

**MINUTES
ORMOND BEACH BUDGET ADVISORY BOARD
HELD AT CITY HALL TRAINING ROOM**

July 12, 2017

5:00 p.m.

City Hall Training Room

1. CALL TO ORDER

Chairman Ken Kimble called the meeting to order at 5:06 p.m.

Those present were board members Chairman Ken Kimble, Vice Chairman Rafael Ramirez, Kevin Tilley, Bill Harper and Scott Cichon, City Manager Joyce Shanahan, and Finance Director Kelly McGuire.

2. APPROVAL OF MINUTES OF MAY 31, 2017, MEETING

Mr. Rafael Ramirez moved, seconded by Mr. Kevin Tilley, to approve the minutes of the May 31, 2017, meeting. The motion passed unanimously.

3. PUBLIC COMMENTS

There were no public comments.

4. DISCUSSION OF THE PROPOSED BUDGET FISCAL YEAR 2017-2018

Ms. Kelly McGuire, Finance Director, stated that the purpose of the meeting was to receive a recommendation from the board on the overall budget. She noted that the board was sent an agenda packet for the meeting and that it was given to them later than usually because of the timing of the budget.

Ms. Joyce Shanahan, City Manager, stated that staff had individual meetings about the operating budget with each member of the Commission, and that the same information had been shared with them. She noted that staff was not allowed to share with one Commissioner what another Commissioner's questions were as it would violate the Sunshine Law. She noted that when the Commission arrived at their workshop for the operating budget, the Commission would be just as briefed as the board would be. She noted that the board was meeting with the Commission at the Operating Budget Workshop on July 25, 2017, at 5:30 p.m.

Overview

Ms. McGuire stated that the net budget for fiscal year 2017-18 decreased by \$1.89 million from the current year budget, for a total net budget of \$72.5 million. She noted that the main reason for the decline was due to changes made in the capital expenditures specific to water and wastewater.

Ms. McGuire stated that the net general fund budget was \$30.6 million. She noted that that would be an increase of \$578,000 specific to general wage increases and pension cost increases. She explained that the reason for the pension cost increases were primarily for fire employees and the changes in the mortality tables for pensions. She stated that the state required them to assume longer life spans. She stated that the city planned to increase the unfunded liabilities and fire contributions.

Ms. Shanahan explained that in mid-2009, when the market had started to decrease and pension earnings were falling off, cities had to pick up the difference. She noted that it was only then that someone realized that pension plans were not keeping pace with the mortality rate. She stated that funding was adjusted every two to three years. She noted that around 2010 to 2012, when the city's pensions were being adjusted, it was the first time they had been adjusted in ten years.

Ms. Shanahan stated that last year there had been a pay and classification study performed, and that adjustments were made to the pay plan based on that study. She noted that there were three bargaining units, noting they were general employees, police, and fire. She stated that contracts were negotiated with police and fire. She explained that the pay plan was being implemented in year one and that in year two and three, police and fire were receiving a three percent pay increase. She noted that the city was still in negotiation with the general employees' union.

Ms. Shanahan stated that at the monthly city manager meeting with sister cities, most sister cities were looking at providing three percent increases. She noted that many sister cities had similar studies done and had implemented paid plans. She stated that many cities reevaluated the wages for specific jobs and it had resulted in an increase on average of 2.5 percent.

Mr. Rafael Ramirez asked about looming homestead exemption changes; whereby, Ms. Shanahan stated that the city was trying to position itself appropriately for next year. She noted that she believed that the proposed change would pass in 2018 and be implemented in January 2019. She stated that staff fully expected for the homestead exemption referendum to pass, as it had passed previously by 72 percent. She stated that its passage would mean around an \$800,000 hit to the city's budget.

Ms. Shanahan stated that many employees had not received percentage adjustments to their salaries in a while. She noted that during the recession, employees were given dollar amounts rather than percentage increases. She stated that it was good to have a multi-year contract with employees, noting that otherwise staff spent a long time negotiating the employee contract and that was not productive. She stated that for the first time in several years the city presently had a multi-year contract with employees.

