, maintenance, repairs, and site improvement (referred to as

[1] The current dedicated sales tax for infrastructure expires in 2017; however, based on the historical renewal of the voter-approved sales tax, it is assumed to be in effect through the analysis' projection period, which ends in 2019-20.

"sum of the digits" after the formula used by the state to allocate funding to districts, which is: the building value times the building age over the sum of the years' digits)[2] and (2) new construction. Over the years, PECO allocations to Lake County have fluctuated from a low of just under $3 million in combined maintenance and new construction funds in fiscal year 1998-99 to high of almost $4.7 million in 1997-98 and 2003-04. Lake County did not receive any new construction PECO funding in Fiscal Year 2004-05.

Another source of state capital funding is from motor vehicle license taxes, also known as Capital Outlay and Debt Service Funds (CO&DS). The State holds motor vehicle license revenue in trust for county school districts as a revenue source for state-issued bonds for school construction, known as State Capital Outlay Bond Issues (COBI). Whatever funding is not used to pay debt service on these State bonds is returned to the locality. For Lake County, this typically amounts to around $200,000 per year. Lake County has participated in these bond issues. The State also bonds Florida Lottery funds to fund special programs such as Classrooms First, Effort Index, School Infrastructure Thrift, Classrooms for Kids, and Class Size Reduction Funds. Lake County has been a recipient of these funds as well. Over the last eight years, Lake County has received a total of approximately $64 million from Lottery-backed funds, which on average amounts to $8 million per year.

Only locally-generated capital revenues are included in this analysis. While the District receives some state funding for capital projects as described above, they are not assumed as ongoing funding sources. Because amounts vary from year to year with no certainty of availability, they are not included in the analysis.

FISCAL IMPACTS

TOTAL ANNUAL NET FISCAL RESULTS

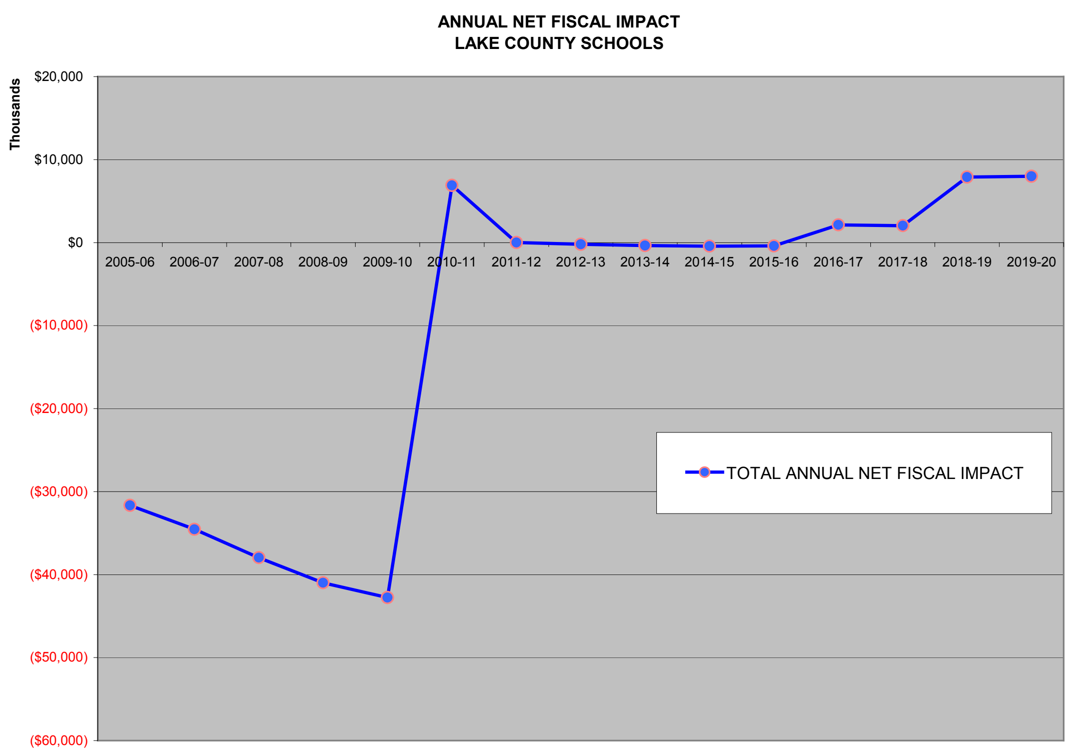
The growth projected in Lake County affects revenues generated and expenditures incurred by the school district. Furthermore, the County has an estimated *backlog* of capital projects totaling approximately $250 million. Together, the overall *total* fiscal impact of this growth and the cost of addressing existing needs in Lake County generate significant net deficits over the initial phase of the 15-year projection period, fiscally neutral results in the middle phase, and net surpluses in the later phase. Annual net fiscal results are shown in Figure 2, which includes both operating and capital functions.

[2] Source: State of Florida Department of Education, "Fixed Capital Outlay Public School Finance Manual, 2001 Edition" (latest available).

Data points above the $0 line represent annual net surpluses; points below the $0 line represent annual net deficits.

The net deficits in the initial years are due to the expenditures to address existing capacity deficiencies. The fiscally neutral results in subsequent years and net surpluses in the last four years are due primarily to net surpluses on the capital side from 2 mill property tax and the dedicated sales tax for infrastructure needs. It should be noted that the overall net fiscal results combine all revenues and costs regardless of limitations on use. (For instance, yearly net surpluses of impact fee revenue in the early years due to debt financing of capital needs cannot be used to pay for capital improvements needed to correct existing deficiencies.) Furthermore, capital costs to serve new growth extend beyond the projection period due to debt assumptions and amortization of payments (discussed in further detail below).

