



**CITY OF PALM BEACH GARDENS
MEMORANDUM**

TO: Mayor and Council

APPROVED: Ron Ferris, City Manager

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DATE: July 12, 2011

FROM: Allan Owens, Finance Administrator

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CC: Department Heads
Budget Oversight Committee

SUBJECT: FY 2012 Proposed Operating & Capital Improvements Budget

Introduction

Attached to this memorandum, please find the proposed FY 2012 Operating & Capital Improvements Line-item Budget. Included in the budget are the following items:

1. Summaries of projected revenues for all funds, including line-item details
2. Department summaries by fund, which include line-item details and justifications
3. Salary and benefit spreadsheets
4. Capital summaries, which include a break-down of all capital items, by fund and department

The formal presentation of the FY 2012 budget will be made on July 19, 2011 at which time the tentative millage and date and time of the first public hearing are required to be set.

Required Accounting Changes

This year, the City will be required by Government Accounting Standards Board (GASB) Statement No. 54 to implement certain accounting and budgeting changes to its financial statements.

There are basically two major requirements of GASB 54 that affect next year's budget, the first of which categorizes fund balance into the following five new categories:

1. Non-spendable
2. Restricted
3. Committed
4. Assigned
5. Unassigned

For budgeting purposes, the category of fund balance that government officials focus on is the unassigned portion of fund balance. This is basically equivalent to the previous category of undesignated fund balance, which is the amount available for spending in the coming year. Therefore, terminology throughout this memo, as well as the FY 2012 budget document, has been updated to refer to the new category of unassigned.

The second major requirement of GASB 54 consolidates any governmental type fund (special revenue or capital project fund) that does not have a dedicated revenue stream, into the General Fund. The City previously had two capital project funds that were funded with inter-fund transfers: the PGA Flyover and Burns Road capital project funds. Accordingly, the expenditures and revenues for these funds have been rolled into the General Fund, with no net impact on the bottom line of the General Fund.

Summary of Budget

The FY 2012 Budget is based upon the Certified Property Valuation received from the Palm Beach County Property Appraiser this month in the amount of \$7,792,031,131. Excluding new construction of \$73,446,246, this represents a decrease of 2.72% from last year's valuation.

Using the final property valuation number, the proposed operating millage rate is 5.7404 mills, which is the same as last year. The proposed operating rate represents a 2.72% reduction from the roll-back rate of 5.9008 mills.

The proposed debt service millage is .1821 mills, which is down slightly from the current year's rate of .1854. Despite falling property values, the debt millage can be reduced slightly, due to last year's bond refunding.

Total General Fund expenditures are \$66,059,973 *which represents an increase of \$746,862, or 1%*, from the current year's expenditures of \$65,313,111. This net increase is largely due to the increase in Police Dispatch Services of \$1,326,143, offset by personnel cost reductions of approximately \$696,000 in public safety. The consolidation of dispatch services between the City of Palm Beach Gardens, Town of Jupiter, and Town of Juno Beach, along with personnel

cost reductions, is discussed in more detail later in the Fiscal Year 2012 Budget Strategy section of this memo.

Total sources for all funds consist of total estimated balances carried forward of \$28,429,070 and projected total revenues of \$80,151,158. *Total projected revenues are \$1,958,638, or 2% more than the current year's total of \$78,192,520.* The increase in total revenues is attributed primarily to the proposed increase in the Local Communications Service Tax, and is discussed in more detail in the Fiscal Year 2012 Budget Strategy section of this memo.

Total uses of funds consist of projected total expenditures of \$82,396,827 and ending reserves of \$26,183,401, for a total use of funds of \$108,580,228. *Total projected expenditures are \$239,948, or .2% more than the current year's total of \$82,156,879.* The increase in all funds is due to the increased expenditures in the General Fund previously discussed, offset by reductions in expenditures in the Capital Project Funds.

The total budget for all funds of \$108,580,228 is \$3,140,160, or 3% more than the current year's total of \$105,440,068. The summary of beginning balances, revenues, expenditures, and ending balances, by fund, is depicted in the table on the following page.

