



Budget Overview

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Budget Process

Focusing on the Outcome

BUDGETARY BASIS

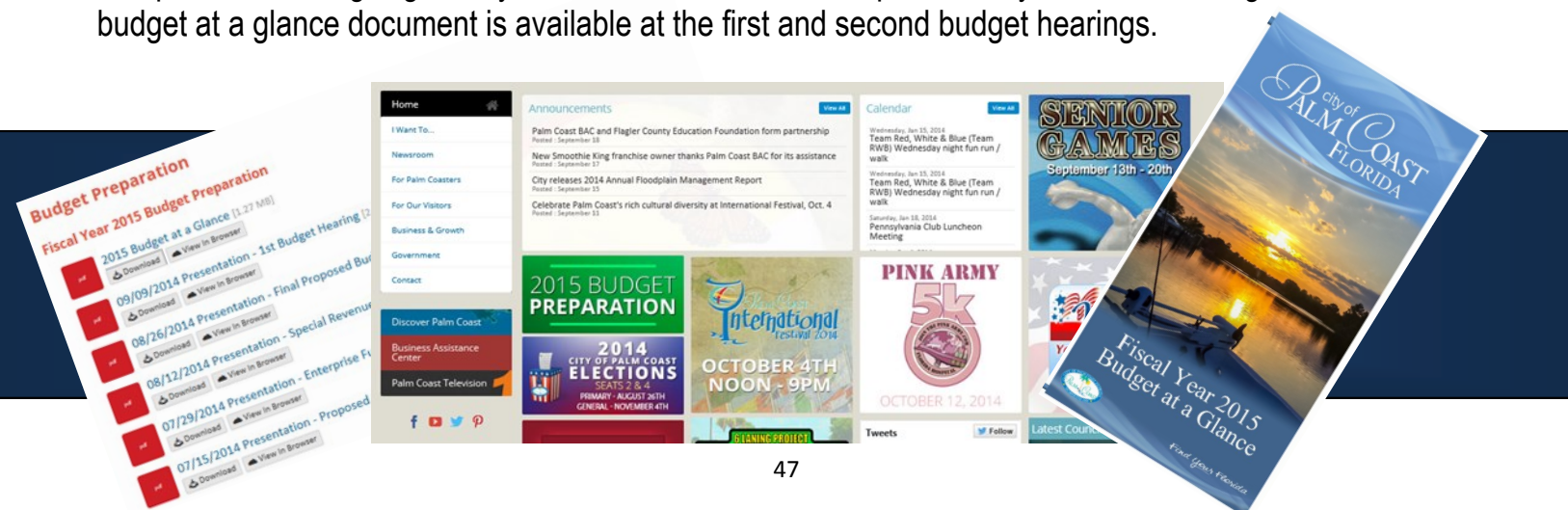
Governmental Funds are budgeted using the modified accrual basis of accounting. Revenues are recognized when they become available and measurable. An example would be sales tax or state revenue sharing that is measurable but may not be received until after the end of the fiscal year. Expenditures are 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 expensed 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 opportunity 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 "Budget Preparation" link on the City's homepage. During the fiscal year 2016 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 department. These requests are then reviewed by the City Manager and Finance staff. 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 presents 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 by fund.

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 the Finance Department and the City Manager on a quarterly basis to review the year to date budget and overall performance results. These quarterly reviews provide an opportunity for the department to highlight achievements from the previous quarter and to discuss progress to date. 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 performance and budget results are reviewed in December. These results provide the foundation for the Annual Progress report which is presented to City Council in February. In January, each Department Director receives their annual performance evaluation. The evaluation includes a review of the previous fiscal year's budget results, the Citizen Survey results, the Annual Progress Report and a self-evaluation. The timing of this evaluation provides the Department Director with an opportunity to plan for the necessary changes needed for the upcoming fiscal year prior to the start of the budget preparation period. This final step brings the overall strategic planning process full circle again.



For the second consecutive year the International City/County Management Association has recognized the City of Palm Coast's performance management process which aligns department spending with the City Council's Strategic Action Plan. The ICMA certificates are awarded at three levels, Achievement, Distinction, and Excellence. Only 48 jurisdictions in the United States and only six Florida cities received the award in 2015.

Budget Calendar

Focusing on the Outcome

HELPFUL HINT!

Click on a description below to be taken to the City's website where this information can be found.

