Florida State University

A DIVERSIFYING SOURCE OF REVENUE FOR THE CITY OF TALLAHASSEE:

An Analysis of Options

AN ACTION REPORT SUBMITTED TO
THE FACULTY OF THE COLLEGE OF SOCIAL SCIENCE
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MASTER OF PUBLIC ADMINISTRATION

REUBIN O’D. ASKEW SCHOOL
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BY
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Members of the City Commission
City of Tallahassee
Tallahassee, Florida 32301

Dear Honorable Mayor and Commissioners:

Please allow me to submit for your review and consideration, *A Diversifying Source of Revenue For The City of Tallahassee: An Analysis of Options*. This report is the product of extensive research and analysis over the spring months of 2003. Revenue diversity is an important fiscal policy, though difficult to achieve at the local level, it is highly recommended as a “best practice” by many professional government financial organizations. The impending threat of deregulation suggests that the city has a critical need for revenue diversification since more than half of the total sources of revenue are attributable to electric-utility operations.

Having examined several options, my recommendation is that the city should become an active partner in the University Park project to begin achieving revenue diversity. This alternative was recommended based on the use of five evaluative criteria: citizen support, associated cost, legality, political feasibility, and durability. The University Park project scores highly on the legality criterion and citizen support. The University Park project does well on both criteria because it will generate more jobs, which spreads the costs of municipal services more evenly, and laws do not limit the city’s involvement in such a project. Associated costs were found to be high because this development would require new roads, extensive labor, and expensive infrastructure, but involving other investors may lower the cost. Once developed, the Park project, if appropriately marketed to the right kind of businesses, would serve as a long-term solution for the city’s disproportioned revenue base.

Partnership in the University Park project would become the catalyst for “economic development” in the city. More importantly, this innovation would lessen the cost burden imposed on utility customers. The other two policy options require more initiatives and careful calculations to make each alternative function. Annexation, scoring the same as the Park project, would call for city initiatives to convince citizens to support it. Payment in lieu of taxes (PILOTs), the lowest scoring option, would require change in legislation. However, legislative studies on this matter, and the introduction of House bill#883 and Senate bill#1816 concerning PILOTs for the capital, show promise.
This recommendation has the potential to diversify the city’s revenue base. Diversification as a fiscal policy is encouraged and highly recommended by the Florida League of Cities, Government Finance Officers Association, and the National Advisory on State and Local Budget Practices. Diversity in Tallahassee’s revenue structure will enable the city to better respond to change and help reduce the chances of fiscal crises.

Most respectfully,

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Executive Summary

Revenue diversity is a vital fiscal policy that promotes fiscal balance and sound financial management. Tallahassee’s reliance on electric-utility revenue increases its vulnerability to externalities like deregulation. More than half of the city’s total sources of revenue are attributable to electric-utility operations. Such concentration on a single source of revenue suggests unsound financial management. At present, most of the municipal expenses and costs are imposed on utility customers. Thus, the city’s revenue base is in critical need for alternatives to revenue.

Strategies such as repositioning other revenue and reducing utility contributions to the General Fund already have been implemented to curtail utility reliance and have not proven successful. Electric-utility revenue continues to supply significant contributions to the General Fund in addition to subsidizing other governmental funds like TalTran and golf course funds.

Information for this report was collected using three methods. First, academic literature, popular media, and government documents were analyzed to provide background information and insight into the financial history and the current fiscal position of the city. Second, applicable laws, rules, regulations, policies, financial standards were reviewed to determine statutory requirements and limitations on municipal revenue options. Third, key staff members of the Legislature, the city of Tallahassee, and Florida League of Cities staff were contacted to provide insight into the legal ramifications, political viability and public support of diversifying revenue alternatives.
This report presents three policy options for revenue diversification: Payments in lieu of taxes, University Park, and Annexation. Each option is evaluated against the following criteria: citizen support, associated cost, legality, political feasibility, and durability.

Based on assessment of the alternatives using the five criteria, Partnership in the University Park project is recommended. City partnership in the University Park development would be the most viable policy to provide alternatives to revenue diversification. University Park would become the catalyst for sound financial management and fiscal balance in Tallahassee. The other two options would require more city initiatives to make each option function at its peak level. Although citizen support for annexation is lower than other alternatives, initiatives aimed at explaining the benefits of incorporation to citizens would improve support.
I. Problem Statement

Reliance on one revenue source causes instability at any level of government. It increases an administration’s vulnerability to externalities such as citizen dissatisfaction, deregulation, inflation and other factors. The City of Tallahassee, due to the high percentage (over 50%) of tax-exempt property owned by federal, state, and local governments, depends on revenue generated by the electric-utility sector to fund more than half of the services it renders to residents (City of Tallahassee, 2001). Profits from the electric, gas, water, and sewer utilities are transferred to the General Fund to compensate for the loss of property tax revenue. In 2001, legislation proposed in Florida and in the U.S. Congress to deregulate the distribution of electric power threatened the future of this long-standing enterprise fund. Although deregulation did not pass in the Florida Legislature, it demonstrated how financially weak the City was and its need for financial alternatives to revenue.

Currently, tax revenues are budgeted to exceed the utility fund transfer in the General Fund. However, this strategy only changes the appearance of revenues—making the revenue structure look proportioned when it is not. As illustrated in the Comprehensive Annual Financial Report (CAFR), substantial portions of total sources of revenue, about 63%, continue to be attributable to utility charges (City of Tallahassee, 2002). The disproportioned performance of city revenues suggests unsound financial management and “fiscal unbalance” that often lead to fiscal crises due to fluctuations in the normal economic cycle, legal challenges, and political action (Dennis & Statler, 2002). Thus, the need for a diversifying revenue source is imperative in attaining the City’s 2003 mission of maintaining financial stability, improving economic vitality,
providing quality services responsive to customers, and enhancing community and
neighborhood vitality (City of Tallahassee, 2001).