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SUMMARY OF ALL FUNDS REVENUES/SOURCES AND EXPENDITURES/USES

FUND	BEGINNING BALANCE	REVENUES	EXPENDITURES	ENDING BALANCE
GENERAL FUND	\$ 21,864,542	\$ 64,926,752	\$ 66,059,973	\$ 20,731,321
SPECIAL REVENUE FUNDS				
Gas Tax	860,661	744,750	890,912	714,499
Recreation	707,684	2,900,690	3,309,664	298,710
Golf	216,289	1,500,000	1,446,321	269,968
Police Training/Grants	29,620	10,000	12,000	27,620
TOTAL	\$ 1,814,254	\$ 5,155,440	\$ 5,658,897	\$ 1,310,797
INTERNAL SERVICE FUNDS				
Fleet Maintenance	469,629	2,437,185	2,573,960	332,854
Self-Insurance Fund	1,595,810	6,833,257	6,833,257	1,595,810
TOTAL	\$ 2,065,439	\$ 9,270,442	\$ 9,407,217	\$ 1,928,664
CAPITAL PROJECT FUNDS				
Recreation Impact Fee	661,428	333,534	500,000	494,962
Police Impact Fee	132,143	62,942	-	195,085
Fire Impact Fee	52,948	126,632	70,250	109,330
Art Impact Fee	703,894	700	-	704,594
Road Impact Fee	1,134,422	274,716	700,490	708,648
PGA Flyover Capital Project	-	-	-	-
Burns Road Capital Project	-	-	-	-
TOTAL	\$ 2,684,835	\$ 798,524	\$ 1,270,740	\$ 2,212,619
GRAND TOTAL	\$ 28,429,070	\$ 80,151,158	\$ 82,396,827	\$ 26,183,401

Effect of Proposed Millage on Typical Homeowner

The effect of the proposed operating millage rate of 5.7404 and debt service millage rate of .1821 mills on three typical homestead and non-homestead properties with taxable values of \$200,000, \$300,000 and \$400,000 is illustrated in the table below:

Homesteaded Taxable Value 1.5% increase (After \$50K Exemption)	Current Rate 5.9254	Proposed Rate 5.9225	Annual Increase (Decrease)	% of Total Properties in City of PBG
\$200,000 to \$203,000	\$1,185.08	\$1,202.27	\$17.19	65.62%
\$300,000 to \$304,500	\$1,777.62	\$1,803.40	\$25.78	13.08%
\$400,000 to \$406,000	\$2,370.16	\$2,404.54	\$34.38	7.21%
				85.90%
Taxable Value 2.72% decrease (avg. City-wide)				
\$200,000 to \$194,560	\$1,185.08	\$1,152.28	-\$32.80	65.51%
\$300,000 to \$291,840	\$1,777.62	\$1,728.42	-\$49.20	13.78%
\$400,000 to \$389,120	\$2,370.16	\$2,304.56	-\$65.60	6.45%
				85.74%

As you know, the Save Our Homes Amendment limits increases in assessed values of Homesteaded property to the lesser of 3%, or the previous year's Consumer Price Index (CPI), which was 1.5%. This is true even if the property's market value declines, as long as the market value is still greater than the assessed value. Homesteaded properties comprise roughly 56% of the City's residential properties. As you can see, the above homesteaded properties would see an annual increase in the City portion of their tax bill ranging from \$17.19 to

\$34.38. Almost 86% of the City's homesteaded properties have taxable values of \$400,000 or below.

Non-homesteaded properties comprise roughly 44% of the City's residential properties. All non-homesteaded properties will realize a savings, assuming the market value of the property declined by the average 2.72% realized City-wide. Almost 86% of the City's non-homesteaded properties have taxable values of \$400,000 or below.

Background

Since 2007, the City of Palm Beach Gardens, along with all government entities in the State of Florida, has been struggling with budgetary issues stemming from the recession - foremost of these issues has been the decline in real estate values. In FY 2007, the City's total property tax roll was \$9,250,213,684, and ad valorem tax revenue was \$50 million. For the coming FY 2012, the tax roll is \$7,792,031,131, which represents a decline of \$1,458,182,553, or 15%. Projected ad valorem tax revenue next fiscal year is \$44 million, down \$6 million, or 12% since FY 2007. At the same time, other revenue sources have also declined, including Sales Taxes, State Revenue Sharing, Electric Franchise, and Investment Income. Without any new revenue sources or property tax increase in FY 2012, the City's total revenues will have declined approximately \$9 million since FY 2007.

While the real estate market and economy have shown signs of improvement recently, the recovery is uncertain, and is sure to be a long, slow process. Even after the market fully recovers, the City's ad valorem revenue stream will continue to be constrained by legislatively imposed caps on the growth of property values and tax rates.

Summary of Tax Reform Legislation

In order to understand the total impacts from tax reform legislation, it is helpful to recap the provisions of the 2007 legislation and the 2008 voter referendum.

2007 Tax Legislation

In 2007 the Florida Legislature approved bills (HB 1B and SB 2B) that placed limitations on the amount of taxes that may be levied by local governments in FY 2007/08. Under these statutory provisions, all cities and counties were required to roll-back taxes to the FY 2007 level. Local governments then had to make an additional cut of 3%, 5%, 7% or 9%, based on a formula that analyzed their taxing performance over the previous five years. The City of Palm Beach Gardens was required to make an additional cut of 5%.

