

July 9, 2003

Honorable Mayor James Canfield and Members of the City Council
City of Palm Coast
264 Palm Coast Parkway, N.E.
Palm Coast, Florida 32137-8217

Dear Mayor and Council Members:

In accordance with the City Charter, I am submitting to the City Council the proposed Annual Operating and Capital Improvements Budget for the City of Palm Coast for the fiscal year beginning October 1, 2003, and ending September 30, 2004 (FY04). The proposed budget was prepared in accordance with all applicable City, State, and Federal requirements.

CITY REVIEW

Palm Coast was developed by ITT Corporation in 1969 and was incorporated December 31, 1999. The City operates under the Council/Manager form of government. The City Council consists of the Mayor and four Council Members and is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing the City Manager and members of various statutory and advisory boards. The City Manager is responsible for enforcement of laws and ordinances, and appoints and supervises the City's Department Directors.

The City, with a population of approximately 41,492, provides a full range of municipal services including fire and rescue, street and stormwater maintenance, planning and zoning, permitting, code enforcement, recreation and parks, and general administrative services. In addition, the City contracts with the Flagler County Sheriff for law enforcement services and Waste Management for solid waste collection. Vehicle maintenance and replacement is provided through an Internal Service Fund.

HISTORICAL PERSPECTIVE

The General Fund budget is being proposed at \$16,992,559, with an ad valorem tax rate of 3.40 mills, or three dollars and forty cents (\$3.40) per one thousand dollars (\$1,000) of taxable property value. This is the same as the FY02-03 adopted rate and is .30 mills (8.11%) less than the 3.70 mill rate estimated in the “Palm Coast Incorporation Feasibility Study.” This is the third year, since incorporation in 1999; the actual tax rate will be less than the rate anticipated by the City’s founding fathers.

	FY00-01 (\$1/\$1000 value)	FY01-02 (\$1/\$1000 value)	FY02-03 (\$1/\$1000 value)	FY03-04 (\$1/\$1000 value)
Feasibility Study	3.50	3.50	3.50	3.70
Actual	3.15	3.50	3.40	3.40
Savings	0.35	-	0.10	0.30

This is a tax savings on a home with a taxable value of \$100,000 of approximately \$75.00 over the four year period. Cumulatively, this represents a savings from projected tax rates of over one and one-quarter million dollars for the City’s approximately 16,000 homes. Additionally, the City has been able to complete capital improvements and establish necessary reserves not anticipated in the “Feasibility Study,” as follows:

1. General Fund Reserves	\$2,414,000
2. Disaster/Emergency Reserves	937,000
3. Capital Improvement Reserves	<u>2,223,000</u>
Total	<u>\$5,574,000</u>

This places the City in a sound fiscal position. This is the result of the combined effects of the conservative approach taken in the “Palm Coast Feasibility Study,” and the strong fiscal conservatism and oversight provided by the Mayor and Council Members since incorporation.

This proposed budget continues the pattern of conservative fiscal management which has been established for the City, while addressing the needs and desires of a rapidly expanding municipal population. Priorities addressed in the budget consider the Council’s strategic plan and goals, the goals and objectives in the anticipated Comprehensive Plan, and feedback from citizens through the annual citizen survey.

MAJOR ISSUES

The rapid growth and development within the City has created various issues for the City and its departments. Those major issues are discussed below.

Development Services

In addition to preparing the Comprehensive Plan, the expanded level of building and development has put a strain on the Development Services Department. All new development requires numerous reviews prior to work commencing and then inspections during the construction period. All of these activities require people to do the job. This budget proposes adding a planner and a landscape specialist. It also proposes changing one part-time code enforcement inspector to full-time.

Fire

Plans are underway to begin offering Advanced Life Support services in Palm Coast. This has proved to be more difficult than anticipated. Hiring the required paramedics has been problematic. The pay scale has been studied and adjusted in an effort to make us more competitive. We are also looking at some other alternatives to accomplish this goal.

Even though Fire Station #3 is just nearing completion it appears that it may be time to prepare for construction of a fourth station. Although this was planned for three to four years from now, the increasing population may require that it be done much sooner. Money in the Fire Impact Fee Fund has been budgeted to begin preparing for the next station. The Fire Station Location Study completed in 2001 is being updated based upon the rapid rate of development and anticipated annexations. A recommendation regarding specific siting of the next station will be made after completion and acceptance by the City Council.

Law Enforcement

The current contract with the Sheriff's Office continues to work well. One area identified as a concern in the citizen survey was in traffic enforcement. As a result, this budget proposes adding two (2) additional traffic officers to the current contract which will give us four traffic officers to complement the regular patrol officers.