Property Taxes

Ms. McGuire stated that property values increased by \$237.6 million. She explained that that had occurred with \$191.8 million in existing properties and \$45.8 million in new construction and annexations. She stated that the values were still 11.9 percent below peak value from 2007.

Ms. Shanahan stated that the city had been 30 percent short of that number a few years ago.

Ms. McGuire stated that the operating tax rate was proposed to remain at 4.2843 mills. She stated that the overall tax rate included the voter approved debt millages and was to remain the same at 4.5362. She noted that there would need to be an advertised increase because of the way the state calculated the rates, noting that their calculation dictated a 6.2 percent increase.

Ms. McGuire stated that in 2007, the property tax value was over \$3.5 billion and reiterated that the value remained at 11.9 percent below that.

Ms. Shanahan stated that Ormond Beach had the third highest property values in Volusia County.

Mr. Ramirez stated that he had hoped the values would not go back to 2007 levels, explaining that what bankers did at that time had caused the recession.

Mr. Bill Harper stated that there were fewer properties in 2007 and the values would not be on the same level at their current state.

Ms. McGuire presented the current fiscal year property tax and the proposed fiscal year 2017-18 property tax. She stated that the operating tax rate was 4.2 mills, explaining that the operating rate was broken down and spread out against a variety of functions within the city. She noted that most of the rate went to the General Fund. She stated that funding was also going to various capital projects. She noted that by virtue of the funding model approved the City Commission; the city had set up a flat dollar amount for capital projects. She stated that the facilities renewal and replacement amount was \$500,000, the capital improvements amount was \$400,000, the vehicle replacement amount was \$225,000, and the transportation amount was \$500,000. She explained that if the rate increased, staff would adjust the mills accordingly so that the dollar amounts remained the same.

Ms. McGuire stated that in the debt service rates, staff levied what was necessary in order to pay the principle and interest rate. She noted that the overall tax rate was remaining the same, as was the operating tax rate. She explained that in a year or two the city would be able to reduce some of the

rates in the debt service millage. She noted that as property values increased, the millage could be reduced but still generate enough funding to pay for the principal and interest. She stated that it was going to be the same for the capital improvement funds; she reiterated that as the values went up, they would increase the millage and generate the \$400,000. She explained that the millage could be reallocated to the General Fund, and if there were any issues with the additional exemption, it was the General Fund that would lose out. She explained that the city could move funding around internally to put the city in a better position.

Mr. Ramirez asked if there were fixed rates when calculating the debt service, and if not, if the rates would be increased to be safe; whereby, Ms. McGuire stated that the city needed to stay within a reasonable rate.

Ms. Shanahan stated that all the rates were fixed from the bank and were bonds. She explained that it allowed the city to decrease the debt service mills as the value increased. She noted that it was not being done for the upcoming year, but had been done in prior years. She stated that by keeping the rate the same, the city was building a cushion. She noted that with the homestead exception looming, and next year's budget, there was not a lot to make up because the city did not lower the rate when they could have.

Ms. McGuire stated that the average increase on a tax bill would be \$16.11. She explained that that figure was based upon someone having a home with an assessed value of \$169,000, which was Ormond Beach's average as of July 1, 2017, according to the property appraiser. She noted that the proposed homestead exception would be taking off \$50,000 of that total for a taxable value total of \$119,000.

Ms. Shanahan stated that there was a cap to the homestead exemption for a homesteaded citizen; whereby, Ms. McGuire stated that the cap was 2.1 percent.

Ms. Shanahan stated that businesses were capped at ten percent. She explained that most businesses would see a ten percent increase.

Ms. McGuire presented a graph comparing Ormond Beach's millage rate to other sister cities' municipal millage rates. She stated that the graph was for the current year and noted that she was unsure of what other sister cities rates would be for the upcoming year. She noted that she expected Ormond Beach to be where it was presently, at the third lowest municipal millage.

