

# INTRODUCTORY SECTION

This section contains the following subsections:

- Table of Contents
- Letter of Transmittal
- Certificate of Achievement for Excellence in Financial Reporting
- Organizational Chart
- List of Principal Officials



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**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
OF THE CITY OF PALM COAST, FLORIDA  
For The Year Ended September 30, 2018**

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# LETTER OF TRANSMITTAL



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## CITY MANAGER'S OFFICE

February 25, 2019

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Palm Coast:

This report consists of management representations concerning the finances of the City of Palm Coast (City). Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Palm Coast's financial statements have been audited by James Moore & Co., P.L., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Palm Coast for the fiscal year ended September 30, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor's report is presented as the first component of the financial section of the report.

The independent audit of the financial statements of the City was part of a broader federally mandated Single Audit designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are in the compliance section of this report.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Palm Coast's MD&A can be found immediately following the report of the independent auditors.

### **Profile of the Government**

Palm Coast is situated in the eastern portion of Flagler County. The City was developed in 1969 on 68,000 acres formerly owned by the ITT Corporation. The original ITT development plan encompassed 48,000 home sites on approximately 42,000 acres (65.62 square miles). Paved streets and central water and sewer serve all lots developed within the City. An extensive water management system was designed to replenish the area's water table, which includes 26 miles of freshwater canals and 23 miles of saltwater canals.

In 1975, the Flagler County Board of County Commissioners established the Palm Coast Service District, consisting of almost 40,000 acres. Funds for the district were derived primarily from ad valorem taxes and were utilized to provide fire services, fire hydrants, street maintenance and lighting, animal control and emergency services.

In September 1999, the citizenry of Palm Coast voted overwhelmingly by a margin of two to one to incorporate as a council/manager form of government. On December 31, 1999, the City of Palm Coast was officially incorporated. On October 1, 2000, all services were officially transferred from the former Service District to the City of Palm Coast. The five-member City Council is elected at large and serves staggered four-year terms. One member is elected as Mayor. The promulgation and adoption of policy are the responsibility of the Council and the execution of such policy is the responsibility of the Council appointed city manager. The City hired its first city manager on April 17, 2000 and is currently seeking its third city manager.

The City of Palm Coast currently has a population of 84,575 residents and covers an area of approximately 89 square miles. For fiscal year 2019, property within the City has a taxable value of \$5,002,780,162. This was an increase of approximately eight percent from 2018. The City's property tax rate for fiscal year 2019 is set at \$4.6989 per \$1,000 of taxable value.

The City provides a wide range of services including development services, fire services, street construction and maintenance, a water and wastewater utility, stormwater management, parks, and recreational activities. Palm Coast contracts with the Flagler County Sheriff for law enforcement services.

### **Economic Outlook**

In 2018, City Council took action to enhance public safety and services, further our smart city initiatives, increase quality of life opportunities, support entrepreneurs and small business owners, and rectify Downtown as a new innovation hub. This included attracting new investments through an Opportunity Zone designation, launching an Innovation District and kick starting a development incentive program. The City also hired its first Head of Innovation & Economic Growth and established an internal Innovation Team to accelerate innovation within the City.

The City's economy continues to steadily improve. All economic indicators are pointing in a positive direction. Real estate values continued to rise in 2018 with the median sales price up 4.7% and with values expected to continue to appreciate in 2019. Single-family permits are up again with 696 permits issued in 2018, the seventh straight year of increased permit activity. In addition, the labor market has healed from the high unemployment rate of 9.6% five years ago, with the unemployment rate hitting 3.9% at the end of 2018. Flagler County has 5,514 more people employed than five years ago.

A particular bright spot has been taxable sales within the City. We have seen over a 39% increase in taxable sales since 2011, which represents an increase of \$218 million. This is mainly due to the addition of several shopping centers since 2007 and increases in tourists and related spending. Taxable sales should continue to grow in 2019 with continued commercial growth, especially development along State Road 100 and in our Town Center.

### **Long-term Financial Planning**

The City Council continues to focus on carrying out its Strategic Action Plan and the related goals, projects, and programs. This plan takes an inside out approach, by strengthening our existing neighborhoods and commercial areas. This past fiscal year, the City's taxable value appreciated approximately 8%. As all major economic indicators are trending in a positive direction, we expect the local economy's improvement to accelerate in the coming year and have a positive impact on City revenue sources.



