

Palms of Terra Ceia Bay Funding Summary

This paper is intended to serve as an introduction and a summary of the funding mechanisms for Operations at the Palms of Terra Ceia Bay CDD.

We will also be posting materials on the website from past studies and meetings where the funding question was addressed.

All of this is being done to provide the community a baseline of knowledge and history to assist in the upcoming discussion to determine the best mechanism for funding CDD operations.

Current situation:

At this time the Palms of Terra Ceia Bay Community Development District utilizes a hybrid of two of the most common CDD funding approaches.

They are Ad Valorem and Non-Ad Valorem.

Ad Valorem

Ad Valorem assessments are what is used by most local governments such as cities, counties and school boards.

Ad Valorem assessments are based on a certain tax per thousand dollars of the value of the property (millage rate) times the value of the property divided by 1000.

Example:

A property is appraised at \$10,000 and the millage rate is 3 mils (\$3 dollars per \$1000 of value)

$\$10,000 \text{ divided by } 1000 = 10$

$10 \times 3 \text{ mils} = \30 in taxes.

Therefore in an Ad Valorem funding scenario a property with a significantly higher assessed value will pay a significantly higher assessment for what may be the same service level as someone with a much lower property value.

It is a policy decision of a local government board (like a CDD) to decide on what the millage rate will be. An independent official (the Property Appraiser) sets the property values.

One of the shortcomings of the Ad Valorem system is that the state sets a maximum millage rate an agency can assess. In our case the state of Florida sets the millage cap at 5.000 mils.

When property values started to drop several years ago communities like Palms of Terra Ceia Bay found they could not collect enough revenue to fund their daily Operation and Maintenance expenses (O&M) within the 5 mil cap.

We are still in that situation today.

Non-Ad Valorem

The CDD board at that time addressed the issue by adding an assessment for major capital items using the Non-Ad Valorem methodology.

In Non-Ad Valorem funding scenarios total costs might be divided equally among the total number of units served. Another option is to conduct a study to determine the relative value received by particular property types, size or location and the total amount to be collected is distributed based on those relative values.

At this point in time the Palms of Terra Ceia uses Ad Valorem collections to fund daily operations and Non-Ad Valorem revenue to fund capital expenses.

The question

The issue of what is the most appropriate funding mechanism has been before the board before.

At one time the CDD board appointed a committee to study the issue.

We will be posting information from that review on the CDD website.

However, the facts are not quite the same this time around so the information may not be totally relevant.

Back then the CDD relied totally on Ad Valorem funding and because of the real estate downturn could not cover expenses because of the 5 mil cap.

Now we have the hybrid system (Ad Valorem and Non-Ad Valorem) in place.

The introduction of the Non-Ad Valorem component allowed for adequate funding for O&M.

But there are many that feel the change to the hybrid system did not necessarily address the inequity that the cost of items such as the community's landscaping or the pond maintenance contract should be funded at a higher level by someone with a higher property value than one whose properties happen to have a lower cost even though the usage and value are the same.

Others feel that Ad Valorem was the funding mechanism in place when most people bought their units in the Palms of Terra Ceia Bay Community so there is no reason to make a change now.

We will hear these and many other positions and opinions as we go through this process.

These are some of the things that will need to be considered by the CDD board in addressing this very tough question.

And please remember that they have the responsibility to listen to everyone and make the difficult policy decision of what is most fair for the community.

Website materials

On November 19th we will present information that will establish a factual baseline for the discussion that will occur in subsequent workshops.

Much of this information accompanies this memo on the website and will be updated as new information becomes available.

Here is a summary of what is on the website and what it shows:

1. Palms of Terra Ceia Bay Funding Summary (this paper)
 - Provides a short history of the funding discussions and some of the issues facing the CDD Board.
2. Taxes and Finance Presentation
 - This was the work product of a Committee that was appointed by a past Board to study the funding issue.
3. Advisory Committee Presentation – This was a presentation prepared as an introduction to the Advisory Committee.
4. Sec 197 Summary – This discusses some of the legal parameters from Florida State Statutes that impact the funding discussion.
5. Budget Planning Workbook – For those that love detail these are the worksheets that Louis Lawman put together in developing a methodology to calculate the relative charges for each community based on a number of criteria.
6. Reference Materials – These are notes from the Study Committee Meetings that discussed factual information about different taxing methodologies and also summarizes the impact of various applicable state laws.

More materials will be posted to the website periodically as it is requested by the Board or developed as we go through the review process.