Engineering

Like Development Services, growth had increased the necessity for engineering services. Currently, much of the development review work and some of the inspection services are being contracted out. This budget proposes adding a senior staff assistant to provide clerical support, a technician for reviews, and three inspectors. By adding these positions, the need for the expensive contract services will be reduced significantly.

Public Works

Public Works continues to address issues with right-of-way maintenance, streets, and stormwater. No people are being added this year, but current staff will be supplemented by contract services in areas where it makes the most sense. This budget contains money for street resurfacing and pothole repairs. Money has been included to do some maintenance to the stormwater system. This is just a small portion of the total amount of work that needs to be done on the system. Alternative revenues and the possible acquisition of a State Revolving Fund loan are being considered for the future. This would allow future users of the system to help pay for the cost of the upgrades.

Recreation and Parks

One of the goals of the Council is to expand recreation programs and parks facilities. Construction of North Belle Terre Park will be underway soon and a groundskeeper has been included in this budget to help with the maintenance of the new park. The recreation budget also includes some revenue and expenditure increases to add some programs in the coming year. This department will also be responsible for maintenance of the improved medians (Palm Coast Parkway, Belle Terre Parkway) and for the I-95 interchange effective January 1, 2004. Most of this maintenance is currently contracted but the department will monitor the contractor.

Economic Development

The majority of the growth in Palm Coast has been in the residential areas. The Council has recognized the need to diversify the property tax base by increasing growth in the commercial and industrial area. Because of this, the budget provides funding for Enterprise Flagler and a special projects manager has been added to the City Manager's Office to assist with economic development and annexation issues.

Utility System

The City continues to pursue the purchase of the water and sewer utility system. In preparation of the acquisition, a utility director is being included in this budget. This position will be needed even if the City chooses to contract out the operation of the system. This person would be brought on board once an agreement to purchase is reached.

Capital Projects

Several capital projects have been mentioned previously and a list is included later in this letter. One issue that will need to be addressed in the near future is one of space for City staff. The current situation is getting more and more difficult. Several alternatives are being considered and money has been appropriated in this budget to assist in the execution of one of the alternatives. The City Council will make a final determination of which alternative when the analysis is complete.

Employee Compensation and Benefits

One overriding issue has been employee compensation and benefits. The City needs to be able to hire and retain good employees, in order to provide the level of service set out in the City goals. As mentioned earlier, finding paramedics has been a problem and there have been other positions that have been difficult to fill, primarily related to pay and benefits. As a result, Cody and Associates was retained to do a pay study to address the compensation issue. This budget contains their recommendations for payroll adjustments and their recommended cost-of-living-adjustment (COLA) to be effective January 1, 2004.

Another problem area has been the increasing cost of health insurance. The increase this year was almost 24%. Several alternatives are being looked at including increasing employee participation in premium payments, increased co-pays and out-of-pocket, and a health reimbursement plan. It is expected that the selection of any one of these options would have a minimal effect on the 2004 budget. One or a combination of these would, however, be expected to help control cost and thus reduce future premium increases.

CURRENT YEAR REVIEW

During the City Council goals workshop for the 2003 fiscal year, four high priority goals were established. They were:

1. Maintain and enhance the public safety services.
2. Enhance the street maintenance program.
3. Enhance City appearance programs.
4. Improve citizen/customer relations.

Fire Station #3 at Indian Trails is under construction with completion expected before the end of the fiscal year. Delivery of a new pumper truck should occur around the middle of August. Recruitment has begun for paramedics to staff the Advanced Life Support (ALS) program. This has proven to be difficult, but efforts are still underway. Two additional patrol officers were added under the Sheriff's contract and began work October 1, 2002. The I-95 overpass lighting on Palm Coast Parkway has been completed. Staff is considering options for expansion of street lighting within the City. The sidewalk on Florida Park Drive is complete and the Belle Terre schools sidewalks are near completion.

An evaluation of the roads to be resurfaced in FY03 has been completed and presented to Council along with a recommendation for accelerating the resurfacing of more of the most deteriorated roads in Palm Coast. Council approved the plan and the resurfacing program will be underway soon.

The Palm Coast sign at the intersection of Palm Coast Parkway and Old Kings Road has been completed. The City has entered into a contract to provide labor to assist in maintaining the appearance of streets and sidewalks within the City.

Newsletters are being mailed quarterly with plans to go to a bi-monthly newsletter. The City's website has been enhanced and improved. Staff is analyzing new software that will provide better, more integrated tracking of citizen complaints and concerns.

Two Tier B goals involved the water and sewer utility system and the stormwater system. Discussions regarding the purchase of the water and sewer utility system are continuing. A decision is expected soon. An evaluation of the stormwater system has been completed and presented to the Council. Staff will be moving forward with obtaining funding for Phase I of the Stormwater Plan and will bring this back to the Council for approval within the next few weeks.

