Community Development District (CDD) Proliferation, Governance, and Financial Condition: A Review and Qualitative Study of HOA Stakeholders

Prepared for the Foundation for Community Association Research (FCAR) through the Byron Hanke Fellowship

July 10, 2021

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Executive Summary

Background. Community development districts (CDDs) earn minimal attention despite 1) extensive taxation powers, 2) proliferation, 3) perpetual existence, and 4) financial emergency (FE) condition history in Florida (Ayers, et al, 2014). *Taxation Powers.* A CDD is one type of special district entity with local government authority to borrow money, issue tax-exempt bonds, and leverage taxes/assessments on property to finance residential or commercial development of land and maintenance of common facilities. *Proliferation*. State legislation approving and subsequently contributing to the proliferation of CDDs in Florida has resulted in a growth trend where CDDs outnumber city and county governments in Florida (763 active CDDs compared to 67 counties and 412 city or general- purpose governments). *Perpetual Existence.* State of Florida laws on CDDs allow the special districts to use public sector financing for private development but requires dissolution when fulfilled and prohibits duplication of local services; only 124 CDDs were found to have dissolved since 1990, including 19 that had been flagged for meeting a financial emergency condition. *Financial emergencies (FE).* In concert with proliferation since 1982, there have been 232 CDDs to meet a state condition of FE since 2000, which entails an inability to comply with self-imposed financial commitments.

The *purpose* of this research on CDDs and community associations or HOAs is to investigate Florida's experience with and homeowners' perceptions of CDDs with an FE history. This research explores whether CDD distress has spilled over onto associations and how homeowners shoulder the burden of triple-taxation in the context of governmental overlap, duplication of services, and efficiency or effectiveness issues that are inherent problems with special district that share boundaries with city and county governments. *Research Methods.* State of Florida data provided descriptive statistics and four semi-structured interviews provided qualitative data that was analyzed using MAXQDA software on the perceptions of HOA board members on their respective CDD, which were all flagged for FE conditions in 2019 and prior years.

Results. Unexpectedly, two of the HOA representatives interviewed also served on their CDD board. The qualitative analyses of all the interview transcripts resulted in three themes: governance structure, power and opportunity that stems from CDDs in Florida, and lack of resident awareness of FE status. These themes surfaced in the discussion of CDD distress/spillover, entity overlap, and fiscal impact on HOA residents. *CDD distress and spillover*. According to the HOA representatives, homeowners are generally unaware of the financial emergency history of their CDDs due to a lack of interest or inability to receive detailed or digestible communication from the CDD. Only one participant noted his CDD's FE problems in detail, and all the participants observed CDD-HOA communication issues. All participants acknowledged, had it not been for the CDD, the property investment would not have been made possible; however, continued benefits of the CDD were mixed. The financial condition of the CDDs, all of which had a 2019 flag for FE, did not yet appear to have spilled over onto the HOAs represented in the study. *Entity overlap (CDDs, city/county governments, and HOAs).* The responding participants noted overlap to exist or not anymore; they did not see it as a major problem on efficiency and effectiveness in community management but commented on conflict of interest, delayed maintenance, and expenditures that were unnecessary or benefited those outside the CDD. The participants were mixed on which entity was the preferred taxing authority to provide local services. *Fiscal Impact*

of CDDs on homeowners/HOAs. Despite what can be considered a triple tax on property, the participants echoed the economic impact was an "accepted burden" at times because homeowners see better infrastructure in their community, but they were mixed as to whether the initial benefit of the CDD's creation has enduring benefits beyond the original financing and development of the community. More importantly, the crux of many of the community benefit issues related to the research questions—that were discovered in the literature and revealed in the interviews—were also found to be dependent upon the themes of governance structure and perennial power of the CDD's developer, in regard to democracy or control of the board. Unequitable benefits and the duration of developer power were noted by all the participants. The essence of this sentiment shared by all was captured by one HOA representative, who wrote: "The system of CDD is heavily biased to ensure benefit to the CDD and taxing systems of the County—just as federal and state tax exempt bond programs ensure benefit to the initial developer the programs and process which follow in no way are beneficial to individual property owners." In addition to the proliferation, dissolution, and FE statistics mentioned above, analysis of state data showed 99% of Florida CDDs are comprised of elected boards. This descriptive statistical finding, which was inconsistent with the literature review and other qualitative findings, was also found to be unreliable according to personal communication with the state curator of the data.

Conclusion. Based on the interviewees conducted, CDDs are neither good nor bad; they are simply a development and financing tool that reflect the intentions of the policy makers (e.g., state legislators and local elected officials) authorizing them as well as the users (e.g., developers, bond investors, and property owners) that exercise them. CDDs provide a user-cost/benefit system. The CDD tool has proliferated because it accommodates population growth and demand for new infrastructure without taxing residents not living in a CDD boundary. There is no cost to city/county governments who reap the indirect benefits of higher property values without directly having to invest resources or impose higher/new taxes themselves. The economic burden of CDDs is squarely placed on residents within the special district boundaries. CDD-HOA residents are presumed to have informed consent of the taxation and governance structure to which they are bound; however, this study concluded residents are largely unaware of the CDD governance powers and financial condition. The representative framework of CDD boards, comprised of individuals who set tax policies, and can either be elected by residents or appointed by developers, is an issue noted by the study participants, characterized as "shadow government" and "undemocratic" in the literature review, and unverifiable by unreliable state data derived from CDD registered agents. Future studies and policy recommendations orbit three issues. One, a survey of all CDD boards, as to whether they are elected or appointed, was one method recommended by the state to better gauge the democratic and governance framework actually employed by CDDs. There are more than 48,500 community associations in Florida (FCAR, 2019) but a statewide database that connects CDDs with HOAs does not exist. Improved policy and understanding of the costs/benefits of CDDs from a community association perspective could build from such a database. Two, the proliferation of CDDs and lack of dissolution will have unknown consequences. More research is necessary in the years ahead as the cohort of CDDs created in the early 2000s will have dissolution decisions after 20 to 30-year bonds are fully paid. California and Texas were the only other states found to have CDDs (Chapin and Thomas, 2005). Florida would be wise to turn to California for a dissolution policy model, where the state is reported to have had made strides in dissolving special districts that have met intended purposes through 58 local commissions that review district renewals (Boon, et al. 2017). Three, a quantitative analysis could better determine the financial indicators and predictors of CDD distress than this qualitative attempt. Appropriate outcome measures for a study could include unassigned fund balance or net assets and predictor variables can include a combination of the Florida General Auditor's established indicators as well as variables identified in this study (e.g., elected vs. appointed board, number of FE conditions flagged, long-term bond debt, percentage of CDD that is "built out", amount of overlap with other governments). Overall, the Florida CDD experiment is ongoing and only time will tell the outcome (Scutelnicu, 2010).

Acknowledgements and Funding:

- Foundation for Community Association Research (FCAR) through the Byron Hanke. Fellowship. This research was made possible by funding and guidance from FCAR.
- Ratna Okhai (proof reading, data coding and analysis of results), PhD Student and Graduate Research Assistant, University of Central Florida.
- David Mitchell (Research Advisor), Assistant Professor, University of Central Florida.
- Kathleen O. Berkey (legal and land planning queries), AICP, Becker & Poliakoff.
- Various State of Florida Agencies provided data and answered state policy questions.
- CDDs, Homeowners Associations, and Participants.

Key Terms

Community development district (CDD): "A local unit of special-purpose government which is created . . . for the purpose of the delivery of urban community development services; and the formation, powers, governing body, operation, duration, accountability, requirements for disclosure, and termination of which are as required by general law" (§190.003, Fla Stat., 1980).

Homeowner associations or HOAs, residential owners association or ROAs, and community associations are all used interchangeably, but HOA will be used to reference all types.

Government and governance are terms differentiated by Bevir, (2012): "Whereas government refers to political institutions, governance refers to processes of rule wherever they occur" (p.3). Governance can include governments but goes beyond any one public sector entity as laws, activities and structures are employed by networks among sectors—public, private, non-profit—in governing (Bevir, 2012). Governance will involve the discussion of CDD democracy or boards.

Special district: "Means a unit of local government created for a special purpose, as opposed to a general purpose . . . The term does not include a school district . . . [n]or is [it] part of a municipality" (§189.012, Fla. Stat., 1980).

Section One: Introduction

A Community development district (CDD) is a special district government with the power to borrow money, issue tax-exempt bonds, and leverage taxes/assessments on property to finance residential or commercial development of land and maintenance of common facilities. CDD taxing powers are authorized by the Community Development District Act of 1980, found in in Florida Statutes, Chapter 190. A CDD is one of 81 types of special district government (Florida Department of Economic Opportunity, 2021), and they differ from city and county governments (general-purpose governments) which are most often the authorities that authorize their creation. Once created, CDDs and other special district governments are treated as municipalities (Uniform Special District Accountability Act, 1980) and operate mostly independently from a city or county.

CDD special district growth in Florida is phenomenon; most recent data shows the number of active CDDs (763) now exceed city (412) and county (67) governments (Florida Department of Economic Opportunity, 2021; FAC, 2020; FLC 2019). A prominent reason for the growth of the CDD governance framework and financing model is it provides general-purpose local governments an alternative when facing fiscal constraints and infrastructure demands by a growing population (Chapin and Thomas, 2005). To fulfill both aims, cities and counties have turned to a CDD model, where general-purpose local governments can choose to not raise taxes on residents themselves but create separate agencies that "surpass budgetary and political constraints" that raise or leverage taxes alternatively (Ayers, et al, 2014, p.7). As a result, Florida homeowners can be triple-taxed (or assessed fees) on a single property by overlapping general-purpose (city and county) and special-purpose (CDDs) taxing authorities (Chapin and Thomas, 2005). Along with overlap, the financial condition and perpetual existence of many CDDs may also have an impact on homeowners. Florida statute 190.002 prohibits CDDs to outlive their usefulness and duplicate local general-purpose government services. Perpetual existence and outliving one's usefulness can be operationalized as a CDD that continues to collect taxes/fees even though it is “built out” and/or finished paying its original tax-exempt bond. As of 2012, it was estimated that 53 Florida CDDs were eligible for conversion to the general-purpose city or county government in which they are located (Eger and Vonasek, 2012). The number of CDDs eligible for dissolution/conversion is likely higher, now that CDDs formed in the 1990s and 2000s have or will soon fully repay long-term bond obligations that typically last 20-30 years (Scutelnicu, 2010), an indication that the special purpose district has fulfilled its temporary rationale for existence. Data requested from the Florida Governor Chief Inspector General Office (2020) for this research show that 223 CDDs[1] have been flagged for a condition of financial emergency since 2000, including 11 that have been declared in a state of financial emergency, requiring state oversight. CDD financial history, trends, and issues in Florida will be examined to discuss appropriate indicators that can be referenced in the unfolding COVID recession. Consequently, CDDs tend to resemble elements described of shadow governments.

