

## MEMORANDUM

TO: CITY COUNCIL OF PALM BEACH GARDENS

FROM: BUDGET OVERSIGHT REVIEW BOARD

RE: 2020 ANNUAL REPORT

DATE: AUGUST 28, 2020

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This 2020 Annual Report (this “**Annual Report**”) is submitted to the City Council (the “**Council**”) of Palm Beach Gardens (the “**City**”) in accordance with Section 7(d) of the Ordinance 2016-032 (the “**County Ordinance**”). Included in this Annual Report are certain recommendations of the Budget Oversight Review Board (the “**BORB**”), as well as the BORB’s review of the following items: (i) review of the expenditure of the one-cent sales surtax funds (the “**Tax**”); and (ii) review of the proposed operating and capital improvement budget and how it relates to the spending plan for compliance with the City of Palm Beach Gardens’ financial policies.

### **BACKGROUND**

On May 17, 2016, the Board of County Commissioners of Palm Beach County adopted the County Ordinance, which implemented the Tax. The County Ordinance also established certain requirements for citizen oversight of the expenditure of surtax funds; these requirements are set forth in Section 7 of the ordinance. On November 8, 2016, Palm Beach County voters approved a ballot issue to enact a One-Cent Infrastructure Sales Surtax to pay for acquisition or improvements to public infrastructure. This additional tax, which went into effect on January 1, 2017, will be in place for up to ten (10) years. On February 9, 2017, the City Council of Palm Beach Gardens (the “**Council**”) adopted Ordinance 5, 2017 (the “**City Ordinance**”), which dissolved the Budget Oversight Committee and established the BORB. The Council tasked the BORB to (i) continue the budget oversight function, and (ii) satisfy the requirements set forth in the County Ordinance regarding citizen review of the Tax expenditures. Copies of the County and City Ordinances can be found on the City’s website.

### **POWERS AND DUTIES OF THE BORB**

Section 2-127 of the City Ordinance sets forth the powers and duties of the BORB:

1. Review the expenditure of the Tax funds;
2. Review the proposed operating and capital improvement budget as prepared by staff;
3. Request information from staff in order to analyze the proposed operating and capital improvements budget;
4. Review the recommended spending plan for compliance with current adopted financial policies, i.e., fund balance levels, debt service coverage, etc.; and

5. Make a recommendation to Council during the budget adoption process regarding the proposed operating and capital improvements budget, as submitted.

**REVIEW OF THE EXPENDITURE OF THE ONE-CENT SALES SURTAX FUNDS**



The BORB’s primary function is to review expenditures to determine if sales surtax funds are being spent appropriately for the approved projects, and to provide an annual report to the Council. Estimated budget, amount spent/encumbered, and available balance for the City’s infrastructure projects being funded by the Tax proceeds under the Capital Improvement Budget are as follows:

<b>PROJECT</b>	<b>AMENDED BUDGET</b>	<b>AMOUNT SPENT/ENCUMBERED</b>	<b>PROJECT BALANCE</b>
District Park- Phases I and II	\$13,700,000	\$(12,886,513)	\$813,487
City Hall, Police Department and Fire Department Expansion/Renovations	\$9,071,382	\$(8,733,269)	\$338,113
Operations Center	\$6,860,655	\$(6,713,906)	\$146,659
Contingency	\$156,130	0	\$156,130
<b>Total</b>	<b>\$29,788,077</b>	<b>\$(28,333,688)</b>	<b>\$1,454,389</b>

After the closeout of FY 2020, unspent funds related to these capital projects will be re-appropriated into FY 2021 as part of the normal end-of-year carryforward of capital projects and purchase orders; accordingly, the proposed spending plan for FY 2021 does not include amounts related to these capital projects. The BORB notes that the District Park celebrated its grand opening on June 29, 2019 and City staff moved into the new operations building on October 1, 2019. Accordingly, two-thirds of the designated Tax infrastructure projects have been completed.

