

**PRELIMINARY DISCUSSION OF
GENERAL FUND
OPERATING BUDGET FOR FY 2009/2010**

**March 17, 2009
Commission Meeting**

City Manager's Report



Areas of Discussion

- **Recommendation**
- **Background of the FY 2008/2009 General Fund budget**
- **Areas for Commission guidelines and policy direction for the FY 2009/2010 General Fund budget**
- **Program & Fiscal Impact summary**

Recommendation

Provide Commission Policy Guidelines and Specific Directives to City staff to begin preparation of the FY 2009/2010 General Fund Budget in the following Major Areas for -

- **Personnel Service Adjustments**
- **Program Adjustments**
- **Taxes / Other Revenue Sources**
- **Plus any other areas**

Background - FY 2008/2009 Budget Initial \$7.0 Million Budget Deficit Due to -

- **8.5% reduction of property values**
 - \$2.4 M lower ad valorem property taxes at the 6.4553 tax rate
- **6% increase in expenditures**
 - 6% increase in personnel services mostly in accord with bargaining agreement contracts

Background - FY 2008/2009 Budget How Was The Current Budget Balanced?

- **\$4.6 M – Appropriated fund balance**
 - **\$1.2 M – Eliminated 14 vacant positions and minor programs (See page 2)**
 - **\$0.5 M – Renegotiated health insurance**
 - **\$0.4 M – Reduced prefunding vehicles (2nd Yr)**
 - **\$0.3 M – Deferred general pension changes**
- \$7.0 M**

Background - FY 2008/2009 Status of the Current Budget

- **Projecting a \$5 million revenue shortfall; primarily**
 - **\$3.0 M – Building permits**
 - **\$0.5 M – State shared revenues**
 - **\$0.4 M – Charges for services (public safety)**
 - **\$0.3 M – Interest earnings**
 - **\$0.2 M – Franchise fees**
 - **\$0.6 M – All other (Federal revenue, other)**
 - **\$5.0 M**

Background - FY 2008/2009 Status of the Current Budget

- **Holding the line on expenditures to date, by**
 - **Requiring current year budget reductions**
 - **Implementing Commission policy guidelines and directives as soon as possible**
 - **Planning to offset as much of revenue shortfall as possible**
 - **Holding open vacant positions with projected annual savings at :**
 - General Fund = \$465,000; City-wide = \$1.4 M**

FY 2009/2010 Budget Challenges

- Due to the significant projected budget shortfall ranging from \$10.5 M to \$16.0 M (15-22%), we must carefully create a balance between both –
 - Increasing revenues
 - Reducing expendituresas the potential shortfall is too great to address in a single area

FY 2009/2010 Budget Challenges

Revenues

- **Projected property value reduction of 5-10%**
 - \$1.4 to \$2.8 M less property taxes @ 6.4553 millage
- **Other revenues (i.e., building revenues, state shared revenues, investment income) projected to decline**
 - \$5.0 M
- **Total revenue reduction could range**
 - \$6.4 to \$7.8 M

FY 2009/2010 Budget Challenges

State Revenue Estimates - 3/13/09 (1)

- **State Revenue Estimating Conference has reduced its estimate of State General Revenue collections for -**
- **Fiscal Year 2008-09 by \$1.1 billion or 4.9% below the estimate from November**
- **Fiscal Year 2009-10 by \$2.3 billion or 10.6% from the earlier forecast.**

FY 2009/2010 Budget Challenges

State Revenue Estimates - 3/13/09 (2)

- **Estimated revenue collections for Fiscal Year 2008-09 are less than Fiscal Year 2007-08 receipts by \$3.2 billion or 13.1%**
- **Fiscal Year 2009-10 forecast has decreased by 4.5% over the Fiscal Year 2008-09 estimate, resulting in the fourth consecutive year of declining revenues.**

FY 2009/2010 Budget Challenges

State Revenue Estimates - 3/13/09 (3)

- **Sales Tax ...** In addition to the continued decline in home prices, worsening job losses and the drop in asset values are undermining consumer and business confidence and reducing discretionary spending. (Affects our sales tax revenue).
- **Documentary Stamp and Intangibles Taxes ...** Tax collections are expected to be significantly below previous estimates. (Affects our SHIP funding)

FY 2009/2010 Challenges Expenditure Increases

- **Projected to increase 2.5 – 5.0% due to**
 - **Scheduled bargaining unit increases**
 - **Inflationary increases of other costs**
 - **With no program increases**