January

- ◆ Fiscal year 2015 1st quarter results provided to City Council

February

- ◆ Fiscal year 2014 Audit Report and final operating results submitted to City Council

March

- ◆ 2014 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 planning meeting (refresher) with staff
- ◆ Budget system opened for department input
- ◆ Fiscal year 2015 2nd quarter results provided to City Council

May

- ◆ Fund Accounting Overview presentation provided to City Council
- ◆ Budgets prepared by departments and reviewed with Finance Department
- ◆ 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 and Maximum Millage Rate presentation to City Council
- ◆ Maximum Millage Rate (TRIM rate) adopted
- ◆ Fiscal year 2015 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 workshops
- ◆ Final Budget presentation to City Council

September

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

December

- ◆ Finalize year-end budget results
- ◆ Fiscal year 2015 end of year review for departments with the City Manager
- ◆ Fiscal year 2015 end of year results provided to City Council

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 Term Financial Plan

PLANNING PROCESS

The long-term financial plan is the foundation of the strategic planning process. The plan provides direction for the allocation of resources and ensures fiscal responsibility. The long-term plan is reviewed and revised each year after the annual financial audit and during the annual budget preparation. The timing of the review allows staff an opportunity to evaluate existing policies in order to implement new strategies before fiscal constraints negatively impact the budget. This practice allowed the City to remain fiscally sound during the past recessionary period.

The General Fund, Utility Fund and Stormwater Fund are the City's main operating funds and therefore a priority when evaluating the long-term financial plan. Long-range planning for capital funds are discussed in the Capital Improvement Program section later in this document.

PERSONNEL

As economic conditions improve, the job market is becoming more competitive. This was apparent this past year as many long-time employees left employment with the City to pursue new endeavors. In an effort to mitigate the loss of talented staff, and to remain competitive in the current job market, the fiscal year 2016 budget includes a base salary adjustment of 2% as well as provisions for merit increases not to exceed an average of 2% department wide. City Council also approved an additional 1% merit increase in the fiscal year 2016 budget to recognize high performing employees.

IN-HOUSE PROJECTS

One way that the City continues to maintain lean operating costs, while raising the bar on the level of service being provided, is by evaluating all project needs before using an outside contractor. Whenever possible, our talented staff is used to complete projects that would have otherwise been outsourced. During the planning stage, staff completes a cost-benefit analysis to make a determination as to whether work should be completed by staff or be outsourced.



In fiscal year 2013, landscaping services were brought in-house allowing the City to reduce its costs for maintaining city facilities while increasing the level of service. City crews have also completed the construction of many miles of popular multi-use paths within the city. In fiscal year 2015 the Fleet Management division took over the maintenance of Fire fleet and in fiscal year 2016 a move to a brand new City Hall prompted a decision to bring custodial services in-house.

These changes continue to produce cost savings while boosting morale among employees. Staff continues monitoring in-house programs closely to ensure the changes made continue to produce a cost savings while increasing the quality of services.

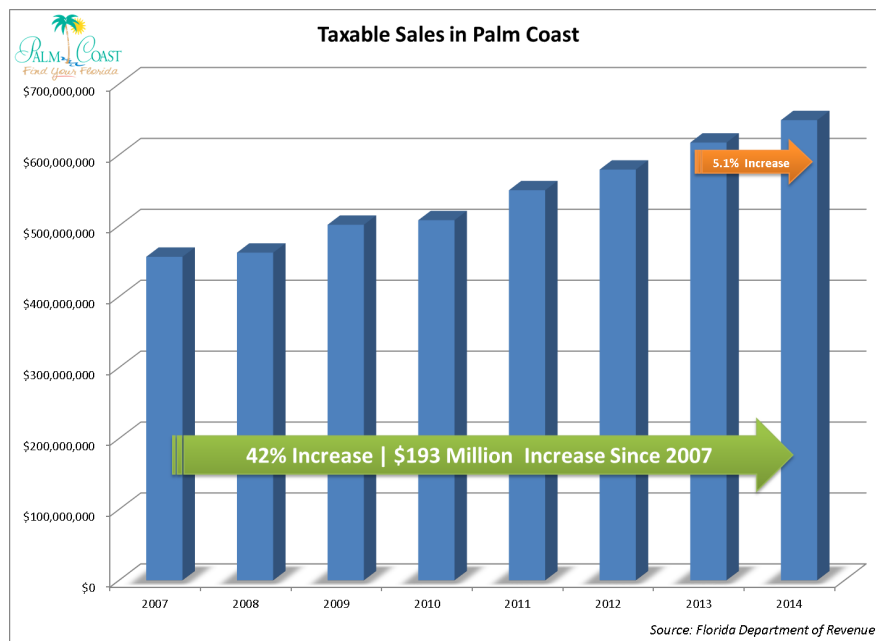


REVENUE

In an ongoing effort to keep City Council well informed, staff created an inventory of all funding sources. The guide includes information about restrictions on each revenue source and identifies funding options available for future needs. There are two funding sources which are not currently in use and are 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. This discussion takes place each year during the budget preparation process.

