

## **Analysis of Unreserved Funds, Debt, and County Property Utilization in Palm Beach County**

*This Florida TaxWatch Center for Local Government Studies report analyzes Palm Beach County's unreserved funds; bond ratings and debt; inventory of county-owned properties; and utilization of county-owned buildings. This independent analysis was conducted with the assistance of county officials and in conjunction with county residents, most especially the Palm Beach Civic Association, the Taxpayer Action Board, and the members of the Town of Palm Beach's County Budget Task Force.*



**Palm Beach County** is one of the most well-known areas in the United States. Named after the luxury resort community for well-heeled Northerners founded by Henry Flagler as he built a railroad line from Jacksonville to Key West, some of Palm Beach County's 38 cities, towns, and villages are among the wealthiest in the country. With a population of more than 1.3 million people and third in Florida in terms of both total

population and per capita income, Palm Beach County is home to a nationally recognized university, a deep water seaport, dozens of resorts and golf courses, and miles of sandy beaches. An important economic engine in the state, the county is home to large aeronautical, finance, tourism, and agribusiness industries. It is also the second largest county by land area east of the Mississippi River. As a result, the County has a larger than average budget, which sits at \$4.1 billion annually.

This report analyzes specific areas of Palm Beach County government and the management of taxpayer dollars. Section 1 revisits the work of a 2006 Florida TaxWatch study focusing on the county bond ratings, debt, and unreserved funds held by Palm Beach County. For the purposes of comparative analysis in Section 1, Palm Beach County is measured against its peer counties. To provide this valuable perspective, four counties – Broward, Hillsborough, Miami-Dade, and Orange – were chosen due to their relatively similar populations, geographical size, and position as tourism hubs within the state.

Section 2 of this report begins with a detailed analysis of vacant and underutilized land and property owned by Palm Beach County and provides recommendations to improve the management of these taxpayer-owned assets.

## Executive Summary

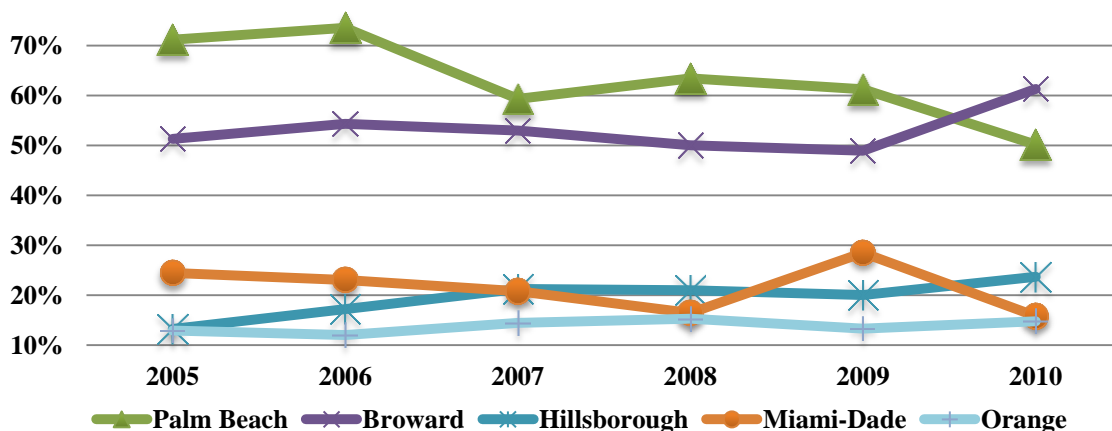
**F**lorida TaxWatch analysis of Palm Beach County has revealed significant opportunities for improvement in the management and utilization of specific assets. Palm Beach County is proposing a maximum property tax increase of 3 percent to fund the FY2012 budget. Implementation of the recommendations made in this report would provide additional needed county revenue and help avoid an increase in taxes.

### County Funds Analysis: Bond Ratings & Reserve Levels

Numerous financial measurements reveal that Palm Beach County has engaged in management practices that have resulted in higher than normal unreserved funds for several years. **Palm Beach has consistently held its level of reserves far above any of its peer counties—Broward, Hillsborough, Miami-Dade, and Orange – without much benefit to taxpayers.**

While a county’s bond rating relies heavily on the level of reserves the county holds or “unreserved funds”, the industry standard for a healthy reserves level is maintaining “unreserved funds” above 15 percent of total expenditures. Local officials have told Florida TaxWatch that it is common for a hurricane-prone county to hold “unreserved funds” at a level of 25 percent of its total expenditures. However, **Palm Beach County exceeds informal targets for unreserved funds.** Over the past six years, **Palm Beach County has consistently maintained “unreserved funds” at 50 percent or more of its total expenditures (2005-2010).** More importantly, **Hillsborough County has maintained a level of “unreserved funds” between 13 and 24 percent of its total expenditures during the same period (2005-2010).** Yet, both counties have maintained the same AAA bond rating.<sup>1</sup>

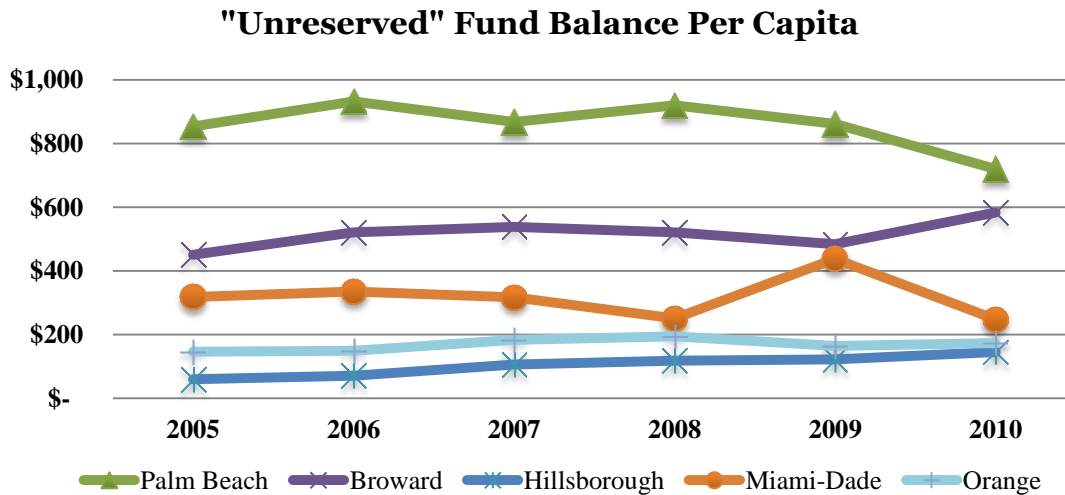
**"Unreserved Funds" Balance as a percentage of Total Expenditures**



*Source: Florida Auditor General data and Counties' Comprehensive Annual Financial Report, 2005 - 2010.*

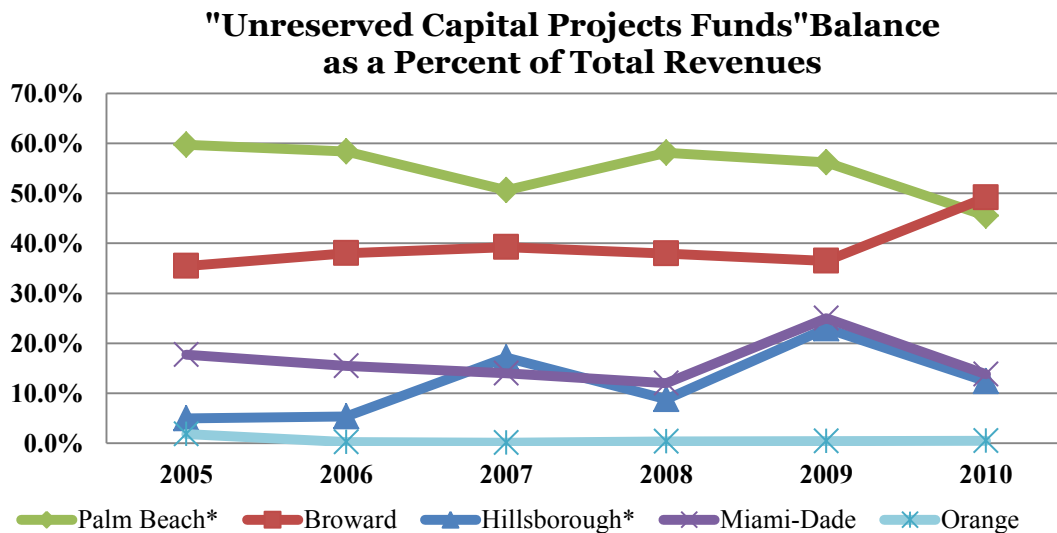
<sup>1</sup> Both counties AAA rating applies to its General Obligation bonds. General obligation bonds are backed by the full faith and credit of the government entity issuing them, rather than a specific revenue stream. According to Standard and Poor’s Credit rating agency, 2011.

This trend is more clearly illustrated in per capita terms. **Among all peer counties, Palm Beach has consistently maintained a significantly higher “unreserved” fund balance per capita over the last six years.** Despite recent declines, **aggregate total growth of the Palm Beach’s “unreserved” fund balances was 47.2 percent from FY2001 to FY2010.**



Source: Florida Auditor General and Counties' Comprehensive Annual Financial Reports, 2005 - 2010

**F**urther analysis revealed that Palm Beach County is most egregious in its holdings of “unreserved funds” for capital projects. **Palm Beach has designated a larger portion of its fund balance for capital projects than all peer-counties over the past six years.** When looking at “unreserved” capital project funds as a share of total revenue, **Palm Beach County has maintained the largest balance of “Unreserved Capital Projects Funds” as a percentage of the total revenue from FY2005 through FY2009.**



\* Counties with AAA Bond Ratings. Source: Counties' Comprehensive Annual Financial Reports.

**Palm Beach County appears to be designating revenues for capital projects at a higher pace than peer-counties and the county may be accumulating revenue for capital projects faster than it can acquire or construct them.** It is important to note that the purposes for which the county may designate unreserved capital project funds are at the discretion of county officials and are not imposed or enforced by an external constraint, such as state or federal law. The county may remove or re-designate funds to other projects unless there is an encumbrance or other external restriction. **Palm Beach County officials must immediately revisit how it allocates its funds and reclassify some of its “unreserved” funds to help address budget shortfalls and align the level of funds it holds with Hillsborough County instead of increasing the property tax rate imposed on Palm Beach residents.**

Although recommended by Florida TaxWatch in 2006, the county does not have a formal cap or limit on the level of reserves or “unreserved” funds it may hold. If Palm

**Palm Beach County appears to be designating revenues for capital projects at a higher pace than peer-counties and the county may be accumulating revenue for capital projects faster than it can acquire or construct them.**

Beach County had implemented a formal cap on its “unreserved” funds, it would free up a significant amount of money. **If a formal cap on all “unreserved” funds of 40% of expenditures was instituted in FY2010, it would allow \$187,674,718 to be reclassified or redirected to be used for other purposes.** (This cap exceeds the common target of hurricane prone counties of “unreserved funds” as 25 percent of total expenditures.) **With a formal cap of 30 percent of expenditures for total “unreserved” funds, the county would have freed up \$372,345,306 to be reclassified or redirected for other uses in FY2010.** Even if a formal cap was placed only on “unreserved” Capital Projects Funds, there would still be a significant amount of money freed up for reclassification.

## **Vacant Property**

**Palm Beach County** owns more than 2,500 parcels of land, including parks, land for environmental conservation, slivers of land between sidewalks and streets, and commercial and residential vacant properties.<sup>2</sup> With the exclusion of land parcels designated under the Department of Environmental Resource Management and the Airports Department, there are 353 parcels totaling approximately 6,200 acres of “vacant” land owned by Palm Beach County.<sup>3</sup>

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<sup>2</sup> According to the Palm Beach County Property Appraiser’s Public Access System (PAPA); County Owned Real Estate List provided by the Palm Beach County Property and Real Estate Management (PREM), May 2011.

<sup>3</sup> Land parcels classified under the Department of Environmental Resource Management and the Airports Department were excluded from further analysis due to legal restrictions associated with its land use, acquisition, and disposal.

If Palm Beach County sold 25 percent of its listed “vacant” property, its sale would generate more than \$54 million in revenue and more than \$270,000 in recurring ad valorem tax revenue (based on currently appraised value). If any improvements were made on these vacant properties after the sale, property tax revenues would be even higher.<sup>4</sup>

**Potential Revenue from the Sale of Vacant Property**

	Percent of Vacant Property Sold			
	10%	20%	25%	50%
<b>Sale Revenue</b> <i>(based on current market value)</i>	\$25,972,389.10	\$51,944,778.20	\$64,930,972.75	\$129,861,945.50
<b>Sale Revenue</b> <i>(based on current appraised value)</i>	\$21,689,298.70	\$43,378,597.40	\$54,223,246.75	\$108,446,493.50
<b>Recurring Property Tax Revenue</b>	\$108,359.73	\$216,719.47	\$270,899.34	\$541,798.68

*Source: Palm Beach County Property Appraiser’s Public Access System (PAPA). Calculations by Florida TaxWatch.*

However, the county’s lack of official definitions to classify property it owns has caused unnecessary confusion and error in the county’s property records.<sup>5</sup> As a result, **the county currently has an unreliable list of what lands are actually “surplus” or “vacant”** (e.g., not being used for its intended purpose). **Florida TaxWatch recommends that the county institute formal definitions and classification procedures for designating properties as “vacant”, “improved”, and “surplus” so the county is able to confidently and quickly identify property available for sale.**

Further, **Florida TaxWatch recommends that the Division of Property and Real Estate Management work with a commercial relator to help designate surplus property; assess their market values; and design and execute a marketing plan to sell the property designated as surplus within the next 18 months.** This review should be conducted annually with a full list of surplus property to be sold, a marketing plan, and timeline for its sale/disposal. **Florida TaxWatch also recommends that the Board of County Commissioners incorporate a provision to dispose of the county’s underutilized and vacant land as part of the Palm Beach County Comprehensive Plan.** [For all full listing of the eight recommendations made by Florida TaxWatch, see full report].

## **Underutilized and Vacant County-owned Buildings**

**P**alm Beach County owns 646 buildings consisting of roughly 7 million square feet of space. Approximately 1 million of this is considered to be office space for general county

<sup>4</sup> Tax revenue based on property tax millage rate of 4.996 (4.75 current year millage rate and 0.246 debt service millage rate).

<sup>5</sup> According to county officials, a significant portion of the county’s owned property may be misclassified as “vacant”, “improved”, or “surplus” due to reporting errors.

government or constitutional officers. Of these 1 million square feet, **approximately 50,000 square feet or 5 percent is considered vacant.** Due to unavailability of key pieces of data, it was not possible to independently determine the current utilization of county buildings.

However, **underutilization of office space in the county does exist.** The county’s official policy on office space allocation is overly generous. If Palm Beach County were to align its space allocation guidelines with the state of Florida, the county would have considerably more space to consolidate offices and dampen the need for additional buildings and leases at the expense of the taxpayer. **Palm Beach County can save nearly \$400,000 if it only aligned the average square footage in seven categories of Florida’s state space standards [listed below].**<sup>6</sup>

**Average Reduction of Office Space to Align with Florida**

<b>County Position Classification</b>	<b>Recommended Average SF Reduction</b>
Commissioner/ Constitutional Officer	105
County Administrator	105
Department Director	15
Deputy Department Director	50
Division Director	20
Deputy Division Director	60
Managers and Section Heads	30
Professionals	20
Supervisors	30
Technical	12

\* Estimates based only on employee positions in Palm Beach County departments and administration.  
 Source: Department of Management Services, “Space Allocations Worksheet”, 2011; and Palm Beach County, “Space Allocation Standards”, 2008.