Figure 2. Annual Net Fiscal Results: ***Operating and Capital***

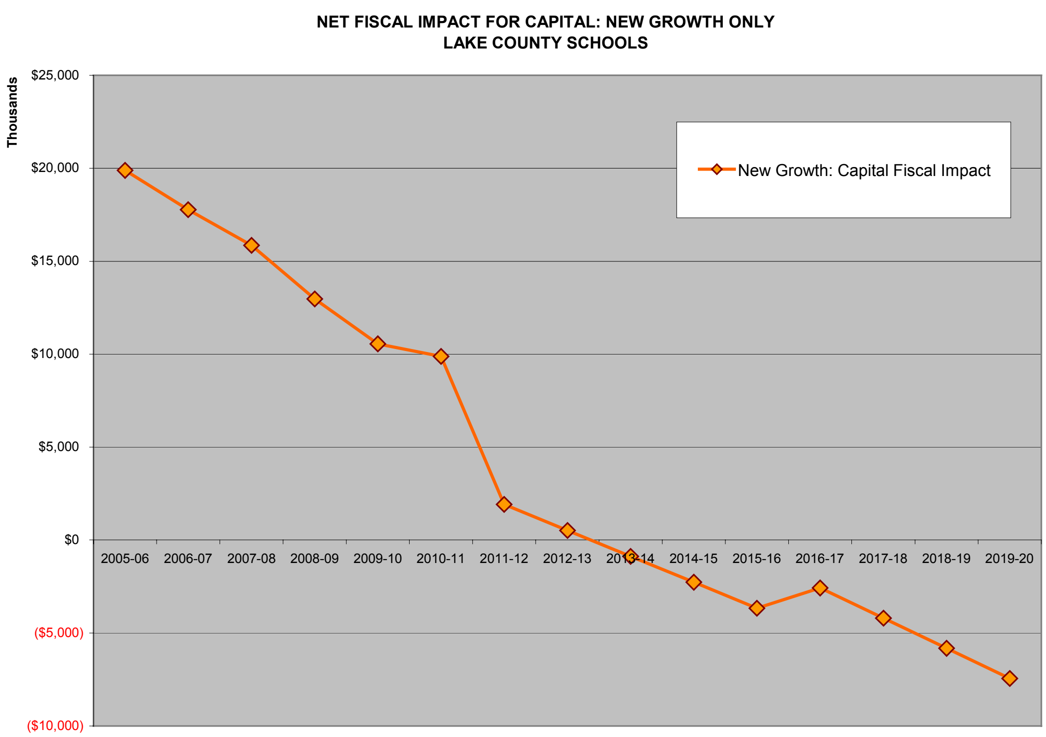


CAPITAL FISCAL RESULTS

Capital Net Fiscal Results to Serve New Development

The fiscal results for capital to serve new growth reflect an average cost approach in that they are generated on a *per student* basis rather than in a lump sum fashion when a new facility is built when a certain threshold is reached. A portion of the cost to build a student station is assumed to be debt financed with the other portion assumed to be paid in cash, according to the assumptions set forth in the Impact Fee study. Because of this, yearly costs reflect cumulative annual debt service payments for the debt-financed portion of student stations built to serve new enrollment. Therefore, as shown in Figure 3, the first 7 years show a net fiscal surplus because impact fees are one-time revenues providing upfront payment for necessary capacity at time of building permit while the majority of the actual costs are spread out over 20 years due to debt financing. Net fiscal results range from a net surplus of approximately $20 million to a net deficit of $7 million by 2019-20. After year 15, there will still be outstanding debt and interest costs in the amount of $303 million for which the Schools will have to pay—however, impact fees will have already been collected from the development for which the capital facilities are serving.

