

Budget Overview





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Budget Process

Focusing on the Outcome

BUDGETARY BASIS

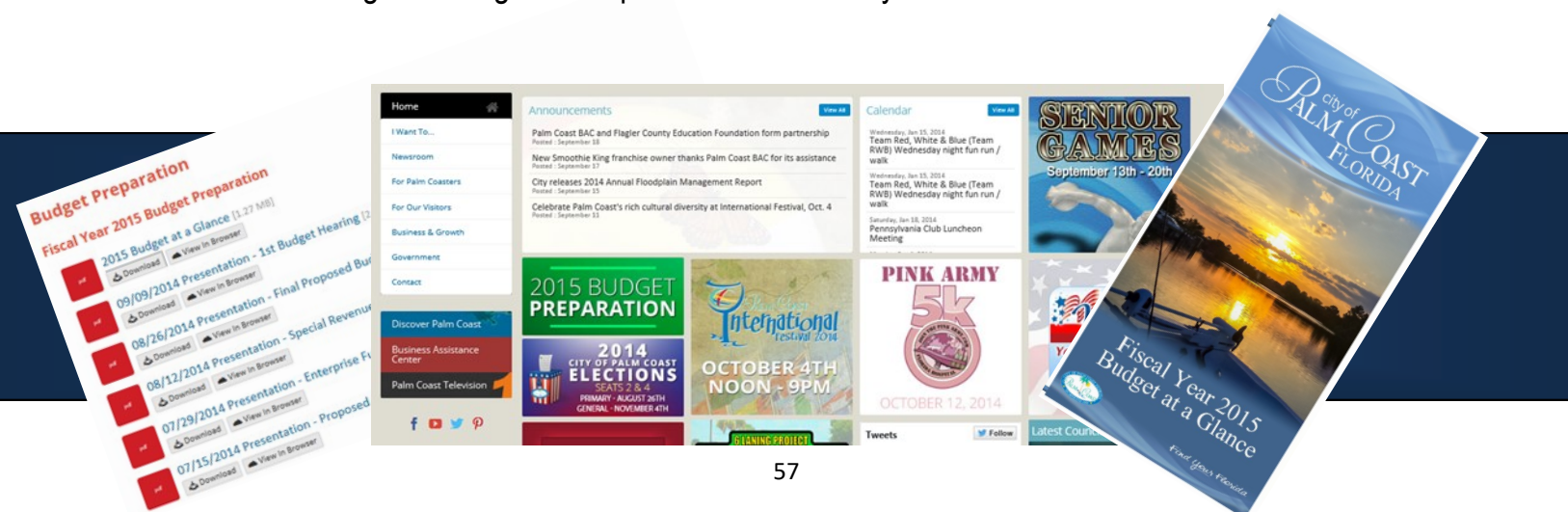
Governmental Funds are budgeted using the modified accrual basis of accounting. Revenues are recognized when they become available and measurable. An example would be sales tax or state revenue sharing that is measurable but may not be received until after the end of the fiscal year. Expenditures are 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. 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 and is published on the City's website.



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 time 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 resources required to provide these services, including personnel, is then prepared by the department. These requests are then reviewed by the City Manager and the Finance department. 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, 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 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 fourth 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.

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Budget Calendar

Focusing on the Outcome

HELPFUL HINT!

Click here to be taken to the City's website where budget preparation documents can be found.

January

- ◆ Current year 1st quarter results provided to City Council

March

- ◆ Annual Audit Report and final operating results submitted to City Council
- ◆ Annual Progress Report and Citizen Survey Results provided to City Council
- ◆ Strategic Action Plan Annual Evaluation

April

- ◆ 10 Year Infrastructure Capital Improvement Program (CIP) project schedule and funding report submitted to City Council
- ◆ Year to Date budget presentation to City Council
- ◆ Budget planning meeting (refresher) with staff
- ◆ Budget system opened for department input
- ◆ Current year 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
- ◆ Department 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
- ◆ Current year 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
- ◆ End of year review for departments with the City Manager
- ◆ 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 unappropriated 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 preparation of the annual budget. The timing of this allows staff an opportunity to evaluate existing policies in order to implement new strategies before fiscal constraints impact the budget. This practice has 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 is discussed in the Capital Improvement Program section later in this document.