FY 2009/2010 Challenges

Range of Projected General Fund Deficit

Property Value % Reduction & Other Revenue Down \$5 M	Projected General Fund Budget Deficit at Alternate Expenditure Increases		
	0.0%	2.5%	5.0%
5.0%	\$(10.5) M	\$(12.3) M	\$(14.1) M
7.5%	\$(11.2) M	\$(13.0) M	\$(14.8) M
10.0%	\$(11.9) M	\$(13.7) M	\$(16.0) M

FY 2009/2010 Challenges

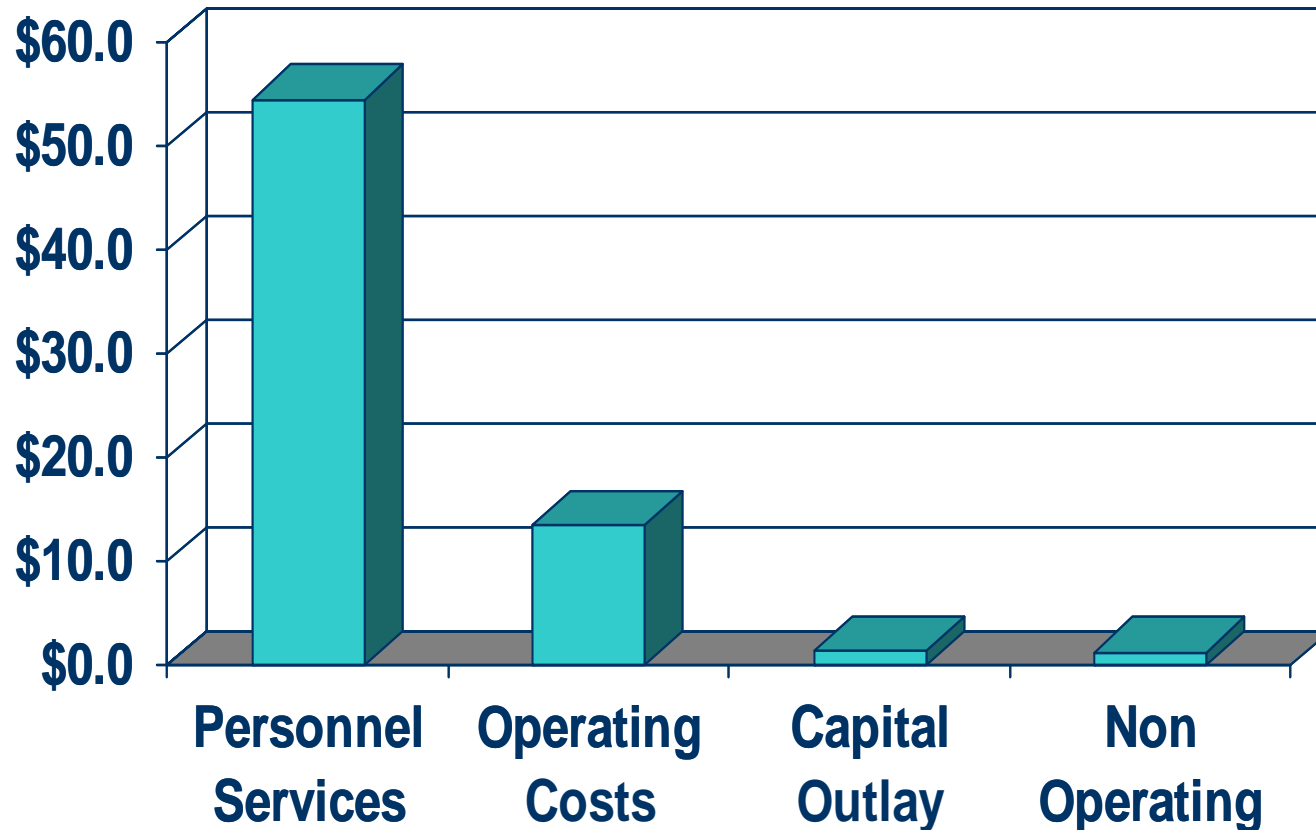
Areas for City Commission Policy Direction

- **Personnel Service Adjustments**
- **Program Adjustments**
- **Taxes / Other Revenue Sources**
- **Plus any other areas**