Under these new rules, a taxing authority may not levy, without a super majority vote, an operating millage rate that exceeds the current year's adjusted roll-back rate, increased by the growth in the Florida per capita income for the prior year. The adjusted roll-back rate is based on the revenue that could have been raised with a simple majority vote, not the actual millage rate that was levied. When performing this calculation for FY 2012, the adjusted roll-back rate is 7.0202 mills. This rate can be exceeded, but only by a super majority vote of the Council.

2008 Voter Referendum (Amendment 1)

The second phase of the recent legislation placed a constitutional amendment on the ballot (Amendment 1), which was approved by Florida voters on January 29, 2008. A summary of the major provisions of the reforms approved in the referendum election are as follows:

- *Applicable to all ad valorem tax levies*
 - All or part of existing Save Our Homes exemption becomes portable (up to \$500,000) upon a change in property ownership
 - The first \$25,000 of assessed value of tangible personal property is exempt from ad valorem taxation

- *Applicable to all ad valorem tax levies other than school district tax levies*
 - An additional homestead exemption of \$25,000 for homesteads valued above \$50,000
 - Annual increases in assessed value of non-homesteaded property will be limited to 10%, provided no change in ownership occurs

Analysis of Impacts of Economic Downturn and Tax Reform

Historically, the City has funded a majority of its General Fund operations with ad valorem taxes. As an example, in the FY 2011 budget, approximately 73% of total General Fund revenue is derived from property taxes. As real estate values have declined, other revenues have also declined significantly. As mentioned previously, total General Fund revenues have declined almost \$9 million dollars since fiscal year 2007.

To date, the City has dealt with this revenue loss with minor property tax increases and significant expenditure cuts. These cuts have come primarily from the loss of almost 15% of full-time staff, approximately \$3 million in operating cost cuts, and elimination of pay increases for general employees and bargaining unit employees, when contracts allow.

Over the course of four years, the impacts on services, programs, and employees from the previously discussed revenue loss due to tax reform and the

downturn in the economy has been significant. To summarize, following is a list of some of the more significant actions implemented in FY 2008 through FY 2011 in order to meet the reductions in revenues:

FY 2008:

- (15) Full-time positions were eliminated.
- (1) Position was downgraded.
- 7,198 hours of Part-time staffing were eliminated.
- Employee Recognition Programs were eliminated including the Holiday Party.
- Employee contributions for HMO and PPO family coverage were increased an average of 30.4%.
- The Economic Development Program was eliminated.
- Staff travel, training, and seminars were reduced by 20%.
- Janitorial and grounds maintenance services were reduced.
- Generally, material and supply line items were decreased in all Departments.

FY 2009:

- An additional (15) full-time positions were eliminated.
- An additional 17,804 hours of Part-time staffing were eliminated.
- Staff travel, training, and seminars were reduced by additional 11%.
- Eliminated merit adjustments for general employees.
- Reduced auto allowances by 50%.
- Reduced overtime by approximately \$230,000.
- Extended the replacement program for vehicles, desktop and laptop computers.
- Eliminated the Military Trail Grant Program.
- Eliminated funding for neighborhood outreach programs.
- Eliminated all community promotion items, such as the annual open house event, volunteer recognition dinners, volunteer program incentives, and PBG Historical Society archiving and framing supplies.
- Eliminated funding for the driveway replacement program in Stormwater Division.
- Reduced janitorial frequency and amount of areas cleaned.
- Reduced funding for unanticipated repairs to facilities.
- Eliminated funding for Swim With Santa, Weather the Storm, Gardens Youth Triathlon, Dive Into the 4th, and Dancing Under the Stars from the General Fund.

FY 2010:

- An additional (20) full-time positions were eliminated.
- Eliminated all raises for General Employees and SEIU employees.
- Eliminated \$1.4 million from the Capital Improvement Plan.
- Reduced overtime by an additional \$123,000.

- Reduced janitorial services by an additional \$111,000.
- Reduced contractual mowing by an additional \$215,000.
- Eliminated funding for the City lobbyist, saving \$60,000.
- Eliminated printing of *Signature City Magazine*, saving \$49,000.
- Eliminated contractual labor support for the Honda Classic, saving \$20,000.
- An additional 2,000 hours of Part-time staffing were eliminated
- Staff travel, training, and seminars were reduced by an additional \$211,000.

FY 2011:

- An additional (28) positions were eliminated, reducing total budgeted full-time positions to 436. This represents a reduction of 78 positions from the FY 2007 total of 514, or 15%. An additional 4 positions were transferred to Special Revenue Funds, where they will be funded solely from program revenues.
- No salary increases for General Employees and members of the PBA and SEIU bargaining unit.
- Cap Conversion of Leave at 80 hours in a fiscal year for all employees except members of the IAFF. This will be addressed in the FY 2012 contract negotiations.
- Eliminate Personal Leave and Acute Leave; replace with one Personal Time Off (PTO) accrual. This accrual has been reduced across-the-board by 4 hours per month.

