



# Budget Overview

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# Budget Process

## Focusing on the Outcome

### BUDGETARY BASIS

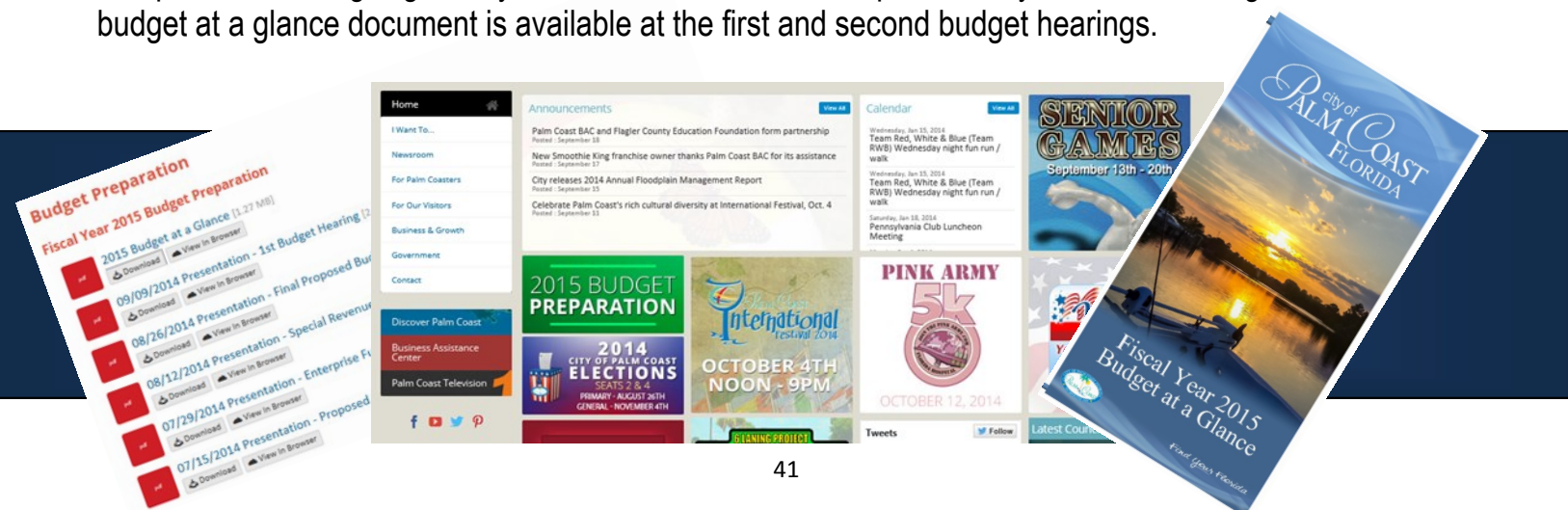
Governmental funds are budgeted using the modified accrual basis of accounting. Revenues are recognized when they become available and measurable. An example would be sales tax or state revenue sharing that is measurable but may not be received until after the end of the fiscal year. Expenditures are recognized when the liability has occurred and is measurable. This would be charges for work that has been completed and invoiced but not paid at year-end. Estimated expenditures for capital outlay and debt service payments are budgeted in all funds; however, the actual expenditure for capital and principal on debt is applied to balance sheet accounts and is not expensed in the proprietary funds. Depreciation is not budgeted in any fund but is recorded in proprietary funds. Revenue in the proprietary funds is recognized when due and expenses when they are incurred.

### METHODOLGY

The preparation and adoption of the Annual Budget is one of the most important actions carried out by the City Council, citizens and staff of Palm Coast. To achieve the best results in the planning and delivery of community services, key financial decisions must be made. The budget process provides a forum to accumulate financial and performance information concerning local services into a common format; analyze and debate the merits of each service; and make decisions about the level and cost of service which will be provided. The budget is designed to provide the citizens of Palm Coast with the full complement of municipal services. This budget aims at providing the highest quality municipal service to the community in an efficient and effective manner.

### PUBLIC PARTICIPATION

Ensuring ample opportunities for public input is an important part of the budget preparation process. A series of presentations over the course of six months are provided to City Council in public workshops where citizens can not only view the information at the workshop but also can obtain copies of all presentations and other helpful documents on the City website by clicking on the “2015 Budget Preparation” link on the City’s homepage. During the fiscal year 2015 budget adoption process, 15 public presentations were made to City Council regarding the overall process. To further assist the public with this process a budget glossary is available at all workshops and City Council meetings. In addition, a budget at a glance document is available at the first and second budget hearings.