**Florida TaxWatch recommends that Palm Beach County revise its space standards guidelines to minimally be aligned with Florida’s space allocation standards** to more fully utilize its building space and avoid current and future leasing and building costs. **Florida TaxWatch also recommends that Palm Beach County implement a policy requiring occupancy and vacancy rates of each county owned or leased building be recorded annually** to establish a performance measure of current and future performance of maximizing the utilization of facilities over time.

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<sup>6</sup> This savings estimate is conservative because it does not include all of the county’s employees, such as those employed in constitutional offices or in other administration or department classifications, such as clerical and field employee positions.

# **Section 1:**

## **Analysis of County Bond Ratings, Debt, and Unreserved Funds**

**P**alm Beach County’s management of its “unreserved” funds is far out-of-line with its peer counties. The following analysis has found that the county has consistently held high levels of “unreserved” funds, particularly for capital projects. For the past six years, Palm Beach County has held a level of “unreserved” funds that exceed those held by the similarly AAA-rated Hillsborough County by thirty to forty percent. Furthermore, these “unreserved” funds continued to be held in the face of a budget shortfall and a proposed property tax increase for the FY2010.



## County Bond Ratings

Governmental entities with bonding authority, such as Palm Beach County, rely heavily on bond issuances to generate revenue from a source other than direct taxation. These bonds are assigned credit ratings as an independent verification of an issuer’s evaluated ability to both repay the borrowed amount in full and to repay it on the contractual coupon and maturity dates. These ratings are assigned by any or all of three national rating agencies – Standard and Poor’s, Moody’s Investor Services, and Finch Ratings. The higher the bond rating, the less risk the rating agency perceives in the issuer fulfilling the terms of the bond. Furthermore, the higher the bond rating, the less in interest payments the county will generally need to pay out to issue the bond series. Therefore, a high bond rating is in the interest not only of the county, but of the taxpayers whose dollars finance the interest and debt service.

The sources of funding for each debt issuances can vary. Therefore, differently funded bond issuances can carry varying credit ratings. Among Palm Beach and its peer counties, General Obligation bonds are widely used because they are backed by the full faith and credit of the county government, as well as being cheaper to issue. The terms of these types of bonds pledge that property tax revenue will be raised to pay for the debt service and, therefore, investors can compel the county government to raise property tax revenues to repay the debt on schedule.

When comparing the bond ratings of Palm Beach County to its peer counties, as assigned by Standard and Poor’s, only Palm Beach and Hillsborough Counties carry the highest general obligation<sup>7</sup> bond rating of AAA. A high bond credit rating allows Palm Beach and Hillsborough Counties to access the market more easily and effectively and to issue bonds at lower interest rates, resulting in a lower cost to secure and service debt than counties with lower bond ratings.

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<sup>7</sup> General obligation bonds are backed by the full faith and credit of the government entity issuing them, rather than a specific revenue stream.

<b>S&amp;P County Bond Ratings (Underlying)<sup>8</sup></b>					
	<b>Palm Beach</b>	<b>Broward</b>	<b>Hillsborough</b>	<b>Miami-Dade</b>	<b>Orange</b>
General Obligation	AAA	AA+	AAA	AA-	N/A
Capital / Public Improvement	AA+ / AAA	N/A	N/A	N/A	AA
Stadium / Tourist Development	AAA	A+	A to A+	A+	A+
Water / Wastewater	AAA	AA / AA+	AA+	N/A	AA

Source: Counties' *Comprehensive Annual Financial Report*, websites, and 2011 requested data.

**S**tandard and Poor's (S&P) assigns its bond ratings based on a county's ability to repay its debt by analyzing three primary indicators: the tax base (to the degree that taxes can be raised to meet pending obligations); the community's wealth and income; and the county's total budget resources.

Due to recent events regarding the federal government's bond rating downgrade by S&P, several counties across the country have seen their bond ratings downgraded or on review for downgrade by the three major bond rating agencies: S&P, Moody's, and Fitch. These downgrades stem not from financial malfeasance on the part of the county but as a relative scale down by the agencies in response to the federal downgrade. Most recently, Palm Beach County's public improvement revenue refunding bond series 2011 was assigned an AA+ bond rating by Fitch and a lower bonding rating of Aa1 by Moody's. However, both Moody's and Fitch rating agencies continue to rate Palm Beach County's general obligation bonds at AAA.

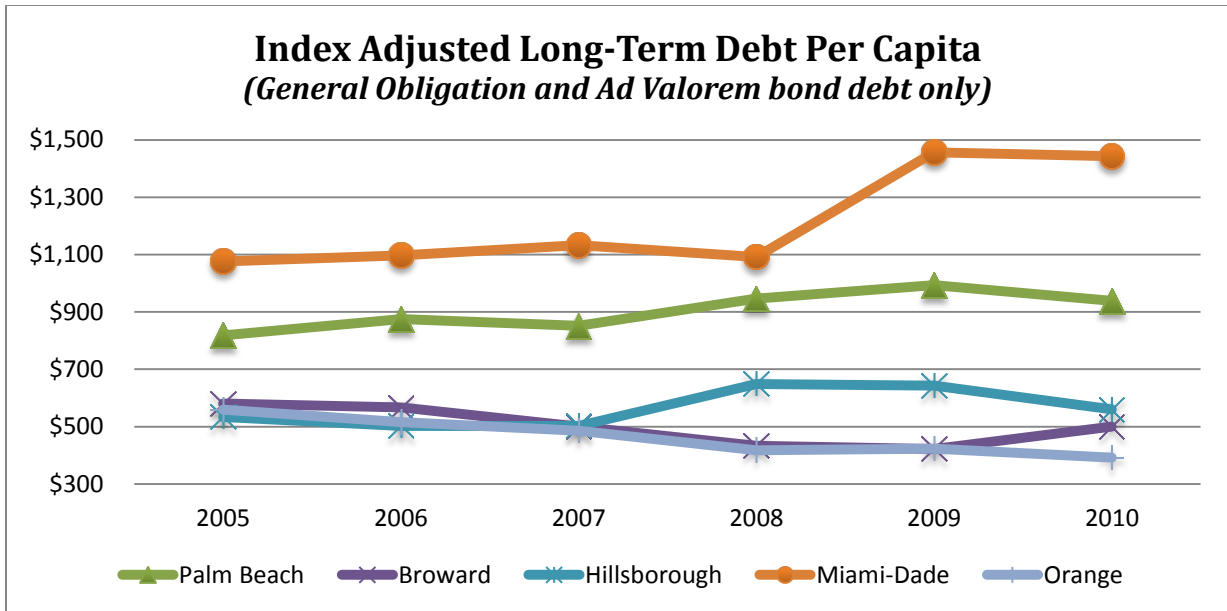
When evaluating a county's budgetary resources, S&P takes into account several different debt related ratios to determine a county's fiscal health in both absolute and comparative terms.

### ***Long-Term Debt***

Long-term debt per capita measures the amount of debt that is (theoretically) owed per resident in the county. This ratio is frequently used as a more representative and informative measure of evaluating a county's actual debt burden rather than only assessing its total debt, as it does not adjust for size of the county's population into consideration.

When compared with its peer counties, Palm Beach County has maintained a significantly higher per person debt burden between 2005 and 2010 with the lone exception of Miami-Dade County. Long-term debt per Palm Beach resident has ranged from a low of \$818 in 2005 to a high of \$993 in 2009 without much fluctuation over the past five years.

<sup>8</sup> In an issuance in which credit enhancement has been obtained, the rating assigned by a rating agency to the issuance without regard to credit enhancement is the underlying rating.



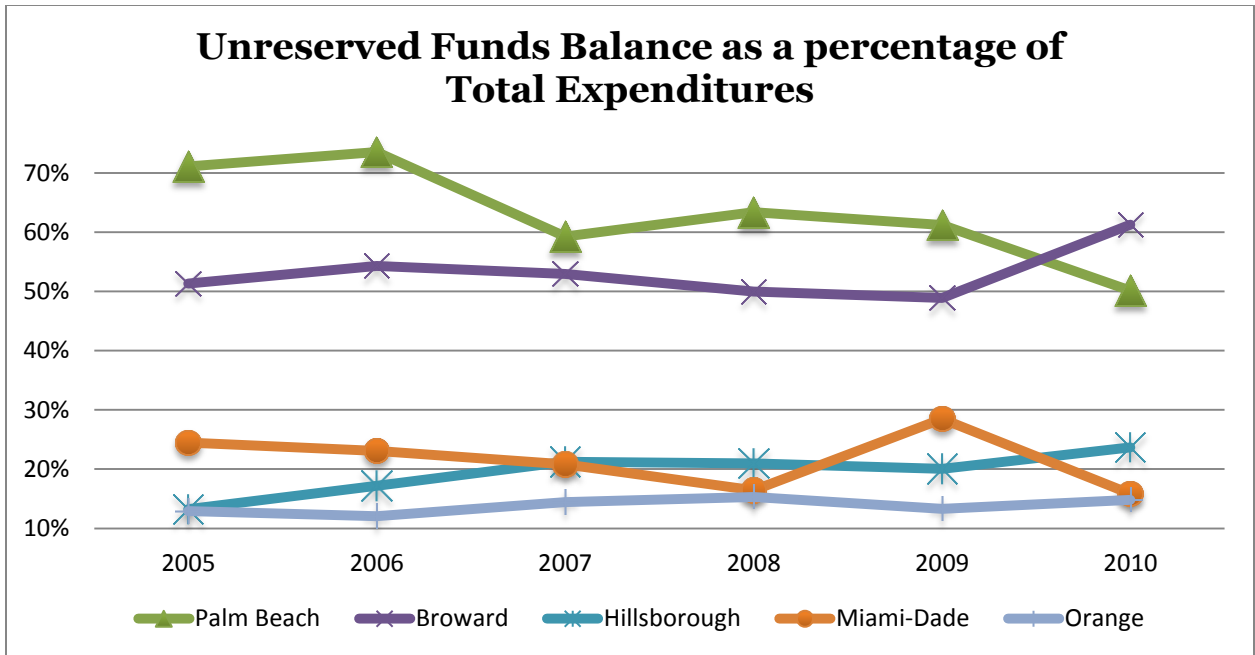
Source: Florida Auditor General data and Counties' *Comprehensive Annual Financial Report*, 2005 - 2010.<sup>9</sup>

It should be noted that long term debt measured here accounts only for debt incurred through general obligation and ad valorem bond issuances – not revenue bonds or debt from the Solid Waste Authority – as each county varies significantly. By not including debt from enterprise funds (debt accrued from revenue and Solid Waste Authority bonds), it is possible to more accurately compare peer counties with Palm Beach County. If debt incurred from revenue bonds and the Solid Waste Authority was included, the long term debt per capita would be higher.

### ***Reserves Level***

A county's bond rating also relies heavily on the level of reserves the county holds or "unreserved funds". Rating agencies measure this by analyzing the "unreserved funds" with the county's spending level. The industry standard for a healthy reserves level is maintaining "unreserved funds" above 15 percent of total expenditures. Government officials have told Florida TaxWatch that it is common for a hurricane prone county to hold "unreserved funds" at 25 percent of total expenditures. However, Palm Beach County has consistently maintained "unreserved funds" of 50 percent or above over the six years (2005-2010). When compared with its peer counties, Palm Beach County far exceeds each of the four counties, until Broward County exceeded it in 2010.

<sup>9</sup> Index adjusted numbers are calculated using the Municipal Cost Index (MCI), as prescribed by the Auditor General and obtained from *American City and Council Magazine*.



Source: Florida Auditor General data and Counties' Comprehensive Annual Financial Report, 2005 - 2010.

It is important to note that Hillsborough County, the only other peer county with an AAA bond rating, has maintained its “unreserved funds” as a percentage of its total expenditures at around 20 percent over the past four years (2007-2010).

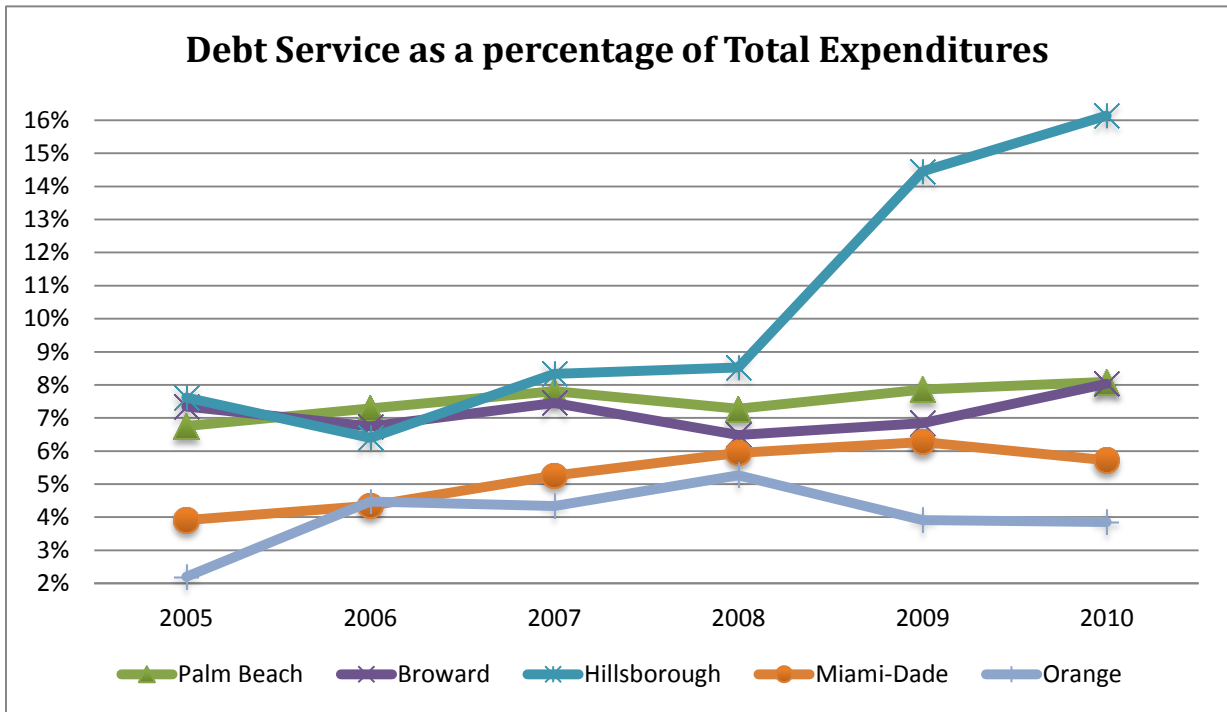
Unreserved Funds as a percentage of Total Expenditures						
	2005	2006	2007	2008	2009	2010
<b>Palm Beach</b>	<b>71%</b>	<b>74%</b>	<b>59%</b>	<b>63%</b>	<b>61%</b>	<b>50%</b>
<b>Broward</b>	<b>51%</b>	<b>54%</b>	<b>53%</b>	<b>50%</b>	<b>49%</b>	<b>61%</b>
<b>Hillsborough</b>	<b>13%</b>	<b>17%</b>	<b>21%</b>	<b>21%</b>	<b>20%</b>	<b>24%</b>
<b>Miami-Dade</b>	<b>24%</b>	<b>23%</b>	<b>21%</b>	<b>16%</b>	<b>28%</b>	<b>16%</b>
<b>Orange</b>	<b>13%</b>	<b>12%</b>	<b>14%</b>	<b>15%</b>	<b>13%</b>	<b>15%</b>

Source: Florida Auditor General data and Counties' Comprehensive Annual Financial Report, 2005 - 2010.

