TOWN OF PALM BEACH

Office of The Town Clerk

REPORT OF THE FINANCE AND TAXATION COMMITTEE HELD ON MONDAY, MARCH 16, 2009

I. CALL TO ORDER AND ROLL CALL

The Finance and Taxation Committee meeting was called to order on Monday, March 16, 2009 at 1:00 p.m. in the Town Council Chambers. On roll call, all members were found to be in attendance.

II. PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was led by Chairman Wildrick.

III. APPROVAL OF AGENDA

The Agenda was approved as printed.

IV. OPENING STATEMENTS BY COMMITTEE CHAIR AND TOWN MANAGER

Chairman Wildrick announced the purpose of the meeting was to provide a general overview of the financial situation of the Town going forward, before the budgetary process begins. He stated that with the current economic situation, the past good years with a top line growing at a significant rate are likely over. Now, the Town is facing a situation where the income is not going to be there and choices will have to be made, and priorities will have to be set. He stated that one should ask if it is "nice" or "necessary" and perhaps some of the nice benefits and projects will have to be postponed.

Goals are typically set this time of year regarding the budget. Chairman Wildrick and Town Manager Elwell had discussed two goals and the rest will be discussed during the budget process. They were:

- No increase in the millage rate
- No reduction in services

Chairman Wildrick also created Advisors to the Finance and Tax Committee to assist with the complicated budget process this year, due to the economy. The Advisors were chosen from citizens with various backgrounds. He stated that the Town must work together and he will not work with those who are greedy, intolerant, negative or selfish. The citizens chosen were:

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- Owen Larkin to work with the Town Manager's office
- Tim Moran to work with Public Safety
- William Cooley and Stuart Shulman to work with Public Works
- Al Parvin and Jeri Zenko to work with benefits and pensions

Chairman Wildrick stated that he was pleased with Town Manager Elwell's cooperation and the various Department Heads. He noted the outstanding cooperation from Mr. Elwell and the positive attitude from the Department Heads. He looks forward to the opportunity to work with the good people of the Town and its citizens.

Town Manager Elwell announced he would be providing a baseline for the items on the Agenda. Finance Director Jane Struder would be making a presentation regarding the Long Term Financial Plan. He offered assistance from any staff in reviewing any of the topics that may arise, such as reserves and expenditures.

If the Town were not in the extraordinary economy it was in today, then the process that the Town would be facing over the next several months would have been a continuation of what the Town has budgeted for with the requirements from the State Legislature and its property tax reform for all local governments throughout Florida. Approximately two years ago, the Town analyzed their budget differently than it had before because of the new statutory limitation on the ad valorem tax revenues, and needed to make expenditure cuts that were quite substantial, particularly in the first year, and find other sources of revenue.

One year ago, through expenditure cuts and the use of reserves for some capital projects that were undertaken the budget was created. This year, the situation is compounded through the continuing impact of property tax reform plus the international financial crisis, and severe economic recession. Those things have had an impact on the implementation on the current year's budget. The starting point for looking at FY 10 budget and beyond in planning, is to see that the Town is not receiving all of the revenue we had projected for this year primarily because of the slowdown in the building permit fees. There still is a significant amount of activity in the permit area, but the projects are much smaller and not as many larger homes are being built, or renovated. This was observed early on in the fiscal year and with certain other revenues, such as the State-shared revenues and its shortfalls. The revenues that the State shares with the local governments are down and the State has been explicit about what not to receive this year. The building permit situation is fluid and may be difficult to project. Fortunately, the Town is not heavily dependent on State-shared Revenue.

The Town has cut expenditures in light of the projected shortfalls in revenues. Town Manager Elwell explained that the Town adopted a policy several years ago, in 2002, called a revenue shortfall plan. In all ways other than in personnel, the Town is in Phase I of the implementation of that plan. Phase I includes shortfalls up to 5% of the budgeted revenues and the Town is currently within that window. The Town is delaying expenditures where it is reasonably possible, while maintaining the same level of service. The Town has delayed non-essential capital expenditures, in accordance with the policy. With regard to personnel, the Town is in Phase III, which is a 10-15% revenue shortfall. The Town needed to be more aggressive in addressing personnel costs because they are the majority of costs in the budget.

