October 27, 2017

Eric H. Miller, Policy Chief
Florida House of Representatives
Government Accountability Committee
Local, Federal & Veterans Affairs Subcommittee
209 House Office Building
402 South Monroe Street
Tallahassee, FL 32399-1300

Mr. Miller:

At the Subcommittee’s request, the Office of Economic and Demographic Research (EDR) evaluated the *Hobe Sound Incorporation Feasibility Study* – August 2017, prepared by BJM Consulting, Inc., with regard to the requirements and standards expressed in Chapter 165, F.S. EDR also considered whether the Study’s methodologies, findings, projections, and recommendations accurately reflect the feasibility of municipal incorporation.

*Using the data and information submitted in the Feasibility Study (hereinafter, “the Study”) and other available data; EDR suggests that the proposed municipality of Hobe Sound (hereinafter, “Hobe Sound”) has satisfied each of the six statutory standards of incorporation. While EDR noted improvements from the prior submission, we continue to identify concerns or deficiencies with respect to several of the Study’s 11 required elements, particularly Element #8.*

This response consists of two parts. Part One is EDR’s evaluation with respect to the elements of a feasibility study expressed in Section 165.041(1)(b), F.S. Part Two is EDR’s evaluation with respect to the standards for municipal incorporation expressed in Section 165.061(1), F.S.

**Part One: EDR’s Evaluation of the Feasibility Study**

Pursuant to Section 165.041(1)(b), F.S., a feasibility study, which is prepared to inform the Florida Legislature on the feasibility of a proposed municipal incorporation, shall contain 11 elements. This section addresses each of these elements.

**Element #1**

The location of territory subject to boundary change and a map of the area which identifies the proposed change. (Section 165.041(1)(b)1., F.S.)

Staff Analysis: The Study (p. 1) states that “Hobe Sound is positioned at the central/southern end of environmentally-sensitive Martin County.” The proposed Municipal Charter (Section 3) includes a legal description of the territorial boundaries. The Study includes separate land use and boundary maps (Appendices 1-2). *The review of the proposed municipality’s legal description and maps for both accuracy and legal sufficiency is outside EDR’s purview. However, these documents are included in the Study and proposed charter, and it appears that this element has been satisfied.*
Element #2
The major reasons for proposing the boundary change. (Section 165.041(1)(b)2., F.S.)

Staff Analysis: The Study (p. 2) lists the five primary goals of community leaders in exploring the viability of Hobe Sound’s incorporation.

1. Municipal home rule powers, gained as the result of incorporation, would allow area residents to control the community’s future destiny.
2. Municipal incorporation would allow for preservation of the community’s present high-quality of life.
3. Municipal incorporation would allow residents to take a long-range view of how future impacts and outside forces will affect the community.
4. Municipal incorporation would allow for a greater share of county tax dollars paid by area residents to be returned to the community.
5. Municipal incorporation would allow a community-centered plan to be developed that would meet the future needs of the area’s residents.

An assessment of the validity and reasonableness of the discussed reasons is more appropriate to the arena of policy making and depends on the reviewer’s support or opposition to municipal incorporation.

Element #3
The following characteristics of the area: (a) a list of the current land use designations applied to the subject area in the county comprehensive plan; (b) a list of the current county zoning designations applied to the subject area; (c) a general statement of present land use designations of the area; and (d) a description of development being proposed for the territory, if any, and a statement of when actual development is expected to begin, if known. (Section 165.041(1)(b)3., F.S.)

Staff Analysis: The Study (p.11) provides a very brief discussion of present land use characteristics, and a current land use map is included in Appendix 1. Whether or not this discussion is sufficient is outside EDR’s purview.

Element #4
A list of all public agencies, such as local governments, school districts, and special districts, whose current boundary falls within the boundary of the territory proposed for the change or reorganization. (Section 165.041(1)(b)4., F.S.)

Staff Analysis: The Study (p. 11) provides a list of public agencies and private sector companies that currently provide services within the Hobe Sound area. It appears that this element has been satisfied.

Element #5
A list of current services being provided within the proposed incorporation area, including, but not limited to, water, sewer, solid waste, transportation, public works, law enforcement, fire and rescue, zoning, street lighting, parks and recreation, and library and cultural facilities, and the estimated costs for each current service. (Section 165.041(1)(b)5., F.S.)
Staff Analysis: The Study (p. 11) states that the residents of Hobe Sound currently receive most governmental services (i.e., code enforcement, cultural services, developmental services, emergency medical services, fire protection, library, parks and recreation, rights of way maintenance, and other general government services) from Martin County Government. The Martin County Sheriff’s Department provides law enforcement, and the South Martin Regional Utility provides water and sewer services. The Study (pp. 42-44) includes the estimated costs of local government services (i.e., local government services, fire and rescue, parks and recreation, stormwater, and roads) in its five-year operational plan scenarios. Additionally, other government services are being provided by the various court systems, Martin Soil and Water District, Martin Metropolitan Planning Organization, and Martin County School District. Other services are provided by private sector companies, such as solid waste and disposal services being provided by Waste Management, Inc., through a franchise agreement with the county. It appears that this element has been satisfied.

