



# *CITY OF PORT ST. LUCIE*



## A CITY FOR ALL AGES

July 5, 2008

Honorable Mayor, Vice-Mayor and Members of the City Council:

The proposed budget for the 2008-2009 fiscal years is recommended at \$516,954,442 for all funds. This is a decrease of \$327,303,916. The proposed budget adds 24.34 FTE's (full-time equivalents) for an authorized staffing of 1,251.04 FTE's. This is a net increase of 24.34 FTE's (for the Civic Center, Botanical Gardens and Police Department). There were 7.37 vacant FTE's reduced from the General Fund. The proposed budget meets the policy directives of the City Council whenever possible and complies with state law.

The proposed budget meets all requirements of the city's various bond issues including, maintenance of coverage factors as required by various bond covenants. The budget also funds approved union contracts and complies with state law requirements for funding those contracts. This budget also complies with the City Council directives of no layoffs for fiscal years 2007-08 and 2008-09. Reserve funds are maintained as Council directed. The only services being added in this budget are the operation of the Civic Center which represents a new service plus the opening of the city's Botanical Garden projected in spring 2009. There is a significant increase in expenditures in the General Fund without a corresponding increase in revenues. All other programs and service remain in place.

The city has experienced a combined decrease in assessed valuation of 19% due to state tax reform and de-valuation of property. The city has also seen a reduction in other revenues (sales tax) and a significant drop in growth related revenues. This has reduced funds available for operations and capital projects. The projected revenue stream for capital projects has been reduced by 12 million dollars over previous projections. This reduction in both operating and capital revenues will make it difficult for the city to maintain present levels of service and to meet its capital needs in the future. This will be further discussed later in this message.

### Proposed Millage, Rate and Fees

The proposed millage rate for the fiscal year 2008-2009 is initially proposed at 4.2172. Of this, 2.4297 is applied to the General Fund operations; .2566 to Road and Bridge operations; .4675 to Road and Bridge Capital Improvement Program; 1 mill to the Crosstown Parkway project and .0634 to debt service. This is a lower millage than in 2002-03 and a typical taxpayer will pay less to the city in 2008-09 than was paid in 2004

(adjusted for inflation). However, as the projections will show this is no longer sustainable if services are to remain or expand to meet future growth.

The following fees are recommended for increase: Stormwater fee by \$10/year (or \$.80 per month); engineering fees by 55%; utility rates by 3%; parks and recreation fees per CPI index (per Council policy) and refuse fees by CPI per contract.

#### Staffing and Personnel:

The proposed budget for 2008-2009 fiscal year proposes to add a net increase of 24.34 employees for a total allocation of 1,251.04 FTE's. These are for the operation of the Civic Center, Botanical Gardens and the Police Department. The Police Department staffing ratio is maintained at 1.71/thousand and we have not reached the Council policy of 1.75 officers/thousand of population. The other new personnel are required to meet the needs of the Civic Center which is expected to begin operations in December of 2008. Salary increases for 2008-2009 are budgeted at 3% COLA (cost-of-living) and 2% merit (which complies with union contracts). However, the city does not have a contract with the Police Department officers union and that outcome may have an impact on the cost of salaries. Per Council directive, there are no staff layoffs due to tax reform for the 2007-08 or 2008-09 fiscal years.

This proposed budget does increase the cost of employee contributions for medical insurance beginning October 1, 2008 for those non-union employees making more than \$60,000 per year. Although this is unfair to those employees, the city can no longer absorb increases in the cost of health insurance without increasing the cost to the employees. The proposed increase is 50% ( \$25.00). This will become an issue when the next round of employee union negotiations occurs. However, the issue must begin being addressed by the city.

#### Goals and Objectives

The goals of the 2008-2009 budget were to maintain services and to achieve the stated objectives of the City Council. To this end, there are no reductions in service for 2008-09 and an increase in service with the opening of the Civic Center which represents an increase in services provided to the community. This was accomplished with even the Civic Center representing an increase in the General Fund funded expenditures of almost 2 million dollars. This is not offset by revenue, while the same time facing a 20% decline in revenue.

We also expect to either start or complete construction of the following building projects in 2008-2009: the Police Storage Building, the Botanical Gardens, the reconstruction of the Ravenswood Center, Utility and Public Storage facilities and possibly the conversion of the daycare center in Town Center to an eastern police station.

Transportation projects are the completion of Segments 2, 4 and 5 of Crosstown Parkway, I-95 and Gatlin Interchange, I-95 and Becker Road Interchange, Phase 1 of Becker Road expansion, design and property acquisition for the Floresta Road expansion and commencement of the design of the Port St. Lucie Boulevard expansion.

