

**MINUTES
CITY OF ORMOND BEACH
CITY COMMISSION WORKSHOP
FINANCIAL TRENDS**

March 5, 2013

5:30 PM

Training Room

I. Call to Order

Mayor Ed Kelley called the meeting to order at 5:30 p.m.

Present were Mayor Ed Kelley, Commissioners James Stowers, Troy Kent, Rick Boehm, and Bill Partington, Budget Advisory Board Members Rick Banker, Kenneth Kimble, Rafael Ramirez, Kathy Weston, and Bill Harper, City Manager Joyce Shanahan, Assistant City Manager and Public Works Director Ted MacLeod, City Attorney Randy Hayes, Finance Director Kelly McGuire, and Accounting Manager Dan Stauffer.

II. Discussions

Mayor Kelley introduced the new members of the Budget Advisory Board: Ms. Kathy Weston, Mr. Kenneth Kimble, and Mr. Bill Harper.

Ms. Joyce Shanahan stated that the purpose of the workshop was for the Commission to provide staff with guidance in budget development. She stated that their direction would be reviewed with the Budget Advisory Board and the budget would then be refined accordingly.

Long Term Considerations

Ms. Kelly McGuire, Finance Director, stated that about \$1 billion had been lost over the previous five years in taxable value. She stated that the past year the taxable value had fortunately only gone down by about 1%, noting that the year prior had been a 5% reduction. She stated that staff projected a 2% or 3% increase for next year and that they expected to continue to see small growth in taxable value in the future. She explained that keeping the tax rate the same for fiscal year 2014, assuming a 3% increase in taxable value, would generate additional revenue. She stated that the tax rate could also be rolled back to keep the tax revenue the same.

Ms. McGuire stated that it was believed that the utility tax, communication service taxes (CST) and sales taxes were fairly level and there would be only small increases going forward. She stated that franchise fees had been an issue and last year came in \$400,000 short of the projection. She noted that in the current budget there would be similar circumstances and the budget would have to be amended downward. She explained that was likely to be offset with additional vacancy savings, or use of the Revenue Stabilization Fund. She stated that franchise fees were derived from 6% not only on general services but also on the fuel portion of a bill from Florida Power and Light (FPL). She explained that FPL had been working hard to reduce the fuel portion, which was good for individuals but not on the city side since the 6% would now be taken from a smaller number. She stated that the

city had asked FPL to provide them additional details, because they wanted to be able to see what the adjustment was to the fuel charge each month for the citizens so that they could better project when that would go back up or down. She noted that this was not unique to Ormond Beach and that other cities were seeing it as well. She explained that she and Mr. Dan Stauffer, Accounting Manager, charted out what was occurring with franchise fees and utility taxes for Ormond Beach, as well as other communities in Volusia County, to ensure that they were all tracking the same way.

Mayor Kelley stated that the other point worth noting was that the state legislature had often discussed taking away those revenues. He stated that the legislature was reviewing that as a detriment for economic development.

Ms. McGuire stated that unfortunately all of those major revenue sources were often targeted by the state. She stated that the state had discussed eliminating the CST before and she felt that they would discuss it again. She noted that accounted for almost \$2 million in revenue and that the city would be in rough shape if they needed to cut that out of the budget.

Pension Costs

Ms. McGuire stated that over the last several years there had been large increases in pension costs. She stated it was not anticipated that there would be such large jumps again in the next couple of years. She explained that the city's assumed rate of return was 7.5% and for several years they were not seeing that and were actually losing money in the pension system. She noted that was a big factor in terms of what the city had to contribute, and when that started to stabilize then the city's required contribution would stabilize.

Mayor Kelley stated that half of the city property taxes were being used to fund a pension that was basically insolvent. He stated the city's contribution was \$5 million and noted that in 2001 the city's contribution was just \$250,000.

Ms. Shanahan stated that some strides had already been made in pension reform. She explained that all new hires were put into a defined contribution plan which would equate to savings in the future.

