

## MEMORANDUM

TO: CITY COUNCIL OF PALM BEACH GARDENS

FROM: BUDGET OVERSIGHT REVIEW BOARD

RE: 2018 ANNUAL REPORT

DATE: AUGUST 30, 2018

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This 2018 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 (the "**Tax**") funds; 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. A copy of the County Ordinance is attached hereto as **Exhibit A**. 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. A copy of the City Ordinance is attached hereto as **Exhibit B**. 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.

### **PURPOSE OF THE BORB**

As referenced above, the City Ordinance sets forth the purpose of the BORB, which is to provide citizen input for the budget process, as well as to act as an advisory and reporting body regarding the expenditure of the Tax funds.

### **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 responsibility to review the Tax expenditures and the requirements associated therewith are set forth in Section 7 of the County Ordinance. It’s important to note that the BORB does not have the authority to recommend inclusion or exclusion of specific projects; these are policy decisions that are determined by the Council. The Board’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.

The BORB’s 2017 Annual Report (the “**2017 Annual Report**”) provided an overview of various documents regarding the use and application of the Tax proceeds. A copy of the 2017 Annual Report is attached hereto as **Exhibit C**. Readers are encouraged to review the 2017 Annual Report for a more detailed background with respect to the authorizing resolutions and ordinances enacted by the Council with respect to the Tax.

The list of projects to be funded with the Tax proceeds under the Capital Improvement Budget are as follows:

<b>Land Improvement Projects</b>	
<b>Land Acquisition and Soccer Field Development:</b> Acquire land; construct soccer fields and parking being relocated from Gardens Park at City Hall Complex.	\$ 13,700,000
<b>City Hall Renovations/Expansion:</b> Interior and exterior renovations to address existing and projected shortages of office, meeting and storage space, and to accommodate the relocation of Fire Administration to City Hall.	\$ 7,020,000
<b>PD Renovations:</b> Interior and exterior renovations to allow for expansion of crime scene lab and detective bureau; relocate existing physical training equipment to area of Fire Station 1 that currently houses Fire Administration.	\$ 2,098,305

<b>FSI Renovations:</b> Interior renovation after relocation of Fire Administration to City Hall to allow for movement of physical training equipment from Police Station and City clinic from Fire Station 3, creating a City wellness center for employees.	\$ 100,000
<b>Operations Center:</b> Construct a new facility that would house and consolidate all public facilities, parks, and fleet maintenance functions in one location. This will allow the City to sell the existing fleet maintenance property at Burns Road and Ironwood Road, placing this parcel back onto the tax rolls.	\$ 6,697,230
<b>Contingency</b>	\$ 319,465
<b>Total</b>	<b>\$ 29,935,000</b>

The BORB notes that two projects designated to be funded by the Tax Proceeds have been removed from the list and are to be funded from the Capital Improvements Budget: (a) Tennis Center Clubhouse; and (b) Baseball Complex Expansion. The Tennis Center Clubhouse will be funded with the proceeds from the sale of the City’s operations center. The new operations center, which will be funded with Tax proceeds, will reunite the Public Services and the Public Works divisions, which comprises facility maintenance, streets and storm-water, parks, and fleet at one facility.

The City will fund the cost of the Baseball Complex Expansion from a portion of the Alton Development Fees (approximately \$5,800,000) rather than an allocation of Tax proceeds; accordingly, the Baseball Complex Expansion will move forward as planned but with a new source of development funding. The original \$2,300,000 allocated to the Baseball Complex Expansion has been reallocated to the Gardens North County District Park Soccer Field Development; these funds will increase the number of playing fields at the park and will hopefully attract larger sporting tournaments. The Gardens North County District Park has made significant progress over the past year. The park consists of 3 lighted regulation multi-purpose fields, 2 lighted flexible use playing fields, restroom/concession building, playground, preserve area, nature trails, lighting, parking and, landscaping and access roads. On December 7, 2017, the Council approved Resolution 54, 2017, approving an interlocal lease agreement with Palm Beach County for the property. Land clearing on this site began in mid-April 2018, and the estimated completion of the project will be mid-year of FY 2019. Accordingly, the proposed FY 2019 Budget contains an allocation of \$236,508 for the first year’s pro-rated operating costs.