**BORB Analysis.**

In fulfilling our responsibilities under the County Ordinance and the City Ordinance, the BORB requested further detail on the status of revenues generated by the One-Cent Infrastructure Sales Tax. Currently, revenue receipts are exceeding the City’s expectations; however, it is important to note that revenues are subject to numerous market variables and will likely fluctuate in the future. The Line Item Account Summary for the Tax is as follows:

Department/Division Expenditures  
 Line Item Account Summary

	Actual 2018	Actual 2019	Percentage Increase/ (-)Decrease	Adopted Budget 2020	Amended Budget 2020	Proposed Budget 2021	Dollar Amount Increase/ (Decrease)	Percentage Increase/ (-)Decrease
<b>Fund 312 - One-Cent Sales Surtax Capital Improvements</b>								
312.0900.519.6900 CIP	3,442,139	17,295,998		-	8,931,304	-	-	
312.0900.519.7110 PRINCIPAL - DEBT	-	2,775,000		2,835,000	2,835,000	2,895,000	60,000	
312.0900.519.7210 INTEREST - DEBT	299,525	569,525		507,815	507,815	444,785	(63,030)	
312.0900.519.9900 COSTS OF ISSUANCE	-	-		-	-	-	-	
312.0900.519.9901 ADVANCE REFUNDING	-	-		-	-	-	-	
312.0900.519.9924 RESTRICTED RESERVES	-	-		-	-	-	-	
<b>Total - One - Cent Sales Tax Fund</b>	<b>\$ 3,741,665</b>	<b>\$ 20,640,523</b>		<b>\$ 3,342,815</b>	<b>\$ 12,274,119</b>	<b>\$ 3,339,785</b>	<b>\$ (3,030)</b>	

New fund 2017 to account for One-Cents Sales Surtax CIP

Additionally, the BORB has been kept apprised of the current Fund expenditures and how such expenditures impact the Capital Improvement Budget. The estimated available balance for projects that will be carried forward for the capital project fund from FY 2020 to FY 2021 is \$4,699,423. Total projected newly generated revenue is \$3,514,098 and includes Tax revenue of \$3,500,000 and interest income of \$14,098. Estimates for next fiscal year have been discounted approximately 10% from pre-COVID levels due to the uncertainty regarding the ongoing pandemic. The City's estimated annual and 10-year allocations of the Tax are illustrated on the following table:

<b>City of Palm Beach Gardens Distribution Percentage 1.3216% (of \$228 million)</b>		
<b>1 year</b>	<b>10 Year (No Revenue Increase)</b>	<b>10 Year (3% Revenue Increase)</b>
<b>\$3,012,492</b>	<b>\$30,124,923</b>	<b>\$35,570,894</b>

When the Tax was implemented in 2017, it was estimated to generate an average of about \$3,350,000 per year over the life of the Tax. Actual collections have exceeded this amount each fiscal year since implementation and, even after reducing projections next year, this trend is forecasted to continue next fiscal year, as the estimate of \$3,500,000 for FY 2021 exceeds the original expectation by \$150,000, or 4.4%. Total projected expenditures, exclusive of carry-forward balances, are \$3,339,785 and consist of the annual debt service on the Series 2017 Public Improvement Bonds.

**BORB REVIEW AND RECOMMENDATIONS- EXPENDITURE OF TAX FUNDS**

The BORB has held public meetings on a monthly basis in order to fulfill the duties and responsibilities set forth in the City Ordinance, which is to provide citizen input for both the budget process and the expenditure of the Tax proceeds allocated to the City. Furthermore, the BORB has reviewed the following issues in accordance with Section 2-127 of the City Ordinance:

The BORB has reviewed the current expenditures of the Tax funds. The BORB has found that the City is in compliance with the following pieces of legislation: (a) County Ordinance; (b)

City Ordinance; (c) Fla. Stat. 212.055; (d) Resolution 12, 2017; (e) Resolution 14, 2017; and (f) Ordinance 10. The BORB also finds that the City is acting responsibly and in the best interests of the residents with respect to the expenditures of the Tax proceeds.

In summary, the BORB has found that the City has expended Tax funds in accordance with Florida Statutes, the County Ordinance, City Ordinance, and related Resolutions. Furthermore, the Staff has been efficient and thorough with respect to incurring such expenditures.