Ms. Shanahan stated that some communities may propose to go above their current rollback rate. She noted that by the time other cities had their second public hearing; it was most likely that they would stay at the same rate. She explained that some cities did this because every city had to tell their property appraiser their proposed property tax rate and it was advertised by the

property appraiser. She noted that citizens then received a letter from the property appraiser; stating what the city was proposing for a rate and the dates for their public hearing. She noted that if a city set their property tax at the current rate but decided to raise it above later down the road, it would increase the burden on the city. She explained that that city would then have to pay for their advertising and direct mailing. She noted that that was why many cities proposed higher rates at first and then settled back to the rollback rate.

Mr. Ramirez asked if Debary, Florida, had a police force; whereby, Ms. Shanahan stated that a Florida Power and Light (FPL) plant was located in Debary and explained that that was a big property tax payer for Debary.

General Fund

Ms. McGuire stated that the General Fund increased mostly because of increased wages. She noted that staff balanced the budget without using the fund balance, which was essentially the city's savings account. She stated that in the current year there had been \$460,676 used from the fund balance. She explained that the policy for the fund balance was that it would only be used for one-time projects, and not reoccurring expenses. She stated that there were a few projects in next year's budget which were one time projects, but the city did not need to use the fund balance because it was going to be generating enough revenue to cover them. She noted that that was a good position for the city to be in strategically because when those one-time expenses were no longer there, ongoing revenue was going to make up for any losses that the city might of had in the future.

Citywide Staffing

Ms. McGuire stated that personnel costs had increased and noted that another major change was that fuel had decreased.

Mr. Ramirez asked if the personnel cost increases were good; whereby, Ms. Shanahan stated that two positions had been added. She stated that the city ran a lean operation. She noted that in 2007, there had been 426 employees and that the city had never gone back to that level of staffing. She stated that the city had been hovering around 365 to 370 employees for the last seven to eight years. She explained that the city had flattened the organization a lot during the recession and had gotten rid of a lot of the middle managers. She noted that that had proved problematic in a few areas, such as the police department. She stated that last year two captains were added to the department, explaining that there had not been enough supervision on the night shift and the city felt the need to add those positions back. She stated that all of the city's managers were working managers. She stated that Ormond Beach did not have the level of middle management that some of its sister cities had.

Ms. Shanahan stated that the city tried whenever possible to fund staffing needs with contracted services, especially if they were high in value. She stated that a good example of contracted services would be permitting. She noted that the city was currently issuing a high volume of permits, due to construction. She stated that there had been some transition in the permit department and the city had used Universal Engineering to help supplement the cost. She noted that it was a little more expensive to utilize their services, but doing so had a lot more flexibility to help meet the demand.

Ms. Shanahan stated that another example of contracted services was utility locations and explained that when anyone was building, the city's utilities needed to be marked. She stated that it was a peak and flow type of project, where the city could need 40 employees one week and ten employees the next week. She noted that contract service funding was put in the budget for those kinds of projects. She stated that the city was dealing with some of those issues by using contracted services when able to.

Ms. Shanahan stated that another good example of contracted services ballfield maintenance. She explained that the city used to do all of their own ballfield maintenance and sports complex maintenance, but a few years ago those services were bid out and contracted to Austin Outdoors, which is now known as Yellowstone Landscaping. She stated that the city had discovered that they were receiving better service and better field maintenance from the contractor. She explained that the city had employed 11 ballfield maintenance employees, who were all out on the fields trying their hardest to get them all mowed, but there was not enough personnel to do an adequate job. She stated that Yellowstone Landscaping could marshal all of their resources and mow the fields in three days if they had to.

Mr. Ramirez noted that Yellowstone Landscaping did a good job on the city's medians.

