

## MEMORANDUM

TO: CITY COUNCIL OF PALM BEACH GARDENS

FROM: BUDGET OVERSIGHT REVIEW BOARD

RE: 2022 ANNUAL REPORT

DATE: SEPTEMBER 2, 2022

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This 2022 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. The BORB hereby provides this Annual Report to the Council in accordance with the obligations assigned to the BORB in the County and City Ordinances.

### **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. The estimated available balance for projects that will be carried forward from FY 2022 to FY 2023 is \$3,659,052. Total projected newly generated revenue is \$3,519,165 and includes one-cent infrastructure sales surtax revenue of \$3,500,000 and interest income of \$19,165.

As referenced in past reports, the City decision to obtain financing through the Series 2017 Public Improvement Bonds was extremely insightful and turned out to be an excellent decision. The infrastructure projects identified have been completed *well in advance* of receiving the necessary surtax revenues to build such projects. To that end, actual collections have exceeded the anticipated revenues from the one-cent infrastructure sales surtax by approximately 4.4%. The projected expenditures total \$3,339,545 and consist of the annual debt service on the Series 2017 Public Improvement Bonds. The projected ending reserve balance of the fund is \$3,838,672 and are being held in reserve to pay debt service.

#### **BORB Analysis.**

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. In hindsight, the Council moving forward with having the City obtain the Series 2017 Public Improvement Bonds was a tremendous move for the City and the residents; accordingly, residents are able to currently utilize new City amenities and infrastructure currently, as opposed to having to wait 10 years for the Tax revenues to slowly come in.

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

The BORB has held public meetings 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.

Based on our review of the one-cent infrastructure sales surtax expenditures, the City has complied with all relevant rules and regulations. The BORB commends the City for its foresight and the handling of one-cent infrastructure sales surtax planning, oversight, and process.

**[THE REMAINDER OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK;  
REVIEW OF FY 2022/2023 PROPOSED OPERATING AND CAPITAL  
IMPROVEMENTS BUDGET APPEARS ON THE FOLLOWING PAGE.]**

**REVIEW OF THE FY 2022/2023 PROPOSED OPERATING & CAPITAL IMPROVEMENTS BUDGET**

The FY 2022/2023 total expenditures and reserves for all funds is \$236,074,948, including \$100,042,747 in personnel, \$40,716,820 in operating, \$6,680,210 in capital outlay, \$871,004 in operating transfers, and \$6,925,167 in debt service. Reserves total \$80,839,000. The significant components of reserves include \$26,000,000 in unassigned reserves, \$2,005,267 for economic development and \$19,885,083 for budget stabilization. The unassigned reserves is in compliance with the Council’s policy of a having a minimum reserve balance of 17%.

General Fund expenditures and reserves are balanced with total revenues and sources at \$165,059,701. Excluding reserves of \$49,828,390, expenditures consist of the following categories: (i) \$78,166,308 – Personnel; (ii) \$29,855,157 – Operating; (iii) \$3,674,210 - Capital Outlay; and (iv) \$3,535,636 - Debt Service. Projected unassigned reserves total \$26,000,000, law enforcement reserves total \$1,026,535, and reserves for economic development and budget stabilization total \$2,005,267 and \$19,885,083, respectively. An additional \$911,505 is restricted for other purposes.

The City provided a comparison chart for the General Fund budget on its website, comparing the adopted budget for FY 2022 versus the proposed budget for FY 2023:

	Adopted Budget FY 2022	Proposed Budget FY 2023	Variance \$	Variance %
Revenues/Sources	\$148,514,250	\$165,059,701	\$16,545,451	11.1%
Less:				
Beginning Balance	(41,678,329)	(49,822,343)	(8,144,014)	19.5%
Transfers/Other Sources	(1,121,010)	(871,004)	250,006	(22.3%)
Total Recurring Revenues	\$105,714,911	\$114,366,354	\$8,651,443	8.2%
Expenditures/Uses	\$148,514,250	\$165,059,701	\$16,545,451	11.1%
Less:				
Reserves	(39,647,938)	(49,828,390)	(10,180,452)	25.7%
Capital	(5,839,847)	(3,674,210)	2,165,637	(37.1%)
Transfers	(700,000)	0	(700,000)	100.0%
Total Recurring Expenditures	\$102,326,465	\$111,557,101	\$9,230,636	9.0%

As a result of the population and business growth in the City, personnel costs have increased from \$72,130,961 to \$78,166,308, and operating costs have increased from \$26,947,642 to \$29,855,158. Transfers have decreased from \$700,000 to \$0, while projected ending fund balance is increased from \$39,647,938 to \$49,828,389, and capital expenditures have decreased from \$5,839,847 to \$3,674,210. Debt service has been increased by \$287,774 due to capital lease purchases. Excluding capital, transfers and reserve balances, expenditures have increased by 9.02%.

**Proposed Millage Rate.** The proposed FY 2023 millage rate is based upon the certified property valuation received from the Palm Beach County Property Appraiser in the amount of \$15,559,147,237. This includes new construction of \$302,894,494, and represents an increase of 15.06% from last year’s valuation. This is the eleventh consecutive year that the City’s property valuation has increased. As opposed to the lower than expected increase in City property values for FY 2022, the BORB was pleased to see such a significant increase. The City staff informed us during FY 2022 that they would meet with County officials *prior to* the County finalizing their property valuations; we were pleased to hear that the City staff did meet with the County officials and the results were positive. *Using the final property valuation number, the proposed total millage rate is 5.32 which is 4.15% less than last year's rate of 5.55. This rate represents an 8.14% increase over the roll-back rate of 4.9195 mills.*

The BORB report from 2021 requested that the Council review the numbers on a year to year basis to determine whether a millage reduction was possible. The BORB was very pleased to see that the Council took the BORB report and advice into consideration, as this is the first millage reduction that we’ve seen in years.

