

TOWN OF PALM BEACH BUDGET MESSAGE

Budget for Fiscal Year 2017-2018



JULY 11, 2017

Budget Message

Town of Palm Beach, Florida



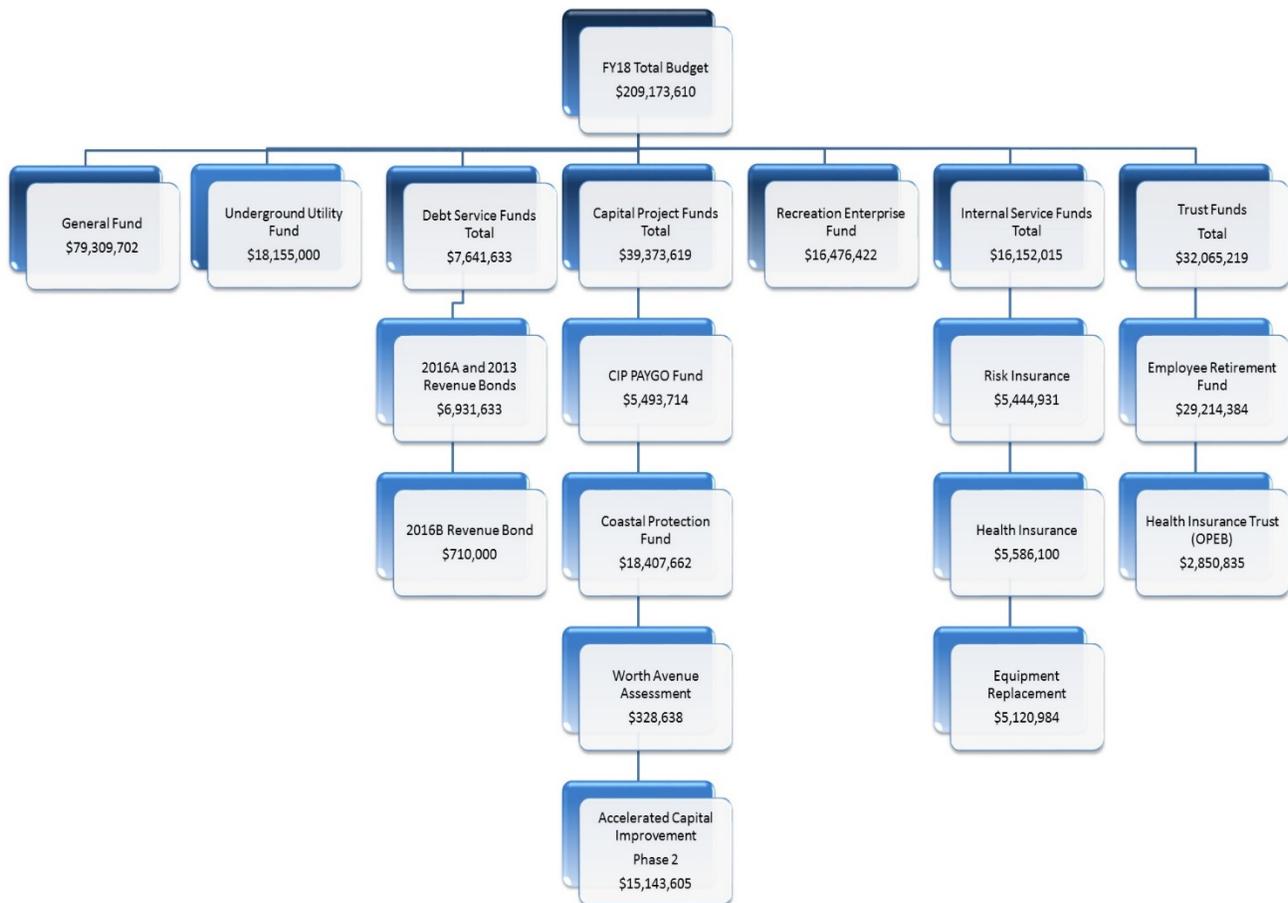
July 11, 2017

Honorable Mayor and Town Council

I am pleased to submit this budget message, pursuant to the Town Charter, and to enable you to focus on the highlights of the proposed FY2018 budget. Details are found in the budget documents that accompany this summary.