LOCAL ECONOMY

A strong economic environment is critical to the long range financial health of the city. Taxable sales continue to rise and have indicated that tourism efforts as described in City Council's goal 2 of the strategic action plan have had a positive impact on the community.



New home construction is increasing and the number of single family residential permits are at an all time high since 2009. After several years of declining property values during the recession, property values have increased for the third consecutive year and the trend is expected to continue. Improving economic conditions as well as City Council's focus on beautification and strengthening neighborhoods has contributed to the continuing increase in property values.

As with many municipal golf courses in the area, the City's golf course is seeing declining revenues and is being subsidized by General Fund revenue. The Parks and Recreation Department however, is seeing an increase in rentals and participation in recreational activities offered by the City. At the end of fiscal year 2015, summer camp registration was at an all time high since 2010. Community Center reservations also continue to climb and have more than doubled since 2012. The growing number of athletic tournaments being held in Palm Coast are having a positive impact on sales tax collections within the county. The economic impact in the community of sporting events since 2011 is estimated to have increased from \$1.6 million in 2011 to \$4.5 million in 2015.

FORECAST ASSUMPTIONS

<u>Statistical Data</u>	<u>Source</u>
POPULATION	Based on Bureau of Economic Business Research (BEBR) annual estimates
CONSUMER PRICE INDEX (CPI)	US Bureau of Labor statistics, www.bls.gov, based on 10-year avg.
MARKET VALUE CHANGE	Estimated increase in assessed value in addition to new construction for current fiscal year
TAXABLE SALES	State of Florida, Department of Revenue

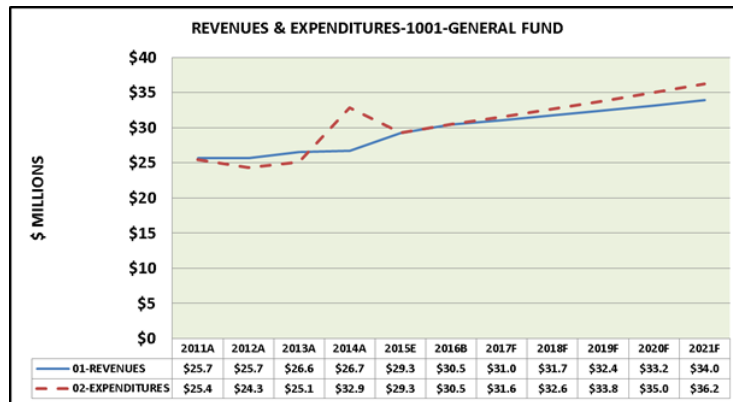
<u>Revenue Source</u>	<u>Assumption</u>
AD VALOREM TAXES	Assume average increase of new construction of 1.25% over prior year, 1% annual market value change, and flat millage rate
SMALL COUNTY SURTAX	Based on historical data increase 4% per year
LOCAL OPTION FUEL TAX	Based on historical data keep flat
COMMUNICATION SERVICE TAX	Due to a continuing decline in this revenue source, assume decrease of 1% per year
PERMITS, FEES AND SPECIAL ASSESSMENTS	Increase 3% per year based on residential permitting trend
STATE REVENUE SHARING	Based on historical data, increase 4% per year
1/2 CENT SALES	Based on historical data, increase 4% per year
CHARGES FOR SERVICES	Based on historical data, increase 4% per year
STORMWATER FEES	A .5% increase per year has been assumed based on an estimate of potential commercial properties being developed each year.