PERSONNEL

As economic conditions improve, the job market is becoming more competitive. This has been apparent over the past two years as long-time employees have 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 budget includes a base salary adjustment of 2.5% as well as provisions for merit increases not to exceed an average of 3% department wide. For the third year, City Council also approved an additional 2% merit increase in the budget to recognize high performing employees.

Last year, the pay plan was adjusted for several positions, especially at the lower end of the pay scale, to identify areas where the City was no longer competitive in the changing labor market. In addition, an employee certification and education incentive pay program was developed. This program, reflected in this year's budget, along with continued maintenance of our pay plan should hopefully help mitigate the loss of our skilled workforce in the future.

The budget also continues to include funding to offer valuable training programs to employees. In an effort to improve services to the citizens of the City of Palm Coast and encourage employees to complete courses of instruction which may increase their productivity and efficiency in their present positions and contribute to advancement and promotional potential within the City, the tuition reimbursement program continues to be funded.

MAJOR REVENUE TRENDS:

There are 11 major revenue sources that account for 57 percent of the City's estimated revenues for fiscal year 2018. Appropriated fund balance accounts for another 12 percent of the revenue. The following is a more detailed analysis of the trends for these major revenue sources.

AD VALOREM TAXES: After several years of decreases, property values increased in fiscal year 2014 a modest 1.21%. Values have since continued to increase an average of 5.75% per year. We anticipate a continuing increase in the next several years.

TELECOMMUNICATION SERVICES TAX: Decreases in this revenue have averaged about 4% over past years. Recent changes in the delivery of these services have decreased collections and the taxable base. We expect additional decreases of 1% to 2% in future years.

HALF-CENT SALES TAX: This revenue source has increased an average of \$150,000 per year since 2013. We expect to continue to see increases over the next few years.

LOCAL OPTION FUEL TAX: This funding source has seen significant fluctuations from year to year and even month to month. Since 2013, this revenue source has increased an average of \$60,000 per year. We expect this trend to continue over the next few years.

SMALL COUNTY SURTAX

The Small County Surtax is levied at the rate of .5 percent pursuant to an ordinance enacted by a majority vote of the county's governing body. The proceeds are currently being allocated to the Capital Projects Fund. This tax replaced the Discretionary Sales Surtax which expired in December 2012. Since fiscal year 2014, the first full year for this revenue, there has been an increase of 21% or \$493,000. With the consistent increase in taxable sales in Palm Coast, this trend is expected to continue.

STATE REVENUE SHARING

This revenue source has been fairly consistent. Overall from fiscal year 2013 to 2017 this revenue source increased 11% or \$174,000. This is expected to continue.

SOLID WASTE CHARGES: This charge is expected to mirror the population growth of about 1% to 2%. During fiscal year 2013 a rate reduction was possible due to the conversion of our solid waste trucks to natural gas. The City of Palm Coast went out to bid for residential solid waste services in 2017 and Waste Pro, our existing waste hauling contractor, was once again awarded the bid. Our current contract ends in 2022.

TRANSPORTATION IMPACT FEES: The number of Single Family Residential Building permits being issued have more than doubled since 2013. The increase in the number of building permits has a direct impact on this revenue source. All construction related revenues are expected to increase 4% annually for the next three years.