The characteristics of “shadow governments”, according to Humphress (2018, p.5), include an ability to be shielded from politics (Koppell and Auer, 2012), obscure responsibility (Cook, 2016), and accountability vacuums in respect to private sector involvement in law-making (Brown, 2013). Special districts take on shadow characteristics (Eger, 2006) in that that they are invisible and immune to dissolution (Frederickson and O’Leary, 2014), yet “multiplying” in a hidden environment that lacks public communication and awareness (Wickersham and Yehl, 2017, p.13). “Moreover, differentiating special purpose entities clarifies their role to third parties such as rating agencies, provides disclosure to the public of the goals of the entity, and discloses the autonomy

[1] Of the 233 CDDs with a history of FE conditions, 19 have been dissolved.

of the entity, which removes the “shadow” from this form of state financial management” (Eger, 2002, p.28).

1.1. Statement of problem. Special districts, labelled as “shadow governments” by concerned scholars (Axelrod, 1992, Eger, 2006, Scutelnicu, 2014), have a governance role and impact on taxpayers that has been marginalized in public discourse (Wickersham and Yehl, 2017). This research sheds light on one type of special-purpose local government—community development districts or CDDs—that also have the powers to tax property, levy special assessments on property, charge user fees, borrow money, and issue tax-exempt bond debt (Ayers, et al 2014). The research will investigate Florida’s general experience with CDDs and specifically how homeowners in homeowner associations (HOAs) have experienced and currently perceive CDDs, as of the start of the COVID-19 recession.

1.2. Significance. The research is of significance because special districts are understudied (Foster, 1997; Savage, 2020), especially in comparison to city and county governments (Goodman and Leland, 2019), and CDDs in particular receive little attention despite their 1) extensive governing/taxation powers, 2) proliferation, 3) perpetual existence, and 4) financial emergency (FE) condition history in Florida (Ayers, et al, 2014). Further, the scope of scholarly attention on CDDs is limited to special district proliferation, as few states have CDDs and the qualitative perspective shared is that of public officials of CDDs and adjacent local governments. Thus, this research targets a critical need in studying the primary stakeholders of CDDs—the residents and taxpayers.

1.3. Central research question. What is Florida’s experience with and homeowners’ perceptions of community development districts (CDDs) with a financial emergency history in Florida? This central research is furthered narrowed to investigate whether CDD distress has spilled over onto associations and if homeowners shoulder a "triple-taxation" burden as a result of governmental overlap, duplication of services, and efficiency or effectiveness issues that are inherent problems with special districts. To answer this, the literature review and qualitative research (semi-structured interviews with HOA participants) considers four sub-research questions: 1) Are homeowners/HOAs aware of CDD governance and existence? 2) Do homeowners/HOAs find CDD overlap a problem with efficiency and effectiveness? 3) Are homeowners/HOAs aware of and find CDD financial condition as an issue? 4) Do homeowners find that CDDs have an economic impact on them? The research is informed by theoretical explanations, the COVID-19 recession, and trajectory of the CDD model to explore the HOA stakeholder experience and perspective of CDDs.

1.4. Introduction recap and paper preview. This section has introduced the significance of CDD growth in terms of 1) governance/taxation powers, 2) proliferation, 3) perpetual existence, and 4) financial emergency (FE) conditions in Florida considering the economic recession that is unfolding. Section two will provide a literature review of the special districts and CDDs, as well as a theoretical explanation of CDDs in Florida; a rationale for the critical need to study the CDD phenomenon from the stakeholder-homeowner perspective is also established. Section three will discuss the approach and methodology used in this study. Section four provides findings from state agency data and semi-structured interviews of HOA members. Section five concludes with a discussion on the findings' limitations and implications.

Section Two: Literature Review

This review of the literature will first provide a cursory background on special districts and CDDs. Referencing both scholarly and practitioner work and legislation, this discussion will explain the intent and functions of CDDs, how they differ from general-purpose governments, strengths and weaknesses, and how economic theories explain the phenomenon. The literature review will share Florida's experience with CDDs and issues involving proliferation, perpetual existence, overlap with other entities, financial condition and emergencies, and impact to homeowners. Lastly, major points and competing issues will be summarized.

2.1. Special districts and CDDs historical background. Local governments are creatures of the state that include both general-purpose (e.g., county, city, town, village) and special-purpose districts (e.g., water, fire, library, schools, transit) (Gray, Hanson, and Kousser, 2017). The difference between the two types is that general-purpose local governments are incorporated to provide a variety of general services, and special districts are created for a distinct purpose that often have a time element in fulfilling the purpose (America Counts, 2019). With respect to time and existence, incorporation or creation for general services implies perpetuity, and specific services can be constrained by time limits of fulfillment. Congress approved the first special district in 1921—the New York and New Jersey Port Authority (Eger, 2006)—and since then, special districts have grown in numbers as prominent components of local governance. "Given the growth of special districts, it is easy to conclude that at the time of their creation, there were moments of governmental creativity and adaptability. Once established, however, these jurisdictions tend to become permanent and to stay in the shadows of local government (Burns, 1994)" (Frederickson and O'Leary, 2014, p.5s). Despite the growth of special districts, studies on them are not proportional to their prevalence and little is concluded about them as a whole, due the variety of special district types (Eger, 2006; Savage, 2020). As a result of this diversity, studies can make better contributions to the limited field of special district research when research is concentrated by subfields or special district function. Thus, this research on special districts focuses on the subfield of CDDs.

A CDD is a special district type with the purpose of residential and commercial development that has the power to fund private development through the tax-exempt financing and public taxation of property in approved boundaries. Growing at a staggering rate, CDDs account for most of the special districts in Florida. The Florida Department of Economic Opportunity data shows that the 763 active CDDs have almost doubled the number of general purpose (city, town, county) local governments. This growth was especially powered by the housing peak in the early to mid-2000's, where 354 CDDs were created in a five-year period before the crash in 2007 (Ayers et al., 2014) compared to only eight CDDs that were created between 1980-1987 (Scutelnicu and Ganapati, 2012). More important than the descriptive statistics on growth is the rationale for expansion and associated implications. The reasons for CDD growth in Florida are connected to 1) catalytic legislation, 2) strengths of the CDD economic model and 3) its match to Florida tax philosophy. The following will expand upon these strong attributes as well as associated weaknesses that have led to this research.

2.2. Catalytic legislation. A few of the key legislative pieces that facilitated CDD proliferation include the New Communities Act of 1975, Local Government Comprehensive Planning Act of 1975, the CDD Act of 1980, and the Local Government Comprehensive Planning and Land Development Regulation Act of 1985 (Scutelnicu and Ganapati, 2012). The intent of the CDD Act was to accommodate Florida's population growth with a self-financing model that does not burden existing residents for the infrastructure needs of new ones (Ayers et al., 2014). The CDD Act provides an alternative method that enables the private sector to be responsible for the management and financing of community development, so these burdens do not fall on existing city and county governments and the general population of non-CDD constituents.

To create a CDD boundary, petitions must be submitted by either the state, general-purpose local government, or landowners/developers for approval by the local government or Florida Land and Water Adjudicatory Commission; petitions are mostly submitted by landowners/developers (Scutelnicu, 2010; §190.005, Fla Stat., 1980). Unfortunately, state legislation is limited in addressing explicit state oversight responsibilities of CDDs, which explains criticism of CDD self-regulation or non-regulation—a chief weakness of CDDs highlighted in this research. "Seven different arms of the state possess some role of oversight or monitoring over CDDs, but no single agency has meaningful authority to respond" (Ayers, et al., 2014, p.2).

2.3. CDD economic model. The major strengths of CDDs include their ability to facilitate planned development and alleviate cash-strapped local governments that want development of unused land to enhance the total property tax base but without the managerial and financial obligation to invest in it (Chapin and Thomas, 2005). Further, revenue shortfalls and population growth in the 1980s and 1990s lead policy makers to the creative financing solution that could accommodate both aims (Chapin and Tomas, 2005). CDDs are a powerfully unique, special purpose district that can issue debt through tax-exempt bonds and leverage future property taxes through a variety of debt service instruments as well as maintenance in capital infrastructure. Another advantage of CDDs and reason for their growth is that the special services provided to future/current taxpayers and residents are directly received by those contributing, espousing the *benefit principle* (Oakerson, 1999; Scutelnicu, 2010). Proponents of special districts argue that the growth observed is not "troubling" but an attribute of governance adaptation where a strength of special districts (including CDDs) is that they empower communities to tailor their governments to their particular needs (Boone et al., 2017).

2.4. Florida tax philosophy. The CDD funding structure and its embracement of the *benefit principle* aligns with the ethos of Florida tax politics, where normative claims on the state being a low tax, business-friendly environment is supported by a political culture of fiscal conservatism at the state level from Republican governors and legislators in the last few decades. Florida is one of nine states without a progressive income tax and relies on regressive user/consumption-based revenue methods (sales tax, gas tax, fees) to fund state services. Local governments in Florida are also reliant on more regressive revenue generating methods that include property taxes in addition to the state sources mentioned. Property tax is a primary source of local revenue and argued to be mostly regressive as it supports the benefit principle and demonstrates that individual annual income does not determine the amount of tax paid on a property, but the property value does instead (Oates and Fischel, 2016). Further, 96% of city and county governments collected property taxes in 2017 (Florida Auditor General Data, 2019). Thus, user-structured revenue systems and the benefit view philosophy of Florida lends itself to a CDD model that provides public sector powers of taxation and debt issuance to the private sector in exchange for the benefit of indirect spillover revenue to overall property value enhancement in the region and the indirect benefit of not having to be financially compromised or administratively accountable. The arrangement does require CDDs to comply with public agency laws on financial disclosure, ethics, and government transparency in the "sunshine", and elected representation (Community Development District Act, 1980).

The CDD-state-local government arrangement is not without its weaknesses**.** CDDs have been criticized for being 1) undemocratic, 2) inefficient and overlapping with other entities, 3) unregulated for perpetual existence, and 4) prone to financial emergency (FE) conditions.

2.5. Undemocratic? CDD democracy is similar to local general-purpose governments in that CDD boards of supervisors act as the legislative wing of the public entity. Unlike city and county governments though, CDD boards can be established without an election, though elected representation is a requirement that eventually must be met. It is not an initial requirement because when a CDD is formed, the developer is the primary landowner who has the power to assign board of supervisor appointments at their discretion for at least six and up to ten years or longer, contingent upon whether an adequate number of landowning electors (between 250 and 500) whose eligibility is determined also by U.S. citizenship) in the district (Scutelnicu, 2010; §190.006 Fla. Stat., 1980). CDDs are required to transition from board appointments to elected representation once enough qualified electors are present; however, this legislation not only leaves room for appointed boards to go beyond 10 years, but, in essence, is a form of taxation without representation. Critics of special district democracy highlight unelected boards as an accountability issue (Wickersham and Yehl, 2017). For example, residents within Cory Lake Isles in Hillsborough County, Florida finally gained control of their CDD after 18 years of having a developer controlled CDD which came with higher fees they felt were funding developer "pet projects" (Becker & Poliakoff, 2009).