BUDGET SUMMARY

This budget is based upon direction developed from goals that the City Council has adopted. The purpose of this transmittal message is to outline major policy that is part of the budget for FY04. These issues include the following:

- The ad valorem tax rate is proposed to remain at 3.40000 mills for the General Fund. Due to a 21.3% increase in property value, keeping the same rate as last year will result in an increase of 12.659% above the rollback rate. The rollback rate is designed to maintain a "0" tax revenue increase over the prior year, with the exception of taxes on new construction and annexations. Residents that have homestead exemption are limited to a 2.4% increase in assessed value on their homesteaded property. This means that a resident whose property was valued at \$125,000 last year would have paid \$340.00 in city property taxes. This year the maximum amount that same resident would pay would be \$350.20, a \$10.20 increase or 3% in actual tax dollars.

- This budget contains the following personnel and compensation plan items:
 - a. Salary adjustments and upgrades based on the pay study by Cody & Associates.
 - b. An average 4% merit increase.
 - c. A 23.8% increase in health insurance costs.
 - d. Add one Special Projects Manager (economic development and annexation).
 - e. Add an intern position (part-time).
 - f. Add one Planner.
 - g. Add one Landscape Specialist.
 - h. Change one part-time Code Enforcement Inspector to full-time.
 - i. Add three Firefighter / EMTs.
 - j. Add one Groundskeeper (beginning April 1, 2004).
 - k. Add two Engineering Inspectors.
 - l. Add one Senior Staff Assistant.
 - m. Add one Engineering Technician.
 - n. Add one Right-of-Way Inspector.
 - o. Add one Utility Director.

- The budget continues the contract with the Flagler County Sheriff for law enforcement services. Funding for the current level of service is included at a cost of \$978,571. Funding has also been added for two additional officers to provide traffic enforcement. The cost of these additional officers has been estimated at \$144,974.

- Funding has been added to the Parks and Facilities budget (\$85,000) to assume the maintenance of the interchange from the Palm Coast Community Service Corporation beginning January 1. Revenue estimates (\$100,000) and expenditure appropriations (\$150,000) have been included in the Recreation and Athletics budget in anticipation of taking over operations of the pools from the School Board.

- The Utility Fund has been established in preparation of the purchase of the utility system. A Utility Director position has been included and is being funded with a transfer from the General Fund. Upon purchase of the system, any transfers will be repaid to the General Fund.

- Funding for several major projects has been included in the 2004 budget. These include the following:

Sidewalks	\$ 150,000
Streetlights	\$ 250,000
Parkway beautification	\$ 150,000
Street resurfacing	\$ 2,000,000
North Belle Terre Park	\$ 613,600
Palm Coast Linear Park	\$ 400,000
Palm Harbor Parkway improvements	\$ 700,000
Holland Park renovations	\$ 439,700
Stormwater improvements	\$ 300,000

- Funding has been provided for the following agencies:

Enterprise Flagler	\$ 112,500
RSVP (Flagler Volunteer Services)	\$ 7,500
Humane Society	\$ 60,000
Historical Society	\$ 3,000
Cultural Arts (various groups)	\$ 25,000

SYNOPSIS OF MAJOR FUNDS

General Fund

The General Fund budget of \$16,992,559 is a 6.9% or \$1,093,659 increase over the 2002-2003 amended budget. Property tax revenues, which make up 46% of General Fund revenue, are increasing 21.3% due to new construction added to the tax roll and reappraisals.

Personal services costs are increasing by \$1,722,531 or 31.6%. This is made up of pay adjustments, health insurance increases, and the addition of thirteen employees. Operating expenses are decreasing by \$963,076 or 12.1%. Capital outlay is increasing by \$193,363 or 18.9%.

Capital Projects Fund

The Capital Projects Fund budget is \$1,439,700. Revenues in this fund come from investment earnings and transfers from the General Fund. Transfers from the General Fund are equal to .35 mills on property value and are intended to fund capital projects. This policy has been in effect since FY02. This year's transfer will be \$788,980. The remaining \$650,720 needed to fund the capital projects will come from investment earnings and the appropriation of reserves.

Funding has been provided for beautification of the parkways, construction of sidewalks, the addition of bike lanes on Palm Harbor Parkway, and additional renovations at Holland Park.

Fleet Management Fund

This fund is used to provide maintenance of City equipment and vehicles and to accumulate reserves to replace vehicles and heavy equipment when necessary. Revenue in this fund comes primarily from transfers from other funds and fuel sales. The budget for FY04 is \$816,313. Capital outlay is \$299,400 or 36.7% of the budget. The remainder is personal services, operating expenses, and contingency.

