

VERNON MYERS
MAYOR - COMMISSIONER

MARY LAWSON BROWN
VICE MAYOR - COMMISSIONER

ALLEGRA KITCHENS
COMMISSIONER

PHIL LEARY
COMMISSIONER

JAMES NORWOOD, JR.
COMMISSIONER



ELWIN C. "WOODY" BOYNTON, JR.
CITY MANAGER

BETSY JORDAN DRIGGERS
CITY CLERK

MATTHEW D. REYNOLDS
FINANCE DIRECTOR

GARY S. GETCHELL
CHIEF OF POLICE

MICHAEL LAMBERT
CHIEF FIRE DEPT

DONALD E. HOLMES
CITY ATTORNEY

Regular meeting 2nd and 4th Thursdays each month at 6:00 p.m.

May 24, 2012

**TO MESSRS: MARY LAWSON BROWN, ALLEGRA KITCHENS, PHIL LEARY AND
JAMES NORWOOD, Jr.:**

You are hereby notified that a workshop meeting of the Palatka City Commission is called to be held on June 14, 2012, at the regular meeting place of the Palatka City Commission, Palatka City Hall, 201 N. 2nd Street, Palatka, Florida, to commence at 2:00 p.m.

The purpose of the meeting is to hold a pre-budget workshop for FY 2012-13.

/s/ Vernon Myers

Vernon Myers, MAYOR

We acknowledge receipt of a copy of the foregoing notice of a special meeting on the 24th day of May, 2012.

/s/ Mary Lawson Brown

COMMISSIONER

/s/ Phil Leary

COMMISSIONER

/s/ James Norwood, Jr.

COMMISSIONER

/s/ Allegra Kitchens

COMMISSIONER

PERSONS WITH DISABILITIES REQUIRING ACCOMMODATIONS IN ORDER TO PARTICIPATE IN THIS MEETING SHOULD CONTACT THE CITY CLERK'S OFFICE AT 329-0100 AT LEAST 24 HOURS IN ADVANCE TO REQUEST ACCOMMODATIONS.

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**CITY OF PALATKA PRE-BUDGET WORKSHOP
AGENDA
PALATKA CITY COMMISSION
Palatka City Hall
June 14, 2012; 2:00 p.m.**

CALL TO ORDER: Mayor Myers

- I. Opening Remarks**
- II. Funds by Category – Matt Reynolds, Finance Director**
 1. Sanitation Fund
 2. Utility Fund
 3. Airport Fund
 4. Golf Course
 5. General Fund
- III. Discussion -- Health Insurance RFP versus RFQ for Health Insurance Agent**
- IV. Final Observations**
- V. Commission Discussion**
- VI. Adjourn**

ANY PERSON WISHING TO APPEAL ANY DECISION MADE BY THE CITY COMMISSION WITH RESPECT TO ANY MATTER CONSIDERED AT SUCH MEETING WILL NEED A RECORD OF THE PROCEEDINGS, AND FOR SUCH PURPOSE MAY NEED TO INSURE THAT A VERBATIM RECORD OF THE PROCEEDINGS IS MADE, WHICH RECORD INCLUDES THE TESTIMONY AND EVIDENCE UPON WHICH THE APPEAL IS TO BE BASED. FS 286.105

PERSONS WITH DISABILITIES REQUIRING ACCOMMODATIONS IN ORDER TO PARTICIPATE IN THIS MEETING SHOULD CONTACT THE CITY CLERK'S OFFICE AT 329-0100 AT LEAST 24 HOURS IN ADVANCE TO REQUEST ACCOMMODATIONS.

201 N. 2nd Street
Palatka, FL 32177
Tel. (386) 329-0100
Fax (386) 329-0106

City of Palatka
Office of the Finance Director

To: Mayor Myers, City Commissioners

From: Matt Reynolds, Finance Director

Date: June 13, 2012

RE: Enterprise Funds Cover Letter

Enterprise Funds Overview

Enterprise Funds operate on fees generated by each activity or service provided by those respective departments. These budgets include the Sanitation, Utility, Airport, and Golf Course Funds. The budgets for these funds are still in the preliminary stage and subject to change.

Sanitation Fund

The budget for the Sanitation Fund is balanced at this point in time. No adjustments were needed due to loan payments on the sanitation fleet ending in the early part of the fiscal year. This has allowed for a contingency to be budgeted of approximately \$150,000. The sanitation fleet is now seven years old and maintenance costs have risen, however it is still beneficial to continue using the trucks for another 2-3 years. This will allow us to save the amount budgeted in contingency for several years and then use the saved monies to reduce the amount we will need to borrow in order to purchase a new fleet. This contingency may also be needed to assist the General Fund.

