

# CITY COMMISSION WORKSHOP

## Financial Trends

City Hall Training Room  
March 3, 2009 5:30 p.m.

### I. Call to Order

Mayor Fred Costello called the meeting to order at 5:32 p.m.

Present were Mayor Fred Costello, Commissioners Lori Gillooly, Troy Kent, Ed Kelley, and Bill Partington, City Attorney Randy Hayes, City Manager Joyce Shanahan, Assistant City Manager Ted MacLeod, and Finance Director Kelly McGuire.

### II. Tax Rate Scenarios

Ms. Joyce Shanahan, City Manager, stated tonight's meeting was the kickoff to the budget process. She stated staff would be asking for guidance and direction on some of the budget policy issues that would require further consideration.

Ms. Kelly McGuire, Finance Director, stated that the taxable value overall would decline due to a general decline in economic conditions as well as property tax reform measures that had occurred over the past two years. She stated the city would continue to see declines in many of the major revenue sources such as franchise fees, utility taxes and sales tax.

#### Rollback Tax Rate

In the case of the rollback tax rate, staff looked at a 5% and 10% tax reduction in taxable value. She stated the impact to the homesteaded property owners would be such that the rollback tax rate would go up and their taxes would increase between \$14 and \$20 depending on the overall reduction in taxable value, resulting in a shortfall of \$1,060,000.

#### Existing Tax Rate

In the case of the existing rate, she stated that homesteaded property owners' taxes would stay the same, but the city would be losing \$560,000 in tax revenue, resulting in a shortfall of \$1,620,000. If there was a 10% reduction in the taxable value at the current rate, she stated there would be a reduction in tax revenue of about \$1,115,000 and an overall shortfall of \$2,175,000. She stated they would need direction from the Commission on the target.

### **III. General Fund Projections**

Ms. McGuire stated that there would be about \$600,000 in shortfall in franchise fees and utility taxes revenue. She stated that part of the \$600,000 had already been lost. She stated it was expected that sales tax and revenue sharing would decline below current collections for a shortfall of \$290,000.

Ms. McGuire stated that wages showed a \$210,000 reduction, which was the result of positions eliminated since October 1 and a 2% pay increase.

Regarding health insurance, Ms. McGuire stated they were showing a \$315,000 reduction because they would be modifying healthcare such that there would not be a rate increase next year.

Ms. McGuire stated the actual required additional pension contribution would be \$575,000.

Ms. McGuire stated that the auditors had noted a shortage in the self-insurance fund, and they were trying to keep this increase to a minimum.

Commissioner Gillooly suggested some portion of undesignated funds could go to this fund; whereby, Ms. McGuire stated that they could designate a portion to the self-insurance fund.

Ms. McGuire stated the increases in contractual services would be to the Servello & Son contract (CPI adjustment) and police dispatch (5%).

Ms. McGuire stated that \$4.25 per gallon was budgeted for fuel. She noted that currently the rate was \$1.77, so they had some room for adjustment.

If the revenue neutral tax rate was levied, Ms. McGuire stated there would be a shortfall of about \$1,060,000.

### **IV. Other Funds**

Water and Wastewater Fund - Ms. McGuire stated that we may just need to fund the operating expenses increase next year. She stated that an increase for debt service would depend on if they had to finance any infrastructure projects.

Stormwater Fund – Ms. McGuire stated there was an internal loan which had been paid down to a balance of \$623,000 and should be paid off within

in the next two to three years. She noted that there was a sunset provision relating to the stormwater fee when the last rate increase was approved, and she suggested removing the sunset provision.

Airport Fund – Ms. McGuire stated there was currently an internal loan in the Airport Fund and the existing budget provided for repayment of about \$40,000 to \$50,000 per year. She noted the golf course issues might affect the repayment.

## **V. Policy Decisions**

### **1. Revenue neutral tax rate.**

Mayor Costello asked if they favored a revenue neutral tax rate, which was a tax increase to replace 20% of the property value of one-third of the homesteaded properties. He stated he was willing to look at using reserve funds.

