

**MINUTES  
ORMOND BEACH CITY COMMISSION  
OPERATING BUDGET WORKSHOP**

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**July 30, 2012**

**5:30 PM**

**Senior Center**

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**I. Call to Order**

Mayor Ed Kelley called the meeting to order at 5:37 p.m.

Present were Mayor Ed Kelley, Commissioners James Stowers, Troy Kent, and Rick Boehm, 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. Introduction**

Mayor Kelley thanked the Budget Advisory Board for their input in the budget, as well as the Quality of Life Advisory Board.

Ms. Joyce Shanahan, City Manager, stated that the Budget Advisory Board members in attendance were Chairman Mr. Rick Banker, Mr. Jerry Kane, and Mr. Frank Pezzimenti. She stated that the Budget Advisory Board met with staff once a month to discuss budgetary issues.

Ms. Shanahan stated that at the June 4, 2012, Capital Improvement Program (CIP) Workshop the Commission had provided direction on the CIP. She stated that the Commission would be adopting the CIP the next evening so that the city could apply for grant opportunities. She explained that the budget would not be officially adopted until the budget hearings in September, where additional public input could be provided. She stated that in May a community budget workshop was held and prior to that there was a Financial Trends Workshop in March. She stated that the next evening the Commission would also set a tentative millage rate and that they would set a final millage rate at the first budget meeting in September.

Ms. Shanahan thanked Ms. Kelly McGuire, Finance Director, and Mr. Dan Stauffer, Accounting Manager, for all their hard work in putting the budget together. She stated that she would also like to thank all of the Department Directors and Division Managers, as well. She stated that they did a great job on the CIP and operating budget.

**III. Discussion**

Total Net Revenue Comparison

Ms. McGuire stated that the total revenue had gone down by about \$10 million. She stated that in the case of revenue and expenditures, the total budget was going down primarily because there were certain capital projects in the current year's budget which would not be in next year's. She stated that those projects would primarily be funded through bond proceeds.

Ms. McGuire stated that the Revenue Stabilization Fund had about \$2 million of funds that had been set aside to be used for ongoing expenses until revenues recover. She stated that they wanted to use \$384,000 of that fund. She stated that \$200,000 of the \$384,000 would be to fund the Facilities R&R Fund. She stated that the Facilities R&R Fund had a \$500,000 threshold in the past and as the tax revenue had declined, so had the fund balance. She stated that \$200,000 would be transferred to keep that \$500,000 funding level. She stated that out of the General Fund Reserve, which was separate and apart from the Revenue Stabilization Fund, they were looking at using \$670,000 for improvements at the Ormond Beach Sports Complex, which they discussed during the CIP process. She stated that when they did so, the General Fund Reserve would still be right around 17%, which was above the 15% desired threshold.

Ms. Shanahan stated that it was important to note that the Commission had given prior guidance that the General Fund Reserve should only be used for non-reoccurring expenses.

Ms. McGuire stated that the undesignated General Fund Reserve at the end of last year accounted for roughly 19% of the budget. She stated that they had used fund balance this year and were proposing an additional \$670,000 next year. She stated that they would still be at \$4.48 million of undesignated fund balance in the General Fund, which was about 17%. She stated that those dollars would then be there should they have an economic development opportunity, capital projects, or an emergency.

#### Taxable Value History

Ms. McGuire stated that the taxable value had decreased by about \$40 million. She stated that since 2007, when the value started declining, there was a 35% reduction; whereby, Ms. Shanahan asked if that equaled about \$2 billion. Ms. McGuire stated that it did.

#### Property Taxes

Ms. McGuire stated that staff was proposing the rollback rate, which would go from an operating rate of 3.8933 mills to 4.0132 mills. She stated that the three debt service rates were set to cover the debt service for the year. She stated that the rollback rate would not generate any additional dollars for the city and that it was a revenue neutral rate. She stated that the only additional dollars the city would see would be from new construction. She stated that would be about \$84,000 in the General Fund and about \$39,000 for the CRA fund.

#### Potential City Tax Bill

Ms. McGuire stated that those homeowners who purchased their home before 2003 would see their assessed value was greater than their taxable value. She stated that their taxable value would be increased by the property appraiser by 3%. She stated that, as a result of that, their taxes would probably go up about \$32 for the year. She stated that if someone purchased their home after 2003, the likelihood was that their assessed and taxable value had always been the same and they would probably see a very small reduction, perhaps about \$4. She stated that city taxes would be about \$452 for the next year. She stated that basic cable for a year was double that price.