The BORB notes that the decision to issue the Florida Public Improvement Bond, Series 2017 to obtain an advance of the future revenues generated by the Tax was an excellent decision. Rather than waiting ten years to start projects, the City has been able to enjoy the use of the District Park and the Operations Center since 2019 and is nearing completion on the remaining designated projects. As referenced above, the actual Tax revenues have been in excess of the projected budgeted amounts; furthermore, the interest income generated from the advanced funds has generated a sizable return. The following chart illustrates past, current and projected revenues:

	Actual FY 2018	Actual FY 2019	Estimated FY 2020	Amended FY 2020	Proposed FY 2020
<b>Interest</b>	\$ 514,146	\$ 585,761	\$ 146,598	\$ 42,163	\$ 14,098
<b>One-Cent Revenue</b>	\$ 3,728,975	\$ 3,866,013	\$ 3,560,386	\$ 3,438,420	\$ 3,500,000
<b>Miscellaneous</b>	\$ -	\$ 54,250	\$ -	\$ -	\$ -

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 REVIEW OF FY 2020/2021 PROPOSED OPERATING AND CAPITAL  
 IMPROVEMENTS BUDGET APPEARS ON THE FOLLOWING PAGE.]**

**REVIEW OF THE FY 2020/2021 PROPOSED OPERATING & CAPITAL  
IMPROVEMENTS BUDGET**

The FY 2020 total expenditures and reserves for all funds is \$182,700,733, including \$85,854,124 in personnel, \$32,146,170, in operating, \$5,069,840 in capital outlay, \$339,698 in operating transfers, and \$5,839,261 in debt service. Reserves total \$53,451,371. The significant components of reserves include \$26,000,000 in unassigned reserves, \$2,324,225 for economic development and \$5,281,732 for budget stabilization. The FY 2020 Operating & Capital Improvements Budget (the “**Budget**”) is balanced, continues high-quality services to the residents of the City, and maintains a strong General Fund Unassigned Reserve (the “**General Fund Reserve**”) balance of \$26,000,000, which is approximately 20% of General Fund operating expenditures, and is in compliance with the City’s policy of at least 17% of operating expenditures. The General Fund expenditures and reserves total \$134,185,548, including \$69,622,805 in personnel, \$23,962,592 in operating expenditures, \$3,317,155 in capital outlay expenditures, \$339,968 in operating transfers, and \$2,290,938 in debt service. Projected unassigned reserves total \$26,000,000, law enforcement reserves total \$1,046,133, and reserves for economic development and budget stabilization total \$2,324,225 and \$5,281,732, respectively

In analyzing the changes from the previous year’s budget to the budget for FY 20/21, personnel costs have increased from \$65,711,376 to \$69,622,805, and operating costs have increased from \$23,276,545 to \$23,962,592. Transfers have decreased from \$497,754 to \$339,968, while projected ending fund balance is increased from \$29,018,052 to \$34,652,090, and capital expenditures have decreased from \$5,177,889 to \$3,317,155. Debt service has been reduced by \$1,345,284 due to final payment on the Series 2011 B Bonds in FY 2020. Excluding capital, transfers and reserve balances, expenditures have increased by 3.5%.

**COVID-19.** One of the most significant factors affecting the formulation of the recommended spending plan for FY 2021 is the recent economic shutdown necessitated by the COVID-19 pandemic. The development of the budget is also driven by the key initiatives previously discussed, and current and projected growth of the City. This growth is a result of several factors, including new development, annexations, and the recent implementation of the Tax. In addition to COVID-19 and growth issues, there are several other considerations that are main drivers of every budget, including repair and maintenance costs, personnel costs, and use of reserves.

**Proposed Millage Rate.** The proposed FY 2021 millage rate is based upon the certified property valuation received from the Palm Beach County Property Appraiser in the amount of \$13,098,449,265. As illustrated in the graphic on the following page, this includes new construction of \$163,252,431, and represents an increase of 3.6% from last year’s valuation. This is the ninth consecutive year that the City’s property valuation has increased. Using the final property valuation number, the proposed total millage rate is 5.55 which is the same as last year. This rate represents a 2.3% increase over the roll-back rate of 5.4254 mills. This year’s Budget summary provided a summary of the ten year proposed budget. Assuming the operating millage rate remains flat, the ten-year projection anticipates a gradual reduction in reserves through FY

2026 to keep up with demand for services. Beginning in FY 2027 it is anticipated that surpluses will be generated, restoring unassigned reserves to \$26 million, and increasing budget stabilization reserves to approximately \$2.2 million. However, it should be noted that the use of reserves in the summary illustration does not exceed planned capital expenditures in any year; therefore, the use of reserves complies with the fund balance policy requiring use of reserves for one-time expenditures such as capital. It should also be noted that unassigned reserves as a percentage of expenditures exceed 17%, maintaining compliance with the City's policy.