We will also be doing a half-million dollars in sidewalks as well as numerous drainage improvements to the core drainage system. It is also expected that the SW SAD will be complete by the end of 2008-2009, thereby allowing that area to begin development. This has been accomplished even though there has been a reduction in revenues available for these projects. The city has seen a 19% reduction in revenues derived from assessed valuation and growth related revenues (impact fees, gas tax) are expected to be reduced by 12 million dollars from the previous estimates. This has resulted in some projects being put on hold such as Torino Park and the delay of Floresta (although property acquisition and design will proceed and are not expected to be complete until 09-10). Overall the Council's goals and objectives have been achieved even though there has been a considerable disruption and uncertainty concerning the city's revenues.

#### Problems and Areas of Concern:

The biggest issue facing the City Council is not the 2008-2009 budget but the 2009-2010 budget. We are projecting a further decline in assessed valuation (5%) and a stagnation of other revenues resulting in a deficit of 7 million dollars in the General Fund and approximately 10 million thereafter. This is a result of increases in personnel and operating costs, **not as the result of additional employees or new services**. The combination of devaluation and rising costs results in a deficit that occurs annually at the present rate of taxation in the General Fund.

There are a number of options for the Council to address the issue with. They are as follows:

One, would be to reduce the police ratio from 1.75 to 1.5 per thousand saving \$1,700,000 per year combined with a 30% reduction in the Parks and Recreation budget. This would be permanent closure of one third of the parks and recreation facilities of the city and may increase to one-half depending on police expenditures. However, the reduction in police staffing would have to occur in the 2008-2009 budget in order to ensure that the savings would occur in time for the 2009-2010 budget. It should also be understood that this option would not allow for additional personnel in the General Fund unless there was offsetting revenue so it will only solve the problem for a limited time.

Two, increase the utility tax to 10%. Port St. Lucie is the only community with tax set at 5%. Most other communities utility tax rate is 10%; this would bring in approximately 3 million dollars the first year and 4 million the second year. This would close the budget gap for 2009-2010 provided the utility tax increase was approved before the close of this fiscal year. Those years beyond 2009-10 will still have deficits of at least 5 million dollars under this funding situation.

Three, increase the rate of taxation for the Communication Services Tax. Presently the city's tax is at the rate of 1.5%. The City can raise the rate to 4.98%. It provides the same amount of revenue as the utility tax and would have to be adopted before the end of 2007-2008 fiscal year as well.

Four, raise the millage rate. The city could adopt the rollback millage rate or some variation of it. The present millage rate generates revenue on a single family home, adjusted for inflation, less than in 2004. In other words a \$150,000 home pays less today in actual taxes after 4 years of assessed value increase than it did in 2004. The rate that the City Council may wish to consider is recommended to be between the rollback rate and a 12% increase to the General Fund funded rate. Keeping in mind, the smaller the increase, the shorter the period of revenue stability. The Council may also consider a combination of millage with the other options (both rate increases and level of service reductions) to achieve the desired results. The issue of 2009-2010 should be addressed in this budget year rather than waiting until 2009-2010. It should be noted if devaluation persists or the economy does not recover by the end 2009-2010 that further cuts or revenue increases may be needed.

Another area of concern is the CRA and the impacts of devaluation and a bad economy on revenues and expectations. This will have to be closely watched to insure that there will be sufficient revenue to pay the outstanding debt and operational expenses. In addition, economic conditions may result in less than expected development especially in the City Center project.

Finally the perennial issue of the stormwater fund. There is no natural growth in this fund and as a result to meet rising operational costs, a \$10 increase is proposed in 2008-2009 (last increase was two years ago) and a \$5 increase will be needed in 2009-2010. The other option available to the City Council is to defer capital projects or to reduce the number of drainage crews or a combination of those actions.

The issue for the City Council to decide is how they will address the issues of 2009-2010 and beyond. There are options, but we must re-address the city's revenues in the light of tax reform and devaluation combined with rising operating costs and continued but slower growth. That challenge will not be an easy one or a popular one, but it will be one that has to be addressed.

I believe this office and the Office of Management and Budget as well as the Department Heads have addressed the concerns of the City Council and achieved the Council's goals and objectives for the 2008-2009 fiscal year in this proposed budget. This has been done in spite of the difficulties we are facing.

Respectfully submitted,

Donald B. Cooper  
City Manager