

## **CITY COMMISSION WORKSHOP Financial Trends**

City Hall Training Room  
March 15, 2012 5:30 p.m.

### **I. Call to Order**

Mayor Ed Kelley called the meeting to order at 5:33 p.m.

Present were Mayor Ed Kelley, Commissioners James Stowers, Troy Kent, Rick Boehm, and Bill Partington, City Manager Joyce Shanahan, Assistant City Manager Ted MacLeod, City Attorney Randy Hayes, Finance Director Kelly McGuire, and Budget Advisory Board members Rafael Ramirez, Jerry Kane, and Frank Pezzimenti.

### **II. General Fund Projections**

Ms. Joyce Shanahan, City Manager, stated that the Financial Trends workshop was the initial budget kick-off whereby the City Commission's consensus on the policy issues presented would guide staff in the development of the FY 2012-13 budget. She stated that the Budget Advisory Board Members were also in attendance and thanked them for their guidance to staff in the budget development process.

Ms. Kelly McGuire, Finance Director, stated that the two primary issues next year would be property taxes and pension costs. She stated they had heard from the Volusia County Property Appraiser that the property values were likely to go down by about 9%. She stated that Ormond Beach typically would be at half what the county average was; therefore, staff expected about a 4 to 5% decrease. She stated that for the purposes of the presentation she used 5%. She stated that because of the decline in property values, it would mean a loss of about \$392,000 in tax revenue, if the decision was made to keep the tax rate the same.

Ms. McGuire stated the other issue was pension costs. She stated that the city would be adding \$285,000 to the general fund budget as a result of pension increases. She stated that the rate of return had been a big factor and that the rate of return desired was 7.5%. She explained that staff utilized a four-year smoothing model when it came to pension and city contributions, meaning they went back four years and averaged out the returns and compared that average against the 7.5% threshold.

Commissioner Boehm stated that even if they had a 20% return this year, the contribution would still increase because of the average of the previous three years.

Ms. McGuire stated that it would take two years for the current year returns to show up in the pension contributions. She stated that theoretically if they earned

a 20% return this year, there would probably still be an increase next year, and it would probably be another year out before they saw it start to stabilize. She stated that was because there was a 15% loss four years ago and only a 2% gain three years ago. She stated that last year there had only been a gain of a couple percent.

Commissioner Boehm stated that he felt the funds did not seem to be doing as well as other forms of investments. He asked if they were very conservatively invested.

Ms. McGuire stated that there were conservative investments but they also had investments in stocks. She explained that the pension plans had a financial advisor, several investment managers, and that they all reported to the pension boards on a quarterly basis.

Commissioner Boehm stated that an average return should be right around 8%.

Ms. McGuire stated that if the four year average was 2% then they added one year with an 8% return it would not allow the desired threshold to be reached and that you would need a year with a high 20% return to come close.

Commissioner Boehm stated that a 20% return would bring in money and be an investment in the fund itself. He stated that such a return would seem to offset any need for the city to continue to contribute significantly.

Ms. Shanahan stated that they lost the earning as well, which was the other aspect.

Ms. McGuire stated that staff had moved to the higher contributions and they would end up staying with them. She stated that good returns would keep the contributions from having to go even further up in the future.

Ms. McGuire stated that operating costs had been kept the same for the last five or more years. She stated that next year there would be an approximately \$478,000 shortfall in the general fund budget. She stated that shortfalls would also continue out beyond that. She stated that there were factors not included in that estimate such as additional dollars for salary increases, negotiations, and the passing of a house bill relative to the communication service tax, which would be a loss of about \$100,000. She stated that with the communication service tax the shortfall would now be close to \$600,000. She also stated another unknown factor was one of the city's largest contracts, for ground maintenance, which was currently being bid out. She stated that it was a huge contract and could come back and cost less, but she suspected that would not be the case.

Commissioner Kent stated that the contract amount could go down. He stated that it had not been bid on for over six years and that there would be some hungry people wanting that contract.

Ms. McGuire stated that staff would also review each department's budget to determine any areas where reductions could be made that would not impact service. She stated that her concern was that any expenses they found to eliminate would not add up to the \$600,000 deficit. She stated that for five years the city had been reducing personnel, reducing operating expenses, and telling departments that they did not have any additional funds available, even though their contracted costs, fuel costs and other costs had gone up. She stated that staff had done a beautiful job of making it work.

Mayor Kelley stated he felt that Ms. McGuire had been wise in the decision she made to pull out the budgeted amount for open positions. He stated that made a huge difference.

Ms. Shanahan stated that there were just a few open positions still budgeted for. She explained that previously staff budgeted for 100% vacancy with open positions and now were only budgeting for 96%. She stated staff recognized when turnover occurred it took time for the new employee to start and they now afforded for that cushion.

### **III. Tax Rate Scenarios**

Ms. Shanahan stated that staff had heard that beachside and eastside communities would fare better during the property value assessment than the westside communities.