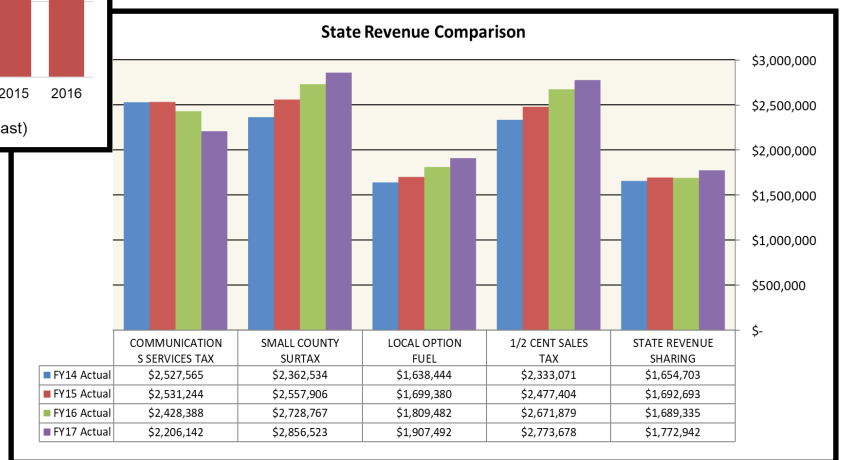
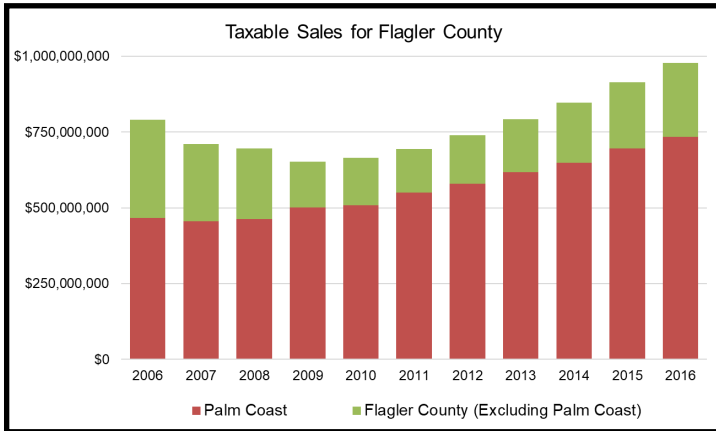
REVENUE DIVERSIFICATION

In an ongoing effort to keep City Council well informed, staff provides an annual review of all funding sources. This includes information about restrictions on revenue sources and funding options available for future needs.

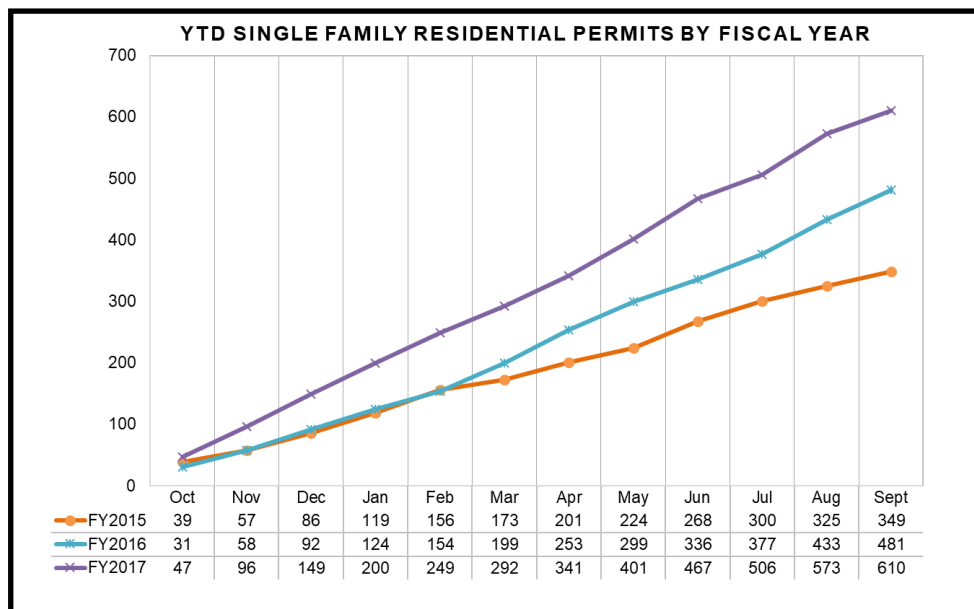
There are two funding sources which are not currently in use and are available for future funding. These include the Public Service Tax and Utility Franchise Fees. Both of these funding sources represent the potential for nearly \$8 million of new revenue annually. This discussion takes place each year during the budget preparation process.

