

INTRODUCTION



CITY MANAGER

September 1, 2008

Honorable Mayor Jon Netts
and Members of the City Council
City of Palm Coast
160 Cypress Point Parkway, Suite B-106
Palm Coast, FL 32164

Dear Mayor Netts 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, 2008 and the Five Year Capital Improvements Program for the City beginning on October 1st and extending through September 30, 2013.

INTRODUCTION

This document is the result of many hours of work by the city staff. In fiscal year 2008 we were able to meet the State mandated property tax reductions by eliminating vacant positions and going through a reorganization to better utilize existing staff. This allowed us to absorb the impact of the reductions without reducing the level of services. We were also able to maintain our capital improvement program with only minor modifications.

Fiscal year 2009 presented additional challenges with declining property values and the passage of Amendment 1 which increased the homestead exemption and took more value off of the tax rolls. The elimination of more vacant positions and the reduction of operating expenses down to the minimum amount needed to maintain the current level of services was not enough to balance the budget. Therefore, it was necessary to reduce the amount of property taxes going toward capital projects and to use the money to fund current operations. While this will only have a minimal impact on 2009 projects, some future projects will have to be delayed.

PLANNING AND GOALS

In February, the City Council began meeting to update the strategic plan and develop goals for the coming year and the next five years. The resulting plan was used by the staff to develop and refine the budget that is being presented to the City Council. There was not a significant change in focus for the coming year. Sustainability, economic development, environmental concerns, financial stability, public safety, and quality of life continue to be major concerns for the City Council.

This budget addresses all of the City Council priorities to some degree. There is money included to begin looking at a long-term water supply. Economic development funding is planned at approximately the same level as prior years, but we intend to modify the administration of these funds to try and increase the “bang for the buck.” All projects will be looked at to find ways to reduce any environmental impacts. We have also included money for trails and bike paths to encourage more walking and cycling and less driving. The budget is balanced while using conservative revenue estimates and without using any reserves for recurring expenses. The millage rate remains that same as last year. Water and wastewater rates are being increased as approved almost two years ago. Stormwater fees are being increased to provide a higher level of service in future years. Two new fire stations will open in 2009 with eighteen new firefighter positions being added. One new park is scheduled to open and infrastructure improvements to the stormwater system will help improve the quality of life of Palm Coast residents.

TAX RATES

Declining market values contributed to an overall decrease in taxable property value of 15.5%. However, market values only accounted for about 4.5% of the decrease. Amendment 1, which increased the homestead exemption by \$25,000 and allowed the Save Our Homes value reduction to be portable, was responsible for 11% of the total decrease. New construction added a little over 3% to the taxable value, so the City had a 12.3% net reduction in taxable property value for the year. The millage rate is being maintained at 2.9623 mills for 2008-2009. This is a decrease of 16% from the rolled-back rate. Although the same millage rate is being used, the allocation between operating and capital is being adjusted. The General Fund will receive 2.6123 mills and the Capital Projects Fund will receive .35 mills. This is the same Capital Projects Fund millage that the City originally established in FY 2001-02.

GENERAL FUND

The General Fund budget for Fiscal Year 2008-2009 is proposed at \$32,168,390 and is approximately \$2.1 million or 7% above the projected expenditures for 2007-2008. The Fire Department accounts for about half of the increased amount because of the staffing needs of two new stations that are scheduled to open in early 2009. The rest of the increase is being used to sustain current service levels across all departments in the General Fund. The General Fund had a decrease of twelve positions due to elimination of vacant positions and the transfer of two positions to the Stormwater Management Fund. It was decided that eighteen firefighters would staff the new stations instead of twenty-four as proposed in the FY2008 budget. A Deputy Chief position was added resulting in a net decrease of five positions in the Fire Department budget.

The other decreases were primarily development related coming out of the building and planning area.

It is anticipated that a fund balance of approximately \$7.6 million will be available at the end of this fiscal year on September 30, 2008. Of this amount, approximately \$800,000 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 \$6.3 million will remain in unappropriated reserves, or approximately 20% of the general fund budget. This is at the upper end of 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 \$34,189,669. This is an increase of approximately \$3.6 million from the projected expenditures for the fiscal year ending September 30, 2008. Debt service for the Utility will increase by about \$2 million because of the 2007 bond issue and payments on the State Revolving Fund loans. Transfers are increasing by \$1 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, 2008 is \$10.6 million. Approximately \$1.2 million of this total is being appropriated for capital and one-time transfers. A contingency of \$500,000 is also being funded in the 2009 fiscal year budget leaving an unappropriated fund balance of \$8.9 million or about 26% of the Utility Operating Fund budget total.