Figure 3. Net Fiscal Results for Capital: New Development



Capital Net Fiscal Results to Serve Existing Development

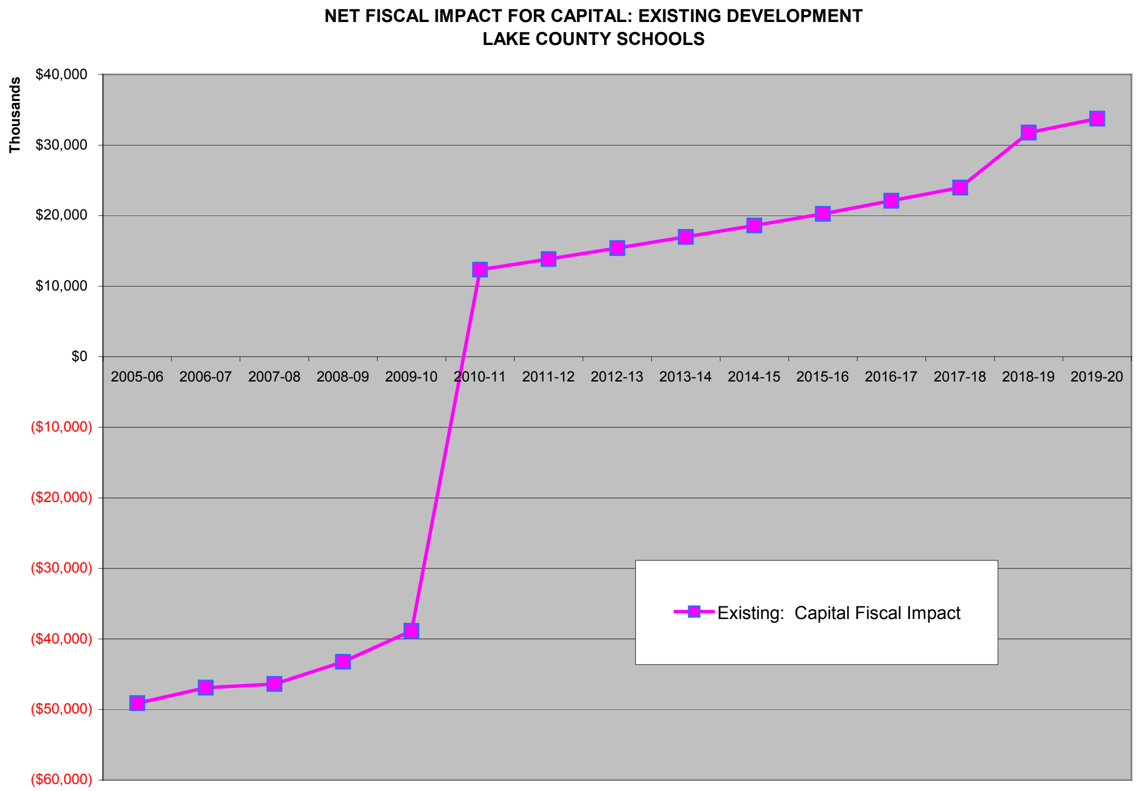
Revenues from the District Local Capital Improvement Tax (2 mill property tax) on residential and nonresidential development as well as the dedicated retail sales tax (one-third of one percent County sales tax rate) are directed toward correcting the existing backlog of capacity projects. New development will generate revenues from these sources that will in turn support improvements to address existing deficiencies. To fully reflect revenues available to serve capacity needs of existing development, revenues from the 2 mill property tax plus the retail sales tax in the *current fiscal year* (approximately $33 million) are added to the revenue generated from these sources from *new* development.

As noted above, Lake County Schools currently has a backlog of capacity projects to serve existing development totaling approximately $250 million.[3] Additional capital costs attributed to existing development are: annual debt service payments for debt issued for capacity improvements serving existing development and ongoing maintenance and rehabilitation costs.

Net capital fiscal results for existing development are shown below in Figure 4. The results are based on the cost of backlog capacity projects spread over the next five years (assumed to be pay-go) plus existing debt service and ongoing maintenance costs, and revenues generated from new and existing development dedicated to correct existing capital deficiencies. After a significant net deficit in the first five years of between $40 and $50 million, a net surplus is generated beginning in year 2010-11 due to the elimination of the capital facility backlog to serve existing development. A cumulative net deficit of approximately $15.5 million for capital improvements serving existing development is generated over the 15-year projection period. After the 15-year projection period, an additional $100 million will be outstanding in debt service payments from debt issued to provide capacity for existing development.

[3] Impact Fee Report, July 2004; Lake County Schools.

Figure 4. Net Fiscal Results for Capital: Existing Development



CUMULATIVE REVENUE NEEDS FOR CAPITAL

Cumulative revenues and expenditures over the 15-year projection period are shown in Figure 5 for capital purposes. As shown, capital net results serving new development generate a cumulative net surplus of $62.5 million over the projection period; for existing development, a cumulative net deficit of $15.5 million is generated. However, because a portion of the capital cost to serve new growth is assumed to be debt financed, debt service payments will continue beyond the projection period. Outstanding expenditures for *new-growth* capital needs beyond the last projection year total an additional $303 million. The overall cumulative net fiscal impact over the life of the debt issued for capital to serve new development is a net deficit of approximately $241 million (see Figure 6). Furthermore, outstanding debt service for *existing development* totals approximately $100 million.

Figure 5. Cumulative Capital Results ($000s) over 15-Year Projection Period

		Cumulative Amounts ($000s) 2005/06--2019/20
CAPITAL		
(1)	Capital Revenues: New Development*	$379,014
(2)	Capital Expenditures: New Development	$316,540
(3)=(1)-(2)	**Net Fiscal Impact: Capital for New Development**	$62,474
(4)	Capital Revenues Residential-Earmarked for Existing Development**	$115,466
(5)	Capital Revenues Nonresidential-Earmarked for Existing Development***	$84,894
(6)=(4)+(5)	Total Capital Revenues from New Development -Earmarked for Existing Development	$200,360
(7)	Capital Revenues from Existing Development (Base Revenues)****	$493,130
(8)=(6)+(7)	Total Capital Revenues with Base Revenues	$693,489
(9)	Capital Expenditures: Existing Deficiencies	$708,967
(10)=(8)-(9)	**Net Fiscal Impact: Capital for Existing Development**	($15,477)
NET FISCAL IMPACTS		
(3)	Net Fiscal Impact: Capital for New Development	$62,474
(10)	Net Fiscal Impact: Capital for Existing Development	($15,477)
(11)=(3)+(10)	CAPITAL NET FISCAL IMPACT	$46,997

** Cumulative revenue from impact fees*
*** Cumulative revenue from 2 mills ad valorem property tax on new development (FY 2005/06-2019/20)*
**** Cumulative revenue from 2 mills ad valorem property tax and sales tax (retail only) (FY 2005/06-2019/20)*
***** Cumulative tax revenue generated from FY 2004-05 assessable base*

Figure 6. Total Capital Costs To Serve New Growth

Projected Total Capital Costs to Serve New Growth ($000s)*	**$619,740**	*Share of Total*
Projected Expenditures by 2019-20 ($000s)	$316,540	51%
Remaining Expenditures Beyond 2019-20 ($000s)	$303,200	49%
Projected Total Capital Revenues to Serve New Growth ($000s)**	**$379,014**	
Total Net Deficit to Serve New Growth ($000s)	**($240,726)**	