Total Net Expenditures Comparison

Ms. McGuire stated that they were looking at a budget of \$57.7 million. She stated that there was a decrease of \$10.3 million and that was primarily due to capital projects.

Total Personnel

Ms. McGuire stated that the total personnel costs were \$25.3 million. She stated that personnel costs would increase by about \$770,000 and that the majority of that had to do with pensions. She stated that pension costs were rising 21% and that was the large item being added to the budget. She stated that they were not proposing any changes in terms of overall personnel. She stated that they were proposing that two full-time positions responsible for irrigation be eliminated because the irrigation would now be done as part of the landscaping contract. She stated that they were also looking at adding two part-time positions for maintenance of the Andy Romano Beachfront Park.

Pensions

Ms. McGuire stated that the General Employees Pension Fund would be 31.1% of payroll for the general employees. She stated that was what the city needed to contribute *above* what the employee contributed. She stated that the total number of employees was 386, which included those who already retired and had frozen their pensions until they met eligibility requirements.

Ms. McGuire stated that the police employees' contribution would need to be 44.9% of payroll. She stated that the asset value was about \$22.4 million, which was what was currently set aside for the pensions. She stated that the city's annual contribution for next year would be \$1.3 million. She stated that in 2001 and 2002 it was overfunded such that the city did not need to make contributions.

Ms. McGuire stated that the fire contribution would be the largest at 49% of payroll contributed for each firefighter. She stated that the city would need to contribute about \$1.5 million, which was in addition to the \$265,000 that the employees contributed, and the \$340,000 that the state contributed. Mayor Kelley asked Ms. McGuire if they were paying benefits on 33 retired fire employees; whereby, she stated that they were. She stated that there were 44 active employees.

Ms. Shanahan stated that fire and police employees could retire after 20 years of service. She stated that general employees had to reach the number 85 when adding age and service, for example 30 years of service and age 55. She stated that at several meetings staff had received direction from the Commission to make changes to the pension plans, but that they were limited by the state in what they could do. She stated that they had reached a tentative agreement with the police union and would be bringing those changes to the Commission in August or September. She stated that negotiations were ongoing with fire and general employees.

Mayor Kelley stated that some adjustments would have to be made at some point in time. He stated that the only place where they could receive the flexibility to make changes was from the state.

Commissioner Kent stated that the city's employees did a great job but it was disgraceful how high the pension costs were. He stated that most people did not realize that the state legislators had put the cities in that position. He stated that it was a bully mandating and telling them what they would do and that they would pay for it. He stated that if the state wanted to give the benefits they needed to pay for more of them instead of pushing it on the local municipalities. He stated that there were no contributions from the city in 2001 and 2002 and it was unbelievable how drastically it had changed in ten years. He stated that something must be done but every time they tried they were told that they would lose the state money and it put them in a real predicament. He stated that he hoped that the media could help get the word out about the unfunded mandates by the state legislatures and that enough was enough. He stated that people needed to be elected to those positions that were acutely aware of the situation and could help solve it instead of compounding it.

Mayor Kelley stated that he had lobbied for the past three or four years for pension reform. He stated that he realized that, like California, there would be cities in the state of Florida that would have to file for bankruptcy primarily because of the pensions. He stated that the scary part was wondering whether those contributing would even be able to collect the benefits they earned. He stated that part was concerning and that they wanted to ensure that those employees had a retirement.

Commissioner Kent stated that the biggest problem about spending someone else's money was that eventually it would run out. He stated that he felt like the state had been making promises and spending the city's money and that it was not fair to the taxpayers. He stated in Ormond Beach you received a lot more bang for your buck with the taxes than compared to many other things you may spend your money on.

Mayor Kelley stated that one state representative had told him last year that he did not understand that it was 'policy not politics'. He stated that many of those officials did not care about the issues and just wanted to get re-elected. He stated that those were the officials that needed to go.

Commissioner Kent stated that he loved that Mayor Kelley shared his comments. He stated that he loved that Mayor Kelley was brave enough to share that and hoped the media would put those sound bites out there.

Mayor Kelley stated that when it came to the insurance tax dollars premiums, he was told that those dollars needed to be used to increase benefits rather than offset the liabilities.