**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. As of June 30, 2018, the budgetary comparison schedule for the One-Cent Sales Surtax Capital Improvements Fund is as follows:

	<b>BUDGET</b>	<b>ACTUAL TO DATE</b>	<b>% RECEIVED/SPENT</b>
<b>REVENUES:</b>			
Intergovernmental	\$ 3,240,000	\$ 2,865,149	88.4%
Investment Income	30,000	348,544	1,161.8%
<b>Total Revenues</b>	<b><u>3,270,000</u></b>	<b><u>3,213,693</u></b>	<b><u>98.3%</u></b>
<b>EXPENDITURES:</b>			
Current Capital Outlay	<u>29,669,441</u>	1,151,363	3.9%
Debt Service:			
Principal	2,725,000		0%
Interest	<u>690,525</u>	299,525	43.4%
<b>Total Debt Service</b>	<b><u>3,415,525</u></b>	<b><u>299,525</u></b>	<b><u>8.8%</u></b>
<b>Total Expenditures</b>	<b><u>33,084,966</u></b>	<b><u>1,450,888</u></b>	<b><u>4.4%</u></b>
<b>Net Change in Fund Balance</b>	<b>(29,814,966)</b>	<b>1,762,805</b>	
<b>Fund Balance, Beginning of Year</b>	<b><u>32,030,207</u></b>	<b><u>28,914,707</u></b>	
<b>Fund Balance, End of Year</b>	<b><u>\$ 2,215,241</u></b>	<b><u>\$ 30,677,512</u></b>	

Year to date revenue receipts are exceeding the City's expectations which were set forth in the various projections; however, it is important to note that revenues are subject to numerous market variables and will likely fluctuate in the future.

Additionally, the BORB has been kept apprised of the current Fund expenditures and how such expenditures impact the Capital Improvement Budget. The estimated balance for projects that will be carried forward from FY 2018 to FY 2019 is \$20,330,384. Total projected newly generated revenue is \$3,571,000 and includes one-cent infrastructure sales surtax revenue of \$3,371,000 and interest income of \$200,000. Total projected expenditures, exclusive of carry forwards are \$3,344,525 and consist of the annual debt service on the Series 2017 Public Improvement Bonds. Total as of June 30, 2018, the current Fund expenditures as it relates to the Capital Improvement Budget are set forth on the following chart:

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Project	Project Title	Original Budget	Budget Adjustments	2017 Expenditures	GL Budget	2018 Expenditures	Encumb.	Balance
rec0214	New Soccer Complex – District Park	\$11,200,000	\$2,500,000	\$69,096	\$13,630,904	248,351	3,461,540	9,921,012
rec0215	Baseball Complex Expansion	\$2,500,000	(\$2,483,000)	-	17,000	2,194	14,805	-
pub0216	City Hall expansion	\$7,020,000	-	92,164	6,927,836	219,025	202,816	6,505,995
pub0217	FS 1 Expansion	\$100,000	-	27,420	72,580	13,773	11,125	47,681
pol0218	PD Expansion	\$2,098,305	-	22,787	2,075,518	107,365	59,805	1,908,348
pub0220	New Operations Center	\$6,697,230	-	\$54,090.00	6,643,140	267,310	4,950,710	1,425,119
Contingency		\$319,465	(17,000)	-	302,465			302,465
<b>312.0900.519.6900 Total</b>		<b>\$29,935,000</b>	<b>-</b>	<b>265,558</b>	<b>29,669,442</b>	<b>858,019</b>	<b>8,700,801</b>	<b>20,110,621</b>

As of even date, a majority of the expenditures relate to the initial phases of the projects, which include surveys, geotechnical analysis testing, and design services. The BORB acknowledges that projects are starting to move forward at a faster pace and expenses are expected to increase significantly over the course of the next several months.

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

The BORB has held public meetings on a monthly basis (twice in August) 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. The BORB also notes that the City was able to efficiently expand the development of projects designated to be funded by Tax Proceeds (such as the Soccer Complex), while reallocating resources to ensure other expansion projects were sufficiently funded (Baseball Complex Expansion).