Despite all of the above actions, the City would be faced with a deficit in the proposed FY 2012 budget of approximately \$3.7 million dollars, without further cuts or increased revenues.

Fiscal Year 2012 Budget Strategy

As revenues have fallen, balancing budgets has required local governments to cut expenditures, raise property taxes, add alternative revenue sources, use reserves, or implement some combination of all four. To date, the City has dealt with the issue primarily through significant expenditure cuts. Further cuts in staffing or operating expenditures would most certainly affect public safety.

At the same time as the City's revenues are being diminished, staff is cognizant of the current anti-tax environment spreading at the local, state and national levels. However, residents also do not want to see their Police and Fire protection services decreased. Therefore, the FY 2012 budget attempts to maintain the same levels of service and staffing currently provided, while at the same time actually proposing a slight reduction in the overall property tax rate.

To accomplish this goal, staff has formulated a strategy that focuses on the following areas:

- Personnel costs other than salaries
- Alternative revenues
- Use of reserves

Following is a review and discussion of staff's analysis and strategy to address each of the above areas.

Personnel costs other than salaries

Public safety pension costs

With regard to personnel costs, the single largest expenditure in the budget, after salaries, is the City's contribution to public safety pensions. In FY 2002, the total required contribution was approximately \$1.4 million. According to the most recent actuarial valuations, the City's required contribution to the Police and Fire pension plans in FY 2012 is approximately \$7.8 million dollars, and represent 42.42% and 36.75% of Police and Fire payroll, respectively. This represents an increase of \$6.4 million, or 465%, in a ten year period.

In an effort to reduce the annual cost and unfunded liabilities of these pension funds, the City hired an actuary earlier this year to look at available options. During the course of this analysis, it became clear that the current structure of two separate plans, with two boards and two sets of consultants, was highly inefficient and excessively costly. It also became clear that significant changes could not be made to the plans without losing Chapters 175 and 185 State premium tax revenues to supplement their funding. This is due to provisions that prohibit local plans from receiving these funds if benefits are reduced below certain mandated levels.

Of the \$1 million that is received annually by the plans from the State, only \$235,000 can be used by the City to offset its cost, which is approximately \$7.8 million next year. The remaining balance of funds received goes to fund extra benefits. Based on the minimal benefit to the City of continuing participation in the Chapters 175 and 185 funding, staff recommends opting out of this program.

Following is a summary of staff's recommended revisions to the Police and Fire pension plans:

- One plan for both police officers and firefighters
- Opt out of Chapters 175 and 185
- 2.75% multiplier
- No COLA
- Pensionable earnings base pay only

- Maximum benefit 75% of average final compensation
- Retirement age 59 with 10 years of service
- Eliminate service based retirement (i.e., 20 years and out for police; 25 and out for firefighters)

Although a detailed actuarial impact statement will have to be done to determine the exact savings from the above changes, rough estimates indicate that the City's annual contribution could be reduced by approximately \$2 million. The City is currently in the process of negotiating these changes with both the PBA and IAFF, in conjunction with the negotiation of the collective bargaining agreements. The negotiation process, coupled with the required detailed impact statements and drafting of new plan documents, will take considerable time. Until then, the City is legally obligated to ensure the plans are actuarially funded; accordingly, 100% of the required actuarial contribution is included in the budget for FY 2012.

Contractual additional pay items

Due to the one year extension negotiated last year with the PBA, the City is in the unique position of negotiating with both the IAFF and PBA at the same time. This provides the opportunity to negotiate similar agreements for both groups.

Of the total General Fund salaries budgeted next year of \$30 million, approximately 72% is allocated toward PBA and IAFF salary and additional pay items. These pay additives include items such as incentive, certification, longevity, and conversion of leave payments.

If the City continues to fund these additional pay items at the current levels, incentive and certification pay will equal \$664,660, longevity pay will equal \$1,020,722, and conversion of leave will total \$330,000 for public safety. These amounts are 99% 86%, and 65%, respectively, of the totals for the entire General Fund.

In addition, the PBA and IAFF salary increases since 2009 have been very generous for the members, especially when compared to increases given to members of the SEIU and general employees, as illustrated in the chart below:

% Salary Increases by Category:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
PBA	6%	6%	0%	0%	12%
IAFF	3%	3%	3%	0%	9%
SEIU	6%	0%	0%	0%	6%
General	3%	0%	0%	0%	3%

As can be seen from the chart, increases have totaled 12% and 9% for the PBA and IAFF members, respectively, while SEIU and general employees have only

received 6% and 3%, respectively. Due to the current financial situation, no raises have been budgeted for any group next year. Last year, the City was able to negotiate a one year agreement with the PBA for no salary increases, and placed an 80 hour cap on conversion of leave payments, which has been the norm for general employees and SEIU employees. Therefore, staff believes it both necessary and fair to address certain additional pay items in the coming year to bring more equity between the IAFF and PBA contracts.