Ms. Shanahan stated that there had been no growth in those funds since 1999. She stated that for those that were not familiar, the premium tax money came from the tax that was paid on insurance bills for home and auto insurance. She stated that some may not even know that they paid that tax. She stated that even if the city said that they did not want to receive that money, the citizens would still have to pay it. She stated that since 1999, the monies above the 1999 level had to be used for extra benefits above what was available at that point in time.

Mayor Kelley stated that he had suggested that the tax be done away with since the cities were not able to use it however they intended, but that request was denied. He stated that he was very upset over that. He stated that the city would have to set

aside over \$5 million for pension costs that year when they would only take in \$9 million in property taxes. He stated that it was unsustainable; whereby, Commissioner Kent stated that it was insane.

Mayor Kelley stated that this was the one real problem that he had with the budget that year.

Commissioner Kent stated that it was important that the Commission spoke about the pension funding issue. He stated that if they did not speak about it and make changes then they would be in the same situation as the cities in California. He stated that he was hopeful that they could make changes to keep the city financially sound. He stated that he hoped representatives were elected at the state level that had sound minds when it came to fiscal responsibility and fiscal restraint.

Mayor Kelley stated that he wondered if the residents knew that the city had to put in \$5.3 million to fund the pensions just for this year. He asked the media to publicize that so that the public would know where their tax dollars were going.

Commissioner Boehm stated that he would add that former Mayor Fred Costello when to Tallahassee with the idea that pension reform was important and sought to introduce a bill in his first year but was denied. He stated that he also sought to introduce it in his second year and it never made it to the floor. He stated that former Mayor Costello was aware of the problem but that the powers in the Florida legislature would not listen to him. He stated that the legislature needed a major revamping of their attitude for the city to ever get reform. He stated that he knew that Mayor Kelley was frustrated when he went to Tallahassee last year to speak about it, as he had felt that they would not listen to the cities and did not care what they had to say. He stated that it was a significant problem in the state.

Mayor Kelley stated that former Mayor Costello had offered a compromise the first year with the bill, which was not acted upon. He stated that last year he could not get his bill out of committee. He stated that the pension reform issue was important and one that the Commission needed to take a public stance on. He stated that he felt that working with the Florida League of Cities, the Volusia League of Cities, and attending the Florida League meeting in August could help.

Ms. Shanahan stated that the Commission would also be setting their legislative agenda sometime in September or October to go before the Volusia legislative delegation in December. She stated that pension reform would again be one of their top priorities, as it had been for the last three or four years.

Mayor Kelley stated that if they only had one priority that should be it.

Ms. Shanahan stated that she felt that there was talk of possibly having the cities collectively have a uniform agenda and that issue was top on everyone's list.

Mayor Kelley stated that there was a Volusia Council of Governments (VCOG) Executive Board meeting that Wednesday. He stated that one of their focuses would be pension reform since other municipalities were all in a similar situation.

General Fund Net Expenditures

Ms. McGuire stated that the overall budget was not changing much with only a \$109,000 addition. She stated that was not too bad considering a \$756,000 addition in pension costs, which obviously showed staff had made reductions elsewhere. She stated that one of the items she wanted to point out was the CRA. She stated that they were transferring about \$39,000 to the CRA and that was because the value in that area had risen. She stated that was one bright spot. She stated that overall the taxable values had gone down by about 2.6%. She stated that they were thankful since in the past the CRA had gone down more than the rest of the area.

Commissioner Kent stated that for the naysayers that were against CRAs, it showed positive progress. He stated that they would reap those rewards for many years to come.

Water/Wastewater

Ms. McGuire stated that they were looking at a \$52,000 change, which was not bad for one year. She stated that pension costs in that particular fund were going up by about \$165,000. She stated that the debt service, however, would be going down by about \$354,000. She stated that they were not recommending any rate increase and that the fund was in solid shape. She stated that the consumption seemed to be increasing and the expenses were fairly stable.

Solid Waste

Ms. McGuire stated that they would also not be recommending a rate increase. She stated that they would use \$226,000 of the Revenue Stabilization Fund for funding.

Ms. Shanahan stated that when the city had contracted out solid waste services, the funds had been set aside to help offset any rate adjustments in the future. She stated that, in lieu of increasing the rate, they would use a portion of those reserves to offset the rate increase. She stated that the Commission may also recall the Nova Landfill, which was formerly behind the Nova Community Park. She stated that it was closed several years ago and that the city was required to file reports with the state regarding it. She stated that they filed the required report 3½ ago and that the state just responded and stated that they needed to do additional monitoring. She stated that this resulted in a \$70,000 increase in monitoring costs that they were mandated to do.

