



# Town of Palm Beach

FY19 BUDGET OVERVIEW AND LONG TERM FINANCIAL PLAN

# Town of Palm Beach Town Manager FY19 Budget Overview



# Town Manager FY19 Budget Overview

- The Town has a AAA issuer rating and the Town's Revenue Bonds were recently upgraded from AA+ to AAA by Standard and Poor's.
- The FY18 budget status shows revenues at or above budget and expenditures at or below budget levels through March. We should end the year with a surplus unless we experience a storm or other financial event.
- All Town Reserves are at or above minimum required levels. Town's reserve policies exceed standards set by the GFOA (2 months of operating revenues) but are prudent for a coastal community.

# Town Manager FY19 Budget Overview

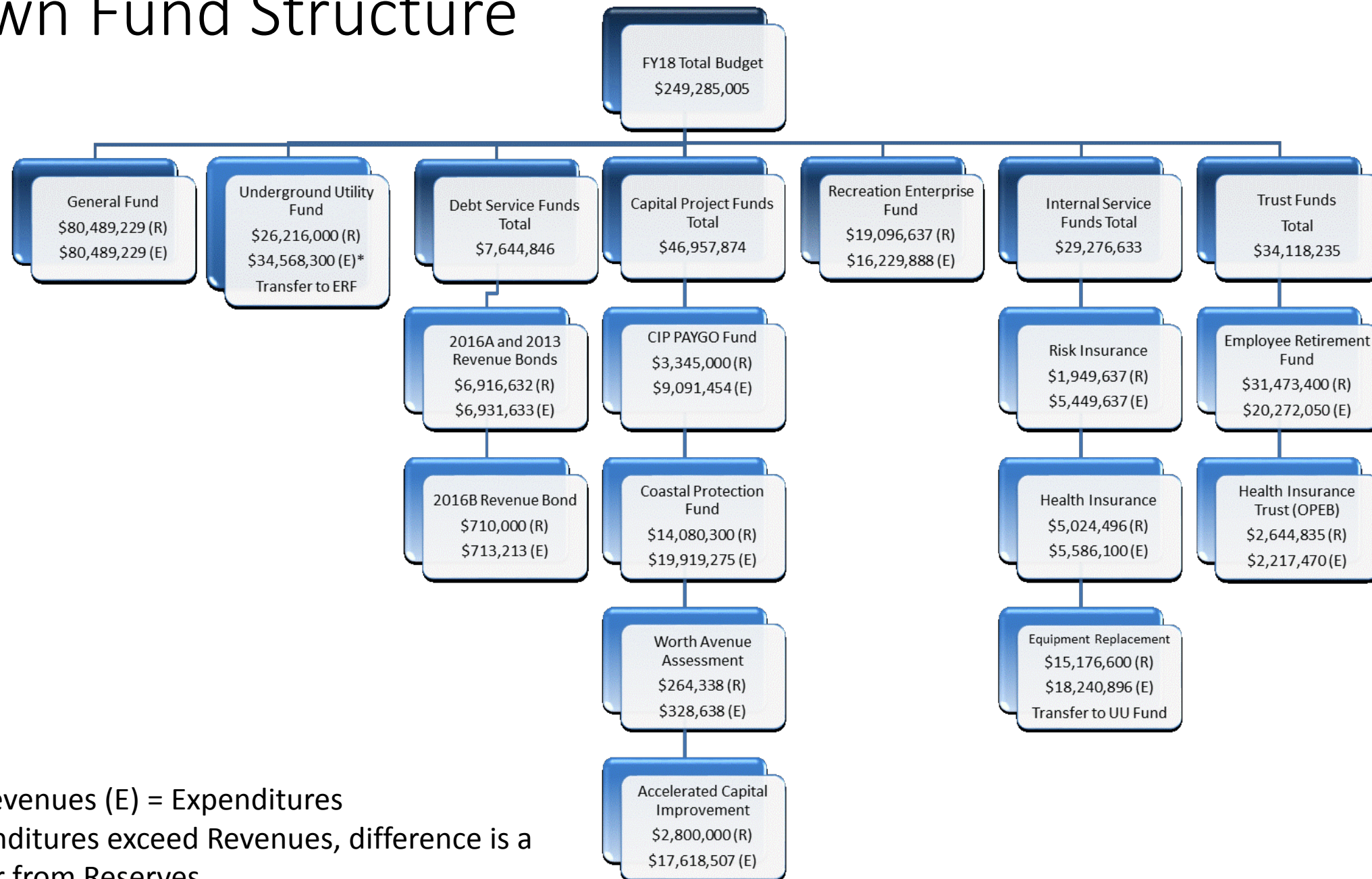
- LTFP includes a \$5,420,000 transfer to the Retirement Fund as directed by policy for each of the 10 years.
  - Pension forecast has improved – Lower employer contribution and lower UAAL through the 10 year period
  - The forecast shows a deficit of \$983,428 for FY19, but we expect it to be eliminated through the budget development process.
  - Once it is eliminated, the forecast will show surpluses for the next 10 years.
- Long Term Forecast looks promising
  - Marina reconstruction is expected to provide significant new revenues, which is not included in the forecast
  - Surpluses will allow for reductions in property taxes, and/or
  - Reduce pension investment return assumption below 7%, and/or
  - Build reserves for next recession, and/or
  - Address other Council priorities in the future