One other change to note is that transfer to the General Fund was reduced from \$95,000 to \$65,000 for next year. \$65,000 is the amount that the Sanitation Fund had transferred in past years to cover the administrative costs incurred by the General Fund. This year, the amount was raised to \$95,000 in order to assist the General Fund in balancing the budget. After talking with Ken Small at the Florida League of Cities, he highly recommended that we have an indirect cost study done in order to get a more accurate amount that should be transferred to the General Fund each year to cover administrative costs.

Utility Fund

The budget for the Utility Fund is also balanced at this point in time. There is a budgeted contingency of \$22,956; however this can be increased due to several capital improvement requests that are currently included in this preliminary version of the utility fund budget.

Water Plant

The Water Plant has requested \$66,000 for well cleanings and renewals due to the fact that these have been put off for several years and it has reached the point where these are desperately needing to be done.

Wastewater Treatment Plant

The WWTP has requested \$30,000 to purchase a new truck.

Water & Sewer Distribution

The Water & Sewer Distribution department has requested \$100,000 for additional 1" and 2" radio read meters in order to replace the approximately 300 old meters that were not changed out to the new meters. They have also requested \$20,000 for repair parts and fire hydrants and approximately \$78,000 per year for the next 5 years to purchase a new vacuum truck. They are currently operating a 1996 vacuum truck which has required substantial maintenance over the past few years.

These requested capital improvements total \$294,000. Some of these requested capital improvements could be pushed to future years in order to increase the amount of contingency. This may be required in order to increase the transfer to General Fund to assist with its budget. The budgeted transfer to the General Fund is \$110,000, which is a decrease from \$250,000 this year. The principal behind this transfer is the same as the Sanitation Fund, to cover administrative costs in the General Fund. The amount of this transfer was increased to \$250,000 this year to assist the General Fund, however Ken Small from the League of Cities has highly recommended that we have an indirect cost study done to get an accurate amount that should be transferred to cover administrative costs.

Airport Fund

The requested expenditures and estimated revenues I received from the Airport resulted in a deficit of \$149,610. This will require a transfer from the General Fund to be budgeted for this amount in order to balance the Airport Fund.

The additional costs associated with the two loans for the new terminal building and t-hangars will cause the Airport fund to operate at a deficit until these loans expire in 2023. Transfers from the General Fund will be required every year unless alternative revenue streams are utilized. This year, a transfer of approximately \$113,000 was required to balance the budget, however as the year has passed several additional revenue streams were realized which should allow the Airport Fund to end the year deficit neutral. We hope that this will occur again next year; however a transfer must still be budgeted at this point in order for the budget to be balanced.

Golf Course

As in the past, the Golf Course Fund will require a transfer from the General Fund in order to be balanced. Revenues continue to remain approximately the same as past years at around \$650,000; however expenditures remain elevated at approximately \$975,000. At this time, the amount needed to balance the Golf Course budget is \$322,549. One option to reduce this amount is to eliminate the contract with Bobby Weed Golf Design Group (BWGD), which will reduce the amount by \$72,000. Other cuts to operating expenses can be made as well, however the condition of the course and the improvements that have been made over the past two years will most likely deteriorate very quickly.

An important fact to note about the Golf Course Fund is the net assets at the course as of the end of fiscal year 2011 are negative \$631,201. This amount is going to increase even further, to roughly \$1,000,000, due to the fact that \$350,000 to \$400,000 will need to be transferred to the Golf Course at the end of this fiscal year in September. Another important fact to note is that only \$150,000 is budgeted this year for a transfer to the Golf Course. This means the additional \$200,000 to \$250,000 will have to come from the General Funds reserves, which are currently at approximately \$600,000 and well below the suggested minimum balance. If immediate changes are not made and the General Fund continues to transfer \$350,000 to \$400,000 every year, the General Fund will be depleted of all reserves within a very short time and the City will run into very serious cash flow issues. If this occurs, deep cuts to personnel and operating expenditures in the General Fund will have to be made.

201 N. 2nd Street
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Tel. (386) 329-0100
Fax (386) 329-0199

City of Palatka
Office of the Finance Director

To: Mayor Myers, City Commissioners

From: Matt Reynolds, Finance Director

Date: June 13, 2012

RE: General Fund Cover Letter

General Fund Overview

In the past, the City Manager and I have attempted to present a balanced budget to Commission, however last year this was not the case and this year will be the same. I am presenting a General Fund budget that is approximately \$1,380,000 short of being balanced. Current revenues are estimated at \$7,492,116 and expenditures are estimated at \$8,872,321. This is a decrease in revenues of \$918,837 and increase in expenses of \$461,368 from the current year.