LOCAL ECONOMY

A strong local economic environment is critical to the long term financial health of the City. Taxable sales continue to rise indicating that athletic tourism efforts, as described in City Council's goal 2 of the strategic action plan, have had a positive impact on the community. Increases in taxable sales has shown a positive impact on state revenue collections including the local option fuel tax, 1/2 cent sales tax and the small county surtax. As the popularity of our Indian Trails sports complex continues to grow, these trends are expected to continue.



New home construction continues to increase 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 once again and the trend is expected to continue. Improving economic conditions as well as City Council's focus on beautification and strengthening neighborhoods is believed to have contributed to the continuing increase in property values.



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

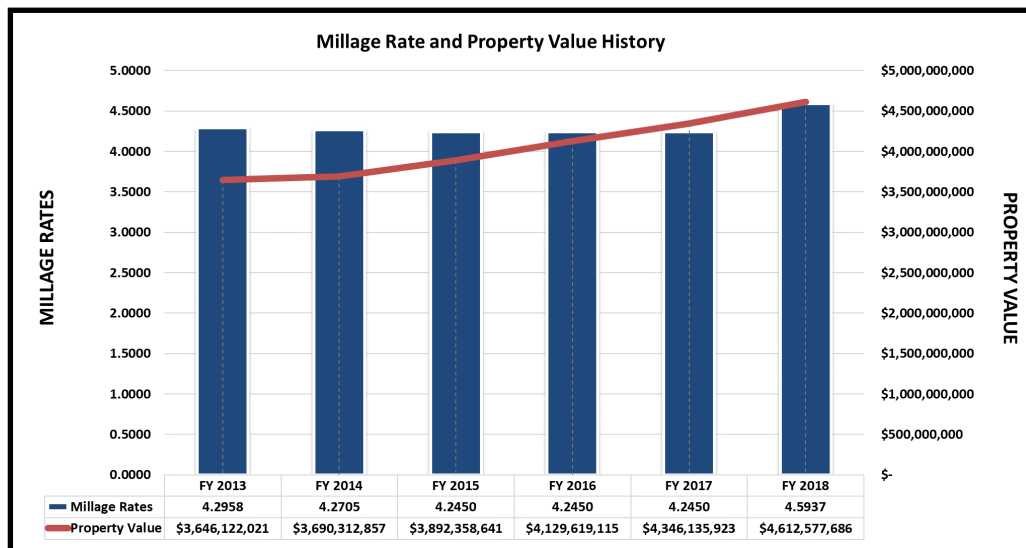
<u>Revenue Source</u>	<u>Assumption</u>
AD VALOREM TAXES	Assume average increase of new construction of 1.25% over prior year, 1% annual market value change, and flat millage rate
SMALL COUNTY SURTAX	Based on historical data increase 4% per year
LOCAL OPTION FUEL TAX	Based on historical data keep flat
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

