TOWN OF PALM BEACH

Office of The Town Clerk

REPORT OF THE FINANCE AND TAXATION COMMITTEE MEETING HELD ON JULY 8, 2002

I. CALL TO ORDER AND ROLL CALL

Committee Chairman William J. Brooks called the Finance and Taxation Committee meeting to order at 9:30 a.m. on Monday, July 8, 2002, in the Town Council Chambers. On roll call, Chairman Brooks and Committee Member Norman P. Goldblum were found to be in attendance.

Other Elected Officials attending the meeting were: Mayor Lesly S. Smith, Councilman Samuel C. McLendon, and Councilman Allen S. Wyett.

Also Attending for all or part of the meeting were: Town Manager Peter Elwell; Assistant Town Manager Tom Bradford; Police Chief Michael Reiter; Information Systems Manager Spencer Wilson; Finance Director Jane Skittone; Assistant Finance Director Cheryl Somers; Purchasing Agent Charles Boggs; Fire-Rescue Chief Kent Koelz; Fire-Rescue Office Manager Belinda Hardy; Public Works Director Al Dusey; Public Works Facility Maintenance Division Manager Joe Ugi; Public Works Water Resources Division Manager Larry Plympton; Public Works Services Division Manager Lloyd McCoy; Human Resources Director William Crouse; Assistant Human Resources Director Carla Kneipp; Risk Administrator Karen Temme; Recreation Director Russ Bitzer; Recreation Supervisor II Alan Brown; Director of Planning, Zoning & Building Robert Moore; Assistant Director of Planning, Zoning & Building Veronica Close; Planning, Zoning & Building Administrative Aide Linda Corbett; and Town Clerk Mary Pollitt.

II. PLEDGE OF ALLEGIANCE

Chairman Brooks led the Pledge of Allegiance.

III. APPROVAL OF AGENDA

The agenda was approved as presented.

Post Office Box 2029 • 360 South County Road • Palm Beach, Florida 33480 • (561) 838-5416
Fax No. (561) 838-5417

IV. FINANCIAL POLICIES

A. Marina Fund Dock Replacement Reserve

Town Manager Elwell explained this fund uses Marina Fund dollars with no relationship to the General Fund, to create a sinking fund to collect necessary monies to repair the docks when that action becomes necessary.

THE COMMITTEE RECOMMENDED APPROVAL OF A POLICY TO MAINTAIN THE MARINA FUND DOCK REPLACEMENT RESERVE TO ALLOW REPLACEMENT OF THE DOCKS WHEN NECESSARY.

B. Revenue Shortfall Plan

Town Manager Elwell reported the plan includes delaying expenditures wherever reasonably possible while maintaining the same levels of service; monitoring individual budgets by departments to insure that only essential expenditures are made to maintain service levels; non-essential capital expenditures are deferred; and hiring for vacant positions will be closely scrutinized and may result in delaying the recruitment process and using temporary help where possible. He added that all of these procedures were implemented earlier in this year.

After discussion, **THE COMMITTEE RECOMMENDED IMPLEMENTATION OF THE TOWN MANAGER'S REVENUE SHORTFALL PROGRAM REGARDING EMPLOYEE REPLACEMENT, PURCHASES, AND OTHER ACTIONS TAKEN DURING THE REVENUE SHORTFALL IN 2002. The program has phases that would be implemented if the shortfall worsened.**

C. Risk Reserves

Town Manager explained the minimum funding level of $2.4 million was established in 2001 for catastrophic exposures and exposure reserves in the Risk Fund. Mr. Elwell said a recent program study recommended improvements including using a different methodology to create a minimum funding level of $2.5 million with an index for future years.

THE COMMITTEE RECOMMENDED THE USE OF A DIFFERENT METHODOLOGY TO DETERMINE RISK RESERVES, MAINTAINING A MINIMUM OF $2,500,000 IN THE CATASTROPHIC EXPOSURES/EMERGENCIES RESERVE.