The 2017 BORB Annual Report requested quarterly/monthly review of *actual* Tax revenues versus *projected* Tax revenues to assist the City in the budgeting process. City staff has responded to this request and such information has provided prior to each BORB meeting. With respect to the expenditure of the Tax funds, the BORB also recognizes that the City has been proactive in finding additional funding sources for the various projects. As of even date, all the projects originally planned in connection with the Tax proceeds are moving forward; even more encouraging is that some of these projects have been expanded. The BORB is committed to overseeing these expenditures on an on-going basis, thereby fulfilling its responsibilities under the County Ordinance and the City Ordinance.

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.

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## **REVIEW OF THE FY 2019 PROPOSED OPERATING & CAPITAL IMPROVEMENTS BUDGET**

The FY 2019 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 \$22.8 million, which is 24.7% of General Fund operating expenditures, and is in compliance with the City’s policy of at least 17% of operating expenditures. General Fund operating and capital expenditures increased from \$86,185,061 in FY 2018 to \$92,072,721 in FY 2019 (\$5,887,659, or 6.83%).

**Proposed Millage Rate.** The proposed FY 2019 millage rate is based upon the Certified Property Valuation received from the Palm Beach County Property Appraiser in the amount of \$11,540,575,519. This valuation number includes new construction of \$186,109,218 and represents an increase of 6.12% from last year’s valuation. This is the seventh consecutive year that the City’s property valuation has increased. Using the final property valuation number, the proposed total millage rate is 5.6003, which is down 1.2% from last year’s total rate of 5.6678. The proposed operating rate is 5.55, the same as last year, and the proposed debt service millage rate is .0503 mills, which is down from last year’s rate of .1178. The proposed operating rate of 5.55 represents a 4.41% increase over the roll-back rate of 5.3414 mills.

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

- **Alton Town Center:** This project consists of 360,2003 square feet of retail and commercial uses on 40.8 acres of land. Construction of this project began early in 2018.
- **Atlantico:** Another development at Alton is the Atlantico project, which consists of 353 apartments and is currently under construction. The first two buildings have received Certificates of Occupancy.
- **United Technologies Corporation (“UTC”):** A major project recently completed is the 224,066 square foot Center for Intelligent Buildings for UTC subsidiary Carrier Corporation. This project represents a \$115 million capital investment by UTC, and will create 380 new jobs, while retaining 70 existing jobs in the community.
- **Gardens Corporate Center:** There is also significant development underway at properties other than the Alton Parcel. One of the most significant commercial projects under construction is the Gardens Corporate Center. This project consists of two 11-story professional office towers that will each consist of 111,971 square feet of professional office space. Both towers are currently under construction.
- **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 received

and are under review. 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 will begin mid-year 2018.

**Annexations.** On January 4, 2018, the City passed Ordinance 24, 2017 proposing to annex approximately 1,371 acres of property located on the south side of Northlake Boulevard adjacent to the City's Sandhill Crane Municipal Golf Course. This parcel includes the existing residential developments known as Bay Hill Estates, Preserve at Bay Hill Estates, Rustic Lakes and commercial parcels adjoining Northlake Boulevard. Referendum language was sent to the Supervisor of Elections on January 19, 2018, and a majority of voters approved the annexation of this area on March 13, 2018.

**Storm Water Repair and Renovation Program.** The proposed FY 2019 Budget continues the third year of this Storm Water Repair and Renovation Program and includes \$250,000 in the Storm Water Division's Repair & Maintenance expenditure account; however, it's important to note that an additional \$250,000 will be received from a State grant and will essentially double the budgeted amount. Additionally, the FY 2019 Budget contains an allocation of \$250,000 in the Storm Water Division's Repair & Maintenance expenditure account to continue the maintenance of the City's system of canals for collecting the water runoff from the storm water system.