UTILITY FUND CAPITAL PROJECTS

The Utility Capital Projects Fund is proposed at \$35,228,256. Major projects planned for FY 2009 are the expansion of the wellfield, additional lift stations and pump stations, improvements to Wastewater Treatment Plant #1, and completion of the design for Wastewater Treatment Plant #2. Other projects include the construction of reclaimed water lines, improvements at Water Plant #1 and Water Plant #2, and continued improvements throughout the water distribution and wastewater collection systems.

For the five year CIP, total capital expenditures are estimated at \$111.1 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 \$23.7 million is anticipated to fund the design and construction of Wastewater Treatment Plant #2.

OTHER MAJOR OPERATING FUNDS

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

Stormwater Management Fund

The Stormwater Management Fund is proposed for fiscal year 2008-2009 at \$9,181,500. In addition to stormwater fees, this fund receives revenue from driveway permits. This budget also includes \$4 million in debt proceeds to provide resources for the capital improvement program. This debt will be repaid from a \$2.00 per month increase per equivalent residential unit.

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. The fiscal year 2009 budget is proposed at \$7,985,430 or 6% higher than fiscal year 2008 projected costs. This service is funded by the solid waste charges on the City utility bills.

Golf Course Fund

The Golf Course Fund is being established to track the operations of the Palm Harbor Golf Course, which was contributed to the City. The course will be renovated and is expected to open near the end of fiscal year 2009. The budget in FY2009 is for construction. The City expects to hire a management company to operate the course and will establish an operating budget in FY2010.

Tennis Center Fund

Fiscal year 2009 will be the first full year of operation for the tennis center. Revenues and expenditures have been about as expected, with a \$100,000 transfer from the General Fund to supplement operations. Revenues come from court rentals and tennis lessons. The budget for FY2009 is proposed at \$242,934 which includes a transfer of \$100,000 from the General Fund. A supplement is being 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 \$3,895,642 with \$1,063,760 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 contains no net change in the number of employees. Twelve vacant positions were eliminated and several positions were transferred between departments to better utilize existing personnel. Two Animal Control Officers were added as the City takes those responsibilities over from the Humane Society. Ten Equipment Operator positions were added to the Stormwater Management Fund and two positions were transferred from Public Works to increase the level of service in Stormwater, specifically to work on the swale rehabilitation program. These positions will be funded from the Stormwater Management Fund but will be supervised by Public Works.

There were some changes to benefits this year. The average merit percentage has been reduced from 4% to 2% for FY2009. It is anticipated that this will revert back to 4% once the economy improves. The market rate adjustment has been set at 50% of the June Consumer Price Index instead of 100%. This will make the adjustment 2.5% effective in January 2009. Again, this is expected to return to the 100% of CPI once the economic situation recovers. 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 2008-09 is proposed at \$127.9 million. This represents 60% of the total proposed budget of \$213.4 million. For the five years through FY 2012-13, total Capital Improvements are projected at approximately \$288.2 million.

Capital Projects Fund

The Capital Projects Fund is proposed at \$4,605,000 for FY 2008-09. This figure includes completion of the new main fire station and design of a replacement for Station #22. Also included are funds for parkway beautification, fiber optics, park renovations, bridge rehabilitation, sidewalks and bike paths, and 800 MHz system improvements.

Streets Improvement Fund

The Streets Improvement program is budgeted at \$8,064,500 for FY 2008-09 and \$35.3 million for the five years ending in FY 2013. 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 improvements to Royal Palms Parkway, intersection improvements, traffic signals, and guard rail and bridge safety improvements. Beginning in 2009, the revenue from red light camera fines will go into this fund and be used for signage upgrades and pavement marking.

Impact Fee Funds

The Park Impact Fee fund is budgeted at \$4,545,000 for FY 2008-09. This figure includes the completion of Ralph Carter Neighborhood Park, construction of Waterfront Park, and various trails, including the Graham Swamp Trail. Money has also been earmarked to complete a park master plan.

The Fire Impact Fee fund is budgeted at \$1,630,000. These funds are for the completion of the Palm Harbor fire station, Station #24.

The Transportation Impact Fee fund is budgeted at \$70,950,000 for FY 2008-09. This fund includes money for the construction of the Belle Terre four-lane project and the four-laning of Old Kings Road South along with the Palm Harbor extension. There is also some design money for Palm Coast Parkway six-laning and the North Old Kings Road four-laning.

CONCLUSION

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.

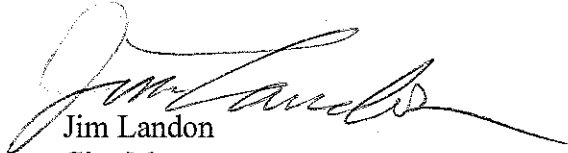
This budget presentation proposes revenues and expenditures totaling approximately \$213.4 million for FY 2008-2009. In addition to the Capital Improvement Program, capital expenditures in the operating funds bring the total capital expenditures for the year to \$133.7 million or 63% of the total budget. The balance, or \$79.7 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.