Mayor Kelley asked whether anything was unusual in the report.

Mr. Ted MacLeod, Assistant City Manager and Public Works Director, stated there were traces of arsenic, as there had been all along, and the question was as to whether it was from natural causes such as the adjacent cemetery or the landfill.

Ms. Shanahan stated there would be additional monitoring to determine the source of the arsenic.

Mayor Kelley stated that at the time they contracted the solid waste services out they had been unsure whether or not they would ever return to handling it themselves. He stated that now he felt it was a foregone conclusion that would not be the case.

Ms. Shanahan stated that she felt that was fair to say. She stated that she felt that Waste Management did a great job. She stated that one of their employees, Libby, had been with them since she was 19 years old and had turned 68 that day. She stated that she did a great job with customer service and was very responsive to staff as well. She stated that one of the things she heard the most positive feedback about was the trash collection.

#### Tentative Millage

Ms. McGuire stated that the tentative millage rate would be set the following evening at the City Commission meeting. She stated that the first budget hearing would be on September 4, 2012, and the final budget hearing would be on September 18, 2012. She stated that the School Board's final hearing would be on September 11 and the County's would be on September 20.

Ms. Shanahan stated that after the tentative millage rate was set the property appraiser would send out the TRIM notices sometime in the first week of August. She stated that would be based on adopting the tentative millage rates. She stated that they were able to go below that rate but not above. She stated that it was not considered a tax increase since they would not receive any additional revenue.

Mayor Kelley stated that he found it strange that it was being reported that one of the other local cities was going a little below the rollback but yet was advertising it as a tax percentage increase. He stated that either there was an increase or not. He stated that there were people that would be paying less money in taxes but because the "rate" changed they would be confused by the terminology used as to whether or not it was an increase.

Ms. Shanahan stated that they were required by law to use certain terminology.

Mayor Kelley stated that the newspapers had changed the way they reported it now. He asked Mr. Banker whether he had any comments from the Budget Advisory Board.

Mr. Banker stated that he could not agree more about the pension programs. He stated that they had discussed it many times and felt that it was a terrible injustice to the city and its citizens.

Mayor Kelley stated that anytime the Budget Advisory Board had any suggestions to please let them know.

Mr. Kane stated that the unfunded liability number should also be mentioned on the record.

Mayor Kelley stated that he believed it was around \$40 million.

Ms. McGuire stated that the unfunded liability figures as of last year were general employees \$15 million, police \$12 million, and fire \$12 million; which equaled about \$40 million.

Mayor Kelley stated that he thought that was probably actually a low figure, based on his discussion with the auditors. He stated that he felt those estimates were conservative and based upon unproven assumptions.

Ms. Shanahan stated that she appreciated the Mayor's perspective but that the figures were calculated in a way which they must be legally accepted. She stated that the important thing to remember was that the governmental accounting standards board was changing how governments would have to report their unfunded liabilities in the next several years. She stated that they had recently adopted a standard that would require the city to report their total unfunded liability on their citywide statement. She stated that was what would plunge many local governments into serious financial hardship. She stated that Ormond Beach was fortunate that they did not have a lot of debt on their books. She stated that there was a certain amount of revenue required to cover debt service payments. She stated that those cities that had a lot of general fund debt had to add that liability to their books could cause their coverage ratios to go way down and seriously impact bond ratings. She stated that she did not necessarily believe that the city would be in that hardship because they did not have that kind of debt in the General Fund. She stated that only time would tell what that would do to local governments across the nation. She stated that the implementation dates would be varied and that they usually started with the bigger cities first and worked down to the smaller cities. She stated that the city was probably two or three years out.

Ms. Shanahan stated that each Commission member had been briefed individually on the budget and that she was grateful for the hours they spent going over it.

Commissioner Stowers thanked Ms. Shanahan, Ms. McGuire, and the Budget Advisory Board for their hard work.

Commissioner Boehm stated that he would echo Commissioner Stowers' comments. He stated that having already met with Ms. Shanahan and reviewed the budget, his questions were answered prior to the workshop.

Mayor Kelley asked if anyone from the public wished to comment or ask any questions. There were no members of the public that did.

#### **IV. Close the Meeting**

The meeting was adjourned at 6:14 p.m.

Transcribed by: Colby Cilento