Chapter 8D: Managing Fiscal Resources

Mary Lou Cariello

INTRODUCTION

The information contained in this chapter is presented to fulfill the requirements of the 1997 Everglades Oversight Act (Chapter 97-258, Laws of Florida) as they relate to the reporting of financial information for the Everglades Construction Project (ECP). The 1994 Everglades Forever Act (EFA) requires the South Florida Water Management District (SFWMD or District) to annually provide a comparison of actual versus projected revenues and a projection of costs and revenues over the succeeding five-year period (**Figures 8D-1** through **8D-4**).

The EFA directed the District to separately account for all monies used to fund the ECP. In November 1996, the citizens of Florida voted in favor of a constitutionally created Everglades Trust Fund. The legislation passed in 1997 (Chapter 97-258, Laws of Florida) references the Everglades Trust Fund, requiring specific, identified funds to be allocated. This fund, which strengthened Everglades oversight, will be used to account for all revenues and expenses associated with the ECP. The District has developed a format for reporting financial information for the Everglades Trust Fund in a clear and concise manner. The Joint Legislative Committee on Everglades Oversight has approved the format the District uses when submitting its quarterly expenditure reports to the governor, the legislature, and the public. The Everglades Trust Fund Quarterly Report of Expenditures is accessible through the District's Website at http://www.sfwmd.gov/org/bud/ecp/qtrly/ecpqtrly.html.

A dedicated funding source is essential to conduct Everglades and Florida Bay protection and restoration programs. The ECP is the first major step in Everglades Restoration and part of the 1994 EFA. The 1994 ECP is one of the largest public works projects in the nation for environmental restoration, estimated to cost approximately $836.2 million over 20 years. The EFA directs the District to acquire land and to design, permit, and construct a series of Stormwater Treatment Areas (STAs) to reduce phosphorus levels from stormwater runoff and other sources before it enters the Everglades Protection Area (EPA). In total, the ECP is composed of 12 interrelated construction projects located between Lake Okeechobee and the Everglades. The last of the District-constructed STAs, STA-3/4, is scheduled to initiate start-up operations by October 1, 2003 and other ancillary construction projects will continue through Fiscal Year 2006 (FY2006). Also, the EFA requires the District to conduct research on supplemental or Advanced Treatment Technologies (ATTs) to achieve the final water quality standards.

Florida Bay restoration program activities are ongoing, with a projected cost estimate of approximately $367 million.

Since the publication of the *2003 Everglades Consolidated Report*, there have been two significant events relating to the restoration, cleanup, and water quality improvements of the Everglades. They are the amendments made to the existing EFA through the Florida legislative action and the approval of a numeric water quality standard for total phosphorous ("TP criterion") by the Environmental Regulation Commission (ERC). These updates are discussed throughout this chapter and in further detail on pages 8D-6 and 8D-7.

SOURCES OF REVENUE

The total cost associated with implementing the 1994 ECP is shared among the District, other state and federal agencies, and the agricultural community. Funding sources designated by the EFA for the 1994 ECP included 1/10 mill *ad valorem* tax, agricultural privilege taxes, state land funds, federal funds, excess revenues from Alligator Alley tolls, other environmental mitigation funds, and any additional funds that become available for this purpose from any other source. Since 1994, actual revenues received are $494.4 million compared to original projections of $481.7 million (**Figure 8D-4**).

The amount of tax revenues collected each year is reduced by early payment discounts provided by each county. These discounts can range from 1 to 4 percent, depending on the timeliness of the payment. County processing/collection fees and commissions further reduce the amount of tax revenue available to fund the ECP.

AD VALOREM TAXES PROVIDE $38.7 MILLION IN FISCAL YEAR 2003

Since the enactment the of 1994 EFA, 1/10 mill of the District's Okeechobee basin millage has been dedicated to the 1994 ECP. The 1994 EFA gave the District the authority to levy *ad valorem* taxes of up to 1/10 mill within the Okeechobee basin for land acquisition, design, and construction of the ECP. As required by the 1994 EFA, this is to be the sole direct contribution of *ad valorem* taxes for the construction project.