FY 2009/2010 Challenges

Expenditures – Personnel Services = \$54.5M

77% of the Current General Fund Budget



FY 2009/2010 Challenges

Expenditures – Other Than Personnel Services

- **Other than personnel services (OTPS)**
 - \$13.5 M – Operating costs
 - \$ 1.4 M – Capital outlay
 - \$ 1.3 M – Non-operating costs
 - \$16.2 M – OTPS Total alone -
- **Compares to the \$10.5 M to \$16.0 M range of the potential budget shortfall**
- **Therefore, highly unlikely we can avoid some impact on employees in FY 2009/2010**

FY 2009/2010 Challenges Expenditures – General Fund Personnel Services Components

Personnel Services	\$ M	% of Total	% of S&W
Salaries & Wages	\$ 40.3	73.9%	
FICA	\$ 2.7	5.0%	6.7%
Pension plans	\$ 7.7	14.1%	19.1%
Life & Health Insurance	\$ 3.8	7.0%	9.4%
Totals	\$ 54.5	100.0%	35.2%

FY 2009/2010 Challenges Expenditures – General Fund Personnel Services – Salaries & Payroll Taxes

- **Salaries & wages and the FICA payroll tax are variable according to the number and salary level of City employees**
- **Total represents \$43.0 M**

FY 2009/2010 Challenges Expenditures – General Fund Personnel Services – Life & Health Insurance

- **The City only pays for employee insurance; employees pay for family coverage**
- **Health insurance costs were renegotiated and reduced this year (FY 2008/2009)**
- **Staff is studying self-funding to reduce costs further next year (FY 2009/2010)**

FY 2009/2010 Challenges Expenditures – General Fund Personnel Services – Pension Plans

- The pension plans are defined benefit plans, bearing the full impact of actuarial variances
- Costs of pension plans are fixed annually and represent the Annual Required Contribution (ARC) of the City determined by independent actuaries
- The ARC will increase in the next few years due to much lower investment earnings in all three pension plans

FY 2009/2010 Challenges

Expenditures – General Fund

Personnel Services – Pension Plans

- The City's ARC is after State contributions (for Police & Fire) and employee withholdings (WH) that vary by plan due to different benefit levels
- The three (3) separate pension plans; each having different established benefits for employee groups

	<u>City ARC \$ based on ARC %</u>		<u>Employee %</u>
1. General (A)	(\$2.6M)	(ARC = 14.70%)	(WH = 7%)
2. Police	(\$2.8M)	(ARC = 26.91%)	(WH = 8%)
3. Fire	(\$2.3M)	(ARC = 25.61%)	(WH = 12%)

(A) The \$2.6M represents only employees of the General Fund.

FY 2009/2010 Challenges

Pension Plan Trend of the City's Annual Required Contributions (ARC) in \$M

- Based on actuarial reports, the City's ARC for all three (3) plans will increase \$1.7M (19%) for FY 2009/2010
- From FYE 2003 to 2010, the City's ARC increased 507%

FY	2010	2009	2008	2007	2006	2005	2004	2003	<u>Δ</u>
General	\$ 4.8	\$3.9	\$3.6	\$2.8	\$2.9	\$2.2	\$1.5	\$1.0	462%
Police	\$ 3.2	\$2.8	\$2.6	\$2.5	\$2.1	\$1.9	\$1.5	\$0.6	524%
Fire	\$ 2.6	\$2.3	\$2.1	\$1.8	\$1.4	\$1.2	\$0.9	\$0.4	590%
Total	\$10.6	\$8.9	\$8.2	\$7.0	\$6.4	\$5.3	\$3.9	\$2.1	507%