# Town of Palm Beach Fund Structure





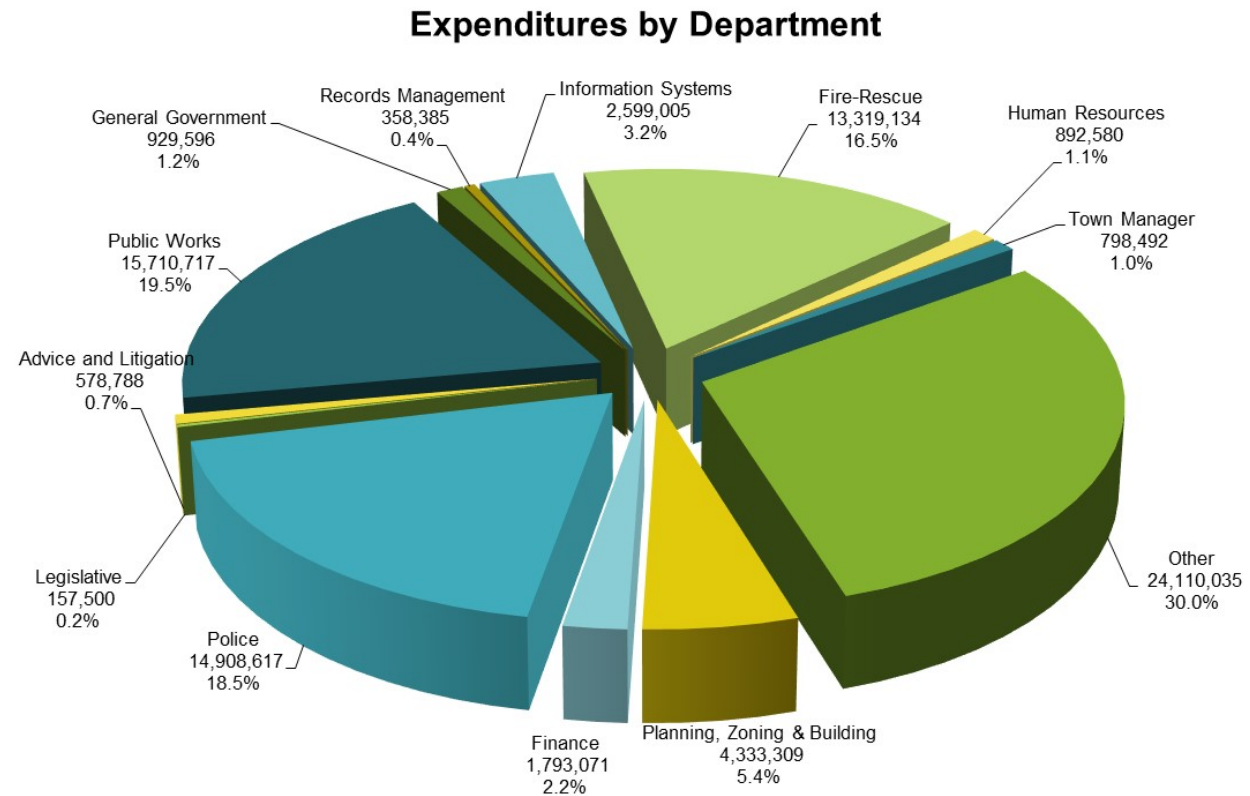
# Town Fund Structure



(R) = Revenues (E) = Expenditures  
If Expenditures exceed Revenues, difference is a  
transfer from Reserves

# General Fund

- The General Fund is used to account for most of the day-to-day operations of the Town, which are financed from property taxes, fees, licenses, permits, fines and forfeitures, intergovernmental and other general revenue.
- FY18 Budget - \$80,489,229



# Special Revenue Fund

Special Revenue Funds are used to account for revenues derived from specific taxes or other earmarked revenue sources which, by law, are designated to finance particular functions or activities of government and which therefore cannot be diverted to other uses.

- The Town has the following special revenue funds for which an annual budget is not adopted:

**State Forfeiture Fund** - Accounts for State confiscated property through the Police Department. **Federal Forfeiture Fund** - Accounts for federally confiscated property through the Police Department. **Donations Fund** – Accounts for donations received by the Town. **Grant Fund** – Accounts for grants received by the Town. **Underground Utility Assessment Fund** – Accounts for neighborhood assessment projects relating to undergrounding utilities. **Special Assessment Maintenance Fund** – Accounts for the non-capitalized expenses related to the neighborhood assessment districts.

- The Town has the following special revenue fund for which an annual budget is adopted:

**Town-wide Undergrounding of Utilities Project Fund** – Accounts for undergrounding utilities town-wide for all areas not previously completed – FY2018 Budget \$34,568,300 (Includes transfer to ERF)



# Debt Service Fund

- Debt Service Funds are used to account for the payment of principal and interest on general and special obligation debts. The sources of revenue are transfers of non-ad valorem revenue from the General Fund and transfers of assessment revenue from the Worth Avenue Assessment Area Improvement Fund.
- Listed below are the Town's Debt Service Funds with their respective FY2018 Budget:
  - **Revenue Bond Series 2013 and 2016A** – This fund accounts for the debt service for the accelerated capital improvement program - \$6,931,633.