The 2003 legislative session amended the 1994 EFA (Section 373.4592, Florida Statutes [F.S.]) to expand the use of the 1/10 mill for implementing the March 2003 Everglades Protection Area Tributary Basins Conceptual Plan for Achieving Long-Term Water Quality Goals Final Report, currently known as the Everglades "Long-Term Plan" (Committee Substitute for Senate Bill [CS/SB] No. 626, Chapter 2003-12, Laws of Florida). The amended EFA now allows expenditures, from the 1/10 mill *ad valorem* tax, associated with design, construction, and implementation of the initial phase of the Long-Term Plan, including operations and maintenance (O&M). Other authorized use of the 1/10 mill *ad valorem* tax is the research for the projects and strategies in the initial phase of the Long-Term Plan, including STA enhancements and O&M of the ECP. In other words, this EFA amendment allows usage of the *ad valorem* tax proceeds, not exceeding 1/10 mill levied within the Okeechobee basin for the original 1994 ECP and for projects associated with implementing the Long-Term Plan, as described above. For FY2003, net *ad valorem* tax revenues are approximately $38.7 million (unaudited) through September 30, 2003. The 1/10 mill *ad valorem* tax, net of tax collection cost, is estimated to generate approximately $42.3 million in FY2004.

EAA AGRICULTURAL PRIVILEGE TAX RAISES $12.0 MILLION IN FISCAL YEAR 2003

To fund the first phase of the Everglades Restoration Program, the 1994 EFA imposes an annual tax for the privilege of conducting an agricultural trade or business on each acre of real property or portion thereof within the Everglades Agricultural Area (EAA) and C-139 basins. The 1994 EFA specifies that the annual per-acre tax be collected through the normal county tax collection process. The amended EFA (CS/SB No. 626, Chapter 2003-12, Laws of Florida) provides a revised computation of the EAA agricultural privilege tax, as further discussed below.

The EAA agricultural privilege tax rate ranges from a minimum of $24.89 per acre for tax notices mailed from November 1994 through November 1997 to a potential maximum of $35 per acre for tax notices mailed from November 2006 through November 2013. The recent legislation changes to the existing 1994 EFA now state, "for the tax notices mailed in November 2014 through November 2016 [the rate] is $25 per acre and for tax notices mailed in November 2017 and thereafter shall be $10 per acre." Actual net EAA agricultural privilege taxes collected in FY2003 were approximately $12.0 million (unaudited) through September 30, 2003. The EAA agricultural privilege tax, net of tax collection cost, is anticipated to generate approximately $11.6 million in FY2004.

The EFA encourages optimal performance of Best Management Practices (BMPs) (Chapter 3 of the *2004 Everglades Consolidated Report*) to maximize the reduction of TP loads at points of discharge from the EAA by providing an incentive credit against the Everglades agricultural privilege tax. Each percentage point by which TP loads are reduced beyond the 25-percent EAA basin requirement will result in incentive credits against the EAA agricultural privilege tax as follows: $0.33 per acre for tax notices mailed from November 1994 through November 1997; $0.54 per acre for tax notices mailed from November 1998 through November 2001; $0.61 per acre for tax notices mailed from November 2002 through November 2005; and $0.65 per acre for tax notices mailed from November 2006 through November 2013. Incentive credits will not reduce the agricultural privilege tax rate to less than the $24.89 per acre minimum ("minimum tax").

If the application of incentive credits for the performance of BMPs would reduce the annual EAA agricultural privilege tax to an amount less than the minimum tax of $24.89 per acre, then the unused or excess incentive credits will be carried forward, on a TP load percentage basis, to be applied as incentive credits in subsequent years. Any unused or excess incentive credits remaining after certification of the EAA agricultural privilege tax roll for the tax notices mailed in November 2013 shall be cancelled.