Element #6
A list of services to be provided within the proposed incorporation area, and the estimated cost of such proposed services. (Section 165.041(1)(b)6., F.S.)

Staff Analysis: As previously mentioned, the Study (pp. 42-44) includes the estimated costs of local government services (i.e., local government services, fire and rescue, parks and recreation, stormwater, and roads) in its five-year operational plan scenarios. The Study (p. 11) states that, after municipal incorporation, “all properties within the area proposed for incorporation will continue to pay the Martin County general fund ad valorem millage to support the continuation of these services within the Town at the present levels of service.” Furthermore, the Study (Appendix 3) includes an August 9, 2017 letter from Martin County Administrator, Taryn Kryzda, which states, in part:

If an area was to incorporate within the County, the County has agreed to continue providing all services to that incorporated area, as long as the incorporated area is willing to levy the appropriate MSTU millage rate, and remit those monies to the County. This would be accomplished through an Interlocal Agreement between the two governing bodies. Another major concern has been funding for the Sheriff, and impacts to a newly incorporated area. The Sheriff is funded by the County through a county-wide millage rate which is assessed to all residents, whether in an incorporated or unincorporated area. Therefore, the Sheriff would continue to provide services to the incorporated area as he had prior to the incorporation.

The Study does provide the estimated costs of local government services (i.e., local government services, fire and rescue, parks and recreation, stormwater, and roads) in its five-year operational plan scenarios. However, the Study does not explain how the estimated costs associated with those services to be provided by the County via interlocal agreement are determined.

Element #7
The names and addresses of three officers or persons submitting the proposal. (Section 165.041(1)(b)7., F.S.)

Staff Analysis: The Study (p. 3) provides the names and addresses of three individuals submitting the incorporation proposal. EDR did not attempt to contact these individuals in order to verify this information.
Element #8
Evidence of fiscal capacity and an organizational plan as it relates to the area seeking incorporation that, at a minimum, includes: (a) existing tax bases, including ad valorem taxable value, utility taxes, sales and use taxes, franchise taxes, license and permit fees, charges for services, fines and forfeitures, and other revenue sources, as appropriate; and (b) a 5-year operational plan that, at a minimum, includes proposed staffing, building acquisition and construction, debt issuance, and budgets. (Section 165.041(1)(b)8., F.S.)

Staff Analysis: The Study includes an incorporation/revenue timeline (p. 16), development of the revenue analysis (pp. 19-30), development of the expenditure analysis (pp. 31-36), the five-year revenue/expense forecast (pp. 37-44), and incorporation’s impact on the property owner (p.45). Proponents are seeking legislative approval of an incorporation bill during the 2018 session, and the proposed municipal referendum is scheduled for August 2018. If the incorporation referendum passes, the town would become a legal entity in December 2018 and the initial municipal election and town council meeting would occur in March 2019.

The five-year revenue/expense forecast is presented as three separate scenarios. The best case scenario assumes the passage of the local bill that includes a waiver of state-shared revenue (SSR) reporting requirements and the adoption of an interlocal agreement with the county government for the collection and receipt of Communications Services Tax (CST) revenues. The middle case scenario assumes local bill passage with the SSR waiver but not the CST interlocal agreement. The worse case scenario assumes local bill passage without both the SSR waiver and the CST interlocal agreement.

The Study discusses six anticipated revenue sources that will be utilized by Hobe Sound in the best case scenario’s Year One (i.e., local FY 2018-19) of municipal operations and thereafter: one fee source (i.e., Franchise Fee on electricity); two tax sources (i.e., Communications Services Tax and Local Business Tax); two intergovernmental revenues (i.e., Local Government Half-cent Sales Tax and Municipal Revenue Sharing) and one miscellaneous revenue (i.e., Interest Earnings/Investment Income). Assuming six months of revenue collections in Year One, the estimated revenues are $2.62 million, which includes a bridge loan of $1.0 million. In Year Two (i.e., 2019-20) of municipal operations and each year thereafter, the Ad Valorem Tax is included as an additional revenue source. Assuming a full year of revenue collections in Year Two, the estimated revenues total $6.26 million. With the exception of Local Business Tax and Investment Income, all other revenues are projected to increase 3% annually.

The Study also discusses anticipated expenditures totaling $1.04 million in the best case scenario’s Year One (i.e., 2018-19), based on six months of municipal operations. These Year One expenditures (p. 36) reflect costs associated with salary and benefits for hired staff, salaries of elected town council members, contract services, operating overhead, audit and insurance expenses, contingency expense, loan payment, and first-year expenses associated with local elections and capital equipment. In Year Two (i.e., 2019-20) of municipal operations and each year thereafter, expenses associated with services contracted with Martin County Government (i.e., fire and rescue, parks and recreation, road, and stormwater) via interlocal agreements are added. In Year Two, the estimated expenditures total $4.56 million. All expenses are projected to increase 3% annually.