Ms. Shanahan stated the city had not had enough staff to do what Yellowstone Landscaping could do. She noted that when it rained, there was a limited amount that the city's employees could have done. She stated that using Yellowstone Landscaping was a good solution, but noted that it had been scary for the city to decide to use them, because citizens were very particular about the city's ballfields. She noted that the city did spend more by contracting the maintenance of the fields out.

Mr. Harper noted that there was no residual pension associated with doing so; whereby, Ms. Shanahan stated that there was not. She noted that there was also no healthcare costs associated, and the city did not need to tell the employees there was no work for them that day. She stated that that change had worked out for the city.

Water and Wastewater

Ms. McGuire stated that staff was proposing an increase of one dollar on both the water and wastewater rates. She noted that it would be effective October 1, 2017. She stated that half of those two dollars per month would go to capital projects. She explained that the city was going to need to issue another bond and the bond payment would be roughly three to four hundred thousand dollars per year, noting that a dollar increase would generate enough ongoing revenue to pay for the bond. She stated that the other dollar was to generate ongoing revenue for the current expenses and the increases in costs.

Mr. Ramirez asked what the increase was for the last year; whereby, Ms. Shanahan stated that it had been 50 cents. She explained that two years ago, there had been a rate increase in the beginning of the budget around October 1, and then another increase on September 30, so that it was advertised at one time.

Ms. McGuire stated that staff was proposing one dollar for water and one dollar for wastewater for October 1, 2017, and then 50 cents for water and 50 cents for wastewater on September 30, 2018. She noted that the reason staff was looking at 50 cents at the end of the fiscal year was because there would be no bonds issued in that budget. She stated that there would not be funding to cover bonds, but the city would need funding to cover general funding needs.

Solid Waste

Ms. McGuire stated that staff was proposed a 2.38 percent increase in solid waste rates. She explained that this was being recommended because the city received a request from Waste Pro for a 2.38 percent increase in their contract. She noted that it was the first year that Waste Pro was allowed to request an increase since they had started their contract with the city. She stated that staff would be recommending to the Commission to allow the increase, because if not, something could happen a few years down the line. She explained that if there was no increase in the contract, when it went out to bid again, there would be a surprise like what had happened a few years ago – when the rates came back higher on rebid, because the city had not kept up with the market rates for the service.

Ms. Shanahan stated that that had happened when the city changed from Waste Management to Waste Pro. She noted that historically the Commission had not awarded the percentage increases to Waste Management's contract, and so was paying below market value for those services. She explained that when the city had to bid those services out, Waste Management came back with a bid that was \$2 million higher than their current contract. She noted that Waste Pro came in \$1 million higher. She stated that that was why staff was recommending the rate increase, to stay with market. She noted that the city was well below its sister cities with regards to overall utility rates.

Utility Rates

Ms. McGuire stated that the rates were based upon 5,000 gallons usage and noted the average bill for an Ormond Beach resident was \$84.37.

Questions / Comments

Mr. Ramirez asked Ms. Shanahan about annexations and the matching of expenses; whereby, Ms. Shanahan stated that many citizens have asked why there was not an aggressive effort for an agreement with Ormond-by-the-Sea to have the city start annexing those properties. She noted that Ormond Beach provided Ormond-by-the-Sea's water and wastewater. She also noted that most of the residents of Ormond-by-the-Sea were on septic systems. She stated that Ormond-by-the-Sea's water rate was one and half times the water rate of Ormond Beach, and noted that if the city were to annex them into the city, Ormond-by-the-Sea would pay the same rate as the city. She stated that most residents in Ormond-by-the-Sea did not want to be annexed into the city. She noted that such an annexation would also need to be voted on.

Ms. Shanahan stated that the city annexed properties that were contiguous to it. She stated that most of the annexations in the city were being done on US-1. She noted that it was easier to annex that area because a lot of it was commercial and not residential. She stated that the city fully expected Plantation Oaks to be annexed into the city. She noted that the city had an agreement with them to provide them with water and wastewater. She stated that Plantation Oaks had a total of 700 developed units, with a combination of single family, multi-family, and manufactured homes.