  - **Revenue Bond Series 2016B** – This fund accounts for the debt service for the Worth Avenue Special Assessment District Construction Project - \$713,213.

# Capital Project Fund

- Capital Projects Funds account for all resources used for the acquisition and/or construction of capital infrastructure by the Town, except those financed by Enterprise and Internal Service Funds. The sources of revenue in these funds are revenue bonds, transfers from other funds, maintenance assessments and grants.
- Listed below are the Town's Capital Funds with their respective FY2018 Budget (Including Roll-over Funds):
  - CIP Pay-as-you-go Fund - \$9,091,494
  - Coastal Protection Fund - \$19,919,275 -
  - Worth Avenue Maintenance Fund – \$328,638
  - Accelerated Capital Improvement Fund, Phase 2 - \$17,618,507

# Enterprise Fund

- Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The Town operates one enterprise fund – the Recreation Enterprise Fund.
  - Recreation Fund Operating Revenues FY18 - \$6,641,400
  - Recreation Fund Operating Expenses FY18 - \$4,021,185

# Internal Service Fund

- Internal Service Funds are used to account for the financing of goods or services provided by one department or agency of a government to other department or agencies on a cost reimbursement basis. Accounting for Internal Service Funds is designed to accumulate the total cost (including depreciation) of providing a particular service. Costs for services are reimbursed by the departments or agencies to which the services are provided.
- Listed below are the Town's Internal Service Funds with their respective FY2018 Budget:
  - **Risk Management Self Insurance Fund** - This fund was established to account for the Town's Property, Liability and Worker's Compensation Insurance costs and unfunded losses or claims - \$5,449,637.
  - **Health Insurance Self Insurance Fund** - This fund was established to account for the Town's health insurance costs which include medical, dental, life, long-term disability accidental death/dismemberment and supplemental life insurance - \$5,586,100.
  - **Equipment Replacement Fund** - This reserve was established to fund the replacement cost of existing equipment, vehicles and computers when they reach the end of their useful lives - \$18,240,896. (Includes Transfer to/from Underground Project Fund)