When compared to Hillsborough County, Palm Beach County has held between 446 percent (2005) and 108 percent (2010) more “unreserved funds” as a percentage of total expenditures than Hillsborough County over the past six years. Yet, both counties have maintained the same high bond rating of AAA.

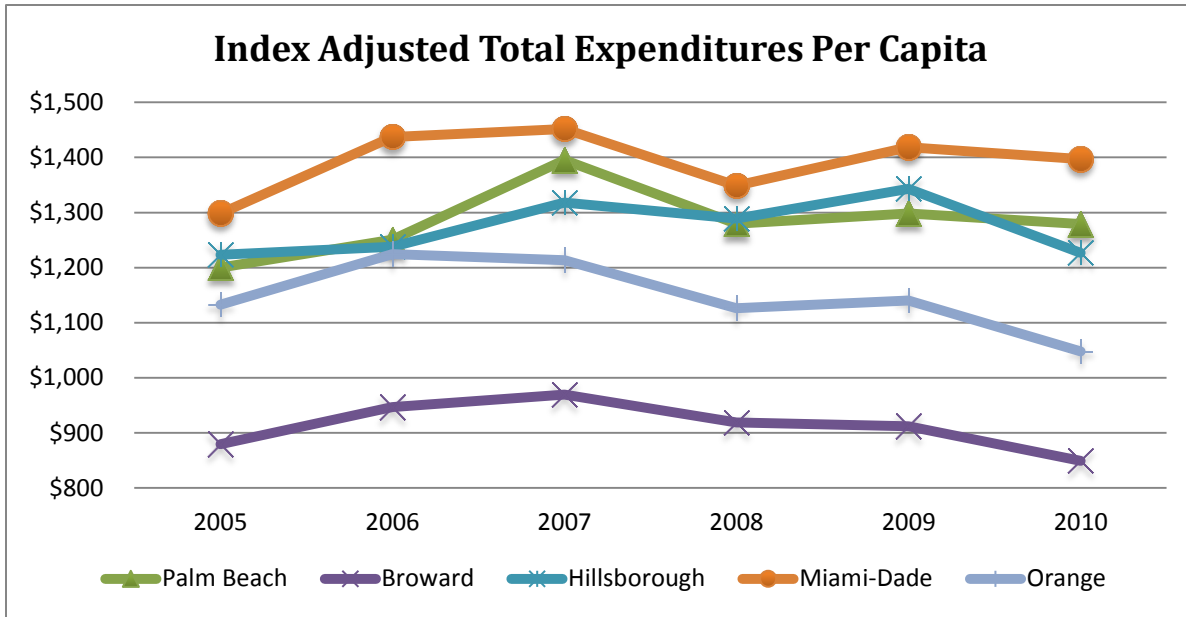
### Debt Service

Another important ratio that affects bond ratings is the county's debt service as a percentage of its total expenditures. Debt service is the amount needed to pay back the principal and interest on existing bonds and debts. Generally, when debt service exceeds fifteen percent of expenditures, it is an indicator of an excessively high debt burden according to S&P. Palm Beach County has maintained a healthy ratio of debt service to total expenditures. Debt service as a percentage of total expenditures over the last six years has remained fairly stable among the five counties with only Hillsborough exceeding Palm Beach County in this measure. Hillsborough County has seen a marked rise in debt service expenditures exceeding the fifteen percent mark, which could affect their current AAA rating.



Source: Florida Auditor General data and Counties' *Comprehensive Annual Financial Reports*, 2005 - 2010.

Expenditures per capita is a valuable measure as it reveals comparable spending levels between similar counties. When compared with its peer counties, Palm Beach is consistently higher than every county with the exception of Miami-Dade. In 2005, Palm Beach spent \$1,224 in expenditures per resident. The figure peaked in 2007 with \$1,396 in county expenditure per resident. More recently, Palm Beach returned to expenditure levels seen six years ago with \$1,279 in expenditures per resident in 2010.



Source: Florida Auditor General data and Counties' *Comprehensive Annual Financial Report, 2005 - 2010s*.<sup>10</sup>

### County Fund Balances

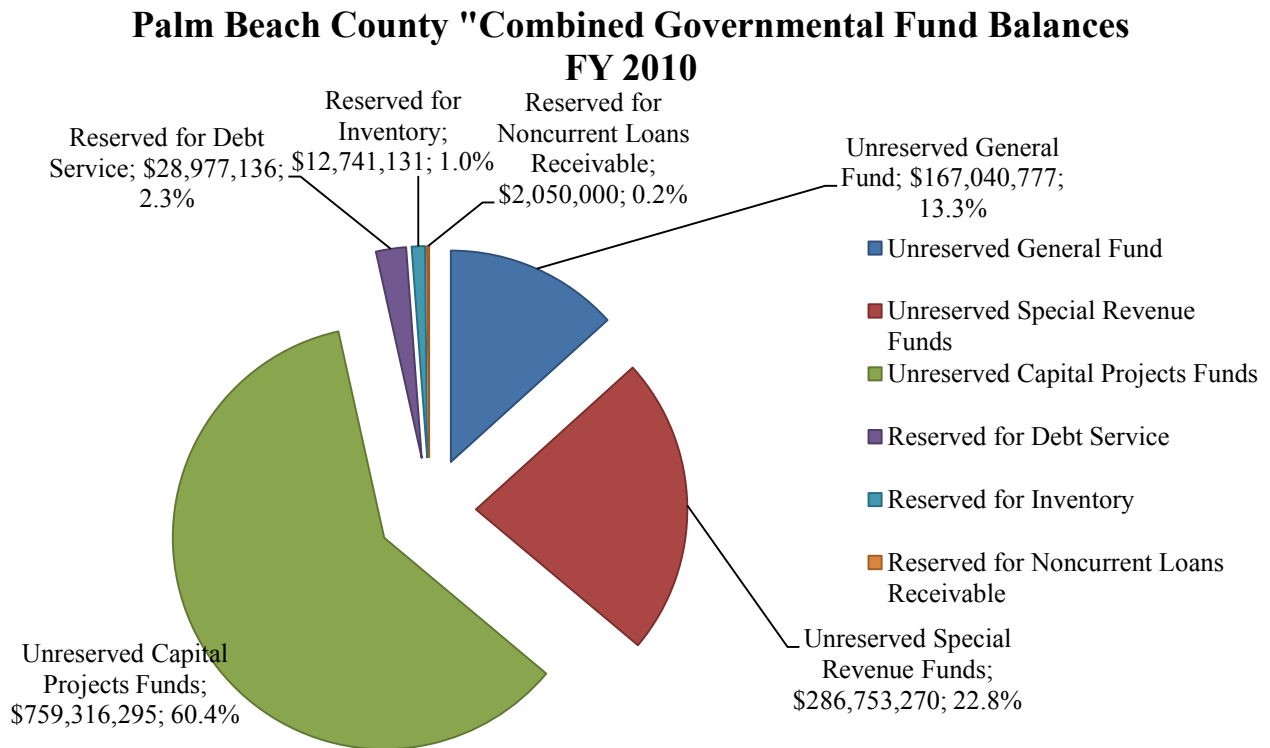
Fund balances are the government equivalent of owner equity in private entities, and maintaining healthy fund balances is in accordance with good management principles for public finance. Adequate fund balances allow a government to meet upcoming financial obligations in the near term and facilitate long-term financial planning. At the same time, **it is not appropriate for a government to maintain excessively large unreserved fund balances for extended periods of time with little or no designated use for these funds.** In this section, the unreserved fund balances of Palm Beach County's "Combined Governmental Funds" are compared with other counties of similar size and composition in Florida. This provides a benchmark to see how Palm Beach County's fund balances compare to peer-counties. Four counties were selected as peer counties of Palm Beach: Broward, Hillsborough, Miami-Dade, and Orange counties.

In order to conduct this analysis, information was gathered from each county's *Comprehensive Annual Financial Report (CAFR)* for six years of Fiscal Years (FY) 2005-2010. CAFRs are required financial reports that were developed in response to the need to provide uniform financial reporting among state and local governmental entities. The financial policies and procedures of the CAFRs are regulated by the Governmental Accounting Standards Board (GASB).

<sup>10</sup> Index adjusted numbers are calculated using the Municipal Cost Index (MCI), as prescribed by the Auditor General and obtained from *American City and Council Magazine*.

**T**his report analyzes the “Combined Governmental Fund” and, specifically, two components within the Governmental Funds: the “General Fund” and the “Capital Projects Funds”. The revenue of the “General Fund”, which tends to be smaller than the “Capital Projects Fund”, is used for general government operations and programs. The revenue in the “Capital Projects Funds” can only be spent on specially designated projects, such as constructing a building or purchasing land for the county. All county funds can be categorized as either “Reserved” or “Unreserved”, depending on their commitment status. For example, revenue in the “Capital Projects Funds” would be considered reserved if a project had been contracted to use those funds.

The “Combined Governmental Fund” is the combination of six components of county revenue. In FY2010, the “Combined Governmental Fund” balance was \$1.26 billion. Below is the breakdown of the Palm Beach “Combined Governmental Fund” for FY2010:



Source: Palm Beach County, *Comprehensive Annual Financial Reports, 2010*.

State and local governments should maintain adequate reserves as good fiscal practice; however, Palm Beach County fund balances are mostly designated as “unreserved” – i.e., not needed to cover specific upcoming expenses. Excessive reserves constitute a drain on taxpayers, and prevent those dollars from being used within the community.

Of the \$1.26 billion dollar fund balance held in the Palm Beach County “Combined Governmental Fund” in FY2010, **96.5 percent of the balance was classified as unreserved** (“Unreserved General Fund”, “Unreserved Special Revenue Funds”, and “Unreserved Capital Project Funds”) – meaning that less than 4 percent of Palm Beach County’s “Combined Governmental Fund” is reserved for upcoming liabilities or planned future expenses. This level of unreserved funds has remained constant for several years.

***Unreserved Funds***

When compared with its peer counties, Palm Beach’s total “unreserved” fund balances consistently represent a larger percentage of its “Combined Governmental Fund” balances than any of the other four counties. While Orange County comes close to Palm Beach at times, no peer county has exceeded this unreserved fund balance to total fund balance ratio over the past six years.

**Palm Beach Has the Highest Level of “Unreserved” Fund Balances as a Percent of its “Combined Governmental Fund” Balances Compared to Peer Counties**

County	Fiscal Year					
	2005	2006	2007	2008	2009	2010
<b>Palm Beach*</b>	<b>96.9%</b>	<b>97.4%</b>	<b>97.8%</b>	<b>96.8%</b>	<b>96.8%</b>	<b>96.5%</b>
Broward	78.9%	82.3%	81.2%	80.9%	77.2%	73.5%
Hillsborough*	82.6%	80.1%	86.6%	84.8%	83.9%	46.9%
Miami-Dade	63.3%	65.6%	61.1%	55.0%	62.5%	47.4%
Orange	86.3%	88.9%	90.4%	91.3%	91.1%	90.1%

\* Counties with AAA Bond Ratings

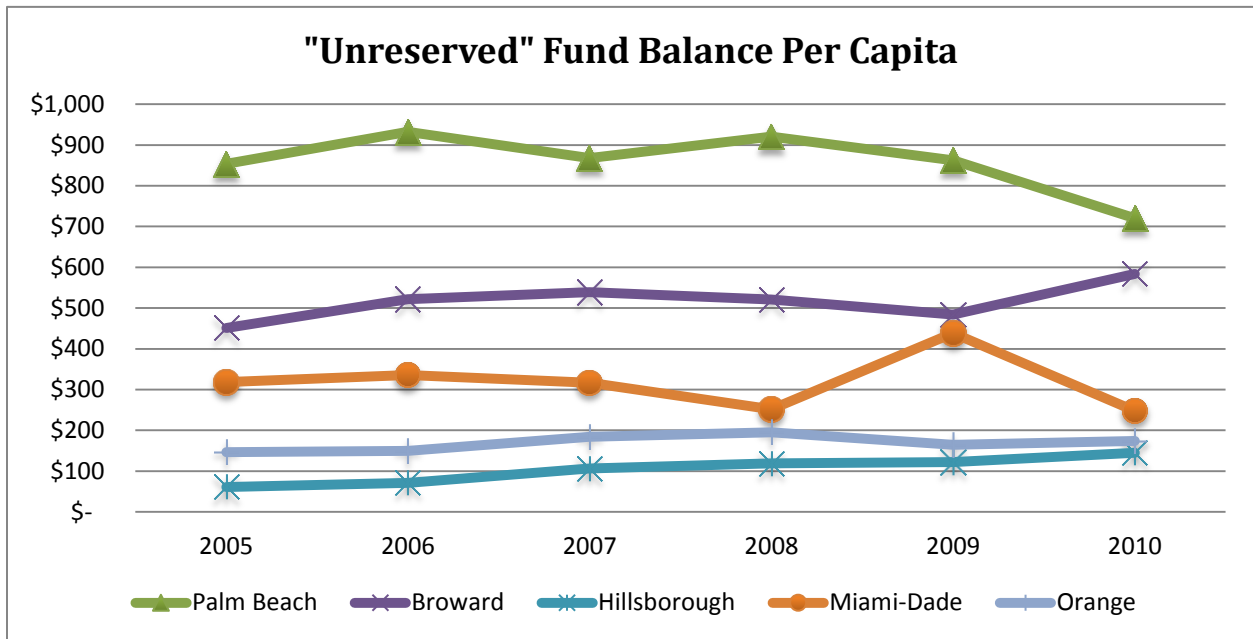
Source: Counties’ *Comprehensive Annual Financial Reports, 2005 - 2010*.

According to the national bond rating agency Standard and Poor’s, “a common ratio used to evaluate fund balance is the unreserved fund balance expressed as a percent of operating expenditures. This provides a measure of how much of the fund balance is not committed to spending and is available for contingencies.”<sup>11</sup>

**P**alm Beach County has historically maintained significantly higher ratios of “unreserved” fund balances to operating expenditures than those of its peer counties. The only county to surpass Palm Beach was Broward, which holds an AA+ rating from S&P. However, Broward exceeds Palm Beach only in FY2010 with no other peer county coming within 20 percent of Palm Beach in any of the past five years. Of particular note is Hillsborough, which is the only other county to hold an ‘AAA’ bond rating. Hillsborough has an unreserved fund ratio less than half of that of Palm Beach County.