## PREPARATION

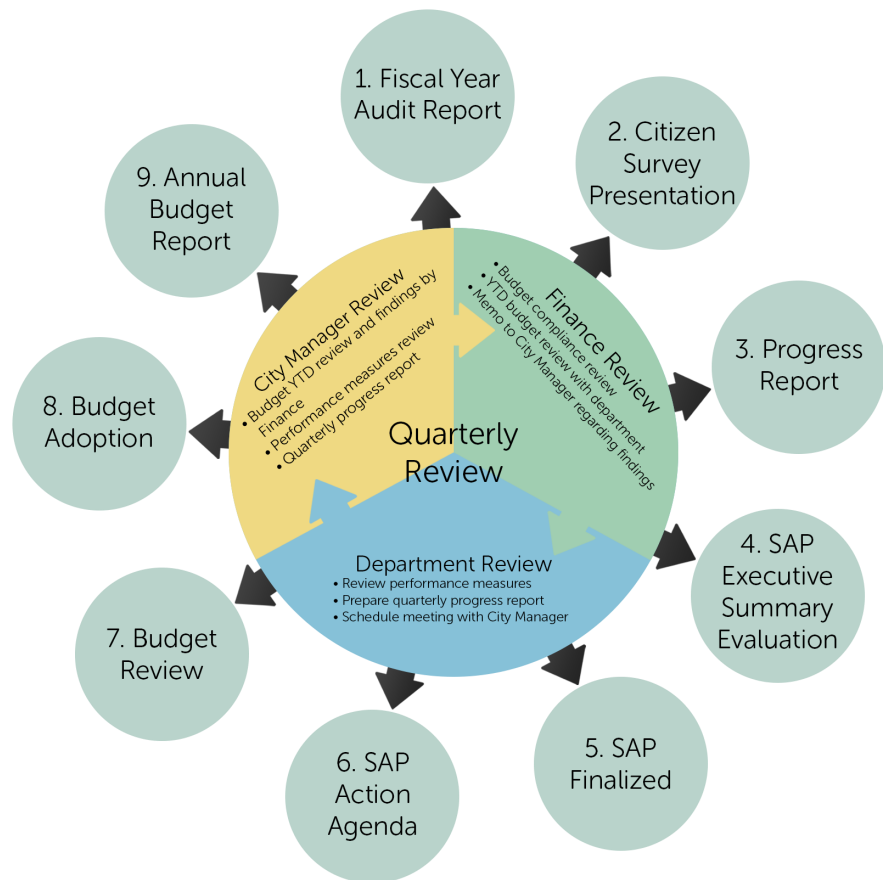
Budgeting with an outcome in mind requires a direct link between departmental spending and the Strategic Action Plan (SAP). The SAP is reviewed on an annual basis and adjustments are made according to City Council direction. This review is done just prior to the departmental budget preparation period and after the presentation to City Council of the Annual Progress Report. This allows staff to budget accordingly in order to meet City Council goals for the following year. This approach helps to bridge the gap between the SAP and the annual budget.

During budget preparation time, each department first outlines functions and goals to accomplish in the coming fiscal year. A detailed estimate of monies and personnel required to provide these services is then prepared by the departments. These requests are then reviewed by the City Manager and the Finance Director. Upon completion of this review, and matching with the projected revenues available, a balanced budget, where revenues are equal to expenditures, is prepared.

During the months of July and August the City Manager submits the proposed budget to the City Council. This takes place over the course of several City Council workshop sessions. During each session the City Council reviews the proposed budgets by department and provides preliminary direction as to the probable approval levels of the budget.

## ADOPTION

During the month of September, in accordance with the timing specified in State Law (F.S. 200.065), two public hearings are held. The time of the first hearing is advertised on the "Notice of Proposed Property Taxes" sent to property owners and by the usual procedure for advertising a public hearing. The first meeting is to tentatively adopt the budget and millage rate. For the second hearing, in addition to normal advertising procedure, a general summary of the proposed budget is advertised in the newspaper along with a date for the statutory public hearing to adopt the budget and millage rate. The City's fiscal year is October 1 through September 30.



## REVIEW

Once the budget is approved, departments begin meeting with Finance and the City Manager on a quarterly basis to review the year to date budget results and performance measures. During these quarterly reviews, achievements from the previous quarter as well as budget compliance is discussed. This process allows management to make adjustments during the year to ensure success towards meeting City Council goals. Each department head provides a formal report which is made available to both City Council and to the public each quarter via the City's website. This report gives City Council a birds eye view of the progress being made throughout the fiscal year.