The EFA also provides incentive credits to individual growers for meeting TP load or TP concentration reduction targets. Individual parcels of property shall be subject to the minimum tax if they have achieved the following annual TP load reduction standards: 30 percent or more for tax notices mailed from November 1994 through November 1997; 35 percent or more for tax notices mailed from November 1998 through November 2001; 40 percent or more for tax notices mailed from November 2002 through November 2005; and 45 percent or more for tax notices mailed from November 2006 through November 2013. In addition, any parcel of property that achieves a TP concentration of 50 parts per billion (ppb) shall be subject to the minimum tax in the next calendar year.

EAA VEGETABLE ACREAGE

The EFA recognizes that vegetable farming is subject to both volatile market conditions and to crop loss from natural events. If the governor, president, or U.S. Department of Agriculture (USDA) declares a state of emergency or disaster due to natural conditions, then payment of agricultural privilege tax will be deferred for one year, and repayment can occur during the project up until FY2014. Since the tax went into effect in 1994, this provision has been applied twice, in 1997 and in 2001. These deferrals still remain in effect.

C-139 BASIN AGRICULTURAL PRIVILEGE TAX RAISES $576,812 IN FISCAL YEAR 2003

As specified in the 1994 EFA, for the 20-year period between 1994 and 2013 the total amount of tax to be assessed annually will not exceed $654,656. The C-139 basin agricultural privilege taxes were calculated by dividing $654,656 by the number of acres included on the C-139 basin agricultural privilege tax roll for that year. The amount paid by an individual property owner may change from year to year, depending on the number of acres within the C-139 basin that are classified as agricultural. This computation applied to tax notices mailed through November 2002. The amended EFA provided a revised computation of the C-139 agricultural privilege tax, as discussed below.

The recent legislation changes to the existing 1994 EFA now sets at a cost per acre of $4.30 the tax that can be assessed in the C-139 basin, based on the November 2001 tax roll. The amended EFA states the following: “The C-139 agricultural privilege taxes for the tax notices mailed in November 2003 through November 2013 shall be computed by dividing $654,656 by the number of acres included on the C-139 agricultural privilege tax roll for November 2001, excluding any property located within the C-139 Annex.” Future C-139 basin tax revenues to the District will be reduced by the number of acres that are no longer on the tax roll. Agricultural interests would continue to pay the $4.30 per acre through FY2014. Beginning with tax notices mailed in November 2014, and thereafter, shall be assessed at the rate of $1.80 per acre. In FY2003, the net C-139 basin agricultural privilege taxes collected were $576,812 (unaudited) through September 30, 2003. The C-139 basin agricultural privilege tax, net of tax collection cost, is projected to generate approximately $542,000 in FY2004.

ALLIGATOR ALLEY TOLL REVENUES COULD PROVIDE $63 MILLION

The EFA includes the legislative finding that Alligator Alley, designated as State Highway 84 and U.S. Interstate Highway 75, contributed to the alteration of water flows in the Everglades and also affected ecological patterns of the historic southern Everglades. The legislature determined it is in the public interest to establish a system of tolls for Alligator Alley to raise money to help restore the natural values lost by the highway’s construction.

Toll revenues must be split equally between the Everglades and Florida Bay restoration projects. Projects that qualify for these funds include the ECP; land acquisition to move STA-3/4 out of the Toe-of-the-Boot (an Everglades remnant area in the Holey Land tract at the south end of the EAA); water conveyance projects that enable more water resources to reach Florida Bay; engineering design plans for wastewater treatment facilities for Florida Bay marine waters; and highway redesign to improve sheetflow of water across the southern Everglades.