Ms. McGuire noted that police employees had made some pension changes as well but that they were a bit constrained on what they could do with police and fire pensions. She stated that the required contributions for next year for general employees would be decreased by about \$61,000, fire would decrease by \$18,000 and police would increase by about \$62,000, for a total collective decrease of \$17,000 in contributions. She stated that the city would be at a little over \$5 million in total contributions, as the Mayor pointed out.

Commissioner Boehm stated that he understood that they looked at a four year averaging method and last year was the only good year of the past four.

Ms. McGuire stated that was correct and the four years averaged out to be about 7%. She stated that when the very worst year dropped off and the new year was added in she expected that they would be above the 7.5% assumed rate of return. She noted that unfunded liabilities went from \$40 million to \$37 million. She stated

that if the city had a couple of years of strong returns, in the 8% to 10% range, that the unfunded liability numbers would change and could swing dramatically. She likened it to a moving target and stated that she hoped it would not move in the wrong direction.

Ms. Shanahan stated that one thing that complicated years past were that there were additional benefits that were provided that were no longer being offered.

Commissioner Boehm noted that the city was at a \$5 million contribution presently. He asked if the worst year dropped off and two or three good years were added, if it would move in the other direction.

Ms. McGuire stated that it would but everything else would also have to remain the same. She stated as an example that in the last couple of years they had to adopt a different mortality table and that had an effect.

Mr. Rafael Ramirez, Budget Advisory Board member, asked Ms. McGuire to explain how the 7.5% assumed rate of return was calculated.

Ms. McGuire stated that the pension fund was funded by three different sources: 1) the employees' contributions, which ran between 4% and 9% depending on the plan; 2) the city's contribution, which ran between 30% and 45% of payroll; and 3) investment earnings of the plans, which paid the majority of the pension funding. She explained that 7.5% was the assumed rate of return for the investment earnings which was set by the three pension boards. She stated that each pension board had a financial advisor who advised them on the appropriate rate of return. She explained that depending in the market, there could be a 20% return to a 2% return. She stated that the actuary looked at four years of interest earnings instead of one using a four-year smoothing technique in order to stabilize the city's contribution. She noted that it was always the last four-year period. She stated that the last four-year average return had been about 7.2% which included a -8.0% return. She stated that number would drop off moving forward and hopefully another good year would be added so that the average would be brought above the 7.5% benchmark. She explained that when the return did not meet the 7.5% assumption, the city made up the difference.

Ms. Shanahan stated that prior to last year the assumed rate of return was 8%. She explained that they decreased the assumed rate of return which in turn increased the city's contribution because there was a lesser return expected. She stated that the four-year smoothing technique was typically done by all pension plans in the state and was not unique to Ormond Beach.

General Fund Budget Estimates

Ms. McGuire stated that for the upcoming budget they made the assumptions that there would be an increase in taxable value of 3% and the tax rate would remain the same, which would generate an additional \$240,000 in tax revenue. She stated that they also made the assumption beginning with fiscal year 2014-2015 and the three years after that, to assume the rollback rate. She stated they also assumed a small growth in sales tax, an increase in health care premiums of 6.7%, and maintaining the current operating expenses. She stated that taking into considerations all those

factors, the city would still end up next year with a preliminary shortfall of \$378,000 in the General Fund budget. .

Property Tax

Ms. McGuire stated that the fiscal year 2012-2013 property taxes, which included not just operating but also all of the debt millages, was 4.33 mills. She explained that if that was kept the same, the taxable value would increase. She stated that a taxpayer with a \$150,000 home and \$50,000 exemption would go from paying \$434 to \$453 in Ormond Beach taxes. She noted that the state determined the rollback rate which would be considered a 3% increase over the rollback rate.