The total proposed FY2018 town-wide budget including all funds is \$209,173,610. The total proposed General Fund operating budget is \$79,309,702.

The town-wide budget organized by fund type is as follows:



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FY18 Budget Presentation

Staff prepared the proposed budget using Zero Line Item Budgeting. This method of budgeting does not start with last year's budget. Rather, departments are given a blank budget request form for each line item, instead of last year's budget or actual expenditures as the starting point – hence, the label of zero – line item is applied. Departments then rebuild their budgets from the ground up, justifying each line item. Where possible, departments are asked to provide the drivers of cost. However, not providing sufficient detail for an expenditure can be an invitation for increased scrutiny of the request.

Department requests and justifications are sent to the Finance Department and Town Manager's Office (Administration) who review them in a series of meetings with staff using the justifications, rather than what was spent last year, as the point of comparison. The budget program requests are often accompanied by a program description to gauge purpose and intended output for the program. The Administration considers the requests, further discusses them with departments as necessary, and then develops a final recommended budget. You or the public never see the process and the forms used. This year we are sharing these forms with you so you can see the level of detail this work entails.

There are two sets of documents provided to the Mayor and Town Council at this junction. One encompasses the General Fund and the other document contains all other fund budgets. There is a significant amount of detail in each book, which provides the Town Council, and citizens information on what comprises the amounts for the line item budgets that are proposed. In some cases, the Departments have included a memorandum detailing some of the changes that they are proposing for their department programs.

Globally there are some points for the Town Council to be aware of as you review the detail included in the documents. This information is provided below.

- Each Department budget contains a summary of revenues and expenditures along with a chart showing trend information, a pie chart of the breakdown of expenditures by program within the department, and a trend in FTEs for the department.
- Program summary pages are included showing a breakdown of expenditures by category and the FTE trend for the program. The categories include salaries and wages, employee benefits, contractual, commodities, capital outlay, depreciation and other.
- On pages in the budget document called “budget flexsheet” the line item detail is shown by program. These sheets contain column detail, which includes from left to right, FY16 actual, FY17 approved budget, FY17 adjusted budget (which includes contingency allocations and the FY16 rollover encumbrances), FY17 estimated year-end balances, and the FY18 proposed budget. The last column shows the increase or decrease between the FY18 proposed budget and the FY17 approved budget.
- Line item detail sheets following each program budget flexsheet have been provided for all contractual, commodity and capital accounts.
- Total health insurance costs are calculated then allocated throughout the budget on a per Full-Time Equivalent (FTE) basis.

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- Retirement costs that are actuarially determined and calculated by employee group are allocated throughout the budget per FTE.
- In the line item detail sheets an accounting change was made for FY18. All registrations for training seminars and conferences have been reclassified from travel and per diem accounts to training accounts to more accurately reflect the costs for training. You will notice decreases in travel accounts and increases in the training costs in each programs budgets that have travel accounts.

General Fund

Budget Highlights
The millage rate has been reduced by 2.16% resulting in a \$0 increase for homestead property owners.
A Communication Specialist position has been included in the FY18 budget. Costs have been split between the General Fund, the Coastal Protection Fund and the Underground Utility Fund.
The open part-time Right of Way Inspector position has been increased to a full time position. Offsetting revenue provided by an increase in building permit fees.
Merit pay increases are included for all employees that are not at the top of their ranges and we have included an adjustment to the pay ranges of 3%.
Health insurance costs have increased by 4.54% for the first time in 5 years. This will result in an increase to premiums that will be shared in the same manner as they currently are between the Town and our employees. Specific premium rates effective January 1, 2018 will be provided in September.
Estimated costs for POTUS and dignitary protection in FY18 of \$226,980 have been included in the General Government section of the budget. We are using this program for these expenses in order to highlight them and track them separately from the Police Department expenditures.
An extraordinary transfer to the Retirement Fund from the Town unassigned fund balance of \$2,500,000 is proposed.

Revenues

The General Fund is the only fund to directly use property taxes as a revenue source. Property taxes (ad valorem taxes) represent the largest revenue source. Appearing on the following page is a millage rate table to help facilitate a discussion of where we are and what is proposed. The proposed FY18 millage rate of 3.2 provides no tax increase to homesteaded property owners, is a decrease of 2.16% from FY17 and meets the Town Manager's budget goal.