Under Phase III, there is the implementation of a hiring freeze. Back in December 2008, the hiring freeze was enforced and has been maintained. This places the Town in a position to handle the decisions that may be made by the citizens and the staff related to levels of service and staffing in the FY 10 budget and beyond.

Overall, the financial position of the Town is strong, but the current year poses certain challenges and the forecast presents even greater challenges, particularly as we look to the fourth and fifth years of the Long Term Financial Plan.

In the near term, the Long Term Financial Plan, which is not a budget, but is a baseline for starting the FY 10 budget, cites approximately $800,000 is needed to be cut or additional revenue needed to be found, in order to be able to even bring the Committee a Long Term Financial Plan that showed a budget imbalance. This was done with expenditure cuts, not with additional revenue. The concern was that a few large areas of expenditure are not fully addressed at this time. One was a potential 6% pay increase to keep the police officers in the #1 position by Town Council policy within Palm Beach County. Right now, they are # 1, but Palm Beach Gardens is expected to award a 6% pay increase on October 1. At this point, there has been no indication that the city of Palm Beach Gardens will retract that offer although they are faced with the same challenges as Palm Beach in terms of the state tax cap and the impacts of the economy. That would be a $380,000 cost that needs to be further considered.

Town Manager Elwell continued that there would be no raise provided for the October 1 competitive pay increase for any other employee in the Town. There may not be any market movement to indicate the Town should award a raise, and if they did it would be very small. If there was a need for the Town to offer a 1% pay increase to maintain competitive position in the market, that would be a $300,000 cost that has not been allocated.

There are two matters of significance in Capital Improvement projects. The coastal protection projects being considered by the Shore Protection Board for recommendations later this year, are unknown at this time. The other projects are sewer and basic infrastructure projects of the Town. In the past year, the Public Works Committee oversaw the preparation and updating of a 20 year capital improvement plan. Normally they were 5 year plans. The 20 year plan was prepared at the request of Council explicitly to be able to look at those greater cost items that would need to be planned for in advance. The tentative decision that the Council made last year was to undertake the program and ramp up the pace and set aside $7 million per year on an ongoing basis if it remained as a pay as you go program.

If the life of the payments were extended, and if funds were to be borrowed, the question would be if the project's usefulness would last twenty years. The magnitude of the projects do not indicate a substantial savings in the operating budget because there would be interest payments, which is an additional cost.

Town Manager Elwell mentioned shortfalls and indicated that Finance Director Struder would discuss them in her presentation. Shortfalls that can be projected in the 4th and 5th year of the

5 year cycle. There are the challenges already mentioned and the next two years will be with personnel issues. There are early retirement buyout costs, with debt service benefits beginning in the second year. For the FY 10 and FY11, the numbers look pretty stable. Looking at FY 12 and FY13, there are increases that would not be sustained and a gap in funds is realized.

Chairman Wildrick asked Town Manager Elwell about a cost of living (COLA) pay. He wanted clarification that in addition to no competitive raise, there would be no cost of living raise either. Town Manager Elwell clarified that the Town has not paid a COLA for the past eight years. The Town has paid an increase in October of each year offered to Town employees and is not tied to inflation, but rather what is happening in the market around us. Rightly viewed, it is not the Town's obligation to provide a pay increase that keeps employees equal with inflation, but rather as an obligation to the Town's expected level of service to maintain a strong competitive position in the marketplace, so that the Town recruits and maintains the best available employees. The adjustments that have been made over the years are referred to as a competitive pay increase instead of a COLA.

Chairman Wildrick next asked what percentage of the budget is for payroll and benefits now and what were they several years ago. He also asked what the trend of growth was. Town Manager Elwell responded that ten years ago it was 66% and today it is 66%. In between those years, interesting things happened. In the early years of the decade, the pension system was at a record low level of funding. The smoothing of the good years from the 1990's was carried over into the next decade. They were over 100% funded. Because of the poor performance in the market in 2001 and 2002, with some benefit increases granted by the Town Council in 2010 and 2004, the combined impact of that were substantial additional costs. One of the greatest challenges in addressing the priorities properly is how to afford the increased costs in pension plans and continue to do all of the other programs and expenses the Town needs to do. That rose to a figure over $7 million dollars from $1 million in 2001. This past year in the market has been terrible and will be felt immediately in the next year's budget. The following year there is a projected cost of another million added, as the market is not predicted to correct itself by then, with $750,000 projected in the out years. In FY 13, the payroll projection is 71% due to market costs decreasing and pension costs increasing.

