

INTRODUCTION



CITY MANAGER

September 1, 2011

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, 2011 and the Five Year Capital Improvements Program for the City beginning on October 1st and extending through September 30, 2016.

INTRODUCTION

As with most other jurisdictions around Florida and the country, the economic downturn continues to impact the City of Palm Coast. While property values continued their decline, the rate of the decline has slowed slightly. Approximately ten full-time equivalent positions were not filled during 2011 and are being eliminated for 2012. Four of these positions were in the Fire Department. The departments and management are constantly looking for better and more efficient ways to provide services at a lower cost while maintaining service levels.

The City continues to be successful in obtaining grants for numerous projects and anticipates receiving more grants in fiscal year 2012. Many of these grants were for trails and bike paths. The City has been approved for grant money for Neighborhood Stabilization Program (NSP) III. The NSP programs will continue for several years. We are always looking for ways to leverage our local dollars. This budget also includes some reallocation of recurring revenue to address priority issues, such as stormwater upgrades and major maintenance.

PLANNING AND GOALS

The City Council met in May to update the strategic plan and goals for the five year plan. There were no changes to the broad goals. Some projects and priorities were eliminated because they have been accomplished. It was decided not to add any new priorities because of economic conditions and to concentrate on projects/programs that were already included in the current goals. There were some changes to the priorities set by the City Council. These priorities have been used by the staff to develop and refine the budget that is being presented to the City Council. 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 most of the City Council priorities. Economic development continues to be a top priority given the high unemployment rate in Flagler County. Funding is being maintained at approximately the same level as prior years but the focus is changing to existing local businesses and their needs. The Palm Coast Business Assistance Center has been started to assist existing local businesses with expansion efforts and to help start up businesses with financial and administrative expertise. As mentioned earlier, stormwater management has become a high priority because of the age of the system and a number of infrastructure failures over the last couple of years. Internal management is continuing to find ways to do more of the work using City crews so that the available funds can be utilized more efficiently. In the transportation area, grants are being pursued to provide money for trails and bike paths and various street extension and expansion projects. In the SR100 CRA Fund an alternative plan is being developed to make improvements to Bulldog Drive in phases as money becomes available.

TAX RATES

Declining market values again contributed to an overall decrease in taxable property value of 13.5%. New construction added a little less than 1% to the taxable value, so the City had a 12.8% net reduction in taxable property value for the year. The millage rate is being increased to 3.9900 mills for 2011-2012. This is a decrease of 1.6% from the rolled-back rate. Prior to 2011, a portion of the millage rate was allocated to the Capital Projects Fund to pay for capital projects. For 2011, the entire 3.5000 mills of ad valorem tax was allocated to the General Fund and no tax money went to the Capital Projects Fund. For 2012, 0.45 mills of ad valorem tax is being allocated to the Stormwater Management Fund for capital projects in that fund. The General Fund will receive 3.54 mills which represents an increase of 0.04 mills.

GENERAL FUND

The General Fund budget for Fiscal Year 2011-2012 is proposed at \$25,762,000 and is approximately \$387,000 or 1.5% less than the estimated expenditures for 2010-2011. Efforts were made to maintain the current service levels without increasing budget levels. This was accomplished by most departments in the General Fund. There was an overall decrease of almost seven full-time equivalent positions in the General Fund. A portion of the City's state revenue sharing and fuel tax money will be transferred from the Streets Improvement Fund to help make up for the revenue shortfall caused by the decline in property values and the related taxes.

UTILITY FUND - OPERATING

The total Utility Operating Fund budget is proposed at \$30,160,495. This is an increase of approximately \$9,000 from the estimated expenditures for the fiscal year ending September 30, 2011. Almost all of the increase is in operating costs related to additional water production and wastewater treatment. Water and wastewater charges are indexed to the June Consumer Price Index and as a result will increase by 3.6% in fiscal year 2012. Some reserves are being used to cover capital costs and contingencies. The estimated fund balance for the Utility Fund on September 30, 2011 is \$8.1 million.

UTILITY FUND CAPITAL PROJECTS

The Utility Capital Projects Fund is proposed at \$5,704,941. The number of projects has been reduced significantly due to the slowdown in growth and reductions in the amount of revenue from impact fees. Projects planned for FY 2012 are the expansion of the wellfield and improvements to lift stations and pump stations. A major project for 2012 and 2013 is the zero liquid discharge project at Water Treatment Plant #2.

For the five year CIP, total capital expenditures are estimated at \$55.8 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.

OTHER MAJOR OPERATING FUNDS

Although the General Fund and Utility Fund represent the largest portions of the City's operating budget, there are six additional operating funds which are significant in their totals.

Solid Waste Fund

The City's contract with Waste Pro for solid waste collection expires at the end of December 2011. Prices have not changed significantly over the life of the contract because of a relatively flat Consumer Price Index. The fiscal year 2012 budget is proposed at \$7,605,000. This service is funded by the solid waste charges on the City utility bills.