# Trust Funds

- Trust Funds are established when a government holds or manages financial resources in a fiduciary capacity.
- Listed below are the Town's Pension Trust Funds with their respective Net Position as of 9/30/17 and FY2018 Budget:
  - **Employees' Retirement Fund** - This fund accounts for the Town's defined benefit retirement program for General, Lifeguard, Police Officers and Firefighter employees:
    - 9/30/17 Net Position - \$209,822,728
    - FY2018 Budget – \$31,473,400
  - **Other Post Employment Benefits (OPEB) Trust Fund** - This fund was established by Ordinance to fund the portion of health care benefits paid by the Town for retirees:
    - 9/30/17 Net Position – \$31,275,719
    - FY2018 Budget - \$2,644,835



# Town of Palm Beach FY18 Long Term Financial Plan



# Long Term Financial Plan

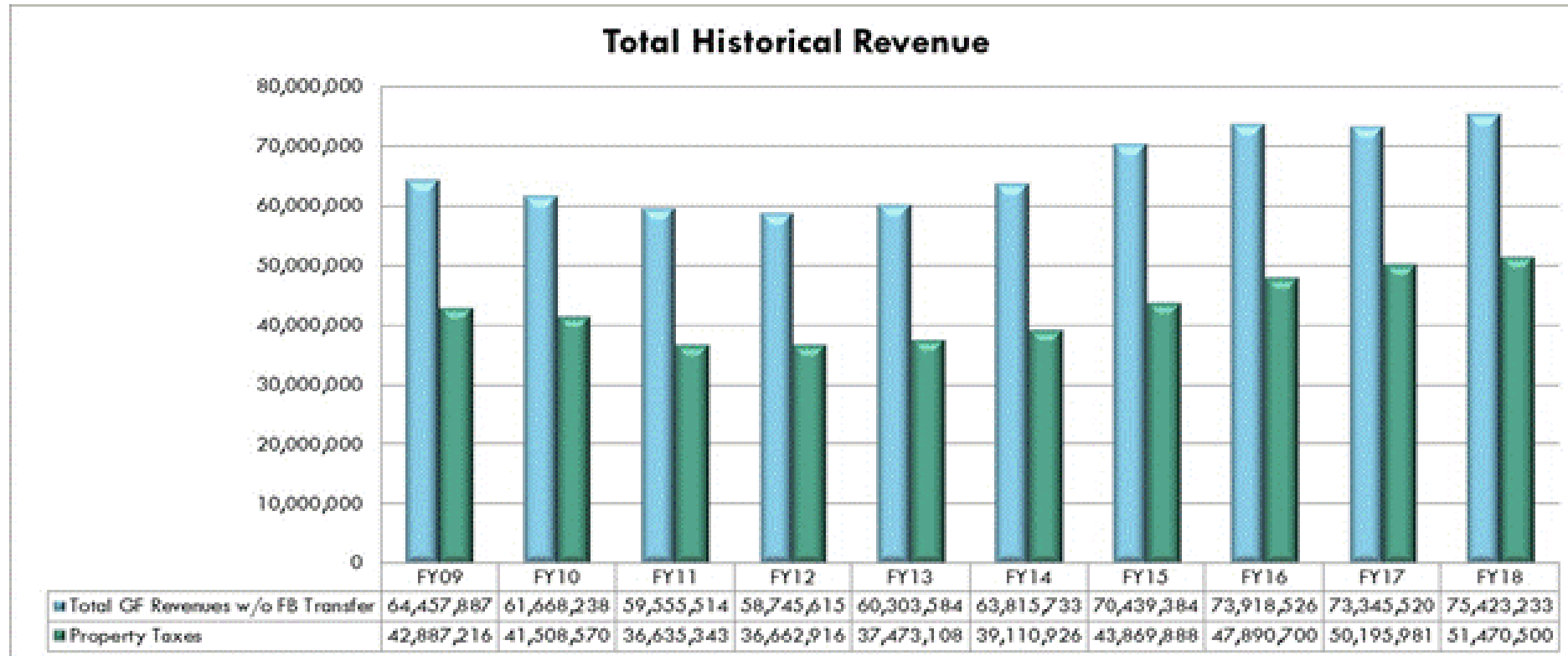
- General Fund Revenue and Expenditure Trends
- General Fund Forecast
- Recreation Enterprise Fund
- Other Funds
- Reserve Status