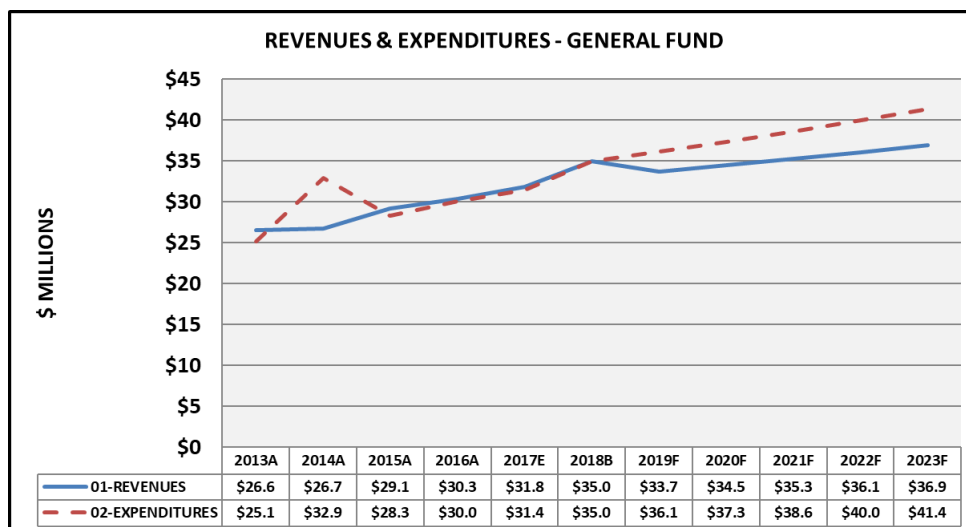
GENERAL FUND

During the budget process, the City Council was able to sustain existing levels of service, within the 2017 millage rate of 4.2450. However, after considering citizen feedback, City Council took action to increase the millage rate for 2018 to 4.5937 mills in order to add additional services and accelerate important projects. The increase in the millage rate will result in an additional \$1.5 million of property taxes collected over the previous year.

Property taxes account for approximately 12% 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 continue to have an effect on future millage rates. After several years of decreases, property values increased in fiscal year 2014 a modest 1.21%. Values have since continued to increase an average of 5.75% per year. We anticipate a continuing increase in the next several years.

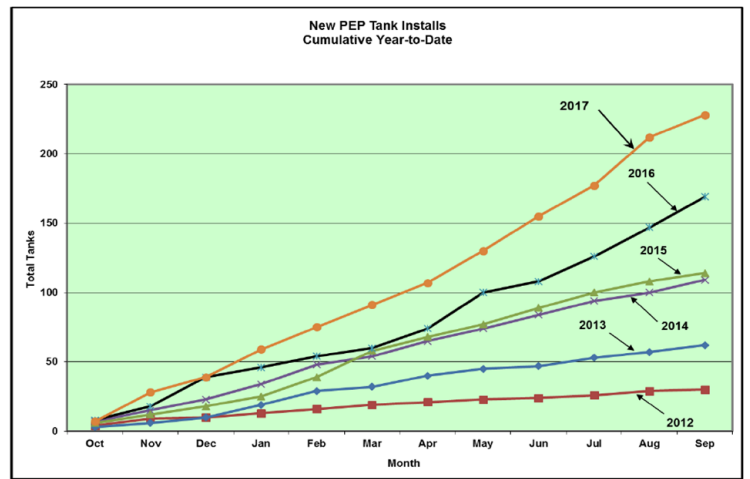
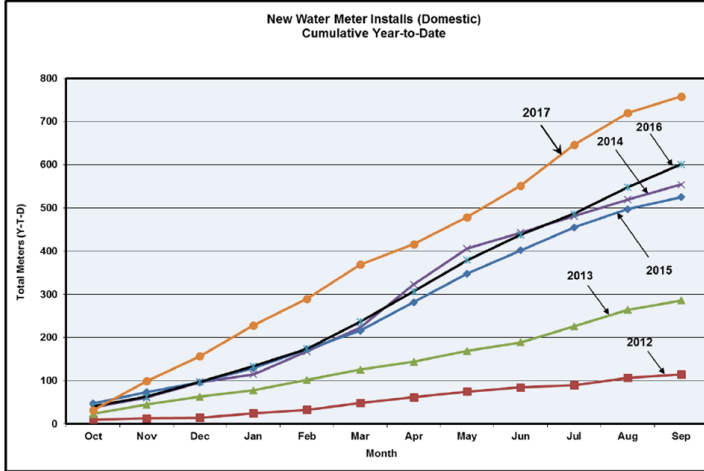


Other major sources of tax revenue for the General Fund include the Communication Services Tax and the Half-Cent Sales Tax. Although sales tax revenue has been increasing, the Communications Services Tax has been steadily declining. Continued pressure on General Fund revenue raises concerns about the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