As mentioned previously, incentive and certification pay for public safety totals \$664,660 next year, if continued at current levels. Of this total, \$538,200, or 80% is for IAFF alone. Staff is recommending changes to the current certification pay structure that would save approximately \$249,000 annually. However, staff is estimating that the time to negotiate this change for IAFF and PBA could extend into the first quarter of FY 2012; therefore, three months' funding is included for the current certification program. This reduces the savings next year to approximately \$186,750, assuming negotiations can be completed by January 1, 2012.

With respect to longevity payments, management is recommending that the program be frozen at current levels for all employees, both bargaining and general. As with certification pay, funding has been provided for three months for public safety. After this, longevity payments are projected to be frozen for all employees. By adopting this recommendation, expenditures could be reduced an additional \$77,648 next year.

Lastly, by adopting management's recommendation to implement an 80 hour cap on conversion of leave for IAFF, as has been implemented for all other employees, approximately \$79,800 of further expenditure cuts could be realized next fiscal year. This, too, is contingent on completion of negotiations by January 1, 2012.

Voluntary Employment Benefit Arrangement (VEBA)

Currently, the City is contributing approximately \$470,388 towards the Police and Fire separate VEBA accounts. These contributions represent 2% and 3% of salary for Police and Fire, respectively. As with additional pay adjustments, this is an item that must be negotiated.

Funding to date has come from salary increases that members negotiated with the City over the last few years, i.e., PBA members negotiated a 6% increase in total (5% to salary, and 1% to VEBA), for two years, while IAFF negotiated a 3% total increase (2% salary, and 1% VEBA), for three years.

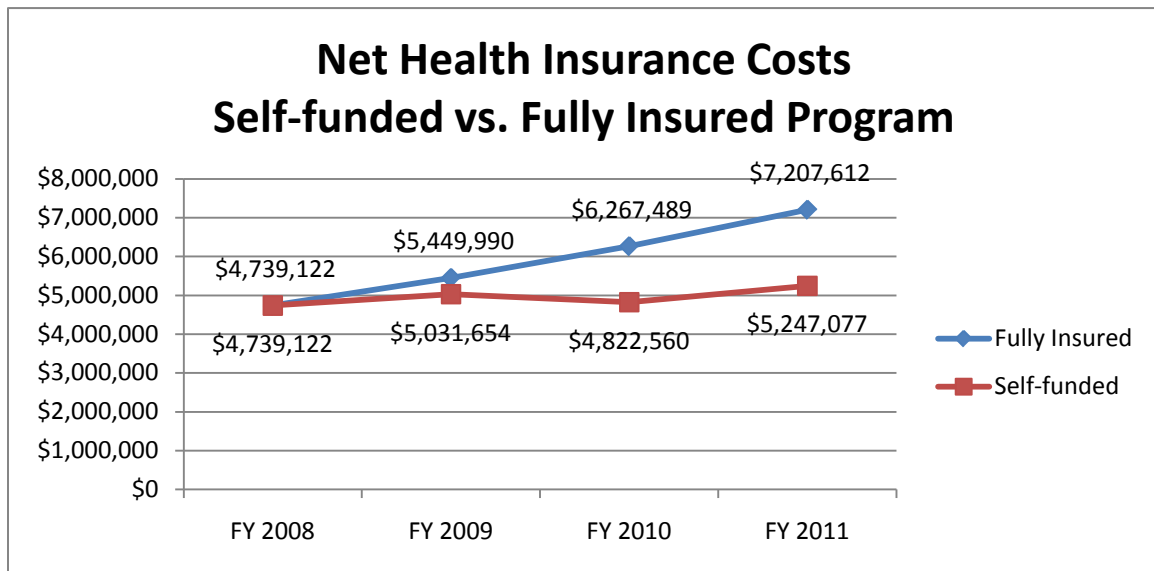
Staff is recommending that funding for the VEBA programs be eliminated. Although the contributions have been funded by the members foregoing 2% and 3% of salary increases, these employees will still have received actual increases in salaries of 10% over two years for PBA and 6% over three years for IAFF. As

with the additional pay adjustments, this item must also be collectively bargained. Due to the time required to negotiate this change, three months of funding has been budgeted in FY 2012, resulting in net savings of \$352,791.