The end of year budget and performance measure review is done in December. These results provide the foundation for the Annual Progress report which is presented to City Council in February. This final step truly brings the overall Strategic Action Plan process full circle again.

### Strategic Action Plan

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This document highlights the City's performance measurement results for fiscal year 2013.
  
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2013 Annual Progress Report
  
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Strategic Action Plan Executive Summary Journal
  
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# *Budget Calendar*

## *Focusing on the Outcome*

### **January**

- ◆ Fiscal year 2014 1st quarter results provided to City Council

### **February**

- ◆ Fiscal year 2013 Audit Report and final operating results submitted to City Council

### **March**

- ◆ 2013 Annual Progress Report and Citizen Survey Results provided to City Council
- ◆ 10 Year Infrastructure Capital Improvement Program (CIP) project schedule and funding report submitted to City Council

### **April**

- ◆ Strategic Action Plan Annual Evaluation
- ◆ Year to Date budget presentation to City Council
- ◆ Budget input refresher provided to staff assistants and office managers
- ◆ Budget system opened for department input
- ◆ Fiscal year 2014 2nd quarter results provided to City Council

### **May**

- ◆ Fund Accounting Overview presentation provided to City Council
- ◆ Budgets prepared by departments and reviewed with Finance
- ◆ Long Term Financial Planning presentation provided to City Council

### **June**

- ◆ Revenue Source Overview presentation provided to City Council
- ◆ Budgets reviewed with City Manager
- ◆ Property Tax Overview presentation provided to City Council

### **July**

- ◆ Preliminary General Fund budget workshop
- ◆ Maximum Millage Rate presentation to Council and Maximum Millage Rate (TRIM rate) adopted
- ◆ Fiscal year 2014 3rd quarter results provided to City Council
- ◆ 5 Year Capital Improvement Program (CIP) finalized

### **August**

- ◆ TRIM notices issued by Flagler County Property Appraiser
- ◆ Proprietary, Internal Services, Special Revenue and Capital Projects funds budget workshop
- ◆ Final Budget presentation to City Council