REPORT FORMAT

This is the second year that the budget document is being presented in a “program/performance measurement” format. While line items emphasize the cost of different expenditure categories, program budgeting focuses on the programs or services provided and the total cost of each of these services. Performance measurement, in conjunction with program budgeting, emphasizes measuring the quality, efficiency, and effectiveness of the services and induces a degree of responsibility and a means of measuring the degree to which that responsibility is discharged.

Program/performance budgeting gives management the tools necessary to analyze and diagnose how well dollars are being converted to services; to measure the success rates to established objectives; to make better budget decisions; to educate the public; and to enhance employee motivation and performance evaluation. Although program/performance budgeting takes time to evolve and to recognize trends, over time this format should provide the citizens, the City Council, and the administration an invaluable tool with which to better identify the costs and value of government services and to make future decisions in these times of limited resources.

Designed to meet the needs of a broad spectrum of readers, this budget document is divided into three major sections:

- Executive Summary – This section introduces the reader to the budget document and includes this transmittal letter, the City’s organizational chart, consolidated information on the budget and City operations, and other miscellaneous information.
- Budget Detail – This section includes the detailed revenue budget for each individual fund and expenditure/expense detail for every department/program within each fund. A typical departmental budget will begin with information about the department. This is followed by an expenditure summary by classification, a capital outlay schedule for the year, and a department personnel roster. Each departmental program has a schedule that shows workload, goals, and results. FY01 and FY02 will include the original goal that was established as part of the budget process for that year and then the actual result for that goal. During the first couple of years of the City’s existence, only a few goals were established. FY03 will include the original goal and projected results based on estimates for the remainder of the year. FY04 shows the goals that are being established for the coming year.
- Capital Improvement Program – This final section reflects the City’s Six-Year Capital Improvement Program and summaries of its effect on the various funds. This program is unique in its presentation of all projects, including those funded through current revenue sources and those that are planned but currently have no funds available.

CONCLUSION

Overall, this budget addresses both short-term and long-term goals of the City Council. Twelve of the positions being added to the General Fund are to address immediate workload requirements. Some of these positions will reduce the need for overtime or costly contractual services. One position (Special Projects Manager) is being added to address the longer term goal of economic development and annexation. Funding has been included for continuing projects such as street lighting, parkway beautification, sidewalks, street resurfacing, and parks.

One issue that has come up sooner than expected is the need for a fourth fire station. In last years Capital Improvement Program, a fourth station was planned for fiscal year 2008. Because of the rapid growth in Palm Coast it now appears that this station will be needed much sooner. Fortunately, since the City Council approved a fire impact fee that went into effect January 1, 2003, the City should have enough impact money available to construct another station when the time comes.

ACKNOWLEDGMENTS

Preparation of this budget would not be possible without the commitment of personnel throughout the City organization. I wish to acknowledge the contribution of our department heads and their staffs, and extend my appreciation for the work of Finance Director, Ray Britt, and his staff in preparing this document.

Respectfully submitted,

Richard M. Kelton
City Manager

ADDENDUM

Several changes were made as the result of workshops, public hearings, and events that occurred after the original transmittal dated July 9, 2003. The most significant of these was the finalization of an agreement to purchase the water and sewer utility system located in Palm Coast. The proposed budget had included the Utility Director position. With the purchase agreement in place the budget was adjusted to reflect 11 months of operation for fiscal year 2004 including the addition of 58 more personnel in the Utility Fund. A Tradesworker I was added in Facilities Maintenance in the General Fund and a Mechanic was added to the Fleet Management Fund as a result of the additional workload that will be generated in those areas by this purchase. Operating and capital outlay was also increased in the Fleet Management Fund to reflect additional maintenance costs and vehicle purchases related to the transaction.

Two other major changes occurred within Development Services in the General Fund. It was decided to restructure Code Enforcement by adding a Code Enforcement Manager and another Code Enforcement Supervisor to provide better coordination between clerical staff and field personnel and to expand supervision in the field. A second change was made in Building Permits and Inspections. Currently, this service is contracted out by the City; however, there have been ongoing discussions about bringing this service in-house. In order to begin the transition, a Chief Building Official position and an Administrative Assistant position were added.

In the month of September a contract was approved for the purchase of a building, to serve as a temporary City Hall. Reserves were appropriated to provide funds to complete the purchase and necessary renovations.

As a result of these changes, the final General Fund budget is \$17,287,332. The Capital Projects Fund was finalized at \$3,239,700. The Utility Fund is \$13,270,700 and a Utility Capital Projects Fund was added with a budget of \$3,395,394. The final budget for the Fleet Management Fund is \$1,738,095.