<sup>11</sup> Standard & Poor’s, “Criteria | Governments | U.S. Public Finance: GO Debt”  
<http://www.standardandpoors.com/prot/ratings/articles/en/us/?assetID=1245286248324>

The extent and magnitude of “Unreserved” funds held by Palm Beach is more clearly illustrated when “unreserved” funds are measured in per capita terms. **Among all peer counties, Palm Beach has consistently maintained a significantly higher “unreserved” fund balance per capita over the last six years.** Even though Palm Beach has decreased its “unreserved” balance per capita by 22 percent in the past two years, from \$920 in 2008 to \$720 in 2010, the closest any peer county has come to those levels is still \$136 less than Palm Beach’s current per capita amount.



Source: Florida Auditor General and Counties’ *Comprehensive Annual Financial Reports, 2005 - 2010.*

**Despite recent declines in year-to-year “unreserved” fund balances (FY2006, FY2009, and FY2010), total growth of the “unreserved” fund balances from FY2001 to FY2010 was still 47.2 percent.**

<b>“Unreserved” Fund Balances (with component funds)</b>					
<b>Palm Beach County</b>					
<b>FY2001 - FY2010</b>					
<b>Year</b>	<b>Unreserved General</b>	<b>Unreserved Special Revenue</b>	<b>Unreserved Capital Projects</b>	<b>Total Unreserved</b>	<b>Annual % Change</b>
2001	\$ 157,777,257	\$ 138,093,464	\$ 528,026,445	\$ 823,897,166	
2002	\$ 177,405,978	\$ 173,883,854	\$ 553,193,800	\$ 904,483,632	9.8%
2003	\$ 182,729,927	\$ 149,100,263	\$ 624,543,322	\$ 956,373,512	5.7%
2004	\$ 148,241,675	\$ 183,168,481	\$ 730,838,681	\$ 1,062,248,837	11.1%
2005	\$ 182,467,939	\$ 216,117,295	\$ 898,318,247	\$ 1,296,903,481	22.1%
2006	\$ 218,802,474	\$ 244,649,627	\$ 981,898,355	\$ 1,445,350,456	11.4%
2007	\$ 240,764,804	\$ 254,283,049	\$ 883,294,634	\$ 1,378,342,487	-4.6%
2008	\$ 218,575,161	\$ 276,245,476	\$ 973,138,644	\$ 1,467,959,281	6.5%
2009	\$ 178,812,646	\$ 269,123,104	\$ 931,298,645	\$ 1,379,234,395	-6.0%
2010	\$ 167,040,777	\$ 286,753,270	\$ 759,316,295	\$ 1,213,110,342	-12.0%
<b>Cumulative % Change Since 2000</b>	<b>5.9%</b>	<b>107.7%</b>	<b>43.8%</b>	<b>47.2%</b> <sup>12</sup>	

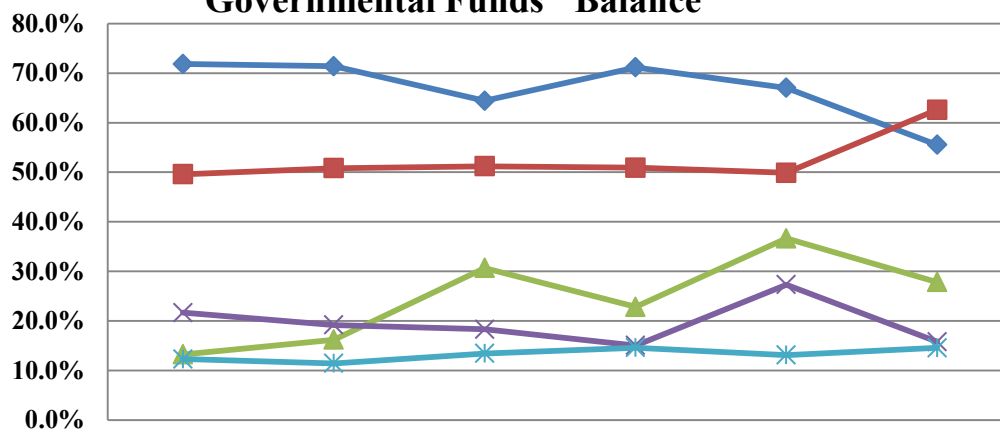
Source: Palm Beach County *Comprehensive Annual Financial Reports, 2005 - 2010*.

Although the table above shows “Unreserved Special Revenue Funds” more than doubled over the ten year period (increasing 107.7 percent from \$138 million to nearly \$286 million), the “Unreserved Special Revenues Funds” account for the use of revenue that is earmarked for a particular purpose and is not available for general operating expenses. Therefore, it will not be included in further analysis of the “Unreserved” funds balances. The remaining two “Unreserved” funds will be the focus of this analysis.

**The chart below shows that Palm Beach County has a consistently higher ratio of “Unreserved General Fund” and “Unreserved Capital Projects Funds” balances to “Combined Governmental Fund” balance than all peer-counties with the recent exception of Broward County in FY2010.**

<sup>12</sup> Inflation has risen 23.2 percent over the same period.

## "Unreserved General Fund" and "Unreserved Capital Projects Funds" Balances as a Percentage of "Combined Governmental Funds" Balance



	2005	2006	2007	2008	2009	2010
◆ Palm Beach*	71.8%	71.4%	64.4%	71.2%	67.0%	55.5%
■ Broward	49.6%	50.8%	51.2%	50.9%	49.9%	62.6%
▲ Hillsborough *	13.2%	16.2%	30.7%	22.8%	36.6%	27.9%
✕ Miami-Dade	21.7%	19.2%	18.3%	15.1%	27.3%	15.8%
✱ Orange	12.3%	11.4%	13.4%	14.6%	13.1%	14.6%

\* Counties with AAA Bond Ratings

Source: Counties' *Comprehensive Annual Financial Reports*.

### Unreserved General Fund

The "Unreserved General Fund" balance allows a county to maintain a contingency fund to meet revenue shortfalls in upcoming fiscal years. Declining property values have plagued local governments across the nation with diminished revenues and it is not uncommon for local governments to utilize these unreserved fund balances to finance upcoming operations.

As stated in the County Management Discussion and Analysis, "unreserved fund balance, in particular, is a useful measure of a government's net resources available for spending at the end of a fiscal year [...] The decrease in the General Fund's fund balance of \$11.7 million is attributable to the use of reserves to fund FY2010 operations."<sup>13</sup>

Despite the fact that Palm Beach County is spending its "Unreserved" to cover expenses during difficult fiscal times, the Fund has still grown nearly six percent of the past ten years. However, compared to its peak FY2007 (\$240.76 million), the "Unreserved General Fund" has declined by more than 30 percent since FY2007 to \$167 million, which indicates that the county is utilizing these rainy day funds during these rainy days.

<sup>13</sup> Palm Beach County Management's Discussion and Analysis. p. xxi. CAFR. 2010.

**“Unreserved General Fund” as a Proportion of  
“Combined Governmental Fund” Balances**

Unreserved Governmental Funds Category	County	Fiscal Year					
		2005	2006	2007	2008	2009	2010
General Fund	Palm Beach*	13.6%	14.7%	17.1%	14.4%	12.6%	13.3%
	Broward	20.6%	19.2%	17.6%	18.9%	18.9%	15.8%
	Hillsborough*	17.7%	22.0%	25.2%	21.0%	20.7%	23.5%
	Miami-Dade	8.4%	8.4%	9.1%	6.6%	3.9%	4.0%
	Orange	19.1%	19.5%	21.6%	18.4%	15.5%	15.3%

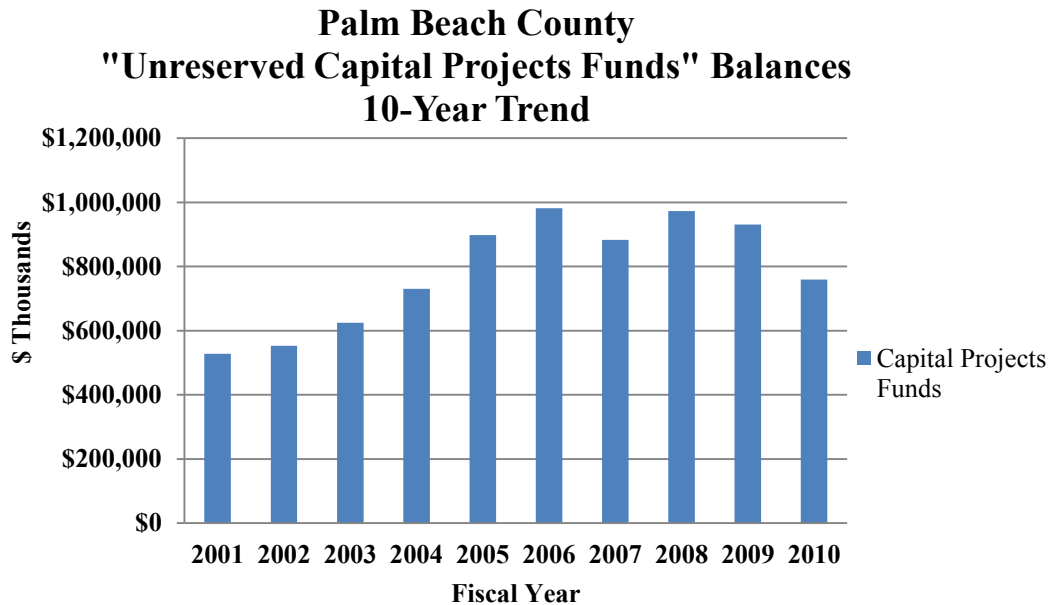
\* Counties with AAA Bond Ratings

Source: Counties’ *Comprehensive Annual Financial Reports, 2005 - 2010.*

Furthermore, the overall size of the “Unreserved General Fund” balance as a proportion of the “Combined Governmental Fund” balance is in line with the trends seen in peer counties. (Palm Beach trend is similar to Broward and Orange; much lower than Hillsborough; and higher than Miami-Dade, which is an outlier. It is also important to note that Hillsborough is the only peer county that also has an AAA bond rating).

**Unreserved Capital Projects Funds**

In FY2010, Palm Beach reported a balance of \$759.3 million for “Unreserved Capital Projects Funds”, which is 60.4 percent of the total unreserved “Combined Governmental Fund” balance. The “Unreserved Capital Project Funds” has grown nearly 44 percent since FY2001 from \$528 million to \$759 million. At its peak in FY2006, it was nearly \$1 billion. The chart below shows the total assets of this Fund over ten years.



**P**alm Beach maintains significantly higher “Unreserved” fund balances for “Capital Projects Funds” when compared to peer-counties. This suggests that the county may be accumulating revenue for capital projects faster than it can acquire or construct them. Furthermore, Palm Beach has designated a larger portion of its fund balance for capital projects than all peer-counties over the past six years. The county appears to be designating revenues for capital projects at a higher pace than peer-counties, even when considering that the “Unreserved” fund balances designated for capital projects have decreased during the past two fiscal years.

**Palm Beach has a Significantly Higher Level of “Unreserved Capital Projects Funds” as a Percent of its “Combined Governmental Fund” Balances Compared to Peer Counties**

Unreserved Governmental Funds Category	County	Fiscal Year					
		2005	2006	2007	2008	2009	2010
Capital Projects Funds	Palm Beach*	67.1%	66.2%	62.6%	64.2%	65.4%	60.4%
	Broward	51.9%	57.0%	57.8%	55.5%	51.3%	57.6%
	Hillsborough*	10.7%	10.9%	31.9%	13.3%	34.8%	18.8%
	Miami-Dade	37.4%	34.9%	29.5%	26.4%	42.5%	28.2%
	Orange	4.1%	0.6%	0.3%	0.7%	0.7%	0.7%

\* Counties with AAA Bond Rating

Source: Palm Beach County, *Comprehensive Annual Financial Reports (CAFR) FY2010*.

The “Unreserved Capital Project Funds” balance in Palm Beach County has consistently been more than sixty percent of its “Combined Governmental Fund” balance. This proportion is much higher than every peer county including Hillsborough (the only other AAA rated county). This is especially relevant given the analysis presented in Section 1, which revealed that Palm Beach County already holds a significant inventory of vacant property.

An informative tool for assessing the financial condition of county governments is to use the methodology recommended by the Florida Auditor General. The Auditor General administers a local government financial assessment program using cost data from each Florida County’s CAFRs and provides a number of financial condition indicators that are based on the CAFR data<sup>14</sup>. The ratio of unreserved fund balance is an indicator that can be applied to all Governmental Funds except for special revenue funds.

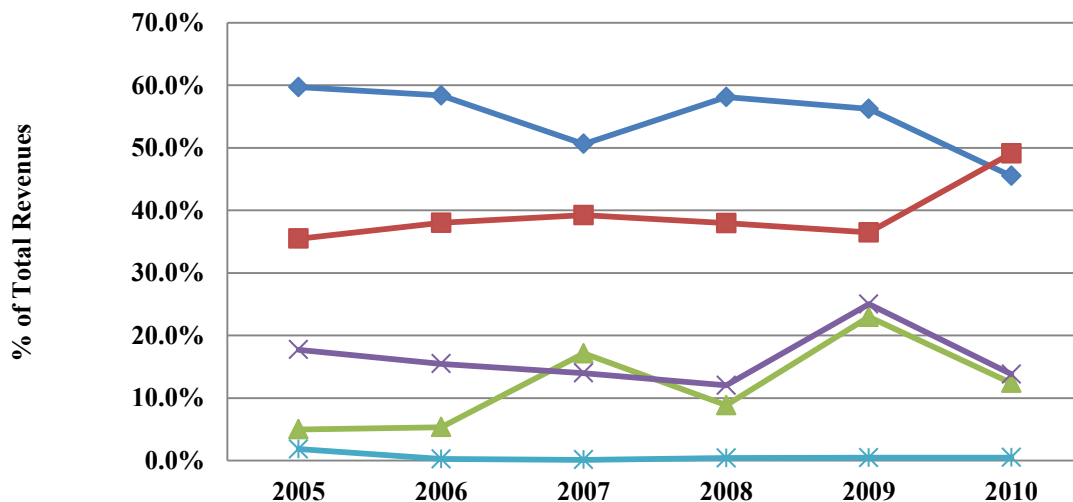
**Palm Beach County maintained a higher ratio of “Unreserved Capital Projects Funds” to total revenues for ‘Combined Governmental Fund’ than every county through FY2005 - FY2010 except for Broward County in FY2010.** Of the \$759.3 million of unreserved capital projects fund balances, \$186.9 million is designated for encumbrances, such as outstanding purchase orders, contracts, and other commitments at year-end. The remainder of the unreserved

<sup>14</sup> A complete list and description of the financial indicators and methodology of the Auditor General can be accessed online at [http://www.myflorida.com/audgen/pages/fca\\_procedures.htm](http://www.myflorida.com/audgen/pages/fca_procedures.htm).

capital funds balance is not available for general government purposes, but rather required to be expended for specific purposes.

**The purposes for which the county may designate unreserved capital project funds are at the discretion of county officials and are not imposed or enforced by an external constraint, such as state or federal law.** Therefore, any designation that the county makes is not an externally imposed “restriction”. **If external restrictions for unreserved capital projects funds do exist, the county should reclassify the funds as restricted funds, rather than “Unreserved”.** The county may remove or re-designate funds to other projects unless there is an encumbrance or other external restriction.