Mr. Scott Cichon asked what made an area desirable or undesirable in terms of annexation. He noted that Ms. Shanahan had spoken about the water rate and how Ormond-by-the-Sea's current water rate would go down and the city would be losing money with regards to water rates if the city annexed Ormond-by-the-Sea in. He noted that the city would also gain money for taxes by annexing in new properties, but then may lose money because those areas would need to be policed. He asked what was in it for the city.

Ms. Shanahan noted that there had been some crime in some areas of Ormond-by-the-Sea. She noted that Ormond-by-the-Sea did not presently have the same community standards as Ormond Beach. She stated that there were a lot of code enforcement issues in that area, and noted that the county had not undertaken any active code enforcement for Ormond-by-the-Sea. She stated that she had spoken with County Councilwoman Heather Post, who had been speaking with a number of residents from Ormond-by-the-Sea, and she had noted that their community wanted more code enforcement.

Mr. Ramirez noted that the city would also need to reconnect the sewer plant; whereby, Ms. Shanahan stated that Ormond-by-the-Sea had wanted the city to buy the package plant but that was not a good deal for Ormond Beach.

Ms. Shanahan stated that Ormond-by-the-Sea would not be as desirable of an area for annexation because of the heavy demand for police and fire services that area would bring. She explained that US-1 was a lot easier because it had business properties and was not as densely residential. She explained that business properties had a smaller demand for fire and police services.

Ms. Shanahan stated that the city tried to annex enclaves because it was good government to do so. She noted that some on Shockney Drive wanted to be annexed into the city and the county had asked the city to do so a few times. She explained that the problem was the roads and the storm drainage. She noted that they were not up to city standards. She stated that if Ormond Beach took it over, all of the city's existing taxpayers would have to improve that property. She noted that in doing so, it would not be fair to the citizens of Ormond Beach. She stated Tomoka Estates wanted to come into the city. She noted that their water and wastewater were not up to the city's standards. She explained that there would need to be a lot of funding for those systems and the taxpayers as a whole would have to bear the cost for it. She stated that it would not be fair to pay for the development, as it would take the city a long time to recoup the funding for it. She stated that the city looked at infrastructure with regards to annexation. She noted that they reviewed whether a property needed improvements, was lacking city standards, and assessed what kind of financial burden it would cause the city.

Mr. Cichon asked if the county had any incentive to upgrade the roads and wastewater if Ormond Beach took over a property; whereby, Ms. Shanahan replied that there were some areas that the city had discussed with the county. She explained that there was an agreement discussed between the city and the county, which would allow for the county to hook into the city's sewer system, provide the city with additional flow, and allow the county to not have to upgrade their package plant. She noted that such an agreement would give the city additional utility customers, but was a viable option. She noted that the city did look at all options for annexations, but generally did not want to take on issue areas.

Ms. Shanahan stated that the city did not shy away from annexations, but noted that another issue on the peninsula was the use of septic. She stated that there had been a real push to get rid of septic tanks, but noted it would be a huge expense to do so. She stated that the peninsula did not as much value and noted that some of the homes were smaller. She explained that the improvement over the life of a home would need to be advertised. She noted that if the city did the improvements for the sewer, there would be a connection from the road to the house for the sewer. She explained that with

the engineering costs, it would be around \$10,000 to \$12,000 per home to do that. She stated that the city could pay all that money up front and lien the properties, or do an annual assessment on the properties.

Ms. Shanahan stated that another issue on the peninsula was that there were a lot of short term rentals, noting the city did not allow them. She stated that in residential neighborhoods, residents had to rent for six months or longer. She noted that the city had fought that battle with citizens who lived on the north and south peninsula, explaining that some residents only rented those properties for bike week and vacation rentals. She explained that the state changed the law for short term rentals and the city was grandfathered in because the city law was set before the state made that change.