V. FY2003 PROPOSED BUDGETS

A. Overview and Comments by Town Manager

1. Introduction and General Overview

Town Manager Elwell reported the staff recognized in November of 2001 that measures were necessary to control the FY2002 budget in view of the fact that revenues and interest income were both down and the goal was to finish FY 2002 without a deficit. Mr. Elwell said he feels with increasing confidence that it will not be necessary to end the year using funds from the Town's General Fund Reserve account as a balance against an operating deficit. He said due to some recovery in the Building Department's revenues and expenditure cuts within the departments, it appears a deficit can be averted, although it is a close call at this time.

Mr. Elwell said the proposed FY2003 budget, in keeping with the measures that have been put in place with the FY2002 budget, reflects the efforts to hold the line and reduce expenditures wherever possible. He reported the FY2003 projection is for a very slight improvement in interest income (2% interest earnings), but still $500,000 short of the FY2002 interest income projection. He said the Building Department revenue is projected at $2.6 million based on reduced building permit revenue and the effect of a proposed moratorium in the north end, and the goal is to make up $2 million in revenues going into the preparation of the proposed FY2003 budget.

Mr. Brooks noted that $454,000 (the amount of savings he would like to find in this budget) represented a 1% decrease in the operating budget.

Mr. Elwell referred to the 9.43% projected change in personnel costs and stressed that amount was not for salary increases but included some insurance impacts and other related items. He pointed out that the three major items, contractual, commodities and capital outlay, are reduced compared to the FY2002 budget.

Mr. Elwell said the proposed budget included a 4.06% increase of $345,000 in 'other' category; however, he stated he would propose at this meeting regarding the reduction by $400,000 in the General Fund Contingency account which will result in the 'other' category being reduced from the FY2002 budget. He continued that the overall proposed budget before the Committee, before any changes are made, has a 4.1% increase in expenditures (approximately $1.8 million increase).

Mr. Brooks said his goal was to keep the level of service high, but to trim the budget to show no tax increase, let alone 4.1%, or if all efforts fail, a de minim is increase of perhaps .5%.

Mr. Goldblum concurred he would like to see no tax increase, and that everyone should work together to achieve that goal.

Mr. Elwell said it was a staff recommendation, that under the circumstances, the Town should deviate from the FY2002 adopted policy to retain 2% of the General Fund Operating Expenditures in any given year as a General Fund Contingency Account for the unforseen things that happen during the year, and that policy should be a retention of 1% of the General Fund Operating Account or a $445,000 General Fund Contingency. He said the $445,000 would account for 2/3 of the amount to back off from the 2% tax increase to no tax increase.

THE COMMITTEE RECOMMENDED DEVIATING FROM THE ADOPTED FINANCIAL POLICY AND REDUCE THE GENERAL FUND CONTINGENCY FROM 2% TO 1%.

Mr. Elwell explained the distinction between the General Fund Contingency Account and the Undesignated General Fund balance which is over the 25% standard required by the policy the Town Council adopted in 2001. He stated the 25% amount is equal to slightly over $11 million; above and beyond that is an excess amount of approximately $5.6 million, and the Town's reserve fund is extremely healthy. He added that the General Fund Contingency is a much smaller fund and is set aside as operating funds within the adopted budget that can be drawn upon throughout the year.

Mr. Elwell said the true millage rate number necessary, prior to the $445,000 cut previously recommended, is a 2.03% increase. He noted the moratorium question that drove the increase higher will be addressed at a 5:01 Public Hearing on July 9th.

Mr. Brooks commented that assessed value of Town properties totaled an astronomical $7,657,000,000.

Mr. Elwell reported that in normal budget years, he would have recommended the inclusion of three shift commanders in the Fire-Rescue Department at a cost of $260,000, including salary, benefits, and related equipment. This proposed budget does not include any new personnel, and funding is only for current staff personnel.

In addition, an Assistant Public Works Director is not included in the proposed budget at a cost of approximately $100,000 as recommended in the contracting and construction management improvement report presented last winter.