### "Unreserved Capital Projects Funds" Balance as a Percent of Total Revenues



	2005	2006	2007	2008	2009	2010
◆ Palm Beach*	59.7%	58.4%	50.6%	58.1%	56.2%	45.5%
■ Broward	35.5%	38.0%	39.3%	38.0%	36.5%	49.1%
▲ Hillsborough*	5.0%	5.4%	17.2%	8.9%	23.0%	12.4%
✕ Miami-Dade	17.7%	15.5%	14.0%	12.0%	25.0%	13.8%
✱ Orange	1.8%	0.3%	0.1%	0.4%	0.5%	0.5%

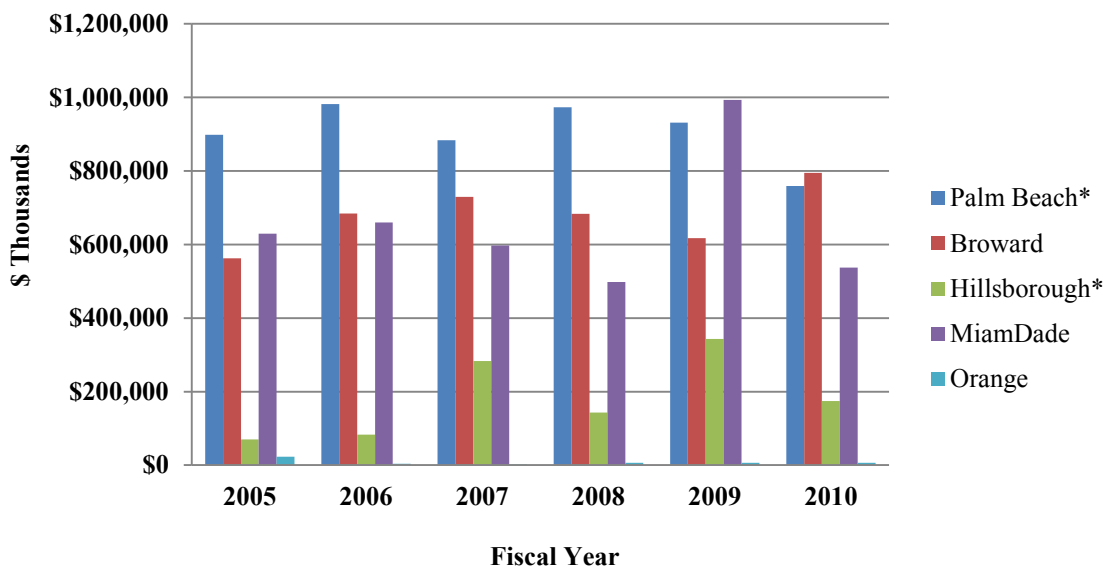
\* Counties with AAA Bond Ratings

Source: Counties' Comprehensive Annual Financial Reports. <sup>15</sup>

<sup>15</sup> In February of 2009, GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The statement requires governmental entities to report fund balances in accordance with the new definitions for periods beginning after June 15, 2010. Rather than report reserved and unreserved fund balances, GASB requires governmental entities to report balances in the following categories: nonspendable, restricted, committed, assigned, and unassigned. Nonspendable amounts are balances related to things that cannot be spent such as inventories. A restricted fund balance includes amounts that can only be spent for a specific purpose as required by a constitution, external resource providers, or legislation. A committed fund balance is an amount that can be used for a specific purpose as determined by the formal actions of the entity's highest decision-making

When comparing Palm Beach to its peer counties, its “Unreserved Capital Projects Funds” balance are consistently high. Although the Palm Beach “Unreserved Capital Projects Funds” balances declined by 18.5 percent from FY2009 to FY2010, the aggregate total growth is still 43.8 percent between FY2005 to FY2010. **Although Palm Beach is the third largest county in terms of population, it has maintained the largest “Unreserved Capital Projects Funds” balances for all years from FY2005 through FY2008.** Miami-Dade had a larger balance in FY2009 and Broward exceeded Palm Beach levels in FY2010.

**"Unreserved Capital Projects Funds" Balances  
FY 2005-FY 2010**



\* Counties with AAA Bond Ratings  
Source: Counties' Comprehensive Annual Financial Reports

authority, such as the Board of County Commissioners. Assigned fund balances are amounts that are designated to be used by the entity for a specific purpose but do not meet the definition of restricted or committed. The unassigned fund balance classification is appropriate for the entity's general fund and all spendable amounts that do not meet the criteria for other classifications. When Palm Beach implements GASB 54, the more detailed classification of Governmental Funds balances will add clarity to the county's use of unreserved funds. Hillsborough and Broward counties implemented the use GASB 54 reporting requirements for its FY2010 reports. When comparing Palm Beach County's fund balances to these two counties, caution should be used. For the purposes of making a comparison, we classified nonspendable and restricted fund balances as the reserved classification for the old system since these funds are restricted by external imposition. Committed, assigned, and unassigned were classified as unreserved in the old system. This was done because the counties have discretion in how they designate these funds. For FY 2011, all county CAFR's are required to implement GASB 54.

## Revisiting Recommendations made in 2006

**I**n the 2006 Florida TaxWatch report, *Palm Beach Budget Study*, several recommendations were made to county officials to improve the budgeting process and financial management of Palm Beach County. **As of August 2011, most of these recommendations have not been implemented.** The following is a list of the recommendations made in 2006 with updates:

***Recommendation 1: We suggest that the county consider establishing an official fixed cap on reserve funds as is done in other counties, such as Fairfax County Virginia.*** While having adequate reserves for emergencies and revenue shortfalls is sound public policy, accumulating operating reserves in increasing proportions of total taxes collected without any ceiling constitutes transfer of taxpayer assets to government without a compelling reason. The size of each reserve fund could be a percentage of revenues or of expenditures, but would not increase in percentage from year to year, unless the county changed its reserve policy. The percentages could be established based upon recommendations from actuaries for emergency reserves maintained for manmade or natural disasters. Other reserves for revenue stabilization could be based upon recommendations from public finance experts.

**2011 Analysis: This recommendation has not been implemented.** Considering the County has consistently held larger reserves when compared to its peer counties, Palm Beach should institute a cap on reserves, contingency funds, and money set aside for future projects. A formal cap would allow the County to plan for and meet its obligations, provide reliable reserves for distressed fiscal times, and maintain the county's credit rating without allowing the county to

hold onto and collect excessive funds that come from the taxpayers' pockets.

**While having adequate emergency reserves is sound public policy, accumulating operating reserves in increasing proportions of total taxes collected without any ceiling constitutes transfer of taxpayer assets to government without a compelling reason.**

If Palm Beach County had implemented a formal cap on its "unreserved" funds, it would free up a

significant amount of money. **If a formal cap on all "unreserved" funds of 40% of expenditures was instituted in FY2010, it would allow \$187,674,718 to be reclassified or redirected to be used for other purposes.**<sup>16</sup> (This cap exceeds the common target of hurricane prone counties of "unreserved funds" as 25 percent of total expenditures.) **With a formal cap of 30 percent of expenditures for total "unreserved" funds, the county would have freed up**

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<sup>16</sup> Total expenditures include the following expenditure counties: general government; public safety; physical environment; transportation; economic environment; human services; culture and recreation; capital outlay; and debt service. Unreserved funds from the Capital Projects Funds and General Fund were combined for this calculation. (The "Unreserved Special Revenues Funds" account was not included because of earmarks associated with it.) Estimate calculated by a 40 percent reduction in FY2010 total expenditures (\$1,846,705,885) subtracted from the combined total "unreserved" funds for FY2010 (\$926,357,072). (CAFR for FY2010, Palm Beach County).

**\$372,345,306 to be reclassified or redirected for other uses in FY2010.**<sup>17</sup> Even if a formal cap was placed only on “unreserved” Capital Projects Funds, there would still be a significant amount of money freed up for reclassification.

***Recommendation 2: We suggest that the county consider a budget system that is based upon selective investment of tax dollars using a variety of well thought out priority budget processes that address county priorities.*** The suggested system would be a bottom up process. Each smaller department or organizational unit within each large department, termed “decision units,” would propose several budget priorities consisting of what it would cost to achieve alternative levels of services such as:

- Minimum level of service substantially below current funding levels. Investing below this level would continue the program but would be wasteful, as the activity would then effectively be eliminated.
- Reduced level of service (could be several reduced levels) accomplishable at varying stair-stepped funding decrements up to 10%-20% below current levels, e.g. increasing response times, closing facilities on weekends, etc.
- Current levels of service at the lowest cost to maintain that service level, but not necessarily the existing funding level.
- Enhanced levels of service (could be several enhanced levels), e.g. reducing response times, increasing hours a facility is open to the public, etc.

Particular attention should be paid to performance measures accompanying priority packages. A valid performance measurement system will enable a taxpayer to determine what services and activities were performed at what unit cost and to what immediate, intermediate and ultimate ends. The focus should be on value for money. Appropriations should be directed at results and not processes. The county should also mandate that department heads and county budget analysts rank order all supplemental items in priority order. The commission then would have an objective means to evaluate the relative merit of supplemental proposals.

The county commission approves funding levels for whole departments and some lower level programs separately, but does not express priorities other than what is reflected in the percentage distribution of funding among departments and the percentage increase in each department’s funding compared to the prior budget period. These relative changes in funding may just be an artifact unrelated to service levels or relative merit—as funded, a program might be just more expensive, such as labor-intensive programs with higher fringe benefits (law enforcement).

**2011 Analysis: This recommendation has not been implemented.** Budgeting in this manner would particularly be beneficial given constraints on projected revenues. This system would allow County Commissioners to evaluate what service levels might be like under alternative funding

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<sup>17</sup> Same expenditures and unreserved categories were used for this calculation, which was estimated using the same methodology as detailed in the previous footnote.

conditions and allow them to responsibly reduce or eliminate spending on low-priority programs while minimizing the fiscal impact on high-priority programs and services. Currently, proposed county budgets do not reflect priorities very clearly and officials have expressed frustration with the lack of emphasis placed on priority funding in tough fiscal times. One commissioner expressed this frustration with the county budgeting process as stated at a recent budget workshop, “We have no goals. We have no objectives... This is an exercise in futility.”<sup>18</sup>

***Recommendation 3: Palm Beach’s budget and financial reports, as are those of many counties, are inconsistent and difficult to understand.*** If a resident of Palm Beach County wants to determine how the current proposed budget differs from current year budget as well as earlier fiscal years, the resident must review three documents, all of which are different.

- **The most recent Palm Beach County Comprehensive Annual Financial Report (CAFR)** covers the fiscal year ending on September 30. The CAFR is an excellent document because it is audited and is prepared in accordance with Government Accounting Standards Board requirements.

**If county financial documents were consistent, it would inform taxpayers and enhance the accountability of its budget and spending practices.**

- **The county prepares the Adopted Budget**, which specify spending limits, in different formats from the CAFR. The Adopted Budget is very detailed and has been recognized for its quality by the Government Finance Officers Association. However, an informed taxpayer would have great difficulty reconciling the Adopted Budget numbers to the audited CAFR numbers, without consulting either a Certified Public Accountant or a county budget analyst.

- **The Proposed Budget** document is different in format and content from both the CAFR and the prior year Adopted Budget.

**The county should consider preparing its FY 2007 proposed budget in the same format as the CAFR or at least include a table reconciling the proposed budget to the CAFR’s Statement of Revenues, Expenditures and Changes in Governmental Funds.** If this were done, it would be possible for any informed taxpayer to track spending proposals and to tie those proposals back to audited financial statements. This would also enhance the accountability of the budget and spending policies and practices of the county.

**2011 Analysis: This recommendation has not been implemented.** Currently, the proposed budget is still presented differently than CAFRs and is not easily reconcilable. Budgets tend to show detailed revenues and expenditures while the CAFRs tend to be aggregate. The County

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<sup>18</sup> Reid, Andy. “Palm Beach County’s proposed spending cuts prompt citizen backlash.” *The Sun-Sentinel*. June 30, 2011. Available electronically at [http://articles.sun-sentinel.com/2011-06-13/news/fl-budget-hearing-palm-20110613\\_1\\_spending-cuts-tax-rate-property-tax](http://articles.sun-sentinel.com/2011-06-13/news/fl-budget-hearing-palm-20110613_1_spending-cuts-tax-rate-property-tax).

should streamline these documents so that they are easier to understand where the year-by-year differences lay. Budget documents should be prepared using the CAFR format or with a table reconciling the proposed budget to the basic financial statements.

***Recommendation 4: Need for a Sunset Review Process.*** Sunset Review is a serious process whereby automatic repeallers are placed into the authorizing ordinance or other document used to create programs or projects. Repeallers are staggered among programs and projects to allow an annual review of a limited and workable number of programs and projects. Prior to the repealler's effective date, the County Internal Auditor could conduct a detailed performance and expenditure review to determine if the program should be continued, limited or changed, abolished, or even enhanced. Auditors should be candid about programs that cannot or will not demonstrate cost effectiveness of programs and projects. Auditors and program evaluators assigned should be given independence and be encouraged to speak freely about obsolete programs or inefficiency without threat of reprisal. The State of Florida is renewing its Sunset Review process under legislation passed during the 2006 session, which could be used as a model by Palm Beach County.

**2011 Analysis: This recommendation has not been implemented.** Adopting such a process would help the County identify which programs are cost-effective and which should be eliminated due to inefficiency, ineffectiveness, or having become obsolete, which could produce the savings needed to close budget shortfalls.

**Recommendation 5:** Staff should priority rank order all previously authorized projects that are not under contract in the capital projects fund along with those that are newly proposed for FY 2007. **Old un-contracted projects would have to compete in the priority process. We suggest that this process could reveal projects that could be moved up in priority and others that could be eliminated, reduced in scope or cost. Projects that are required by state law or other outside funding restrictions should be reclassified as genuinely restricted fund projects.**

**2011 Analysis: Palm Beach County has implemented this recommendation in most areas of the capital projects fund.** Funding priorities are listed for proposed and current capital projects in the FY2012 Tentative Budget for Engineering and Public Works/ Street Drainage Improvements (ad valorem projects); Environmental Resource Management (ad valorem and non-ad valorem projects); Information Systems Services (ad valorem projects); Parks and Recreation (ad-valorem projects); County Library (dependent district activities); and Water Utilities (enterprise funds projects). However, proposed and current projects were not ranked consistently for projects under the Department of Facilities Development and Operations (ad valorem and non-ad valorem projects); Parks and Recreation (non-ad valorem projects); and

Airports (funded with enterprise funds).<sup>19</sup> Palm Beach County should work with staff to implement priority ranking of funding for all areas of the capital projects fund, particularly the Department of Facilities Development and Operations as it is the only area that does not rank any of projects by priority of funding, despite having multiple funding streams (ad valorem and non-ad valorem).

***Recommendation 6: Consider merging independent administrative and support units of separate constitutional offices.*** As fixed costs, administration and support functions are not efficient unless there are sufficient transactions to lower unit costs and provide greater specialization.

**2011 Analysis: Palm Beach County has not fully implemented this recommendation.** Earlier this year, the county attempted to consolidate the Constitutional Office of the Tax Collector and the Economic Development Council, which may have included the consolidation of the support units of the two offices, but this move has not yet occurred.<sup>20</sup> The county should study ways to consolidate the support units, such as information technology, and administrative support amongst the separate constitutional officers to the extent feasible, based on the security needs of each office, to achieve cost-savings.

