

M E M O R A N D U M

TO: CITY COUNCIL OF PALM BEACH GARDENS

FROM: BUDGET REVIEW BOARD

RE: 2024 ANNUAL REPORT

DATE: August 23, 2024

This 2024 Annual Report (this “**Annual Report**”) is submitted to the City Council (the “**Council**”) of Palm Beach Gardens (the “**City**”) in accordance with Section 2-127 of Ordinance 2, 2023 (the “**City Ordinance**”). Included in this Annual Report are certain recommendations of the Budget Review Board (the “**BRB**”), as well as the BRB’s review of the proposed operating and capital improvements budget as prepared by City staff; recommended spending plan for compliance with current adopted financial policies (i.e.- fund balance levels, debt service coverage, etc.); and recommendations to Council with respect to the proposed operating and capital improvement budgets, as currently submitted.

BACKGROUND

The purpose of the BRB is to provide citizen input for the budget process. This Annual Report is intended to comply with the duties and responsibilities allocated to the BRB, as well as memorialize the BRB’s input with respect to the proposed budget for Fiscal Year 2024/2025.

POWERS AND DUTIES OF THE BRB

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

1. Review the proposed operating and capital improvements budget as prepared by staff.
2. Request information from staff in order to analyze the proposed operating and capital improvements budget.
3. Review the recommended spending plan for compliance with current adopted financial policies, i.e., fund balance levels, debt service coverage, etc.
4. Make a recommendation to Council during the budget adoption process regarding the proposed operating and capital improvements budget, as submitted.

REVIEW OF THE FY 2024/2025 PROPOSED OPERATING & CAPITAL IMPROVEMENTS BUDGET

The FY 2024/2025 total expenditures and reserves for all funds is \$263,075,544, including \$114,387,718 in personnel, \$50,553,944 in operating, \$17,174,629 in capital outlay, \$5,324,129

in operating transfers, and \$7,206,771 in debt service. Reserves total \$68,428,353, which is an increase of \$7,018,918 from last years budget. The significant components of reserves include:

- \$35,959,370 in unassigned reserves;
- \$2,005,267 for economic development; and
- \$7,108,061 for budget stabilization.

The total revenues and non-revenue sources projected for the fiscal year 2024/2025 amount to \$263,075,544. Ad valorem taxes, which total \$96,603,554, represent the largest single source of revenue across all funds, accounting for 36.7% of the City's overall budget revenues and sources. The estimated combined beginning balance of all funds is \$77,914,741, which constitutes 29.6% of the total funding sources. Following ad valorem taxes, the next significant category of revenue for the City is charges for services, amounting to \$42,694,200, or 16.2% of the total revenues and sources. Additional revenue streams include intergovernmental revenues of \$13,405,000; licenses and permits totaling \$9,289,000; impact fees of \$3,264,527; and miscellaneous revenues amounting to \$19,904,522.

The total revenues and non-revenue sources for the General Fund amount to \$188,155,912, which includes an estimated beginning balance of \$49,857,479. The largest portion of the General Fund revenue is derived from ad valorem tax revenues, accounting for 51.2% of all revenues and funding sources.

The expenditures and reserves of the General Fund are aligned with the total revenues and sources, also totaling \$188,153,912. When excluding reserves of \$39,477,288, the expenditures are categorized as follows:

\$88,489,035 - Personnel
\$38,167,804 - Operating
\$15,697,629 - Capital Outlay
\$3,682,156 - Debt Service

The projected unassigned reserves are estimated at \$28,317,021, while law enforcement reserves amount to \$1,305,239. Additionally, reserves allocated for economic development and budget stabilization are \$2,005,267 and \$7,108,061, respectively. Furthermore, \$741,700 is designated for other specific purposes.

The City provided a comparison chart for the General Fund budget on its website, comparing the adopted budget for FY 2023/2024 versus the proposed budget for FY 2024/2025:

	Adopted Budget FY 2024	Proposed Budget FY 2025	Variance \$	Variance %
Revenues/Sources	\$178,221,011	\$188,155,186	\$9,934,175	5.6%
Less:				
Beginning Balance	(48,178,602)	(49,857,479)	(1,678,877)	3.5%
Transfers/Other Sources	(3,373,265)	(2,324,129)	1,049,136	(31.1)%
Total Recurring Revenues	\$126,669,144	\$135,973,578	\$9,304,434	7.3%
Expenditures/Uses	\$178,221,011	\$188,155,186	\$9,934,175	5.6%
Less:				
Reserves	(33,445,844)	(39,148,259)	(5,702,415)	17.0%
Capital	(16,737,000)	(15,697,629)	1,039,371	(6.2)%
Transfers	(7,500,000)	(3,000,000)	4,500,000	(60.0)%
Total Recurring Expenditures	\$120,538,166	\$130,309,298	\$9,771,131	8.1%