In 1996, the District and the Florida Department of Transportation (FDOT) received federal authorization to redirect the use of Alligator Alley tolls for these projects. The FDOT and the District entered into a Memorandum of Understanding (MOU) in 1997, setting out the basis for depositing the funds in the Everglades Trust Fund. This was quickly followed by the transfer and deposit of $17 million in excess toll money representing the first transfer. These funds were allocated based on EFA requirements. As such, the funds were split equally, at $8.5 million each, between the ECP and Florida Bay restoration projects. Since the initial transfer in 1997, a total of $12,125,000 has been received from the FDOT during FY1998 through FY2003 (as of September 30, 2003), which was also split equally between both projects.

PROJECT ESTIMATES AND CASH FLOW UPDATED FOR THE EVERGLADES CONSTRUCTION PROJECT

The most recent ECP Financial Schedules include current project estimates, actual revenues, and expenditures through September 30, 2002 for completing the 1994 ECP, as authorized by the EFA, and described in the February 15, 1994 Conceptual Design document. Current cash flows reflect construction cost estimate adjustments based on schedule optimization and refinements to previous cost estimates. In addition, as construction contracts were awarded, actual contract information has replaced both cost and construction period estimates. The financial schedules also include estimates of O&M costs, which begin as facilities are completed and are projected through FY2014.

However, these schedules do not reflect project cost estimates associated with the Long-Term Plan. Presently, the District is working on a series of financial schedules that includes revenue and expenditure projections associated with implementing the initial phase of the Long-Term Plan. The Long-Term Plan is discussed throughout the chapter and in further detail on page 8D-6.

The current schedules reflecting the local share of design, construction, and land acquisition costs for the 1994 ECP are estimated at approximately $522.6 million. When combined with the federal share of $198.9 million, the total estimate of capital costs is $721.5 million through FY2006. The O&M of the 1994 ECP is anticipated to cost approximately $114.7 million through FY2014. Currently, the combined total estimated cost of the project is approximately $836.2 million. The schedules show projected cash balance of zero at the end FY2014. The current set of financial schedules assumes the projected surplus cash balances (net revenues over expenditures) of approximately $41.0 million through FY2014 will be available for the Long-Term Plan, as determined by future cash flow projections (**Figure 8D-2**). The five-year forecast (FY2004–FY2008) of the 1994 ECP project estimates reflects revenues by source ($165.0 million) and expenditures by cost type ($128.0 million) (**Figure 8D-3**).

ECP financial information can be obtained through the "Everglades Construction Project Financial Schedules," which are accessible through the District's Website at http://www.sfwmd.gov/org/erd/ecp/ 3_finschd.html.

FEDERAL GOVERNMENT TO PROVIDE FUNDING

The Water Resources Development Act of 1996 provides cost-sharing funding for some programs related to Everglades restoration. In particular, the EFA authorizes the U.S. Army Corps of Engineers (USACE) to proceed with STA-1 East/C-51 West, C-111 land acquisition, construction and water quality improvement projects, and the Central and Southern Florida Project Restudy (currently known as the Comprehensive Everglades Restoration Plan, or CERP.)

STA 1-East/C-51 West is the only ECP project component that is federally funded. The federal government is responsible for a major portion of the total estimated cost of $220.4 million, or approximately $198.9 million. The remaining $21.5 million represents the local share of the total estimated cost.

CERP provides a framework and guide to restore, protect, and preserve the water resources of central and southern Florida, including the Everglades. It covers 16 counties over an 18,000 square-mile area and centers on an update of the Central and Southern Florida (C&SF) Project. The plan was approved in the Water Resources Development Act of 2000. CERP includes more than 60 major components, will take over 30 years to construct, and will cost an estimated $7.8 billion. Funding for CERP will be shared equally between federal and state/local agencies. For more information, refer to the District's CERP Website at http://www.evergladesplan.org.

EVERGLADES LONG-TERM PLAN

The 2003 Florida Legislature amended the 1994 EFA to authorize implementation of the initial phase of the Long-Term Plan and provide funding to continue water quality restoration in the Everglades and clarification of the law to allow funds to be spent on additional water quality improvements. The amended 1994 EFA expands and extends the use of the District's 1/10 mill *ad valorem* property tax levy, agricultural privilege taxes, and other funding sources for implementing the Long-Term Plan.