### **September**

- ◆ Public hearings to adopt tentative and final budget and millage rate

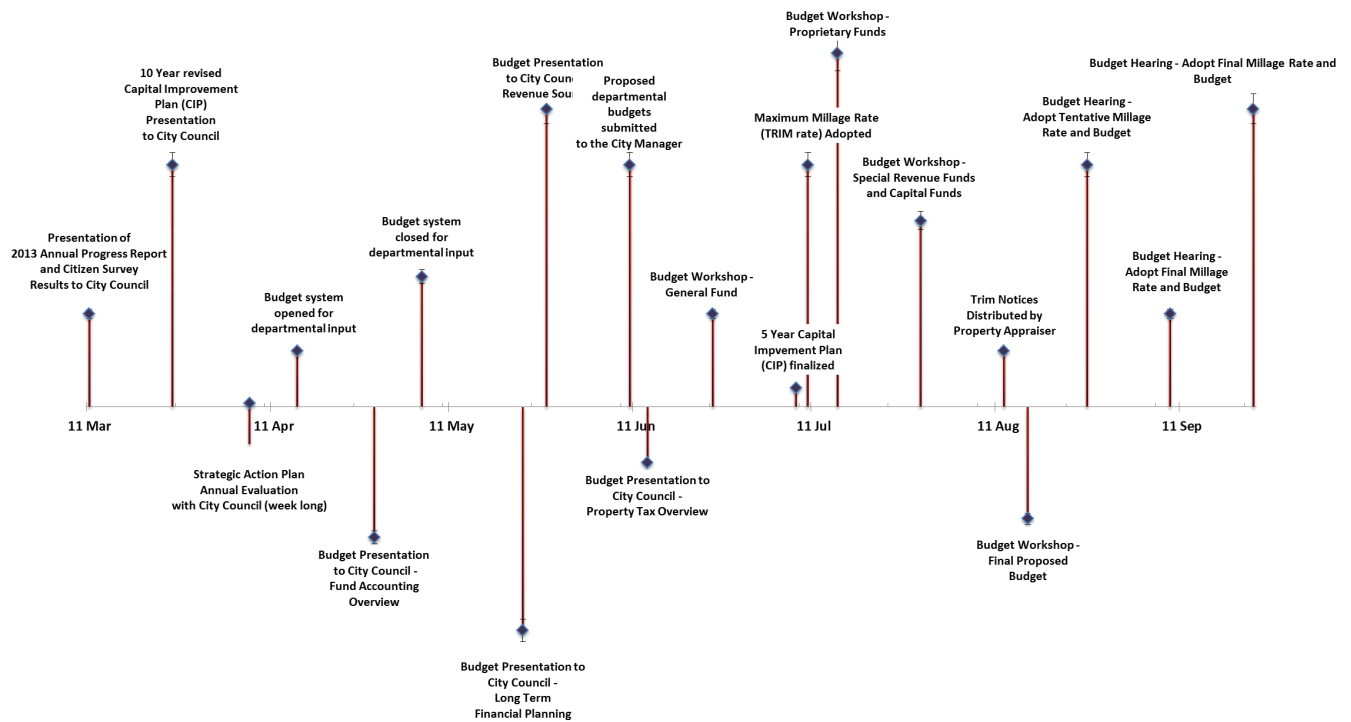
### **December**

- ◆ Annual budget report
- ◆ Fiscal year 2014 end of year review for departments with the City Manager

# Budget Preparation Timeline

## Focusing on the Outcome

### Budget Preparation Timeline



DATE	MILESTONE
3/11/2014	Presentation of 2013 Annual Progress Report and Citizen Survey Results to City Council
3/25/2014	10 Year revised Capital Improvement Plan (CIP) Presentation to City Council
4/7/2014	Strategic Action Plan Annual Evaluation with City Council (week long)
4/15/2014	Budget Presentation to City Council - Year to Date Budget
4/28/2014	Budget system opened for departmental input
5/6/2014	Budget Presentation to City Council - Fund Accounting Overview
5/23/2014	Budget system closed for departmental input
5/27/2014	Budget Presentation to City Council - Long Term Financial Planning
6/10/2014	Budget Presentation to City Council - Revenue Sources
6/13/2014	Proposed departmental budgets submitted to the City Manager
6/24/2014	Budget Presentation to City Council - Property Tax Overview
7/8/2014	Budget Workshop - General Fund
7/10/2014	5 Year Capital Improvement Plan (CIP) finalized
7/15/2014	Maximum Millage Rate (TRIM rate) Adopted
7/29/2014	Budget Workshop - Proprietary Funds
8/12/2014	Budget Workshop - Special Revenue Funds and Capital Funds
8/16/2014	Trim Notices Distributed by Property Appraiser
8/26/2014	Budget Workshop - Final Proposed Budget
9/9/2014	Budget Hearing - Adopt Tentative Millage Rate and Budget
9/23/2014	Budget Hearing - Adopt Final Millage Rate and Budget

# *Budget Amendment Process*

## **SUPPLEMENTAL APPROPRIATION AMENDMENTS AFTER ADOPTION**

If, during the fiscal year the City Manager certifies that there are revenues in excess of those estimated in the budget, available for appropriation, the City Council by resolution may make supplemental appropriations for the year up to the amount of such excess.

## **EMERGENCY APPROPRIATIONS**

To meet a public emergency affecting, life, health, property, or the public peace, the City Council may make emergency appropriations. Such appropriations may be made by emergency ordinance to the extent that there are no available un-appropriated revenues to meet such appropriations.

## **REDUCTION OF APPROPRIATIONS**

If, at any time during the fiscal year, it appears probable to the City Manager that the revenues available will be insufficient to meet the amount appropriated, he shall report to the City Council without delay, indicating the estimated amount of the deficit, any remedial action taken by him, and his recommendations as to any other steps to be taken. The City Council shall then take such further action as it deems necessary to prevent or minimize any deficit and for that purpose it may by resolution reduce one or more appropriations.

## **TRANSFER OF APPROPRIATIONS**

At any time during the fiscal year the City Manager or his designee may transfer part or all of any unencumbered appropriation balance among programs within a department. The City Council may by resolution transfer part or all of any unencumbered appropriation balance from one department to another.

## **LIMITATIONS; EFFECTIVE DATE**

No appropriation may be reduced below that amount required by law to be appropriated, if any. No appropriation may be reduced below the amount of the encumbered balance. The supplemental and emergency appropriations and reduction or transfer of appropriations authorized may be made effective immediately upon adoption.

## **LAPSE OF AN APPROPRIATION**

Every appropriation, except an appropriation for a capital expenditure, shall lapse at the close of the fiscal year to the extent that it has not been expended or encumbered. An appropriation for a capital expenditure shall continue in force until the purpose for which it was made has been accomplished or abandoned.