Stormwater Management Fund

The Stormwater Management Fund is proposed for fiscal year 2011-2012 at \$7,474,910. For 2012, a portion of the City's state revenue sharing money will be transferred from the Streets Improvement Fund. It will also get 0.45 mills of property tax money to supplement stormwater fees. The stormwater system was identified as a priority by the City Council, so it was important to find alternative revenue sources to help pay for improvements to the system. Capital projects include swale rehabilitation, pipe replacements, and control structure rehabilitation.

Building Permits & Inspections Fund

This fund was created during fiscal year 2010 to better track the revenues and expenses related to building activities. The Building Permits & Inspections Division was previously budgeted in the General Fund. The budget for FY2012 is estimated at \$1,507,334 and is funded primarily by permit fees.

Golf Course Fund

The Golf Course Fund was established to track the operations of the Palm Harbor Golf Course, which was contributed to the City. After a total renovation the course opened in November 2009. The budget for FY2012, the second full year of operation, is \$1,668,100. Kemper Sports manages the course for the City.

Tennis Center Fund

The tennis center has been in operation for about four years and has been supplemented by the General Fund each year to cover expenses. In an effort to move the tennis center toward self sufficiency, the City has contracted with Kemper Sports to operate the center with the goal of expanding programs and usage in order to generate more revenue. Revenues come primarily from membership fees, court rentals and tennis lessons. The budget for FY2012 is proposed at \$305,800. The General Fund supplement is being included again, but it is being reduced by about 25% from the 2011 transfer.

Information Technology & Communications Fund

Information Technology & Communications (IT&C) is responsible for all internal technology and communications functions. They operate the City's fiber optic network which generates revenue that is used to operate and expand the system. It is anticipated that any surplus will be used to pay back the City for the initial installation cost and to offset city-wide technology costs. IT&C also manages the leases for communication towers that are located on City property and receives the revenue from those leases.

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. Maintenance of all rolling stock, with the exception of fire apparatus, is paid through this fund. The budget for this fund is \$3,785,996 with \$471,430 planned for the purchase of new and replacement of vehicles and heavy equipment.

PERSONNEL MATTERS

This budget contains a net reduction of over ten full-time equivalent positions. All of these reductions were accomplished by attrition. This represents a reduction of fifty positions from the peak number of employees in 2009.

There are no merit increases or pay plan adjustments included in the budget for FY2012. 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.

A major focus over the past couple of years has been health care costs which the City provides for the employees and that the employees can purchase for their dependents. Because these costs have been increasing significantly for several years, finding better ways to control these costs is very important. After extensive research and discussion, the City established a self-insurance fund in July 2010. In conjunction with the self-insurance, a clinic was provided for the employees at no cost to the employee or their dependents that are covered under the City's insurance. The clinic began operations in January 2011. The service is being provided under contract by a local clinic that already has a presence in Palm Coast. The first year of self-insuring and the first six months have shown positive results and will continue to be monitored as we obtain more historical data.

CAPITAL IMPROVEMENTS

The Capital Improvement Program for the City of Palm Coast for FY 2011-12 is proposed at \$26.7 million. This represents just over 20% of the total proposed budget of \$120.4 million. For the five years through FY 2015-16, total Capital Improvements are projected at approximately \$165.4 million.

Capital Projects Fund

The Capital Projects Fund is proposed at \$6,698,700 for FY 2011-12. The capital projects include sidewalks and bike paths in various locations throughout the city. Also included are funds for parkway beautification and park renovations.

Streets Improvement Fund

The Streets Improvement program is budgeted at \$12,461,600 for FY 2011-12 and \$60 million for the five years ending in FY 2016. 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. In 2012 it also includes expected grant revenue totaling almost \$6 million. A portion of the gas tax and state revenue sharing money are being transferred to the General Fund and a portion of the state revenue sharing money is being transferred to the Stormwater Management Fund in 2012. Capital expenditures include the resurfacing program and several street projects including improvements to North Pine Lakes Parkway, the four-laning and extension of North Old Kings Road and the six-laning of Palm Coast Parkway.

Impact Fee Funds

The Park Impact Fee fund is budgeted at \$793,100 for FY 2011-12 with all but \$5,000 being reserved for future projects.

The Fire Impact Fee fund is budgeted at \$189,600. No projects are planned for 2012 from this fund and this money is being set aside for future fire stations.

The Transportation Impact Fee fund is budgeted at \$962,800 for FY 2011-12. Several project previously included in this fund have been moved to the Streets Improvement Fund due to reduced impact fee revenue and this money is being used to cover shortfalls.

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.

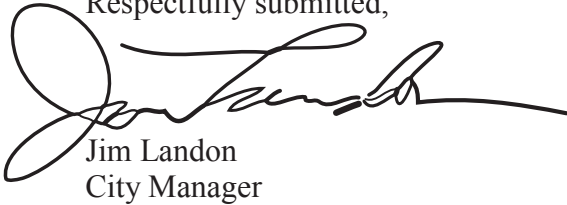
This budget presentation proposes revenues and expenditures totaling approximately \$120.4 million for FY 2011-2012. In addition to the Capital Improvement Program, capital expenditures in the operating funds bring the total capital expenditures for the year to \$27.2 million or 23% of the total budget. The balance, or \$93.2 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.

