

INTRODUCTION



CITY MANAGER

August 31, 2007

Honorable Mayor James V. Canfield
and Members of the City Council
City of Palm Coast
2 Commerce Boulevard
Palm Coast, FL 32164

Dear Mayor Canfield and Members of the City Council:

Pursuant to Section 6 Paragraph (C) 9 of the Charter of the City of Palm Coast and in accordance with applicable State and Federal requirements, I am pleased to present for City Council's consideration the proposed Annual Operating and Capital Improvements Budget for the City of Palm Coast for the Fiscal Year beginning October 1, 2007. The Five Year Capital Improvements Program for the City beginning on October 1st and extending through September 30, 2012.

INTRODUCTION

This document is my initial budget since I joined the City of Palm Coast. It is the result of many hours of work by the city staff. It is always a challenge to prepare a budget with a new staff and I am sure my approach to the preparation of a budget has been different for everyone involved. I hope that the City Council has found the working documents and workshops to be helpful in reviewing the budget in manageable portions rather than in its entirety.

In addition to the challenge of preparing the Palm Coast budget for the first time, we have also had to incorporate tax legislation that was approved by the state legislature in June. The late passage of the tax reduction bill made it necessary to readdress the expenditures to be certain that we meet the state requirements.

During the preparation cycle, I also initiated a reorganization process that will provide more efficient operations. The reorganization allowed us to eliminate several vacant positions and move personnel to areas where they could be better utilized. Even with these challenges, this budget provides for expenditures that remain flat compared to fiscal year 2007.

TAX RATES

Even though growth has slowed considerably, taxable property values still increased about 12% this year. Approximately 75% of this increase was due to new construction in the City. The FY 2007-08 preliminary taxable value is \$7.0 billion. The tax reduction approved by the state legislature required the City to reduce our millage rate to 7% below the rolled-back rate. This is actually an 8.8% decrease from the current year's 3.25 mills. It was decided that the entire reduction should come from the portion of the ad valorem taxes that were allocated to the General Fund. The millage rate proposed for fiscal year 2008 is 2.96234. The General Fund will receive 2.21234 mills and the Capital Projects Fund will receive .75 mills. This is the same Capital Projects Fund millage as FY 2006-07.

GENERAL FUND

The General Fund budget for Fiscal Year 2007-2008 is proposed at \$31,823,804 and is approximately \$4.25 million or 12% below the estimated expenditures for 2006-2007. This General Fund for fiscal year 2008 maintains the status quo for both expenditures and service levels. The only major changes to this budget, other than those resulting from the reorganization, are for the Fire Department and Community Relations. The Fire Department will add 24 firefighter positions in July, 2008 in preparation for staffing two new stations expected to be ready for operation beginning in September, 2008. In Community Relations, a Grants and Senior Programs Coordinator is being added. This position will be used to help develop senior programs and identify sources of funding for those programs.

It is anticipated that a fund balance of approximately \$6.2 million will be available at the end of this fiscal year on September 30, 2007. Of this amount, approximately \$572,000 is programmed within the general fund to cover non-recurring capital expenditures and transfers while another \$500,000 is being set aside for contingencies. Approximately \$5.6 million will remain in unappropriated reserves, or approximately 18% of the general fund budget. This falls within the range recommended by our external auditors of 5% to 20% and continues to indicate the financial strength of the City of Palm Coast.

UTILITY FUND - OPERATING

The total Utility Operating Fund budget is proposed at \$33,338,139. This is an increase of approximately \$7.1 million from the estimated expenditures for the fiscal year ending September 30, 2007. Development within the utility service area continues to contribute to increases in revenue. The Utility will make the first payment on the 2007 bond issue which increases the debt service payments by about \$2 million. Transfers are increasing by \$2 million and the remaining portion of the increase in expenses occurs in operating costs related to additional water production and wastewater treatment. The estimated fund balance for the Utility Fund on September 30, 2007 is \$14.2 million. Approximately \$2.9 million of this total is being appropriated for capital and one-time transfers. A contingency of \$500,000 is also being funded in the 2008 fiscal year budget leaving an unappropriated fund balance of \$11.3 million or about 34% of the Utility Operating Fund budget total.

UTILITY FUND CAPITAL PROJECTS

The Utility Capital Projects Fund is proposed at \$49,842,000. Major projects planned for FY 2008 are the remaining construction of Water Treatment Plant #3, land acquisition for additional wells, and the development of those wells. Other projects include the construction of reclaimed water lines, lift station and pump station additions and upgrades and continued improvements throughout the water distribution and wastewater collection systems.

For the five year CIP, total capital expenditures are estimated at \$133.3 million.

The Utility Capital Improvement program is funded from connection charges to the City's water and sewer systems as well as State Revolving Fund loans and the proceeds from utility revenue bond issues. Construction of the reclaimed water system will be funded through grants and the State Revolving Fund. A State Revolving Fund loan in the amount of \$21.7 million is anticipated to fund the construction of Wastewater Treatment Plant #2 beginning in 2009.