EDR has the following comments regarding this element.
1. The Study (pp. 25-26) outlines the expected municipal revenues originating from two state revenue sharing programs. In late September 2017, the Florida Department of Revenue (DOR) provided EDR with FY 2017-18 revenue estimates of $1,655,206 and $342,189 for the Local...
Government Half-cent Sales Tax Program and Municipal Revenue Sharing Program, respectively, based on an estimated population of 15,670 and estimated taxable value of $967,301,590. Assuming the Study’s 3% annual revenue growth rate, the combined total of the two revenue sources would increase to $2,119,036 in FY 2019-20. The Study’s FY 2019-20 State Shared Revenue total of $2,001,584 is $117,452 less. Consequently, the Study’s State Shared Revenue estimate seems reasonable.

2. The Study (p. 18) outlines the expected municipal revenues originating from the Communications Services Tax (CST) and the Franchise Fee. The Study indicates that Martin County currently levies a Franchise Fee on electric service and receives CST revenues from the State, and the county retains these revenues. Furthermore, the Study states that Hobe Sound would share in the CST revenues and collect franchise fee revenues appropriate to the proposed municipal boundaries. The Study provides separate estimates for each revenue source: franchise fee, $1,049,126; and CST, $203,129. The Study states that these estimates are based “on projections developed from using Revenue projections from the FY 2018 Martin County Budget.” There is no explanation of how such estimates were developed; therefore, it is difficult to assess the reasonableness of these estimates without additional explanation.

Using the most recent FY 2017-18 CST estimates for Martin County Government and official 2016 Florida population estimates for unincorporated Martin County, one possible methodology to calculate a CST revenue estimate for Hobe Sound is illustrated below.

\[
\text{FY 2017-18 Martin County CST Estimate (based on the current 1.84% tax rate): $1,802,370} \\
\text{2016 Unincorporated Population of Martin County: 131,784} \\
\text{CST Revenue Per Capita: ( $1,802,370 / 131,784 ) = $13.68} \\
\text{Hobe Sound CST Estimate (i.e., Per Capita CST \* Population): $13.68 \* 15,670 = $214,366}
\]

In reviewing Martin County’s FY 2018 Tentative Budget [see link below], the Board of County Commissioners approved an electric service franchise fee in beginning in the FY 2017 budget cycle for the purpose of funding maintenance of existing infrastructure. In its FY 2018 Tentative Budget, this recently imposed fee is expected to generate $9.7 million countywide.


Applying the same methodology used above, a separate Franchise Fee revenue estimate for Hobe Sound is illustrated below.

\[
\text{FY 2017-18 Martin County Electric Service Franchise Fee Estimate: $9,700,000} \\
\text{2016 Unincorporated Population of Martin County: 131,784} \\
\text{Fee Revenue Per Capita: ( $9,700,000 / 131,784 ) = $73.61} \\
\text{Hobe Sound Fee Estimate (i.e., Per Capita Fee \* Population): $73.61 \* 15,670 = $1,153,469}
\]

Combining EDR’s separate Communications Services Tax and Franchise Fee revenue estimates results in a total of $1,367,835, which is $115,580 more than the Study’s combined total. If anything, the Study’s revenue total may be slightly understated.

3. The Study (pp. 24-25) indicates annual revenues of $25,000 each for Local Business Tax and Investment Income (i.e., Interest Earnings); however, there is no explanation of how such amounts
were derived. Additionally, the five-year budget forecast does not project any annual growth for these two revenue sources.

4. The Study (p. 20) states: “The Town of Hobe Sound will collect a millage of 3.1735 mills yielding a revenue of $2,916,245 for FY 2019.” As discussed, this aggregate millage rate is comprised of the separate Municipal Service Taxing Unit (MSTU) millages levied in the Martin County unincorporated area.

   - Fire Rescue MSTU Millage of 2.4733
   - Parks and Recreation MSTU Millage of 0.1606
   - Stormwater MSTU Millage of 0.2542
   - Roads MSTU Millage of 0.2854

Although not noted in the Study, these separate millage rates match those published in the Martin County FY 2018 Tentative Budget Summary document (see link below).

https://www.martin.fl.us/sites/default/files/meta_page_files/fy18_budget_summary_tentative.pdf

5. The Study (pp. 19-30) provides a discussion of additional revenues potentially available to Hobe Sound but not included for consideration in the five-year operational plan. Most notably, the Study (p. 22) states: “It is projected all existing Martin County user fees would be adopted by Hobe Sound and pay for the services they are presently supporting.” Additionally, the Study (p. 27) states: “This report does not include revenues associated with permits because these fees typically are revenue neutral. Revenues raised from this source would pay for inspections, processing and plan review functions that will initially be provided by Martin County staff through interlocal agreement.” Although it appears that Hobe Sound will be contracting with Martin County for continued services typically paid by such fees, the revenues from these fees are not reflected in the five-year operational plan even though the plan reflects payments to the county for contracted services.