Furthermore, as a city government, Tallahassee plays an integral role in shaping
the economy of the community and the state. It is a “representative” government in which
direct interaction with citizens is common. Besides the visible effects that a financially
unstable administration produces, citizens’ perceptions of government are also at stake.
The purpose of this Action Report is to examine different revenue alternatives appropriate
to the legal authority, resources, and needs of the City. It will prescribe the revenue base
that demonstrates the greatest promise of diversification.
II. Background and Literature Review

Background

To minimize reliance on the electric utility fund, strategies such as the reduction of utility contribution to the General Fund are currently in effect. Other revenue sources (like the Golf course fund, the Airport fund, the Ad Valorem millage rate and charges for services) have been explored and repositioned to respond to potential deregulation, but they are neither long-term nor stable enough to serve as a diversifying financing source for the City (City of Tallahassee, 2001). To survey and recognize resourceful revenue alternatives, this section examines: the origin of the electric-utility transfers, Tallahassee’s current sources of revenue, plans implemented to reduce reliance, and revenue diversity as a fiscal policy. Examining these topics is important to understanding the scope of the problem. It also proves useful in distinguishing the elements necessary for identifying an effective fund source.

First, the origin of the electric-utility contributions is intermingled with the City’s fiscal capacity. Since 1902, the government has been providing electricity for public use. As the town’s population grew, so did the electric utility operations. By the mid1990s, profits from the electric utility operations multiplied, while the drawbacks of the City’s role as the state capital surfaced. The state capital experienced first hand the results of government expansion and became home for several government entities. To date, over 50% of the real property inside its limits is owned by federal, state, and local governments and is tax-exempt (City of Tallahassee, 2001).

Compared to the state constitutional cap of 10 mills, the City’s Ad Valorem or property tax at 3.2 mills is low (City of Tallahassee, 2000). However, strategies beyond
millage rate increases were needed to respond this revenue dilemma because higher property tax rates would not produce significantly greater amounts of revenue since much of the property therein is untaxable and citizens are tax resistant (Kelly and Ransom, 2000). In a plan to compensate for the loss of property tax revenues, each utility fund supplied a contribution or transfer to the General Fund (City of Tallahassee, 2000). In fiscal year 1998, pursuant of chapter 2000, F.S., by the Department of Revenue, Tallahassee began to account for these contributions as General Fund revenues.

Second, Tallahassee’s current sources of revenue are clearly unbalanced. As outlined in the Comprehensive Annual Financial Report (2002), of the City’s total sources of revenue, 63% are generated by utility charges, 12% other fees and charges, 4% intergovernmental revenue, 7% interdepartmental revenue, 1% interest earnings, 1% fund balance, only 11% taxes. Too, the asymmetrical results of enterprise funds are precise indicators of the city’s utility dependence. Comprised of electric, gas, sewer, water and solid waste funds, these enterprise funds reveal significant gains in operating income. However, other enterprise funds, namely the Tallahassee Transit, Airport, and Golf course funds produced either no income or a deficit in both fiscal years 2000 and 2001. Such weak revenue performance of funds--other than utility--has further caused the reliance on electric utility revenue.

Moreover, plans implemented to curtail electric utility reliance have not proven successful. Though the 2001 proposed legislation in Florida and in the U.S. Congress to deregulate the distribution of electric power did not pass, partly due to word of California’s energy woes, city officials have concluded its momentum has just slowed down and deregulation will resurface (City of Tallahassee, 2001). Tallahassee, in
response to this potential threat, and in efforts to strengthen and promote sound financial
management, executed the strategy of reducing the amount transferred to the General
Fund. The General Fund is significant because it is the all-purpose operating fund. It is
recognized as "the most important fund in governmental accounting" and the entity
through which most major "operations of the governmental unit are conducted" (City of
Tallahassee, 2001 p.101). Police, protective inspection, code enforcement, culture and
recreation, general government, transportation, human services, economic development,
and physical environment are all of the activities or functions included in this fund.

For the 2003 budget, it is estimated that taxes, which consist of property tax,
electricity tax, telephone tax, water, gas, and fuel oil tax, are forecasted to make up 37%
of the General Fund (City of Tallahassee, 2002). The electric fund transfer, consistent
with the plans to reduce reliance and to position the City for deregulation, has been
reduced from 35.5 million in fiscal year 1996 to 24.4 million or 23% (City of Tallahassee,
2001). The remainder is comprised of:

- Charges for services like proceeds from parking lots, concessions, and police
  protection at 6%
- Fine and forfeitures at 2%, Inter-governmental funds (such as federal transit
  administration, cigarette tax, city share county business tax)
- State of Florida revenue sharing at 13% with licenses and permits at 5% and
  11% miscellaneous sources (City of Tallahassee, 2001).

These figures, though impressive, may mislead some stakeholders to believe that the
City is no longer dependent on the electric-utility operations. In fact, in addition to
supplying contributions to the General Fund, the utility-fund revenues have now been
redistributed to provide funding for other governmental funds (like TalTran and golf
course funds). However, these finances are not accounted for in the General Fund but in other major funds (such as the enterprise fund).

Finally, the city’s current revenue dilemma is the result of a lack of revenue diversity. Revenue diversity is, simply, having multiple sources of revenue flows to finance local government operations (Dennis and Statler, 2002). By producing a fair mix of revenue sources that capture all the revenue bases (evenly distributing the tax and impact burdens), diversification reduces the risk associated with dependence on one revenue source (S. O’Cain and C. Hungerford, personal communications, April 1, 2003). As a fiscal policy for local governments, in particular for Tallahassee, diversity is extremely important because it ensures fiscal soundness and stability (R. Lavin, personal communication, March 24, 2003). Though limited in authority to raise revenues (with the exception of ad valorem taxes), it is undeniably necessary that the capital city actively begin spreading its risk by identifying revenue other than utility—which, at present, imposes most of the municipal expenses and costs on utility customers.