Even though our residential growth has slowed considerably, Palm Coast remains one of the fastest growing cities in the nation. Commercial growth continues at a steady pace and we continue to look for opportunities to bring commercial and industrial development and the associated jobs into Palm Coast. 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 and 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.

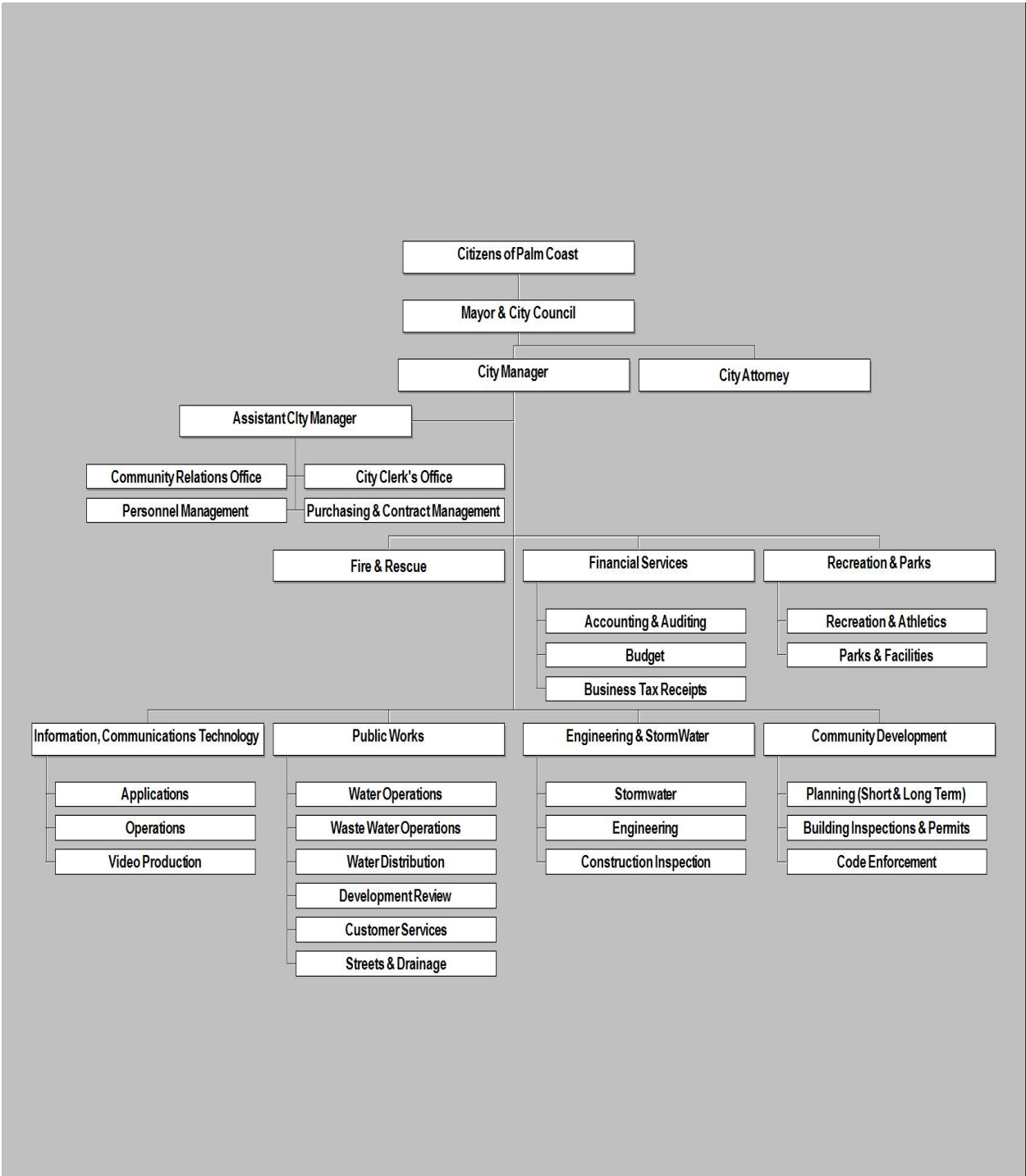
I would like to conclude this budget message by thanking the Executive Team and their staffs for working throughout the year to provide quality service to our citizens, as well as for their efforts to prepare this budget. In particular I wish to express my appreciation to the Finance Director and his 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, 2007

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, 2007. 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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