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<sup>19</sup> Office of Financial Management and Budget, “FY2012 Tentative Budget” A-5-8, Palm Beach County. Published July 5, 2011. Available at: [http://www.pbcgov.com/ofmb/budget/annual\\_budget/2012/pdf/july11FY2012.pdf](http://www.pbcgov.com/ofmb/budget/annual_budget/2012/pdf/july11FY2012.pdf).

<sup>20</sup>Jennifer Sorentrue, “Should Palm Beach County tax collector move her offices? Not if it costs \$11 million, she says”, Palm Beach Post, September 12, 2010. <http://www.palmbeachpost.com/news/should-palm-beach-county-tax-collector-move-her-911264.html?printArticle=y>.

## **Section 2:**

# **Analysis of Vacant and Underutilized Land and Property Owned by Palm Beach County**

## Vacant Property Inventory



Palm Beach County owns more than 2,500 parcels of land, ranging from parks, land for environmental conservation, slivers of land between sidewalks and streets, and vacant commercial and residential properties. The county owns and maintains 707 facilities on a number of these properties, including fire stations, libraries, courthouses, and office buildings.<sup>21</sup> All county-owned property is managed and maintained by the County Facilities Development and Operations Department (FDOD), which includes the following divisions: Property Real Estate Management (PREM), Capital Improvements, Facilities Management, Fleet Management, Electronic Services and Security (ESS), the Procurement and Project Implementation Group (PPIG), and Art in Public Places.

The PREM division of the FDOD is charged with acquiring property, disposing of surplus property (e.g., vacant, unusable, or no longer necessary), providing technical support for development of county facilities, administering county leases, and responding to public inquiries of county property. PREM informed Florida TaxWatch that it classifies land owned by the county into two categories relevant to this analysis:

“Vacant” – land that is not currently being used for its intended purpose, as designated by the county; and

“Improved” – land that is currently being used for its intended use as designated by the county.<sup>22</sup>

**Of the more than 2,500 county-owned land parcels, 2,019 parcels totaling 34,968 acres – or more than 80 percent – are currently considered “vacant”.** Of county-owned land parcels, 517 parcels totaling 10,941 acres are considered “improved” (See Appendix B for a complete list.) A large majority of these vacant parcels – 1,651 parcels or 82 percent – are classified as being under the purview of the Department of Environmental Resource Management (EM).<sup>23</sup> Table 1 shows county-owned vacant property broken down by department.

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<sup>21</sup> According to the Palm Beach County Property Appraiser’s Public Access System (PAPA) on May 23, 2011, Palm Beach County was listed as the owner of the land; retrieved from [www.pbcgov.com/papa/asp/GeneralSearch/GeneralSearch.aspx](http://www.pbcgov.com/papa/asp/GeneralSearch/GeneralSearch.aspx); County Owned Real Estate List provided by the Palm Beach County Property and Real Estate Management (PREM) division of the Facilities Development and Operations Department (FDOD), May 2011.

<sup>22</sup> Definitions provided by Ross Hering, Director of the PREM division of FDOD on May 24, 2011.

<sup>23</sup> The Palm Beach County Comprehensive Plan outlines the Managed Growth Tier System, which is designed to preserve, protect, and improve the quality of natural resources and environmentally sensitive land. The Department of Environmental Resource Management (EM) manages a number of natural areas and environmentally sensitive land with specific restrictions and separate processes for the acquisition and sale of land parcels. Palm Beach County, “1989 Comprehensive Plan: Ordinance 2010-47, 49”, as Revised 10/25/2010. Retrieved from <http://www.pbcgov.com/pzb/Planning/comprehensiveplan/fluc.pdf>.

**County-owned Properties Listed as Vacant  
by designated Department<sup>24</sup>**

Department	Market Value (PAPA)	Assed Value (PAPA)	Acres	Number of parcels
Airport (AP)	\$9,497,839	\$9,010,895	576.92	15
Engineering & Public Works (EG)	\$25,572	\$25,572	20.44	6
Environmental Resource Management (EM)	*	*	28,190.28	1,651
Fire/Recue (FR)	\$7,888,602	\$7,888,602	41.74	7
General Government (GG)	\$161,123,841	\$120,302,480	4,641.39	143
Housing & Community Development (HC)	\$180	\$180	0.70	2
Libraries (LI)	\$7,335,387	\$7,335,387	20.90	2
Parks & Recreation (PR)	\$68,622,998	\$67,709,798	1,167.05	50
Roadway (RW)	\$7,989,172	\$7,989,172	262.19	122
Water & Utilities (WU)	\$6,763,711	\$5,667,371	46.84	21
Total	\$269,247,302	\$225,929,457	34,968.45	2,019
<b>TOTAL (excluding EM &amp; AP land)</b>	<b>\$259,749,463</b>	<b>\$216,918,562</b>	<b>6,778.17</b>	<b>368</b>

\*Property value is not included because EM-designated properties have different property valuation procedures.

Source: Palm Beach County Property Appraiser's Public Access System (PAPA), figures accessed as of May 23, 2011.

For the purposes of this study, land parcels classified under the Department of Environmental Resource Management and the Airports Department were excluded from further analysis due to restrictions associated with its land use, acquisition, and disposal.<sup>25</sup> **With the exclusion of land parcels designated under the Department of Environmental Resource Management and the Airports Department, there are 353 parcels totaling approximately 6,200 acres of vacant land owned by Palm Beach County.** These parcels range in size from 0.01 acre slivers along roadsides to the infamous 1,840 acre Mecca Farms property.

If Palm Beach County sold 10 percent of its listed “vacant” property at current appraisal listings, its sale would generate nearly \$22 million in revenue. Furthermore, this sale could generate approximately \$108,000 in recurring property tax revenue, if sold to entities not exempt from ad valorem taxation.<sup>26</sup> **If Palm Beach County sold 25 percent of its listed vacant property, its sale could generate more than \$54 million in revenue and more than \$270,000 in recurring ad valorem tax revenue. If any improvements were made on these vacant properties after**

<sup>24</sup> Based on County Owned Real Estate listing provided by the Palm Beach County PREM division in May 2011. Parcels were matched with data made available on the Palm Beach County Property Appraiser's Public Access System website available at <http://www.pbcgov.com/papa.aspx/GeneralSearch/GeneralSearch.aspx>.

<sup>25</sup> Fifteen parcels totaling 576.2 acres with an assessed value of \$9 million are part of the Airports Department (AP). The County Airport Department is subject to the approval of the Federal Aviation Administration and therefore, these types of properties are not considered in this analysis.

<sup>26</sup> Tax revenue estimate is based on a property tax millage rate of 4.996 (4.75 current year millage rate and 0.246 debt service millage rate)

the sale, property tax revenues would be even higher. These revenue estimates are conservative as they are based on the current appraised value of the property and not its listed current market value, which is considerably higher.

**Potential Revenue from the Sale of Vacant Property**⌘

	Percent of Vacant Property Sold <sup>27</sup>			
	10%	20%	25%	50%
<b>Surplus Property Sale Revenue</b> <i>(based on current market value)*</i>	\$25,972,389.10	\$51,944,778.20	\$64,930,972.75	\$129,861,945.50
<b>Vacant Property Sale Revenue</b> <i>(based on current appraised value)**</i>	\$21,689,298.70	\$43,378,597.40	\$54,223,246.75	\$108,446,493.50
<b>Recurring Property Tax Revenue***</b>	\$108,359.73	\$216,719.47	\$270,899.34	\$541,798.68

Source: Palm Beach County Property Appraiser's Public Access System (PAPA), figures accessed on May 23, 2011. Calculations by Florida TaxWatch.

⌘ Vacant land designated under the Airports Department or Department of Environmental Resource Management are not included in the calculation of potential revenue as these departments are subject to different jurisdictions (federal, state, or otherwise) for land use policies and acquisition/disposal.

\* Current market value as publically listed by the Palm Beach County Property Appraiser, May 23, 2011.

\*\* Current appraised value as publically listed by the Palm Beach County Property Appraiser, May 23, 2011.

\*\*\* Based on property tax millage rate of 4.996 (4.75 current year millage rate and 0.246 debt service millage rate)

The sale of a portion of these vacant lands would provide additional revenue needed in tough budget times and relieve Palm Beach County residents of continuing to finance the maintenance costs and other financial obligations incurred by the current inventory of vacant land. The revenue from the sale of these vacant properties could be used to supplement the costs of renovating older county-owned buildings and other facilities, which has been documented as an emerging issue for the county, rather than purchasing or constructing new facilities using ad valorem or bonded revenue streams. Furthermore, there is a recurring loss of economic efficiency in holding land that is not being utilized in a productive way that capitalizes on its best use. Instead, the land could be sold to third parties who could develop it, resell it, or put it to use in a variety of ways, all of which would generate new economic activity, spur additional spending at the local level, and have a positive impact on the county's economy and job creation,

<sup>27</sup> Properties selected for revenue calculations are based on land designated as vacant by the County Owned Real Estate listing provided by the Palm Beach County PREM division of FDOD in May 2011. Parcels were matched with data made available on the Palm Beach County Property Appraiser's Public Access System website available at <http://www.pbcgov.com/papa.aspx/GeneralSearch/GeneralSearch.aspx>.

as well as local tax revenue, as opposed to the land remaining unused and a dead weight to taxpayers.

An important issue arose during the course of this research. In late July 2011, after preliminary analysis of all county-owned land by Florida TaxWatch, the PREM Division explained that there are several discrepancies in the classifications of land owned by the county. According to county officials, a significant portion of the county's owned property may be misclassified as "vacant", "improved", or "surplus" due to reporting errors. The Division explained that a lack of official

**Palm Beach County has a historical tendency to purchase parcels at above market value prices, and sell them at prices below market value—a losing scenario for taxpayers.**

definitions and protocol for "vacant" and "improved" to classify property owned has caused errors in the county's property classification records. For example, land that should have been

classified as "improved" or, in other words, property that is being used for its intended purpose, has been inadvertently classified as "vacant" due to the lack of physical buildings on the property, even though it was in use for its designated purpose.

**As a result, the county currently has an unreliable list of what lands are actually "vacant" (i.e., NOT being used for its intended purpose and could be sold) and those that are being used for its intended purpose.** Without uniform definitions and classifications of property as "vacant", "improved", and "surplus", the county currently does not have an accurate classification listing of its owned properties, which has made accurate third-party independent analysis of property holdings, which is in use and not, and determining how much surplus vacant land exists has been made even more difficult.

However, the PREM Division told Florida TaxWatch that it is working to reconcile these errors and analyzing of all its owned properties to find which can be sold by the county. As a result of a Commissioner's recent request for identification and recommendation of "truly surplus" property to sell, PREM has undertaken a full analysis of its lists in attempts to fix misclassifications and compile a comprehensive list of all of the properties that are truly vacant.

In the meantime, PREM published a memorandum that provides an abridged list of 65 "vacant" properties that have significant value and excludes strips of land. Furthermore, PREM identified 12 "vacant" properties (only 18.5 percent of the abridged PREM list) it would recommend for sale because, according to PREM, the property is not being used by the county, has significant value, and does not require any policy action by the Board of County Commissioners in order to sell it.<sup>28</sup>

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<sup>28</sup> Property and Real Estate Management Division, Memorandum Re: County-owned land/ Revenue generation", Exhibit B, Palm Beach County, June 22, 2011.

## Property Acquisition

**G**enerally, land purchased by the county is procured on a parcel-by-parcel basis after a need is demonstrated and documented by the appropriate department in the county five-year strategic plan. A county-led land appraisal process is then conducted by independent appraisers followed by a competitive bidding, trade, or negotiation process (depending on the type of land transaction). Each acquisition deal must be officially approved by the Board of County Commissioners upon which the deal is executed. Therein, the County Facilities Development and Operations Department (FDOD) coordinates the maintenance of the property and the Property and Real Estate Management (PREM) division under the FDOD manages the records of county-owned real estate, including which properties are considered to be vacant.

There is no one answer for why Palm Beach County holds such an extensive vacant property listing. It is a multi-faceted story that spans several decades, piecemeal approvals, and lapsed or uncompleted programs and initiatives. One argument for the county's continued holding of vacant land at this point is current poor economic conditions and a weak real estate market: the theory is that the sale of these properties in times like these would result in the sale of the land for a much lower price than its original purchase.

However, an investigation found that Palm Beach County has a historical tendency to purchase parcels at above market value prices, and sell them at prices below market value – a losing scenario for taxpayers who finance both the purchase and subsequent maintenance of the land, particularly when the land is later classified as vacant.

A 2009 report of the Palm Beach County Grand Jury found that:

“A glaring deficiency in how land deals are handled by Palm Beach County is the overvaluation of property for purchase and undervaluation of property for sale or trade. A number of witnesses testified that when the county buys property, it overpays, and when the county sells property, it sells too cheaply. The Grand Jury examined a number of documents, received testimony and reviewed reports that support this buy high and sell low charge.”<sup>29</sup>

The county has purchased property at overvalued prices that is now listed as vacant property. The frequently cited Mecca Farms purchase is a known example of such an instance where the county purchased land at a premium price before legal hurdles and agreements with developers had been settled. The land is currently classified as vacant. Another example occurred in 1999 when RV Holdings purchased 400 acres off of Indiantown Road for \$6 million with plans to build Renaissance Village, a boarding school to house 600 adolescents, and a golf course. The plan generated significant controversy due to the environmental sensitivity of the surrounding area, including Cypress Creek, a feeder of the Loxahatchee River. As a result, in 2002, a Florida Forever-lead project purchased nearly 4,000 acres in the multi-county area that included funding

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<sup>29</sup> Fifteenth Judicial Circuit in and for the County of Palm Beach, Florida, “Final Presentment of the Palm Beach County Grand Jury: Investigation of Palm Beach County Governance and Public Corruption Issues”, page 12. May 21, 2009.

by the state and \$5.2 million from Palm Beach County.<sup>30</sup> In 2004, Palm Beach County purchased more of the land by acquiring the rear 250 acres of the Renaissance Village property for \$10.7 million.<sup>31</sup> Then again in 2006, the County purchased the remaining 150 acres for \$16.1 million – a price nearly \$10 million higher than market value.<sup>32</sup> All of this land is currently classified as vacant by the Palm Beach County PREM division.

In response to the Grand Jury report, county government has taken steps to implement the report's recommendations to prevent against future overvalued purchases of land. **It is imperative that the county government continue its efforts to make the land acquisition process more transparent and accountable so that taxpayers are not again faced with large inventories of vacant land purchased at inflated prices.**

Another argument made by the county for retaining the current inventory of vacant land is that some of this land is being held for future use once economic conditions improve and the county has revived need for them. Thus, by doing so, the county avoids the need to purchase more land in the future. However, vacant lands that will be utilized for anticipated county needs in the future should be specifically identified by the county in its long-term planning process with details made available to the public, and any remaining inventory not designated for legitimate and documented future use should be sold. Moreover, it is not generally considered the legitimate role of the government to acquire formerly private property for speculative or other undesigned public purposes without a meaningful taxpayer benefit.