6. The Study (p. 38) states: “The current permanent population is estimated at 15,362 and total population (with seasonal residents) is estimated to approach 20,000. The growth in population is projected to increase at an annual rate of 2% to 16,628 in FY 2022, with a service population of 22,000. This projection is consistent with recent growth patterns in the area.” First, this population estimate of 15,362 differs from other statements in the Study, which state the current population estimate is 15,670 (e.g., pp. 1, 11). Second, the Study does not provide any documentation to substantiate the claim that this projection is consistent with recent area growth patterns. EDR checked recent annual population estimates of unincorporated Martin County and found that, in the five-year period between 2011 and 2016, the county’s unincorporated population increased, on average, 0.6% annually. Therefore, without data to support the claim, Hobe Sound’s assumption of 2% annual population growth appears to be too optimistic.

7. The Study (p. 38) states: “The property tax base is projected to increase an average of 3% per year from FY 2019 through FY 2023.” However, the Study does not provide any documentation to substantiate this assumption. EDR checked recent annual taxable values for both Martin County and Town of Jupiter Island and found that, in the 11-year period between 2005 and 2016 (which includes the period of the Great Recession), the compound annual growth rates (CAGR) of the
jurisdictions’ taxable values were 0.9% and 2.3%, respectively. However, if a shorter, post-Great Recession timeframe (i.e., the four-year period of 2012 to 2016) was used instead, the CAGRs for Martin County and Jupiter Island were 3.7% and 3.9%, respectively. Furthermore, EDR reviewed Martin County taxable values projected in the August 3, 2017 Florida Ad Valorem Estimating Conference (see link below) and found that, in the five-year forecast period between 2018 and 2023, the CAGR of the county’s taxable values is estimated to be 5.0%. Consequently, the Study’s assumption of 3% annual ad valorem revenue growth seems reasonable.

http://edr.state.fl.us/Content/conferences/advalorem/adval_results.pdf

8. With the exception of Local Business Tax and Investment Income revenues, the Study assumes 3% annual growth for the other identified revenue sources. As previously mentioned, the Study does not provide any documentation or further explanation of how the projected 3% growth rate was determined. EDR reviewed Communications Services Tax (CST) annual taxable sales within both Martin County’s unincorporated area and the Town of Jupiter Island and found that, in the 11-year period between 2005 and 2016 (which includes the period of the Great Recession), the CAGR of the areas’ CST taxable sales were 0.9% and 1.9%, respectively. However, if a shorter, post-Great Recession timeframe (i.e., the four-year period of 2012 to 2016) was used instead, the CAGRs for unincorporated Martin County and Jupiter Island were negative: (4.6%) and (1.3%), respectively. Therefore, the Study’s assumption of 3% annual CST revenue growth appears to be too optimistic.

EDR also reviewed the annual Local Government Half-cent Sales Tax (LHC) ordinary distributions and Municipal Revenue Sharing (MRS) distributions to all Martin County municipalities (i.e., Jupiter Island, Ocean Breeze, Sewall’s Point, and Stuart) and found that, in the 10-year period between 2006 and 2016 (which includes the period of the Great Recession), the CAGR of municipal LHC and MRS distributions were (1.1%) and 0.0%, respectively. If a shorter, post-Great Recession timeframe (i.e., the four-year period of 2012 to 2016) was used instead, the CAGRs for LHC and MRS distributions were 5.6% and 1.1%, respectively. Therefore, the Study’s assumption of 3% annual revenue-sharing growth, particularly MRS distributions, appears to be too optimistic.

Furthermore, given that Martin County’s Franchise Fee for electric service was just enacted in 2016 and without a municipal franchise agreement to review, it is not possible to determine how Franchise Fee revenues to Hobe Sound might change over time.

9. The Study (p. 36) states: “This projection shows the cost of operating the new local government is covered by the redirection of existing State Shared Revenues, Franchise Fees and Communication Services Tax. The inclusion of the optional Bridge Loan does two things: it provides for additional reserves in the initial years of incorporation, and allows the Town to consider moving forward with incorporation if the requested waiver to reporting for State Shared revenues is not waived in the local Bill. The Bridge Loan contemplates a 3% APR and a five year payback schedule.” Contrary to the initial Study submitted in October 2016, this revised Study includes loan proceeds revenue and loan repayment expenses in the five-year operational plan.

10. The Study (pp. 42-44) provides Hobe Sound’s estimated expenditures for the partial first fiscal year (i.e., FY 2018-19) and the remaining four full fiscal years (i.e., FY 2019-20 to FY 2022-23) of municipal operations under the best case, middle case, and worse case scenarios previously mentioned. The expense amounts are the same in all three scenarios. Contrary to the initial Study submitted in October 2016, this revised Study includes a discussion of how the Hobe Sound Local
Government expenses were calculated and how Hobe Sound’s payments pursuant to an interlocal agreement with the county for services (i.e., fire and rescue, parks and recreation, stormwater, and roads) would be determined. Furthermore, the Study includes an August 9, 2017 letter from Taryn Kryzda, Martin County Administrator (see Appendix 3), which addresses two major concerns raised by the initial October 2016 Study. The letter states that the County has agreed to provide all services to the incorporated area as long as the incorporated area levies the appropriate MSTU millage rate and remit those monies to the County. Additionally, since the Sheriff is funded by the County through the levy of a county-wide millage assessed on all residents, the Sheriff would provide services to the incorporated area as had been done prior to incorporation.