** Includes costs for construction and land for student capacity, ancillary facilities, buses, and financing costs.*
*** Impact fees collected from new residential development*

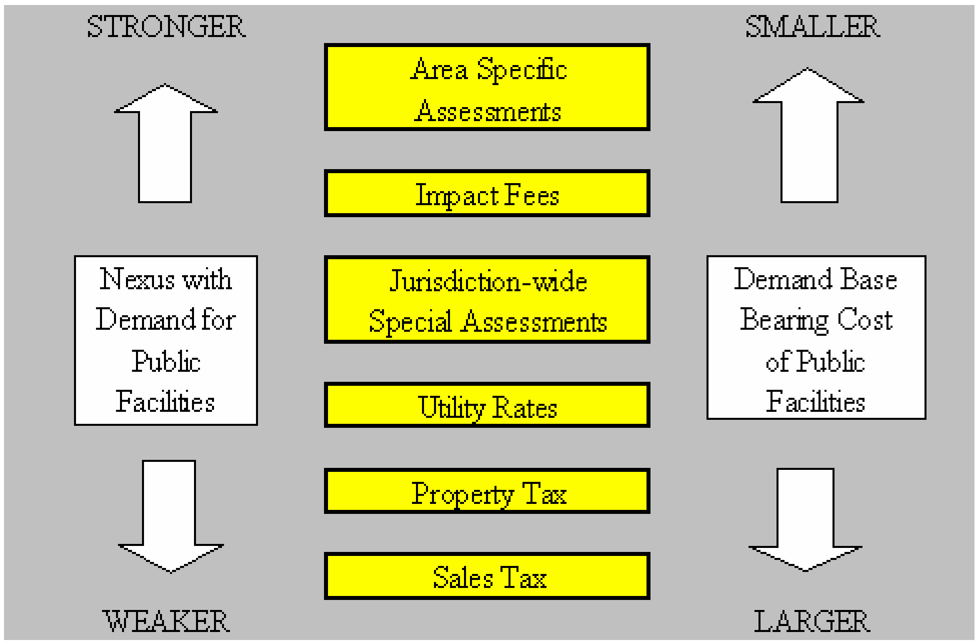
It should be noted that the above net fiscal impacts are projected based on residential and nonresidential development projections and any slow-down and/or change in development patterns, pace, mix, or values will affect the fiscal results.

POTENTIAL CAPITAL FINANCING MECHANISMS

The remainder of this report is dedicated to financing mechanisms potentially available to Lake County Schools to address the revenue needs identified in the report on Net Fiscal Impacts/Revenue Needs and summarized above. In addition, we present a framework for analyzing financing approaches according to relevant criteria. It should be noted that this is not a legal analysis, which should be conducted prior to implementation of any of the mechanisms discussed below.

Infrastructure funding alternatives force decision-makers to wrestle with a dynamic tension between two competing desires. As shown on the left side of Figure 7, various funding options have a strong to weak connection between the source of funds and the demand for public facilities. For instance, area-specific assessments are based on known capital costs in a specific location and are paid by those directly benefiting from the new infrastructure. In contrast, property tax revenue may be used by the City to fund infrastructure with very little, if any, connection between those paying the tax and the need for capital improvements. It is unfortunate that the funding options with the closest nexus to the demand for public facilities also have the smallest demand base to bear the cost of the public facilities (see the right side of the diagram). Using utilities as an example, only new utility customers pay capacity fees, which are similar to impact fees. In contrast, all existing customers, plus the new customers that are added each year, pay sewer user charges. Therefore, the base of utility user charges continues to increase over time, but the increase in new development is relatively constant from year to year.

Figure 7. Conceptual Framework for Financing Mechanisms



POTENTIAL FINANCING MECHANISMS

CERTIFICATES OF PARTICIPATION

Certificates of Participation (COP) are popular financing mechanisms for school construction in Florida. With a COP, a school district enters into a lease-purchase agreement to build needed facilities. As the district makes lease payments over time, it purchases the facility. Voter approval is not needed for a COP. In Lake County, COPs are used to finance a significant portion of the District's new construction with backing from a portion of the 2 mill District Capital Improvement Tax (see below) and sales tax revenues.

DISTRICT CAPITAL IMPROVEMENT TAX

The District Capital Improvement Tax is a current levy of 2 mills against the taxable value of residential and nonresidential property in the County to pay for school capital improvements. Current Board policy is to use this revenue source to correct existing deficiencies and to limit the amount of the tax to be used to back debt to 50 percent of the levy, or 1 mill. The 1 mill is the primary revenue source used to make payments on Certificates of Participation (COP). The District can use up to 75 percent of the 2 mills to make lease payments (or 1.5 mills), further leveraging this stable revenue source.

The School District's bond advisor, Public Financial Management, has presented a preliminary financing plan and options for upcoming capital needs. Included in the options presented is raising the amount of the capital improvement tax used to back debt at a higher level than the current limit of 1 mill. In Fiscal Year 2004-05, based on certified school taxable value, each mill is estimated to generate $13.5 million in revenue. Public Financial Management estimates additional debt capacity under the following assumptions:

- Assuming revenue from 1 mill (of 2 mill tax) is used to back debt, provides the District with capacity to finance an additional $34 million in debt in 2005-06. (In other words, revenue from the 1 mill will continue to be used to pay down existing debt plus new debt service payments on an additional COP for $34 million.)
- Increasing the cap to 1.1 mills, provides additional capacity to finance $59 million.
- Increasing the cap to 1.2 mills would enable the District to finance an additional $78 million.[4]

Furthermore, as the fiscal findings for existing and new development's capital needs indicate, in the later years of the projection period net deficits for new growth's capital needs increase while net deficits to support existing development are eliminated and net surpluses are generated. Since impact fees will not pay for all of new growth's capital costs, there will continue to be "existing deficiencies." The revenue to pay for these improvements will come from the 2 mill ad valorem tax and sales tax.