2.6. CDD overlap/inefficiency. Overlap is an inherent issue with special districts that share boundaries with general-purpose local governments, where shared and overlapping boundaries obligate residents to comply with the authority of multiple taxing entities simultaneously (Gray, et. al, 2017). Overlap creates fragmentation and inefficiencies in aggregate service provision compared to non-overlap boundaries where economies of scale can be leveraged. Conversely, resource maximation for service provision within a fragment can be efficient, as special districts/CDDs have been found to be responsive and flexible in special service provision compared to general-purpose governments according to Scutelnicu's (2010) qualitative interviews of public officials. While interviewees of the that study noted the difference between CDD and HOA duties, some cited how minimal overlap with property ownership between the two causes confusion for homeowners on which entity oversees what aspects of the communities.

2.7. CDD perpetual existence. A CDD can last indefinitely when maintenance payments persist even after a developer builds the project, sells all the parcels, and the district (through the residents) has repaid the bond in full (Scutelnicu, 2010). Understandably, annual maintenance on aging capital facilities is assured, and fees for services (e.g., parks, public safety) in a district can duplicate that of the municipality in which residents also have access to and are funding from property taxes. Special districts tend to be invisible because their politics are muted, and disaster or scandal are absent (Frederickson and O'Leary, 2014).

2.8. CDD financial condition and emergencies. Florida statute 218.503(1) provides four conditions[2] to determine if an entity meets a financial emergency, all of which pertain to the inability to fulfill payment/transfer for financial obligations due to a lack of funds (Henley, 2021). The peak Floridian proliferation of CDDs during the housing boom preceded the Great Recession and the fiscal strain local governments faced. In 2009-2010 alone, 149 special districts met a condition of financial emergency (Ayers, et al., 2014). Of the many indicators available to analyze

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[2] The conditions of a financial emergency, as defined in s. 218.503(1), F.S. are:

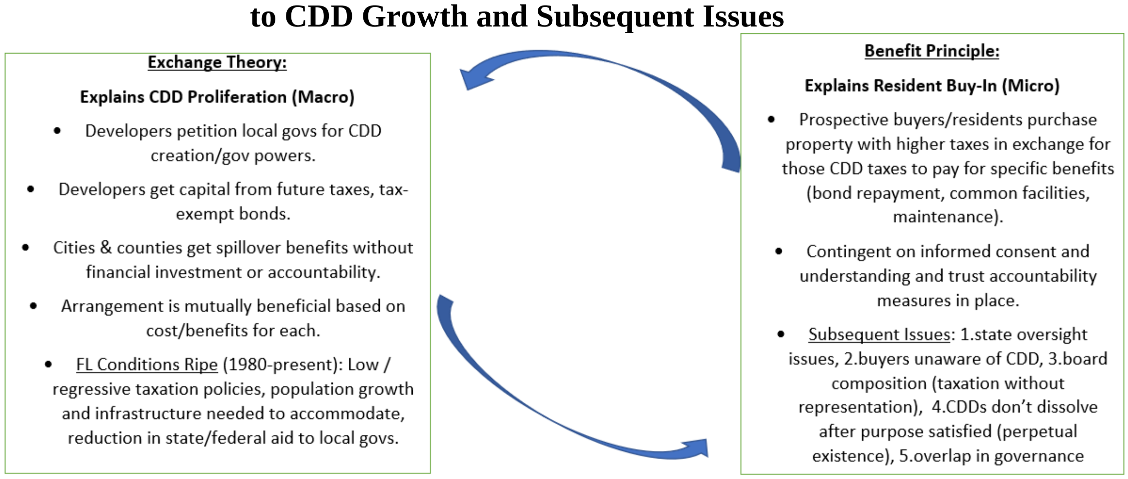
a. Failure within the same fiscal year in which due to pay short-term loans or failure to make bond debt service or other long-term debt payments when due, as a result of a lack of funds.
b. Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of a lack of funds.
c. Failure to transfer at the appropriate time, due to lack of funds:
    1. Taxes withheld on the income of employees; or
    2. Employer and employee contributions for:
        a. Federal social security; or
        b. Any pension, retirement, or benefit plan of an employee.
d. Failure for one pay period to pay, due to lack of funds:
    1. Wages and salaries owed to employees; or
    2. Retirement benefits owed to former employees.

financial condition, two indicators were gathered from this research and prior efforts which best predict a local government's ability to navigate fiscal shock from economic downturns: 1) unassigned or unreserved fund balance (Hendrick, 2006; Chase and Montoro, 2009; Stewart, 2009; Arapis and Reitano, 2018) and 2) total unrestricted net assets (Marlowe, 2015). As the difference between assets and liabilities, unassigned or unreserved fund balance (UFB) is constructed from the governmental fund's modified accrual basis of accounting and includes uncommitted resources free from restricted purposes; total unrestricted net assets is based on accrual accounting in the business fund (Marlowe, 2015). A negative UFB was a fifth condition of financial emergency prior to 2012 in Florida (Florida General Auditor staff, personal communication, January 2019) and was the most prominent reason CDDs met a condition of FE from the state data gathered, followed by failure to service debt or claims, and operating deficits in consecutive years (Florida Governor's Office of Chief Inspector General, 2020). Notably, the conditions were present in many entities prior to the housing crash and Great Recession (Ayers, et al., 2014).

2.9. Homeowner associations. In Florida, there are 48,500 homeowner associations (FCAR, 2019) and it is unknown how many are in a CDD. Prior research has found that, compared to general-purpose local governments, there is a place for CDDs, and they are found to be flexible and responsive in-service delivery according to surveys of CDD officials and local city/county governments (Scutelnicu, 2014). However, CDD inefficiency, accountability and democracy are concerns that prior research has not gauged, though encouraged, from the perspective of resident stakeholders and HOAs. Much of the concerns stem from the lack of public awareness and understanding from residents about CDDs and, even if they are taxed by one, what happens to the CDD when construction and debt payments are completed (Scutelnicu & Ganapati, 2012; Scutelnicu, 2014). "Indiana University-Purdue University Professor Larita Killian explains that ‘the proliferation of special districts obscures responsibility, making it difficult for citizens to link specific services to the entities that provide them,’ reducing opportunities for democracy and limiting the public’s ability to hold SDs [special districts including CDDs] accountable” (Wickersham and Yehl, 2017). Prior studies have surveyed CDDs and city/county administrators but not CDD residents; administrators were mixed about the economic impacts CDDs have on residents (Scutelnicu, 2010). Therefore, there is a need to evaluate public awareness on the CDD issues that have surfaced in terms of existence, governance, financial condition, and impact as described in the approach/methods section. The blurred lines of accountability between the entities can impact, and are thought to be determined best by, the residents.

2.10. Summary. A community development district (CDD) is a special purpose government or special district with taxing powers, established by Florida statute in 1980, that transitions private sector stakeholders into public sector entities with powers to issue tax-exempt bonds to finance new developments (Scutelnicu & Ganapati, 2012). Catalytic legislation has led to the proliferation of CDDs and subsequently many CDDs experienced financial emergencies after the Great Recession. The negative financial impacts—defaults, bankruptcies, and foreclosures—were experienced by CDDs and taxpayers in the state, adjacent local governments, as well as residents and investors of CDDs (Ayers, et. al., 2014). The strengths of CDDs include their proven ability to develop land and accommodate population growth. The model is in alignment with Florida’s regressive tax philosophy and embracement of private sector inclusion by providing public sector powers to private stakeholders to take on the work once done by general-purpose local governments, which supports exchange theory (Musgrave, 1939). City and county governments will gain the benefits of higher taxable property values without having to invest resources. This model does not place responsibility for the cost for new infrastructure on existing residents outside the CDD and limits the capital burden or investment risk on developers by promising that future residents/taxation will finance the construction. Where exchange theory explains the proliferation of CDDs at the macro level, the micro level of individual buy-in to CDD investments is explained by the benefit principle; both are summarized in Figure 1. An outstanding issue to these benefits and strengths is equitableness of which stakeholders are the primary beneficiaries and which contributors bear the most burden. This review has also addressed the weaknesses or criticisms of CDDs as being 1) undemocratic, 2) inefficient and overlapping with other entities, 3) perpetual entities, and 4) prone to financial emergencies.

Figure 1: Theoretical Framework: The Macro-Micro Complimentary Arrangement to CDD Growth and Subsequent Issues



Section Three: Approach

Taking into consideration the strengths/weaknesses discussed in the economic context, the study is positioned to research the *impacts of the CDD growth phenomenon* by gauging homeowners/HOA lived experiences and perspective of their special district CDD governments in terms of existence, governance, financial condition knowledge, and impact. Further, the HOAs and participants targeted for the study will be those homeowner associations that are located in one of the 233 CDDs that have a history of meeting a condition of financial emergency by the state of Florida. The approach selected to accomplish this work is outlined in this section's discussion of the study's research methodology, sample and recruitment, data collection and procedures, data analysis, and threats to trustworthiness.

3.1. Research methodology. A hermeneutical phenomenology research approach was employed for this study. Compared to other approaches—narrative, grounded theory, ethnography, and case study among others—phenomenology studies have an aim "to produce a description of a phenomenon of everyday experience, in order to understand its essential structure" (Sanders, 2003, p.293). This aim closely aligns with the purpose of this research which is to understand public and resident experiences with CDDs so that this special district governance structure and trajectory in Florida can be understood, especially by those concerned with financial distress.

"The goal of hermeneutic inquiry is to identify the participants' meanings from the blend of the researcher's understanding of the phenomenon, participant-generated information, and data obtained from other relevant sources" (Kumar, p. 795, 2012). The following deconstructs the three components of the hermeneutical phenomenology goal. One, the researcher's understanding of the phenomenon has been influenced by evidence and theory. The evidence presented shows the growing number of CDDs in Florida (proliferation) now outnumber general-purpose local governments and the number of CDDs who met a condition of financial emergency (FE) or declared as being in a state of FE. Exchange theory and the benefit principle also help explain the environmental and state context of state-local finance laws that encourage private sector involvement in public sector governance and economic development. The remaining uncertainties about the future of CDDs and how they impact homeowners is what the research intends to gauge, which was a gap or need identified in prior sections. Two, from this evidence and theory-based understanding, the participants identified are board representatives of homeowner associations located in CDDs that have a history of financial emergency conditions. Three, the "blending" of the research's understanding and identification of appropriate participants has led to the formulation of an interview protocol (see appendix-exhibit 3) with six broad-based questions and follow-up probes to generate information from the homeowner's experiences and perspective on CDDs on the central and sub-research questions. Additional data and literature review support all these components and aid the hermeneutical phenomenology goal described above by Kumar (2012). The interview protocol was then utilized to code the information obtained. This method bolsters the research questions and helps solidify if participants had any shared experiences despite being in different regions and CDDs. The methodology for coding utilized key phrases that revealed participant experiences in the interviews, synonyms of terms that referred to similar comments by the participants were collapsed, and the aggregate of codes were detected and clustered into levels.