# Trend Analysis



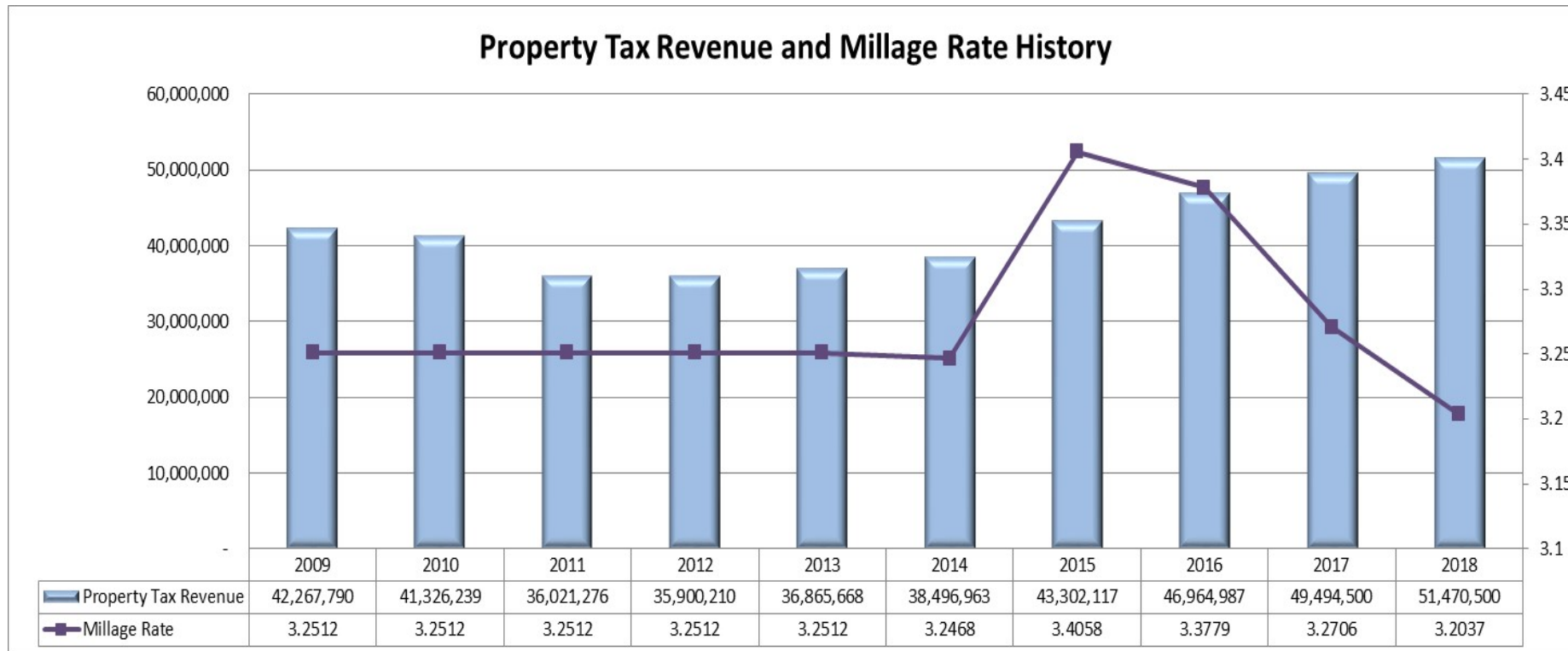
# General Fund Revenue Trends

- General Fund Revenues
  - Increase in FY14 – Property tax increase to fund Additional Debt Service for 2013 Bond and increases in fine and interest revenue
  - FY15 and FY16 - Property Tax increase for Coastal Transfers and increases in License and Permit Revenue
  - FY 18 increase includes property tax increase and the transfer from fund balance.



