

## MEMORANDUM

TO: CITY COUNCIL OF PALM BEACH GARDENS

FROM: BUDGET OVERSIGHT REVIEW BOARD

RE: 2021 ANNUAL REPORT

DATE: AUGUST 30, 2021

---

This 2021 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 funds (the “**Tax**”); 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. The BORB hereby provides this Annual Report to the Council in accordance with the obligations assigned to the BORB in the County and City Ordinances.

### **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 City’s infrastructure projects being funded by the Tax proceeds under the Capital Improvement Budget are as follows:

<b>Infrastructure Projects –as of 4/30/2021</b>			
<b>Project</b>	<b>Amended Budget</b>	<b>Amount Spent/Encumbered</b>	<b>Project Balance</b>
<b>District Park - Phases I and II Development</b>	\$13,700,000	\$(13,235,144)	\$ 464,856
<b>City Hall, Police Department and Fire Department Expansion/Renovations</b>	9,305,228	(9,285,929)	19,299
<b>Operations Center</b>	6,890,565	(6,871,157)	19,408
<b>Contingency</b>	39,207	0	39,207
<b>Total</b>	<b>\$29,935,000</b>	<b>\$(29,392,230)</b>	<b>\$542,770</b>

After the closeout of FY 2021, unspent funds related to these capital projects will be re-appropriated into FY 2022 as part of the normal end-of-year carryforward of capital projects and purchase orders; accordingly, the proposed spending plan for FY 2022 does not include amounts related to these capital projects. At this point, the infrastructure projects in connection with the Tax proceeds are either complete and/or nearing completion.

**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. In hindsight, the Council moving forward with having the City obtain the Series 2017 Public Improvement Bonds was a tremendous move for the City and the residents;

accordingly, residents are able to utilize the vastly improved City amenities currently, as opposed to having to wait 10 years for the Tax revenues to slowly come in.

### **BORB REVIEW AND RECOMMENDATIONS- EXPENDITURE OF TAX FUNDS**

The BORB has held public meetings 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.

Moving forward, the Tax revenues are likely to meet or exceed initial expectations. The BORB strongly encourages the City and Council to continue working together to find and evaluate current infrastructure projects and opportunities to effectively use the Tax proceeds. As an example, the BORB was extremely supportive of the prospect of deploying Tax funds to support the renovations to the Burns Road City community center facilities.

**[THE REMAINDER OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK;  
REVIEW OF FY 2021/2022 PROPOSED OPERATING AND CAPITAL  
IMPROVEMENTS BUDGET APPEARS ON THE FOLLOWING PAGE.]**

**REVIEW OF THE FY 2021/2022 PROPOSED OPERATING & CAPITAL  
IMPROVEMENTS BUDGET**

The FY 2021 total expenditures and reserves for all funds is \$217,591,100, including \$89,666,154 in personnel, \$35,933,374, in operating, \$19,262,788 in capital outlay, \$1,821,010 in operating transfers, and \$6,638,228 in debt service. Reserves total \$64,239,546. The significant components of reserves include \$26,000,000 in unassigned reserves, \$1,843,141 for economic development and \$7,034,196 for budget stabilization. The unassigned reserves represents approximately 23.9% of operating expenditures, which is in compliance with the Council's policy of a having a minimum reserve balance of 17%. Further, the city has a separate budget stabilization serve of \$7,000,000.

The General Fund expenditures and reserves total \$148,514,250, including \$72,130,961 in personnel, \$26,947,642 in operating expenditures, \$5,839,847 in capital outlay expenditures, \$700,000 in operating transfers, and \$3,247,862 in debt service. Projected unassigned reserves total \$26,000,000, law enforcement reserves total \$1,026,535, and reserves for economic development and budget stabilization total \$1,843,141 and \$7,034,196, respectively. An additional \$3,744,066 is restricted for The American Rescue Plan Act ("ARPA") expenditures.

In analyzing the changes from the previous year's budget to the budget for FY 21/22, revenue is increasing to \$71,732,579 (from \$69,279,003 the prior year). Additionally, revenue and transfers/other sources are projected to increase to \$35,100,656 (from \$28,006,645), due to recovery from COVID-19 and projected development . In short, the increases resulted from higher property values, increases in licenses and permits from development, as well as ARPA disbursements. From an expenditure standpoint, personnel costs have increased from \$69,622,805 to \$72,130,961, and operating costs have increased from \$23,962,592 to \$26,947,642

**COVID-19.** The financial effects from COVID-19 have been felt widespread, amounting to millions in total revenue losses for the City over the course of FY 2020 and FY 2021. However, there are two reasons to be optimistic: The local economy, especially development activity, remains strong, and the ARPA was signed into law in March 2021. Fortunately, the City's financial position, coupled with the continued growth and development, resulted in a minimal strain on reserves and deviations from the FY 2021 Budget.

Under the ARPA the City is projected to receive a total of \$5.92 million, payable in two equal installments. The first installment of \$2.96 million was received on May 10, 2021, and, per the terms of the ARPA, a second installment shall be made no later than twelve months from this date. These funds must be spent or obligated by December 31, 2024. The ARPA funds may be used for government purposes, including infrastructure, to the extent of revenue reductions incurred by the City relative to the last year prior to the pandemic, which was FY 2019. The City staff was able to calculate the amount of revenue loss on comprehensive, yet ambiguous guidelines. Based on staff's interpretation of the most recent Treasury guidance, the City suffered a total revenue loss of \$2.1 million for the twelve months ended December 31, 2020; while the

calculation is subject to audit and further Treasury review, the BORB understood and generally agreed with the City's staff methodology in calculating the revenue loss.