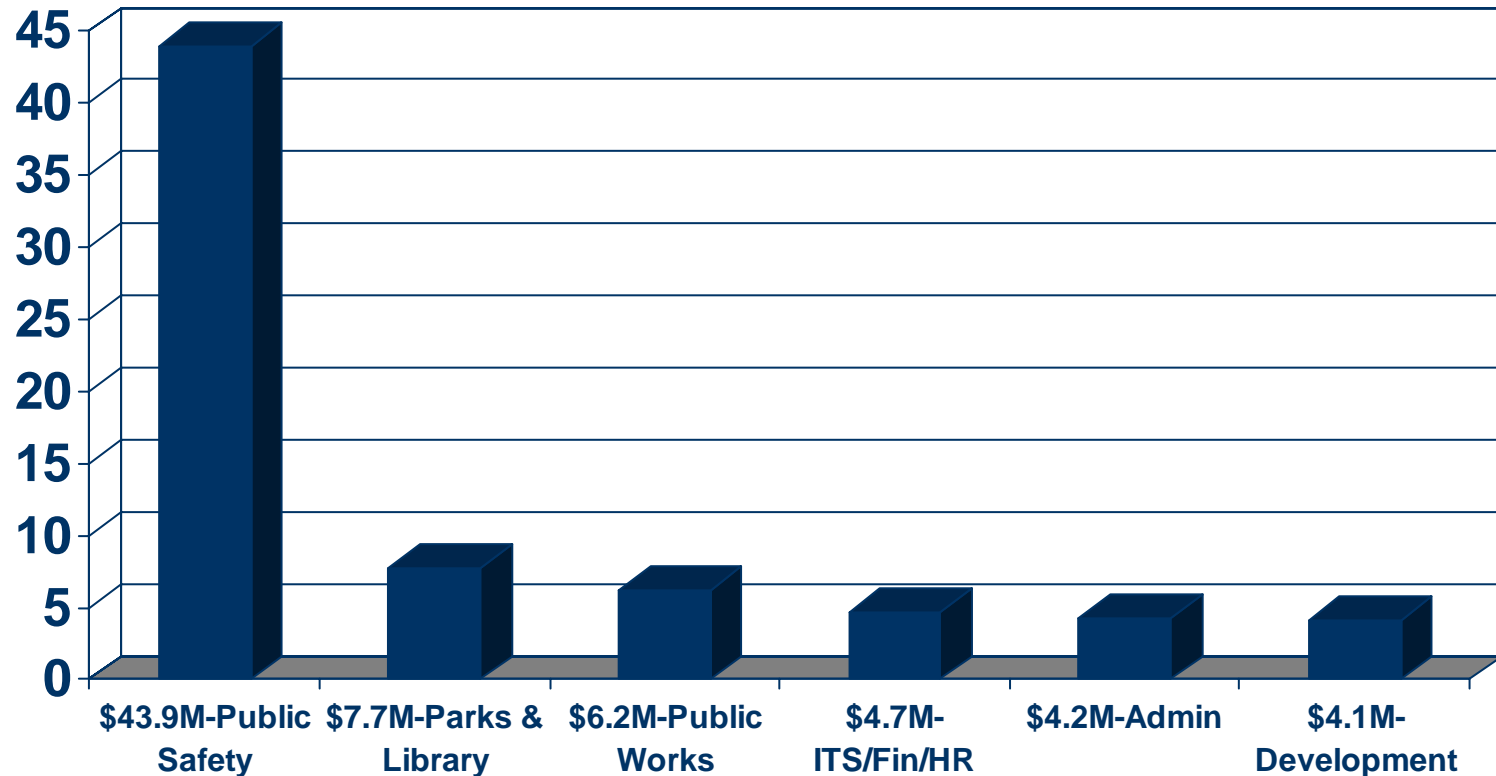
FY 2009/2010 Challenges

Personnel Services Policy Guidance

- **Employee Wages**
 - Will Commission consider wage freezes or reductions?
 - For all employees to include union members?
- **Employee Benefits**
 - Will Commission reconsider benefit levels?
 - Employee paid share of pension costs?
- **Employee Reductions or Furloughs**
 - Does Commission wish to preserve jobs as a priority?
 - What guidance considering public safety equals 67% of all personnel service costs?
 - Voluntary / involuntary furlough days? (all non-public safety sworn personnel and communications personnel excluded)

FY 2009/2010 Challenges

Program Expenditures – Police & Fire = \$43.9 M
62% of the Current General Fund Budget



FY 2009/2010 Challenges

Public Expectations for City Programs

- **Expectation by the public to continue excellent public services – especially in areas of Police, Fire, Recreation and Library**
- **Expectation by the public that these services should be provided at no additional cost to the taxpayer**

FY 2009/2010 Challenges

Program Reduction Policy Guidance

- What level of service adjustments will be considered over the next three years vs. tax increases by –
 - City Commission?
 - Boynton Beach Community?
- Program Service adjustments will also require personnel service adjustments

FY 2009/2010 Challenges From the State – Programs & Taxes

- **Continued pressure on local government budgets due to unfunded state mandates**
- **Continued discussion of property tax legislation without replacement revenue**

Program Expenditures vs. Property Taxes FY 2004 to FY 2009 General Fund Where Did the Money Go?