It is important to note that if the City is not successful in negotiating the above additional pay and VEBA items before January 1, 2012, a budget amendment will be required to transfer approximately \$696,000 from unassigned reserves to cover costs for the remainder of the year. Alternatively, Council could choose to increase the proposed operating millage by .093 mills, or reduce other public safety personnel costs by \$696,000.

Health care cost controls

Effective FY 2008, the City implemented a self-insured fund for payment of medical and dental claims. In FY 2007, the net expense for the fully insured program with Blue Cross Blue Shield was approximately \$4.7 million. After establishing the self-insured fund, net costs are projected to be \$5.2 million for the year ended September 30, 2011. This equates to an average annual increase of about 3.5% per year. If the City had maintained the same fully insured program, and costs had increased by the average medical inflation rate of 15% annually, total medical and dental costs for FY 2011 would have been approximately \$7.2 million, as illustrated in the following chart:



By implementing the self-funded program, the City has realized approximately \$2 million in savings compared to maintaining the previous fully insured plan.

In an effort to further curtail medical cost increases, the City implemented an employee health clinic in April, 2011. The goal is to further minimize claims costs

by directing patients from high cost providers to the City's contractual provider for general medical and wellness services. Prescriptions can also be obtained at a discounted rate of approximately 20% from normal pharmacy prices. Health risk assessments are also available, and have been performed for many employees and their covered dependents. This is the other part of the potential savings which is hard to quantify: identifying and treating medical issues such as diabetes and hypertension, before they turn into costly and potentially serious medical conditions.

As a result of the self-insurance fund's three-year historical performance, which includes accumulation of approximately \$1.6 million in estimated reserves as of September 30, 2011, transfers to the fund are budgeted next year at \$6.2 million, up from \$5.8 million in FY 2011. This represents an increase of 6.5%, and is less than half the normal medical inflation rate of about 15%. Further discussion and review of the impacts from the health clinic will be possible next year, after a full twelve months' claims data are available for analysis.

Alternative revenues

Local Communications Services Tax

In the current economic environment of declining real estate values, the need for diversification of the City's revenue base has become more evident. As discussed previously, ad valorem tax revenue accounts for approximately 73% of total General Fund revenue. This makes the City's revenue sources extremely susceptible to further reductions in real estate values. In light of the current real estate market, we feel it is prudent to explore available alternative revenue sources to minimize the need for property tax increases or significant further expenditure cuts that would impact levels of service to the residents.

Other revenue sources that have long been used by the vast majority of municipalities in the county, but have not been instituted by the City, include:

- Residential solid waste collection and recycling fees
- Storm water assessments
- Public service utility taxes on electric, water, natural gas, fuel/oil and propane

One alternative source of revenue that is currently collected by the City is the Local Communications Services Tax. The City of Palm Beach Gardens currently collects Local Communications Services Taxes at the rate of 1.5%, which is less than the maximum rate of 5.10% for municipalities that have not chosen to levy permit fees as established in Section 202.19(2), Florida Statutes. In addition, municipalities that have not elected to levy permit fees as established in Section 202.19(2), Florida Statutes, are allowed to increase its Local Communications Services Tax rate by an amount equal to 0.12% as authorized pursuant to

section 337.401, Florida Statutes. When combined, the maximum allowed Local Communications Services Tax rate is 5.22%.

Currently, there are only three of thirty-eight cities in the county that assess a Local Communications Services Tax less than the City of Palm Beach Gardens: Atlantis, Golfview, and Jupiter Inlet Colony. Of the remaining municipalities, thirty levy a rate of 5% or above. Several cities actually have rates that exceed the current maximum allowable rate of 5.22%. This is the result of special rules that established conversion rates when this tax was implemented October 1, 2002.

In light of the current budget situation for fiscal year 2012, with property values once again dropping by almost 3%, staff is recommending an increase in the Local Communications Services Tax rate from 1.5% to 5.22%. Per State Statutes, any such changes must be adopted by ordinance and submitted to the State by September 1st of each year, with an effective date of change the following January 1st.

If this change is approved, an additional \$2.4 million could be generated annually. Due to the January 1st effective date, approximately \$1.9 million would be collected in FY 2012.

As an alternative to increasing the Local Communications Service Tax, Council could choose to increase the proposed operating millage by .251 mills, using reserves, or reduce other public safety personnel costs by \$1.9 million.

The effects of the proposed change on two sample residents with annual communication charges of \$2,400 and \$3,600 are illustrated in the table below:

Average Annual Bill	Increase in Rate	Annual Increase	Monthly Increase
\$2,400	3.72%	\$90	\$7.50
\$3,600	3.72%	\$135	\$11.25

The adoption of the 5.22% Local Communications Services Tax is an integral component of the fiscal year 2012 budget plan, and, if approved, will allow the City to maintain the same operating ad valorem tax rate of 5.7404 mills.