11. The Study (pp. 37-44) assumes 3% annual growth for each of Hobe Sound expenditures and most revenues. However, there is no documentation to substantiate the validity of these assumptions. The compound annual growth rates for statewide municipal government revenues and expenditures between FY 2003-04 and 2014-15 were 2.3% and 2.8%, respectively, and might suggest that the Study’s assumption is reasonable. However, annual rates of revenue and expenditure growth can vary significantly from one municipality to another due to a number of factors. Therefore, it is instructive to compare Hobe Sound’s expected revenues and expenditures to the most recent revenues and expenditures of an identified cohort group of similarly-populated municipalities or newly incorporated municipalities (see discussion and tables in Additional Supplemental Material section to follow).

12. In the initial October 2016 Study, the first full year (i.e., FY 2018-19) expenditures totaled $6.32 million. In this revised August 2017 Study, the first full year (i.e., FY 2019-20) expenditures total $4.56 million, which is a 28% decrease. The first full year Hobe Sound Local Government expenditure totals are identical in each Study. However, each of the revised Study’s interlocal agreement expenditures with the County (i.e., Fire, Parks and Rec, Stormwater, and Roads) are significantly less than in the initial October 2016 Study. The revised Study provides no explanation for these significant expenditure decreases between October 2016 and August 2017.

Element #9
Data and analysis to support the conclusions that incorporation is necessary and financially feasible, including population projections and population density calculations, and an explanation concerning methodologies used for such analysis. (Section 165.041(1)(b)9., F.S.)

Staff Analysis: The Study (pp. 4-10) describes the results of a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis prepared by BJM Consulting, Inc. **EDR assumes that the Study’s SWOT analysis reflects the views of incorporation proponents residing within the Hobe Sound community and the collective conclusion that incorporation is needed and necessary. However, in light of our responses to Element #8 above, it is not clear that the question of financial feasibility has been adequately answered.**

Element #10
Evaluation of the alternatives available to the area to address its policy concerns. (Section 165.041(1)(b)10., F.S.)

Staff Analysis: The Study does not include a formal discussion of possible alternatives to municipal incorporation. However, the previously mentioned SWOT analysis addresses, in part, alternatives to address policy concerns. **EDR notes that an assessment of the validity and reasonableness of any**
 alternatives to municipal incorporation are more appropriate to the arena of policy making and depends on the reviewer’s support or opposition.

Element #11
Evidence that the proposed municipality meets the requirements for incorporation pursuant to s. 165.061. (Section 165.041(1)(b)11., F.S.)

Staff Analysis: Section 165.061(1), F.S., enumerates six standards that must be met in the area proposed for incorporation. EDR’s analysis of whether or not Hobe Sound has satisfied each of these six standards is addressed below in Part Two of this letter.

Part Two: EDR’s Evaluation of the Study with Respect to the Standards of Incorporation
Pursuant to Section 165.061(1), F.S., six standards must be met in the area proposed for incorporation. This section addresses each of these six standards.

Standard #1
It must be compact and contiguous and amenable to separate municipal government. (Section 165.061(1)(a), F.S.)

Staff Analysis: This section of Florida law does not provide statutory definitions of compact or contiguous. However, the Merriam-Webster dictionary defines compact, in part, to mean occupying a small volume by reason of efficient use of space. Furthermore, contiguous is defined, in part, to mean touching or connected throughout in an unbroken sequence.

The Study (see Appendices 1 & 2) includes Hobe Sound land use and boundary maps. For the purpose of analysis, EDR created a map that approximates the proposed boundaries of Hobe Sound based on the Study’s map and the Florida Department of Revenue’s property tax records for Martin County. EDR’s map representation of Hobe Sound reflects a land area of 5,501 acres, which is less than the 6,061 acres stated in the Study (p. 11). This map was utilized in EDR’s analysis of this Standard as well as Standards #2-4 to follow.

In the context of state legislative district boundaries, quantitative geometric measures of compactness have been used by the courts to assess compactness. In fact, there is commonly used redistricting software that includes tools designed to measure compactness, and the Florida House of Representatives has used two such measurements. First, the House has utilized the Reock method (i.e., circle-dispersion measurement), which measures the ratio between the area of the district and the area of the smallest circle that can fit around the district. Second, the House has used the Area/Convex Hull method, which measures the ratio between the area of the district and the area of the smallest convex polygon that can enclose the district. The range of both measures is from 0 to 1, with a score of 1 representing the highest level of compactness.

The following maps reflect the application of these two measures of compactness to Hobe Sound, which illustrate: 1) the smallest circle that can fit around the proposed municipal boundaries, in order to calculate the Reock score; and 2) the smallest convex polygon that can fit around the proposed municipal boundaries, in order to calculate the Area/Convex Hull score. For Hobe Sound’s proposed boundary, the Reock score is 0.35, while the Area/Convex Hull score is 0.71. As previously mentioned, the closer the score is to 1, the higher the level of compactness.
When considering the issue of compactness, it may be useful to review the purposes of municipal formation. Section 165.021(1), F.S., states that municipal formation should “allow orderly patterns of urban growth and land use.” In the context of municipal incorporation, compactness increases the likelihood of the efficient delivery of municipal services. In reviewing Hobe Sound’s boundary map included in the Study (Appendix 2), the area does not have any enclaves and is bounded on the east by the Intracoastal Waterway. EDR’s review suggests that Hobe Sound’s boundary appears to be contiguous and relatively compact.