Mayor Kelley noted the property value projections which showed that in 2016 the value of the properties within Ormond Beach would be the same as they were in 2003. He stated that was a significant statistic.

Ms. McGuire stated that the good news was that the \$2 million Revenue Stabilization Fund had been set up and none of it had been used so far. She stated staff always looked at reducing expenditures first instead of using it.

Ms. McGuire stated that the current property tax rate was 4.2014 mills. She stated that currently a homesteaded property owner would be paying \$420 a year in city property tax. She stated a homesteaded property owner's property value may go down but their tax value would not and would get adjusted out. She stated that if the city stayed at the same tax rate homeowners would be paying about \$10 more in city property taxes even though they would be advertising the 5% reduction in values. She stated the projections she had been speaking about thus far were based on the city keeping the same tax rate. She stated that would create a \$392,000 reduction in tax revenue and a budget shortfall of at least \$478,000. She stated that Ms. Shanahan thought it would be interesting to compare what a homeowner pays in their city tax bill to what they paid for cable. She stated that they looked at a basic cable bill and one with cable and internet. She stated that

the city property tax bill was \$420 a year, the cable was \$900, and the cable and internet was \$1,560, which did not include phone charges.

#### **IV. Other Funds**

Ms. McGuire stated that there were three capital project funds: Facilities R&R, General CIP, and Transportation. She stated that staff wished for the Commission to consider the use of some of the General Fund reserve to keep these funds at the level they were at in 2010.

Ms. McGuire stated that the stormwater fee had increased in 2008 from \$6 a month to \$8 a month to fund some CIP projects that had not been done. She stated that it had been approved with the entire amount sunseting at the end of the current fiscal year so that the Commission could discuss it. She stated that part of the current fee went to general operations of the stormwater department.

Ms. McGuire stated that the Airport Fund appeared to have an advance outstanding from the end of the fiscal year but that advance amount had been committed to contributing to matching funds and a grant receivable was forthcoming. She explained that they had to put out 100% of the money first and then they received 95% or 97.5% back.

Ms. Shanahan stated that the idea was that eventually the leases in the Airport Park would help offset the 2.5% loss on grant dollars.

#### **V. Policy Decisions**

##### Rollback Rate

Ms. McGuire asked the Commission to discuss if they wished for staff to develop the budget based upon the assumption of maintaining the current tax rate.

Mayor Kelley stated that if they kept the current tax rate they would be digging themselves into a hole down the road, and he suggested they look at doing the rollback rate, which in effect would be a roll up rate.

Ms. McGuire stated that the property value assessment on July 1. She stated that based upon the expected 5% decrease in property values, they were looking at a tax bill increase of an additional \$10 or an additional \$30, depending on if they implemented the rollback or not.

Commissioner Boehm stated that Ormond Beach's tax rate was still well below other cities.

Mayor Kelley stated that could be attributed to what the Commission and staff had done in years prior and admired that they had not had to cut the level of service yet. He stated if they did the rollback he thought they would hear the same thing

they had heard when it was done before, which was that a homeowner would pay \$10 or \$20 more a year, if the city did not cut their services.

Mr. Rafael Ramirez, Budget Advisory Board Member, stated that Commissioner Kent had said last year that they had to start with the rollbacks. He stated that the \$2 million in the Revenue Stabilization Fund would only cover shortfalls in the short term. He stated that the numbers showed that if they kept the current tax rate it would require the city to need additional funds as soon as the second or third year, even if they utilized the \$2 million. He stated that it was simple mathematics to go with the rollback.

Commissioner Kent stated that they did not spend money foolishly in the city and exercised tight reins on the budget. He stated that there were stories in the newspaper referencing the budgetary issues faced by their sister city to the south. He stated that as Mayor Kelley had said, the level of service had remained the same if not improved. He stated that he was an advocate for the rollback rate which would still put them at a deficit of \$86,000. He stated that he would prefer a deficit of zero. He stated that some people felt it may be the wrong thing to do to discuss charging people a little more money, but he felt the wrong thing to do would be to put future commissions and future children in a budget deficit in a few years.

Commissioner Boehm stated people often lost sight of the need to do incremental increases to prevent large deficits. He stated that if Ormond Beach's tax rate went from 4.20 to 4.40, it still would be below Ponce Inlet (the next closest city above) and far below Daytona Beach's.

Ms. Shanahan stated that Port Orange would be the next most comparable city to Ormond Beach on the list, as far as amenities and service.

Commissioner Partington stated that he liked the rollback for all of the reasons Commissioner Kent had said. He stated that he had been on a Commission that had to approve a huge tax increase because of a Commission years prior that had kept things very low and gave away expensive services because they received political favors and benefits from it. He stated that he felt it was a better policy to give a small increase each year, which tracked the economy, rather than to keep it artificially low year after year and then have a huge increase. He stated it was not the most political option, but it was the fiscally responsible option.