In summary, the City of Tallahassee strategically used utility operations to compensate for the loss of Ad Valorem revenue due to federal, state, and local government ownership of more than 50% of the real property inside the city limits (City of Tallahassee, 2000). As a result, utility revenues became the central financing source—making up 66% of the city’s total sources of revenue and functioning as the only enterprise funds generating a gain in operating income (City of Tallahassee, 2000). Despite efforts to reduce its reliance, the municipality remains very dependent on utility operations and in need of options for revenue diversification.
Literature Review

The pertinent literature addresses three themes: the structure of revenue, revenue diversification for achieving fiscal balance, and innovative sources implemented by capital cities.

First, the literature indicates that the structure of revenue within local governments is narrowly constrained by the state constitution (Florida Legislative Committee on Intergovernmental Relations, 2003-1996; Kelly and Ransom, 2000; Pagano and Johnston, 2000; Mikesell, 1999). In general, most government revenues are in some form vulnerable because they are subject to legislation and changes in policy initiatives (Noll & Zimbalist, 1997). Mikesell (1999) also notes that factors like tax and expenditure limitations affect the revenue structure of local governments. The Florida Legislative Committee on Intergovernmental Relations (FCIR, formerly Advisory Council on Intergovernmental Relations) (2002; see also 2001 and 1996) examines how reliance on specific revenue sources has shifted over the past decade and provides an overview on the common structures of revenue adopted by Florida’s municipalities, counties, and special districts.

Tallahassee’s current structure of revenue and financial position are captured in the operating budgets for year 2002-2003 and the Comprehensive Annual Financial Report for fiscal year 2001 (City of Tallahassee 2001-2002). Kelly and Ransom (2000) believe that fiscal flexibility, leadership and innovation, and policy partnership with state government are imperatives that facilitate a good revenue structure. Shifting responsibilities from the state or federal government to local governments is believed by
some city officials to be mostly falling on the shoulders of general-purpose governments, namely, cities (municipalities) and counties (Pagano and Johnson, 2000). Pagano and Johnson describe how the composition of local government revenues will change and the legislative demands of many cities for authority to levy local option taxes in response to devolution.

Second, the literature addresses the theme of revenue diversification for achieving fiscal balance in city government. Dennis and Statler (2002) describe revenue diversification as a tool for achieving fiscal balance— which is the appropriate mix of revenue sources and the appropriate mix of revenue bases by revenue source. The benefits of revenue diversification to local governments are debatable (Dennis and Statler, 2002; Cigler, 1996; Mueller and Schement, 1995; Wagner, 1976). Wagner (1976) argues that revenue diversification is inefficient and can lead to bigger government and higher tax burdens according to economic theory. At the same time, as Cigler (1996) notes, revenue flexibility, as opposed to diversification, does not have to be achieved entirely through adding new revenues.

Alternatively, public finance professionals believe that revenue diversification is desirable. Both Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting (NACSLB) contend that diversity can improve a government’s ability to respond to matters like revenue fluctuations and distribution of cost for services (GFOA, 2000). Furthermore, diversification allows governments to operate more efficiently as evidence suggests in a study on state and local government revenue (Suyderhoud, 1994). Overall, diversity should be practiced because relying on one source of revenue is not safe.
Finally, the literature addresses innovative sources of revenue implemented by cities. This theme pertains to identifying diversified revenue sources suitable for the City of Tallahassee through the experience of other cities. Hayes (1987) asserts that the Triangle Park, a research complex has transformed the capital city of Raleigh, N.C into one of the fastest growing regions in the country. The rewards from this revenue source are outlined. In addition, Raleigh has been deemed one of the best places to live in America due to the strength and success of its’ research park (Davis, 2003; Heikens, 2003).

Another source with diversifying potential is Payments in Lieu of Taxes (Kinney, 1995). Kinney, Simons and Wilton (1995) are in disagreement on the use of payments in lieu of taxes (PILOTs) to capture revenues from off-the-tax-rolls properties. The effects of PILOTs on three different cities (Boston, Milwaukee, and Portland) are evaluated. In terms of a fiscal tool, then, PILOT revenues are fairly weak because they are highly subject to legislation and availability of state funds.

In summary, these sources collectively provide a greater understanding of the emerging themes associated to this topic. However, the literature does not provide detailed evaluation and analysis of revenue options for Tallahassee. The present study builds upon this literature by assessing the City’s revenue structure, legal authority, and successful revenue implemented by similar capital cities, and recommends the most appropriate alternative for policy leader use.
III. Methodology and Evaluation Criteria

Methodology

Information and data for this report will be collected using the following methods:

- Analysis of existing academic literature, journal-articles and the database searches in JSTOR, Social Science Abstracts, Wilson Select-plus and Lexis-Nexis from 1990 to the present.

- Review of applicable laws, rules, regulations, and policies from the City’s Code of Ordinances, Florida Legislative Committee on Intergovernmental Relations, and the Florida Statutes.

- Unstructured interviews and telephone contacts (n=eight) approximately ½ hour long with City of Tallahassee’s financial administrators (David Reid, Department of Management and Administration Director; Raoul Lavin, Interim Manager; Dinah Hart, Administrative Services Manager), Florida League of Cities (Ken Small, Economist), and Florida Legislative members and staff (Representative Mary Brandenburg, D-District 89; Chuck Hungerford, Legislative Analyst; Steve O’cain, Legislative Analyst; Dick Drennon, Legislative Analyst).

Journal articles give insight to the financial history and current fiscal position of the city. The academic literature also provides insight into alternative revenue sources used by other municipalities with similar disparities. This source establishes support for the various alternatives to revenue. Reviewing the applicable laws, rules, regulations, and policies of the Florida Statutes provide guidance on the legality criterion.