3.2. Sample and recruitment. Purposive and convenience sampling methods were used in the study. Overall, there are 48,500 homeowner associations (FCAR, 2019) and 763 CDDs in the state of Florida. (It is unknown how many residents or HOAs are located within and pay taxes to all CDDs in the state; such an analysis or database does not exist though it is of interest.) The population for the study was the HOAs located in the 233 CDDs that have once met a condition of financial emergency. HOA selection was first based on CDD financial emergencies (flagged or declared). HOAs not in a CDD were excluded and HOAs not in a CDD with a financial emergency (FE) history were also excluded. The sample selected was further culled by selecting the CDDs with more than one year being flagged for an FE condition and not earlier than 2013, which is the year following 2012 changes to the state statute on having a negative fund balance as a qualifying condition. Having met the criteria, the sample was further narrowed to 27 CDDs that either A) were flagged pre-great recession (06-08) and pre-COVID Recession (17-19), or B) had a central

Florida location and were flagged recently for an FE condition pre-COVID Recession, as shown in Table 1. This purposive with convenience sampling approach was expected to increase the participation level and was the chosen method due to resources and availability of information. Without knowing the list of all HOAs in all CDDs, purposive sampling is the best method given the limitations of available information/time and ability to secure contact info on all eligible for the study parameters.

Recruitment for participants (adults over 18 years of age and a sitting HOA board member within one of the 27 CDDs) involved a process where HOA contacts within each CDD were searched through respective CDD websites and/or the CDDs were called and/or emailed public records requests for the HOA contacts and contracts. All 27 CDDs were reviewed or contacted. Once HOAs were identified within a CDD, recruitment scripts for participation were employed by phone and email, as shown in appendix–exhibit 1. An email was sent to prospective HOA/participants and provided HRP-254 (Explanation of Research in the appendix–exhibit 2) and requested confirmation of agreed time/location for those interested in a semi-structured interview. A consent form was not required, per the Institutional Review Board (IRB) for community involved research, due to the low risk of negative impacts to the study participants. The research proposal was approved by the University Central Florida IRB.

Of the 27 CDDs identified, there were 14 in group A and 13 in group B, where two were successfully secured from each group for a total of four participants, representing three counties. Unexpectedly, two of the four participants for the study were on their local CDD board in addition to the HOA board. Table 2 below provides a description CDDs represented by the interviewed HOA Participants. The four interviews conducted for this study represented four different HOAs within four different CDDs with FE conditions in 2019 and prior. The four CDDs were noted by state FE administrators for a “failure to service debt”, with three of them having “unreserved fund balance deficits” at some point.

Table 1: CDD Groups Identified for Study

Group A: CDD Flagged Pre-Great Repression (06-08) and Pre-COVID Recession (17-19)	Group B: CDD Flagged since 2014-15 (Recent) FE Condition and has Central FL Location
Buckeye Park CDD	City Center CDD
Chapel Creek CDD	Concorde Estates CDD
Crossings at Fleming Island CDD	Gramercy Farms CDD
Heights CDD	Highland Meadows CDD
New Port Tampa Bay CDD	Lake Ashton II CDD
Palm River CDD	Lakeside Landings CDD
Portofino Isles CDD	Overoaks CDD
Portofino Landings CDD	Portofino Vista CDD
River Glen CDD	Reunion East CDD
Riverwood Estates CDD	Reunion West CDD
Southern Hills Plantation II CDD	Stevens Plantation CDD
Tern Bay CDD	Westridge CDD
Villages of Avignon CDD	Westside CDD
Zephyr Ridge CDD	

Table 2: CDDs with Financial Emergency (FE) Conditions Represented by HOA

HOA Participant ID and CDD	Sample Group A or B *	State’s Primary Note on FE Condition Reason	Years condition flagged	Multiple years (1=yes, 0 = no)	Year Last Flagged
A	B	Failure to service debt	12-13 through 18-19	1	2019
B	A	Unreserved fund balance deficit and failure to service debt	07-08, 09-10 through 18-19	1	2019
C	A	Unreserved fund balance deficit and failure to service debt	07-08 through 18-19	1	2019

D	B	Unreserved fund balance deficit and failure to service debt	03-04, 08-09 through 18-19	1	2019

Source: Adapted from Florida Governor Chief Inspector General Office (2020)
*Notes: Group A included CDDs flagged pre-great recession (06-08) and pre-COVID Recession (17-19). Group B had a central Florida location and were flagged recently for an FE condition pre-COVID Recession.

3.3. Data collection and procedures. The primary form of data collection was from the semi-structured interviews and supplemented with state data, both published and unpublished. The procedures involved an initial interview that asked six broad questions with follow-up questions, and a post-interview "member-checking" on homeowner/HOA perceptions about their CDD. The audio of the interview was recorded, and the member-checking procedure was employed. This process of validation in "member-checking", as suggested method by Saldana (2009, p.28), involved the provision of the verbatim transcripts to the participant to verify transcription accuracy and to request from the participant any additional thoughts on what stood out to them from the transcript and their experience. The participants were made aware that they would be anonymous, and all interview data will be maintained for five years, per Florida Law, including the interview recording and transcripts. Further, it was shared that the names of participants would not be published or reported, and any names mentioned in the interviews would be omitted from reporting. Participants are identified as a "Participant [A, B, C, D]" and identifiers of HOA and respective CDDs are not provided to preserve anonymity which facilitated the candidness of the interviews and quality of the data.

3.4. Researcher positionality and orientation. Disclosing the researcher's positionality is a vital component to trustworthiness of the qualitative research. To mitigate the possibility of positionality bias of the primary researcher's orientation to 1) the CDD literature critique, 2) conducting the interviews, 3) experience in local government and public financial management, 4) governance philosophy, this study utilized a sub-contract with a secondary researcher to conduct the qualitative coding and analysis of the transcripts. The secondary researcher was an objective observer who had no contact with the participants. This eliminated the need for bracketing personal bias.

3.5. Data analysis. The first phase of coding methods included a combination of open coding from a first impression of the transcripts and structural coding based on the literature and theories reviewed, which informed the research and interview questions; the second phase of coding employed a pattern coding method as the analytic strategy (Saldana, 2009). The data (i.e., interview transcriptions) was analyzed manually as well as through analytic transcription software, MAXQDA. A code is a word or phrase that embodies the essence (Saldana, 2009) of what is being communicated from the data or interview transcript. After data collection, coding and subsequent analysis was performed in the procedure phase. This involved the creation of the codes, collapsing of the codes into major categories to reduce redundancies. Coding requires an "analytic lens" and involves interpretation by the researcher (Saldana, 2009, p.6). This method of systematically analyzing data for significant statements and themes is supported by prior research (Moustakas, 1994; Anderson & Spencer, 2002; Creswell, 2013) where this study employs it under the umbrella of the six broad questions (found in the appendix-exhibit 3 interview protocols) asked on HOA participant lived experiences and perspectives on CDD existence, governance, financial condition, and impact. The essence of a phenomenon can be interpreted from systematic coding and analysis of outcomes in the form of themes (Bogaert, et. al., 2016; Creswell, 2013; Saldana, 2009). In this study, governance aspects were found from those code categories, and from that, the emergence of the three major themes: CDD governance structure, power and opportunity that stems from CDDs in Florida, and lack of resident awareness of financial condition or FE status.

The six broad questions stemmed from the central research question, "What is Florida's experience with and homeowners' perceptions of community development districts (CDDs) with a financial emergency history in Florida?" Broad interview questions number one and two are expected to answer sub-research question one, "Are homeowners/HOAs aware of CDD governance and existence?". Broad interview question number three addresses sub-research question two, "Do homeowners/HOAs find CDD overlap a problem with efficiency and effectiveness?". Broad interview question number four aims to answer sub-research question number three, "Are homeowners/HOAs aware of and find CDD financial condition as an issue?". Broad interview question number five was formulated to satisfy sub-research question four, "Do homeowners/HOAs find an economic impact on them by CDD?". Further, broad question number six provides an opportunity for participants to supplement existing information that may add clarity and additional info not sought but is of value for study.

Using the Anderson and Spencer (2002) method of analysis, both researchers conducted a thorough reading of the verbatim material several times to gain an overall grasp of the content; however, only the secondary researcher made the necessary grammatical corrections for the member check and subsequent analysis. The primary analysis of the interviews was done through the coding, and the purpose of coding the interview data was to determine if there were similarities across interviews in discussion elements for the questions. The results are detailed and summarized to depict the phenomenon within the levels of codes that were determined, as well as the thematic codes that were assigned to each code based on the comments represented within those codes. These thematic codes can be considered the generalizable results from the participants' responses to the questions asked. Table 3 below denotes these codes, with the overarching thematic structure in the memo column, and the frequency of each code within the four interviews.