Town Manager Elwell expressed that the budget and pension concerns are not a Town-wide problem only. The Wall Street Journal, the Florida League of Cities, as well as other entities have written about the magnitude of the economy and market nationwide.

One of the increases in the past few years was the initial response to property tax reform and then last year through the comprehensive review of Town operations there has been a substantial amount of commodities and contractual costs cut.

Chairman Wildrick thanked Town Manager Elwell for his excellent review.

V. REVIEW OF LONG TERM FINANCIAL PLAN AND RECREATION ENTERPRISE FUND BUSINESS PLAN

Finance Director Jane Struder presented a Power Point to the Committee. A copy was provided for the record. Ms. Struder summarized the current financial condition, the reserve status and the forecast summary. She indicated that the Long Term Financial Plan Document contains information for the Town on:

- Current financial status
- 10 Year Revenue and Expenditure Trend History
- Benchmark Comparisons
- Forecast for Revenues and Expenditures
- Details of the forecast

Ms. Struder indicated that there may be a $600,000 deficit by the end of the year, but with the hiring freeze and expenditure cuts, she is hopeful that the Town will be able to make up for the shortfall.

Committee Member Rosow asked about the parking meter kiosks and since then, the revenues are down. He asked Ms. Struder if they were too complicated, or the result of fewer people in Town. She responded that it was possibly a combination of both since Parking Enforcement was being lenient with the new system, and the economy may have had an impact.

Town Manager Elwell added that in the beginning there were some technical issues and the vendor of the kiosks had to come back and do troubleshooting. The Town was a test case because the company was having software issues. Since December, the system has been functioning well and the citizens are getting used to the system. The demand has decreased compared to other years.

VI. REVIEW OF TOWN RESERVE LEVELS

Finance Director Struder stated that it was Town Policy to have 25% of the budget as undesignated fund balance for reserves. The minimum amount required by policy in the general fund reserves would be $16, 193,200 but the FY 08 Year end balance was $23,005,186. The Town of Palm Beach has been given a AAA bond rating from Standard & Poor's and Moody's.

Other types of reserves the Town maintains are:

- Catastrophic Exposure Reserves - Risk Fund
- Retained Earnings - Risk Fund
- Equipment Replacement Fund
- Health Insurance Trust Reserve
- Compensated Absence Reserve
- Recreation Enterprise Fund

The Recreation Enterprise Fund is made up of an Euipment Replacement Fund of $321,863, Dock Replacement Reserve of $1,772,062, and the recreation enterprise fund which is undesignated, of $1,868,076.

Town Manager Elwell stated that the Health Insurance Trust could be an area where the Town could postpone some expenses that in good or normal times you would chose to postpone, n the short term. All municipalities have been required to create a trust fund for the advanced funding of post-retirement health insurance services, in the same manner that the pension plans are funded.

He continued that for years, the Town had been setting monies aside for the health fund and had grown to over $17 million. By the time it became necessary under the GASB regulations to set up trust funds, when other cities were starting with nothing. Because the Town is so well-positioned in this particular area, if there was a need to not pre-fund the additional actuarial amount in the next year or two, this is an area that could be used for a limited short term.

Committee Member Rosow asked if this was an area where the Town could buy insurance on an annual basis, rather than self-insurance, and asked when was the last time it was looked at. Town Manager Elwell responded that it currently is a combination right now, and the Town would still need to pre-fund the cost of what it is expected to buy. The Town does buy insurance but it is stop-loss insurance at this point. **Town Manager Elwell will obtain a price if the Town were to purchase the insurance.**

In conclusion, Finance Director Struder stated that all of the reserves are at or exceeding the required reserve amounts. This helps the Town maintain its AAA bond rating.

VII. GUIDELINES FOR FY10 BUDGET

Finance Director Struder stated that the Town is in a good financial situation now. There is an anticipated decline in FY 10 and FY 11 in the general fund expenditures. There would be a 3.5% increase in salary and wages, 9% increase in employee benefits, with an inflation factor of 2%.