For the 6-year period (FY 2004 to 2009), property taxes funded about 46% of the total General Fund budget.

The total budget increased 45.1%, but taxes increased only 36.4%.

Fiscal Year	Total General Fund Budget	% of Total Budget	Property Taxes
2004	\$ 48.7 M	44.7%	\$ 21.8 M
2005	\$ 53.6 M	44.4%	\$ 23.8 M
2006	\$ 58.5 M	45.7%	\$ 26.7 M
2007	\$ 64.7 M	50.2%	\$ 32.5 M
2008	\$ 66.4 M	48.2%	\$ 32.0 M
2009	\$ 70.7 M	42.1%	\$ 29.7 M

Program Expenditures vs. Property Taxes FY 2004 to FY 2009 General Fund Where Did the Money Go?

**Total annual General Fund Budget increased \$22.0 M
(45.1%) over the period**

Public safety represented \$16.4 M of that increase

<u>Fiscal Year</u>	<u>Budget</u>	<u>% Change</u>
FY 2004	\$ 48.7 M	2.1%
FY 2005	\$ 53.6 M	9.9%
FY 2006	\$ 58.5 M	9.3%
FY 2007	\$ 64.7 M	10.6%
FY 2008	\$ 66.4 M	2.6%
FY 2009	\$ 70.7 M	6.5%
Increase	\$ 22.0 M	45.1%

Program Expenditures vs. Property Taxes FY 2004 to FY 2009 General Fund Where Did the Money Go?

Public safety (Police & Fire) increased to 62% in FY 2009 (from 59% in the 5-year average) of the total General Fund budget.

General government and public works decreased.

Percent of Total General Fund		Functional Area
FY 2004 to 2009	FY 2009	
15.0%	12.7%	General Government
59.0%	62.0%	Public Safety
5.7%	5.7%	Development
9.5%	8.8%	Public Works
10.8%	10.8%	Leisure Services
100.0%	100.0%	Total

FY 2004 to FY 2009 General Fund Ad Valorem Property Tax History

Assessed Value Increased 73.7% - Millage Rates Decreased 13.9%

<u>Assessed Value % Change</u>	<u>Millage Rate % Change</u>
FY 2004 – \$3.2 B - 11.4 %	7.5000 (1.3) %
FY 2005 – \$3.6 B - 12.2 %	7.5000 0.0 %
FY 2006 – \$4.2 B - 16.6 %	7.5000 0.0 %
FY 2007 – \$5.6 B - 32.5 %	7.1000 (5.3) %
FY 2008 – \$6.1 B - 9.6 %	6.4553 (9.1) %
FY 2009 – \$5.6 B - (8.5)%	6.4553 0.0 %
FY 2010 – \$5.0 B - (10.0)%	To be determined

FY 2009/2010 Challenges

Tax Rate Policy Guidance

- Will the City Commission consider an ad valorem tax rate at a level corresponding to the tax rate similar to current assessed valuation levels or current “roll back” rate?
- For example -
 - FY 2006 – \$4.2 B = 7.5 actual millage rate
 - FY 2010 – \$5.0 B = 7.3 an average millage rate?
 - FY 2007 – \$5.6 B = 7.1 actual millage rate

FY 2009/2010 Challenges

Roll Back Ad Valorem Tax Rate

- **What is a “roll back” rate?**
- **Simply said, it is the tax rate that –**
 - **Raises the same amount of total ad valorem property taxes as the prior year**
 - **Based on the assessed property valuation certified by the County Property Appraiser**

FY 2009/2010 Challenges Roll Back Ad Valorem Tax Rate – Non Homestead Properties

The “roll back” tax rate is not a tax increase under State Statutes.

Non-homestead properties that have assessed values reduced at the same 5%, 7.5% or 10% assumed reduction as the total City will have no tax increase.

Reductions	Original Value FY 2008/09	5% Reduction FY 2009/10	7.5% Reduction FY 2009/10	10% Reduction FY 2009/10
Assessed	\$200,000	\$190,000	\$185,000	\$180,000
Tax Rate	6.4553	6.7950	6.9786	7.1725
Taxes Paid	\$1,291	\$1,291	\$1,291	\$1,291

FY 2009/2010 Challenges

Roll Back Ad Valorem Tax Rate – Homestead Properties

The “roll back” tax rate is not a tax increase under State Statutes.