As a result of the population and business growth in the City, ad valorem tax revenue is up, other revenue and transfers are projected to increase, and overall, revenues have increased due to increased property valuations, licensing and permits. Notwithstanding the above, the projected additional tax revenue of \$7,522,596 for the upcoming fiscal year is inadequate to offset the increases in personnel and operating costs, which amount to \$9,446,773. Furthermore, there is an anticipated rise in debt service of \$354,056, a reduction of \$1,049,136 in transfers from other funds, and a budgeted deficit of \$14,782,756 for FY 2024 that must also be addressed. Collectively, the total additional funds necessary to achieve a balanced budget for FY 2025 is \$15,252,530. With the proposed millage rate set at 5.0537, an additional \$10,380,191 will be drawn from Budget Stabilization reserves. These funds are designated for one-time, non-recurring capital expenditures, in accordance with the allowable use of reserves as outlined in the City’s financial management policies, thereby ensuring a responsible and strategic approach to the City’s financial resources.

While the budget addresses several budgeted special reserve funds and impact fee capital project funds. The BRB would like to note the following:

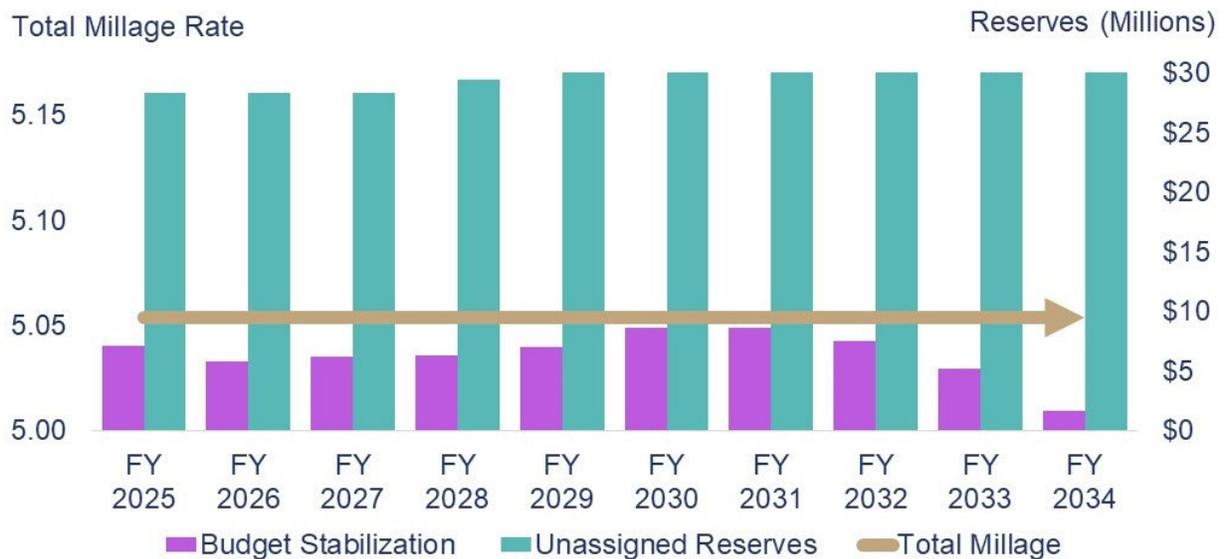
- The Workforce Housing Fund has been established as a special revenue fund to track the revenues and expenditures associated with the workforce housing initiative being developed by the City. The anticipated fund balance to be carried forward amounts to \$5,551,808, derived from contributions made by the developers of Avenir and Arcadia. There are no anticipated expenditures for the upcoming

- fiscal year, as the program remains in the development phase. The expected ending reserve balance is projected to be \$5,551,808.
- The City manages and budgets for nine distinct Capital Project Funds. Of these, seven are primarily financed through Impact Fees that are collected from developers at the time building permits are issued. The City imposes impact fees for the following capital project funds: Mobility, Recreation, Road, Fire, Police, Public Facilities, and Art. The total estimated revenues are derived from both current and anticipated development within the City. According to the latest development forecasts, no impact fees are expected to be generated for the Art Impact Fund. The projected total impact fee collections for Fiscal Year 2024/2025, based on an assessment of existing and future development, are as follows:
 - \$1,273,568 - Recreation
 - \$920,598 - Mobility
 - \$138,129 - Road Impact
 - \$430,839 - Fire
 - \$320,811 - Police
 - \$180,582 - Public Facilities
 - The Self Insurance Fund is designated for managing the operations of the City's self-insured health benefits program. The total revenue amounts to \$14,147,410, which includes service charges totaling \$13,542,410. For the fiscal year 2025, funding has been reduced in accordance with projections made by the City's actuary, taking into account the recent trends in claims associated with the program. As a result of this adjustment to the funding formula, the anticipated year-end balance in the Fund is projected to be \$7,642,349, representing approximately eight months' worth of total claims. Projected total expenditures for the Self-Insurance Fund are estimated at \$14,142,581, which encompasses medical claims, reinsurance and life insurance premiums, expenses related to the onsite medical clinic, and capital expenditures.