Interviews will be unstructured and conducted to explore the origin of Tallahassee’s fiscal policy, the concept of “revenue diversity” as a fiscal policy and local government revenue alternatives in the state of Florida. These interviews will also offer specific information on the related challenges and efforts made to resolve the city’s current policy problem. The experience and expertise of interviewees will foster an in depth understanding of the complexities associated with the proposed options.
Evaluation Criteria

Four criteria will be used to assess each option on a decision matrix--consisting of a 1 to 5 ranking scale with one being very negative and five being very positive. Based on the extent to which each option meets the criteria, scores will be assigned according to the analyst’s assessment:

- **Citizen support** is used to measure public opinion, and to gain the residents’, and/or community perspective on each option. Data sources will include personal interviews, articles and journals on citizen response to the proposed policy options.

- **Associated costs** are the increased costs for additional staff, experts, land, and estimated cost of construction to implement the option. Data sources include personal interviews, articles and journals on the estimated cost of each policy option.

- **Legality** rates the achievability of each option based on the city’s legal limitations and authority. The data source encompasses personal interviews, government documents such as Florida statues, legislative reports, and city commission reports and articles from Florida Legislative Committee on Intergovernmental Relations. (i.e., does revenue source require change in legislation).

- **Political Feasibility** examines whether the policy option would be desirable to the state, county or city, and whether it would conflict with state goals. Data sources include interviews with legislative and city staff, articles and academic literature.

- **Durability** rates each option’s ability to withstand externalities such as legislative deregulation, market conditions, and competitors. This criterion measures each alternative’s ability to be a long-term solution for the city. Data sources include interviews, articles and academic literature.

These criteria were selected as the best possible considerations to measure the most suitable diversifying revenue source for the City. Other criteria not included were considered but were found to be too complex due to the nature of this report.

Environmental restrictions, resource availability, and timetable are all important
measurements but they were not used because of unavailable data, validity issues, and accuracy concerns.
IV. Management Policy Options

Section IV explains three promising alternatives that indicate superior diversifying capabilities for the revenue structure of Tallahassee: payment in lieu of taxes, a research park, and annexation-expanding city incorporation. Each alternative has been evaluated using five criteria detailed previously: citizen support, associated costs, legality, political feasibility and durability. Other revenue alternatives such as stadiums, online advertising, or tourism were considered. However the three alternatives examined were chosen because they show the most realistic potential in facilitating sound fiscal balance.

Option One: Payment in lieu of taxes (PILOTs)

Payments in lieu of taxes (or PILOTs) are Federal or State payments to local governments that help offset losses in property taxes due to nontaxable lands within their boundaries. Used in 22 states, PILOTs represent the single most common type of state reimbursement program used to compensate local governments for cost and expenses associated with local services and the loss of tax base due to federal and state lands in their jurisdictions (Leon County, 2002). Although the state of Florida does have an established PILOTs program, "the city of Tallahassee, according to state provisions, is ineligible to participate in the PILOTs program” because of the eligibility requirements (FLCIR, 2003, p. 6).

This alternative proposes changes in the restrictions and the process of the state PILOTs program to include the state capital. Currently, the state PILOTs restricts eligibility to: local governments that generally contain undeveloped properties acquired by state and Water Management Districts (under Preservation 2000 and its successor Florida Forever), counties with populations of 150,000 or less, and local governments
Within such counties (FLCIR, 2003; F.S. Chapter 259.032). By gaining eligibility for PILOTs, the city would diversify its revenue structure.

**Citizen support:** Citizens tend to support legislation that does not cost them anything. Raoul Lavin of the Tallahassee Department of Management and Administration stated that because municipal cost would be distributed fairly, citizen support would be very high (personal communication, March 24, 2003). As a result, there was no documented citizen resistance against state PILOTs (to local governments) found in current literature.

Alternatively, citizen support for PILOTs is questionable when it involves non-profits. As indicated by Leland, “while some citizens may applaud efforts to solicit funds from those big, bad nonprofits with those highly paid executives, the public reaction to the solicitation of smaller, more traditional charities is subjective” (Leland, 1999 p.35). Since many cities (Baltimore, Boston, Detroit, Indianapolis, Minneapolis, Philadelphia, Pittsburgh) are faced with the need to find more and new sources of municipal revenue, the idea of potential revenue in the nonprofit sector is an attractive one. Still, in some cities aggressive attempts to capture this kind of “new money” have left many taxpayers angry and frustrated (Leland, 1999; Lemov, 1995).

However, Option One would only require additional assistance from the state and (indirectly) citizens statewide. These payments would be new revenue that would help cover the cost and expenses for services (like public safety, neighborhood and community services) that the state had not originally been paying for. PILOTs would be viewed as a tool that would enable the city to spread cost more evenly among users—capturing
taxpayers, utilities customers, and now a majority of property owners. In short, Option One is highly supported because it would not impose a direct cost or loss to citizens.

**Associated costs:** Most cities and capitals receiving some form of PILOTs (Albany, Annapolis, Boston, Dover, Harrisburg, Honolulu, Montpelier, Providence, Raleigh and Trenton) experience minimal or no costs since they are reimbursement programs funded by states (Leon County, 2002). Likewise, Option One would produce little or no costs to Tallahassee because these are payments from the state of Florida. The type of PILOTs program that Option One is proposing does not contain a term of exchange (such as assessing state property to receive a percentage in ad valorem taxes) with the state, which would require additional staff and/or resources.

Taking all of this into consideration, an interview with FLCIR senior analysts point out that although the cost of PILOTs to the city would be nominal, it would be too costly for the state (C. Hungerford and D. Drennon; S. O’cain, personal communications, April 1, 2002). Due to the current economic conditions, the state is cutting back on expenses and spending (C. Hungerford and D. Drennon; S. O’cain, personal communications, April 1, 2002). In view of the fact that this program does not exist in Tallahassee, additional time and initiative to change legislation generates costs. Based on these determinations, Option One scores a four for associated costs.

