



October 1, 2001

Honorable Mayor James Canfield and Members of the City Council
City of Palm Coast
264 Palm Coast Parkway N.E.
Palm Coast, Florida 32137

Dear Mayor and Council Members:

I am pleased to submit the adopted budget for FY 2001-2002. Preparation of the City of Palm Coast's third budget, while not an easy task, was easier to accomplish now that we have established a history of operational data. The City of Palm Coast's first year, 1999-2000 was a transitional year, establishing the basis for initiating operations in fiscal year 2000-2001. Our second year, FY 2001, was the start up year for City run operations which has paved the way for a fully operational city in FY 2002.

By October 1, 2000, fifty-five former Palm Coast Service District employees, as well as a few Flagler County employees were transferred to the City of Palm Coast to begin operations of the City's Fire, Public Works, and Development Services Departments. The Development Services operations were supplemented with contracts for both building permitting and engineering services.

Council's goal setting workshop in January 2001 set a clear path for the City to follow during its first operational year, as well as establishing preliminary goals for FY 2002.

FY 2001 Goals

1. Continue land acquisition of priority target areas
2. Increase leisure programs and facilities with an emphasis on youth, senior, and summer programming.
3. Develop an annexation strategy that will consist of preferred boundary definition and development of a long-term strategy including incentives.
4. Develop a short-term public safety plan that will address fire services, police services, lighting and sidewalks.
5. Complete a target market study for economic development and develop an implementation plan.
6. Conduct an exploratory study of the water and sewer utility system.
7. Develop a plan for a new city hall, including short-term modifications of existing facilities, site selection, architectural design, building program and preliminary cost estimates.

FY 2002 Goals

1. Develop a comprehensive signage and lighting program.
2. Develop a comprehensive public facilities plan including parks.
3. Implement the Target Market Study.
4. Institute an on-going beautification plan.

In November 2000, the Recreation and Parks Manager was hired and immediately began the process of putting together recreational programs for the City. As the new manager began to implement recreational activities and programs, the City received requests for more activities and programs for seniors, families and youth of our community. Council responded overwhelmingly to these demands during their goal-setting workshop in January and with a mid-year budget revision to support a summer recreational program and several special events.

In February 2001, after a lengthy search, a Public Works Director was hired to begin the task of transforming a county road and bridge operation into a full-fledged municipal public works department. Having started so late in the fiscal year, many of the public works' projects including sidewalks and overlay and micro-sealing of the roadways were not initiated until late spring. However, these projects are now underway and are expected to be completed by year-end.

The groundwork was laid in our first year of operation to become fully operational by FY 2002. This budget represents a substantial increase in services to the citizens of Palm Coast based on the goals established by Council in January 2001 and the input from citizens as to their expectations regarding municipal services in the City of Palm Coast.

GENERAL FUND EXPENDITURES

The FY 2002 General Fund Budget is balanced at \$13,178,932. The increase in the budget is primarily related to an increase in existing services, particularly in Public Works and Development Services, and the establishment of a capital reserve account with .35 mills or \$591,216. The increased demands for building permits and the need to complete the Comprehensive Plan within FY 2002 are the primary reasons for increases in Development Services expenses. Public Works inherited approximately 550 miles of aging roads and a poorly maintained swale drainage system that require additional resources in order to bring them up to an acceptable level for our City. Public Works and Development Services represent the bulk of the general fund expenditure, each at about 25% of the total general fund expenditures, while Public Safety is 20% of general fund expenditures.

Primary expenditures within the General Fund are operating and personnel expenditures representing about 36% each. Capital expenditures from the General Fund are only 13%. Over 12%, \$1,537,512, of the budget has been set aside for reserves, including a contingency fund, storm reserve, fleet replacement reserve, and capital reserve.

GENERAL FUND REVENUES

The FY 2002 General Fund budget balanced at \$13,178,932 is predicated on an ad valorem tax rate of 3.5 mills. This rate includes 3.15 mills, the same as FY 2001, for general operating purposes, and an additional .35 mills reserved for future capital expenditures. The general operating rate of 3.15 mills continues at ten percent (10%) below the 1998 Feasibility Study, which predicted 3.5 mills to operate the City of Palm Coast for the first three years of incorporation.