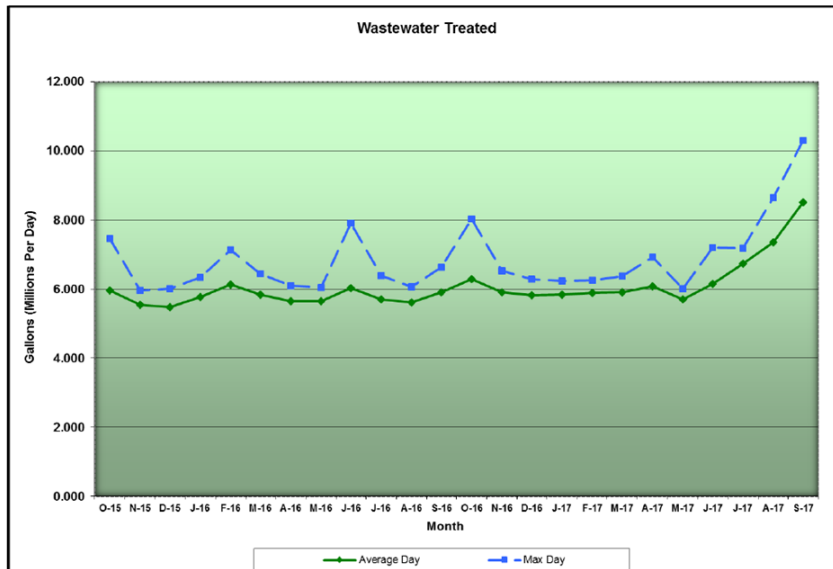


UTILITY FUND

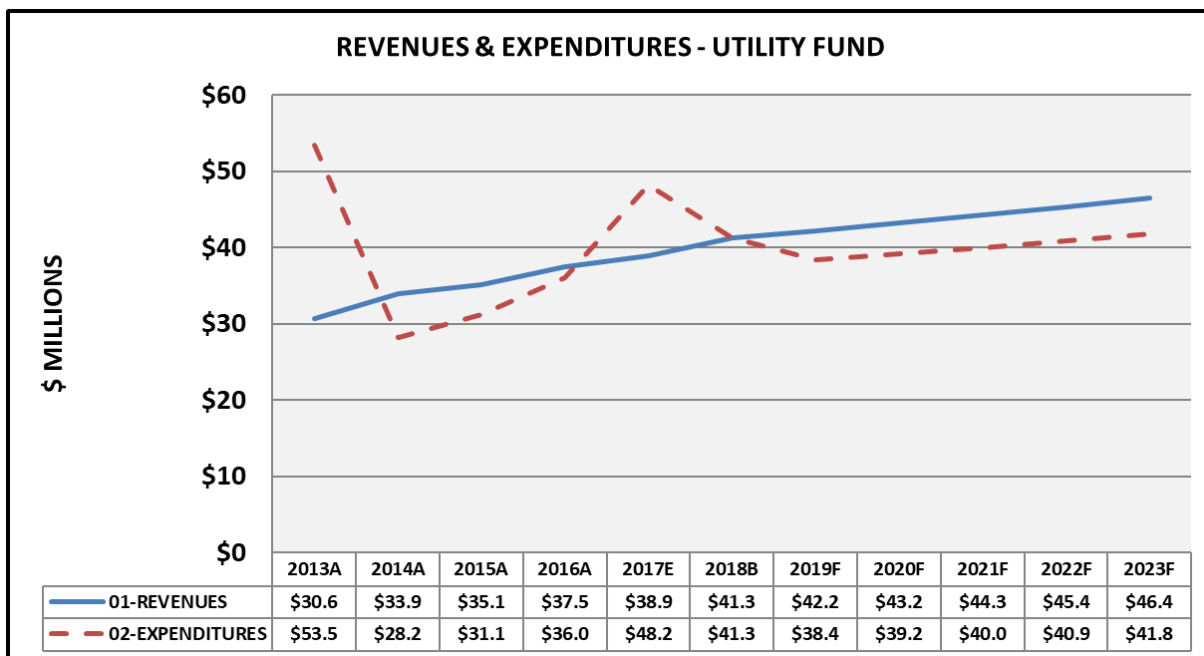
During the recession, growth within the Utility service area decreased significantly. Growth is now at an all time high since the recession and the Utility Fund is feeling the impact of increased needs in utility services. Based on recent trends for new utility service accounts, residential building 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, construction of a second Wastewater Treatment facility has begun and is expected to be completed this year. This \$30 million project is being funded through state loan program proceeds at an interest rate of only 0.67%. This will save over \$6 million in interest costs over the life of the loan. The facility is expected to be operating at the end of fiscal year 2018.