OTHER MAJOR OPERATING FUNDS

Although the General Fund and Utility Fund represent the largest portions of the City's operating budget, there are three additional operating funds which are significant in their totals. A new fund has also been added this year for the operation of the new tennis center.

Stormwater Management Fund

The Stormwater Management Fund is proposed for fiscal year 2007-2008 at \$14,638,100. In addition to stormwater fees, this fund receives revenue from driveway permits. This budget also includes \$10 million in debt proceeds to provide resources for the capital improvement program. This debt will be repaid from a \$1.00 per month per residential equivalent increase to the stormwater fee.

Solid Waste Fund

A new contract for solid waste collection began in January, 2007. The new contract price was a 57% increase over the previous cost. This budget is proposed at \$7,559,200 or 20% higher than fiscal year 2007 estimated costs. This increase is due primarily to a full twelve month period at the new rate. This service is funded by the solid waste charges on the City utility bills.

Tennis Center Fund

Construction of the tennis center is expected to be completed in October, 2007. This will be the first year of operation and estimated costs were projected by a consultant to the City. Three full-time employees are being budgeted to operate the center. Revenues will come from court rentals and tennis lessons. A transfer of \$100,000 may be made from the General Fund if it is needed. A supplement is anticipated for at least the first few years of operation.

Internal Service Fund – Fleet Management

Management of the fleet of municipal vehicles is funded in the Fleet Management Fund. This fund operates as an Internal Service Fund deriving its revenues from charges to other departments for vehicle leases, maintenance of their equipment and for purchase of fuel. The City also receives revenue to offset fuel expenses by providing fuel to the Sheriff's Office. All new and replacement rolling stock is purchased through this fund and maintenance of all rolling stock, with the exception of fire apparatus is maintained through this fund. The budget for this fund is \$3,604,213 with \$759,620 million planned for the purchase of new and replacement of vehicles and heavy equipment. Also included is \$1 million to replace the in-ground fuel storage tanks. This must be completed by the end of calendar year 2009.

PERSONNEL MATTERS

This budget includes 24 new firefighter positions, effective July 1, 2008. The positions incorporate 6 lieutenants and 18 firefighters/paramedics. A Grant and Senior Programs Coordinator is being added to Community Relations and an Assistant Tennis Pro is being placed into the Tennis Center Fund.

All benefits are being maintained at the current level. An average merit percentage of 4% is included again this year as it has each year. The market rate adjustment has been included at 3%. The City will continue to monitor the marketplace to ensure that we maintain competitive wages for our employees as well as a competitive benefit package. Without the ability to recruit and retain qualified employees we will not be able to successfully meet the goals and objectives identified by the City Council over the next five year period.

CAPITAL IMPROVEMENTS

The Capital Improvement Program for the City of Palm Coast for FY 2007-08 is proposed at \$145.7 million. This represents 64% of the total proposed budget of \$228.6 million. For the five years through FY 2011-12, total Capital Improvements are projected at approximately \$398.4 million.

Capital Projects Fund

The Capital Projects Fund is proposed at \$14,637,000 for FY 2007-08. This figure includes construction of a municipal golf course, a new fire station at Farmsworth and a portion of the cost of the new main station at Royal Palms Parkway. Also included are funds for street lights, parkway beautification, design of a senior/community center, park renovations, bridge rehabilitation, sidewalks and bikepaths.

Streets Improvement Fund

The Streets Improvement program is budgeted at \$8,575,000 for FY 2007-08 and \$33 million for the five years ending in FY 2012. This fund includes receipts from the ½ cent local option sales tax as well as the six cent local option gas tax distribution and state revenue sharing money, 30% of which comes from gas taxes. It is utilized to fund the resurfacing of 50 miles of City streets each year as well as additional capital projects such as shoulder widening of Royal Palms Parkway, intersection improvements at Pine Lakes and Palm Coast Parkways, traffic signals and bridge safety improvements.

Impact Fee Funds

The Park Impact Fee fund is budgeted at \$3,410,000 for FY 2007-08. This figure includes construction of Ralph Carter Neighborhood Park and various trails, including the Graham Swamp Trail. Money has also been earmarked to prepare a park master plan.

The Fire Impact Fee fund is budgeted at \$2,700,000. These funds will be combined with funds in the Capital Projects Fund to construct the new main station at Royal Palms Parkway.

The Transportation Impact Fee fund is budgeted at \$53,850,000 for FY 2007-08. This fund includes money for the construction of the Belle Terre four-lane project and the four-laning of Old Kings Road South.

OTHER FUNDS

Within this budget document, details are provided for the balance of the smaller operating and capital funds utilized by the City of Palm Coast to finance ongoing operating and capital needs.

This total budget presentation proposes revenues and expenditures totaling approximately \$228.6 million for FY 2007-2008. In addition to the Capital Improvement Program, capital expenditures in the operating funds bring the total capital expenditures for the year to \$148.4 million or 65% of the total budget. The balance, or \$80.2 million, represents ongoing City operations. I believe this budget addresses the priorities established by the Palm Coast City Council in its five-year strategic plan and is a major commitment to meeting the needs of the citizens. We continue to address the service and facility demands created by a growing population and to complete the “catch-up” of outdated infrastructure.