# Long Range Financial Planning

The City reviews and maintains a long-range financial plan to assist management in the planning and allocation of resources to achieve the Strategic Action Plan goal of leveraging financial strengths while remaining committed to fiscal responsibility. The City reviews its long-range financial plan each year after the completion of the annual financial audit and during preparation of the annual budget. This plan provides us with an opportunity to evaluate existing policies and current practices in order to implement new strategies needed before fiscal constraints have negative impacts on the budget. Despite the recessionary period, the City has remained fiscally sound. We believe this is the result of proper long range planning.

The general fund and utility fund are the City's main operating budgets and therefore a priority when preparing and revising the long range financial plan. Long-range planning for capital funds are discussed in the Capital Improvement Program section later in this document.

## REVENUE OPTIONS

In an ongoing effort to keep City Council informed about all existing and new revenue options, staff has created an inventory of all revenue sources. This guide includes any spending limitations that exist on these sources, additional revenues available from current revenue sources, and potential new options for future needs. This process occurs on an annual basis during the budget preparation period. This allows City Council to determine how City revenue is assessed, collected, and allocated, as well as their effect on the operating and capital budget. Each year revenue diversification options are discussed with City Council.

## IN-HOUSE PROJECTS

One way that the City continues to remain fiscally strong is by evaluating projects before outsourcing them. Staff reviews the services needed and makes a recommendation to management on whether to use external vendors or internal resources. Management reviews the process further by using a cost-benefit analysis and then makes a final determination. Whenever possible, outsourcing will be limited by using talented staff that already exists within our departments. The City believes this produces both a cost savings and boosts moral among its employees.

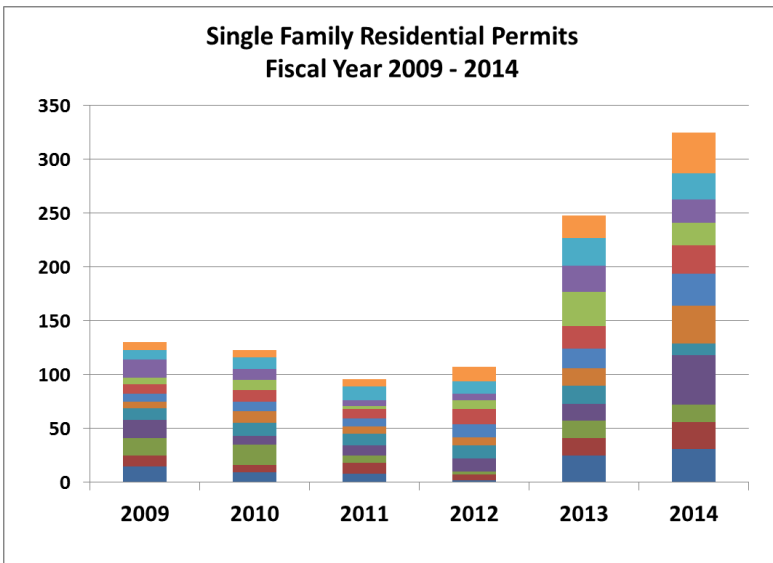
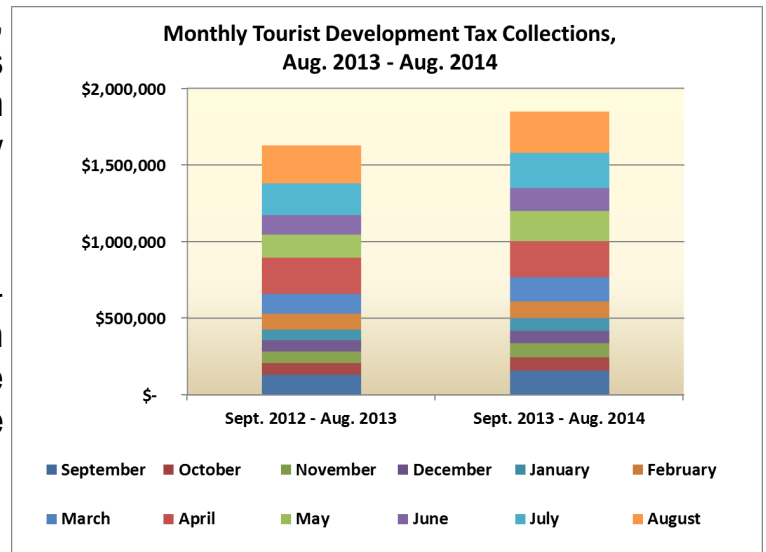
In fiscal year 2013 landscaping services were brought "in-house" allowing the City to reduce its costs and provide a higher level of service. During fiscal year 2014, the benefits of this program were confirmed. The evaluation and results will continue to be used towards future consideration for additional in-house projects.