While we continue to project revenues conservatively, the improving economy is expected to continue to have a positive effect on some revenue sources. However, due to the previous rate structure of our stormwater fee, our stormwater improvement and maintenance program required additional funding. The last stormwater rate increase went into effect in 2013. Due to the rate structure of our stormwater fee, rising costs were not being offset by increases in revenue.

The 2018 budget included funding for a stormwater fee rate study and City Council took action in October 2018 to increase Stormwater rates in order to fund this critical program for fiscal year 2019 and future years. Without additional revenue, or shifting funding from existing projects, programs, or services, the City would be limited in its ability to fund additional projects, programs, or services in the future.

To ensure revenues are sufficient to support the operation, maintenance and expansion of the water and sewer utility the City enlisted the services of Public Resources Management Group (PRMG) to conduct a Water and Wastewater Revenue Sufficiency and Capital Facilities Fees Study this past year. After a lengthy discussion, City Council took action to increase various utility rates including monthly base charges and per gallon charges as well as adjustments to water and sewer capacity fees that are assessed for new construction. These increases will help ensure future funding in order to maintain the infrastructure of the water and sewer system.

### **Future Projects and Programs**

The City has experienced an increase in population year after year and we anticipate this growth to continue. During the past fiscal year, City Council made prudent financial decisions to ensure the City maintains a strong financial position and the ability to fund necessary projects to keep up with growth and maintain aging infrastructure.

In 2019, the City will continue efforts to deploy an advance automatic metering system. This system will allow remote readings of our water distribution system while also providing citizens the ability to monitor their own water use.

The need for infrastructure projects continues to grow as existing infrastructure ages, new development occurs, and the population continues to increase. In the upcoming fiscal year, we will continue rehabilitating our older infrastructure and constructing new infrastructure needed to accommodate anticipated growth. This includes an enhanced stormwater program to rehabilitate the aging system.

The City will continue its efforts to expand the local economy through the Palm Coast Business Assistance Center (BAC) and by attracting sports tournaments and tourism. Both efforts have already seen much success. Each year, Business Assistance Center's clients as a whole invest over \$1.6 million dollars into their business and our community. The Business Assistance Center invests over 1,000 hours each year to local businesses which helps our community thrive. The City in partnership with our local sports clubs and the Flagler County Tourist Development Council continues to attract sports tournaments and the associated visitor spending.

While the City will continue to implement programs and projects that have been successful, City Council is focused on downtown development, innovation, and new programs and projects to encourage economic growth in the coming years. The improving local economy enables the City and its partners to maintain our neighborhoods, support existing businesses, and encourage investment by attracting residents, visitors and businesses.

This past year, the City secured an Opportunity Zone federal designation in Town Center to help incentivize private investment to spur economic growth. The City Council approved the City's first-ever incentive program for residential and commercial developments called the 'Innovation Kick Start Program and announced the first project in the Innovation District and the Innovation Kick Start Program – The Palms at Town Center – which will provide 88 new homes in 2019.

## **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Palm Coast for its comprehensive annual financial report for the fiscal year ended September 30, 2017. This is the seventeenth year that Palm Coast has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Palm Coast also received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting for its Fiscal Year 2017 Popular Annual Financial Report. This is the fifth year that Palm Coast has received this award.

The City of Palm Coast also received the GFOA Distinguished Budget Presentation Award for its Fiscal Year 2018 budget document. This is the fifteenth consecutive year that Palm Coast has received this award.

The City of Palm Coast also received the ICMA Certificate of Distinction for its Fiscal Year 2018 performance management process. This is the fifth consecutive year that Palm Coast has received this award.

## **Acknowledgements**

The preparation of this report would not have been possible without the efficient and dedicated services of the entire Finance staff. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Palm Coast's finances.