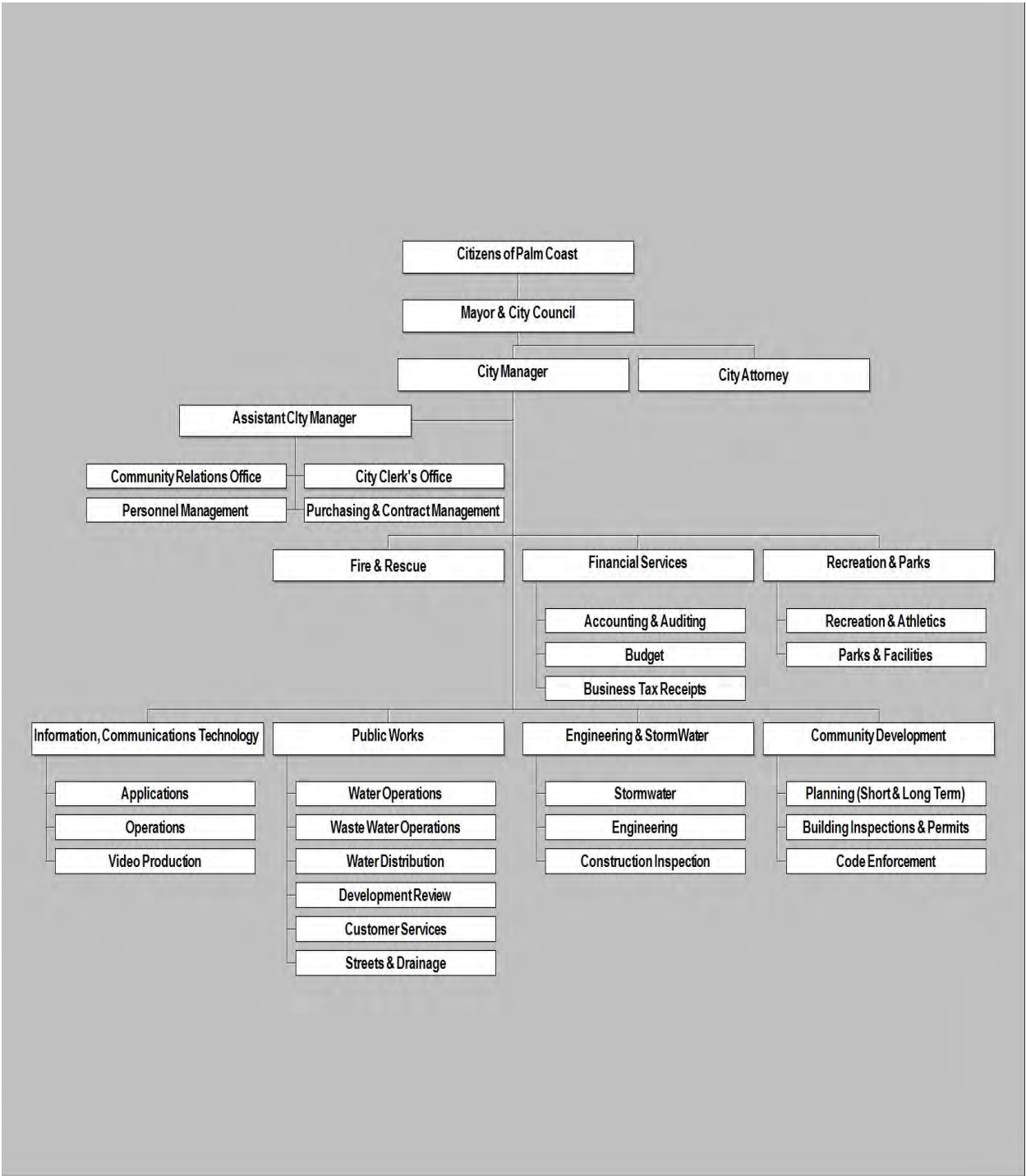
We are experiencing a slow down in residential growth, but at the same time we are seeing an increase in commercial activity. As the commercial growth provides new jobs and opportunities for shopping and leisure activities, residential growth is likely to increase again. While it may not be at the same pace that we have experienced in the past, our citizens will want and continue to need the services that the City provides. Our task is to plan ahead to meet the needs of our citizens as effectively & efficiently as possible, given the resources available. I strongly believe this budget meets this goal and that its adoption and execution will enhance the level of service for all citizens of Palm Coast.

I would like to conclude this budget message by thanking the Executive Team and their staffs for working throughout the year to provide quality service to our citizens, as well as for their efforts to prepare this budget. In particular I wish to express my appreciation to the Finance Director and his staff for their special efforts in the compilation of this document.

Respectfully submitted,

Jim Landon
City Manager

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GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Palm Coast
Florida**

For the Fiscal Year Beginning

October 1, 2006

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the **City of Palm Coast, Florida** for the Annual Budget beginning October 01, 2006. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. This is the fourth consecutive year that the City of Palm Coast has received this award.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.



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