Commissioner Stowers stated that last year the economy was down, real estate property values were continuing to go down, and he agreed to the rollback rate. He stated that although the future was uncertain, he felt a lot better about this year and about where things were headed in terms of stabilization than he did last year. He stated that he would be on board with the Commission to implement the rollback rate. He stated that he was completely supportive last year, and while this year he was supportive, he may not be as much next year. He stated that he felt

next year some of the pension numbers from past years would drop off, the market would improve, and property values would stabilize more.

Commissioner Boehm stated that if the appraised value kept going down and the taxable value went up, eventually they would cross. He stated that if they did so, there would be no tax increase. He stated they would reach that point if the property values kept dropping.

Ms. Shanahan stated that staff would prepare the budget with the understanding of utilizing the rollback rate.

#### General Fund Reserve Threshold

Ms. McGuire stated that they had a General Fund reserve of \$5.1 million which represented 19.63% of the budget; and that their policy had been to maintain the reserve at least at 15%. She stated that she wanted to make sure the Commission was still comfortable with the 15% threshold.

Mayor Kelley asked if the money that projected to use from the reserve would be for capital projects that had yet to be proposed.

Ms. McGuire stated that they would not be looking to use all of it; she stated that there was \$1 million in this year's budget that would come out for those purposes. She stated that the 19.63% already took that \$1 million into account as they re-appropriated it before the end of the fiscal year.

Mayor Kelley stated they had discussed maintaining the reserve at a certain level and he knew there were different theories on where that level should be. He stated that as long as it was allocated in a way where it was not being used for reoccurring expenses there should not be a problem. He stated he was happy with the 15%. Commissioners Partington, Stowers and Kent stated they agreed as well.

Commissioner Kent stated that he felt it was wise of Ms. Shanahan to continue to get the approval of the Commission each year.

#### Use of Revenue Stabilization Fund

Ms. Shanahan stated that there might be some additional revenue losses from the communication services tax. She stated staff was looking at using some of the Revenue Stabilization Fund to offset those losses.

#### Water Fees

Ms. McGuire stated staff would also continue to look at user fees and charges, including water, stormwater, and wastewater.

Commissioner Kent asked when those fees would be coming before them as he noticed that they did not have an increase last year. He stated there had been a large wastewater increase and followed by a large water increase; whereby,

Mayor Kelley stated that they had no increases for eight or nine years before the large increases.

Ms. Shanahan stated that an incremental approach made more sense, as it meant raising rates by just cents every year. She stated those types of increases were much more palatable to the consumer. She stated that FPL had recently said that they were going to have a minimal increase of \$3 a month which did not seem minimal to her.

Ms. McGuire stated the water fees would come before the Commission in July, and if they were to recommend an increase, it would be 2 or 3%.

#### Partnerships

Ms. Shanahan stated that each year they looked at the city's organizational structure and looked for ways to tighten their belt and also looked for public/private partnerships and public/public partnerships. She stated that one of the things they were discussing now with Acting Fire Chief Bob Mandarino was Volusia County co-locating at Fire Station 94. She stated the county had a shared Flagler station but may have had a falling out. She stated that they were very preliminarily exploring this opportunity but did not have anything to report at this time.

#### Public Development

Ms. McGuire stated that they had two Town Hall Budget Meetings scheduled in May, one for Zone 1 & 2 and one for Zone 3 & 4. She asked if the Commission was comfortable with two meetings or if they wanted to amend it to four; whereby, Mayor Kelley and Commissioner Kent stated that they would be comfortable with only one meeting.

Mayor Kelley stated that attendance last year had been very low and some residents that had shown up did not even live in the zones that particular meeting was for. He stated he felt one large well-promoted meeting would be sufficient.

Commissioner Boehm asked if the meeting would be at City Hall; whereby Commissioner Kent stated that he liked that idea.

Ms. Shanahan stated that they usually held them at the Senior Center but they could move them. The Commission agreed with Ms. Shanahan's suggestion that the meeting should occur in the Commission Chambers and prior to a Commission meeting.

#### Tentative Millage

Ms. McGuire stated that they could have the Tentative Millage Workshop on July 16 and set the tentative millage at the meeting on July 17. She stated that there had been talk about moving some meeting dates in July and if they did so, they could have the workshop on July 30 and set the tentative millage rate on July 31 at the Commission meeting.

Ms. Shanahan stated that moving the meeting date to July 31 would give the Commission some flexibility with their summer vacation schedules.

Ms. McGuire stated that if they used the July 31 meeting date, the Commission would absolutely have to set the tentative millage on the July 31, because it would have to be sent to the property appraiser and certified by August 3. She stated that the first public hearing would be on the August 4 and the second on August 18. She stated those dates needed to be kept because of advertising issues.

Mayor Kelley thanked the Budget Advisory Board members for their attendance and the board for their assistance in the process.

## **VI. Close the Meeting**

The meeting was adjourned at 6:31 p.m.

Transcribed by: Colby Cilento