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1769 E. Moody Blvd. Bld. 2 Bunnell Fl. 32110

To: Board of County Commissioners  
From: Craig Coffey, County Administrator *CMC*  
Subject: Economic Development Funding Alternative – Sales Tax  
Date: August 16, 2010

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There has been some recent discussion regarding sales tax as a potential alternative solution to the currently balloted referendum measure to fund an increased amount of economic activity. This has been discussed in terms of the existing ½ local option sales tax “Local Government Infrastructure Surtax or adding a new ½ cent local option sales tax “Small County Surtax”. I will hope to provide the Board with information on these options.

### Overview

- Both of these sales taxes are sales surtaxes and are authorized by section 212.055 of the Florida Statutes. The current tax enacted is called the “**Local Government Infrastructure Surtax**” in subsection (2) ( Attachment 3) and the new one being discussed is called the “**Small County Surtax**” in subsection (3) of the statute (Attachment 4).
- According to the Department of Revenue the County has up to 2% or 2 cents per \$1.00 it can levy as a maximum sales tax. Currently the Board has only utilized ½ cent of the 2 cent maximum (Attachment 1). A maximum of 1% can be from any combination of the Local Government Infrastructure Surtax (1% max), Small County Surtax (1% max), Indigent Care (1/2 max). Up to 1% sales tax can come from the other taxes you see listed in Attachment 1.
- Today according to Department of Revenue estimate a ½ cents sales tax will generate approximately \$3,793,000 per year.
- Sales tax funds can be distributed in two ways either by interlocal agreement or by Department of Revenue calculations. In the table below you can see the agreed upon distribution of the current sales tax by interlocal and what it would be using the Department of Revenue method. Flagler County’s current ½ cent split and what the split would be default are shown in the Table. The attachment shows you other communities’ numbers and that few communities undertake a different split.

Local Government	Default Dist. %	Estimated Distribution	Current Interlocal Agreement	Estimated Distribution
Flagler BOCC	44.8933	\$1,703,081	28.8788	\$1,095,552
Beverly Beach	0.3424	\$ 12,989	.4416	\$ 16,752
Bunnell	1.7539	\$ 66,536	2.2614	\$ 85,789
Flagler Beach	3.6058	\$ 136,790	4.7140	\$ 178,831
Marineland	0.0000	\$ 0	.0053	\$ 201
Palm Coast	49.4045	\$1,874,219	63.6989	\$2,416,494
Countywide	100.000	\$3,793,619	100.0000	\$3,793,619
Source: 2009 Local Government Financial Information Handbook				

- Items such as groceries, medications, medical supplies, real estate, and similar issues are exempt. Also the sales tax only applies to first \$5,000 dollars of a transaction.
- The surtax may only take effect on January and must be approved no later than your first meeting in November to take effect this year. No discretionary sales surtax shall terminate on a day other than December 31 of a year.

### Local Government Infrastructure Surtax FS 212.055(2)

This is currently a ½ sales tax that was implemented by a majority of the voters in 2002 and lasts for 10 years. Because of the statute conditions it could be implemented by the City of Palm Coast and had to be considered by referendum. It was adopted by resolution on June 4, 2002, for consideration on the September 10, 2002 primary ballot. The measure passed and was implemented in January 2003. If not renewed by the voters it will expire on December 31<sup>st</sup> 2012.

Funds are distributed as shown on the right of the table above, according to an interlocal agreement (Attachment 3). Based on the formula the distribution has shifted slightly from the original percentages. Funds currently received by the City of Palm Coast and the County are both committed for debt or capital projects for the remaining life of the tax. There is an additional ½ cent available in this sales tax, if the small county surtax or other taxes are not implemented and in the enabling ballot language.

The uses of these funds are primarily for the purchase of public recreation lands and infrastructure although up to 15% can be designated for economic development operational uses. Incentives and increased marketing/personnel would likely be considered operations and would be restricted by that amount. Uses of funds would have to be listed in implementing ordinance, but could be amended over time.

Below is summary of potential positives and negatives regarding the infrastructure sales tax measure:

## **Potential Positives**

1. Existing Tax – Public used to paying
2. Voted on by Public similar to other proposal.
3. Ability to generate more funds than referendum overall
4. Able to be bonded for larger projects similar to proposed referendum.
5. Every municipality could get funds except Marineland.
6. Applies to tourists and other non-residents.
7. May be easier with public opinion and shared burden.

## **Potential Negatives**

1. Capital not timely -2yrs later Jan 2013.
2. Unsure of Approval by voters
3. Other competing uses for capital funds (i.e. roads, other)
4. Must negotiate for joint use as economic development.
5. Compared to Referendum less BOCC control.
6. Still a tax that is considered regressive in nature.
7. Only 15% can be used for Economic Development operational costs and incentives.

## **Small County Surtax FS 212.055(3)**

This is a sales tax that can only implemented by the County through a super-majority vote of the Board. Up to ½ cent can currently be levied because of other ½ cent levied with the Local Government Infrastructure Tax. Currently this tax is not utilized. This tax could also be pledged to pay debt if it is placed on the ballot for referendum. Other than pledging these funds for debt the funds could be used for almost any public purpose.

Below is summary of potential positives and negatives regarding this particular sales tax measure:

## **Potential Positives**

1. Easier to implement – Extra ordinary vote of the BOCC
2. Quicker Availability of Funds – If passed in Sept. – January 2011
3. Ability to generate more funds than referendum overall
4. Cheaper to implement – no ballot fees
5. Every municipality could get funds except Marineland
6. Fewer restrictions on use of funds
7. Applies to tourists and other non-residents
8. May be easier with public opinion and shared burden.

## Potential Negatives

1. No vote of public – Concern after referendum measure.
2. Entire credit for tax goes to BOCC, not voters or municipalities.
3. Can be undone by future Boards.
4. Not available for bonding for larger investments without voter approval.
5. Must negotiate for joint use as economic development.
6. Compared to referendum less BOCC control.
7. Still a tax that is considered regressive in nature.

## Attachments:

1. Florida Legislative Committee Discretionary Surtax Rates in Florida Counties.
2. Department of Revenue “Local Discretionary Sales Surtax” Table.
3. Section 212.055 (2) of the Florida Statutes - current sales tax enacted “**Local Government Infrastructure Surtax**”
4. Section 212.055 (3) of the Florida Statutes - sales tax being discussed “**Small County Surtax**”
5. Current sales tax information - Palm Coast Resolution, Interlocal Agreement and BOCC Minutes on Interlocal.
6. An Attorney General’s Opinion on Small County Surtax.