The Long-Term Plan will contain two phases: an initial 13-year phase (2003–2016) and a second 10-year phase (2017–2026). The Legislature amended the EFA to implement the first phase. The Legislature indicated that a review of the EFA should occur at least 10 years after implementation of the initial phase. The second phase (as needed to meet planning objectives) must be approved by the Legislature and codified into the EFA prior to implementation of the projects.

The Long-Term Plan's initial 13-year phase will cost approximately $443.9 million[1] and includes STA enhancement construction, operation, maintenance, and monitoring of the 1994 ECP. Additional funds will be used to develop and implement new advanced technologies as they are developed. The District is mandated to continue conducting research and demonstration projects to investigate ways to further reduce phosphorous levels and to apply that knowledge as it becomes available.

EVERGLADES TOTAL PHOSPHORUS CRITERION SET AT 10 PARTS PER BILLION

The 1994 EFA mandates the District to reduce phosphorus levels entering the EPA. The amended EFA stated the following: "The Long-Term Plan will be implemented and revised with the planning goal and objective of achieving the phosphorus criterion to be adopted…." The

[1] Based on projected costs presented in the Everglades Protection Area Tributary Basins Conceptual Plan for Achieving Long-Term Water Quality Goals Final Report dated October 27, 2003.

Florida Department of Environmental Protection is mandated by the EFA to adopt a phosphorus criterion rule by December 31, 2003. On July 8, 2003, the ERC approved an Everglades numeric water quality standard for total phosphorus. The ERC adopted the final rule language establishing a TP criterion of 10 ppb for the Everglades.