Proposed Millage Rate. The millage rate for the fiscal year 2024/2025 is determined by the certified property valuation provided by the Palm Beach County Property Appraiser, totaling \$19,891,166,866. This figure incorporates new construction valued at \$514,604,308 and signifies an increase of 11.04% compared to the valuation from the previous year. Notably, this marks the thirteenth consecutive year of growth in the City's property valuation. The BRB was pleased to see such a significant increase, which was in line with the City staff's expectations. Using the final property valuation number, *the total millage rate is 5.0537 which is 2.25% less than last year's rate of 5.1700*. This rate represents an 5.73% increase over the roll-back rate of 4.7798 mills.

As noted above, this is the *third* consecutive year that the City has lowered the millage rate; the BRB believes that the City is demonstrating a strong commitment to fiscal responsibility and providing relief to its residents.

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. Although multi-year forecasting is not an exact science and is subject to many uncontrollable factors, such as the COVID-19 economic downturn and the current inflationary environment, it can serve as a useful tool in trying to chart a financial path for the short and long-term and provides an opportunity to monitor actual versus projected results each year so that proactive measures may be taken to balance future budgets. The city provided a graph illustrating unassigned reserves, budget stabilization reserves, and ad valorem operating taxes; no general obligation debt is forecasted in the below projection.



The data depicted in the chart above suggests a proposed decrease in the operating millage from the existing rate of 5.1700 to 5.0537 for fiscal year 2024/2025. This reduction is achievable due to property valuations that significantly exceed the projections made last year. The compounding effect of this notable increase over the ten-year forecast, along with anticipated new developments, especially from the Avenir project, indicates that the millage rate is expected to remain constant at 5.0537 mills through FY 2034, while the debt service millage rate is projected to remain at zero. If the operating millage rate remains unchanged, the ten-year forecast anticipates a reduction in budget stabilization reserves of approximately \$2 million in FY 2026, resulting from a necessary transfer from the General Fund due to the temporary closure of the Burns Road Community Centers for the construction of a new facility, which is set to reopen in the spring of 2024/2025. Subsequently, it is expected that financial results will facilitate an increase in unassigned reserves to \$35 million and budget stabilization reserves to about \$1.7 million by FY 2034.

OpenGov Budgeting and Planning Platform. The City staff is in its third year using the OpenGov platform and continues to enhance the resident’s user experience. The BRB 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.

BRB REVIEW AND RECOMMENDATIONS- FY 2024/2025 BUDGET

1. **Proposed Operating and Capital Improvement Budget as Prepared by Staff and Analysis:** The BRB 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 2024/2025 Budget. Furthermore, as highlighted by the August 7, 2024 Palm Beach Post article “*Palm Beach Gardens Commits to Property Tax Rate Cut as North County Cities Set Budgets,*” the City has managed to lower the millage rate for a third straight year, while neighboring cities are keeping their millage rates the same or even raising their rates.

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 2024/2025 Budget, while maintaining expenditure responsibility and reserve balance requirements and parameters.

Recommendation. In summary, the BRB’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 to ensure the budget information is accessible to residents. The budgetary process continues to be a strong point for the City and a significant benefit to its residents.

While the tax revenues have increased, the BRB acknowledges the increase in population and growth results in higher expenditures for the City. The BRB was pleased to see a continued 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 BRB encourages 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 continue to reduce the millage rate. As recommended in last year’s Annual Report, the BRB will continue to suggest that the Council and City review the budget stabilization fund on an annual basis in connection with the City’s unassigned reserves to ensure proper budget allocations to avoid any significant surplus or deficit.

Finally, the BRB would like to thank Arienne Panczak and the City staff for the assistance throughout this process. The BRB 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 2-127 of the City Ordinance.



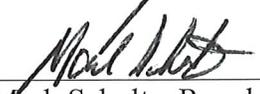
Andrew R. Comiter, Chair

8/28/2024
Date



Dennis Beran, Vice-Chair

8/27/24
Date



Mark Schulte, Regular Member

8/28/24
Date



Della Porter, Regular Member

8/29/24
Date



Marc Cohn, Regular Member

8/29/2024
Date