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.



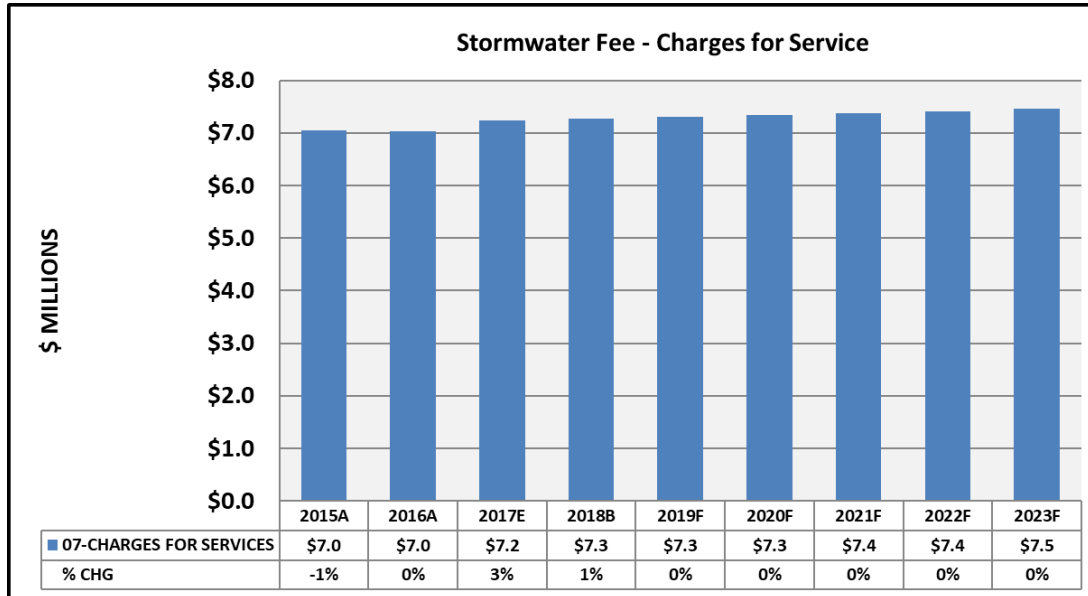
Water and wastewater rates are indexed annually based on the June 30th consumer price index. Like transportation impact fees, water and wastewater impact fees are expected to increase 4% annually for the next three years as a result of an increase in new construction.

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 primarily by charges for service however, due to constricted revenue in this fund, a small portion of property taxes are used to help support the fund as well. Because both developed and undeveloped property being charged a stormwater fee, revenue increases resulting from an increase in stormwater fees as a result of new development has historically been less than 1% per year. As operating costs continue to increase, the fund’s ability to support the current level of service without additional revenue is diminishing.

The last stormwater rate increase went into effect in 2013. Due to the current rate structure of our stormwater fee, rising costs are not being offset by increases in revenue. As a result, future stormwater projects will require additional funding. Without additional revenue sources, an increase in fees or tax rates, or shifting funding from existing projects, programs, or services, the City will be limited in its ability to fund additional projects, programs, or services. The 2018 budget includes the cost of a stormwater fee rate study.



CONCLUSION

Two areas that could be negatively affected by improving economic conditions, and as a result are a priority for our City Council, are the rising construction costs for capital projects and the City’s ability to retain and attract the necessary workforce talent. If rising construction costs cause capital projects to exceed their projections, it may be necessary to secure additional funding sources, delay projects, or eliminate capital projects in the future. The City has made significant strides in implementing programs and changes to ensure our salaries, benefits, and employee development programs remain competitive in the marketplace. We will need to continue to monitor both these issues and respond accordingly to ensure a successful capital improvement program and a quality workforce.

Maintaining a conservative long range financial plan is a critical component of the City’s long term planning process. To ensure financial sustainability, staff regularly looks for ways to expand the use of grants, maintain lean operating costs 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.