## ECONOMIC DEVELOPMENT

Palm Coast City Council has implemented many programs contained in its economic development program, Prosperity 2021. Efforts include launching the Palm Coast Assistance Business Center (BAC), completing various essential capital projects, marketing efforts to attract sports tournaments and maintaining quality neighborhoods. Palm Coast continues to be a great place to live, play and grow a business.

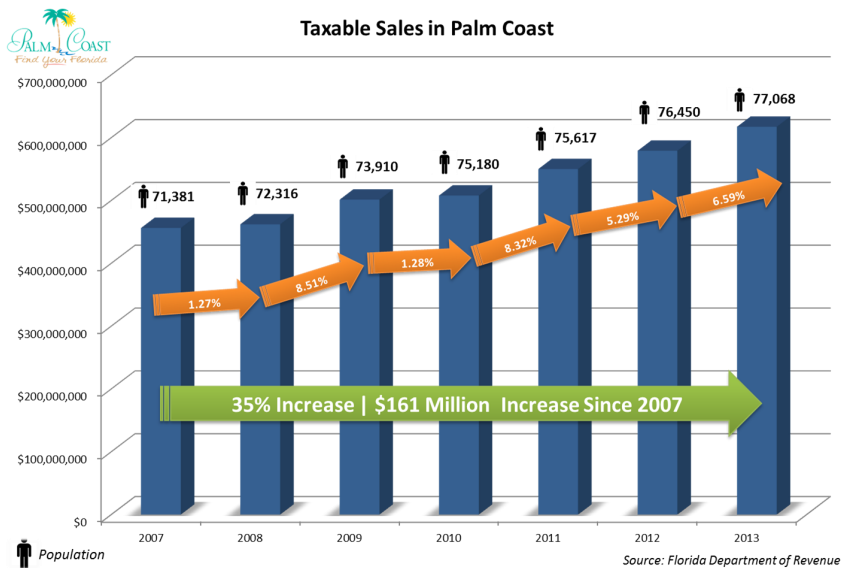
The City believes that a strong economic environment is critical to the long range financial health of the city. Rising taxable sales throughout the economic downturn indicate that efforts to date are having a positive effect.



New home construction is beginning to see an increase once again and is at an all time high since 2009. This is having a positive effect on impact fee revenue as well as other building related revenue.

Visitor spending is also continues to see an increase. This is the result of a large emphasis being placed on attracting sporting events to the area.

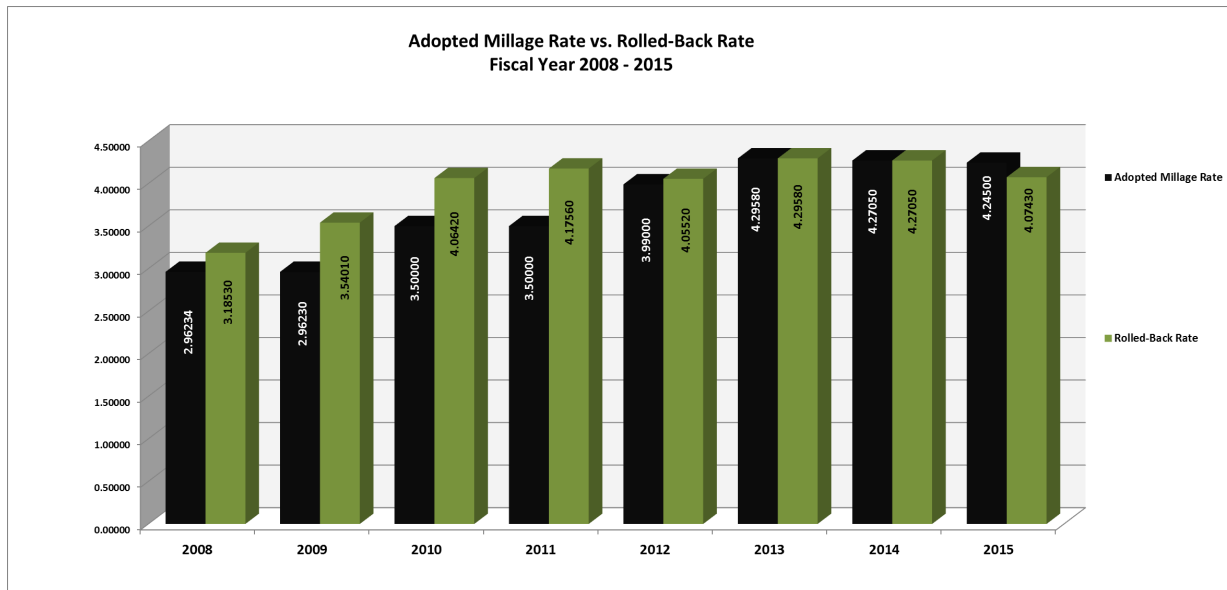
The City also continues to focus on adding special events that will attract outside visitors to the area. The increased traffic to the area not only benefits our local businesses through increased sales but offers the residents an enhanced quality of life, by providing safe, affordable and enjoyable options for cultural, educational, recreational and leisure time events, goal 5 of the strategic action plan.