<u>Expenditures Type</u>	<u>Assumption</u>
PERSONNEL SERVICES	4% increase per year based on currently approved staffing level
PROFESSIONAL AND CONTRACT SERVICES	Increase by CPI
OPERATING EXPENDITURES	Increase by CPI
STREET LIGHTS EXPENSES	Based on historical data, increase by 5% per year
CAPITAL OUTLAY	Based on 5 year CIP and 10 year infrastructure funding plan which is revised annually
PROPERTY, LIABILITY AND AUTO INSURANCE	Based on historical data, increase by 15% per year

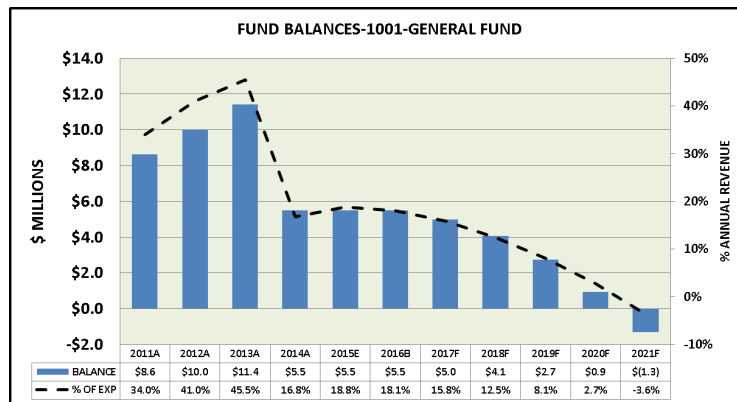
GENERAL FUND

This year City Council adopted a millage rate of 4.2450 for the second year in a row. This was possible because of gross taxable property values increasing 6% from \$3,892,358,641 in fiscal year 2015 to \$4,142,103,986 in 2016. This is the third consecutive year that taxable values have increased.

Property taxes account for approximately 11% of the total City revenue. However, it is the largest single revenue source for the General Fund. City Council is sensitive to the public's desire to maintain level property taxes, but inflationary pressure and future infrastructure needs will inevitably have an effect on future millage rates. Residents also continue to request additional services. Without significant and continuing growth in the taxable value of property, keeping the millage rate flat is not sustainable.



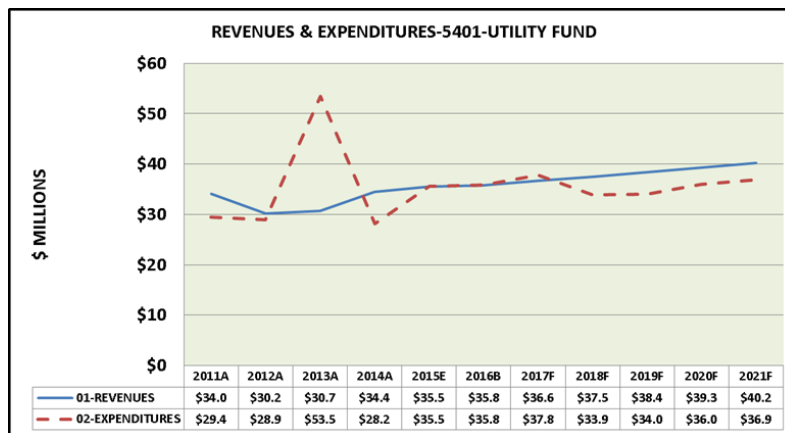
Other major sources of tax revenue for the General Fund include the Communication Services Tax and the Half-Cent Sales Tax. Although sales tax revenue has been increasing, the Communications Services Tax has been steadily declining. Continued pressure on General Fund revenue raises concerns about the ability to remain in compliance with the fund balance policy in future years.



Personal services, totaling \$16.4 million of the \$30.4 million fiscal year 2016 General Fund budget, accounts for more than half of the total expenditures in the General Fund. Public safety is the largest function supported by the General Fund with general government being the next largest followed by transportation and recreation.

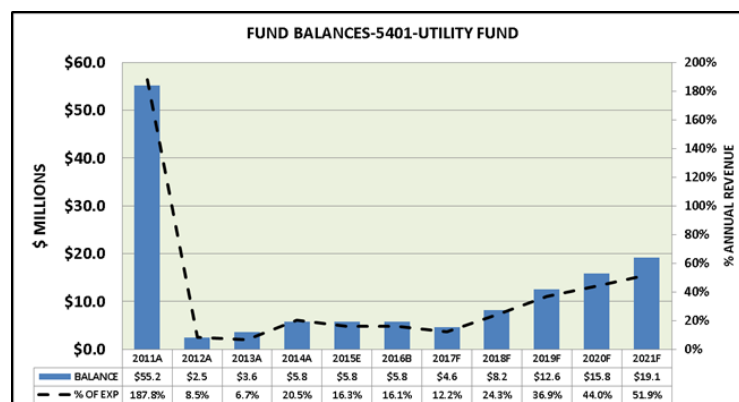
UTILITY FUND

During the recent recession, growth within the Utility service area decreased significantly. Growth is at an all time high since the recession and the Utility Fund is now feeling the impact of increased needs in utility services. Based on recent trends for residential building permits and population projections, an increase in growth in the current water and wastewater customer base is expected. In order to continue to meet capacity needs, the five-year capital improvement plan includes a second Wastewater Treatment facility. This \$30 million project is being funded through state loan program proceeds at an interest rate of only .67%. This will save over \$6 million in interest costs over the life of the loan.