**Legality:** Leon County, where Florida’s capital city is located, with a population of 239,452, is not eligible for PILOTs though it contains the largest amount of assessed state property valued at $2.0 billion (Leon County, 2002). Current state PILOTs need to be changed or improved on the basis of “determining eligibility and payments” (FLCIR, 2003, p.6). Option One would call for county and city (and even other affected local
government) collaboration to aggressively lobby for change in legislation. This alternative would require petitioning the state to take responsibility for its fair share of tax and impact burdens incurred by the city.

In view of this, staff members of the city, FLCIR, and Florida League of Cities were not optimistic. The state is not mandated to provide or improve PILOTs, so the chances of major changes occurring are slim (K. Small, personal communication, April 1, 2003). The current state of the economy discourages new legislation with a price tag. Even with pressure from local governments for such changes, the amount set by the state to compensate municipalities and counties through PILOTs would not be significant (M. Brandenburg, personal communication, April 1, 2003). As such, Option One scores low due to the challenges associated with implementation.

**Political feasibility:** Local governments with large amounts of state properties exempted from ad valorem taxation are significantly negatively impacted by the loss of property tax revenue (FLCIR, 2003). Therefore, Tallahassee and its city commissioners would approve PILOTs on the grounds of evening out costs borne by the city and its citizens. From the state’s perspective, recognizing that they are getting services that they are not paying for and taking initiative to compensate for such circumstances would ideally be the “right thing to do” (R. Lavin, personal communication, March 24, 2003).

However, such a gesture of good will does not correspond to current state goals. The impacts of a poor economy have caused the state to mainly explore “no cost issues to Florida” (D. Drennon, personal communication, April 1, 2003). Despite these arguments, Option One for payments in lieu of taxes scores fairly high because it is strongly
advocated by the city and it would be politically fair for the state to compensate the city for the loss of ad valorem taxes.

**Durability**: The long-term implications of PILOTs are uncertain (Kinney, 1995). There is a 10-year cap on current PILOT programs. In addition, the Conservation and Recreation Lands (CARL) Trust Fund, the major funding mechanism for state PILOT programs, is considered insufficient (FLCIR, 2003, p.6). PILOTs in Florida, and in a few other states, are not durable (M. Brandenburg, personal communication, April 2003). Since state properties are tax-exempt, they are not required to compensate the cities in which they reside for the loss of ad valorem tax.

PILOTs are state initiatives that attempt to compensate local governments for loss of tax revenue or to offset costs local governments incur. Therefore, the terms of PILOT, most often, are established by the state. As a result, these programs are variable and mostly honored on the basis of fund availability. Conversely, Option One’s ability to withstand externalities like change in legislation would depend upon the agreement established between the state and the city for PILOT payments. Based on these determinations, this option scores low.

In summary, Payment in lieu of taxes scores high on the citizen support criterion because municipal costs would be distributed fairly and no direct cost would be imposed on citizens. Associated Cost scores somewhat high because the city would be receiving a reimbursement from the state. Legality is questionable because the state is not required by law to compensate cities and the probabilities of the state establishing such legislation are low. Government staff also indicates that in the midst of budget cuts and economic
downtimes, legislation with a price tag such PILOTs would be set aside. Durability scores low because PILOTs are subject to state fund availability and time constraints.

**Option Two: University Park**

University Park is a proposed new 1,500-acre research park that would be located in the south side of Tallahassee. As a multidimensional development, it would include a research and development site, land for Florida State University’s campus expansion, a multipurpose commercial venue (restaurants, shops, copy centers), as well as a residential area for students or general housing (such as condominiums along a redesigned Seminole Golf Course, or even a hotel) (Lindley, 2003). Though first introduced by Florida State University because it was short on campus space, a collaborative effort between the state, city, county, and Florida Agricultural and Mechanical University would be required to facilitate this project’s success.

The concept of Option Two, a University Park, is loosely based on Raleigh, North Carolina’s Triangle Park—which is notably one of the most successful of its kind (Drescher, 1998; Paige, 2003; Heinkens, 2003). Much like the current conditions in the City of Tallahassee, job losses, “brain drain,” and lackluster incomes were the conditions dragging North Carolina’s economy in the 1950s “(Heikens, 2003 par. 1). Designed to stem the “brain drain” and create new jobs, Triangle Park facilitated the now strong partnership of corporate, government and nonprofit campuses. “Since it opened in 1960s, the research complex has turned the triangle-shaped area formed by Durham, Chapel Hill and Raleigh, the state capital into the fastest-growing regions in the country” (Hayes, 1987, p.12).
This alternative urges the city to take an active role in the development of University Park to generate economic development and to diversify its revenue base. As an active partner in this venture, the city would contribute additional undeveloped parcels of land to the project and help build roads. In return, the city would increase its revenue base through job creation (like construction), property taxes, as well as significant sales and business related taxes—which would serve to diversify Tallahassee’s revenue structure.

**Citizen support:** Given that more than 36% of Tallahassee’s labor force accounts for public sector employment, the recent reductions in state government size have left many residents with bleak prospects (Lindley, 2003). Even so, with the few local businesses that have contributed to the city’s job climate, the south side of Tallahassee still remains neglected and impoverished. In addition, despite the occupancy of two major universities, the city has been unsuccessful at persuading its biggest export, college graduates, to stay (Lindley, 2003). A multidimensional research park would attract new businesses to the city, which in turn would generate more jobs for residents and entice students into becoming permanent residents. In light of all these matters, citizen support for Option Two would be extremely high because it offers a solution (Lindley, 2003).

On the contrary, if the development of University Park meant that controversial private industries would reside in the city, residents would surely rally against it for fear of potential impacts like cost and environmental harm (M. Brandenburg, personal communication, April 2003). For instance, the city of Fayetteville received strong opposition from the Mud-wompers against its proposed Business and Technology Park due to projected impact on the city’s natural landscape (Fayetteville, 2002).
However, it is the example of Raleigh’s prospering Triangle Park that Option Two aims to follow. This research complex transformed Raleigh-Durham area into a major center for researchers and scientist while rocketing North Carolina’ rank in earnings per job from 46th in 1970 to 25th in 2000 (Paige, 2003). These are just a few of the benefits that supporters of the University Park intend for Tallahassee (Yeager, 2002).