Respectfully submitted,



Beau Falgout  
Interim City Manager



Helena Alves  
Finance Director



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**City of Palm Coast  
Florida**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

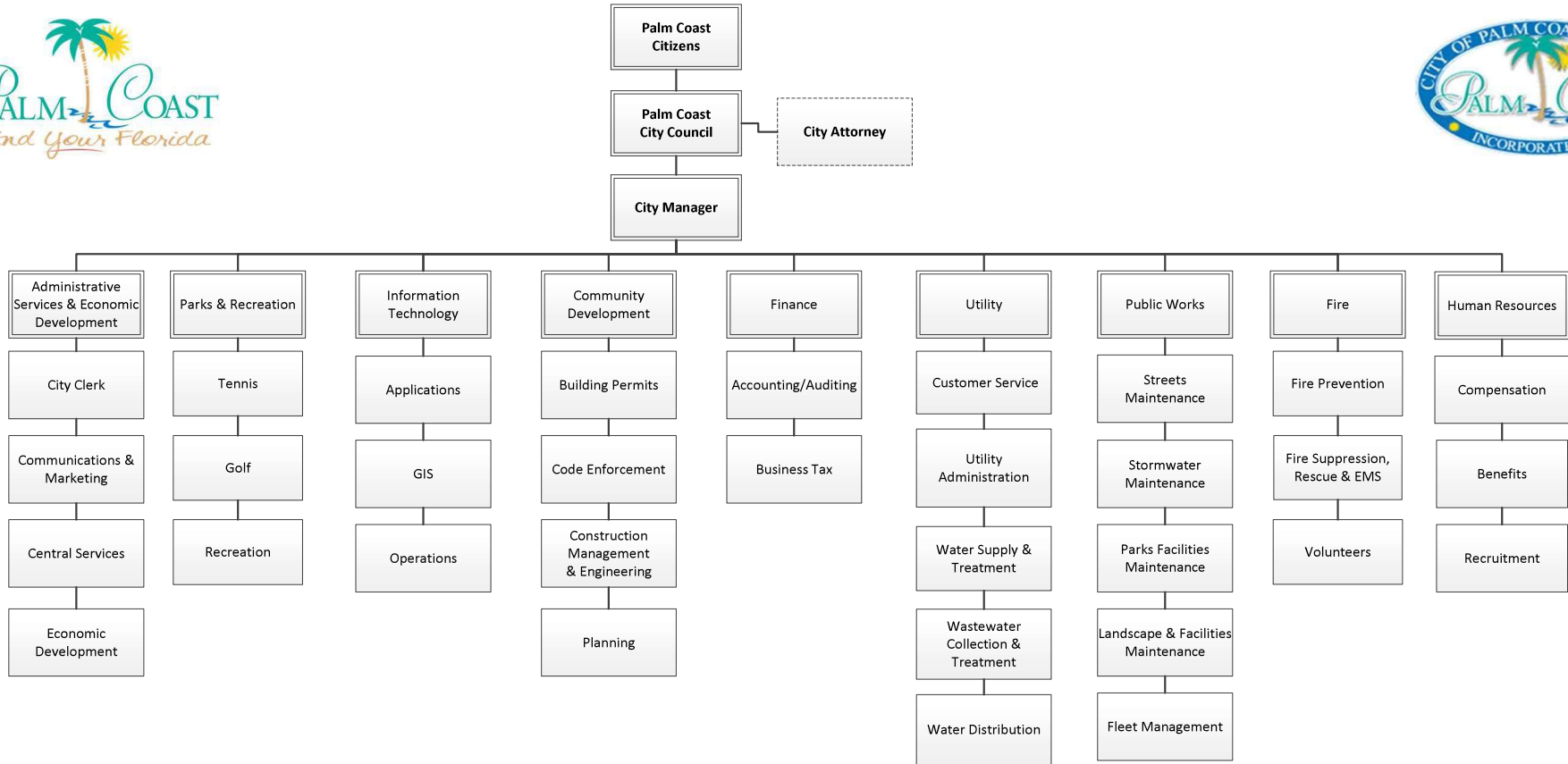
**September 30, 2017**

*Christopher P. Morill*

Executive Director/CEO



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**LIST OF PRINCIPAL OFFICIALS**

**September 30, 2018**

**ELECTED OFFICIALS**

Mayor

Honorable Milissa Holland

City Council Members:

Robert Cuff  
Nick Klufas  
Joseph Lyon  
Heidi Shipley

**CITY OFFICIALS**

Interim City Manager

Beau Falgout

City Attorney

William Reischmann

City Auditor

James Moore & Co., P.L.

Finance Director

Helena P. Alves