BONDS

Traditional debt-financing mechanisms are general obligation or revenue bonds. The District has not issued general obligation bonds to date for its capital needs. Instead it uses Certificates of Participation (COPs) backed by 1 mill of the 2 mill property tax as described above. General obligation bonds represent an alternative financing mechanism for the District, which are secured by property taxes and other general fund

[4] Public Financial Management, "Summary of Current Capital Structure & Preliminary 2005 Plan of Finance." Presentation to the Lake County School Board, March 8, 2005.

revenue and therefore backed by the "full faith and credit" of the jurisdiction. General obligation bonds require voter approval and often carry lower interest rates than other debt financing mechanisms. Issuance of a general obligation bonds requires adequate debt capacity backed by a predictable revenue stream such as property taxes. Possible revenue sources for Lake County are portion of the existing 2 mill property tax above the amount used to back COPs (as described above) or a new voter-approved millage (as described in the following section).

Revenue bonds are not as prevalent as general obligation bonds. With this type of bond, debt is retired with revenue received from the users of the capital facility. These bonds are backed by revenue from sources more specifically defined than those backing general obligation bonds. Examples include sales taxes, user fees, special assessments, etc. Currently, the District issues sales-tax backed revenue bonds. For school facilities, another appropriate revenue mechanism is special assessments levied as part of a special district (e.g., community development districts and educational facilities benefit districts), which are discussed further in this report.

VOTER-APPROVED ADDITIONAL MILLAGE

The State of Florida provides the opportunity for additional millages to be assessed for operating and capital purposes through voter approval. Voters can authorize, by local referendum or in a general election, an additional millage above the ten-mill cap to be used for *debt service*. This could be done in conjunction with a general obligation bond referendum. This would be a countywide additional millage to be used exclusively for capital purposes with a specified time limit.

A school district may also levy an additional millage for school *operational* purposes up to an amount that does not exceed the state-mandated 10-mill limit, when combined with nonvoted millages.[5] Funds generated by such additional millages do not become a part of the calculation of the Florida Education Finance Program.[6] This action has the potential to free up non-restricted funds from the General Fund that could be used for capital purposes.

[5] School districts are subject to certain statutory caps less than ten mills to be eligible to participate in the state K-12 funding program (FEFP). (*2005 Tax Handbook.*)
[6] Florida Statutes (2004), Title XLVIII §1011.73(2).

LOCAL DISCRETIONARY SALES SURTAXES

Local Government Infrastructure Surtax

Currently Lake County implements the *Local Government Infrastructure Surtax*, which is categorized by the State as a "Local Discretionary Sales Surtax." The current voter-approved local government infrastructure sales surtax in Lake County is a rate of one (1) cent on the dollar, of which a third goes to the schools for school construction and buses; a third goes to the cities in the County; and a third goes to the County. Prior to 2003, the one-cent sales tax in the County was split between the County and municipalities. Beginning in January 2003 when a voter approved 15-year extension went into effect, the revenue was split among schools, the County, and municipalities. The revenue from this tax is dedicated to back bonds for capital improvements to correct existing deficiencies. Currently all sales tax backed debt is structured to be retired by the sales tax expiration date, December 31, 2017.[7] As noted above, voters re-approved this County sales tax in 2003 with the modification of allocating a third to the Schools. In Fiscal Year 2004-05, budgeted revenue from this source is approximately $10.5 million. Continuation of this revenue source for District use beyond the expiration date should be pursued.

School Capital Outlay Surtax

Another local discretionary sales surtax available to Florida counties is the *School Capital Outlay Surtax*. Eligible counties can levy a sales tax of up to .5 percent. The surtax must be used to fund fixed capital expenditures or fixed capital costs associated with the construction, reconstruction, or improvement of school facilities with a useful life of at least 5 years and land acquisition, improvement, and predevelopment expenses. The surtax must be approved by referendum. The resolution must include a statement that provides a brief and general description of the school capital projects to be funded with revenues from the surtax.[8] A limitation of this revenue source is the requirement set forth in the enabling legislation that "any school board imposing the surtax shall implement a freeze on noncapital local school property taxes, at the millage rate imposed in the year prior to the implementation of the surtax, for a period of at least 3 years from the date of imposition of the surtax."[9] Lake County is eligible to levy this

[7] Public Financial Management, Presentation to the Lake County School Board, March 8, 2005.
[8] *2005 Florida Tax Handbook,* Senate Committee on Government Efficiency Appropriations, House Committee on Finance and Tax, the Office of Economic and Demographic Research, and the Office of Tax Research of the Department of Revenue; available at: http://www.state.fl.us/edr/reports/taxhandbook2005/taxhandbook.htm.
[9] See Florida Statutes (2004), Title XIV §212.055.

surtax.[10] Counties currently implementing the School Capital Outlay Surtax are: Bay, Escambia, Flagler, Gulf, Hernando, Jackson, Leon, Manatee, Marion, Monroe, Orange, Palm Beach, Polk, St. Lucie, Santa Rosa, and Volusia. Counties that have both the Local Government Infrastructure Surtax and the School Capital Outlay Surtax are Escambia, Flagler, Leon, and Monroe.[11]

IMPACT FEES

Increase Impact Fees to Maximum Supportable Amounts

The fiscal results discussed in detail in the *Cost of Land Use Study* and the report on *Net Fiscal Impacts/Revenue Needs* show that new growth does not pay for the capital costs generated. Although Lake County recently recalculated its school impact fee to better reflect current costs, the County adopted a lower amount than calculated as the maximum supportable amount with the adopted amount excluding financing costs. Therefore, impact fee revenues will not cover the full cost of capital improvements to serve new development (based on the debt financing assumptions set forth in the Impact Fee study). One way to address this revenue shortfall is to adopt the maximum supportable impact fee amount.