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Millage Rate Consideration

The State of Florida requires the Town to calculate a rolled-back millage rate. The rolled-back rate is defined as that millage rate which provides the same property tax revenue for each taxing authority as was levied during the previous year (exclusive of new construction, additions, rehabilitative improvements increasing assessed value by at least 100%, annexations, deletions). The proposed millage is 3.17% over the rolled back rate of 3.1018. The rolled-back rate is required to be announced at the public hearings in September.

	FY17 Millage Rate	Maintain FY17 Rate for FY18	FY18 Proposed
Millage Rate	3.2706	3.2706	3.2000
Tax Revenue	\$49,374,406	\$52,424,836	\$51,293,180
Millage % Increase/Decrease from FY17	n/a	0%	-2.16%
Homestead Value Increased by 2.1%	\$1,000,000	\$1,021,000	\$1,021,000
Town Taxes	\$3,107	\$3,176	\$3,107
Increase/(Decrease) over FY17	n/a	\$69	\$0

There are a number of revenue types in the General Fund. These are categorized in the table below:

Revenue	FY2017	FY2018	FY17 vs. FY18 Difference	% Change
Ad Valorem Taxes	\$ 49,494,500	\$ 51,293,180	\$ 1,798,680	3.63%
Non Ad Valorem Taxes	5,903,000	6,150,000	247,000	4.18%
Licenses & Permits	9,503,500	9,947,975	444,475	4.68%
Intergovernmental	1,178,500	1,185,450	6,950	0.59%
Charges for Services	3,816,550	3,943,650	127,100	3.33%
Fines and Forfeitures	1,255,646	1,138,800	(116,846)	-9.31%
Investment Earnings	704,339	578,977	(125,362)	-17.80%
Miscellaneous	345,112	420,000	74,888	21.70%
Interfund Transfers	685,000	585,000	(100,000)	-14.60%
Transfers for Contingency and Compensated Absences	3,966,230	4,066,670	100,440	2.53%
Total Revenues	\$ 76,852,377	\$ 79,309,702	\$ 2,457,325	3.20%

Significant highlights for General Fund revenues include:

- ❖ Based upon the Property Appraiser's Preliminary Certification issued June 1, 2017, existing property taxable values in the Town have risen 6.18% over the prior year.

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- ❖ The proposed budget reflects property tax revenues based on the millage rate of 3.2 which result in a \$0 increase for homestead property owners.
- ❖ Non Ad Valorem Taxes have increased due to the improved trend in water and gas utility tax revenue.
- ❖ An increase in the Building permit fee is proposed to offset the cost of the additional proposed positions of a .5 FTE for Right of Way inspector and a .5 FTE for the Communication specialist. A Resolution will be presented in August for the minor fee increase from 2.4% to 2.45% for permits in value of \$2.5 million and less.
- ❖ During the past year, the Departments conducted a thorough review of all of the fees associated with their Departments. We also reviewed all fees that had not been increased in over 5 years. We are proposing several small fee increases for FY18. These increases are summarized on a table under the “Revenues” tab. The fee increases are expected to generate \$134,825 per year and are reflected in the Licenses & Permits or Charges for Services category of revenues.
- ❖ Charges for services have increased due to improved revenue collection for parking meters, an increase in the solid waste collection fees and the above mentioned fee increases.
- ❖ Fines and forfeiture revenue is declining due to improved compliance resulting in fewer parking tickets.
- ❖ Investment income revenue is declining due to the current interest rate environment.
- ❖ Miscellaneous revenue is increasing due to the expected increase in the Town’s DC contribution forfeiture revenue based on the current level of forfeitures available from recent high turnover.
- ❖ We are recommending a decrease of \$100,000 in the transfer from the Recreation Enterprise Fund for the third year in a row. The revised transfer to the General Fund will be \$585,000. The Town Docks are planned to be replaced within the next 2 to 5 years. We are annually accruing funds in the Dock Replacement Reserve, which after the FY17 accrual, will total \$3,710,480. The current annual accrual of \$353,700 will not be enough to have sufficient funds set aside to fund the estimated \$10 to \$12 million cost. The budget proposal will decrease the transfer to the General Fund and increase the annual accrual to the dock replacement fund to \$453,700. The proposed accrual will also bolster a revenue stream needed to fund debt service for the cost of the dock replacement in excess of the future Dock Replacement Reserve.