## GENERAL FUND

This year City Council adopted a millage rate of 4.2450 down from last year's millage rate of 4.2705. This was possible because of a slight increase in gross taxable property values from \$3,665,942,134 in 2014 to \$3,892,358,641. The Florida Constitution limits any annual increase in the assessed value of residential property with a Homestead Exemption to 3 percent or the Consumer Price Index (CPI), whichever is lower.

Property taxes account for approximately 11% of the total City revenue budget however they also remain as the largest revenue source for the General Fund. City Council has been sensitive to the public's desire to maintain level property taxes, but inflationary pressure and future infrastructure requirements will inevitably have an effect on future millage rates. Residents also continue to request additional or enhanced services. Without significant growth in the taxable value of property, keeping property taxes flat is not sustainable.



Other major sources of tax revenue for the General Fund include the Communication Services Tax and the Half-Cent Sales Tax. Although sales tax revenues have been increasing, the Communications Services Tax has been steadily declining.

Additional revenue diversification in the General Fund provides opportunities to mitigate the effect of rising costs, service level enhancements, and infrastructure funding. There are two funding sources which are not in use and available for future funding. These include the Public Service Tax and Utility Franchise Fees. Both of these funding sources represent the potential for nearly \$8 million of new revenue annually.

Continued pressure on revenues could affect the ability to remain in compliance with the fund balance policy. The table below reflects five-year projection of revenues and expenditures for the General Fund based on these current trends:

GENERAL FUND	FY 15	FY 16	FY 17	FY 18	FY 19
Prior Year Carry-over	\$ 5,021,751	\$ 5,021,751	\$ 4,852,351	\$ 4,542,651	\$ 3,777,851
<b>Revenues</b>					
Taxes	18,622,074	18,994,500	19,374,400	19,761,900	20,157,100
Permits, Fees and Special Assessments	1,185,000	1,208,700	1,232,900	1,257,600	1,282,800
Intergovernmental Revenue	3,551,625	3,658,200	3,804,500	3,956,700	4,115,000
Charges for Services	4,415,266	4,591,900	4,775,600	4,966,600	5,165,300
Miscellaneous Revenues	638,478	657,600	677,300	697,600	718,500
Transfers from Other Funds	777,000	784,800	792,600	800,500	808,500
<b>Total Revenues</b>	<b>29,189,443</b>	<b>29,895,700</b>	<b>30,657,300</b>	<b>31,440,900</b>	<b>32,247,200</b>
<b>Total Available Funds</b>	<b>34,211,194</b>	<b>34,917,451</b>	<b>35,509,651</b>	<b>35,983,551</b>	<b>36,025,051</b>
<b>Expenditures</b>					
Personal Services	15,026,444	15,477,200	15,941,500	16,579,200	17,242,400
Operating Expenditures	13,111,493	13,504,800	13,909,900	14,466,300	15,045,000
Capital Outlay	-	-	-	-	-
Grants & Aide	128,000	131,800	135,800	141,200	146,800
Transfers to Other Funds	821,800	846,500	871,900	906,800	943,100
Contingency	101,706	104,800	107,900	112,200	116,700
<b>Total Expenditures</b>	<b>29,189,443</b>	<b>30,065,100</b>	<b>30,967,000</b>	<b>32,205,700</b>	<b>33,494,000</b>
<b>Available Funds End of Year</b>	<b>\$ 5,021,751</b>	<b>\$ 4,852,351</b>	<b>\$ 4,542,651</b>	<b>\$ 3,777,851</b>	<b>\$ 2,531,051</b>

## UTILITY FUND

Due to the recent recession, the growth within the Utility service area has significantly slowed down in the last five years. This precipitated a reduction and delay in the capital plan and expansion of certain facilities. The current five-year capital improvement plan has been updated to reflect lower demand projections and related revenues due to the effects of current economic conditions on growth. Long-range planning for capital funds are discussed in the Capital Improvement Program section later in this book.