Ms. McGuire explained that as part of the overall tax rate other funds besides the General Fund were supported. She stated that those funds were the Facilities R&R, General Capital Improvements Projects (CIP), and Transportation Fund. She stated that staff recommended that the Facilities R&R Fund be maintained at the \$500,000 level. She explained that the General Fund had been subsidizing it out of the General Fund Reserve and there was sufficient reserve to do so. She stated that there was currently \$4.8 million in the General Fund Reserve and that was in addition to the Revenue Stabilization Fund, which was \$1.6 million. She stated that the transportation revenue shown included property tax revenue transferred from the General Fund to support engineering expenditures previously paid by the General Fund.

User Fee Supported Funds

Ms. McGuire stated that the last increase in water and sewer rates was 2.5% and occurred three years ago. She stated that they would be potentially looking at an increase of 2% to 3% which would be discussed with the Commission in conjunction with the CIP. She stated that the galvanized pipe replacement program was moving forward and bonds for that project would be brought to the Commission, as well as the re-funding of some existing bonds to save interest charges. She noted that according to the *Code of Ordinances* after October 1, 2012, the City Commission would conduct a review to determine the amount of any annual adjustment to the impact fees, which were based on the change in the *Engineering News Record Construction Cost Index*. She stated that no increases in the stormwater fee were being recommended. She stated that the fees were primarily used to pay for capital projections, and there were \$9.25 million in capital improvements over the next five years, with \$6 million in grant funding expected. She stated that there was \$2.8 million in the Solid Waste Fund to help stabilize the rates and for any type of emergency.

Commissioner Kent stated that a 2% to 3% increase would be his maximum on the water and sewer rates. He stated that he had asked the past several years if an increase was needed and was told it was not. He stated that he would have an issue with any higher percentage.

Ms. Shanahan stated that she did not think that they would need a 3% increase. She stated that she thought because the water line improvements had been accelerated that was the maximum they would go.

Commissioner Kent stated that there was a time where he and Commissioner Partington had to swallow a large increase and he told himself he would never again do that to the community.

Ms. Shanahan stated that she thought it was important to note that the fee had not been raised in three years. She stated that she did not want to get in a position where five years in the future they would be asking for a 5% or 8% increase.

Mayor Kelley stated that Ormond Beach still had the second lowest combined water and trash rates in any of the cities.

Ms. Shanahan stated that staff was sensitive to the overall tax burden on the community as the Commission had directed. She noted that they looked at the tax rate combined with the other fees and services they provided.

Commissioner Boehm asked if there was a built-in 3% user fee increase each year.

Ms. Shanahan stated that there was only a built-in increase on Leisure Services.

Commissioner Boehm noted that one year when he was on the Leisure Services Advisory Board they had to approve a 30% fee increase because one had not been done in ten years.

Ms. McGuire stated that there had been a 17% increase on the water rates the year Commissioner Kent referenced, and around the same time there had been a tax increase as well. She stated that she did not want to do that and wanted to come to the Commission every year and do only a 2% or 3% increase, which was reasonable, if there was need to do so.

Mayor Kelley stated that he thought that the conservation pricing had increased the revenue because it made it substantial to go over the 5,000 gallon mark. He stated that the meters could also be replaced with radio meters for approximately \$100 a unit and eliminated operators having to touch the meter and instead make them able to just ride by and read the meter.

Ms. Shanahan stated that one of the issues that they would be looking at in the CIP process would be replacing water meters. She stated that they were looking at a five or six year plan to replace meters to ensure that they did not have lost water issues.

Ms. McGuire stated that the Airport Fund at one point had a \$535,000 advance from the General Fund so that the Airport Fund could fund capital projects. She stated that it had been being paid back and the amount owed to the General Fund was \$212,000 as of the end of the fiscal year. She pointed out that the Airport Fund was also owed \$196,000 from granting agencies. She noted that the issue was really a timing issue with the cash flow.

Mr. Ramirez stated that he had read in the newspaper about sequestration affecting the Ormond Beach Airport. He asked if it would be a net savings to the city if the Federal Aviation Administration (FAA) was to discontinue the usage of the tower.