Expenditures

The General Fund expenditure breakdown by category is shown in the table on the following page:

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Expenditure Category	FY2017	FY2018	FY17 vs. FY18 Difference	% Change
Salary and Wages	\$ 24,737,579	\$ 26,041,858	\$ 1,304,279	5.27%
Pension Benefits	8,774,323	9,527,616	753,293	8.59%
Other Employee Benefits	8,135,225	8,115,885	(19,340)	-0.24%
Contractual	9,432,209	9,667,348	235,139	2.49%
Commodities	1,810,844	1,958,554	147,710	8.16%
Depreciation/Capital Outlay	2,694,682	2,460,907	(233,775)	-8.68%
Library	325,250	335,008	9,758	3.00%
Other/Transfers	<u>20,942,265</u>	<u>21,202,526</u>	<u>260,261</u>	1.24%
Total Expenditures	\$ 76,852,377	\$ 79,309,702	\$ 2,457,325	3.20%

For all departments of the Town, the overall increase in expenditures is 3.2% over FY17. Highlights of the General Fund expenditures changes are as follows:

The salary and wage increase is due to the following reasons:

- There are 1.5 proposed new positions included in the FY18 budget. The positions include a proposed Communication Specialist to be charged to the General Fund, Coastal Protection Fund, and Underground Utility Project Fund and a .5 FTE to increase the part time vacant Right of Way inspector position in Public Works to a full time position.
- During FY17, three Firefighter Lieutenant positions were added when the Kelly day for the lieutenants was approved by the Town Council early in the fiscal year. In addition, at the June 13, 2017, Town Council meeting the firefighter's union contract was approved, and three additional firefighter positions were approved due to the change in the Kelly day policy that was negotiated in the contract.
- The budget includes merit pay increases for the employees not yet at the top of their range who have performed satisfactorily or above, and a 3% adjustment to the pay ranges. The CPI index for All Urban Consumers for the Miami-Ft. Lauderdale, FL Area (that area the Bureau of Labor Statistics says is applicable to the West Palm Beach – Boca Raton metro area) reflected a year over year increase in February of 3.95%. Since inflation in our area has been running above the national average, we have used a 3% increase in the ranges. This increase helps ensure competitive salary ranges relative to our surrounding markets.
- The recently approved firefighter union contractual pay increases have been added to the proposed budget.
- Overtime funding for POTUS and dignitary visits has increased the salary and wage budget by \$168,000. We are including these expenses in the General Government

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section of the budget so that the costs can be tracked separately and highlighted for at least the next 4 years.

The increase in total defined benefit (DB) and defined contribution (DC) pension benefits of \$753,293 is due to the smoothing of the lower returns in FY15 for the pension fund and additional funding for the changes in the mortality tables. The pension amount reflects the benefit changes for the union firefighters that is in the process of being adopted and the general employees and lifeguard benefit changes that became effective May 1, 2017. The general employee and ocean rescue pension costs include the addition of the Town's savings generated by the benefit change. The DC plan for union firefighters will be eliminated with their benefit change and the Town's DC costs for general employees and ocean rescue have decreased with their new benefit change.

Health insurance costs increased (4.5%) for FY18 after 5 years without an increase. This will result in an increase to premiums that will be shared in the same manner as they currently are between the Town and our employees. Specific premium rates effective January 1, 2018 will be provided in September.

Contractual costs increased in the IT budget for consulting assistance, improved internet access and additional software services described in the IT budget. Landscape and building maintenance costs increased and details can be found in the Public Works account detail sheets.

Cost increases in commodities include uniform cost for the new firefighter positions, lockers for telecommunicators, patrol officer equipment and uniform items.

Capital outlay decreased due to purchases of new equipment made in FY17.

Coastal funding increased due to the planned 3% annual adjustment in anticipation of inflation over time.

The transfer to the Capital Improvement Fund increased by \$129,800 over FY18. The increase in spending is for capital projects outlined in the capital improvement section of the document.

The actuarially determined transfer to the OPEB trust fund decreased by \$173,000 due to favorable results in the fund.

The General Fund budget exceeded the long-term financial plan estimate by \$684,170. The items included in the proposed budget that were not a part of the LTFP included the increase in fire-rescue personnel costs due to the results of successfully negotiating the firefighter union contract (\$430,000), expenditures relating to POTUS and special dignitary visits (\$226,980) and additional funding for Zika Prevention (\$49,790). These items total \$706,770.