However, many homestead property owners will experience a 0.1% increase in their assessed values unless the market value is appraised at a lower level. The following assumes a 0.1% increase.

Reductions	Original Value FY 2008/09	0.1% Increase FY 2009/10	0.1% Increase FY 2009/10	0.1% Increase FY 2009/10
Assessed	\$200,000	\$200,200	\$200,200	\$200,200
Tax Rate	6.4553	6.7950	6.9786	7.1725
Taxes Paid	\$1,291	\$1,360	\$1,397	\$1,436

FY 2009/2010 Challenges

Tax Rate Policy Guidance

- Will the City Commission consider setting the millage rate at the “roll back” rate corresponding to the actual assessed valuation reductions rates?
- For example –

Assumed Value Reduction	5.0%	7.5%	10.0%
Roll Back Ad Valorem Rate	6.7950	6.9786	7.1725
Added Taxes Assessed to Offset Reduction	\$1.4 M	\$2.1 M	\$2.8 M

FY 2009/2010 Challenges

Impact on the Projected General Fund Deficit of the Roll Back Ad Valorem Tax Rate

The roll back rate alone will not offset the projected General Fund budget deficit

Assumed Property % Reduction & Other Revenue Down \$5 M	Projected Budget Deficit Assuming Expenditure Increase of 2.5%	Additional Ad Valorem Tax Revenue Provided With Roll Back Rate	Projected Remaining General Fund Budget Deficit
5.0%	\$(12.3) M	\$ 1.4 M	\$(10.9) M
7.5%	\$(13.0) M	\$ 2.1 M	\$(10.9) M
10.0%	\$(13.7) M	\$ 2.8 M	\$(10.9) M

**FY 2009/2010 Challenges
Other Revenues
Fees Not Covering Costs**

Two Programs as Examples Only:

Beach Passes

Shopper Hopper

**Annual combined deficit averages
\$420,000 for the past four years**

FY 2009/2010 Challenges

Other Revenues

Fees Not Covering Costs – Beach Passes

\$224,000 Average Annual Deficit

Fiscal Year	Total Revenues	Total Expenses	Annual Deficit
2004/2005	\$292,115	\$488,354	\$(196,239)
2005/2006	\$337,828	\$538,694	\$(200,866)
2006/2007	\$339,792	\$597,010	\$(257,248)
2007/2008	\$314,892	\$554,659	\$(239,766)
Average	\$321,000	\$545,000	\$(224,000)

FY 2009/2010 Challenges

Other Revenues

Fees Not Covering Costs – Shopper Hopper

\$196,000 Average Annual Deficit

Fiscal Year	Revenues		Total Costs	Annual Deficit
	Ridership Fees	Total Revenue		
2004/2005	\$11,431	\$32,164	\$219,935	(\$187,771)
2005/2006	\$10,262	\$32,037	\$225,383	(\$193,346)
2006/2007	\$9,062	\$35,434	\$221,716	(\$186,282)
2007/2008	\$9,732	\$31,265	\$248,367	(\$217,102)
Average	\$10,000	\$33,000	\$229,000	(\$196,000)

FY 2009/2010 Challenges

Other Revenues

User Fees Policy Guidance

- **Should all fee-based services be -**
 - Self-supporting?
 - Set to recover a certain percentage of costs?
- **Should we consider automatic cost of living adjustments (COLAs) to all fees annually to avoid large “catch up” adjustments?**

FY 2009/2010 Challenges

Other Revenue

Fire Assessment Fees Policy Guidance

Is the Commission willing to consider continuing or increasing the Fire Assessment from the current 35% level and if so, to what level?

Rate	Percent of Total Assessable Costs			
Categories	35%	50%	75%	100%
Residential Rate Per Unit	\$68	\$97	\$146	\$194
Non-Residential Rate Per Square Foot				
Commercial	\$0.16	\$0.22	\$0.33	\$0.43
Industrial / Warehouse	\$0.04	\$0.05	\$0.08	\$0.10
Institutional	\$0.17	\$0.24	\$0.36	\$0.48
Nursing Home	\$0.38	\$0.54	\$0.80	\$1.07
Total Assessment Revenue	\$3.4 M	\$4.8 M	\$7.2 M	\$9.6 M
Millage to Yield Assessment	0.7306	1.0608	1.5914	2.1217