Ms. Shanahan explained that the city did not have any costs associated with the tower. She stated that the tower could potentially be an expense if the Commission

decided they wanted to undertake the expense of operating it. She stated that she had sent a letter to Congress regarding the issue and two Commissioners would be going to Washington, D.C., to help lobby the issue.

Mr. Ramirez stated that perhaps Embry Riddle Aeronautical University could also lend their support.

Ms. Shanahan stated that the city remained hopeful that tower operations would continue to be funded.

Mr. Joe Mannarino, Economic Development Director, stated that the city had been notified that they were on a list to potentially have tower operations no longer be funded but no final decisions had been made. He stated that they should know in mid April what the final decision would be.

General Fund Budget Policy Direction

Ms. McGuire stated that there were four items that staff required Commission direction on. She stated that the first was the tax rate. She stated that the initial projections and response was to maintain the same tax rate. She noted that doing so would obviously depend on what the increase in the taxable value was. She stated that the \$385,000 shortfall the city was looking at assumed that they would pick up some additional tax revenue. She stated that if they went in the opposite direction and did not do that, then they would be looking at a \$550,000 shortfall.

Mayor Kelley stated that he supported staying with the current tax rate. He stated that they could always adjust that once they received the numbers for the taxable value. He stated that he believed that Ms. McGuire was optimistic in expecting a 3% increase.

Commissioner Partington, Commissioner Boehm, Commissioner Kent, and Commissioner Stowers agreed to keeping the current tax rate.

Ms. McGuire stated that the current balance of the General Fund unassigned fund balance, also known as the General Fund Reserve, was \$4.8 million. She explained that the Commission had agreed before to maintain a minimum of 15% of the General Fund in the General Fund Reserve. She stated that the reserve was a potential source of funding for a growth assistance program. She asked the Commission if they were still comfortable with the 15% minimum.

Mayor Kelley stated that he thought that balance needed to be left where it was because there were a lot of unknown factors occurring in 2016 and beyond. He stated that the Revenue Stabilization Fund would be exhausted within three years if projections held true. He stated that it would not be prudent to use those funds, especially to fund reoccurring expenses.

Ms. Shanahan asked if they were speaking more about maintaining the balance of \$4.8 million regardless of what the percentage was or if they were speaking about maintaining the 15% of the fund balance.

Mayor Kelley stated that the percentage would drop based on the balance and noted that the budget had dropped in recent years.

Commissioner Boehm noted that the \$4.8 million was currently a little over 18%. He stated that there was some potential availability of those funds above the 15% for the growth assistance program.

Ms. McGuire stated that they would continue to take \$200,000 out of that each year to use for the Facilities R&R Fund as they had been doing. She confirmed that the Commission was comfortable with the 15% minimum.

Ms. McGuire stated that the Revenue Stabilization Fund had a current balance of \$1.691 million. She stated that they were looking to set the ceiling for next year's potential use to \$750,000. She stated that last year the ceiling had been set at \$1 million and they ended up using less than \$400,000. She stated that it would be very surprising if they came back and recommended using that amount.

Mayor Kelley stated that he would guess it would be between \$500,000 and \$600,000 that they would need to use.

Ms. Shanahan stated that she hoped that Mayor Kelley was wrong.

Ms. McGuire stated that they were hoping that it was under \$500,000. She noted that staff would be bringing the budget back to the Commission for approval based on their direction.

Ms. Shanahan stated that two of the unknowns they had were the franchise fees and gas taxes. She stated that the city received approximately \$2.1 million in gas taxes from Volusia County each year and the ten-year agreement with Volusia County and all of its cities would expire in August 2013. She explained that the cities and the county had begun collective discussions regarding the formula used. She stated that a formula was agreed upon ten years ago where the county received 58% of the gas tax revenue and the balance was split among the cities based on a formula of road miles, population, and CIPs. She stated that the default formula from the state level would be about a 60% split for the county and the balance split amongst the cities. She noted that Ms. McGuire had been working with the Finance Directors and negotiations were already tense.