Property values have continued to decline a little more than expected and other revenue sources have remained flat. The General Fund has decreased over the last four years and is being held at the 2011 level for 2012. Reductions in property tax revenues are being made up by shifting some recurring revenue from capital projects. This budget seeks to maintain the service levels at or close to the levels that the citizens of Palm Coast have come to expect. While commercial and residential development continue at a much reduced pace, development does continue. It is expected to take several years for the local economy to completely turn around with commercial development leading the way. Economic development is a high priority for both the City Council and staff.

We will be monitoring market and economic conditions and making the necessary adjustments to meet the needs of our citizens now and into the future while looking for ways to hold the line on costs. 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.

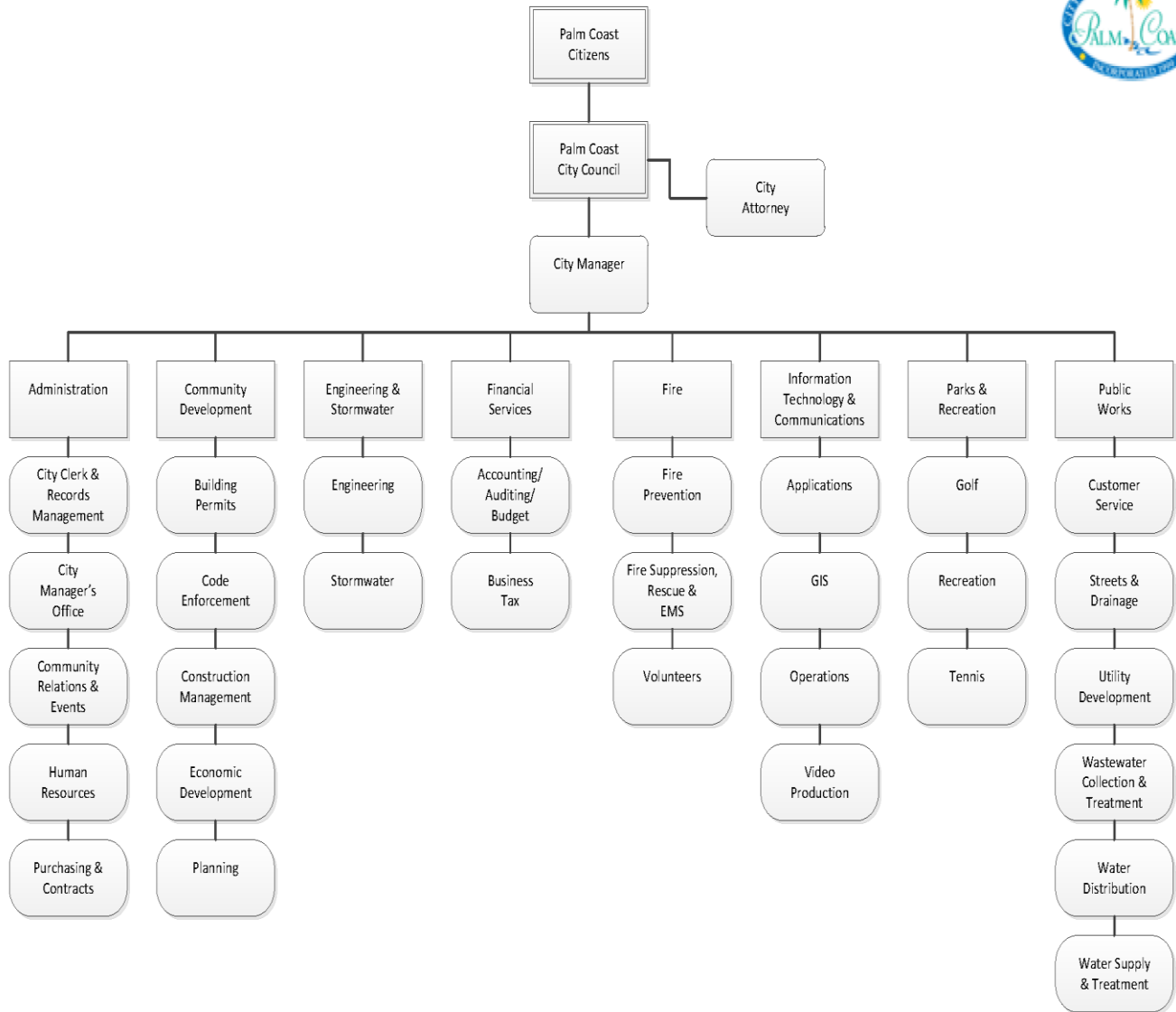
I would like to conclude this budget message by thanking the Executive Team and their staffs for working throughout the year to provide quality service to our citizens, as well as for their efforts to prepare this budget. In particular I wish to express my appreciation to the Finance Director and his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

Respectfully submitted,



Jim Landon
City Manager

ORGANIZATIONAL CHART



1/18/2012



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Palm Coast
Florida**

For the Fiscal Year Beginning

October 1, 2010

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, 2010. 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 seventh 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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