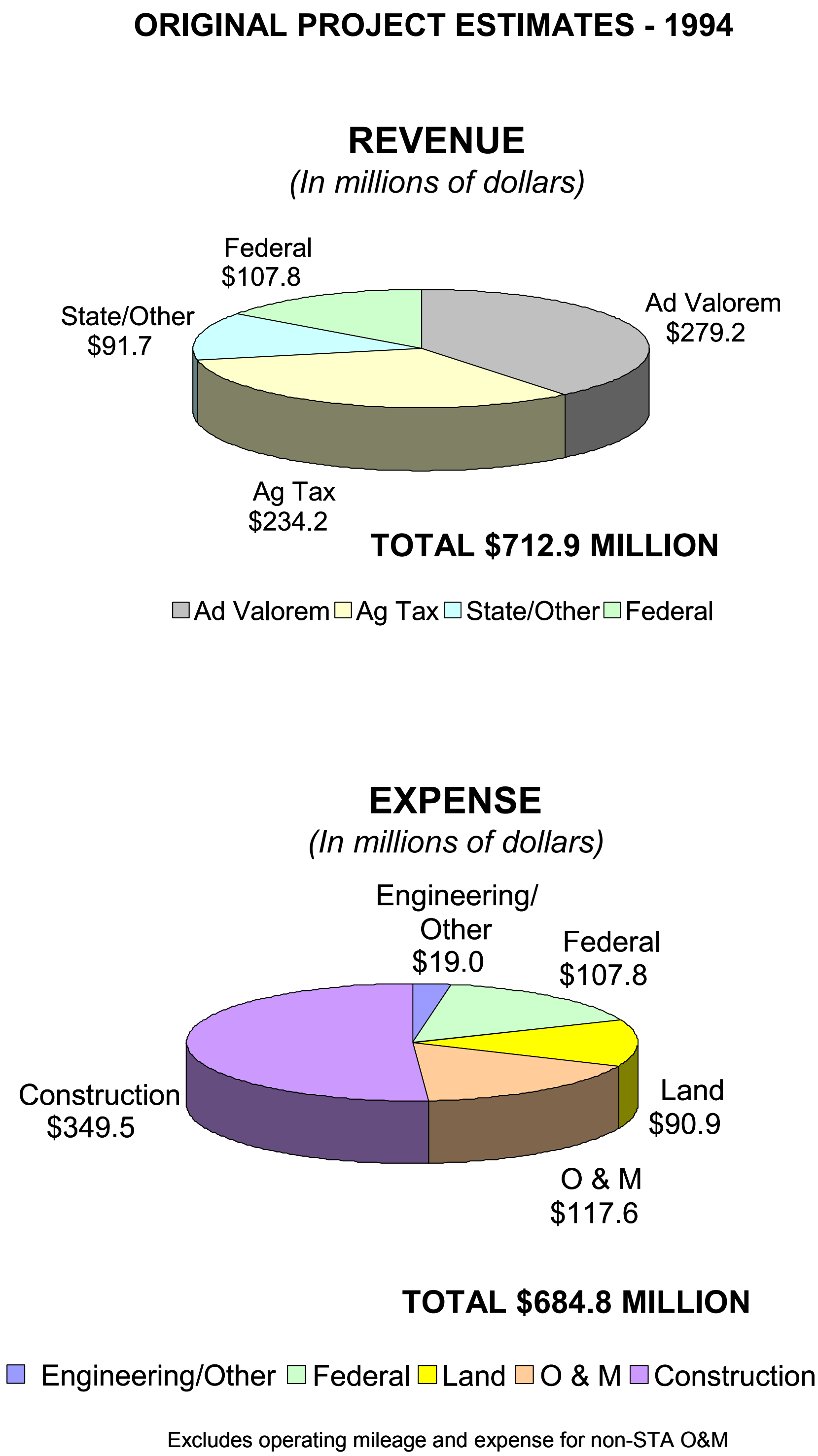
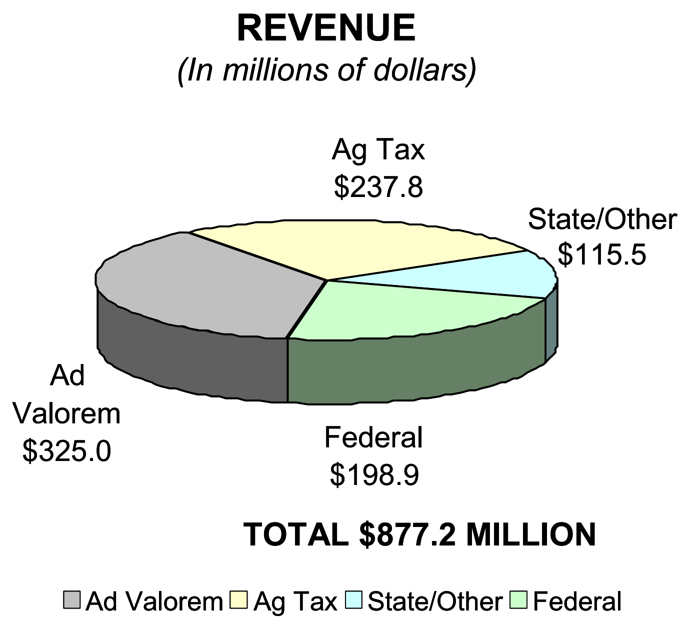


Figure 8D-1. Original (1994) project estimates for the Everglades Construction Project.