**New Development.** The City has several significant development projects currently underway or recently approved, including the following:

- **Alton Town Center:** This project consists of 360,203 square feet of retail and commercial uses on 40.8 acres of land. Construction of this project began early in 2018 and several establishments have already opened.
- **Ancient Tree:** Ancient Tree: This development, currently under construction, consists of 97 residential single-family homes. The project encompasses 97 acres and borders the western boundary of the City's Sandhill Crane Municipal Golf Club. Construction began in early 2019 with several homes being completed and occupied beginning in the summer of 2019.
- **Florida Power and Light:** This project was approved on June 11, 2019, via Resolution 46, 2019, and consists of a 270,000 square foot office building and three-story parking on Parcel A. Application for permits to begin construction is anticipated sometime early in 2020.
- **PGA Station Hotel:** This development, approved via Resolution 45, 2016, is currently under construction, and consists of 415,401 square feet of professional office; 49,279 square feet of medical office; 11,777 square feet of retail; a 3,000 square foot restaurant; and a 111-room hotel located within a 30 acre site.
- **Arcadia Gardens:** This project, located along RCA Boulevard, consists of a 326-bed/163-unit, age restricted 55+ independent living facility. This development was approved on February 7, 2019.
- **Artistry Neighborhood (fka Alton Parcel G):** This development on 206 acres of the Alton parcel was approved on February 9, 2017 and consists of 469 single-family units, a 3,290 square foot clubhouse, and 61 acres of upland preserve.
- **Clarity Pointe – A.L.F.:** This project on seven acres of the Alton parcel consists of a 234,491 square foot assisted living facility with 161 assisted living beds and 95 memory care beds. This development was approved on November 16, 2016.
- **Avenir:** Looking to the future, the City recently approved the Avenir mixed-use development project on the western fringes of the City. This project will consist of 3,250 homes, 2 million square feet of office space, 400,000 square feet of retail space, and 300 hotel rooms. Residential site plans #1 and #2 have been approved. What makes this project so unique is that 2,407 of the total 4,763 acres will be set aside to create a conservation area and nature preserve. Land clearing began in 2018. The age- restricted development was approved on November 1, 2018, and the single-family site plan was approved on January 10, 2019.

- **Divosta Towers:** Approved via Resolution 20, 2017, on March 2, 2017, this project consists of two 111,971 square feet 11-story professional office towers. One tower has been issued a certificate of occupancy, with the second tower nearing completion.

**Annexations.** In addition to the many development projects approved, under construction, or recently completed, there have been seven recent annexations of residential parcels in the western area of the City adjacent to the Avenir mixed use development project and the City's municipal golf course: Balsamo Property (Ancient Tree), Carleton Oaks, Osprey Isles, Bay Hill Estates, Preserve at Bay Hill Estates and Rustic Lakes. Annual ad valorem taxes of approximately \$1.5 million related to these parcels will be received by the City in FY 2021.

**Storm Water Repair and Renovation Program.** The proposed FY 2020 Budget continues the Storm Water Repair and Renovation Program and includes \$250,000 in the Storm Water Division's Repair & Maintenance expenditure account. In addition to repairs to the storm water system, staff identified needed maintenance to the City's system of canals, which collect the water runoff from the storm water system. The canal system underwent a major refurbishment 15 years ago with the issuance of \$5 million public improvement bonds. To prevent the system from requiring similar substantial refurbishment, staff formulated an annual canal dredging and maintenance plan. The first year of this program was implemented in FY 2017. The proposed budget contains an additional allocation of \$250,000 in the Storm Water Division's Repair & Maintenance expenditure account to continue this program.

**Personnel Cost Factors.** Personnel costs comprise the majority (approximately 69%) of the City's General Fund total expenditures, excluding transfers and reserves; this is 2% higher than FY 2020. Therefore, the factors that influence personnel costs are by far the most significant drivers of the entire budget. The Budget contains 539 full-time positions, which is an increase of 7 from the FY 2020 total of 532.