Table 3: Interview Transcript Coding Levels and Frequency

Level 1	Level 2	Level 3	Memo	Frequency
HOA setup			Governance Structure	17
	HOA maintenance		Governance Structure	3

	HOA duties		Governance Structure	13
CDD setup			Governance Structure	53
	tax notice		Governance Structure	1
		tax payment equity	Governance Negative Resident Impact	2
	pay for roads and infrastructure		Governance Opportunity	7
	CDD value		Governance Power	20
	CDD duties		Governance Power	10
financial status			Governance Structure	12
	misuse of funds		Governance Negative Resident Impact	1
	growth		Governance Opportunity	3
	good financial shape		Governance Power	3
efficiency			Governance Power	4
effectiveness			Governance Power	3
knowledge of CDD purpose			Governance Structure	41
	low resident involvement		Governance Negative Resident Impact	7
	resigned payment		Governance Negative Resident Impact	10
		paying too much	Governance Negative Resident Impact	3
	little communication		Governance Negative Resident Impact	14
shifty			Governance Failure	16
administering the bond			Governance Structure	13
	bond		Governance Power	6
homeowner perceptions			Governance Power	71
	minimum work		Governance Negative Resident Impact	3
	home buying experience		Governance Negative Resident Impact	9
	CDD-HOA difference		Governance Structure	18
		property management	Governance Opportunity	6
		open communication	Governance Structure	1
	CDD resident knowledge		Governance Negative Resident Impact	12
		experience level	Governance Opportunity	2
Governing statutes			Governance Structure	13
	No disclosure requirement		Governance Failure	1
	Boards are different		Governance Structure	4
	governing document		Governance Structure	3
COVID impact			Governance Failure	7
city/county responsibility			Governance Structure	19
	city failure		Governance Failure	9
development			Governance Opportunity	6
developer board			Governance Opportunity	22
	"appearance of impropriety"		Governance Failure	3

	financing model problem	Governance Failure	3
	no accountability	Governance Failure	6
bond repayment		Governance Negative Resident Impact	4

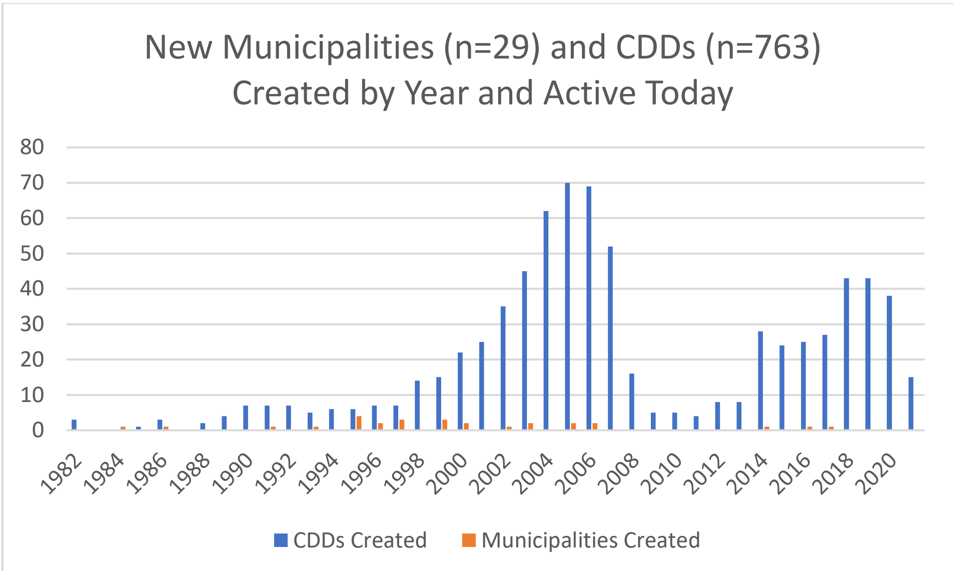
Section four: Findings

Section four on the findings is divided between two types. One, most recent state data is analyzed to provide the updated findings on special districts and CDD proliferation, democracy, and financial emergencies in Florida. Second, qualitative analysis findings on the thematic results of the coding and interviews will be presented.

4.1. State Data Findings

4.1.1. Proliferation. US census data was analyzed. It is estimated that out of the 90,126 local governments in 2017, close to half (43%) were special districts, excluding schools. For comparison, Florida's composition of special districts compared to general purpose local governments far exceed the national average. There are 479 local governments in Florida, including 412 cities (i.e., town, villages, etc.) and 67 counties and currently more than 1,770 active special districts in Florida, excluding schools, that provide specialized services categorized among 81 types, and CDDs are one of them (Florida Department of Economic Opportunity, 2021). The number of active CDDs in Florida (763) has almost doubled the number of cities (412) and counties (67) combined in the state. New cities and counties are rarely incorporated. According to data analyzed from the Florida League of Cities, since 1982, only 29 new cities have been incorporated; the last one was in 2017 (e.g., Village of Indiantown) and there are 763 active CDDs. The height of CDD expansion before the housing bust averaged 42 new CDDs annually between 1997 and 2006 (Scutelnicu and Ganapati, 2012). In analyzing data gathered from the Florida Department of Economic Opportunity, (2021), similarly, the last two years (2018 and 2019) new CDDs in Florida averaged 43 new districts. Figure 2 below provides a visual of the trend but does not include 124 CDDs that were dissolved between 1994 and 2000.

Figure 2. New City and CDD Creation in Florida



Sources: Florida League of Cities (2020); Florida Department of Economic Opportunity (2021)

4.1.2. CDD democracy. There were two findings on CDD democracy. First, it is state law that an elected body must represent the residents in a CDD after there are enough eligible electorates in the district (§190.006 Fla. Stat., 1980). Data gathered from the Florida Department of Economic Opportunity (June 21, 2021) on the type of governing body among all 763 active CDDs in Florida show that 755 have elected boards of supervisors, seven are listed as a hybrid of appointed/elected, and only one is listed as having an appointed board. Second, an unintended democracy finding of dual representation, where two participants represented both their HOA and CDD, was further researched. Kathleen Berkey, certified land planner and attorney, was consulted about conflict of interest and Florida law concerning board members of an HOA also serving on CDD and found that it may ultimately depend on the establishment ordinance for the CDD or the governing documents of the community association. However, generally directors on a community association board or a supervisor on a CDD board shall pursuant to Florida law discharge his or her duties: in good faith; with the care an ordinarily prudent in the same position would use; and in a manner he reasonably believes to be in the entity's best interest. Whenever there is a relationship or interest between a director of an association and a person or entity the association is doing business with (e.g., a CDD) there may exist a conflict of interest. For example, if there is a dispute as to maintenance responsibility delineation between the CDD and a community association within the CDD and one person serves on both the community association Board of Directors and the CDD Board of Supervisors. This person could, for example, disclose the conflict to both Boards before the matter is voted upon and simply abstain from voting. The potential for a conflict, alone, may not be enough to preclude someone from serving on both Boards though. (Personal communication, June 2021)

4.1.3. CDD financial condition and emergencies. Florida statute 218.503(1) provides four conditions for an entity to meet a financial emergency, all of which pertain to the inability to fulfill payment/transfer for financial obligations due to a lack of funds (Henley, 2021). The literature review found that CDDs were in a precarious position prior to the Great Recession, where many were later found to have conditions of financial emergency (149 CDDs from 2010 data) (Ayers, et al., 2014). Recent data gathered from the Florida Governor Chief Inspector General Office (2020), shows that there have been 223 CDDs that have met a condition of financial emergency. Of the 223 CDDs meeting a condition, 11 have been declared in a state of financial emergency requiring state intervention and four have been released in recent years.

4.2. Qualitative Findings

4.2.1 Coding findings. Based on the creation of relevant codes from the participant interviews, three themes were discovered: "governance structure", "power and opportunity that stems from CDDs in Florida", and "lack of resident awareness of FE status". "Governance power" and "governance opportunity" were combined to denote the theme "power and opportunity that stems from CDDs in Florida" because the codes referring to these two structures lend to the conversations about the work of CDDs; "Governance failure" and "governance negative resident impact" were combined to create the "lack of resident awareness of FE status" theme because the codes referring to these directly correlate to what impact the lack of awareness has had on residents. The importance of the coding of this qualitative data was to support the conclusions made from the overall interviews.

4.2.2. Semi-structured interviews. A total of five interviews were conducted. The first was a beta or test interview with a former HOA board member in a CDD district. The primary takeaway from this initial interview was that much of the CDD critique from the literature was supported. The four qualified interviews that followed also supported the literature but not to the extent of the beta. The beta interview also helped polish the interview protocol questions and structure of how the subsequent interviews were conducted with four sitting board members of different HOAs within CDD areas with a history of financial emergency conditions in Florida. For example, it was learned that a traditional phone only interview does not record well for transcription, so the later interviews used a zoom telephone or video conferencing method with built-in transcription functions, which improved the quality of the data. The *explanation of the research* document was emailed and acknowledged by every interviewee prior to an agreed participation in the research. The interviews lasted between 30-60 minutes on the participants' lived experiences of CDDs from an HOA perspective.

The themes generated from the coding of the interviews and category development included "governance structure", "power and opportunity that stems from CDDs in Florida", and “lack of resident awareness of FE status". These themes are related to the research questions involving CDD distress/spillover, entity overlap, and CDD impact on homeowners summarized in section 5.6. These findings were generated as a result of the coding results and provided below. The themes emphasized that CDD-HOA conversations ought to include the concept of their governance structure, unchecked power and opportunity exists for CDDs in Florida, and residents have a lack of awareness of the CDD’s financial condition (considering all four participants live and pay taxes to CDDs that have been flagged multiple years, including 2019, for financial emergency conditions), which relates to failure of governance.

Theme 1: Governance structure. The participants were asked about their general knowledge of their HOA and CDD setup and roles, as well as their knowledge of the financial status, CDD’s purpose and bond administration, and city/county involvement. Participant D provided the most comprehensive response as to the purpose of a CDD: “the CDDs primary functions are to plan, finance, construct, operate and maintain community-wide infrastructure services along with its own facilities for the benefit of its residents and current Bond holders”. Participant A clearly commented that CDD’s needed “better oversight by the state and they should not have allowed cities to be involved with creating development districts to develop properties”. Participant C commented that a lot of residents do not know the difference between CDDs and HOAs in their own community, “if someone want[s] to complain about something like the front entrance…they’ll call the HOA and the HOA says no, that’s not us, that goes to the CDD”. While none of the participants saw this as a major concern towards the efficiency or effectiveness of the overall community management, there was no consensus on which entity was the preferred taxing authority to provide services.

For a couple of the participants, the CDD structure and overlap was an issue, where it was noted a prior bankruptcy ensured no infrastructure was maintained during certain years, or somehow residents ended up paying for non-CDD infrastructure in their community. Participant D explained the frustration his community had because their "CDD ha[d] imposed very significant financial constraints as it had, as it ha[d] to do with potable water". Participant C's CDD is located in a county where everything from the sewage system to the roadways are left to CDDs without any regulatory measures and support that counties typically receive from the State. In addition to the creation of the CDD, many participants saw service provision as either redundant or in Participant B's opinion, "wink-wink, nudge-nudge situations" with Board conflicts of interest. Participant A's CDD was created during a time when the community had no property owners, hence the same members were on all four entities (Development Special District, City Council, CDD, and community association), a structure that led to lost records between 2004-2008, the CDD funding into the turnpike authority, a double-charge to residents of internet services, and streetlight payments by residents (when cities should be responsible for streetlights). The holes in the governance structure of CDDs has in turn engendered unchecked power and opportunities for CDDs in Florida.