CURRENT PROJECT ESTIMATES 2003



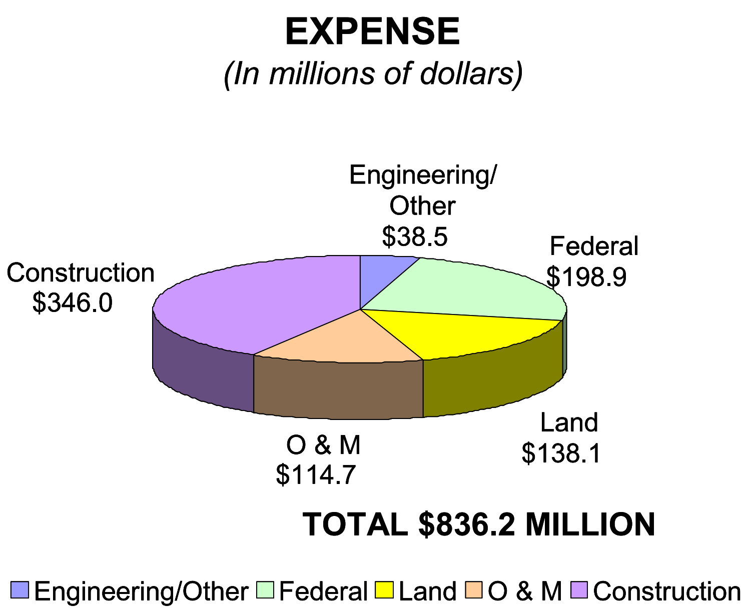
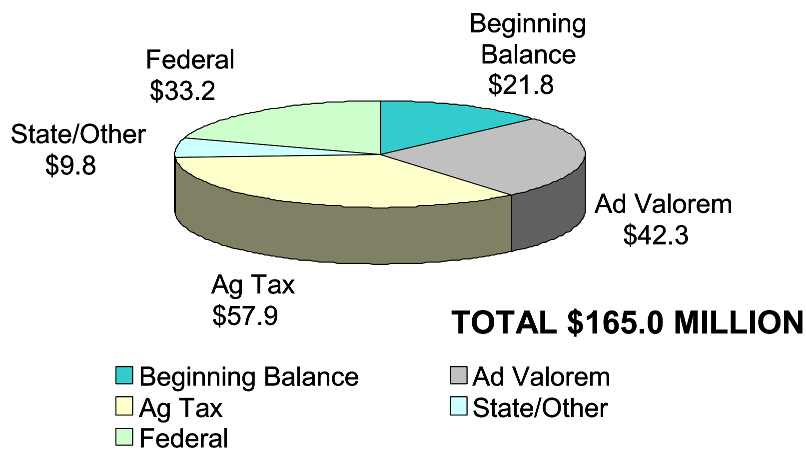


Figure 8D-2. Current (2003) project estimates for the Everglades Construction Project.

FIVE-YEAR PROJECT ESTIMATES
October 1, 2003 to September 30, 2008

REVENUE
(In millions of dollars)



EXPENSE
(In millions of dollars)

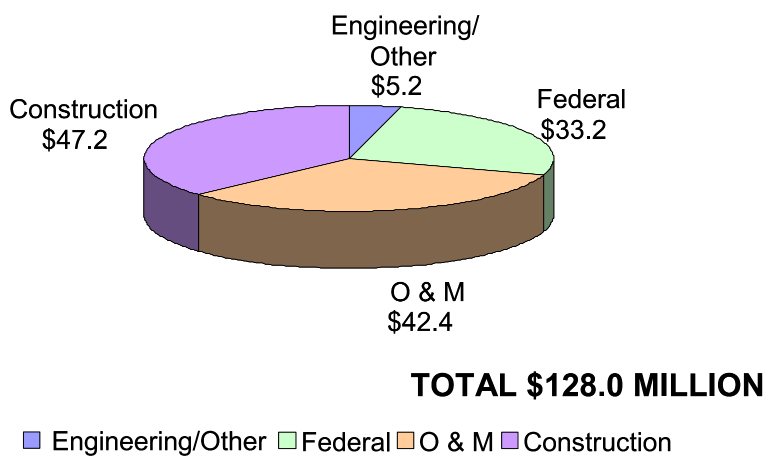


Figure 8D-3. Five-year (October 1, 2003 through September 20, 2008) project estimates for the 1994 Everglades Construction Project.