The City and the IAFF recently negotiated a new wage agreement for FY 2019- FY 2021. Effective October 1, 2019, and 2020, all bargaining unit members will receive a 4% market adjustment, and in addition, a 3% across-the-board increase to base salary. The new contract will cost approximately \$3.3 million over the three-year period, including pension, FICA and one-time lump-sum payments that were paid in FY 2019. Additionally, the City and the Police Benevolent Association recently negotiated a new wage agreement for FY 2020- FY 2022. Effective October 1, 2019, 2020, and 2021, all bargaining unit members will receive a 6% increase to base salary. The new contract will cost approximately \$2.8 million over the three-year period, including pension and FICA.

The City and the SEIU recently concluded discussions on a new three-year agreement. As of the date of this memorandum, the agreement has not been approved by City Council; however, in anticipation of City Council approval on September 10, 2020, the Budget contains an increase of 6% in FY 2021 for the members of the SEIU. The new contract will cost approximately \$834,000 over the three-year period, including pension and FICA.

**Use of Reserves:** The proposed Budget uses approximately \$2.2 million of budget stabilization reserves, which is being proposed to eliminate the need for a tax increase. As discussed in the millage rate section, above, the ten-year financial forecast projects a gradual reduction of reserves through FY 2026. Beginning in FY 2027, projections indicate this trend will reverse and surpluses will begin to be added back to reserves as more development in Avenir comes onto the tax rolls. Unassigned reserves and budget stabilization reserves are projected at \$26 million and \$5.3 million, respectively. The unassigned reserve balance of \$26 million represents 26% of total expenditures and complies with Council's policy of maintaining a minimum reserve balance of 17% of expenditures.

### **BORB REVIEW AND RECOMMENDATIONS- FY 2020/2021 BUDGET**

1. **Proposed Operating and Capital Improvement Budget as Prepared by Staff and Analysis:** The BORB has reviewed the Operating and Capital Improvement Budgets and finds that the Staff has done an excellent job of balancing the increased burdens of an expanding population and the benefits of a growing tax base.

2. **Spending Plan for Compliance with Current Adopted Financial Policies.** The City has taken affirmative steps to avoid a tax increase for the FY 2020/2021 Budget. Given the current uncertainty resulting from the COVID-19 pandemic, the BORB was pleased that the City reviewed policies, fund balances and budgets and felt confident that a millage increase was not necessary.

**Recommendation.** In summary, the BORB's review of the Budget confirms that (i) the City is financially strong and has policies in place to maintain the current financial stability; and (ii) City Staff has been transparent throughout the budgetary process with its residents and citizens. The openness and transparency of the budgetary process is welcomed by the members of this Committee and by the residents of the City.

The BORB had extensive discussions in connection with the current millage rate. While the BORB was in agreement that a millage increase was not necessary, certain members felt that a reduction of the millage rate would have been in order but for the uncertainty resulting from COVID-19. The City's financial position continues to improve on an annual basis and the BORB acknowledges that strong and consistent leadership is a significant part of the City's success. Looking to the future, the members of the BORB agreed that if the resulting City's financial position after COVID-19 remains strong, the City leadership should explore a millage reduction in FY 2021/2022 if the property values and base continue to increase. The BORB does note that other incorporated Florida cities are projecting budget shortfalls due to the economic effects relating to COVID-19; accordingly, the BORB agrees that keeping the millage rate static was a prudent decision based on the current uncertainties due to COVID-19.

Finally, the BORB would like to thank Allan Owens, the City staff, and consultant Mary Anderson-Pickle for the assistance throughout this process. The BORB would like to thank these individuals for being extremely generous with their time and promptly responding to our questions.

This Annual Report is respectfully submitted to the Council and Residents of the City in accordance with Section 7(d) of the County Ordinance. This Annual Report may be signed in counterparts; the signatures of all the parties do not need to be on the same counterpart for it to be effective.



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Andrew R. Comiter, Chair

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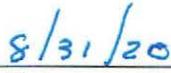
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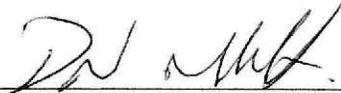
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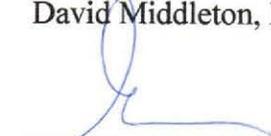
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