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

As a result of a 2013 rate study, a series of rate increases took place ending in October 2014. This allowed for contributions to the Utility Capital Projects fund to be increased from 5% of gross revenues to 10% for the repair and renewal (R&R) of aging infrastructure. These rate increases have helped stabilize the fund balance in the Utility Fund and will support future debt service resulting from the additional Wastewater Treatment facility without increasing utility rates. To stay ahead of rising operating costs and capital infrastructure needs, City Council has instituted a new program of updating the rate study every few years. Long-range planning for utility capital projects is further discussed in the Capital Improvement Program section of this document.

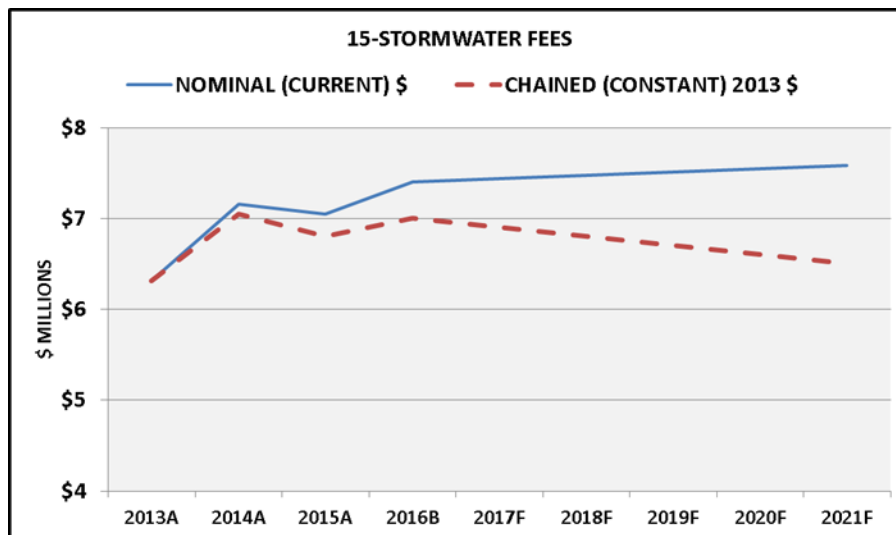


STORMWATER FUND

In 2004, the City of Palm Coast established the Stormwater Fund in order to support the maintenance and improvement needs of the City's stormwater system. Residential developed properties within the stormwater service area are currently billed a flat fee monthly while residential undeveloped properties are billed annually. For commercial and larger parcels, the fee is calculated based on a combination of factors including impervious and pervious area, the size of the parcel and the property's use. Some of these properties may also qualify for a reduced service credit.

Revenue generated by the stormwater fee is used solely for the maintenance and rehabilitation of the stormwater drainage system. Improvements and maintenance of the system is supported largely by charges for service however, due to constricted revenue a small portion of property taxes are used to help support the fund as well. As operating costs continue to increase, the fund's ability to support the current level of service without additional revenue is diminishing.

Funding to support the stormwater system is discussed each year during the annual budget process. Pressure from citizens to keep stormwater rates flat makes it difficult to address funding needs without decreasing the current level of service. As a result of both developed and undeveloped property being charged a stormwater fee, revenue increases resulting from new development is minimal. City Council will be deliberating on indexing the stormwater fee to keep pace with inflationary pressure on construction costs. To date, major revenue sources that are used for construction purposes in other funds have automatic increases tied to various indexes. By indexing the stormwater fee, the erosion of purchasing power can be mitigated. Keeping a flat stormwater fee will decrease program results over time and is not sustainable.



CONCLUSION

Maintaining a conservative long range financial plan is a critical component of the City's long term planning process. To help secure financial sustainability, staff regularly looks for ways to expand the use of grants, maintain lean operating costs through the use of in-house talent and manage long-term fixed costs. With rising demands for City services, coupled with the continued increase in the cost of services, an annual evaluation of the long-term financial plan is key to the long term fiscal sustainability of the City.



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