**W**hile the sale of vacant land may be difficult in a weak real estate market, there is still inventory that can be sold in the near term, especially by employing innovative ideas, partnerships, and deals. One such possibility is to dispose of smaller parcels of vacant land. For instance, some land parcels may be lent to municipalities, private parties, and other government districts for little or no cost. In doing so, the county would be relieved of the administrative and maintenance costs associated with keeping up the property. One illustration of such an arrangement involved Palm Beach County and the Town of Ocean Ridge. On May 9, 2009, the conveyance of a 0.07 acre surplus property to the Town of Ocean Ridge was presented on the agenda of the Board of County Commissioners Board meeting. The property, which was

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<sup>30</sup> Anthony Man, "Land Buy Protects River System", *Sun-Sentinel*, November 20, 2002. Available at: [http://articles.sun-sentinel.com/2002-11-20/news/0211190638\\_1\\_cypress-creek-county-and-water-palm-beach-county](http://articles.sun-sentinel.com/2002-11-20/news/0211190638_1_cypress-creek-county-and-water-palm-beach-county).

<sup>31</sup> This transaction also included a nearby 16.5 acre plot that RV Holdings purchased in 2003 from Indiantown Realty Partners for an undisclosed sum when the latter was in Chapter 11 proceedings: link to the deed is available at: [http://oris.co.palm-beach.fl.us/or\\_web1/details.asp?doc\\_id=13876093&file\\_num=20040077035&doc\\_status=V](http://oris.co.palm-beach.fl.us/or_web1/details.asp?doc_id=13876093&file_num=20040077035&doc_status=V). The County also purchased an adjacent 20 acre plot at an undisclosed sum. Palm Beach County Property Appraiser's Public Access System (PAPA) [http://www.pbcgov.com/papa/asp/web/detail\\_info.aspx?p\\_entity=00414035010010010](http://www.pbcgov.com/papa/asp/web/detail_info.aspx?p_entity=00414035010010010).

<sup>32</sup> Kathleen Chapman, "Shelter for young adults celebrates home that expands capacity to 29", *Palm Beach Post*, March 16, 2007. ("Last year, the county agreed to pay \$16.1 million - above the appraised value - to buy the land, as long as the money would go to Armbrust's program, Vita Nova of Renaissance Village."); Palm Beach County Property Appraiser's Public Access System (PAPA) [http://www.pbcgov.com/papa/asp/web/detail\\_info.aspx?p\\_entity=00414035010050010](http://www.pbcgov.com/papa/asp/web/detail_info.aspx?p_entity=00414035010050010).

determined to not be serving a county need, was sought by the Town of Ocean Ridge along with several other narrow strips of land along the A1A highway, in order to beautify and maintain the land. In the deal, the county provided that it would maintain the mineral and petroleum rights of the land. The agreement also stipulated that in the case specific provisions were violated, the title to the property would revert back to the county.<sup>33</sup> Although the property was transferred at no cost, the county was relieved of maintenance and liability concerns.

Placing small parcels of land for sale through a competitive bidding process is also an excellent option as there has been documented interest in purchasing county land recently despite current challenging economic conditions. On the January 13, 2010, the Board of County Commissioners approved the sale and purchase easement of a 0.35 acre parcel of vacant Airport Property to RaceTrac Petroleum, Inc. for \$64,000.<sup>34</sup> Although this transaction involved a small parcel, there is potential interest for purchasing vacant land and the county should pursue potential private buyers.

### **Recommendations for the Inventory of Vacant Land**

Based on independent analysis of vacant property inventoried by Palm Beach County, Florida TaxWatch recommends the following measures be taken by Palm Beach County government:

#### **Recommendation 1**

**Florida TaxWatch recommends that the Division of Property and Real Estate Management work with a commercial relator to help designate surplus property; assess their market values; and design and executive a marketing plan to sell the property designated as surplus within the next 18 months.** Currently, PREM is internally analyzing all of its owned properties to delineate which properties are “truly surplus” or, in other words, property that is determined to be of no use to the county and can be sold without any policy action by the Board of County Commissioners. This process should be aided by the assistance of a commercial realtor to expedite the process and increase the effectiveness of its execution. This review should be conducted annually and presented to Board of County Commissioners with a full list of surplus property to be sold and a marketing plan and timeline for its sale/disposal.

#### **Recommendation 2**

**Florida TaxWatch recommends that the county institute formal definitions and classification procedure for designating “vacant”, “improved”, and “surplus” property.** The lack of official definitions to classify property owned by the county has caused unnecessary confusion and error in the county’s property records. According to county officials, a significant

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<sup>33</sup> Palm Beach County Board of County Commissioners. Order of Business, Board of County Commissioners Board Meeting. May 9, 2009. Retrieved from <http://www.pbcgov.com/pubInf/Agenda/20090505/agenda.pdf>.

<sup>34</sup> Land sale information and data from Palm Beach County Property Appraiser and Clerk, accessed May 2011.

portion of the county's owned property may be misclassified as "vacant", "improved", or "surplus" due to reporting errors. For example, land that should be classified as "improved" according to the county or, in other words, property that is being used for its intended purpose, has been inadvertently classified as "vacant" due to the lack of physical buildings on the property. As a result, the county currently has an unreliable list of what lands are actually "vacant" or not being used for its intended purpose and those that are being used for its intended purpose.

As a result of a Commissioners recent request for recommendations of "truly surplus" property to sell, PREM has undertaken a full analysis of its lists in attempts to reconcile these mistakes. Without uniform definitions and classifications of property, the county will not have a consistently accurate listing of its owned properties, which makes internal to external (third-party) analysis of the inventory even more difficult than it is currently. By doing so, the county will avoid months of lag time in going forward with the advertisement and sale of surplus property as a result of needing to 'double-checking' all of its land in order to determine which properties are not needed by the county and are advisable for sale.

### **Recommendation 3**

**Florida TaxWatch recommends that Palm Beach County undertake a campaign to sell strips of land to adjacent land owners and investigate other means of selling strips of lands, such as bundling these lands for sale.** While it may be difficult to sell all surplus strips of land to adjacent land owners, it is feasible in many situations, particularly in residential areas where there are adjacent owners. In this process, the County can approach the adjacent land owner or the owner can approach the government regarding the sale or dispose of the land. In 1991, Palm Beach County undertook this exercise by presenting the Board of County Commissioners with a list of 85 surplus properties – a list that shrunk from 189 properties after several of the properties were determined to be better used in potential land swaps in the future. At the time, the maintenance costs of these 85 properties were estimated at \$55,000 annually.

The county should begin a campaign to do sell strips of land to adjacent owners and explore options to bundle several strips of land for sale to one owner. The county should make a list of all of the strips of surplus land for sale publically available and notice their sale to avoid any potential corruption. According to county officials, Palm Beach County is currently exploring options to bundle strips of surplus land for sale and identify the feasibility of other proposals to dispose of the property.

### **Recommendation 4**

**Florida TaxWatch recommends that once PREM fully completes the County Owned Real Estate (CORE) database analysis. It should be made publicly available on the county website as the primary and centralized listing of all county-owned and –leased land holdings. It should be comprehensive and include details such as appraised value, market**

**value, date of acquisition, documentation of the purpose(s) for its purchase or lease, any related lease data as permissible under law, and detail of any county facilities housed on the land in order to further public understanding and discourse.** In 2010, PREM reported that it had completed verification of data for the PREM CORE database of county-owned land and buildings. The county intends to develop and implement access to the CORE database for other county departments, but delays in the software program development have currently postponed this task. This task was listed as a FY2011 objective for the PREM Division.<sup>35</sup> According to PREM, a full analysis of this database is underway and should be available within the next few months. Florida TaxWatch recommends this effort be continued and the result be made publically available.

## **Recommendation 5**

**Florida TaxWatch recommends that an online marketplace and/or public auction platform for the sale of the county’s vacant property be fully implemented and operational.** Such a publicly available online marketplace would provide an easily accessible and efficient way for the county to dispose of surplus property, reduce the time and financial costs of seeking potential buyers, inject transparency into the trade and sale of property, and promote competitive bidding among potential buyers. Details of the land parcel, county appraisal documents, asking price, contact information, and other relevant documentation should be made readily available online for potential buyers.

The Florida Department of Environmental Protection (DEP) currently has an online platform for selling surplus property owned by the state. The online portal provides information on the square footage with description of the land and pictures, asking price, contact information for the property agent, and the identification number of the parcel with a link to the property appraiser’s website. The website also provides applications and sample contacts for the purchase of these surplus lands along with a description of the sale process and legal disclaimers.<sup>36</sup> **A similar platform in Palm Beach County would promote transparency and accountability as well as facilitate the sale of surplus land to a larger audience of potential buyers.**

Furthermore, the Florida DEP also operates an online auction platform for the sale of surplus lands where potential buyers can bid on the land parcel.<sup>37</sup> Currently, Palm Beach County has posted a platform online that will be utilized to sell surplus property. While the platform is an

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<sup>35</sup> Palm Beach County, “Fiscal Year 2011 County Budget”, C-95, 2011. Available at: [http://www.pbcgov.com/ofmb/budget/annual\\_budget/2011/pdf/Final%20FY%202011%20Budget%20Book.pdf](http://www.pbcgov.com/ofmb/budget/annual_budget/2011/pdf/Final%20FY%202011%20Budget%20Book.pdf).

<sup>36</sup> Florida Department of Environmental Protection, “Surplus Property for Sale”, *Buy Land from the State*, 2011. Available at: [http://www.dep.state.fl.us/lands/buy\\_sale.htm](http://www.dep.state.fl.us/lands/buy_sale.htm).

<sup>37</sup> Florida Department of Environmental Protection, “Surplus Property Offered for Bid”, *Buy Land from the State*, 2011. Available at: [http://www.dep.state.fl.us/lands/buy\\_bid.htm](http://www.dep.state.fl.us/lands/buy_bid.htm).

active link on the county's website, it is not yet fully functional. As of August 15, 2011, no properties were listed for bid on the PREM website.<sup>38</sup>

Currently, the Palm Beach County Clerk and Comptroller's Office operates online auction platform, *Clerk Auction*, for the sale of foreclosed properties. The platform provides a secure, automated system for companies or individuals to bid on foreclosed property and listings are updated frequently with a high level of detail.<sup>39</sup> **The county should explore if this platform could be expanded to the sale of county-owned surplus land. In this way, the county would avoid additional spending to build an entirely new system and leverage efficiency by 'piggy-backing' onto the foreclosure auction platform.** Palm Beach County also operates an auction platform that facilitates the public sale of surplus fixed assets owned by the county and participating municipalities that is available online named the *Palm Beach County Thrift Store*. Items for sale include vehicles, office equipment, and electronics.<sup>40</sup> Such a platform could also be utilized by the county to sell unneeded property. According to officials, the county is exploring a platform to auction surplus property with a third party and will recommend action in the near future.<sup>41</sup>

## Recommendation 6

**Florida TaxWatch recommends that the property acquisition, exchange, and sale process be open to public discourse to the fullest extent permissible under law.** Palm Beach County has recently created the Property Review Committee through the revision of County Ordinance No. 2009-052, which is designed to improve transparency and openness for property acquisition, disposition, and exchange at a higher standard than recommended in the Grand Jury report.<sup>42</sup>

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<sup>38</sup> Division of Property and Real Estate and Management, "Upcoming Bids", Palm Beach County. Last accessed August 15, 2011. Available at: <http://www.pbcgov.com/fdo/prem/bids/>.

<sup>39</sup> Clerk and Comptroller, Clerk Auction, Palm Beach County. Accessed 8/30/11: <https://www.mypalmbeachclerk.clerkauction.com/>

<sup>40</sup> Palm Beach County, "Palm Beach County Thrift Store", 2011. Available at: <http://pbcgov.com/ofmb/financial/thriftstore/>.

<sup>41</sup> Telephone conversation with Ross Hering, Director of the Division of Property and Real Estate Management, July 12, 2011.

<sup>42</sup> The Grand Jury recommended developing this committee to address transparency and accountability issues with regard to the county's purchase of overvalued land. Ordinance No. 2009-52 includes a provision which requires the Property Review Committee to review, evaluate, and advise the Board of County Commissioners regarding real estate transactions when appraisals are based on hypothetical conditions or extraordinary assumptions; based upon appraisals assuming a change of land use; a comprehensive plan amendment or concurrency other than that which currently exists; involves a purchase where the price of the real property is greater than 110% of the fair market value as determined by the appraisal or the average of appraisals obtained by the county; a sale in which the appraised price of the real property is lower than 90% of the fair market value as determined by the appraisal or average of appraisals obtained by the county; or when the county is involved in an exchange or real property in which the property to be conveyed by or to the county plus an additional costs exceeds \$250,000. The evaluation by the Property Review Committee is not required for transactions subject to Federal Aviation Administration Review, typically the Airports Department. *Palm Beach County, Florida, Code of Ordinances Chapter 22 - Planning And Development, Article VI. - Real Property Acquisition, Disposition and Leasing*. Available at:

**Florida TaxWatch also recommends that approval of any land purchases by the county not be permitted to be listed on the consent agenda of the Board of County Commissioners in order to prevent abuse; instead, land purchases should be limited and discussed as separate actions for review.** The county is currently continuing to take steps to implement other recommendations made by the Grand Jury but the county and its residents must be diligent that these policies are implemented in a timely manner and regularly exercised.

#### **Recommendation 7**

**Florida TaxWatch recommends Palm Beach County consult a private company to conduct an analysis of its surplus ‘right of way’ properties and provide recommendations on how to more profitably utilize this unused and underutilized ‘right of way’ property.** Across the country, several local governments and municipalities have generated additional revenue by running underground or overhead lines along or across right of way land. Depending on the amount and configuration of ‘right of way’ property, Palm Beach County may benefit from exploring and implementing unique strategies such as allowing private companies to run lines for water, natural gas, power, and/or telecom underground or above ‘right of way’ land.

#### **Recommendation 8**

**Florida TaxWatch recommends that the Board of County Commissioners incorporate a provision to dispose of the county’s underutilized and vacant land as part of the Palm Beach County Comprehensive Plan.** The Board should set goals for the future sale of vacant properties with established performance measures immediately so that there is a policy in place when the real estate market strengthens and a significantly larger portion of land may be sold to private parties and taken off the county balance sheet and put on the property tax rolls. Land that does not have a future documented public purpose and land that is not a part of the five-year strategic plan or Capital Improvement Program should be designated for sale. While it is generally not a healthy practice for a county or municipal government to summarily sell off assets in order to meet budget shortfalls, the county should make it a long-term priority to facilitate the sale of vacant lands immediately. It should then establish a strategic plan to sell a significant portion of these parcels, which will set a precedent and intent for the county to avoid holding a large storehouse of vacant land in the future.

### **Vacant and Underutilized Buildings**

Palm Beach County owns 646 buildings consisting of roughly 7 million square feet of space. These facilities include general government office space as well as specialty purpose buildings such as Courthouses, Jails, Fire Stations, Libraries, and Warehouse buildings. Of these 7 million

square feet, approximately 1 million is considered to be office space for general county government or constitutional officers. Of these 1 million square feet, approximately 50,000 square feet or 5 percent is considered vacant.