Combining inter-jurisdictional services

On September 30, 2010, the City Council approved Resolution R-74-2010, which approved an interlocal agreement with the Town of Jupiter and Town of Juno Beach to consolidate communications and dispatch services for the three

neighboring communities. This was the culmination of several years of talks and negotiations between the three cities' management and police departments, with the goal to enhance interoperability and communication for police functions while managing long term costs. Anticipated savings for the three cities will come from efficiencies gained in staffing and sharing of redundant operating, capital, and technology expenses that would be incurred by the separate agencies.

Consolidated operations began the first week of May, 2011, with the completion of the new emergency operations and communications center. The consolidation resulted in the City of Palm Beach Gardens gaining 14 additional employees, and an increase in the dispatch budget of approximately \$1.3 million. This increase in costs was offset by intergovernmental revenue from the Towns of Jupiter and Juno of approximately \$1.5 million, which includes \$200,000 for management oversight and facility maintenance.

Use of Reserves

The City of Palm Beach Gardens has been extremely fortunate to weather these very difficult times without depleting reserves. In fact, since FY 2007, when the recession started, through FY 2010, the City actually added approximately \$7 million to the General Fund Balance. This has been accomplished by cutting personnel and operating expenditures, and by recovering previously denied FEMA reimbursements related to hurricanes in 2004.

In the current FY 2011, the budget was prepared with the expectation of drawing approximately \$3.4 million from fund balance; however, our most current projections indicate a drawdown of about \$1.5 million, for a total end of year fund balance of approximately \$26.4 million, with unassigned reserves of \$21.8 million. This represents 31.8% of estimated General Fund expenditures for FY 2011, and is more than double Council policy directive of 15%.

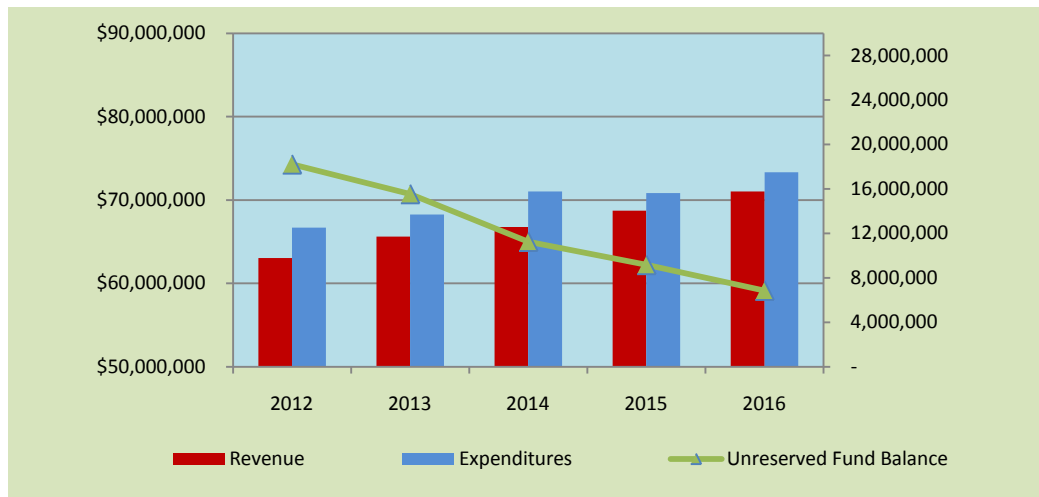
In light of this projected fund balance carryover to FY 2012, staff is recommending the use of \$1.1 million from reserves to balance the budget. This will leave an unassigned balance in FY 2012 of \$20.7 million, which is 31.3% of operating expenditures; again, this is more than twice the policy directive of 15%.

Please note the following significant items related to the use of reserves:

- The planned use of \$1.1 million is less than total General Fund capital expenditures of \$1.2 million, and adheres to the City's policy of using reserves for one-time expenditures.
- The planned use of \$1.1 million is predicated on the increase in the Local Communications Services Tax from 1.5% to 5.22%. This will generate approximately \$1.9 million next fiscal year. *Without this alternative revenue, or an equivalent tax increase, the reduction in reserves would be approximately \$3 million.*

- Funding for the first quarter in FY 2012 of the current levels of certification, longevity, conversion of leave, and VEBA contributions have been included for the IAFF and PBA contracts, pending the outcome of contract negotiations. *If the contracts cannot be negotiated with management's recommendations, reserves will be further reduced by approximately \$696,000.*
- Funding has been provided for the existing Police and Fire pensions for a full year. Until changes can be made to these plans, the City is required by law to ensure that the plans are actuarially funded. If the plans can be negotiated with management's recommendations, the use of fund balance could be further reduced by about \$2 million, or a pro-rata portion if implemented at some point during next fiscal year.
- ***Lastly, it is extremely important to note that, if management's recommendations for alternative revenues, union contractual adjustments, and revisions to pension plans are not adopted, the City's unassigned reserves will be reduced to less than \$7 million at the end of FY 2016. This is illustrated in the chart below:***