Theme 2: Power and opportunity that stems from CDDs in Florida. Participants A, B and C all noted the significance of their CDDs being born from the agreements made with original developers, and in all three cases, there was an appearance of impropriety due to the developer's continued presence on the board to make decisions about the CDD. In the case of Participant B, nepotism is evident, as in the five-member board of their CDD, "three members are the developer president, his son, and another one of the people that works in his office". In the case of Participant D, residents in their community expressed frustration with the financial constraints experienced due to the CDD's potable water issues, to the point residents have even left the community. Participant C noted that the CDD improved after the developer presence on the board was diminished after the resident threshold was met, since he believed that the developer appointees represent the developers' interest to make money and not that of the residents. However, Participant C also explained that resident participation was a problem "across the board" and contributed to a lack of CDD understanding and awareness by residents who complained on Facebook but would not show up to meetings where decisions are impacting their finances. This is further supported with the consensus amongst all four participants that in addition to the lack of interest on the residents' part, detailed or digestible information from the CDD was also scarce.

Theme 3: Lack of resident awareness of financial condition or FE status. According to the Governor's Office of Chief Inspector General, since 2000, there have been 223 CDDs in Florida that have met a condition of financial emergency and 11 are in a state-declared FE. All four participants live in CDDs that have met FE conditions in the last few years. Participant D was asked specifically about their perception of their CDD's financial condition and noted "I'm not aware enough about it to make an opinion". *Participant A suggested that due to the accounting inaccuracies in their CDD, the state "should have requested a forensic audit" of the city, who could not find their copy of the financials, which was suspicious to a lot of residents who would have rethought their decision to purchase their homes in that community.* When Participant B, who is versed in financial statements, was asked about the financial condition, he responded that "nothing I've seen in any of their financial reports that I've asked for and received indicate that they have any particular issue of a financial nature". This begs the question about what documents were shared, or how the CDDs have managed to downplay FE conditions flagged from constituents. Despite varying degrees of concrete knowledge about the FE conditions of the CDDs they lived in, all four participants agreed that they did see the benefit of having a better infrastructure in their community, which is attributable to having a CDD. The question for continued discussion is whether the initial benefit of the CDDs can endure past the original financing and development considering there is a lack of information, communication and guideline on their management.

In terms of communication, all four participants noted that there was either no communication from the CDD to the HOAs or minimal communication to residents through the required annual budget approval cycle. *Participant D understood that if it wasn't for the CDD, "my taxes would be less. But if it wasn't for the CDD, the property would not have…would not be what it is today".* Participant A commented that his community residents were aware of their CDD payments when they paid their annual taxes to the county but were unaware of the default of their bond (brought on by a prior Board's incorrect use of CDD funds to the turnpike authority). As for the understanding of the CDD payments, Participant B opined that "the perception is basically they're a fact of life". Participant C provided a similar sentiment in that "it's just part of life and you live with it like any other taxes, I guess". Since the CDD monies are collected with residents' general taxes, the only questions that arise for these residents is when their tax payments increase, and even then, most have accepted that increasing costs drive increasing taxes, and often are resigned to "pay the freight and move on with their lives".

While residents, according to the HOA board members, purchasing in these communities were mostly aware that they were in CDDs, they were either given little information on the specifics of the special district governance structure and taxing power, or were not provided the disclosure that their CDD has a history of financial emergency conditions at the time of their home purchase. Disclosure of FE history was not found to be a requirement in the state, but prospective homebuyers are required to consent acknowledgment that the property is in a CDD. Any and all agreements for the sale of property within the boundaries of a CDD must include the disclosure statement required in Florida Statutes §190.048 for the initial sale of the property. This requirement applies to the initial seller of a parcel as well as all subsequent sellers, successors and assigns, for the life of CDD (K. Berkey, 2021). When asked about this, Participant A responded that "It's part of . . . all the documents . . . But when you go to closing, they hand you a bunch of documents two inches thick…But most people aren't going to read two inches of documents in detail when you're trying to close on a house".

COVID-19 has exacerbated communication issues and the inherent bias of the CDD system according to participant D, who was the only member to add additional thoughts in the member-checking procedure email. He wrote that:

> The "system" of CDD is heavily biased to ensure benefit to the CDD and taxing systems of the County – just as federal and state tax exempt bond programs ensure benefit to the initial developer the programs and process which follow in no way are beneficial to individual property owners." The process used by the CDD to announce and hold public forums is biased to "permanent residency" simply by the fact that availability of attendance is skewed to "representation"… for example most of [HOA] individual property ownership is transient by citizenship – either out of state or out of country… the system is set up to provide "management of the CDD and their specific agenda greater leverage and authority" than they should be allowed… to be certain I have and currently still am limited by "international travel restriction" to actively participate directly – therefore any input I might provide may be filtered through no fault of an individual simply by not physically attending nor presenting nor following up in person… circumstances that are extraordinary to be sure but magnify the inherent biases of the created system.

Section Five: Discussion

This section will relate the different findings from the interviews with implications, discuss limitations to the study, list future research that has emerged as a result, and conclude with final thoughts and a summary of points.

5.1. Relating Awareness to CDD proliferation, financial condition, and democracy. Florida is well above the national mean in terms of special district creation. Approximately half of the local governments in the country are special districts, but in Florida, special districts account for more than three quarters of all local governments (78.7%) and CDDs comprise almost half (41.4%) of the 81 types of special districts in the state. These proliferation statistics are important for two reasons related to the interview findings. The semi-structured interviews found that CDDs are a Florida invention with a governance structure that is not well understood by many residents who can be considered uninvolved or unaware stakeholders. If proliferation continues, unawareness should follow unless an event or policy window were to open.

Despite proliferation and almost one-third of active CDDs meeting an FE condition in their history, according to the interviews the financial impact on residents was mixed. On one hand, taxes did not increase this year for most of the interviewees, likely due to the fixed rate of bond payments and the possibility that many CDD residents are retired and thus unaffected by unemployment trends in a COVID recession (Participant Beta, personnel communication, November, 2020) On the other hand, government revenue systems dependent upon property taxes and assessments can lag for a year or two behind economic and housing assessments before action is required. Participants also explained that homeowners lack awareness of their CDD’s financial condition, and most are unaware of FE conditions. This can be attributed to the lack of communication from the CDD, resignation of payment as a tax burden, and a misunderstanding of the CDD's functions. Proliferation trends and the bystander effect (i.e., someone else will address it or there is nothing one can do about it) are elements that tie into the CDD financial condition discussion. With more CDDs being created and the diffusion of state responsibility among may state agencies in monitoring and enforcing state regulation, CDD proliferation and possibly higher numbers of CDDs in FE could be repeated in the unfolding COVID-19 environment. The last recession that saw 149 CDDs in 2010 (two and a half years after the 2007 crash) meeting an FE conditions steadily decreased over the decade as the economy improved. Other than a better economy, another reason less conditions were flagged was because unassigned fund balance was no longer a condition of meeting a financial emergency (Florida Auditor General, personal communication, 2019).

Nevertheless, the proliferation of this model, which provides public sector benefits, such as the ability to leverage future tax revenue to finance capital infrastructure that is exempt from taxes itself, is robust in meeting local infrastructure needs in a state where population is rapidly expanding. The implications of both population and CDD growth in concert are still unknown and are thought to be related to public understanding and awareness of the CDD governance structure and financial condition. CDD proliferation and financial condition is also related to democracy.

Critics of special district democracy highlight unelected boards as an accountability issue (Wickersham and Yehl, 2017). Although the CDD legislation gives a grace period for the developer to transition their board appointments of supervisors over to the public from six to 10 years, a criticism is that it can take longer and the undemocratic nature of CDDs allows for taxation without representation. This also means, as indicated even by the participants in the study, that residents purchase their homes and not have any representation on their CDD boards. It was unexpected that only one out of the 763 active CDDs had an *appointed* board of supervisors (seven were hybrids and 755 were elected) as the governing body type, according to the Florida Department of Economic Opportunity's Official List of Special Districts. When the department was contacted about the accuracy of the finding, it was noted that data on the official lists are derived from the CDD's registered agent on file and an "elected" board is the default setting for governing body type when a newly established CDD initially files with the department (J. Gaskins Jr., personal communication, June 21, 2021). Further inquiry on whether a board is elected, appointed, or comprised of both, for any CDD would require the registered agent to correct or update the board type selection during the initial and annual reviews of the data on file about the CDD; researchers interested would best be served by conducting surveys of the CDDs. Considering the elected board data is accurate but unreliable, the research cannot conclude that a "taxation without representation" critique holds in Florida CDDs without further study. Participant C's recommendation that state law be amended to lower the threshold of required resident electors or timeframe for CDDs to transfer authority to residents is a reasonable solution to undemocratic tendencies which would need to be further studied through a survey method, suggested by a state administrator.

5.2 Overlap, entity preference, and accepted burden. All four participants were asked which entity (city, county, CDD, HOA) they believe could best manage efficiently and effectively the services that their communities needed. Participant C was quick to respond, "I would take the CDD over the County or whatever". Participant A made a similar comment about the CDD's efficiency in the maintenance of the beautification of their common areas but agreed that the city probably had more "manpower" to provide those services with the least amount of resources wasted. Participant B conversely noted that their community CDD provided more administrative functions along with maintenance and that the HOA is "most efficient at taking care of the homeowners needs as it relates to the property that we live on". As entities that support additional infrastructures through bonding, CDDs seem to be a worthwhile (if not accepted) burden for residents who want to live in a user pay-benefit community; however, the CDDs reviewed did not dispel critiques of low transparency, understanding, and communication. To better serve Florida residents in CDD communities, the State ought to consider providing better guidelines that aid residents and CDDs in understanding the governance structure that brides them. Interviewees for the study all cited that the ability for CDDs to provide better maintenance of common areas and infrastructures in the communities was worth having an additional payment on top of city/county taxes and HOA fees. Although, Participant C commented that a lot of residents do not know the difference between CDDs and HOAs in their own community, "if someone want[s] to complain about something like the front entrance…they'll call the HOA and the HOA says no, that's not us, that goes to the CDD". The "resignation of payment" is not a new concept in taxation, however the participants in this study clearly indicate that CDDs taxes are an accepted burden, and these entities have potential to benefit residents when controlled properly, particularly by residents and not developers, where sufficient state oversight is present.

5.3 CDD oversight. The themes ascertained from the interviews with the participant clearly delineate the relationship between CDD proliferation and lax oversight by the state. While the participants provided insight to their perception of their CDD's existence, governance structure, financial condition, and impact on the residents, they added other concerns involving three additional points: the first is potentially financially unsound transactions that have taken place in their CDDs; the second is how developer-led CDD boards affect their community decisions logistically; and the third is the lack of transparent communication between the CDD and residents. The first point is perhaps the most relevant for legislators in the state, who may consider action to provide more stringent regulatory enforcement measures for CDDs financial records. The second was noted by all four participants, who commented at one point or another how their CDD boards were developer-led for too long, resulting in either lack of maintenance, or decisions that were not in the best interests of the residents of their communities. The third point brings to close the main issue of special districts proliferation in Florida, and why they continue to emerge.