Standard #2
It must have a total population, as determined in the latest official state census, special census, or estimate of population, in the area proposed to be incorporated of at least 1,500 persons in counties with a population of 75,000 or less, and of at least 5,000 persons in counties with a population of more than 75,000. (Section 165.061(1)(b), F.S.)

Staff Analysis: The most recent official population estimate (i.e., April 1, 2016) for Martin County is 150,870. Consequently, any new incorporation within the county would be required to have a minimum population of 5,000. The Study (pp. 1, 11) estimates the proposed municipal population at 15,670. EDR’s population estimates of the proposed incorporated area were based on 2010 Decennial Census and 2011-2015 American Community Survey (ACS) data. These population estimates encompassed areas that did not perfectly align with the proposed area of incorporation and ranged from 11,655 to 16,643 persons, depending on the particular geographies and time periods used. EDR could not confirm the Study’s population estimate of 15,670, and the Study did not explain its methodology. However, Hobe Sound appears to have a population well above the minimum population of 5,000 in a county with a total population of more than 75,000. Therefore, the proposed municipality satisfies the minimum total population standard.
Standard #3
It must have an average population density of at least 1.5 persons per acre or have extraordinary conditions requiring the establishment of a municipal corporation with less existing density. (Section 165.061(1)(c), F.S.)

Staff Analysis: The Study (p. 11) states: “The area considered for the proposed incorporation is approximately 9.47 +/- square miles, or 6,061.46 +/- acres (See Map Appendix 2). The estimated permanent population for this area at 15,670, this equates to a population density of 2.59 persons per acre which exceeds the minimum density requirement of 1.5 persons per acre required by the statutes for incorporation.” Based on a proposed incorporation area of 9.47 square miles, the number of acres equals 6,060.8 (i.e., 1 square mile = 640 acres; 9.47 * 640 = 6,060.8). Assuming the Study’s population estimate of 15,670, the population density of the proposed incorporation area would equal 2.585 persons per acre (i.e., 15,670 / 6,060.8). As previously mentioned, EDR was not able to replicate the proposed area exactly for the population and land area standards. However, EDR’s analysis also resulted in a calculation of population density in excess of 1.5 persons per acre. Based on these two analyses, Hobe Sound has a current population density above the minimum requirement of 1.5 persons per acre. Therefore, the proposed municipality satisfies the minimum population density standard.

Standard #4
It must have a minimum distance of any part of the area proposed for incorporation from the boundaries of an existing municipality within the county of at least 2 miles or have an extraordinary natural boundary which requires separate municipal government. (Section 165.061(1)(d), F.S.)

Staff Analysis: The Study (p. 12) states: “There is an existing local municipality within the 2 mile buffer required by State Statutes. The Town of Jupiter Island is just to the East of the area proposed for incorporation, but the two areas are separated by the Intracoastal Waterway. This meets the exception language in the statute as being separation by a natural geographic boundary.” EDR’s review suggests that the existing municipality nearest to Hobe Sound (i.e., the Town of Jupiter Island in Martin County) is located within two miles. However, as stated in the Study and confirmed by EDR, Hobe Sound and Jupiter Island are separated by a natural geographic boundary, the Indian River (i.e., Intracoastal Waterway). From Hobe Sound, Jupiter Island can be accessed by motor vehicle via a single road/bridge access, S.E. Bridge Road. Furthermore, the straight-line distance between Hobe Sound and the next closest Martin County municipality of Stuart to the north is greater than two miles. Assuming the Intracoastal Waterway satisfies the statutory criterion of “an extraordinary natural boundary which requires separate municipal government,” the proposed municipality satisfies the minimum distance standard.

Standard #5
It must have a proposed municipal charter which: (1) prescribes the form of government and clearly defines the responsibility for legislative and executive functions, and (2) does not prohibit the legislative body of the municipality from exercising its powers to levy any tax authorized by the Constitution or general law. (Section 165.061(1)(e), F.S.)

Staff Analysis: The proposed municipal charter was included with the Study materials received by EDR. The review of the proposed municipal charter for legal sufficiency is outside EDR’s purview, and the determination that this standard has been properly satisfied is better suited to the legal staffs of the Department of Economic Opportunity, Department of Revenue, and the House Local, Federal and Veterans Affairs Subcommittee.
Standard #6
In accordance with s. 10, Art. I of the State Constitution, the plan for incorporation must honor existing solid-waste contracts in the affected geographic area subject to incorporation. However, the plan for incorporation may provide for existing contracts for solid-waste-collection services to be honored only for 5 years or the remainder of the contract term, whichever is less, and may require that a copy of the pertinent portion of the contract or other written evidence of the duration of the contract, excluding any automatic renewals or evergreen provisions, be provided to the municipality within a reasonable time after a written request to do so. (Section 165.061(1)(f), F.S.)