Ad valorem taxes are the primary source of revenue for the City of Palm Coast. Approximately 44% or \$5,902,156 of the recommended \$13,178,932 is generated from ad valorem taxes. The taxable assessed value for the City of Palm Coast for this fiscal year is \$1,775,084,386. The taxable value for 2000 was \$1,592,000,000. New construction within the City of Palm Coast during 2000 totaled approximately \$183,084,386 a significant increase over new construction in 1999.

The Communication Services Tax, adopted by the legislature in 2000, combines and replaces the municipal public service tax on telecommunications, franchise fees and permit fees. On June 19, 2000, Council elected not to continue to assess permit fees and on July 10, 2001, City Council adopted a rate of 5.32% (inclusive of the .12% replacement for permit fees) established by the legislature. This tax will generate approximately \$1,000,000, 8% of the revenues, during FY 2002.

The Local Option Gas Tax of 6 cents adopted by Flagler County will result in revenues to the City of approximately \$940,000 (7%) in FY 2002. This is an increase of \$217,046 over the FY 2001 adopted budget of \$722,954. Flagler County transferred additional roads to the City, increasing the City's lane miles to 1,021 lane miles. The increase in lane miles coupled with the City and Flagler County decision to enter into a new distribution agreement based on number of lane miles increased the gas tax distribution rate for the City to 64.85%.

Another significant revenue source for the City of Palm Coast, after tax revenues, is generated from the State Shared Revenue Program. The One-half Cent Sales Tax is projected to provide the City of Palm Coast with approximately \$1,007,523. The Municipal Revenue Sharing Program is estimated to provide approximately \$539,935 of that \$193,351 is dedicated to road improvements. These revenues represent about 12% of total general fund revenues.

Another major revenue source for the City of Palm Coast is Licenses and Permits, representing 14% of the general fund revenues. These include building permits, \$1,245,000, occupational licenses, \$170,000, planning and zoning, \$267,000, and other permits and fees, 138,900. For FY 2002, building permit fees, at \$1,245,000, account for 68% of the total projected revenues of \$1,820,000, in the license and permit category.

The appropriated fund balance for FY 2001 was \$625,000. The actual fund balance after the FY 2000 annual audit was completed was \$1,242,949. The anticipated and budgeted fund balance for FY 2002 is \$1,449,568. Fund balance is a one-time revenue source that must be regenerated each year from increased revenues and/or expenditure savings. If the same amount is not generated in subsequent years to help fund the ensuing budget, a tax increase may be necessary to maintain existing programs and services. Therefore, use of fund balance should be limited to one-time expenditures, not ongoing recurring expenditures.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities. This Fund was established by City Council in FY 2001 with the funds derived from the Interlocal Agreement with Flagler County for the redistribution of the Local Option Sales Tax revenues. The FY 2001 Capital Projects Budget was \$3,388,461. The FY 2002 budget is \$7,440,705. This includes projected local share revenues of \$2,160,000, Environmentally Sensitive Land Funds approved by Flagler County in the amount of \$1,294,000 for the Parkway Land Acquisition Program, Capital Reserve General Fund Transfer of \$590,216, and a fund balance carry

forward of \$3,366,489. This budget establishes the basis for the major capital projects' expenditures required during the City's initial years of operation.

We believe this budget provides the City with the resources to be fully operational in its third year of development. Most importantly, however, it responds to both the goals established by Council and the needs and desires for services expressed by our citizens and taxpayers over the past eighteen months. Meeting the expanded expectations and service demands will be a challenge for the organization, the Council and the community, but a challenge to which I believe we are all prepared.

Preparation of this budget would not be possible without the commitment of personnel throughout the City organization, in all departments. I wish to acknowledge the contributions of our department heads and their staffs, and to specifically thank Oel Wingo, Clare Hoeni and the Administrative Services Department staff for their outstanding work in preparing this budget proposal.

Respectfully submitted,

Richard Kelton
City Manager