5.4. Conclusion: So are CDDs good or bad? Shadow Governments? In a recent communication where the primary researcher was being interviewed by a local newspaper on the subject of shared CDD research, he was asked simply if CDDs are good or bad. Based on the interviews conducted, CDDs are neither; they are simply a development and financing tool that reflects the intentions of the policy makers (e.g., state legislators and local elected officials) authorizing them as well as the users (e.g., developers, bond investors, and property owners) that exercise them. In the case of Florida, CDDs are tools that work well within political and fiscal constraints in accommodating population growth by taxing the residents who will most utilize the services and infrastructure provided by their CDD without burdening the general government (city or county) tax base. This is a fair arrangement according to the benefit principle at the micro level where users get what they pay for, and the interviews support those risks/benefits as an accepted burden. However, the interviews also demonstrated that a lack of understanding of CDD governance by property owners and communication by CDDs to resident stakeholders, can advance the “shadow government” elements from the literature. Continued proliferation data supports the exchange theory view where local governments increasingly are opting to provide the public sector powers to developers in exchange for spillover benefits (e.g., higher taxable values) and no investment expenses or accountability for CDD defaults. What will be interesting is if the large cohort of CDDs created in the early 2000s will dissolve after 20 to 30-year bonds are fully paid. It is expected that they will endure as “maintenance” is a legitimate reason under Florida law for CDDs to persist perpetually. Thus, CDDs that last beyond the agreed terms of existence along with general proliferation to outnumber local governments will have unknow implications. In this review, California and Texas were the only other states found to have CDDs (Chapin and Thomas, 2005). Florida Would be wise to turn to California for policy help, where the state is reported to have had made strides in dissolving special districts that have met intended purposes through 58 local commissions that review district renewals (Boon, et al. 2017). Scutelnicu's (2010) dissertation on CDD entrepreneurialism asked if CDDs were creative creatures from a dead era, considering their survival appeared bleak after five years of financial decline. This study answers her question. CDDs are alive and multiplying well a decade later, and it is agreed that "only time will tell" what the outcomes of the overall CDD experiment will be, and if the COVID recession will replicate the declines observed following the Great Recession (Scutelnicu, 2010, p.153).

5.5. Limitations and future research. A major limitation to the study was the number of interviewees secured. The goal was to have a minimum of six; however, the process of finding HOA board members in CDDs with a financial emergency history and/or within Central Florida and willing to speak to the researcher was challenging. Additionally, the process of getting public records from CDDs about their HOAs involved phone calls and emails that often resulted in the finding that there was no record. For the dozens of HOAs that were found, property management companies that oversee the operations of the HOAs were the next step in contacting. From there, board members were contacted by those property management companies who cooperated. The results were four participants and a beta participant who was not eligible because he was no longer a sitting board member. Though the target for the research was six participants, and the regional criteria of Central Florida was expanded, given the constraints and hours invested in securing quality interviewees, the four interviews obtained have a plethora of quality information, and a range of resident expertise and knowledge on CDDs. "Data availability and data reliability" are the shortcomings to special district research in general (Foster, 1997, p.81). This study encountered those issues with state data on elected boards and identifying participants. A comprehensive database that pairs Florida HOAs or community association with CDDs would have improved this qualitative study's participation limitation but recognizing this need is a contribution to the field. Researchers, state agencies, and non-profits can advance improved understanding of the CDD experiment by creating such a database.

A second limitation was the question of how the COVID recession compared to the Great Recession. Both recessions have similar effects but were caused for different reasons (Fernandes, 2020). Most of the interviewees noted this was not an apples-to-apples comparison nor was it applicable to them because they were not involved or living in the HOA in 2007. Therefore, this study could not answer how they compare, but the literature reviewed did find certain indicators that could be studied to make comparisons. Quantitative analysis beyond descriptive statistics was outside the scope of this qualitative approach; however, the literature noted *net position* and *unassigned fund balance* (UFB) can predict financial emergencies or condition (Marlowe, 2015; Hendrick, 2006; Chase and Montoro, 2009; Stewart, 2009; Arapis and Reitano, 2018). With UFB removed in 2012 as a prerequisite for making the state FE list, it is unknown if negative UFB levels will get the attention of residents and officials responsible for special district fiscal stewardship. Marlowe (2015) supports "total unrestricted net assets (i.e., on an accrual basis, all government assets minus all government liabilities) also as a percentage of total current revenues" as a better measure for special districts (p.53-54). Just as special districts can have a positive impact on relieving general governments of the financial burden to pay for infrastructure to accommodate population migration to Florida, special districts can have a negative impact on adjacent general governments that approved their creation. A future study would analyze the unassigned fund balance and total unrestricted net assets as an outcome variable and find relationships with prospective financial determinants from the literature, Florida State Auditor indicators, as well as constructs identified in this study's semi-structured interviews codes and themes.

Generalizability of the study to all special districts is not applicable and therefore another limitation. Concurring with Boone, et. al., "An axiom for local government is that a local, case-by-case approach is the best approach" (2017, p.1), this insight also applies the applicability of CDDs in Florida to other states that have this special district approach to commercial and residential development. Additionally, qualitative studies are not meant to provide large-scale generalizable results, but rather concentrated and insightful information about a topic, often as a result of unique experiences. The common threads found amongst the participants' interviews indicate that while they all have had different experiences with CDDs, there are underlying thematic elements that speak to the research questions and can guide further conversations about better CDD regulatory measures. Trustworthiness of the study in terms of bias, generalizability to a broader population, and sample selection can be a threat to the study. "In considering rigor in phenomenological research, as with any qualitative research, there is a need to determine whether the study is believable, accurate, and right, and whether it is useful to people beyond those who have participated in the study" (Sanders, 2003, p.293). Considering that half on the participants also represented CDD boards in addition to their HOA, dual representation is another limitation to generalizability that may have skewed the results.

The contribution of this study to the field of CDD research and understanding can facilitate further inquiry into the subject matter of these special districts. At the policy level, the state needs to take action to ensure that CDDs are not proliferating/enduring without cause, and that their financial status goes beyond monitored and reporting. The Pew Foundation (2016) found that Florida was one of 22 states that had some form of municipal financial condition monitoring, and one of eight states that had a warning system or legislation that defined and assessed fiscal distress, yet Florida's laws were characterized as suggestive monitoring that provides no teeth or enforcement authority (The Pew, 2016).

In an interview with staff at the Florida General Auditor on the state's financial monitoring of local governments, an analogy for the LifeLock commercial was mentioned to describe how legislation handcuffs state administrators in doing more (personal communication, January 2020). In the commercial a robbery is taking place at a bank where customers are on the ground and a customer on the floor whispers to the security guard to do something. The guard replies that he is only a security monitor who provides notification and says "there is a robbery" occurring. The commercial concludes saying why monitor a problem you can't resolve (Heli Rac, 2017). At the local level, communities and the residents within them could be onboarded to the CDD better. Just as in any new role and responsibility, prospective buyers could be provided a more direct framing of the CDD's costs/benefits, expectations, current financial condition, and a presentation or summary that informs better than the "two-inch" consent statement at closing.

5.6. Summary highlights of research questions from the interviews as a whole. The interview questions provided the basis of the central research question, and the participant interviews provided the researchers the ability to dissect the information, find patterns and commonalities, and combine those into the themes that eventually provided answers to some of them. Further, this central research on HOA perceptions of CDDs was furthered narrowed to investigate whether CDD distress has spilled over onto associations and if homeowners shoulder a "triple-taxation" burden as a result of governmental overlap, duplication of services, and efficiency or effectiveness issues that are inherent problems with special districts. The answers to these issues were peppered into the discussion of findings and themes. Lastly, additional highlights to this are further bulleted.

—***CDD Distress and Spillover****: What is Florida's experience with and homeowners' perceptions of community development districts (CDDs) with a financial emergency history in Florida? Are homeowners/HOAs aware of and find CDD financial condition an issue?*

- Homeowners may not be aware of the financial emergency history (theme 3) due to a lack of interest or inability to receive detailed or digestible communication from the CDD.
- In one case, mismanagement of historical data and lack of separation of powers on the different Boards led to missing/incomplete financial information. More or better oversight by the state was often mentioned.
- For three of the four participants, the CDD's FE history was not a major issue as they did not discuss it in detail. One participant, however, discussed it at length and said that residents are shocked when he tells them about the bond issuance and default issues. The financial condition of the CDDs, all of which had a 2019 flag for FE, did not appear to have spilled over onto the HOAs represented in the study, as recent CDD assessments remained flat according to the discussions.
- All participants acknowledged, had it not been for the CDD, the property investment would not have been made possible; however, continued benefits of the CDD were mixed.

—***Entity Overlap:*** *Do homeowners/HOAs find CDD overlap a problem with efficiency and effectiveness?*

- Apart from the one participant who chose not to respond to these questions, all the participants noted overlap to exist or not at all anymore; they did not see it as a major problem on efficiency and effectiveness in community management but commented on conflict of interest, delayed maintenance, and expenditures that were unnecessary or benefited those outside the CDD.

- One participant did specify the CDD could successfully manage the community, but that the city needed to be removed from involvement.
- One participant noted that their CDD didn't do anything the HOA could not manage.
- Overall, it seems that there is potential for CDDs to be efficient and effective, but resident control of board decision-making was the key factor in drawing this conclusion. This is related to governance structure (theme 1) and CDD developer power (theme 2).

—***Fiscal Impact****: Do homeowners/HOAs find an economic impact on them by their CDD?*

- Across the board, the participants had an understanding of the reasoning behind the CDDs' additional economic burden on them. The additional infrastructure and amenities in these communities are considered to be better managed than of that outside.
- Despite what can be considered a triple payment on a single property, the participants also echoed the economic impact was an "accepted burden" at times because homeowners see better infrastructure in their community, and they have accepted the additional taxation as an accepted burden of living where they do. This sentiment aligns with the benefit principle.

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Appendix

Exhibit 1: Recruitment Scripts

Study: Florida Community Development Districts (CDD): Trends, issues, financial condition, and homeowner perceptions

PI: Terry Henley

<u>E-mail script with no prior contact</u>

Hello Board Member ___,

My name is Terry Henley, and I am student at the University of Central Florida.

I am conducting research on community development district, which are special purpose local governments with property taxing powers, and your HOA has been identified as a community association within one of the CDDs in Florida that I am researching.

I gathered your contact info from publicly available information from your HOA/CDD. I would like to schedule a time to interview you or another member of your board on your perceptions of the CDD to which you pay taxes/assessments.

The interview would be less than one hour and be done online. If you can't meet online, then we can meet at your HOA's regular meeting location when it is convenient for you in the next 6 weeks using the attached S*tandard Safety Plan*. I will be asking six questions about HOA and resident perceptions of their CDD's existence, governance, financial condition, and impact. Further *Explanation of the Study* is also attached.

