

MEMORANDUM

TO: CITY COUNCIL OF PALM BEACH GARDENS

FROM: BUDGET OVERSIGHT REVIEW BOARD

RE: 2019 ANNUAL REPORT

DATE: AUGUST 29, 2019

This 2019 Annual Report (this “**Annual Report**”) is submitted to the City Council (the “**Council**”) of Palm Beach Gardens (the “**City**”) in accordance with Section 7(d) of the Ordinance 2016-032 (the “**County Ordinance**”). Included in this Annual Report are certain recommendations of the Budget Oversight Review Board (the “**BORB**”), as well as the BORB’s review of the following items: (i) review of the expenditure of the one-cent sales surtax (the “**Tax**”) funds; and (ii) review of the proposed operating and capital improvement budget and how it relates to the spending plan for compliance with the City of Palm Beach Gardens’ financial policies.

BACKGROUND

On May 17, 2016, the Board of County Commissioners of Palm Beach County adopted the County Ordinance, which implemented the Tax. The County Ordinance also established certain requirements for citizen oversight of the expenditure of surtax funds; these requirements are set forth in Section 7 of the ordinance. On November 8, 2016, Palm Beach County voters approved a ballot issue to enact a One-Cent Infrastructure Sales Surtax to pay for acquisition or improvements to public infrastructure. This additional tax, which went into effect on January 1, 2017, will be in place for up to ten (10) years. On February 9, 2017, the City Council of Palm Beach Gardens (the “**Council**”) adopted Ordinance 5, 2017 (the “**City Ordinance**”), which dissolved the Budget Oversight Committee and established the BORB. The Council tasked the BORB to (i) continue the budget oversight function, and (ii) satisfy the requirements set forth in the County Ordinance regarding citizen review of the Tax expenditures. Copies of the County and City Ordinances can be found on the City’s website.

POWERS AND DUTIES OF THE BORB

Section 2-127 of the City Ordinance sets forth the powers and duties of the BORB:

1. Review the expenditure of the Tax funds;
2. Review the proposed operating and capital improvement budget as prepared by staff;
3. Request information from staff in order to analyze the proposed operating and capital improvements budget;
4. Review the recommended spending plan for compliance with current adopted financial policies, i.e., fund balance levels, debt service coverage, etc.; and

5. Make a recommendation to Council during the budget adoption process regarding the proposed operating and capital improvements budget, as submitted.

REVIEW OF THE EXPENDITURE OF THE ONE-CENT SALES SURTAX FUNDS



The BORB’s primary function is to review expenditures to determine if sales surtax funds are being spent appropriately for the approved projects, and to provide an annual report to the Council. Estimated budget, amount spent/encumbered, and available balance for the projects being funded by the Tax proceeds under the Capital Improvement Budget are as follows:

Land Improvement Projects	Estimated Budget	Spent/Encumbered	Available Balance
Land Acquisition and Soccer Field Development:	\$ 13,700,000	\$(11,313,038)	\$2,386,962
City Hall Renovations/Expansion: Interior and exterior renovations to address existing and projected shortages of office, meeting and storage space, and to accommodate the relocation of Fire Administration to City Hall.	\$ 9,218,305	\$(8,262,469)	\$955,842
Operations Center	\$6,860,655	\$(6,280,034)	\$580,621
Contingency	\$156,040	0	\$156,040
Total	\$ 29,935,000	\$(25,855,535)	\$4,079,465

As noted in the BORB’s 2018 report, two projects designated to be funded by the Tax Proceeds have been removed from the list and are to be funded from the Capital Improvements Budget: (a) Tennis Center Clubhouse; and (b) Baseball Complex Expansion.

The Gardens North County District Park, which consists of seven lighted regulation multi-purpose fields, two playgrounds, a splash pad, three pavilions, nature trail, walking areas, an open space area, a concession stand with restrooms, parking, and solar lighting where possible, held its grand opening on June 29, 2019. The Operations Center Project, which consists of an approximately 40,000 square foot, Category 5 Operations Center, consolidates the Public Works and Public Services Divisions into one location and will also be used during Emergency Management responses and will house emergency response staff and equipment, is also nearing completion. The BORB commends the city of completing these projects in an efficient time frame and what appears to be under budget.

BORB Analysis.