Commissioner Kent asked what type of say the city had in the discussions; whereby, Ms. Shanahan explained that the formula had to be agreed to by each of the individual cities. She noted that she did not know how the vote went ten years prior when she was not there. She stated that it was not uncommon for a county to require all of the cities to unanimously support a formula otherwise they would follow the default formula from the state. She stated that they were trying to determine if they would lose any substantial money by going to the default formula. She stated that ten years ago Deltona was not a city and so received their money off the top and now they would have to be split with. She stated that Ormond Beach received a little over \$2 million in gas tax revenue and that revenue had been declining. She stated that the city had spent a lot of money in transportation improvements in the past five years and the city was probably the third or fourth highest spending city in the county. She stated that if the current formula held, they should be able to maintain close to what they were receiving currently.

Commissioner Boehm asked who determined how much money came in and who it was remitted to; whereby, Ms. Shanahan stated that it was remitted to the state and

then it came back to the cities based on the formula. She stated that the formula had to be certified and sent into the state and then it was sent back to the cities.

Commissioner Boehm stated that it was hard to believe that less money was available now when ten years ago gas was \$1.60 a gallon and now it was \$3.80.

Mr. Ted MacLeod, Assistant City Manager and Public Works Director, stated that the formula provided them with a certain number of cents and not a percentage of the cost.

Budget Strategies

Ms. McGuire stated that they would continue the budget strategies they had discussed before, with continued pension reform efforts being top on the list. She stated that they would also review user fees and charges, and continue to adjust the organizational structure to maximize efficiency.

Ms. Shanahan stated that every position was looked at every time it became vacant to determine whether or not it needed to be filled. She stated there would be some part-time hours dedicated to the new Andy Romano Beachfront Park. She stated that it was not that positions were not added back, but that the net had usually been zero or minus numbers in the last five years. She noted that they were not looking at any new positions or position changes.

Public Involvement in the Budget Process

Ms. McGuire stated that there were a number of opportunities for the public to have input into the budget process. She stated that the Town Hall Budget Meeting with the City Commission would be held on May 21, 2013, before the City Commission meeting. She stated that the CIP Workshop would be on June 3, 2013, and the Operating Budget Workshop on July 29, 2013. She noted that both of those workshops were on Mondays. She stated that the Commission would have to set the tentative millage rate on Tuesday, July 30, 2013, at their meeting. She stated that the first public hearing for the millage would be on September 3, 2013, and the second public hearing would be on September 17, 2013. She stated that the Budget Advisory Board also met every month on the last Wednesday of the month in the Training Room. She noted that citizens were welcome to attend those meetings.

Ms. Shanahan stated that she thought that the city did a good job of giving the public ample opportunity for input into the budget process.

Ms. McGuire stated that at the next Budget Advisory Board meeting they would go back through the presentation she had just given and talk about the numbers in more detail.

Ms. Shanahan stated that each year the Budget Advisory Board had specific recommendations for the Commission. She stated that their top recommendations had previously been pension reform and maintaining the tax rate. She stated that they would make recommendations both on the CIP and operating budget.

Ms. McGuire thanked the Commission and the Budget Advisory Board and stated that staff appreciated their time.

Mr. Banker stated that Ms. McGuire and Ms. Shanahan were well informed and wonderful to work with.

Ms. Shanahan stated that they were also looking at the lean six signal process, which they may have heard the auditors talk about during the audit process. She stated that it would be used for performance evaluations and the change order procedure. She stated that Ms. McGuire and Mr. Stauffer would be trained in that process and could see how they could improve those processes in other divisions in the city to speed efficiency and reduce costs.

Mayor Kelley thanked the Budget Advisory Board members for their service.

III. Close the Meeting

The meeting was adjourned at 6:19 p.m.

Transcribed by: Colby Cilento