Commissioner Kelley stated he favored maintaining the same tax rate for planning purposes and finding ways to reduce operating expenses rather than using fund balance.

Commissioner Partington stated he favored maintaining the existing tax rate and finding budget cuts of \$1 million to \$1.2 million. He stated he favored a 25% reserve fund; because we were a coastal city, and it would be fiscally responsible.

Commissioner Gillooly stated she felt they had to reconsider a “new normal” relating to reserves and healthcare. She stated she favored the existing tax rate and finding additional cuts.

Commissioner Kent stated he favored the existing tax rate as well.

### **2. Health Insurance plan design changes.**

Mayor Costello stated it was the consensus of the Commission that the healthcare cost was at the level they were comfortable paying.

Commissioner Gillooly stated she felt health insurance was a vital service of the city and was a bargaining tool with the unions. She stated she felt they had to keep looking at the entire package provided to the employees. She stated she favored a plan that was paid 100% and reminding the employee of the entire benefit package at negotiation time.

Commissioner Kelley suggested that there were ways to provide insurance to employees that was more beneficial to them, such as an allowance if they joined a spouse's plan. He stated he wanted to give them the best possible healthcare possible.

Mayor Costello requested multiple options early. He suggested that the employees would get less of a raise because some of the money would go to healthcare.

Commissioner Kent suggested that many employees forgot that healthcare was part of their salary, because they did not see it in their paycheck every pay.

### 3. Pension considerations.

Ms. McGuire stated the Commission had made a commitment to the general employees and really did not want to change their benefit for existing members. She stated that left those who were not vested and new hires. She asked the Commission if they were interested in staff pursuing a defined contribution plan (DCP) for new hires, which would require an actuarial study at a cost of about \$7,500 or more.

Ms. Shanahan stated this was not a study that could be performed in-house, because we did not have the actuarial expertise. Ms. McGuire stated that the actuary was hired by the pension boards.

Commissioner Partington suggested looking at what other cities in Florida had done and reviewing their studies, because he stated he felt it would be wasteful to spend money on a study at this time; whereby, Ms. Shanahan stated that the pension plans were very individualized as they were based on salaries, age, and census data of those eligible and that was why it was difficult to pick someone else's options. She stated there were a variety of different ways to choose from, such as the Florida Retirement System (FRS), which required the city to pay the entire contribution. She stated the trouble with moving to a new plan was that the savings was long term without any large dollar savings until 15-20 years later.

Commissioner Kent stated he understood it would be a long-term savings and he was okay with that, but he felt a new plan should be started with new employees.

Commissioner Kelley stated that a new Commission could come along in ten years and change the plan and a savings would never occur. Mayor Costello expressed his concern that the city could not sustain funding the pension plans at 15% of payroll. He stated he wanted information on four other communities that had converted from a defined benefit plan to some other plan, the impact of the conversion, and converting to FRS and 401K. He stated he wanted to start something different this year.

Ms. Shanahan clarified that Mayor Costello favored looking at future employees, not existing employees.

Commissioner Partington suggested that the Commission's number one priority should be to find a resolution to the pension costs.

Commissioner Kent suggested that non-vested employees should have the option to convert to a new plan.

Mayor Costello suggested that the employees should make up the pension deficit.

Ms. Shanahan clarified that for future union contracts the Commission direction was to take into consideration total compensation and how it was allocated to healthcare, salaries and pension.

Commissioner Kelley questioned how they could say they would fund a certain percent; whereby, Mayor Costello stated it was similar to the fire plan where the firefighters would pay any shortfall.

Ms. Shanahan stated that we would not know what the percentage was each year, so it would have to be more broadly worded than a specific amount; whereby, Mayor Costello stated the Commission would set a specific percentage, which would also have to be in the union contract.

Commissioner Kent stated he agreed with Commissioner Partington to make pension their number one priority.