Regularly Update Impact Fees

At a minimum, Lake County School impact fees should be updated annually to reflect changes in construction and other capital costs. For example, as official State student station costs are revised, the impact fees should be updated to reflect the higher costs and adopted by the County. In rapidly growing jurisdictions such as Lake County, a recalculation of impact fees is often necessary every 2 to 3 years to reflect changing costs, levels of service, and growth trends.

[10] Florida Legislative Committee on Intergovernmental Relations; http://fcn.state.fl.us/lcir/data/2005LDSSrates.pdf.
[11] Florida Legislative Committee on Intergovernmental Relations; http://fcn.state.fl.us/lcir/data/2005LDSSrates.pdf.

SPECIAL ASSESSMENT DISTRICTS

Educational Facilities Benefit District

An Educational Facilities Benefit District (EFBD) is a special assessment district created to assist in financing the construction and maintenance of educational facilities. Special assessment districts are generally created to link costs and benefits resulting from new or upgraded infrastructure, which in this case are schools. EFBD legislation states that it is the "intent of the Legislature to provide efficient alternative mechanisms and incentives to allow for sharing costs of educational facilities necessary to accommodate new growth and development among public agencies, including school district boards, affected local general purpose governments, and benefited private development interests."[12] Local governments are authorized to create EFBDs through interlocal agreements with a district school board and any local general purpose government within whose jurisdiction a portion of the district is located. Additionally, 100 percent of affected landowners must approve the creation of the EFBD. Construction of facilities may be bond financed (i.e., revenue bonds) and paid over time by the benefiting property owners, usually by means of an additional charge on the property tax bill (based on costs of improvements rather than based on the property value being assessed (i.e., a non-ad valorem assessment)). In general, special assessment districts are easier to implement in areas where relatively few property owners control large tracts of land.

Community Development Districts

Another type of special assessment district in Florida is a Community Development District, identified in the EFBD enabling legislation as an "alternative to the creation of an educational facilities benefit district . . . as a viable alternative for financing the construction and maintenance of education facilities."[13] Like EFBDs, Community Development Districts (CDD) are a type of special assessment district where those directly benefiting from the infrastructure improvement pay over time. CDDs are allowed for a number of public services in addition to educational facilities, including water and sewer systems, parks/recreation, fire prevention, and road improvements .

[12] See Florida Statutes (2004), Title XLVIII §1013.355(1).
[13] Ibid., §1013.355(5).

QUALIFIED ZONE ACADEMY BONDS (QZAB)

A Qualified Zone Academy Bond (QZAB) is a financing mechanism authorized by the federal government that allows local districts to save on interest costs on debt issued to repair and renovate existing school facilities. The federal government covers, on average, all of the interest on these bonds, which is actually provided as a tax credit, in lieu of cash, to financial institutions that hold the bonds. Certain limitations and requirements apply to this program:

- Eligibility: Schools under consideration must have at least 35 percent of its students eligible for free or reduced-price lunch under the federal lunch program or be located in an Empowerment Zone or Enterprise Community.
- Use: Renovating and repairing buildings; investing in equipment and up-to-date technology; developing challenging curricula; or training quality teachers. New construction is not an allowable use.
- Public-Partnership: School districts must secure a private partner to provide at least 10 percent of the amount borrowed for the project. The contribution can take the form of cash, equipment, or in-kind contributions such as technical assistance, training, and services for teachers and students.
- Allocations: The federal government establishes the amount of funding available through this program in each state on an annual basis. For 2005, the state of Florida has been allocated a total of almost $23 million. Allocations for 2005 must be used by December 31, 2007.[14]

PUBLIC-PRIVATE PARTNERSHIPS

Three approaches to public-private partnerships for school facility financing have been identified in the literature.[15] The typical deal structure involves a developer or other private entity providing upfront funding to construct a facility with the district repaying the developer over a fixed amount of time as negotiated in the partnership agreement. While similar to other funding mechanisms discussed herein involving debt or lease-purchase arrangements, one potential difference is the flexibility in revenues used to

[14] See www.qzab.org.

[15] Public-private partnership information is from: "Facilities Financing: New Models for Districts that are Creating Schools New." Education Evolving; available at http://www.lisc.org/resources/assets/asset_upload_file278_6849.pdf; and "School Construction: Building a Better School House," *School Director's Handbook*. Evergreen Freedom Foundation, 2003; available at www.effwa.org/pdfs/Construction.pdf.

make payments. For example, since these arrangements do not represent traditional debt, impact fee revenues could potentially be used for repayments.

Municipal/Capital Lease

A municipal/capital lease is where a private developer agrees to construct and own a school and then lease it to a district over a defined period of time. Incentives for a developer are the benefits of tax-exempt private activity bonds and guaranteed long-term income from the lease payments. After the lease ends, the district pays a token amount to purchase the structure. Estimated cost savings from this mechanism are 5 to 10 percent over typical construction costs over the long-term.