Staff Analysis: The Study (p. 11) states: “Solid waste hauling and disposal is provided by Waste Management through a franchise agreement with Martin County.” Additionally, the Study (p. 13) states: “The existing Franchise agreements with FPL and Waste Management would continue to be in place until the Town is legally able to establish new agreements.” Furthermore, the proposed municipal charter [i.e., Section 11(11)] states, in part: “… existing solid-waste contracts shall be honored as required by s. 165.061(1)(f), Florida Statutes, and s. 10, Article I of the State Constitution.” Since the proposed municipal charter affirmatively states that the municipality will honor existing solid-waste contracts in the affected geographic area as required by law, this standard has been satisfied.

Conclusion
EDR has identified possible deficiencies with several of the required elements of the Study, particularly Element #8 relating to evidence of fiscal capacity. EDR has concerns that positive budget outcomes are difficult to assess due to the lack of documentation as to how revenues and expenses were determined and assumptions about future growth. EDR would have liked to have seen more explanation of how the costs of services were calculated and what factors were considered in making assumptions about future revenue, expenditure, and population growth rates.

EDR suggests that Hobe Sound satisfies each of the six standards for municipal incorporation. In the event that state agencies also reviewing Hobe Sound’s proposal conclude by some finding that one or more of the six standards for municipal incorporation have not been satisfied, the Florida Legislature could exercise its option to waive the standard(s) in order for this incorporation proposal to proceed forward.

Additional Supplementary Material
In addition to its review of the Feasibility Study, EDR prepared separate tables that compare Hobe Sound’s estimated best case scenario FY 2019-20 revenues and expenditures (i.e., first full fiscal year of municipal operations) to those of ten similarly-populated Florida municipalities and to recently incorporated Florida municipalities. The comparison cities’ fiscal data are for the 2014-15 fiscal year and reflect the latest available data submitted by these municipal governments via their Annual Financial Reports to the Department of Financial Services.

Although the reported revenues and expenditures of these municipalities reflect different fiscal years, this comparison may be instructive in illustrating how Hobe Sound’s first full fiscal year revenues and expenditures compare to existing cities having similar populations or to cities that were recently incorporated. On a per capita basis, Hobe Sound’s total revenues and expenditures are significantly lower than those of all other comparison cities having similar populations. Furthermore, Hobe Sound’s total revenues and expenditures on a per capita basis are less than all municipal incorporations since 2000, with the exception of Estero. These findings might be expected given Hobe Sound’s limited scope.
of operations in the initial years. How long Hobe Sound’s per capita revenues and expenditures remain that low will ultimately depend on the actions taken by future governing bodies.

Please let us know if you have any questions regarding this review.

Sincerely,

Amy J. Baker
Coordinator

cc: Tom Yeatman, Staff Director, Senate Committee on Community Affairs

Attachments
## Hobe Sound Incorporation Feasibility Study

### Comparison of Hobe Sound's Reported Revenues and Expenditures via Best Case Scenario to Those of Other Similarly-Populated Municipalities

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Marco Island</th>
<th>Stuart</th>
<th>Lake Mary</th>
<th>Tavares</th>
<th>Vero Beach</th>
<th>Hobe Sound (Proposed)</th>
<th>Callaway</th>
<th>New Port Richey</th>
<th>Auburndale</th>
<th>Lake Wales</th>
<th>Longwood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respective County</td>
<td>Collier</td>
<td>Martin</td>
<td>Seminole</td>
<td>Lake</td>
<td>Indian River</td>
<td>Martin</td>
<td>Bay</td>
<td>Pasco</td>
<td>Polk</td>
<td>Polk</td>
<td>Seminole</td>
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</tbody>
</table>

### Total Revenues by Category

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
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<td></td>
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<tr>
<td>Total Revenues</td>
<td></td>
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### Per Capita Revenues by Category

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Total Revenues</td>
<td></td>
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</table>

### Total Expenditures by Category

<table>
<thead>
<tr>
<th>Category</th>
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<th>2015</th>
<th>2016</th>
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</thead>
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<td></td>
</tr>
<tr>
<td>Physical Environment</td>
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<tr>
<td>Transportation</td>
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<tr>
<td>Economic Environment</td>
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<tr>
<td>Human Services</td>
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<td></td>
<td></td>
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<tr>
<td>Culture / Recreation</td>
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<td></td>
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<tr>
<td>Other Uses and Non-Operating</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Total - All Expenditures</td>
<td></td>
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<td></td>
</tr>
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</table>

### Per Capita Expenditures by Category

<table>
<thead>
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<th>Category</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<tbody>
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<td>General Government Services</td>
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<td>Other Uses and Non-Operating</td>
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<td>Total - All Expenditures</td>
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</tr>
</tbody>
</table>

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October 2017
# Hobe Sound Incorporation Feasibility Study

Comparison of Hobe Sound's Reported Revenues and Expenditures via Best Case Scenario to Those of Other Similarly-Populated Municipalities

**Notes:**

1) The revenues and expenditures of the comparison municipalities are obtained from Annual Financial Reports (AFR) for the local fiscal year ended 2015 (most recent fiscal year data currently available) submitted to the Florida Department of Financial Services. The calculations of per capita revenues and expenditures are made using each respective municipality's 2015 population estimate since it corresponds to the AFR fiscal year data.