Ms. McGuire clarified that staff would start with a general employees' defined contribution plan for new hires and non-vested employees. She asked about the study; whereby, Mayor Costello reiterated he wanted to see the studies of four other communities that had converted from a defined benefit plan.

Regarding police and fire, Commissioner Gillooly stated she would like to see another plan there also; whereby, Ms. Shanahan stated that the pension board attorney advised that the Division of Retirement would not allow two separate plans for police and fire under Chapters 175 and 185 for new hires. She stated it would require legislative action to change this.

Mayor Costello stated that it would take cities getting together in an effort to get legislative action to use State monies to fund existing benefit instead of benefit enhancements; whereby, Ms. Shanahan advised that the State had frozen those monies at 1999 levels and the additional frozen monies had been used for extra benefits.

4. Use of General Fund reserves.

Mayor Costello stated that it was the consensus of the Commission to use Fund Balance for one-time expenses.

Commissioner Gillooly stated she agreed with Commissioner Partington about a 25% reserve balance and maybe setting aside some for self-insurance to protect the city.

Mayor Costello stated that he remembered a goal of 12% reserve balance.

Commissioner Kent stated he believed 15% was healthy at this time, as hurricanes did not happen very often.

Ms. McGuire stated that their concern was that of using a certain amount of fund balance to supplement ongoing operations, and adding things back to the budget, rather than to stop using fund balance.

Mayor Costello and Commissioner Partington stated they favored using fund balance for one-time, non-recurring expenses. Mayor Costello stated he was willing to set a goal of 15% reserve and a floor of 12%.

Ms. McGuire asked for clarification of the minimum reserve balance; whereby, it was the consensus of the Commission that 15% would be the minimum reserve balance.

5 Leisure Services fee increase of 3%.

The Commission was in consensus about the fee increase.

6. Continuation of Stormwater Fee at current level.

Mayor Costello stated that the citizens were grateful for not having the stormwater issues that other communities had. He stated he favored extending the sunset so a future Commission would have to address it again. He stated that it was an issue for planning of projects, because they needed to know there was funding for them. He suggested adding six years to the sunset date.

7. Consensus on budget strategies.

Ms. McGuire stated there would be about \$1 million to \$2 million in budget reductions, and they would continue to review positions and look for ways to consolidate them, and continue to review service levels and programs provided by the city.

Commissioner Partington asked if the city would receive any of President Obama's stimulus package; whereby, Mayor Costello stated that the city did not have a critical need, because it had been working on stormwater projects, resurfacing roads, paving dirt roads, etc., which made us ineligible. He stated we ranked high on items such as bike trails, but that money was not guaranteed. He stated our community planned ahead to keep our city in good shape. He stated he favored the Dunn Avenue extension over 1-95 in conjunction with CTLC, because it would expand the industrial park area and bring jobs into the community.

Ms. Shanahan stated that service levels and program levels may be reduced with another \$2 million in budget cuts.

Commissioner Gillooly suggested that they should have more public workshops; whereby, Ms. McGuire stated that the budget meetings at the Senior Center and Commission Chambers seemed to be the ones with the most participation. She suggested the Budget Advisory Board could also hold one at the Senior Center.

Mayor Costello stated he favored meetings in each zone hosted by the Commissioner of that zone in a public facility. He stated he wanted us to make a special effort to get the public and businesses involved.

Commissioner Partington suggested listening to the people as to what they valued before making a decision to cut the program/service.

Ms. Shanahan suggested that the month of May would be a good time to hold the zone meetings; whereby, Mayor Costello stated he favored a meeting each week in May. Ms. McGuire stated that staff could prepare a one-page summary and advertise the meetings through the water bills during the month of April.

Ms. McGuire stated that the budget calendar provided was tentative, because it was dependent on when the School Board and Volusia County scheduled their meetings.

## **VI. Close the Meeting**

The meeting was adjourned at 6:33 p.m.

Transcribed by: Lois Towey