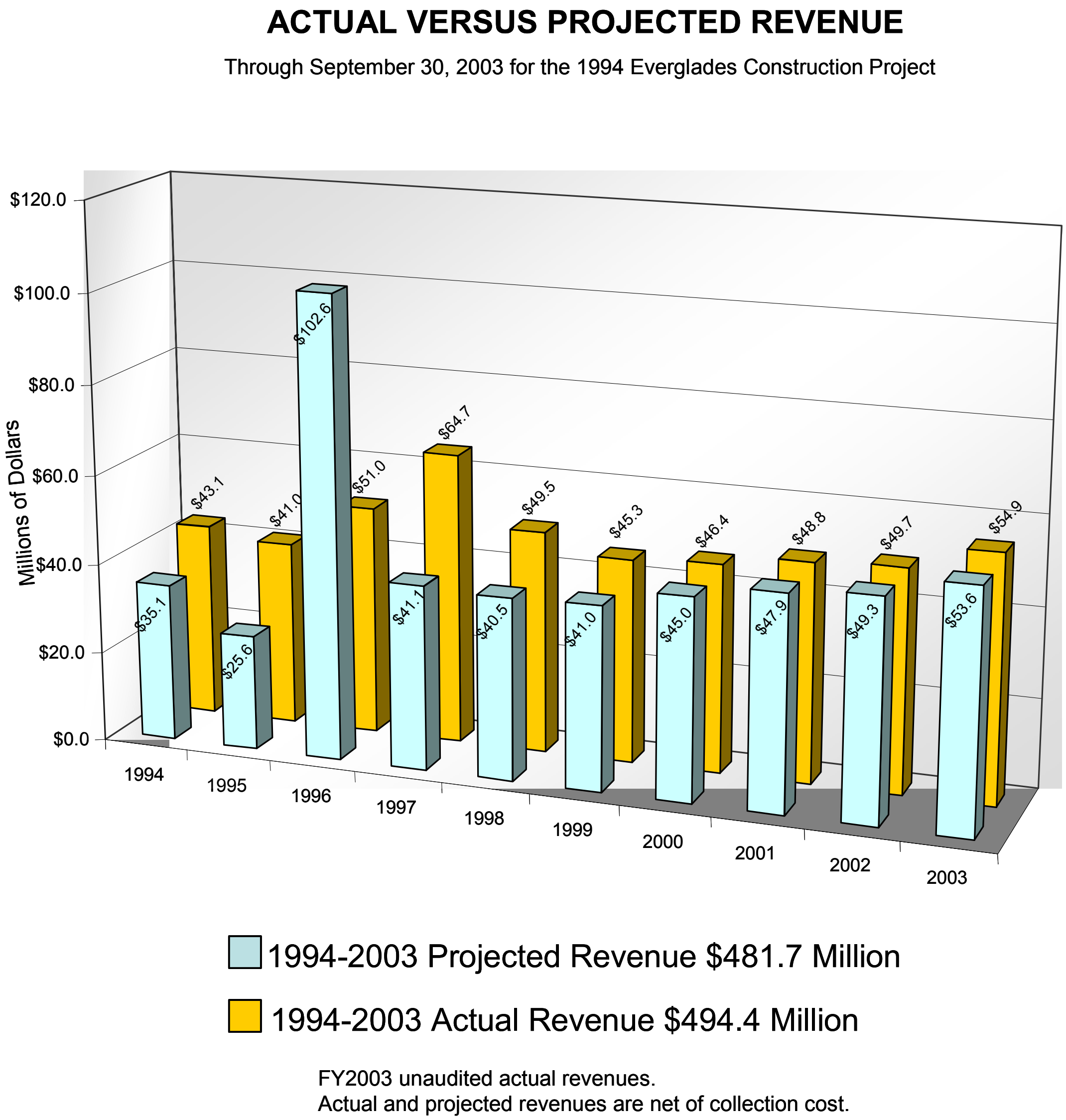


Figure 8D-4. Actual versus projected revenues through September 30, 2003.