Committee Member Rosow indicated that the inflation factor in the out years seemed very low and conservative and asked Ms. Struder to prepare scenarios that would at least double the inflation rates.

Finance Director Struder indicated that Palm Beach has the fourth lowest Millage Rate in Palm Beach County. For the forecast, there will be an increase of less than 1% in the millage rate.

Town Manager Elwell added that the State is considering imposing a property tax cap and restrictions is set at the rollback rate plus growth and personal income. He clarified that any millage rate that would bring taxes into the Town would require four out of the five Town Council members to approve it and to go ten percent or more above that would require a unanimous Town Council vote.

Finance Director Struder discussed the decrease in the Building Department revenue with fewer permits. She expects it may get worse in the coming years.

Committee Member Rosow indicated that there are a few things working against the Town:

1. The strengthening dollar affects foreign buyers
2. Investment Managers have indicated the market is a "re-set" in the economy

Committee Member Rosow said the Town should be looking at the numbers from the late 1980's early 1990's and he aske to see those numbers.

Chairman Wildrick pointed out that the building revenues is where the Town has been getting growth, from building permits and real estate sales. Since houses aren't selling to the same level, which is less than 150 houses this year versus 350 sales the year prior. In addition, building permits have decreased by 50% in the past few months. The Town is not receiving revenue benefits.

Committee Member Rosow asked if it was a State Law that said the issuance of permit dollars cannot exceed the cost of the department. Town Manager Elwell clarified that there has to be reasonable formula with the expectation that they be near equal on the numbers. It is not illegal to collect an extra dollar, but it is illegal to view this a source of balancing revenue and doubling the fees to make more money. The setting of the fees has to relate to the cost of providing the service. He noted that the fees were readjusted a year and a half ago.

Next, Finance Director Struder described the costs related to employees. Committee Member Rosow asked what a 3.5% increase in salaries would be if there was no competitive pay increase. She explained that the 3.5% was a merit increase and is based on an employee's performance. Town Manager Elwell explained the tiers and classifications further. The Fire Fighters and Police Officers have a step-pay system.

Chairman Wildrick asked Finance Director Struder to explain the numbers for the employee benefits. She responded that she obtains the numbers from the Town's actuary. Benefit increases were forecast at a 10% per year rate for health insurance costs, and FY10 and overall employee costs was 9%.

Chairman Wildrick suggested that Finance Director Struder explain the forecast both ways, by meeting the target, and by missing it. She responded that if, by the end of the year, the Town could meet its 8% target, the Town would be in a much better position. However, in December, the Town was looking at losses of 25-30%.

Chairman Wildrick commended Ms. Struder on the great job she was doing. She suggested that the actuary could do an analysis and study the rates and what the Town contributions would be based on various market rates of return. Committee Member Rosow stated that they had asked for that at the last Finance and Taxation Committee Meeting.

Committee Member Rosow added that dividend income has been slashed. That is a factor in the investment funds and not just looking at interest, but in the total return. **He and Chairman Wildrick requested that the actuary prepare a report and provide that to the Mayor and Town Council.**

Finance Director Struder indicated that the actuary would charge a fee.

Town Manager Elwell agreed with the Committee and was going to propose to you that when the Committee report from today is considered by the Town Council on April 14, you would have a proposal from the actuary. The actuary is going to deliver to the three retirement boards, the actuarial report for this upcoming year. As he completes that, he could also show the Council several scenarios, and complete a report for the May Town Council Meeting with the different outcomes.

Committee Member Rosow indicated that it cost the Town $2500 to get information from him and he felt it was ludicrous. He had worked with actuaries that prepare such reports as part of their services. He indicated that he expects more work from the actuary or else they will go out to bid for a new actuary.

Major cuts and cost savings in the FY10 budget included in the forecast were:

- Early retirement buyout savings ($500,000)
- Extraordinary Longevity Pay ($88,000)
- Elimination of PB Cats donation ($75,000)
- Reduction of 3 police officers with no reduction in Community Protection ($300,000)
- Elimination of 3 positions
- Conversion of a position from full to part time with no benefits
- Reclassification of several positions

Finance Director Struder noted that some items were not included in the forecast. They were:

- Competitive pay increases for employees
- Increase to bring the police officer salaries to # 1 in the County
- Funding for Reach 8 or other Coastal projects
- Additional funding for Capital Projects over the FY 09 baseline amount

Finance Director Struder reiterated that the Town is in a strong financial position. The funding of capital needs will require tax increases or deep cuts in service. In looking ahead, she suggested using the Long Term Financial Plan as a baseline forecast and would work with the Town Council on any options or changes that they would like to see made.