In fulfilling our responsibilities under the County Ordinance and the City Ordinance, the BORB requested further detail on the status of revenues generated by the One-Cent Infrastructure Sales Tax. Currently, revenue receipts are exceeding the City’s expectations; however, it is

important to note that revenues are subject to numerous market variables and will likely fluctuate in the future. The Line Item Account Summary for the Tax is as follows:

Department/Division Expenditures Line Item Account Summary								
	Actual 2017	Actual 2018	Percentage Increase/ (-)Decrease	Adopted Budget 2019	Amended Budget 2019	Proposed Budget 2020	Dollar Amount Increase/ (Decrease)	Percentage Increase/ (-)Decrease
Fund 312 - One-Cent Sales Surtax Capital Improvements								
312.0900.519.6900 CIP	265,558	3,442,139		-	26,227,302	-	-	
312.0900.519.7110 PRINCIPAL - DEBT	-	-		2,775,000	2,775,000	2,835,000	60,000	
312.0900.519.7210 INTEREST - DEBT	-	299,525		569,525	569,525	507,815	(61,710)	
312.0900.519.9900 COSTS OF ISSUANCE	62,720	-		-	-	-	-	
312.0900.519.9901 ADVANCE REFUNDING	-	-		-	-	-	-	
312.0900.519.9924 RESTRICTED RESERVES	-	-		-	-	-	-	
Total - One - Cent Sales Tax Fund	\$ 328,278	\$ 3,741,665		\$ 3,344,525	\$ 29,571,827	\$ 3,342,815	\$ (1,710)	
New fund 2017 to account for One-Cents Sales Surtax CIP								

Additionally, the BORB has been kept apprised of the current Fund expenditures and how such expenditures impact the Capital Improvement Budget. The estimated unspent balance for projects that will be carried forward from FY 2019 is \$4,079,465; the carry-over is approximately \$16,000,000 less than last year as a result of the completion of some of the larger projects. The City’s estimated annual and 10-year allocations of the Tax are illustrated on the following table:

City of Palm Beach Gardens Distribution Percentage 1.3216% (of \$228 million)		
1 year	10 Year (No Revenue Increase)	10 Year (3% Revenue Increase)
\$3,012,492	\$30,124,923	\$35,570,894

As of even date, the City is nearing the completion phase for a majority of the projects; the largest remaining project is the expansion of City Hall and related areas.

BORB REVIEW AND RECOMMENDATIONS- EXPENDITURE OF TAX FUNDS

The BORB has held public meetings on a monthly basis in order to fulfill the duties and responsibilities set forth in the City Ordinance, which is to provide citizen input for both the budget process and the expenditure of the Tax proceeds allocated to the City. Furthermore, the BORB has reviewed the following issues in accordance with Section 2-127 of the City Ordinance:

The BORB has reviewed the current expenditures of the Tax funds. The BORB has found that the City is in compliance with the following pieces of legislation: (a) County Ordinance; (b) City Ordinance; (c) Fla. Stat. 212.055; (d) Resolution 12, 2017; (e) Resolution 14, 2017; and (f) Ordinance 10. The BORB also finds that the City is acting responsibly and in the best interests of the residents with respect to the expenditures of the Tax proceeds.

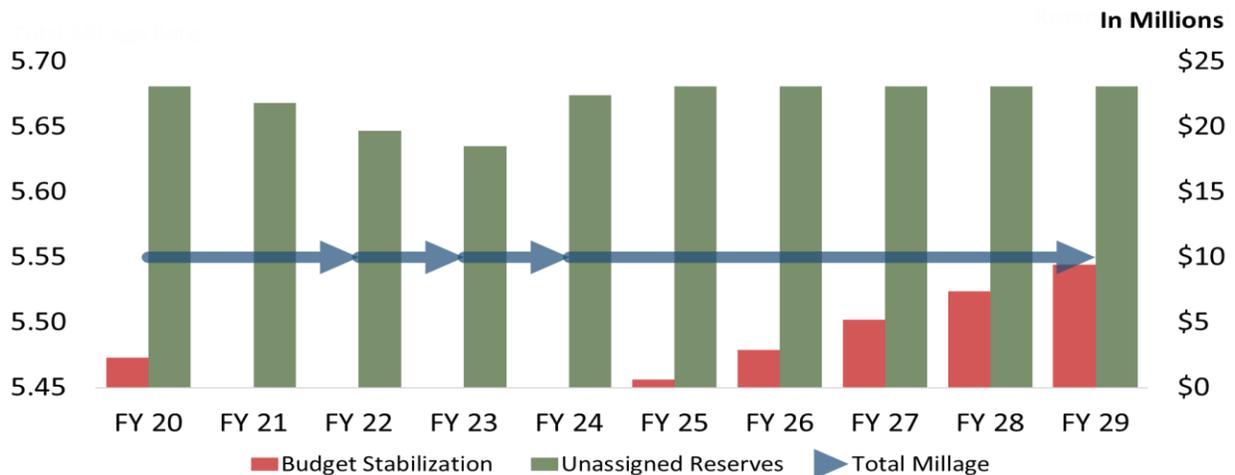
In summary, the BORB has found that the City has expended Tax funds in accordance with Florida Statutes, the County Ordinance, City Ordinance, and related Resolutions. Furthermore, the Staff has been efficient and thorough with respect to incurring such expenditures.