**Personnel Cost Factors.** Personnel costs comprise the majority (approximately 68%) of the City's General Fund total expenditures, excluding transfers and reserves. Therefore, the factors that influence personnel costs are by far the most significant drivers of the entire budget. The Budget contains 531 full-time positions, which is an increase of 16 from the FY 2018 total of 515.

A significant issue affecting next year's personnel budget is the salary adjustment for members of the Police Benevolent Association which will take effect in August of 2018. The PBSO was heavily recruiting local municipal police officers to fill a substantial number of vacancies and was offering a significant pay increase. The City and the PBA reopened the salary article of the collective bargaining and agreed on an increase of 12%.

Another significant factor affecting next year's Budget is the projected increase in claims costs associated with the Self-Insured Medical Insurance Fund. Funding for FY 2019 has been increased in line with projections prepared by the City's actuary, considering the increasing claims trend of the plan. With this change to the funding formula, the projected end of year balance in the Fund is estimated at \$4.8 million, which is approximately seven months' total claims. The BORB spent a significant amount of time discussing this issue and believe the long-term benefits of self-insuring still outweigh the costs of paying insurance premiums to health insurance companies. The BORB suggests that the city monitor the claims associated with the Self-Insured Medical Insurance Fund to ensure the program remains cost efficient on a going forward basis.

**Reserves.** The proposed FY 2019 Budget as presented recommends the use of approximately \$527,000 of General Fund Budget Stabilization Reserves, which will be used to eliminate the need for a tax increase. With the substantial amount of growth expected beyond the normal five-year

horizon, the City staff prepared an additional five-year projection (in other words, a 10-year forecast), factoring in projected development at Avenir, newly annexed western developments, new City facilities, and additional personnel and operating demands associated with this expansion. Also factored into the forecast is the probable increase in the Homestead Exemption in FY 2020 and beyond. The five-year projection assumes the operating millage rate remains flat, and anticipates a gradual reduction in reserves through FY 2023 to keep up with demand for services, as well as compensate for the loss of revenue from the additional \$25 thousand homestead exemption in FY 2020. The use of reserves complies with the fund balance policy requiring use of reserves for onetime expenditures such as capital. It should also be noted that reserves as a percentage of expenditures do not fall below 17% in any year, maintaining compliance with the City's policy. In looking at the subsequent five-year period, by maintaining the millage rate flat at 5.55 mills, it is projected that budget surpluses will be generated beginning in FY 2024 as new development from the western areas is added to the tax rolls,

### **BORB REVIEW AND RECOMMENDATIONS- FY 2019 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 2019 Budget. Moreover, the ten-year forecast provided in the FY 2019 Budget Summary provided an excellent snapshot of how the City intends to maintain the current millage rates by evaluating the impact of changes in law (homestead exemption) and demographics.

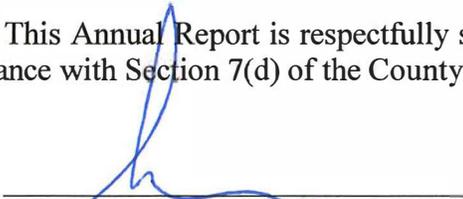
**Recommendation.** In summary, the BORB's review of the Budget confirms that (i) the City is financially strong and has policies in place to maintain the current financial stability; and (ii) City Staff has been transparent throughout the budgetary process with its residents and citizens. The openness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

As referenced above and important to note, the proposed operating rate is 5.55, the same as last year, and the proposed debt service millage rate is .0503 mills, which is down from last year's rate of .1178. Effectively, the City Council and City Staff have proposed a budget that effectively reduces a tax rate exposure to the City residents. This is truly a remarkable fact after giving consideration to the growing population and increased requirements for various services from the City. The BORB commends the hard work that went into keeping the operating rate flat for the FY 2019 Budget while providing excellent service to City residents.

Finally, the BORB would like to thank Finance Administrator Allan Owens, Deputy Finance Administrator Mary Anderson-Pickle and their staff 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.

  
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Mark S. Feldmesser, Chair

8/30/18  
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Date

  
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Dennis Beran, Vice-Chair

8/30/18  
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Mark Schulte, Regular Member

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David Middleton, Regular Member

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Andrew R. Comiter, Regular Member

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