5 Year Forecast – Maintaining Status Quo



Personnel Cost Assumptions Affecting the Proposed Budget

Personnel costs comprise the majority (approximately 72%) of the City's General Fund operating expenditures. Therefore, the factors that influence personnel costs are by far the most significant drivers of the entire budget. Following is a brief discussion of the factors and assumptions used in formulating the budget for personnel costs next fiscal year:

Salaries

IAFF, PBA, and SEIU

No increases have been budgeted. These collective bargaining agreements are currently being negotiated.

General Non-bargaining Employees

No increases have been provided.

Pensions

Police

Contributions for FY 2012 are budgeted at 42.42% of payroll, per the 10/1/10 actuarial report, for a total of \$3,785,539. Revisions to the plan are currently being negotiated with the PBA.

Fire

Contributions for FY 2012 are budgeted at 36.75% of payroll, per the 10/1/10 actuarial report, for a total of \$3,974,487. Revisions to the plan are currently being negotiated with the IAFF.

FRS

Contributions to the FRS (Florida Retirement System) are established by the legislature. FRS contributions will change effective 7/1/11, decreasing to 4.91% for regular class, 6.27% for senior management, and 11.14% for elected officials. The total projected FRS contribution for the General Fund is \$609,918.

Insurance

Health Insurance

As previously discussed in the Budget Strategy section of this document, total transfers to the Self-insurance Fund have been increased 6.5% from \$5.8 million to \$6.2 million. This fund is used to accumulate resources to pay for health and dental claims, and life, AD&D, and reinsurance premiums.

Workers Compensation

Last year, the City was preparing Requests for Proposals for workers' compensation and property/liability insurance concurrently with the budget preparation process. Actual workers' compensation insurance costs were ultimately significantly lower than what had been projected during the budget preparation. The favorable two-year agreement entered into last year, coupled with a reduction in the experience modification factor from .79 to .65, results in workers compensation costs projected to be 47% less than last year.

Property/Liability

Due to the two-year agreement negotiated last year, a decrease of 7% below the current year's budgeted amount is projected for property and liability insurance in FY 2012.

Summary

Over the course of five years, the impacts on services, programs, and employees from the previously discussed revenue loss due to the downturn in the economy have been significant.

In order to meet the challenges brought about by reductions in revenues due to current market conditions, the proposed FY 2012 budget as submitted includes the following significant items:

- *The budget as presented contains a total of 450 full-time positions, which is an increase of 14. This increase is due to the consolidation of dispatch services between the City of Palm Beach Gardens, Town of Jupiter, and Town of Juno Beach. As discussed previously, this consolidation is a cost sharing arrangement, and will actually generate an additional \$200,000 for the City next year for administrative oversight and facility maintenance. Excluding these additional positions, a total of 78 positions had been eliminated since FY 2007, when there was a total of 514 positions. This represents a reduction of 15% through FY 2011.*
- *Increase the Local Communications Services Tax from 1.5% to 5.22%, which should generate an additional \$1.9 million in FY 2012.*
- *No salary increases for general, IAFF, PBA and SEIU bargaining unit employees.*

- *Freeze the longevity pay program for general, SEIU, IAFF, and PBA bargaining unit employees.*
- *Cap IAFF conversion of leave at a maximum of 80 hours in a fiscal year.*
- *Revise the IAFF certification pay system.*
- *Revise the existing Police and Fire pension plans to achieve savings in future budgets.*

In this era of uncertain economic times and legislatively imposed tax caps, extremely difficult financial decisions must be taken. By adopting the strategies set forth in this document, the City Council will take significant positive steps to ensure the continued financial strength of the City for the next five years and beyond.

Although these actions will be difficult, staff believes they are both necessary and fiscally prudent, and are required to ensure a sustainable financial future that provides the level of services demanded by the residents, at a reasonable cost.

Notwithstanding the above challenges, staff is committed to providing the highest possible quality of services to our citizens, and, even with the reductions we have dealt with, we believe the proposed spending plan for FY 2012 will continue to provide quality service to our residents. There will certainly be more challenges in FY 2013 and beyond, ranging from possible new tax legislation to continued uncertain economic conditions. However, we believe the City is fortunate to be well positioned financially to weather these difficult times.

If you have any questions concerning the proposed budget, please contact Mr. Ferris so that we may schedule a meeting at your convenience to discuss any issues you may have.