To be brief, Option Two would be highly supported by citizens because a University Park--on the condition it attracts the right type of industries--could be the impetus needed for the community to make the most of its higher education capital.

**Associated costs:** According to the Urban Land Institute, University Park is estimated to cost $188 million (FSU, 2002). This estimated amount includes the cost of construction, infrastructure, internal roadways and landscaping for the entire 1,200 developable acres (FSU, 2002). To share the costs, a project of this magnitude calls for a joint effort between the two universities, the state, the county and the city. Still, as a major partner in this endeavor, the city would need to invest substantially. As a result, this endeavor would be expensive.

As Mahtesian also warns:

The frenetic cycle of building and expansion that many cities have embarked on sometimes glosses over such considerations as the region’s marketability or the heavy debt that they will be carrying for years. The cities most likely to lose are the mid-sized ones swept up in the wave of boosterism and economic miscalculation (1994, p.19).
In addition to such concerns, the revenue from Option Two would not come quickly. A stakeholder of Triangle Park emphasizes that patience is a virtue and that “there are very few significant endeavors of humans that come about quickly” (Heinkens, 2003, p. 3).

Bearing all these factors in mind, Option two scores negatively against the associated cost criterion. Regardless of the universities, businesses, and other government’s assistance, the city would be obligated to provide services or contributions (like building roads and donating undeveloped parcels) uniquely within its role. As such, associated cost to the city for a University Park would be extremely costly.

**Legality:** There are no legal barriers that hinder cities from a project like University Park (D. Drennon, personal communication, March 2003). In fact, this is one of the reasons that these kinds of projects attract local governments. However, it is important to note that organizations, including government entities, have to adhere to laws addressing land developments that threaten wildlife and natural resources. Based on the proposed site of Option Two, it would neither pose a threat to the wildlife nor natural resources of the city (Yeager, 2002). Analysis of Option Two with regard to legality appears to be a non-issue; therefore it is given a high score for the legality criterion.

**Political feasibility:** Using Raleigh’s Triangle Park once more as case in point, the success associated with a research park would be beneficial to all parties—including the state, county, and city. Increased revenue, employment, and recognition for being one of the most educated and affluent cities in the nation are a few of the benefits. As stated by Drescher, “State and local governments investing into research parks see it as economic development strategy--expecting to create jobs, expand the (corporate) tax
From the state’s standpoint, although success of a University Park could bring positive results, the risks associated would be too high due to a weak economy. Then again, if state funds were reserved for research and/or endeavors like research facilities, Option Two would be supported. In spite of economic conditions, as noted by Raoul Lavin, a University Park would be politically feasible to the state because new jobs in new industries could replace declining jobs in Florida (like state jobs) (personal communication, April 10, 2003). Additionally, state funds (though useful) are not central to the development of Option Two because it is a shared effort. At minimum, the state could donate some of its undeveloped parcels of land—which have not been generating revenue—to add to the project (Yeager, 2002).

FLCIR analysts suggest that feasibility would rank high for Leon County (S. O ‘Cain and C. Hungerford, personal communications, April 1, 2003). Option Two could increase the county’s revenue through property and additional sales tax. More importantly, the proposed project would stretch west and south of Innovation Park—which is home to the National High Magnetic Field Laboratory and owned by the county. As it stands today, Innovation Park has not realized the business traffic it was intended to produce (Lindley, 2003). Hence, Option Two would be highly feasible because it has the potential to stimulate more commercial activity for the county.

The collaborative nature of Option Two makes a University Park fairly feasible for most levels of government. A major concern regarding Option Two’s feasibility rate is the weak economy, which is affecting government’s support. Still, due the fact that the
success of University Park is not dependent on a specific level of government, administrations may choose to contribute additional land parcels instead of providing financial support. Thus, Option Two ranks moderately high on political feasibility.

**Durability:** “Once its built it is there permanently” (K. Small, personal communication, April 1, 2003). Certainly, a structure like University Park implies longevity. However, the duration of profits is unclear. Option Two’s long-standing revenue ability is subject to many variables (like market conditions, the type industries attracted, competitors). The success of University Park defines it as a long-term solution for the city. However, Option Two is a high risk because the failure of the park may cause “long-term problems like vacant land and/or buildings, lost jobs, and unmet expectations” (Drescher, 1998 para.15). Thus, Option Two receives a score of three due to the uncertainty associated with determining durability. In this regard, Option Two scored moderately low.

In summary, Option two ranked high against citizen support, legality, political feasibility, and durability. One potential drawback to this option would be in associated costs. A possible remedy to this problem is investing wisely and opening this project to other investors. Based on analysis, Option two is regarded as a reasonably feasible policy option.

**Option Three: Annexation-Expanding City Incorporation**

Defined by the Florida Statutes, in chapter 171.031, "Annexation [is] the adding of real property to the boundaries of an incorporated municipality, such addition making such real property in every way a part of the municipality.” IncorpoKing other communities into the city limits through annexation is a common practice in several
municipalities (like Phoenix, Dallas, Houston, and San Jose) (Smith, 1999). Depending on the land or infrastructure annexed, most cities begin to see an increase in revenue almost instantly (IACIR, 1998). For the city of Tallahassee, annexation is a realistic option because of the great availability of contiguous lands. As the only incorporated city in Leon County, Tallahassee merely encompasses about 15% (101 square miles) of the county’s land area (City of Tallahassee, 2001). In addition, several unincorporated enclaves are contained in the city. They are located between Capital Circle Southeast, Capital Circle Southwest and Orange Avenue; Capital Circle Northeast, Miccosukee Road and Interstate 10; and between Meridian Road, Thomasville Road, and Bannerman Road.