The City has a significant amount of platted vacant residential parcels (18,000) with water and wastewater service available or in close proximity which will provide a strong potential for growth over the next ten to twenty years. The water system customer base consists primarily of single-family residential customers. This class accounts for approximately 80% of the total estimated accounts. It is expected that the City will continue to grow and increase its water and wastewater customer base. The development of vacant platted properties is expected to continue based on recent historical trends in the issuance of building permits.

In fiscal year 2013 a Utility Rate Study was completed and as a result City Council adopted a three part utility rate increase through October 2014. These rates were designed to increase the fund balance within the utility fund as well as to double the contribution being made to the Utility Capital Projects fund for repair and renewal (R&R) on aging infrastructure. The R&R contribution increased from 5% of gross revenues to 10%. The City Council has also instituted a new program of updating the rate study every few years to stay ahead of rising operating costs and capital infrastructure needs. The next rate study will take place in fiscal year 2015.

Additionally, in fiscal year 2013, the City refunded its 2003 Utility Revenue Bonds. This refunding produced a present value debt service savings of over \$6 million. In addition to the refunding, the City issued an additional \$20 million for immediate capital needs. Due to the debt service savings, the additional borrowing netted an overall increase in debt service of only approximately \$500,000 annually.

The rate study assumed that the average annual customers serviced by the utility system will increase at an average rate of .27% per year. This rate of growth is less than the average growth rate experienced during the last five fiscal years. This lower rate is an effort to be conservative although there is a significant amount of capacity reserved for future development. This conservative rate of growth was used for the determination of future sales revenue. Actual increases in the growth rate may accelerate future infrastructure needs such as the addition of a second Wastewater Treatment Plant. The pace of population growth, and the potential for significant regulatory changes, will potentially provide pressure on future rates through increased debt service. Annual indexing built in to the current rate structure will help offset increased operating costs over time.

UTILITY FUND	FY 15	FY 16	FY 17	FY 18	FY 19
<b>Revenues</b>					
Water & Wastewater Sales	\$ 35,228,269	\$ 36,105,577	\$ 37,014,785	\$ 38,887,700	\$ 40,855,400
Connection Fees	157,000	157,000	157,000	157,000	157,000
Interest on Investments	76,485	80,391	85,341	90,461	95,889
<b>Total Revenues</b>	<b>35,461,754</b>	<b>36,342,968</b>	<b>37,257,126</b>	<b>39,135,161</b>	<b>41,108,289</b>
Transfers to Rate Stabilization Fund	-	-	-	-	-
<b>Total Available Funds</b>	<b>35,461,754</b>	<b>36,342,968</b>	<b>37,257,126</b>	<b>39,135,161</b>	<b>41,108,289</b>
<b>Expenditures</b>					
Operations & Maintenance	17,486,854	17,975,315	18,503,296	19,058,400	19,630,200
Debt Service	13,052,550	13,052,826	13,054,952	13,446,600	13,850,000
Transfer to R&R (Capital Projects Fund)	3,522,827	3,610,558	3,701,479	3,888,770	4,085,540
<b>Total Expenditures</b>	<b>34,062,231</b>	<b>34,638,699</b>	<b>35,259,727</b>	<b>36,393,770</b>	<b>37,565,740</b>
<b>Total Amount Available for Reserves and Capital Expenditures</b>	<b>\$ 1,399,523</b>	<b>\$ 1,704,269</b>	<b>\$ 1,997,400</b>	<b>\$ 2,741,391</b>	<b>\$ 3,542,549</b>

## **CONCLUSION**

With factors that exist outside of the control of City Council, it is impossible to foresee every economic outcome for the City. That is why both City Council and Management believe in having a long range financial plan which is optimistic yet conservative. Some strategies being used to help secure the fiscal future of the City include expanding the use of grants, continuing to maintain lean operating costs while maintaining its existing level of service, and managing long-term fixed costs. Maintaining a long range financial plan is a critical component of this effort.

It is our mission to provide our residents, visitors, and business community with exceptional government services in order to improve the quality of life, grow the local economy, and protect the natural environment through a planned, integrative approach using available technology .

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