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REVIEW OF FY 2019/2020 PROPOSED OPERATING AND CAPITAL
IMPROVEMENTS BUDGET APPEARS ON THE FOLLOWING PAGE.]**

REVIEW OF THE FY 2019/2020 PROPOSED OPERATING & CAPITAL IMPROVEMENTS BUDGET

The FY 2020 total expenditures and reserves for all funds is \$175,554,209, including \$80,997,422 in personnel, \$31,049,502 in operating, \$8,444,189 in capital outlay, \$1,179,864 in operating transfers, and \$7,187,573 in debt service. Reserves total \$46,695,658. The significant components of reserves include \$23,066,106 in unassigned reserves, \$2,324,225 for economic development and \$2,339,063 for budget stabilization. The FY 2020 Operating & Capital Improvements Budget (the “**Budget**”) is balanced, continues high-quality services to the residents of the City, and maintains a strong General Fund Unassigned Reserve (the “**General Fund Reserve**”) balance of \$23,106,066, which is 23.5% of General Fund operating expenditures, and is in compliance with the City’s policy of at least 17% of operating expenditures. The General Fund expenditures and reserves total \$127,317,839, including \$65,711,376 in personnel, \$23,276,545 in operating expenditures, \$5,177,889 in capital outlay expenditures, \$497,754 in operating transfers, and \$3,636,222 in debt service. Projected unassigned reserves total \$23,066,106, law enforcement reserves total \$1,288,658, and reserves for economic development and budget stabilization total \$2,324,225 and \$2,339,063, respectively.

Proposed Millage Rate. The proposed FY 2020 millage rate is based upon the Certified Property Valuation received from the Palm Beach County Property Appraiser in the amount of \$12,659,064,259. This valuation number includes new construction of \$666,094,841, and represents an increase of 9.9% from last year’s valuation. This is the eighth consecutive year that the City’s property valuation has increased. Using the final property valuation number, the proposed total millage rate is 5.55, which is down 1% from last year’s total rate of 5.6003. The proposed operating rate is 5.55, the same as last year, and the proposed debt service millage rate is 0 mills, which is down from last year’s rate of .0503. The proposed operating rate of 5.55 represents a 4.19% increase over the roll-back rate of 5.3268 mills. The City staff provided the BORB with a ten-year financial forecast with respect to the budget stabilization fund and unassigned revenues and a static 5.55 operating millage rate; the forecast chart, below, was very insightful for the BORB:



New Development. The City has several significant development projects currently underway or recently approved, including the following:

- **Alton Town Center:** This project consists of 360,203 square feet of retail and commercial uses on 40.8 acres of land. Construction of this project began early in 2018 and is active as of 2019.
- **Ancient Tree:** Ancient Tree: This development, currently under construction, consists of 97 residential single-family homes. The project encompasses 97 acres and borders the western boundary of the City's Sandhill Crane Municipal Golf Club. This project was approved on February 7, 2019.
- **Arcadia Gardens:** This project, located along RCA Boulevard, consists of a 326-bed/163-unit, age restricted 55+ independent living facility. This development was approved on February 7, 2019.
- **Artistry Neighborhood (fka Alton Parcel G):** This development on 206 acres of the Alton parcel was approved on February 9, 2017 and consists of 469 single-family units, a 3,290 square foot clubhouse, and 61 acres of upland preserve.
- **Avenir:** Looking to the future, the City recently approved the Avenir mixed-use development project on the western fringes of the City. This project will consist of 3,250 homes, 2 million square feet of office space, 400,000 square feet of retail space, and 300 hotel rooms. Residential site plans #1 and #2 have been approved. What makes this project so unique is that 2,407 of the total 4,763 acres will be set aside to create a conservation area and nature preserve. Land clearing began in 2018. The age- restricted development was approved on November 1, 2018, and the single-family site plan was approved on January 10, 2019.

Annexations. The annexation of Osprey Isles, Carleton Oaks and the Balsamo property generated approximately \$260,000 in ad valorem tax revenue for the City in FY 2018/2019. The annexation of Bay Hill Estates, Preserve at Bay Hill Estates and Rustic Lakes will generate approximately \$1,200,000 in FYI 2019/2020.

Storm Water Repair and Renovation Program. The proposed FY 2020 Budget continues the fourth year of this Storm Water Repair and Renovation Program, and includes \$250,000 in the Storm Water Division's Repair & Maintenance expenditure account; however, it's important to note that an additional \$300,000 will be received from a State grant and will be carried over to FY 2020.