   This alternative suggests annexing the above-mentioned enclaves as a means of diversifying Tallahassee’s revenue base. Annexing these properties would generate taxes for the city (Sherman, 2002), while it would also smooth out the “ridges” of city limits caused by enclaves (D. Hart, personal communication, April 9, 2003). Under state law, municipalities may annex contiguous, compact, unincorporated territory (F.S. Chapter 171.0413). In other words, “the area must appear to be touching and/or be adjacent to the city” (D. Hart, personal communication, April 9, 2003). In addition, for annexation to take place, the law requires that the property owners make a request for annexation or that the city hold a referendum in the area in question to obtain the owners’ consent (Sherman, 2002; F.S. Chapter 171.0413; also F.S. Chapter 171.046).

   Citizen support: Annexation often times generates a great deal of controversy among citizens (Hart, personal communication, April 9, 2003). As observed by Michael H. Ebner in Smith’s *Students of annexation say local positions typical in like issues,*
“money is most often at the center of annexation fear, and that fear is most often and loudly expressed by people who live in an area being annexed” (1999, para.2). During a 2002 annexation campaign, Tallahassee experienced opposition when it attempted to annex the "southern triangle"- a piece of land bordered by Crawfordville Road, Woodville Highway and Capital Circle Southeast (Pyati, 2002). Although annexation meant that area property owners would immediately get added amenities - streetlights, extra trash pick-ups and police protection--it was rejected by a 261-96 vote (Pyati, 2002).

“Citizens reaction to incorporation is usually divided and unpredictable” (R. Lavin, personal communication, April 10, 2003). For instance, during the same campaign, the city victoriously gained approval to annex the Buckwood neighborhood, located off Mahan Drive (Pyati, 2002). In fact, no vocal opposition to this annexation surfaced (D. Hart, personal communication, April 9, 2003). Additionally, “when economic and social ties between cities and their fringe areas are strong [like the enclaves in Tallahassee], outlying areas benefit in many ways from city parks and recreational facilities, streets, utilities and other facilities and programs, often without contributing a proportionate share of the cost to the city” (Municipal Research & Services Center, 2001). For this reason, many residents consent to annexation.

Support for annexation depends greatly on the location and citizens’ perception on how incorporation will benefit or affect them (R. Lavin, personal communication, April 10, 2003). Resistance concerning annexation is rooted in the fear of added taxes and fees, and in the apprehension towards city codes and regulations. As concluded by Michael H. Ebner, “most of the time the people outside of a city are regulation adverse” (Smith, 1999 para.20). Thus, citizens being annexed frequently oppose incorporation.
As such, Option Three scores fairly low on the citizen support criterion. To obtain greater support—particularly from those facing the prospect of being annexed—the city would need to convince community members on the incentives and amenities—like enhancement of property value, better infrastructure, more police protection—they could enjoy as a result of incorporation.

Associated costs: The process of annexation alone is not costly. Whether property owners adjacent to the city limits request the incorporation or the city holds a referendum to gain consent, the costs are minimal. However, analyzing annexation costs to a municipality is, at best, difficult (Municipal Research & Services Center, 2001). At times, it may lead to municipal problems (C. Hungerford, personal communication, April 1, 2003). In some fringe areas, the problems of utilities, sanitation, traffic, and law enforcement are so severe that solving them may place a great strain on the city's resources and may result in increased costs to all residents (Municipal Research & Services Center, 2001).

Dinah Hart of the Tallahassee Department of Administrative Services confirms that even the most developed communities pose problems because “water and utility lines may not be compatible, buildings may have to be demolished to extend city utility service, and sewer systems may not meet city standards” (personal communication, April 9, 2003). Furthermore, integrating the annexed area into the existing programs may be costly. Additional time, staff, equipment, stations may be required for police protection, fire protection, water service, sewage collection and disposal, garbage disposal, street maintenance, street lighting, storm sewers, animal control, planning, building inspection, public health protection, recreation, and library services.
Alternatively, the enclaves within the city pose few liabilities to Tallahassee. “If annexed, changes would not be drastic for the city as far as cost (R. Lavin, personal communication, April 10, 2003). Most of the enclave areas already receive much of the same services as city residents, “they just do not pay for parks, transportation, city streets” (D. Hart, personal communication, April 9, 2003). As noted in the Annexation Handbook, “although the costs of annexation may be substantial, the costs of not annexing territory that comprises part of a core city’s urban area may also be surprisingly high” (Municipal Research & Services Center, 2001, chap.4-v)

Taking all of the above factors into account, Option Three rates positively for associated costs. The costs to annex enclaves do not appear to be substantial because many area citizens are already receiving services.

**Legality:** Florida municipalities by state law authorized to annex contiguous, compact, unincorporated territory (F.S. Chapter 171.0413). Based on the city’s legal limitations and authority, Option Three is highly achievable. The law permits annexing and it also prescribes procedures cities should follow to annex (D. Reid, personal communication, March 24, 2003). Ken Small of the Florida League of Cities also agrees that from a legal standpoint, annexing is a realistic possibility for Tallahassee (personal communication, April 1, 2003). Therefore, Option Three rates high on the legality criterion since no legislative change is required for implementation.

**Political feasibility:** From the city’s outlook, the feasibility rate for Option Three would be quite high. However, as FLCIR senior analyst Chuck Hungerford explains, feasibility in regards to the city would depend on whether or not the area was developed (personal communication, April 1, 2003). Annexing enclaves would be politically
desirable because the area looks to be compatible with city systems. Option Three also appeals to the city because most non-city people are benefiting from the same services as city residents and not contributing towards all of them.

David Reid of Tallahassee’s Department of Management and Administration suggests that Leon County would support annexation of urban service areas (D. Reid, personal communication, March 24, 2003). In actuality, Tallahassee is the county seat because it is the only incorporated city in the county. As such, political feasibility could be high for the county. Overall, Option Three rates moderately high for the feasibility criterion because the city would be receiving additional revenue for municipal services and facilities (like parks and recreational facilities, streets, police protection) that enclave residents have benefited from but have not paid for.