After discussion of the consideration of the three Fire-Rescue shift commanders and the Assistant Director for Public Works positions, **THE COMMITTEE RECOMMENDED DEFERRAL OF THE CONSIDERATION OF THE THREE FIRE-RESCUE SHIFT COMMANDERS AND THE ASSISTANT PUBLIC WORKS DIRECTOR TO THE FY2004 BUDGET SEASON.**

Mr. Elwell said he recommended the Town Council have a Special Town Council meeting in August to consider the issue of potentially placing a third front-line MICU and crews in service at the north Fire-Rescue Station. The cost of this change would be approximately $1,440,000 or an impact of 0.1981 mills on the FY2003 budget. After discussion, **THE COMMITTEE RECOMMENDED DEFERRAL OF THE DISCUSSION OF AN ADDITIONAL MICU FOR THE FIRE-RESCUE DEPARTMENT UNTIL THE AUGUST SPECIAL TOWN COUNCIL MEETING.**

2. Proposed Tentative Millage Rates

Mr. Elwell identified the proposed millage rate to fund the operations reflects a 2.03% increase over last year, and the tentative millage rate is set artificially high to avoid notification of taxpayers during the budgeting process of increases over a lower millage rate tentatively adopted earlier in the process. The tentative millage rate for operating purposes was reported to be 4.2000.

THE COMMITTEE RECOMMENDED THAT THE PROPOSED TENTATIVE MILLAGE RATE BE SET ARTIFICIALLY HIGH AT 4.2000.

(Town Manager Elwell continued with a summary of proposed changes for FY2003.)

Town Manager Elwell reported on the following changes/inclusions in the FY2003 budget:

A consolidation of the Annual Report and Calendar. The Annual Report will be expanded to be more meaningful to the citizens. It is intended to include meeting dates, but not in a calendar format. The consolidation will result in a savings of $8,000 from FY2002.

There are no funds budgeted for the Strategic Planning Board. It may be possible to complete this project using funds remaining from the FY2002 appropriation. If additional funds are required, a contingent appropriation will be requested of the Town Council during FY2003.

In (the Town Manager's) memorandum dated June 10,2002, he indicated there was sufficient time to implement a rate study for the non-ad valorem assessment for solid waste collection services and the implementation of this assessment would be delayed until FY2003. A rate study for the non-ad valorem solid waste collection fee is contained in the proposed budget at an estimated cost of $5,000.

A citizen satisfaction survey is included in the proposed budget at an estimated cost of $5,000.

Two new revenue sources are included in the proposed budget, the EMS Transport Fee for $320,000 and Direct Connect Alarm Service Fee for $100,000.

The proposed moratorium on building activity north of Orange Grove Road has caused a decrease to the revenue budget for building permits of $400,000. This increased the initial proposed total millage rate of 4.0080 (.67% increase over FY02) to 4.0629 (2.03% increase over FY02).

B. General Fund

1. Revenues

a. Overview

Town Manager reported the 30% decrease or $1.57 million projected in licenses and permits and the 39% decrease or $513,000 in interest earnings reflect substantial changes in the projected FY2003 revenues. He said the net impact of the substantial decrease and the more modest projected increases when set against the proposed expenditure budget increase of approximately $1.8 million yields a need-to-increase ad valorem tax revenues by $3.168 million. He noted that number has changed with the actions taken by the Committee at this meeting and pending upon the actions of the full Council at the July 9th meeting.

(The following was heard out of order–after Financial Policies.)
Town Manager Elwell said two new non ad valorem revenues in FY2003 include the approved charge for EMS transports (expected $320,000) and

for the direct connect alarm service proposed by the Police Department (expected $100,000).

b. Direct Connect Alarm Service Fee

Police Chief Reiter said the current delay between the time an alarm is called into the alarm company and the time it takes to reach the Police Department can be critical to trying to catch the thief in the act of committing a crime. He reported that several other police departments who use the system supplied information regarding the success of the systems.