Are you interested in participating, and may I have your availability?

Respectfully,

Terry Henley

<u>E-mail script with prior contact</u>

Hello Board Member ___,

As mentioned on the phone, my name is Terry Henley, and I am student at the University of Central Florida.

I am conducting research on community development district, which are special purpose local governments with property taxing powers, and your HOA has been identified as a community association within one of the CDDs in Florida that I am researching.

I gathered your contact info from publicly available information from your HOA/CDD. I would like to schedule a time to interview you or another member of your board on your perceptions of the CDD to which you pay taxes/assessments.

The interview would be less than one hour and be done online. If you can't meet online, then we can meet at your HOA's regular meeting location when it is convenient for you in the next 6 weeks using the attached S*tandard Safety Plan*. I will be asking six questions about HOA and resident perceptions of their CDD's existence, governance, financial condition, and impact. Further *Explanation of the Study* is also attached.

Are you interested in participating, and may I have your availability?

Respectfully,

Terry Henley

<u>Phone script with prior contact</u>

Hello Board Member ___,

My name is Terry Henley, and I am student at the University of Central Florida.

I gathered your contact info from publicly available information from your HOA/CDD. Do you have a moment to discuss your HOA and potential participation on a research study? *(If no, ask if I can call back and when; then say thank you and end call. If yes, go through the points below)*

I am conducting research on community development district, which are special purpose local governments with property taxing powers, and your HOA has been identified as a community association within one of the CDDs in Florida that I am researching.

I would like to schedule a time to interview you or another member of your board on your perceptions of the CDD to which you pay taxes/assessments.

The interview would be less than one hour and be done online. If you can't meet online, then we can meet at your HOA's regular meeting location when it is convenient for you in the next 6 weeks using a S*tandard Safety Plan*. I will be asking six questions about HOA and resident perceptions of their CDD's existence, governance, financial condition, and impact. Further *Explanation of the Study* will be emailed or provided at the meeting.

Are you interested in participating, and may I have your availability? Would you like an email with more information? *(Depending on these answers, coordinate a time, call back, or email).*

Do you have any questions?*(Answer any questions)*

End the call after thanking them for their time.

Exhibit 2: Explanation of Research

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EXPLANATION OF RESEARCH

Title of Project: Florida Community Development Districts (CDD): Trends, issues, financial condition, and homeowner perceptions

Principal Investigator: Terry Henley

Faculty Supervisor: David Mitchell, Assistant Professor, School of Public Administration, UCF

You are being invited to take part in a research study. Whether you take part is voluntary.

The purpose of this research is to investigate Florida's experience with community development districts (CDDs) through an analysis of financial indicators and a qualitative approach that interviews homeowners/HOA board members, who are located in and pay taxes to a CDD, on their perceptions of their CDD's existence, governance, financial condition, and impact.

The procedures will involve an initial interview (in-person at the location where the HOA regularly meets or zoom) that will ask six broad questions with follow-up questions on homeowner/HOA perceptions about their CDD. The audio of the interview will be recorded. An optional follow-up interview (phone or zoom) could be requested to clarify any uncertain remarks. A "member-checking", procedure will follow where the typed transcripts to the initial interview will be provided to you to verify accuracy of transcription.

The initial interview will take less than one hour. The possibility of a follow-up call would take less than 10 minutes. The member check in procedure will take less than 10 minutes. All data will be maintained for five years, per Florida Law, including the interview recording and transcripts. The data will be kept on a password protected hard drive. Your name will not be published or reported. Any names mentioned in the interview (if any) will be omitted from reporting. You will be identified as a "HOA board member" (one member among 48,500 associations in Florida) that is in one the 200 plus CDDs in Florida. The name of the CDD could be listed.

After the phone call and/or email recruitment method, the only identifiable private information collected will be your name and email. This contact information is needed so the transcribed interview can be sent to you for approval. Your name and email will not be published or reported. Pseudonyms, such as "HOA Board Member", will be used to describe you.

In order for you to qualify for this study as a participant, you must 18 years or older, and be a representative on a HOA board that is located in a CDD with a financial emergencies (flagged or declared) by the state.

Study contact for questions about the study or to report a problem: If you have questions, concerns, or complaints*: Terry Henley, Graduate Student, Public Affairs, UCF, at email* *terrynhenley@knight.ucf.edu* *or by phone at 863.221.4041, or Dr. David Mitchell, Assistant Professor, Faculty Supervisor,* School of Public Administration *at email at email* *david.mitchell@ucf.edu* *or by phone at 407.823.5365*

IRB contact about your rights in this study or to report a complaint: If you have questions about your rights as a research participant, or have concerns about the conduct of this study, please contact Institutional Review Board (IRB), University of Central Florida, Office of Research, 12201 Research Parkway, Suite 501, Orlando, FL 32826-3246 or by telephone at (407) 823-2901, or email irb@ucf.edu.

Exhibit 3: Interview Protocols

Henley Interview Protocols for HOA Interviews Fall 2020

Interview Protocol for HOA(s) in Florida (CDDs)

Introduction: Thank you HOA Board Member for taking the time to allow me to interview you today. I am interviewing HOA residents for a class assignment and fellowship from the Foundation for Community Association Research on Community Development Districts (CDDs). Specifically, I aim to research and learn more about *HOA and Resident Perceptions of their CDD's Existence, Governance, Financial Condition, and Impact:*

Format: We will have a one-on-one, semi-structured interview discussing your perceptions and resident perceptions of the (Insert CDD Name) CDD, which you and other residents are assessed fees/taxes annually from your owned property to pay to the CDD. I will ask questions that will guide our in-depth discussion. Because this interview is a discussion about your personal perception and that of other residents you represent from your position on the HOA board, there are no right or wrong responses. However, there are moments when I may ask follow-up questions to check my own understanding or to receive more clarity about something that you have shared. I may also ask you to provide detailed examples to help my understanding of responses.

Confidentiality: With your permission, this discussion will be tape-recorded for transcription and research analysis purposes. In your responses, it is ok to use names of public entities as well as individuals who provide a public service. You may also use names of residents with no public service capacity, as I will be omitting the names of those residents and just reference them as residents in the assignment write-up. As stated in our correspondence, this interview will take no longer than one hour.

*As the **central question** of interest, the research will gauge Homeowner Association (HOA) and homeowner perceptions of their Community Development District (CDD) in terms of Existence, Governance, Financial Condition, and Impact.*

Broad Question #1 on **CDD Governance** or Role and Interviewee/HOA Role (Icebreaker)

Can you describe the roles and duties of the HOA and the CDD in your community?

a) Detail continuation probe – Can you describe your role on the HOA board and how you got started in this area of service?

b) Detail continuation probe – From your perspective, what does your CDD do (role) and how does it use taxes/fees? Further probe if necessary: If you do not know, what do you think the CDD role is and how they use your taxes/fees?

Broad Question #2 on Understanding and Knowledge of **CDD Existence** through Communication of Debt, "Build Out" Schedules, and Maintenance Services:

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A community development district (CDD) is a special purpose government or special district with taxing powers, established by Florida statute in 1980, that allow such districts to be created to finance new residential developments, particularly the development of unused land, through tax-exempt bonds (debt). Can you broadly discuss your CDD's communication with the HOA Board? Does the CDD communicate why and how it exists in terms of further development, paying off any bond debt, or providing maintenance services for the HOA?

a) Vividness and Detail probe – Were you aware that your home was in a tax collecting CDD when bought? If you recall the sequence of events, how did you discover that information?

b) Detailed Probe –Can you discuss how and if the CDD communicates its 1) "build out" schedule for development completion, 2) debt service, 3 maintenance services?

    a. Secondary Detailed Probe – If and when the CDD finishes paying its bond debt and is built out, is having a CDD still beneficial to the HOA?

c) Detailed Probe –What maintenance services for operations does your CDD provide if any? This can include services such as maintenance for ponds, parks, and lighting for shared facilities and areas.

    a. Secondary Detailed Probe if maintenance services provided – What is your perspective on the CDD providing this maintenance service and is the CDD the preferable entity in providing this service instead of the HOA or city/county government?

<u>Broad Question #3 on **Local Governance and Entity Overlap**, and Efficiency and Effectiveness:</u>

A homeowner in your HOA pays taxes/fees on their property to the CDD and County Government, and City Government (insert city if true for participant). What do you think about taxation overlap and services provided from these taxes?

a. Depth probe – From the taxes assessed among entities, is there service duplication and/or are special services provided from the taxes paid? (For instance, are residents comfortable with overlap or additional taxation because they receive a special service for which they are paying extra?)

b. Detail probe on effectiveness– Effectiveness is the capability of producing a desired result. Overall among taxing entities, which entity (the local government or the CDD) do you think is/would be more <u>effective</u> with managing the services (insert ___ eligible service here for each interview) provided with your payment and can you explain?

c. Detail probe on efficiency – Efficiency is the ability to produce but with the least amount of resource waste. Which entity (the local government or the CDD) do you think is/would be more <u>efficient</u> with managing the services provided with your payment and can you explain?

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<u>Broad Question #4 on **CDD Financial Condition**, Communication, and Transparency</u>

What is your perception of your CDD's financial condition and is that opinion influenced by CDD reporting and communication with the HOA?

a) Detail continuation probe – How does your CDD Board communicate its financial condition and how it spends resident assessments/taxes?

b) Detailed Probe – How or does the CDD communicate its proposed budget and annual financial statements?

c) Depth perspective Probe – What is your perspective on the CDD's financial condition and level of financial communication and transparency?

<u>Broad Question #5 on **CDD Financial Impact** (distress) to HOA and Homeowners:</u>

From your perspective, how has the financial impact of the triple tax payment (CDD, County and possibly city taxes/fees) changed throughout the years from the last recession to now?

a) Vivid Probe –How, if at all, does the COVID-19 recession compare to the 2008 housing crash in terms of tax assessments by the CDD?

b) Detailed probe – When were homeowners most distressed financially? A) now in COVID times, B) before in Great Recession times, C) neither time, D) the same, or E) don't know. Can you explain?

c) Depth Probe – What is your perception of CDD taxes throughout the years in terms of burden and acceptance?

<u>Broad Question #6 Wrap Up</u>

Is there anything you would like to add to the discussion of Homeowner Association (HOAs) and homeowner perceptions of their Community Development District (CDD) in terms of governance, existence, financial condition and impact?

Closing: Thank you again for sharing your time with me for this interview. The next steps will be for me to transcribe the audio. I will listen to our discussion and should any questions arise, I may be in contact with you for clarification. Once I have completed transcribing our discussion, I will analyze the transcription and send you my analysis for your review and feedback.