FY 2009/2010 Challenges

Other Budget Team Ideas – Four Areas

- 1. Alternate Work Week**
- 2. Early Retirement**
- 3. Sale or Exchange of Property**
- 4. Pension Plans**

FY 2009/2010 Challenges

Alternate Work Week Policy Guidance

- **Does the Commission wish to consider –**
 - **Four day work week for non-shift employees?**
 - **A reduction in working hours and related wages?**
 - **38 or 36 hour work week**
 - **5-10% reduction in payroll costs for non-shift employees**
 - **Annual savings approximate \$1.8 M**
- **Should we consider either of these items for this year due to reduced revenue?**

FY 2009/2010 Challenges

Early Retirement Policy Guidance

- **Does the Commission believe staff should conduct further research regarding early retirement programs?**
 - **Early buyouts provide incentive to retire**
 - **Provides opportunity to either**
 - **Eliminate vacated position or**
 - **Hire less costly staff**
 - **Must balance up-front costs with long-term saving**

FY 2009/2010 Challenges

Sale or Exchange of Property Policy Guidance

- **Does the Commission believe staff should inventory**
 - Vacant or
 - Valuable property not fully utilized**for possible sale?**

FY 2009/2010 Challenges

Pension Plans Policy Guidance

- Does the Commission believe employees of all plans should fund a larger percentage cost of the defined pension plans?
- Does the Commission believe transition to a defined contribution plan is desirable and if **SO** — (See advantages/disadvantages in Agenda Item page 11)
 - Should it only apply to newly hired employees?
 - Should existing employees have the option to change plans?

Program Impact

- **Impact on programs will depend on Commission policy direction**
- **Expectation by the public to continue excellent public services – especially in areas of –**
 - **Police**
 - **Fire**
 - **Recreation**
 - **Library**

Fiscal Impact

- **Expectation by the public that these services should be provided at no additional cost to the taxpayer – unable to achieve**
- **In order to balance the budget, we will require a policy directed balance between**
 - Program reductions
 - Revenue increases
 - Limited use of our undesignated fund balance
 - No more than 1/3 of the projected \$6.4 M available at 9-30-07 recommended (\$2.1 M)

Fiscal Impact – General Fund

Projected Fund Balance Available

Revenues Over (Under) Expenditures

- FY 2005/06 – \$ 4.4 M
- FY 2006/07 – \$(1.4) M
- FY 2007/08 – \$(1.9) M
- FY 2008/09 – \$(4.6) M ^(A)
- FY 2008/09 – \$(5.0) M ^(B)

Fund Balance Available At Sept 30

- FY 2005/06 – \$27.0 M
- FY 2006/07 – \$25.6 M
- FY 2007/08 – \$23.7 M
- FY 2008/09 – \$19.1 M
- FY 2008/09 – \$14.1 M

Less Emergency Reserve – \$(7.7) M

Undesignated Balance Available – \$ 6.4 M

(A)- Appropriated fund balance to balance the current budget

(B)- Projected Deficit is due to \$5.0 M Revenue Shortfall

Fiscal Impact On the Projected General Fund Deficit of the Roll Back Ad Valorem Tax Rate Alone

The roll back rate alone will not offset the projected General Fund budget deficit. It is only one of several elements to eliminate an assumed \$16.0 M deficit.

Assumed Property % Reduction & Other Revenue Down \$5 M	Projected Budget Deficit Assuming Expenditure Increase of 5%	Additional Ad Valorem Tax Revenue Provided With Roll Back Rate	Projected Remaining General Fund Budget Deficit
5.0%	\$(14.1) M	\$ 1.4 M	\$(12.7) M
7.5%	\$(14.8) M	\$ 2.1 M	\$(12.7) M
10.0%	\$(16.0) M	\$ 2.8 M	\$(13.2) M

Fiscal Impact - Conclusion

- Consider a policy-directed option to meet the projected \$16.0 M deficit resulting from a 10% revenue decline and a 5% expenditure increase.
 - \$ 2.8 M – Set property taxes at “roll back” rate
 - \$ 3.8 M – Increase fire assessment to 75% level (i.e., residence from \$68 to \$145)
 - \$ 0.2 M – Increase fee areas (1/2 of loss)
 - \$ 6.8 M – Total revenue increases
 - \$ 2.1 M – Use of undesignated fund balance
 - \$ 8.9 M – Total increase in funding sources
 - \$ 7.1 M – Program / Personnel services reductions
 - \$16.0 M – Total available funds to meet projected deficit