Chief Reiter mentioned additional costs are involved to implement the program, and a $1,000 registration fee would be required from each business who wished to participate in the program to offset the additional costs. He said the estimate of 100 accounts is the basis of the projection of the revenues.

After discussion, **THE COMMITTEE RECOMMENDED APPROVING $18,000 FROM THE FY2002 GENERAL FUND CONTINGENCY ACCOUNT TO IMPLEMENT THE DIRECT CONNECT ALARM SERVICE FOR BUSINESSES.**

2. Individual Program Expenditure Budgets

Town Manager Elwell reported the Town has very large increases related to Risk Insurance Costs, Health Insurance Costs, and Retirement Funding. He noted the proposed budget contains reduced spending for commodities and substantially reduced funding for contractual services, and the total General Fund Expenditures are proposed to increase by 4.1% to $45.4 million as compared to FY2002. He said one significant component is the recommended General Pay Increase which is based on a combination of the Consumer Price Index and factors in the local market. He added that his recommendation of 2% to 3% is driven by the concern for competitiveness in the local market as the Consumer Price Index was less than 1% from April 2001 to April 2002. Mr. Elwell said corrective measures were taken last year to upgrade the employee salary structure and the goal was not to slip from that position. He said he was not prepared to make a final recommendation at this meeting until all the dollar figures are available, but $669,000 was included in the FY2003 budget which is the amount necessary to fund the full 3% increase with $223,000 representing each 1% of increase.

Chairman Brooks said a General Pay Increase is in addition to any merit pay increase an employee might receive, and he would like to see the GPI be 1% for FY2003. He added that a pay increase is not automatically part of an employee's arrangement with the Town unless he or she has a personal services contract with the Town.

Mr. Goldblum said he would like to follow Mr. Elwell's suggestion–looking at what competitive communities are doing and adjust the increase to be competitive with those actions. He added the increase might be 1% or 2%.

After discussion, **THE COMMITTEE RECOMMENDED A GENERAL PAY INCREASE OF 1%.**

Responding to questions from Mr. Goldblum regarding the increased health care costs and the effects to employees, Town Manager Elwell reported that the Health Insurance Fund has been increased by $300,000 in the FY2003 budget and the amount paid by employees who have dependents will increase depending on the choice of health plans. He added research in this area is continuing with details to be presented later in the summer with implementation projected for January 1, 2003.

Mr. Elwell pointed out the following increases as listed in his Budget Message:

The Town's actuarially determined contribution from the General Fund to the employees' retirement systems will increase by $604,492.

The transfer from the General Fund to the Internal Service Fund for Risk Management (liability, property, and worker's compensation) is proposed to increase by $454,287 (19.8%) to cover anticipated increases in premium charges due to the effect of September 11, 2001 on the insurance market. He added this amount may not cover the actual premium amounts, but firm numbers will be available in August. Other options include the Town assuming additional risk for lower annual premium considerations.

The transfer from the General Fund to the Capital Improvement Fund for the annual Capital Improvement Program is projected to decrease by $616,291 (18.2%).

Town Manager Elwell reported the proposed budget does not include any use of the fund balance as a revenue source, and at this time, the excess fund balance is $5.6 million for a total of $18 million in the Undesignated General Fund balance.

Town Manager Elwell noted modifications were made in the personnel complement but no addition of employees is planned.

Town Manager Elwell reported no specific recommendations for funding of the proposed Fire-Rescue station would be identified at this time, and that decision can be made closer to the date the contract is awarded, anticipated to be early in 2003 with ground breaking following in late winter or early spring of 2003.