The **Facilities Development and Operations Department (FDOD)** is the centralized department tasked with handling the management of county facilities; acquisition, trade, and sale of land; and the design and construction of county property and buildings, among several other duties. The county and the FDOD have undertaken major facilities consolidation and co-location efforts over the past few years.

According to the FDOD, the county has reduced 180,000 square feet of office space to 120,000 square feet – a 30 percent reduction. This was done by consolidating several general government offices and conducting renovations to prolong the county’s need to purchase new facilities or enter into a lease. Offices have been consolidated and relocated to county-owned buildings such as the Vista Center, purchased in 2001 for \$42 million, and the recently acquired Airport Center Complex. Space was made available in these county-owned buildings as a result of staffing reductions that began in 2008 due to the reduced need for government services, such as construction permits.<sup>43</sup>

The county also reports that it has not renewed several leases for office space, instead relocating those offices into county-owned office space such as the Vista Center, the recently renovated Four Points Center, and the Airport Center Complex. The FDOD reports that there is less than 10,000 square feet of leased office space that can be moved once the leases expire in 2012.

According to a Property and Real Estate Management (PREM) report, the following large spaces and buildings are unoccupied:

**1. Palm Beach County Main Courthouse – 7<sup>th</sup> and 8<sup>th</sup> Floor space**

The two unoccupied floors of the County Main Courthouse constitute approximately 100,000 square feet. The PREM Division of the FDOD does not consider this space to be vacant as it is being reserved for the construction of Courtrooms in the future once funds become available. According to the FDOD, these floors are not developed and would not be suitable as office space in the meantime.<sup>44</sup>

**2. Former PZB Space at North County Courthouse**

There is currently 3,082 square feet of unoccupied office space at the North County Courthouse that has been recommended for use by a governmental user. However, PREM cites its current vacancy as a result of the small size of the available office space and difficulty matching an appropriate user to it.

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<sup>43</sup> Andy Reid, “Vacant Palm Beach County building “goes dark”, adding to cost for taxpayers”, *Sun-Sentinel*, February 20, 2010.

<sup>44</sup> Properties and Real Estate Management Division, “Palm Beach County Public Buildings Development Program Status of Development and Impact of Budget Constraints Identification of Vacant Properties/Space”, Palm Beach County. Provided by Ross Hering, Director of PREM on April 6, 2011.

### **3. Former PZB Space at Midwestern Communities Service Center**

This Center holds 2,422 square feet of unoccupied office space that houses the Office of the Tax Collector and the Office of Property Appraiser. This space is considered suitable for another governmental user and should be considered in the county's continuing relocation efforts.

### **4. Airport Center – Building at 160 Australian Avenue**

This entire building, consisting of 42,000 square feet, is considered vacant. The 160 building has been a source of controversy as it continues to sit unoccupied despite being purchased to be used as county office space.<sup>45</sup> According to the FDOD, the original plan for the vacant building was to consolidate and relocate the County Tax Collector's Office and the Tourism Development Council, Convention, and Visitors Bureau<sup>46</sup> after extensive renovations were made to the building. Staff estimated that it would cost between \$1,900,000 and \$2,100,000 (\$45 to \$50/ sq. ft.) to properly renovate the two-decade-old building. In response to renovation estimates, the Tax Collector has protested the expenditure of the additional funds it would take to renovate the building and consolidate the two offices.

The county has explored leasing the building to a non-governmental user but PREM determined that undertaking the proper renovations in order to lease the building would not generate enough revenue to fund the additional FDOD and PREM staff that would need to manage the lease and building maintenance.<sup>47</sup> As a result, the FDOD has reported that it will not conduct the proper renovations until both county tenants agree to relocate so as to not leave half of the building unoccupied upon completion. The 160 Building currently serves as a storage warehouse.<sup>48</sup>

The county estimates that by leaving the 160 Building unoccupied, a savings of \$200,000 is generated annually.<sup>49</sup> However, costly renovations will still be needed in order to make the county-owned building operational for the uses for which it was purchased. Despite its prime location next to a major highway and the airport, the decision to acquire the 160 Building from the Palm Beach County Airports Department is questionable given the major renovations needed to turn it into functional office space and the subsequent costs that will be incurred in order to maintain the building, which will be both higher and more frequent than in newer buildings.

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<sup>45</sup> Jennifer Sorentrue, "Should Palm Beach County tax collector move her offices? Not if it costs \$11 million, she says", *Palm Beach Post*, September 12, 2010.

<sup>46</sup> The office space utilized by the Palm Beach County Tourism Development Council, Convention, and Visitors Bureau is leased from a non-governmental party.

<sup>47</sup> Properties and Real Estate Management Division, "Palm Beach County Public Buildings Development Program Status of Development and Impact of Budget Constraints Identification of Vacant Properties/Space", Palm Beach County. Provided by Ross Hering, Director of PREM on April 6, 2011.

<sup>48</sup> According to Audrey Wolfe, Director – Facilities Development and Operations Department, Palm Beach County: Telephone conversation on June 1, 2011.

<sup>49</sup> Property and Real Estate Management Division, "Summary of Major Project Scope Changes", 2009.

A full analysis of underutilization of county buildings could not be completed due to a lack of key information. **Due to unavailability of key pieces of data, it was not possible to independently determine the current utilization of county buildings.** According to Palm Beach County officials, the occupancy rate in any or all of its buildings is not recorded by the county. In evaluating what underutilization of county buildings exists, Florida TaxWatch requested and was provided with a comprehensive list of county-owned buildings and the county's office space standard guidelines for each typical functional job classifications. Florida TaxWatch also recorded the square footage for each building with information made available by the Office of the County Property Appraiser. However, this information could not be used in determining the current utilization of office space as the floor plans of these buildings were not made available. Palm Beach maintains a policy of not releasing its floor plans to the public due to security concerns. Therefore, it was not possible to locate areas designated for use as office space and determine the occupancy and vacancy rate of the county buildings.

However, **underutilization of office space in the county does exist.** The county's official policy on office space allocation is overly generous. **While Palm Beach County reports that only 5 percent of its owned square footage is vacant, the county's official policy on space allocation standards and guidelines are much more generous than the state of Florida.** Palm Beach County could optimize its real estate portfolio and space utilization by adopting space allocation requirements and limits similar to Florida's state government standards for office space.

Most governments must create and regularly approve space standards for its employees – a minimum/maximum office space that must be provided to each employee. Based on these official space standards, a certain amount of square footage is assigned to each employment classification. For example, a manager at a government department is required to have 100 square feet of office space by law or statute while an executive position is required to have 150 square feet of office space.

Palm Beach County's official "Space Standard Guidelines" require that County Commissioner be allotted 330 square feet of office space. When compared with Florida state government, the Secretary of a state government department is allotted only 225 square feet – nearly 50 percent (46.7%) less than a Palm Beach County Commissioner is required to be allocated. Further, Deputy Division Directors in Palm Beach County are granted 60 percent more office space on average than Deputy Division Directors in Florida government.

Below is a comparison of the current space standards for Palm Beach County compared with the state of Florida.

**Comparison of Space Allocations by Position Classification-  
Florida and Palm Beach County**

*(Employee Classifications of Florida's state departments and  
Palm Beach County administration and departments only)*

<b>State Position Example</b>	<b>SF size</b>	<b>County Position Classification*</b>	<b>SF size</b>	<b>Average Percentage Difference</b>
Agency Head	225	Commissioner/ Constitutional Officer	330	<b>46.7%</b>
Department Secretary		County Administrator	330	<b>46.7%</b>
		Department Director	220-260	<b>6.7%</b>
Deputy Secretary	150	Deputy Department Director	180-220	<b>33%</b>
Division Director		Division Director	160-180	<b>13.3%</b>
Deputy Division Director	100	Deputy Division Director	140-180	<b>60%</b>
Executive Assistant		Managers and Section Heads	120-140	<b>30%</b>
Attorney Inspectors Probation Officer	100	Professionals	80-121	<b>0%</b>
Bureau Director District Supervisor District Director  Section Chiefs Job Service Supervisor Assistant Bureau Chief	80	Supervisors	100-120	<b>37.5%</b>
Engineers Landscape Architect	80	Professionals	80-120	<b>25%</b>
Policy/Budget Analyst Auditor Administrative Assistant Customer Service Specialist Purchasing Agent	60	Technical	64-80	<b>26.7%</b>

Source: Department of Management Services, “Space Allocations Worksheet”, 2011; and Palm Beach County, “Space Allocation Standards”, 2008.

If Palm Beach County were to align its space allocation guidelines with the state of Florida’s space allocations, the county would have considerably more space to consolidate offices and, thus, dampen the need for additional buildings and leases at the expense of the taxpayer. **Assuming the average lease price in Florida of \$19.94 per square foot, Palm Beach County save nearly \$400,000 this fiscal year if it aligned the average square footage of each of the seven categories listed above Florida’s state space standards.** This savings estimate is conservative because it does not include all of the county’s employees, such as those employed in constitutional offices or in other administration or department classifications, such as clerical and field employee positions.<sup>50</sup>

### **Recommendations for county buildings**

Based on the analysis of county owned or leased buildings in Palm Beach County, Florida TaxWatch makes the following recommendations to help improve the management of county buildings:

#### **Recommendation 1**

**Florida TaxWatch recommends that Palm Beach County implement a policy requiring occupancy and vacancy rates of each county owned or leased building be recorded annually to establish a performance measure of current and future performance in maximizing the utilization of facilities over time.** According to the FDOD, occupancy rates are not recorded by the county.<sup>51</sup> Therefore, it appears there is no consistent performance measure to evaluate past and current utilization of county buildings. Assessing and recording occupancy and vacancy rates in county buildings would provide a sound benchmark for the future, which would allow the utilization of buildings and the future need for facilities to be more easily evaluated.

The Florida Department of Management Services, which administers and manages a majority of state owned and leased properties, publishes an annual report that reports the vacancy rate for buildings utilized by the state. It does so by assessing the office space vacancy versus the agency space needs in each of the 10 real estate markets where state government occupies office space.

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<sup>50</sup> Savings calculation based on reduction of the average space allocation to the mandated space allocations for the state of Florida. Based on Palm Beach County’s “Space Standard Guidelines” as revised on 5/07/2008. Average leasing cost per square foot derived from the listed average leasing cost per square foot in Florida as reported in the *2010 Master Leasing Report*, published by the Florida Department of Management Services, 2010. Savings for each of the seven position classifications were calculated as: Savings = (state average price per square foot \* difference in square footage of Palm Beach County space standards and the state of Florida’s space standards) \* the estimated number of non-vacant positions held in Palm Beach County. Estimates of non-vacant positions for each category of county administration and departments were derived from the publically available Telephone Directory of Palm Beach County Administration and Departments, available at: [http://www.pbcgov.com/publicaffairs/publications/pdf/black\\_book/Admin.pdf](http://www.pbcgov.com/publicaffairs/publications/pdf/black_book/Admin.pdf). Estimates do not include all employees in constitutional offices.

<sup>51</sup> According to Audrey Wolfe, Director – Facilities Development and Operations Department, Palm Beach County: Telephone conversation on June 1, 2011.

DMS also conducts a study on the average vacancy rate in the private market, which is serves as an appropriate relative comparison for the state’s portfolio.<sup>52</sup> Determination of the vacancy rate of Palm Beach County’s property portfolio would similarly help project and plan for the future need of county facilities.

The county does have tools in place that can help with the implementation of policy to record occupancy and vacancy rates. The county has established space allocation standards and guidelines for office space that is used as a tool in the short and long-term planning of county facilities, which could facilitate the determination and recording of occupancy and vacancy rates over time.

According to the Countywide Policy and Procedure Manual CW-L-019 issued in 2001:

“The Facilities Development & Operations Department shall develop and maintain and update, as necessary, Space Standards. The standards shall include space allocations for typical functional job classifications. The standards shall be reviewed annually, and updated if necessary.”<sup>53</sup>

**Recording occupancy and vacancy rates annually would allow the county to regularly evaluate whether facilities are adhering to established space allocation standards and guidelines.**

## **Recommendation 2**

**Florida TaxWatch recommends that Palm Beach County revise its space standards guidelines to be minimally aligned with Florida’s space allocation standards to more fully utilize its building space and avoid current and future leasing and building costs.** By aligning the county’s space standards with the state’s standards, Palm Beach County would free up office space so that several office and positions could be further consolidated and potentially eliminate the need for some county leases, which would save taxpayer dollars on a recurring basis. Below is a chart that shows the reduction in square footage that would be needed for each employee classification on average within the county’s departments and administration to align with the space allocation standards with state of Florida.

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<sup>52</sup> Department of Management Services, “2010 Strategic Leasing Plan and Master Leasing Plan”, State of Florida, September 15, 2010.

<sup>53</sup> Facilities Development & Operations Department, “PPM#: CW-L-019 Space Allocation Standards”, p.1. Palm Beach County, Florida, December 1, 2001. Available at: <http://www.pbcgov.com/publicaffairs/ppm/pdf/cw-l-019.pdf>.

**Average Reduction of Office Space Square Footage to Align  
Palm Beach County with Florida**

<b>County Position Classification</b>	<b>Recommended Average Reduction of SF by Position Classification*</b>
Commissioner/ Constitutional Officer	105
County Administrator	105
Department Director	15
Deputy Department Director	50
Division Director	20
Deputy Division Director	60
Managers and Section Heads	30
Professionals	20
Supervisors	30
Technical	12

\* Only Palm Beach County departments and administration were analyzed. Further recommendations for square footage reduction should be made for constitutional offices. Recommended reductions were calculated from the average office space listed in the county’s “Space Allocation Standards” compared with Florida’s “Space Allocations Worksheet” for all of the state’s departments.

Source: Department of Management Services, “Space Allocations Worksheet”, 2011; and Palm Beach County, “Space Allocation Standards”, 2008.

**The county should undertake a full analysis of its space standards immediately and implement a more stringent space standard allocation that is, at minimum, in line with Florida government.**

**Recommendation 3**

**Florida TaxWatch also suggests that the list of Palm Beach County-owned buildings be centralized and easily accessible to the public.** Currently, there is no comprehensive listing or mapping of county-owned buildings available on the county or FDOD website. The county does maintain a comprehensive listing of its owned buildings, which was provided by the county’s Division of Facilities Management at the request of Florida TaxWatch. The forty-eight page document lists the name, address, and regional location of each county-owned building; however, no further information was provided on the specific buildings, such as the function,

services provided, or programs administered in these buildings. In contrast, Hillsborough County provides a comprehensive, detailed list and map of its county-owned buildings that is easily accessible on its county website. This joint list sorts and color codes each building based on the government services and programs administered at each location.<sup>54</sup> **Such an initiative should be deployed for Palm Beach County.**

### **Conclusion**

This Florida TaxWatch Center for Local Government Studies report indicates that specified improvements are needed in Palm Beach County. The citizens of Palm Beach must continue to be vigilant in these areas to ensure that taxpayer dollars are being spent wisely and effectively. To that end, all county stakeholders should strongly consider the implications of Section 1 and county officials and managers should implement the recommendations of Section 2 for the benefit of county taxpayers.

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<sup>54</sup> Geomatics Division, Real Estate Department, “Hillsborough County Buildings”, Hillsborough County, Florida. Available at: <http://www.hillsboroughcounty.org/realestate/facilities/resources/publications/CountyBuilding20110214.pdf>.

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