**Proposed Millage Rate.** The proposed FY 2022 millage rate is based upon the certified property valuation received from the Palm Beach County Property Appraiser in the amount of \$13,533,810,519. This value incorporates new construction of \$165,303,143, and represents an increase of 3.56% from last year's valuation. This is the tenth consecutive year that the City's property valuation has increased. Noting the increase in property values is a positive benefit to the City, the BORB initially anticipated a more significant increase in value. The City staff informed the BORB that some of the increase was limited by the percentage of residents who have homestead exemptions (approximately 60%; the Florida Save our Homes law limits property value increases for tax purposes), as well as the decrease in property values for certain commercial locations located in the City. Further, the City staff informed the BORB of certain efforts to work with the County to assist in the valuation process to increase accuracy and efficiency. *Using the final property valuation number, the proposed total millage rate is 5.55 which is the same as last year. This rate represents a 2.3% increase over the roll-back rate of 5.4253 mills.*

This year's Budget summary provided a summary of the ten year financial forecast. Assuming the operating millage rate remains flat, the ten-year projection anticipates a gradual reduction in reserves through FY 2027 to keep up with demand for services. Beginning in FY 2028 it is anticipated that surpluses will be generated, restoring unassigned reserves to \$26 million, and increasing budget stabilization reserves to approximately \$2.5 million. The BORB notes that this forecast pushing the recovery back a year versus the FY 2021 budget; however, this change is expected, especially considering the effects of COVID-19 and resulting economic pressures. The ten year forecast continues to be a useful tool and benchmark moving forward.

**New Development.** The City has several significant development projects currently underway or recently approved, including the following: Florida Power & Light offices on PGA Boulevard; Alton Town Center Retail; PGA Station Building 5 (Residence Inn Marriott); Ancient Tree development; Arcadia Gardens; Artistry Neighborhood; City Centre; Downtown Palm Beach Gardens Life Time Fitness Center; and Avenir development.

**Series 2021 Public Improvement Bond.** At the January 14, 2021 Council meeting, Resolution 7, 2021 was approved authorizing the issuance of the Series 2021 Public Improvement Bond in the amount of \$14,000,000. The proceeds of the bonds will be used to construct an 18-hole par-3 golf course, clubhouse, and driving range on 115 acres of land conveyed by the developers of Avenir. Although the course will not be in service in FY 2022, the debt service will begin October 2021, and will be paid next fiscal year via a transfer from the Recreation Impact Fund. After the course is complete and in operation, future years' debt payments will be paid via recreation impact fees, public facility impact fees, and fees generated by the facility.

**Storm Water Repair and Renovation Program.** The proposed FY 2021 Budget continues the Storm Water Repair and Renovation Program, and includes \$250,000 in the Storm Water Division's Repair & Maintenance expenditure account. In addition to repairs to the storm water system, staff identified needed maintenance to the City's system of canals, which collect the water runoff from the storm water system.

**Personnel Cost Factors.** Personnel costs comprise the majority (approximately 67%) of the City's General Fund total expenditures, excluding transfers and reserves; this is 2% lower than FY 2021. The Budget contains 550 full-time positions, which is an increase of eleven from the FY 2021 total of 539.

**Use of Reserves:** The proposed Budget uses approximately \$2.8 million of budget stabilization reserves, which is being proposed to eliminate the need for a tax increase. As discussed in the millage rate section, above, the ten-year financial forecast projects a gradual reduction of reserves through FY 2027. Beginning in FY 2028, projections indicate this trend will reverse and surpluses will begin to be added back to reserves as more development in Avenir comes onto the tax rolls. Unassigned reserves and budget stabilization reserves are projected at \$26 million and \$7 million, respectively. The unassigned reserve balance of \$26 million represents 23.9% of total expenditures and complies with Council's policy of maintaining a minimum reserve balance of 17% of expenditures.

### **BORB REVIEW AND RECOMMENDATIONS- FY 2021/2022 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 and City management have done an excellent job in preparation of the 2021/2022 Budget. The City remains fiscally responsible and in a strong financial position, which is most impressive given the complexities and uncertainties resulting from the COVID-19 pandemic.

2. **Spending Plan for Compliance with Current Adopted Financial Policies.** In accordance with the past several years, the City has taken affirmative steps to avoid a tax increase for the FY 2021/2022 Budget.

**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 BORB and by the residents of the City.

The BORB had extensive discussions in connection with the current millage rate, current property values, and calculation of ARPA funds. The 10 year financial forecast has been a great tool in assisting the Council and the City has done a tremendous job in keeping the projections/forecast up to date. The BORB encourages the Council and City to monitor and


compare the actual financial results to the 10 year financial forecast; if the actual financial results do not forecast the requirement to use 100% of the budget stabilization fund and eliminate the need to dip into the unassigned reserves, then the Council should give consideration to reducing the millage rate.

Finally, the BORB would like to thank Allan Owens and the City 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.


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


9/1/2021  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Dennis Beran, Vice-Chair


8/30/2021  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Mark Schulte, Regular Member

8/30/2021  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
David Middleton, Regular Member

8/30/2021  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Mark S. Feldmesser, Regular Member

\_\_\_\_\_  
Date