Town Manager Elwell reviewed Individual Program Expenditure Budgets, including goals and objectives, and the following comments were made:

Information Systems - large increases caused by consolidation of all computer and telephone related expenses into one program,125; also the implementation of the Geographic Information System has been funded in the FY2003 budget;

Town Clerk's Office - **The Committee recommended consideration of the increasing of Charitable Solicitation Permit Fees; (** ***the $10 fee charged for meeting tapes will be reviewed also)***

Planning, Zoning, and Building - Wendy Victor commented on the large amount of grant money available in the State of Florida for historic preservation;

PZ&B - Councilman Allen Wyett commented the department's expenditures should be reduced to coincide with the department's 30% estimated revenue reduction; *(Town Manager Elwell pointed out the department's proposed revenues for FY2003 are $3.6 million which offset the projected FY2003 expenses of $2.4 million)*

Mr. Goldblum requested the Finance Department, in the budget documents, show a revenue on the same page that specifically offsets a particular program;

Recreation fee increases will be presented to the full Town Council for adoption at the July 9th Town Council meeting;

The Committee recommended to the Town Council that donations be solicited, one on one, for the new Fire-Rescue station;

Mr. Goldblum requested the Finance Department show any donations, in narrative notes, in each department's program for easy reference; although the donations may also be shown in another line item;

Mr. Goldblum requested the Finance Department show, as descriptive narrative, that the Fire-Rescue salary line items are subject to union negotiations;

The Committee recommended to the Town Council that the staff explore the impact on the budget of discontinuing residential trash pickup on holidays.

3. Other Potential Items of Expenditure

   a. Assistant Public Works Director
   b. Fire-Rescue Shift Commanders
   c. Fire-Rescue 3rd Front-Line MICU

   (The above three items were addressed earlier in this meeting.)

4. Interim Financing of North Lake Way Drainage Improvements

   Town Manager Elwell said the staff recommendation to fund the North Lake Way Drainage improvements is to authorize the $3.9 million to come from the $5.6 million General Fund excess fund balance. He added that if the Committee recommended that and the full Town Council approves the recommendation at the July 9th Town Council meeting, the proposed FY2003 budget would be amended prior to adoption in September. He noted that would not affect the tax rate.

   THE COMMITTEE CONCURRED WITH STAFF'S RECOMMENDATION TO APPROPRIATE $3,900,000 FROM THE GENERAL FUND UNDESIGNATED FUND BALANCE TO THE CAPITAL FUND TO FUND THE NORTH LAKE WAY DRAINAGE PROJECT. THESE FUNDS MAY BE REIMBURSED BY A BOND ISSUE AT A LATER DATE.

C. Debt Service Fund

1. General Obligation Refunding Bonds (Series 1993)
2. Revenue Bonds (Series 2000)

   After Finance Director Skittone reviewed these funds, the Committee made no additional comments on them.

D. Capital Improvement Funds

1. Capital Improvement Program
2. Comprehensive Coastal Management Plan (CCMP) - Pay-As-You-Go
3. Comprehensive Coastal Management Plan (CCMP) - Construction Fund
4. Equipment Replacement Program

Finance Director Skittone and Town Manager Elwell reviewed the four funds with no additional comments by the Committee.

E. Enterprise Funds

1. Golf (including proposed rate increase)

After discussion, **THE COMMITTEE RECOMMENDED APPROVAL OF THE FEE INCREASES IN THE GOLF FUND AS WELL AS THE TENNIS FEES AS PRESENTED IN RESOLUTION NO. 42-02.**

2. Marina (including proposed rate increase)

THE COMMITTEE RECOMMENDED APPROVAL OF AN INCREASE OF $.10/SLIP FT./DAY IN THE MARINA DOCKAGE FEES.

F. Internal Service Funds

1. Risk Management

2. Health Insurance

Town Manager Elwell reported on the increases in health care costs and the status of the Risk Management funds.

G. Trust and Agency Funds

1. General Employee Retirement Fund

2. Public Safety Retirement Fund

The Committee made no further recommendations on these funds after hearing a review of them by the Town Manager. He stated that the Town's contributions to these funds are based on actuarial analyses.

VI. ANY OTHER MATTERS

There were no other matters discussed.

VII. ADJOURNMENT

The meeting was adjourned at 12:43 p.m.

William J. Brooks, Chairman

Norman P. Goldblum, Committee Member

Prepared by:
Mary A. Pollitt
Town Clerk