# General Fund Revenue Trends

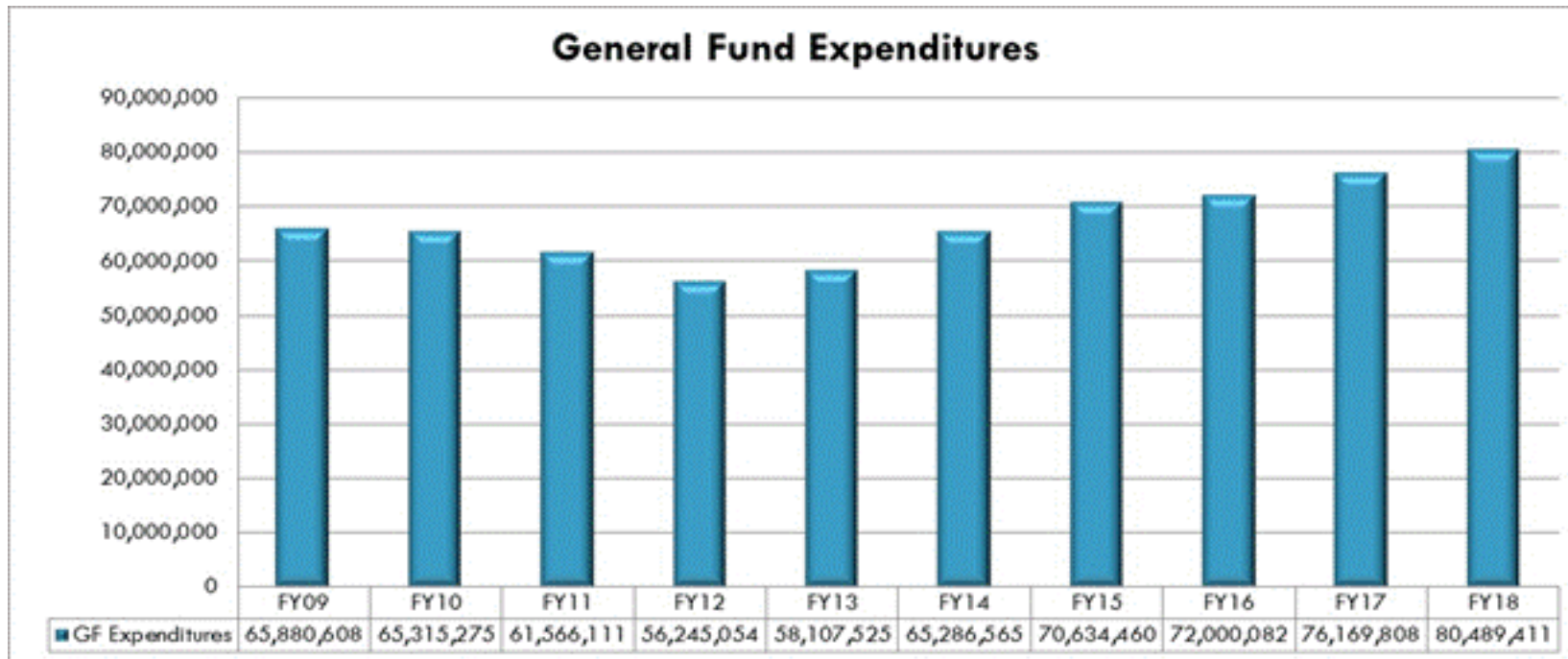
- Ad Valorem Revenue (Property Taxes)
  - Millage Rate was Maintained at 3.2512 from FY09 – FY13
  - Millage Rate was Increased to 3.4058 in FY15 to fund Coastal Protection
  - Millage Rate was decreased to 3.2037 in FY18