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Fund Balance

The General Fund Unassigned Fund Balance as of September 30, 2016 was \$21,615,082. This amount was \$5,415,788 above the policy required minimum. The FY18 budget includes a transfer of \$988,770 from unassigned fund balance to fund the contingency reserve and \$577,900 from the reserve for compensated absences to fund the compensated absence payouts. After the contingency transfer, the remaining balance in the unassigned fund balance will be \$4,427,018.

I am proposing a transfer of \$2,500,000 from the General Fund unassigned fund balance to the Retirement Fund as a supplemental Town contribution to reduce the unfunded liability. This transfer would represent the second year in a row that we were able to make an additional transfer to the Retirement Fund. The amount is included in the proposed FY18 General Fund budget.

Other Town Funds

The table on the following page is a summary of the Town's other fund budgets. Additional information on these funds can be found in the second book labeled "Other Funds Budget Document."

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FY 18 Budget Summary by Fund Type, Revenues and Expenditures

	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust & Agency	Totals
Revenues								
Ad Valorem Taxes	\$51,293,180	\$0	\$0	\$0	\$0	\$0	\$0	\$51,293,180
Non Ad Valorem Taxes	6,150,000	0	0	500,000	0	0	0	6,650,000
Licenses and Permits	9,947,975	0	0	0	0	0	0	9,947,975
Intergovernmental	1,185,450	0	0	800,000	100,000	0	0	2,085,450
Charges for Services	3,943,650	0	0	0	6,553,400	5,044,810	0	15,541,860
Fines and Forfeitures	1,138,800	0	0	0	0	0	0	1,138,800
Contributions	0	0	0	5,000	6,571,154	0	11,260,070	17,836,224
Interest Earnings	578,977	6,000	0	387,103	14,000	281,456	17,136,649	18,404,185
Miscellaneous	420,000	0	0	0	0	30,000	2,500	452,500
Special Assessments	0	5,080,000	710,000	258,638	0	0	0	6,048,638
Commercial Paper	0	4,180,000	0	0	0	0	0	4,180,000
Interfund Transfers	585,000	130,000	6,916,632	9,902,950	0	4,105,075	3,666,000	25,305,657
Subtotal	75,243,032	9,396,000	7,626,632	11,853,691	13,238,554	9,461,341	32,065,219	158,884,469
Appropriations from Fund Balance	4,066,670	8,759,000	15,001	27,519,928	3,237,868	6,690,674	0	50,289,141
Total Revenues	\$79,309,702	\$18,155,000	\$7,641,633	\$39,373,619	\$16,476,422	\$16,152,015	\$32,065,219	\$209,173,610
Expenditures								
Salaries and Wages	\$26,041,858	\$0	\$0	\$169,540	\$1,394,507	\$207,095	\$137,668	\$27,950,668
Employee Benefits	17,643,501	0	0	65,123	661,262	5,660,604	2,079,710	26,110,200
Contractual	9,667,348	0	0	17,600	1,523,980	1,666,645	20,227,127	33,102,700
Commodities	1,958,554	0	0	6,063	453,970	6,687	300	2,425,574
Depreciation/Capital Outlay	2,460,907	18,155,000	0	37,933,615	11,491,137	2,610,984	0	72,651,643
Debt Service	0	0	7,624,846	0	0	0	0	7,624,846
Interfund Transfers	20,213,756	0	0	866,038	783,263	2,000,000	0	23,863,057
Other	1,323,778	0	16,787	315,640	168,303	4,000,000	0	5,824,508
Subtotal	79,309,702	18,155,000	7,641,633	39,373,619	16,476,422	16,152,015	22,444,805	199,553,196
Transfer to Fund Balance/Retained Earnings	0	0	0	0	0	0	9,620,414	9,620,414
Total Expenditures	\$79,309,702	\$18,155,000	\$7,641,633	\$39,373,619	\$16,476,422	\$16,152,015	\$32,065,219	\$209,173,610
Financial Ratios								
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust & Agency	Total
Ad Valorem Taxes as percentage of total fund budget	64.67%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	24.52%
Ad Valorem Taxes per capita (8,040 population)	\$6,380	\$0	\$0	\$0	\$0	\$0	\$0	\$6,380
Total expenditures per capita (8,040 population)	\$9,864	\$2,258	\$950	\$4,897	\$2,049	\$2,009	\$3,988	\$26,017
Personnel as a percentage of the total budget	32.84%	0.00%	0.00%	0.43%	8.46%	1.28%	0.43%	13.36%
Capital expenditures as percentage of total fund budget	3.10%	100.00%	0.00%	96.34%	69.74%	16.17%	0.00%	34.73%
Capital expenditures per capita (8,040 population)	\$306	\$2,258	\$0	\$4,718	\$1,429	\$325	\$0	\$9,036