This year’s Budget summary provided a summary of the ten year financial forecast, which continues to be a useful tool and benchmark moving forward. The operating millage is proposed to be reduced from the current rate of 5.55 to 5.32 in FY 2023. This is made possible by property valuations that substantially exceed last year's projections. Due to the compounding effect of this significant increase over the ten-year forecast, and projected new development added to the tax rolls, primarily from the Avenir development, the forecast projects the millage rate to remain flat at 5.32 mills through FY 2032 and the debt service millage rate to remain at zero. The city provided an illustration indicating the effect of the proposed millage on four typical homesteaded properties:

Taxable Value (After \$50K Exemption)	Current Rate 5.55	Proposed Rate 5.32	Annual Increase (Decrease)	Monthly Increase (Decrease)
\$400,000	\$2,220	\$2,200	\$(20)	\$(1.67)
\$600,000	\$3,330	\$3,296	\$(34)	\$(2.90)
\$800,000	\$4,440	\$4,392	\$(48)	\$(4.00)
\$1,000,000	\$5,550	\$5,488	\$(62)	\$(5.20)

Assuming the operating millage rate remains flat, the ten-year projection anticipates a drawdown in budget stabilization reserves of approximately \$7.5 million in FY 2024 due to the planned transfer of \$5 million for the Burns Road Recreation Center capital improvement project and to reflect a full year cost of staffing for Fire Station 6. Thereafter, it is anticipated that financial results will enable unassigned reserves to increase to \$26.8 million and budget stabilization reserves to be approximately \$8.5 million by FY 2032. It should also be noted that unassigned reserves meet or exceed City policy of maintaining a balance of a minimum of 17% of expenditures each year of

the forecast. As we have noted in the past, the BORB suggests that the Council review the changes of the ten-year forecast on an annual basis to help determine whether further reductions or increases in the millage are appropriate.

**OpenGov Budgeting and Planning Platform.** The City transitioned to a new cloud based online budgeting and planning software provided by OpenGov. The OpenGov platform has enabled the city to increase transparency in the budgeting process through a variety of capabilities to modernize its budgeting and planning process. The software allows residents to explore the budget in a simple graphical user interface; further, the City has provided summaries and links on its website, which provides residents with an easy access point to navigate and explore the budgeting process.

The City staff provided the BORB with a training session for the OpenGov platform. The BORB is pleased that the OpenGov platform will help with budgeting transparency, citizen engagement, increase efficiency in the budgeting and planning process; in short, the City has taken a major step to modernize its accounting and budgeting systems for the benefit of the residents in a digital age.

### **BORB REVIEW AND RECOMMENDATIONS- FY 2021/2022 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 and City management have done an excellent job in preparation of the 2022/2023 Budget. The City remains fiscally responsible and in a strong financial position, which is most impressive given the complexities and uncertainties resulting from the COVID-19 pandemic.

2. **Spending Plan for Compliance with Current Adopted Financial Policies.** In accordance with the past several years, the City has taken affirmative steps to avoid a tax increase for the FY 2022/2023 Budget.

**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 and has taken significant steps in implementing the OpenGov platform. 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 was pleased to see a responsible decrease in the proposed millage rate; furthermore, the reduction proposed by Council occurred after thoughtful review of the City's financial position and budgetary requirements. The 10-year financial forecast continues to be a great tool in assisting the Council and the City has done a great job in keeping the projections/forecast up to date. The BORB continues to encourage the Council and City to monitor and compare the actual financial results to the 10 year financial forecast; if the actual financial results do not forecast the requirement to use 100% of the budget stabilization fund and eliminate the need to dip into the City reserves, then the Council should give consideration to

reducing the millage rate. Furthermore, the BORB suggests that the Council and City review the size of the budget stabilization fund on an annual basis in connection with the City's unassigned reserves to ensure proper budget allocations.

Finally, the BORB would like to thank Allan Owens, Arienne Panczak, Sean O'Brien and the City 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.

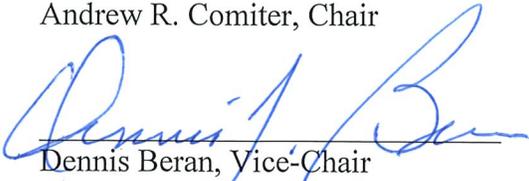
This Annual Report is respectfully submitted to the Council and Residents of the City in accordance with Section 7(d) of the County Ordinance.



Andrew R. Comiter, Chair

9/7/2022

Date



Dennis Beran, Vice-Chair

9/6/22

Date



Mark Schulte, Regular Member

9-6-22

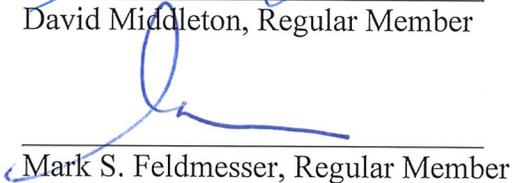
Date



David Middleton, Regular Member

9/7/22

Date



Mark S. Feldmesser, Regular Member

9/6/2022

Date