Operating Lease

Operating leases are similar to municipal/capital leases in that a private organization owns the school building, which it then leases to a school district. The lease is classified as a security to the developer, and the district accumulates ownership in the building as its lease payments accrue (as opposed to a final token purchase price at the end of the lease). Because lease payments contribute to ownership, they are taxable. However, it is estimated that operating leases can still save districts 10 to 15 percent over the long-term.

Service Contract

Service contracts allow districts to renovate a school without selling the property. In this scenario, the district works with a contractor who agrees to operate and maintain the building during a set period of time of renovation. The contractor funds the renovations using private, tax-exempt debt and is reimbursed for capital costs and interest, in addition to being paid for its services.

OTHER FINANCING MECHANISMS REQUIRING STATE ACTION

Increase District Capital Improvement Tax Cap

The District Capital Improvement Tax, an ad valorem property tax used to fund capital school facilities is capped by the State at 2 mills. An increase in the cap would provide significant additional funding for the District to meet its capital improvement needs. An additional one mill would provide $13.5 million in revenue to the District based on FY 2004-05 taxable values; .5 mill would generate $6.75 million. The impact of a .5 mill increase to a homeowner with a home at a taxable value of $170,000 is $85 per year or $7 per month. Impact of a one mill increase for the same homeowner would be $170 per year or $14 per month.

Real Estate Transfer Tax

Also known as a deed transfer tax or documentary stamp taxes, a real estate transfer tax is a tax on the transfer, sale or conveyance of real property. The rate is applied against the price of the property. The use of revenue raised can be restricted to certain capital expenditures. For example, the State of Maryland authorized a real estate transfer tax, with a specific percentage set aside for the purchase of parkland. An advantage of a real estate transfer tax is that it has the potential to generate a substantial amount of revenue since it is based on all real estate transfers Countywide. Some disadvantages include legal restrictions on the authority and/or the amount to levy a local real estate transfer tax; uncertainty in revenue stream given the potential volatility in the real estate market; potential negative impact on housing costs and economic development; and regressive nature of the tax since the tax burden would be higher for lower-income individuals.

PLANNING AND OTHER APPROACHES

Interlocal Agreements

Interlocal agreements requiring coordination among local governments and school boards are mandatory under Florida law. The agreements are intended to address school siting; enrollment forecasting; school capacity; infrastructure; collocation and joint use of civic and school facilities; sharing of development and school construction information; and dispute resolution and oversight. The intent of interlocal agreements is to formalize roles and responsibilities among schools, county government, and municipalities regarding land use and school facilities planning. Aspects of school-local government coordination suggested to be included in an interlocal agreement by the state of Florida include:

- Methods of information sharing among jurisdictions (e.g., joint staff meetings on coordination of land use and school facilities planning; vetting of educational facilities plan with county and municipalities);
- Cooperation on population and student enrollment projections;
- Review of school site selection, significant renovations, and potential school closures;
- Provision of supporting infrastructure needed for new or renovated schools;
- Cross-pollination between school and local jurisdiction planning boards and staff to monitor, consider, and address comprehensive plan amendments, rezonings, and development proposals;
- Consideration of co-location and shared uses for school-civic facilities; and
- Procedure for resolution of disputes and oversight of the implementation of the interlocal agreement. [16]

School Concurrency

Another planning tool available to counties in Florida is *School Concurrency.* School concurrency, also known as adequate public facilities ordinances in other places around the country, requires the provision of sufficient school capacity to serve new development. It requires a school district, county, and municipalities in the county to adopt agreements and standards through a formal process. Palm Beach County has

[16] Department of Community Affairs, Division of Community Planning: "Model Interlocal Agreement for Public School Facility Planning."

adopted school concurrency. Required elements and processes to implement school concurrency include:

- County, school board, and all local governments (except exempt municipalities) must enter into an interlocal agreement;
- Prepare and adopt a public school facilities element to the comprehensive plan;
- Jointly establish and adopt level of service standards and service areas for evaluating the availability of adequate school capacity;
- Adopt a financially feasible capital facilities program to ensure provision of established level of service standards for public school facilities; and
- Adopt the test for concurrency to ensure that school facilities are available concurrent with development, if such facilities will be in place or under construction within three years after issuance of building permit.[17]

Shared Facilities

In contrast to finding additional financing mechanisms, many school districts are searching for ways to cut costs. One such way is to share facilities with other entities. This has taken the form of partnering with community agencies to share space and resources, partnering with institutions of higher education to share space and resources, allowing students to spend part of their educational day outside the building in internships or community service work, and allowing students to receive some or all of their education through "distance education" methods.[18]

[17] Florida Department of Community Affairs, Division of Community Planning: "Primer on School Planning and Coordination."
[18] Education Evolving, "Facilities Financing: New Models for Districts that are Creating Schools New"; available at http://www.lisc.org/resources/assets/asset_upload_file278_6849.pdf.

EVALUATION OF MECHANISMS

EVALUATION CRITERIA

Potential financing mechanisms and planning approaches addressed in this report are considered according to a defined set of evaluation criteria. The evaluation criteria include:

- Revenue Potential (for financing mechanisms only)
- Proportionality (for financing mechanisms only)
- Technical Ease
- Public Acceptability

All criteria listed above are evaluated equally for each potential financing/planning mechanism and provide a framework for the District to use in future evaluations of alternative approaches. It should be noted that this analysis does not include a legal review, which should be conducted before implementation to determine whether appropriate authority exists as well as limitations and requirements. The evaluation criteria listed above are described in more detail as follows:

Revenue Potential. This evaluation criterion addresses the relative magnitude of funding from each financing mechanism.