Personnel Cost Factors. Personnel costs comprise the majority (approximately 67%) of the City's General Fund total expenditures, excluding transfers and reserves; this is 1% lower than FY 2019. Therefore, the factors that influence personnel costs are by far the most significant drivers of the entire budget. The Budget contains 532 full-time positions, which is an increase of 3 from the FY 2019 total of 529.

The City and the International Association of Fire Fighters recently negotiated a new wage agreement for FY 2019- FY 2021. Effective October 1, 2019, and 2020, all bargaining unit members will receive a 4% market adjustment, and in addition, a 3% across-the-board increase to base salary. The new contract will cost approximately an additional \$3.3 million over the three-year period, including pension, FICA and one-time lump-sum payments that were paid in FY 2019. Additionally, the City and the Police Benevolent Association recently negotiated a new wage agreement for FY 2020- FY 2022. Effective October 1, 2019, 2020, and 2021, all bargaining unit members will receive a 6% increase to base salary. The new contract will cost approximately an additional \$2.8 million over the three-year period, including pension and FICA.

Another significant factor affecting next year's Budget is the actuary's projected increase in claims costs associated with the Self-Insured Medical Insurance Fund. Funding for FY 2020 has been increased in line with projections prepared by the City's actuary, considering the increasing claims trend of the plan, which is 5% or \$449,898. With this change to the funding formula, the projected end of year balance in the Fund is estimated at \$6.5 million, which is approximately nine months' total claims. The BORB spent a significant amount of time discussing this issue and believes the City should continue to analyze whether the City should continue to self-insure or not.

BORB REVIEW AND RECOMMENDATIONS- FY 2019/2020 BUDGET

1. **Proposed Operating and Capital Improvement Budget as Prepared by Staff and Analysis**: The BORB has reviewed the Operating and Capital Improvement Budgets and finds that the Staff has done an excellent job of balancing the increased burdens of an expanding population and the benefits of a growing tax base.

2. **Spending Plan for Compliance with Current Adopted Financial Policies**. The City has taken affirmative steps to avoid a tax increase for the FY 2020 Budget. Moreover, the ten year forecast provided in the FY 2020 Budget Summary provided an excellent snapshot of how the City intends to maintain the current millage rates by based on conservative revenue and expenditure assumptions and allowing for known factors such as current collective bargaining agreements and the impact of the tax abatement agreement with Carrier Corporation.

Recommendation. In summary, the BORB's review of the Budget confirms that (i) the City is financially strong and has policies in place to maintain the current financial stability; and (ii) City Staff has been transparent throughout the budgetary process with its residents and citizens. The openness and transparency of the budgetary process is welcomed by the members of this Committee and by the residents of the City.

The 10 year financial forecast suggests a potential short-term dip into reserves as the City gears up for the costs associated with additional population growth; however, the City should recoup these amounts starting in FY 2023/2024. The BORB is pleased to see no increase in millage

and a stable tax rate; despite the projected short-term utilization of the budget stabilization fund and reserves, the BORB agrees with the forecast in that the increased population growth and property values will help replenish the City's reserves. Members of the BORB noted that the City has been extremely efficient in its spending; the BORB is hopeful that the City's practice of efficient and non-wasteful spending and budgeting will allow a potential millage decrease in the near future as revenues continue to increase.

With respect to the Self-Insured Medical Insurance Fund, the reports provided by the City staff indicate that this program has been extremely successful from a monetary perspective thus far. As stated herein, the BORB suggests that the City continue to review of the cost effectiveness of the program on a going forward basis.

Finally, the BORB would like to thank Allan Owen, Mary Anderson-Pickle and their staff for the assistance throughout this process. The BORB would like to thank these individuals for being extremely generous with their time and promptly responding to our questions.

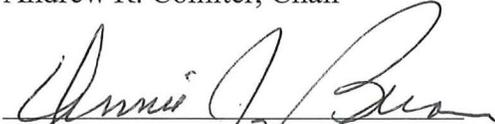
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This Annual Report is respectfully submitted to the Council and Residents of the City in accordance with Section 7(d) of the County Ordinance.



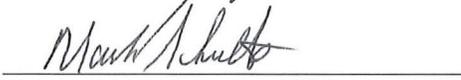
Andrew R. Comiter, Chair

8/30/2019
Date



Dennis Beran, Vice-Chair

8/30/2019
Date



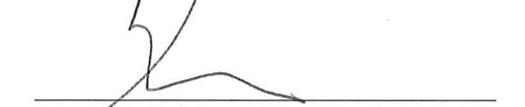
Mark Schulte, Regular Member

8/30/2019
Date



David Middleton, Regular Member

8/30/2019
Date



Mark S. Feldmesser, Regular Member

8/30/2019
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