Ms. Shanahan stated that the city did work strategically with regards to annexations, and the only place for the city to grow was to the north and west. She stated that the city would not take over Holly Hill and was limited on State Road 40 (SR-40) because of the county property that was west of the city which had been annexed by Daytona Beach. She stated that a city could not de-annex an area once it was annexed by another city.

Rates

Mr. Scott Cichon moved, seconded by Mr. Rafael Ramirez, to accept the existing millage rate. The motion passed unanimously.

Mr. Kevin Tilley moved, seconded by Mr. Bill Harper, to accept the proposed water and wastewater rates. The motion passed by a voice vote; with Mr. Scott Cichon voting in opposition.

Mr. Rafael Ramirez moved, seconded by Mr. Scott Cichon, to accept the proposed solid waste rates. The motion passed unanimously.

Ms. Shanahan asked Mr. Cichon if he wanted to bring up his concerns about water and wastewater; whereby, Mr. Cichon stated that from a percentage basis, it seemed like there had just been an increase. He noted that the bill was going up more than two or three percent per year and explained that he thought it had been increased by two dollars recently. He stated that it was going up another two dollars to play catch up because the city was behind. He noted that he felt that the amount could be increased more slowly and eased in better.

Ms. Shanahan stated that the rates would increase one dollar for water and one dollar for wastewater. She noted that that amount was for the whole fiscal year of 2017-18 budget. She noted that the 50 cents was for fiscal year 2018-19, explaining that although it went in effect September 30, 2018, no resident was billed on that date. She stated that the reason the city did that was because it needed to be advertised, and it was politically more palatable to do that at one time rather than to try it twice.

Ms. Shanahan stated that several years ago, the city had a big water crisis and had run out of water. She explained that the water plant was in bad condition and that the wastewater was equally as bad. She stated that staff had rung the bell at a City Commission meeting, noting that something needed to be done. She noted that the city had not had the financial resources to make the improvements, so when water plant broke down; the city had to make drastic increases in the rates. She noted that the Commission had told staff they had never wanted to see that happen again. She noted that the Commission had wanted to do incremental dollar amount increases in the future. She stated that since the water crisis, the city had been trying to increase a dollar every other year so there would be funding for operating costs as well as capital costs. She noted that the operating cost funding needed to come from the consumer, as it was where all the cost was going.

Ms. McGuire stated that for next year, the proposal was October 1, 2018, would be an increase of 3.6 percent. She explained that the following year, it would be a 1.75 percent increase. She noted that on average the city tried to stay within a two to three percent range.

Mr. Harper asked if there was a statute requirement that water and wastewater funds could only be used for water and wastewater expenses; whereby, Ms. Shanahan stated that the city could take their profits; if they had a cost allocation plan and were able to show that other funds provided services for that. She explained that an example would be engineering, which provided a lot of services to water and wastewater, and explained that the city could take some funding out of the water and wastewater funds to pay for the engineering services. She noted that Ms. McGuire did all the billing for all the accounts and water, wastewater, and sanitation were all on one bill.

Ms. McGuire stated that those rates, whether it was water, wastewater, or sanitation, went to specifically fund those functions only.

Mr. Ramirez noted that it allowed the city not to borrow from their savings; whereby, Ms. McGuire stated that there was no crossing over of funds.

Ms. Shanahan stated that funds were not allowed to be crossed and there were 25,000 in utility accounts and about 20,000 pieces of property that the city had on reserve. She noted that the city received a premium for the citizens utilizing services that were located outside of the city limits. She stated that the rate was one and a half times the city's rate, which was the highest rate allowable. She stated that in terms of annexations, the city could show a spreadsheet to a property owner and show them how much they could save in total dollars. She noted that citizens were paying taxes to both the city and the county, but were not paying a fire district tax to the county and their utility rates were less in the city. She noted that most of the time

citizens wanted to come into the city because the overall cost for operating their property in the city was less.

5. ADJOURNMENT

The meeting was adjourned at 5:58 p.m.

Respectfully submitted,

Kelly A. McGuire, Finance Director

Attest:

Ken Kimble, Chairman