Chairman Wildrick informed Finance Director Struder that she did an outstanding job.

Committee Member Rosow agreed with the Chairman. He stated that he had noted that several properties were being transferred in Town through LLC's. Someone will purchase a property, put it into an LLC and then just sell the LLC, and not the property. He asked if the Town was aware of this going on, and what were the fiscal ramifications.

Town Manager Elwell stated he has seen that in the past, he was not sure how widespread the occurrences are since you would have to be aware of the LLC to know about it. There are many properties in Town that are owned by corporations, rather than individuals. To provide a responsible number, he would need to be assigned that as a project and bring it back to the Committee at a future date. Committee Member Rosow directed staff to obtain the requested information.

Secondly, Committee Member Rosow asked about the 1.35% cap the Legislature is discussing and whether it may or may not pass. Town Manager Elwell indicated that he had heard mixed results, especially with the State making so many cutbacks in other areas. He indicated that the Town Lobbyist and the Florida League of Cities are working on the topic and that the 1.35 issue would be a constitutional amendment and would need to be passed on the ballot by the voters.

Again, the Committee commended Finance Director Struder on an excellent presentation and the detail was fantastic and thanked the Town Manager for a great piece of work.

Chairman Wildrick stated that although people have the perception that everyone in Palm Beach is a billionaire, there are many people that are on fixed incomes and live hand to mouth. He personally would be opposed to raising taxes in the Town. There will have to be some difficult decisions.

VIII. ACTION PLAN FOR REVIEWING COST EFFECTIVENESS OF EMPLOYEE BENEFITS (ESPECIALLY PENSIONS AND HEALTH INSURANCE)

Chairman Wildrick asked that Al Parvin from the Civic Association and Jeri Zenko review the benefits and pensions pretty heavily, hopefully by the end of the month.

IX. ANY OTHER MATTERS

Chairman Wildrick stated that he wanted to alert the Town and the Town Council that he is considering putting on the Agenda for the next Town Council meeting, the approval of establishing an outside internal auditor. He does not view this as a way to "catch people", but rather an outside firm that would help look into various operations of the Town for efficiency. He is hoping to improve the effectiveness and efficiency of local government by actively providing independent auditing and financial services to the Town Council.

The auditor would analyze the financial impact of fiscal matters and resolutions etc., to be enacted, conduct various audits of organizations funded in whole or in part by the Town, assist the external auditor in conducting financial and Town audits, prepare reports on internal accounting and control, administrative and operating practice and procedures, conduct operational performance audits of various departments and assist the Town Council in evaluations of the Town's executive budget. In addition, conduct special projects and investigations at the request of the Town Council. He also sees the role of the internal auditor as investigating various things that people consider a conflict of interest, and coming up with a recommendation to the Town Council whether it is, or is not so that appropriate action could be taken.

He stated he will present this as either a proposal or Resolution prior to the next Town Council meeting and ask for the Council to approve some funds for this. He knows it may seem controversial as no one likes to be looked at, but in these times, he feels it would be appropriate that the Town conducts itself in a transparent, and highly ethical, above board fashion. This may cost up to $100,000 and in light of what was looked at today, some people may view it as an unnecessary expense, but he feels that Palm Beach is one of the few Towns without an internal audit, and should have it.

Town Manager Elwell asked if the Committee was satisfied with the Citizens Financial Report that was distributed. Instead of the glossy report used a few years ago, it is ready to go to press and he asked for approval for the same format as last year which was a basic cover.

Member Rosow stated that it was great and Chairman Wildrick thought it was outstanding and a great job of reporting the numbers.

Chairman Wildrick asked each Council Member and Mayor that were in the audience if they had anything they wished to add. There were none.

X. ADJOURNMENT

There being no further business, the Finance and Taxation Committee Meeting was adjourned at 2:30 p.m.

Robert N. Wildrick
Committee Chair

David A. Rosow
Committee Member