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Highlights from the other funds include:

- ❖ The CIP Fund and ACIP II Fund contain funding for various drainage system improvements and sanitary sewer improvements and other capital projects described in greater detail in the budget document.
- ❖ The Coastal Management Fund budget for FY18 represents costs associated with monitoring required as a result of our permitted coastal projects. No renourishment projects are anticipated for FY18. The General Fund transfer to the coastal fund is based on the coastal financing plan which contains an annual increase of 3%. Anticipated FEMA reimbursed projects have been added to the FY19 Coastal program along with the partially offsetting FEMA grant revenue. **We are requesting direction on future groin projects. When the 2013 bonds were issued, a portion of the bonds were to be used to finance groin projects. The permitting has not been secured and time is running out on the deadline for spending the bond proceeds. If we are not able to obtain a permit in time (which appears to be likely) we will need to either reprogram these funds to the ACIP program to be used for capital projects or we will have to use the proceeds to pay down the bonded debt.**
- ❖ The Recreation Enterprise Fund is projecting an increase of 5.73% in revenue. Staff will be proposing fee increases in dockage rates and select fees at the golf course and a change in the tennis 12-play pass structure. The transfer to the General Fund is being reduced by \$100,000 for the third year in a row. The funds will be used to increase funding in the Dock Replacement Reserve to fund the rebuilding of the Town Docks anticipated to begin in the next 2-5 years and to bolster an income stream to pay future anticipated dock replacement debt service.
- ❖ Funding for the Risk fund has slightly decreased due to reductions in the fixed costs for liability and property insurance.
- ❖ Health insurance costs increased (4.5%) for FY18 after 5 years without an increase. This will result in an increase to premiums that will be shared in the same manner as they currently are between the Town and our employees. Specific premium rates effective January 1, 2018 will be provided in September.
- ❖ The Equipment Replacement Fund depreciation revenues have decreased by \$21,533.
- ❖ The Retirement Fund employer contribution increased as described earlier. Details for this fund and the OPEB trust fund can be found in the Trust and Agency section of the documents.
- ❖ The actuarially determined transfer to the OPEB trust fund decreased by \$173,000 due to improved performance within the fund.

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Tentative Millage Rate Resolution

Resolution No. 102-2017 adopting a tentative millage rate of 3.2706 is included in the backup. This rate is set slightly higher than the proposed rate of 3.2000 in case changed circumstances and/or Town Council decisions later this summer require the final millage rate to be set higher than our proposed rate. Florida law requires a first class mailing to all taxpayers if the millage rate is increased above the tentative millage rate adopted by the Town Council prior to the September public hearings. The final millage rate will be set at the public hearings in September.

Upcoming Meeting Schedule

The State mandated schedule requires that two public hearings be held in September to provide for the final adoption of the Town's FY18 budget. The proposed public hearing meeting dates are as follows: **(These dates must be finalized at the July 11, 2017 Town Council meeting)**

- **First Public Hearing – September 12, 2017 at 5:01pm (tentative)**
- **Second Public Hearing – September 20, 2017 at 5:01pm (tentative)**

Final Thoughts

This concludes the summary. Please see the FY2018 proposed budget document for detailed information.

I wish to acknowledge the efforts of Jane Struder, Director of Finance, Cheryl Somers, Assistant Director of Finance, Amy Wood, Accounting Supervisor, and Jay Boodheshwar, Deputy Town Manager for their efforts in compiling this document which was generated with the valuable input of each Department Director and their respective staffs.

Respectfully Submitted,



Thomas G. Bradford
Town Manager

cc: Department Directors
Jay Boodheshwar, Deputy Town Manager