Proportionality. This evaluation criterion relates to striking a balance between the tax or fee burden being considered relative to the demand generated. For example, communities sometimes choose to require developer contributions or exactions for growth-related facilities because the public perception is that existing residents are unfairly paying the costs of new growth. In another example, in order to a make a school impact fee "roughly proportionate and reasonably related to service demands," the fee should vary by type of housing unit as each housing unit generates a different number of school age children.

Technical Ease. Each of the potential financing mechanisms requires some technical expertise and administrative effort to implement. They may require, for example, that a school district or local government accommodates a new fee structure or must implement separate accounting and reporting requirements as is the case with impact fees. Furthermore, a funding mechanism may require that a technical study be prepared to justify the fee or charge.

Public Acceptability. This evaluation criterion often varies by jurisdiction and the type of facility to be funded. It reflects how the majority of *existing residents* are expected to accept each financing or planning mechanism.

RESULTS OF EVALUATION

FINANCING MECHANISMS

A general evaluation was conducted of the potential financing mechanisms using the four main criteria discussed above.

Figure 8. Evaluation of Potential Financing Mechanisms

	Revenue Potential	*Technical Ease*	*Proportionality*	*Public Acceptance*
Certificates of Participation	positive	positive	negative	positive
District Capital Improvement Tax	positive	positive	negative	neutral
General Obligation/Revenue Bonds	positive	negative	negative	negative
Voter-Approved Additional Millage	positive	neutral	negative	negative
Discretionary Sales Surtaxes *(School Capital Outlay Surtax)*	positive	neutral	negative	negative
Impact Fees	positive	negative	positive	positive
Special Assessment Districts *(Educational Facilities Benefit District & Community Development District)*	neutral	negative	positive	positive
Qualified Zone Academy Bond	negative	negative	neutral	neutral
Public-Private Partnerships	neutral	negative	positive	positive
Mechanisms Requiring State Action *(Increase in 2 mill cap & Transfer Tax)*	positive	negative	negative	negative/ neutral

Revenue Potential

The mechanisms with the greatest potential for revenue yield are certificates of participation, district capital improvement tax, general obligation and revenue bonds, voter-approved additional millages, school capital outlay surtax, and impact fees. While a general obligation bond is a vehicle for financing, rather than a revenue source, it is ranked positively under revenue yield due to the potential for an influx of funds to address major projects at one time, such as the backlog of existing capacity needs. However, a general obligation bond does not provide a *new revenue source.* Instead, it would have to be backed by a predictable revenue stream sufficient to support the issued debt. This could take the form of a portion of the *existing* 2 mill ad valorem property tax or a *new* voter-approved millage.

Impact fees are ranked as a positive revenue yield due to the County's recent update. However, the fees are implemented at a lower than maximum supportable level, which is therefore not capturing the total cost to serve new development. Furthermore, TA recommends updating the fees annually to reflect changes in construction costs and recalculating the fees every 2 to 3 years to fully capture the changes in levels of service and costs in Lake County.

Sales surtaxes have the potential to capture revenue from *outside the County,* therefore ranking it high on the revenue potential criterion. Regarding ad valorem taxes, an additional portion of the 2 mill District Capital Improvement Tax could support additional COPs or another type of debt. For example, 1.1 mills could support financing of $59 million worth of improvements; 1.2 mills could support $78 million. A voter-approved millage has high revenue potential and could be levied in conjunction with a general obligation bond.

Technical Ease

All mechanisms rank low in terms of technical ease with the exception of Certificates of Participation (COPs), District Capital Improvement Tax (2 mills), voter-approved millages and school capital outlay surtax. Both COPs and the 2 mill property tax are currently used, therefore continuation of use as well as a potential expansion of debt backed by the 2 mill tax should not pose problems in implementation or administration. For the voter-approved millages and surtax, other than the initial elections for both of these mechanisms--which could include a significant effort on the part of the District--the implementation effort would be in line with current practices for ad valorem property taxes and the County sales tax. Community development districts, educational facilities benefit districts, and public-private partnerships all represent sizeable efforts in planning, negotiations, due diligence, structuring of appropriate financing, implementation, and oversight.

Proportionality

In terms of proportionality, special assessment districts and impact fees relate the amount paid to the direct impact on facilities. In addition, public-private partnerships are likely to do the same depending on the deal structured. A qualified zone academy bond is given a neutral ranking given that the use of such a financing mechanism is unknown at this time. The remaining mechanisms are ranked as negative. Bonds, ad valorem taxes, sales surtaxes, and real estate transfer taxes are based on value of property or goods and not necessarily reflective of benefit received or demand placed on the facility.

Public Acceptance

Impact fees, special assessment districts, public-private partnerships, and Certifications of Participation are ranked high on public acceptance. Impact fees place costs of growth on new development and therefore are likely to be supported by existing residents. Special assessment districts and public-private partnerships also are likely to garner support because those paying are receiving a direct benefit and the payment assessed is proportionate to the benefits received. In our experience, real estate transfer taxes are likely to generate a neutral response, while bonds tend to be less acceptable because they are viewed as causing higher taxes and fees for the general public. Likewise additional ad valorem or sales taxes are generally not universally accepted.

PLANNING APPROACHES

Regarding the planning approaches discussed in this report, Lake County currently has an interlocal agreement and is implementing mechanisms to promote interjurisdictional coordination. School concurrency is much more technically difficult to implement and requires sophisticated monitoring systems to track development and school capacities. However, a discussion and understanding of level of service standards in the District, and the cost to provide those levels of service, is an important part of coordinated planning. In terms of public acceptance, it is likely that existing residents may support efforts for increased coordination and perhaps for concurrency. However, the development community is not likely to support concurrency, given that it has the potential to slow growth.