2) This analysis uses Hobe Sound's proposed first full fiscal year (i.e., LFY 2019-20) revenues and expenditures, which are summarized in the Feasibility Study (p. 42 - Best Case Scenario). The calculations of per capita revenues and expenditures are made using an estimated 2020 population of 16,629, which is the Study's 2017 population estimate of 15,670 increased by 2% annually. This 2% annual growth in Hobe Sound's population is the increase assumed in the Study (p. 38).

3) Hobe Sound’s Taxes revenue amount of $3,150,467 is the sum total of the Ad Valorem Tax, $2,916,245; Local Business Tax, $25,000, and a Local Communication Services Tax allocation, $209,222. The Permits, Fees, and Special Assessments amount reflects a Franchise Fee allocation, $1,080,600. The Intergovernmental Revenues amount of $2,001,584 is the sum total of the following state revenue sharing figures: Local Government Half-Cent Sales Tax Program, $1,649,370; and Municipal Revenue Sharing, $352,214. The Miscellaneous Revenues figure reflects Interest Earnings, $25,000. With the exception of Local Business Tax and Interest Earnings, these figures reflect the 2018-19 amounts increased by the 3% growth assumption reflected in the Study (p. 39).

4) Hobe Sound’s expenditures are the sum total of the following category totals: General Government (i.e., the sum of Hobe Sound Local Government and Loan Payment), $1,642,530; Public Safety (i.e., Fire Interlocal with County), $2,272,806; Physical Environment (i.e., Stormwater Interlocal with County), $233,594; Transportation (i.e., Roads Interlocal with County), $262,264; and Culture / Recreation (i.e., Parks and Rec Interlocal with County), $147,581. These figures are listed in the Study (p. 42).
### 2018 Municipal Incorporation Proposals to Date: Hobe Sound

#### Comparison of Proposed Incorporation's Revenues and Expenditures via Best Case Scenario to Those of Municipalities Incorporated Since 2000

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Miami Lakes</th>
<th>Southwest Ranches</th>
<th>Palmetto Bay</th>
<th>Doral</th>
<th>Miami Gardens</th>
<th>Cutler Bay</th>
<th>West Park</th>
<th>Grant-Valkaria</th>
<th>Loxahatchee Groves</th>
<th>Estero</th>
<th>Westlake</th>
<th>Hobe Sound (Proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Respective County</td>
<td>Miami-Dade</td>
<td>Broward</td>
<td>Miami-Dade</td>
<td>Miami-Dade</td>
<td>Miami-Dade</td>
<td>Miami-Dade</td>
<td>Broward</td>
<td>Brevard</td>
<td>Palm Beach</td>
<td>Lee</td>
<td>Palm Beach</td>
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<tr>
<td>Total Revenues by Category</td>
<td>$11,106,225</td>
<td>$6,140,701</td>
<td>$11,064,510</td>
<td>$37,655,247</td>
<td>$45,008,371</td>
<td>$9,451,409</td>
<td>$4,831,665</td>
<td>$499,603</td>
<td>$959,243</td>
<td>$6,242</td>
<td>$3,150,467</td>
<td></td>
</tr>
<tr>
<td>Per Capita Revenues by Category</td>
<td>$367.65</td>
<td>$831.06</td>
<td>$464.06</td>
<td>$676.52</td>
<td>$409.35</td>
<td>$214.27</td>
<td>$333.24</td>
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<td>$299.48</td>
<td>$0.21</td>
<td>$189.46</td>
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<tr>
<td>Total Expenditures by Category</td>
<td>$4,751,692</td>
<td>$2,943,318</td>
<td>$4,341,664</td>
<td>$14,045,936</td>
<td>$37,631,126</td>
<td>$26,922,372</td>
<td>$2,206,348</td>
<td>$394,805</td>
<td>$1,424,052</td>
<td>$573,398</td>
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<tr>
<td>Per Capita Expenditures by Category</td>
<td>$157.29</td>
<td>$398.34</td>
<td>$182.09</td>
<td>$252.35</td>
<td>$342.25</td>
<td>$610.36</td>
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<td>$99.98</td>
<td>$444.60</td>
<td>$19.04</td>
<td>$98.78</td>
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</table>

#### Table Data

<table>
<thead>
<tr>
<th>Percentage Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 Population Estimate</td>
</tr>
<tr>
<td>55.8% increase</td>
</tr>
<tr>
<td>2014 Population Estimate</td>
</tr>
<tr>
<td>3.7% increase</td>
</tr>
</tbody>
</table>

#### Sources
- Data from the Office of Economic and Demographic Research.
- Data as of October 2017.
2018 Municipal Incorporation Proposals to Date: Hobe Sound

Comparison of Proposed Incorporation's Revenues and Expenditures via Best Case Scenario to Those of Municipalities Incorporated Since 2000

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