**Durability:** The long-term implications of annexation are favorable because it is a process backed by state law. Annexation is a long-term act, this is mainly the reason that cities are obligated to follow certain procedure to get property owners consent (D. Reid, personal communication, March 24, 2003). In short, this option scores high against durability because incorporation would be established through legal documentation—which is rarely reversible.

In summary, Option Three scored highest against durability and fairly high for associated cost, legality, and political feasibility. One potential obstacle to this option would be citizen support. However, the city could implement initiatives (like hosting workshops where previously annexed residents can speak about their experience, holding town meetings to address questions and concerns, and distributing fact booklets) aimed at informing prospective city-residents of incorporation benefits as a strategy. Given the
analysis and the potential to overcome this drawback, Option Three is given a high overall rating.
V. Conclusion

This report has analytically presented three policy alternatives intended to improve the disproportioned revenue structure of the city of Tallahassee: payment in lieu of taxes, University Park, and annexation-expanding city incorporation. Each option was evaluated based on citizen support, associated cost, legality, political feasibility and durability. Table One summarizes the results.

Table 1–Summary of Options and Evaluative Criteria

<table>
<thead>
<tr>
<th>OPTION</th>
<th>Citizen Support</th>
<th>Associated Cost</th>
<th>Legality</th>
<th>Political Feasibility</th>
<th>Durability</th>
<th>SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>PILOT-Payments in lieu of Taxes</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>19</td>
</tr>
<tr>
<td>University Park-multidimensional development</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>Annexation-expanding city incorporation</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>20</td>
</tr>
</tbody>
</table>

Ranking Scale: 1 to 5 with 1 being very negative and 5 being very positive

All three of the alternatives would provide needed revenue diversification. The following is a summary of how each option ranked against the criteria.

Option One, Payments in lieu of taxes, scored lowest overall. It scores high on citizen support because it would more evenly distribute municipal costs among all users (including citizens, businesses, state, and local government). It scored a four on associated cost because the city would not incur great cost. It was ranked low on legality because legislation would have to be changed. It received a four on political feasibility because it is strongly supported by the city. It scores low on durability because these
types of payments are subject to state fund availability. This option would promote revenue diversity by capturing costs through payments from the state.

Option Two, University Park, scored high. It scores high on citizen support because it would produce new jobs, increase college graduate-residency, and in turn lessen the municipal cost to citizens. It scored negatively on associated cost because new roads would be needed and other services would be required. It ranked high on legality because laws do not restrict city involvement in such projects. It receives a four on political feasibility because funding for this projecting are dependent a particular level of government. It scored low on durability because it greatly depends on certain variables like the types of industry it attracted. This option would diversify the revenue base by broadening and increasing the corporate tax, sales tax, and property tax base.

Option Three, annexation, also scored high. It scores low on citizen support because citizens facing the prospect of annexation often oppose it due to fear of additional tax and fees. It scored a four on associated cost because the enclave systems are city-ready. It scored a reasonably high on legality because the law authorizes it. It received a four on political feasibility because the city would be gaining revenue for the services it provides to non-city residents. It scored high on durability because this process established by law. This option would establish revenue diversity through increasing the property tax base.

Assessment of the alternatives using the five evaluative criteria indicates that partnership in the University Park project would serve to diversify the city’s revenue base. Therefore, University Park is highly recommended. Partnership in the University Park project would become the vehicle for Tallahassee’s sound financial managing and fiscal balance. Even though the raw scores were very close, it became apparent during
the analysis that a University Park would be more effective before other options. The other two options required city initiatives like town meetings to convince citizens (facing the prospect of being annexed) of the added amenities they could enjoy from incorporation, and change in legislation to state PILOTs to make each alternative function at its peak level.
References


About the Author

Dominique Adam (B.A., English, Florida State University; B.A., Latin American and Caribbean studies; MPA, Florida State University) has worked in public and private agencies, as well as state government. Ms. Adam is interested in financial management, public policy, and local government management. She is currently seeking a financial management position in New York City.
Press Release

Date: April 29, 2003
Contact: leoness_1@yahoo.com
Writer: Dominique Adam

“Examining different revenue alternatives for the City of Tallahassee”

Several action reports will be submitted at end of spring semester to the College of Social Science in candidacy for the degree of Master of Public Administration, of those, “A Diversifying Source of Revenue For the City of Tallahassee: An Analysis of Options” by Dominique Adam will stand apart. Unlike the typical reports that have focused on improving government programs through evaluating alternatives, this report ambitiously attempts to provide a financial analysis for Florida’s capital city with emphasis on revenue options.

The author recommends that the city adopt “revenue diversity” as a fiscal policy, and references to several professional organizations like Florida League of Cities, Government Finance Officers Association (GFOA), and the National Advisory on State and Local Budget Practices (NASCLB) to further illustrate diversity as a “best practice.” Highlights of this report include: Tallahassee’s current sources of revenue, the revenue structure, and the origin of the electric-utility transfers.

Adam notes that the impending threat of deregulation suggests that the city has a critical need for revenue diversification. “Since more than half of the total sources of revenue are attributable to electric-utility operations,” she says. After evaluating three diversifying sources of revenue, which include advocating for Payments in lieu of taxes (PILOTs) from the state, city partnership in a University research Park project, and Annexation of three enclaves (located between Capital Circle Southeast, Capital Circle Southwest and Orange Avenue; Capital Circle Northeast, Miccosukee Road and Interstate 10; and between Meridian Road, Thomasville Road, and Bannerman Road), she concludes by proposing one that would become the catalyst for economic development in the city. “This alternative has the greatest potential to diversify the city’s revenue base,” she says. “To find out which alternative is likely to provide these benefits, you’ll have to read the report.”