We have seen the General Fund total revenues decrease from a high of \$9.792 million in 2008-2009 to next year's projected revenue of \$7.492 million; a \$2.3 million decrease over a five year period. Significant losses in revenues can be seen in ad-valorem taxes that are estimated to decrease by \$230,000, franchise fees by \$300,000, federal grants by \$220,000, a net decrease in transfers into the General Fund of \$110,000 and decreases in other miscellaneous revenue streams of approximately \$60,000. Significant increases in expenditures can be seen in the transfers to the airport and golf course funds.

Over the past five years, we have not budgeted any major capital outlay or capital improvement project, including resurfacing of local streets, that was not funded primarily by grants. This is true again this year. Our work force has decreased from nearly 190 +/- full and part time employees to approximately 158 full and part time employees. This budget does not include a pay raise for the fifth consecutive year, although in December 2007 each employee was given a \$1000 (net) Christmas bonus. This does not mean that employees do not have avenues to increase their rate of pay, in fact nearly one-third of all full-time employees have seen their wages increased by 5% since March 2010. Reasons for these increase range from a longevity increase, promotion, education, probationary or re-evaluation of their job.

We have worked diligently as supervisors and administrators over the past five years to educate our employees on safety, timely reporting of injuries and preventive maintenance. This has allowed us to maintain workers compensation, liability insurance and even the health insurance premiums at nearly the same level. This is a major reason you have not seen significant increases in personnel or operating expenditures. Until last year, the same could be said about pension costs, however this year the City's contribution to General Fund employees increased from 14% to 21.6%, and next year it is increasing from 21.6% to 26.6%.

Over the past four years we have balanced the budget while at the same time making changes throughout the year to ensure that expenditures matched reduced revenue projections and that there was an adequate savings to cover losses at the golf course. This loss has averaged approximately \$350,000 over the past two years. We have made significant progress at the golf course, but it is still not self sustaining and the money needed to cover the loss is typically transferred from the General Fund. Next year will be no different. A transfer of

approximately \$322,000 has been budgeted in order to balance the Golf Course budget. A more detailed discussion on the golf course can be found in the Enterprise Fund cover letter.

In addition, a transfer of approximately \$150,000 will need to be budgeted in order to balance the Airport Fund budget. Two loans were borrowed in 2008 to finance the construction of the terminal building and T-Hangars; this work was expected to spur growth at the airport. With the downturn in the economy, increased hangar rental rates and increased fuel sales never materialized. This fund will also require recurring transfers each year until the loans are paid unless alternative revenue sources are realized. Again, a full discussion of this fund can be found in the Enterprise Fund cover letter.

The following is a summary of the increases and decreases in expenditures associated with each department.

General Government – City Hall

Personal Services are increasing by approximately \$91,000; however the majority of this increase is due to the Main Street Manager's salary being paid from City Hall's budget. There is a transfer from the CRA that is budgeted to offset this increase. Additional increases in pension contributions have also caused the total to increase by approximately \$20,000 next year. Operating expenses have been reduced by approximately \$18,000 mainly due to the contract for IT services that was not renewed as the Police Department has taken over full oversight and maintenance of the City's IT systems.

General Government – All Other Expenses

Transfers to the Golf Course and Airport Funds have increased by approximately \$208,000.

Public Safety/Building & Zoning

Salaries are expected to increase next year due to the hiring of a building official. An increase of \$12,600 in building maintenance was requested due to the need for necessary repairs to the building as well as pest control costs associated with termite issues. An increase of \$13,926 has been budgeted for Demolition however this cost is offset by the Code Enforcement fines that are collected.

Police Department

The total increase for the Police Department will be approximately \$70,000. Personnel services are decreasing by roughly \$23,000 due to savings realized from eliminating the Commander position. Operating expenses are increasing by approximately \$98,000 due to increases in the Gas and Lubricants line and the Professional Services line. The increase in Professional Services was due to increased costs related to the IT needs of the City. In the past, this has been part of the Police Departments budget, however Chief Getchell has asked to split these costs into a separate department in order for these costs to be more transparent. I will be working with him to create an IT department or line item under General Government Services which will allow the IT costs to be more transparent. More detailed information regarding the Police Department's budget can be found on pages 18-34 of the Preliminary budget document that I have provided you with.

Fire Department

The overall budget for the fire department has been reduced by nearly \$10,000. This includes an increase of \$17,000 in fire pension and overtime lines as well as a decrease in the health insurance costs. Operating expenses were reduced by \$27,000 due to decreases in the Uniforms and Fire Public Education lines. This budget does not include allowances for the purchase of a new fire truck. We continue to work with Mike Lambert, Fire Chief to see if a new truck can be purchased. USDA grant funds have been received for 50% of the cost of the truck, however the current budget may not allow for the financing of the City's share. More detailed information regarding the Fire Department's budget can be found on pages 35-56 of the Preliminary budget document that I have provided you with.

Streets Department

The overall budget for the Street Department has increased by nearly \$28,000 from the previous year. The increases are due to the hiring of a street sweeper position as well as increases to pension contribution amounts. It should also be noted that the Public Works Director position is still not filled.

Cemeteries

A decrease in personnel services of approximately \$22,000 was due to a vacant position not being filled. Expenses in the Special Cemetery operating line increased by \$15,300 but are offset by an estimated increase in Special Cemetery revenues.

Cultural Services

Slight increases of around \$2,700 to the operating expenses of the City's buildings and Bronson House are mainly due to the increases in pension costs.

Parks Department

The Parks Department increased by approximately \$5,000 due to the increased pension contribution amounts

Community Center

With the upgrades to the Price Martin center, the building maintenance budget decreased by \$2,500.

Better Place Plan Funds

Over one-half of Better Place revenues will be spent on repayment of the Frank George loan. Other expenditures from Better Place funds include two inmate crews and various sidewalk projects.

Final Comments

There are two unknown factors at this time that will have an effect on the budget, the first being the Clay Electric Franchise Fee agreement. The expiration of this agreement makes up approximately \$270,000 of the shortfall in revenues. We will be negotiating with Clay Electric to enter into a new franchise agreement over the next few months. Any agreement that can be reached between the City and Clay Electric will have a positive effect on next year's budget. The other unknown factor is what, if any, increases we will see on our health insurance costs. Any increases will have a negative effect on the budget, unless further modifications to the plans we currently offer are made in order to maintain the current costs of health insurance.

Balancing the budget is no longer as simple as not filling vacant positions, limiting capital improvement projects, capital outlay or minimizing operating budgets to the point where every purchase is scrutinized. There are several options for balancing the budget but the final decision may need to come from the legislative body and/or from citizen input.

Here are a few options that may be exercised to help reduce this deficit:

1. Going to the roll-back rate.
 - This option will increase the millage rate but will not increase taxes. We will collect the same amount of taxes as we collected this year.

2. A one-time transfer from the CRA to pay for part of the Frank George loan repayment
 - This will allow Better Plan funds to be used for the debt service at the Airport and Golf Course. This will eliminate the transfer to the Airport and reduce the transfer to the Golf Course by \$182,000.
3. Eliminate the contract with Bobby Weed Golf Design
 - This will further reduce the transfer to the Golf Course by another \$72,000. If this option and the option to transfer money from the CRA are used, the transfer to the Golf Course from general fund revenues will be reduced to approximately \$68,000.
4. Use the contingencies budgeted in the Water Fund and Sanitation Fund to help offset the deficit
 - Approximately \$375,000 could be budgeted as an advance to the General Fund to help offset the deficit, however transfers from these funds should only be used for non-recurring expenditures and not to balance the budget. If this is used to help balance the budget next year, we will have to make sure that recurring expenses such as personnel or operating expenses are reduced by the same amount that is transferred during next fiscal year so that we are not faced with another shortfall next year.
5. Fire Assessment Fee
 - This is probably the most controversial option, however it would allow the City to charge a fee for fire services and in turn reduce the millage rate.
6. Furloughs, staffing reductions, reducing the level of service and/or restructuring departments

Some of these options are extremely controversial, however I attempted to list any option that could be used to help reduce the deficit. I am asking the Commission on direction to cover this shortfall. It may be appropriate to initiate citizen workshop to see what ideas they may propose to assist in closing this deficit.

Including any amount of reserves in the budget to help the deficit is not an option. The transfers that have been made to the Golf course over the past three years have not allowed the City to build its reserves adequately to fund this shortfall. In fact, our reserves in the General Fund are well below the minimum recommended by the Government Finance Officers Association. We currently have \$600,000 in reserves at this point in time, but as mentioned in the Enterprise fund memo this amount could be cut in half at the end of the current fiscal year due to the transfer to the Golf Course. This will leave the amount we have in reserves at a very dangerous level.