# General Fund Expenditure Trends

- Increase Between FY13, FY14 and FY15 – Due to pension, coastal and debt service costs
- Increase in FY16 – Transfer to the Underground Utility Fund
- Increase in FY17- Extraordinary transfer to Retirement Fund and increase for CIP
- Increase in FY18 – Extraordinary transfer to Retirement Fund, pension costs and contractual increases due to the negotiated firefighter contract.
- Operating expenditures since 2009 have increased 3.78%,
- Details of major changes each year since FY09 are included in LTFP



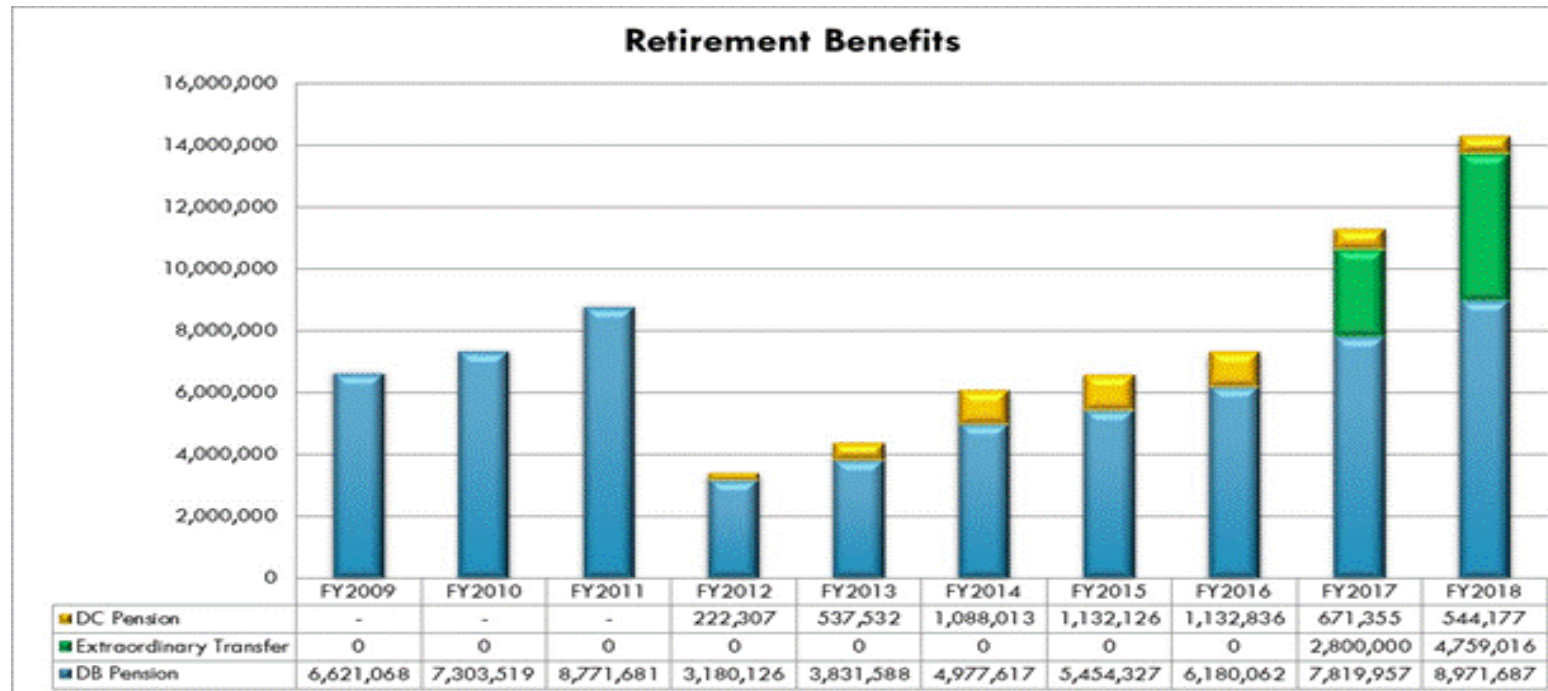
# Salaries and Wages

- Total salary costs are 4.92% less than in FY09
- There are 40.52 less Full Time Positions since FY09



# Pension Benefits

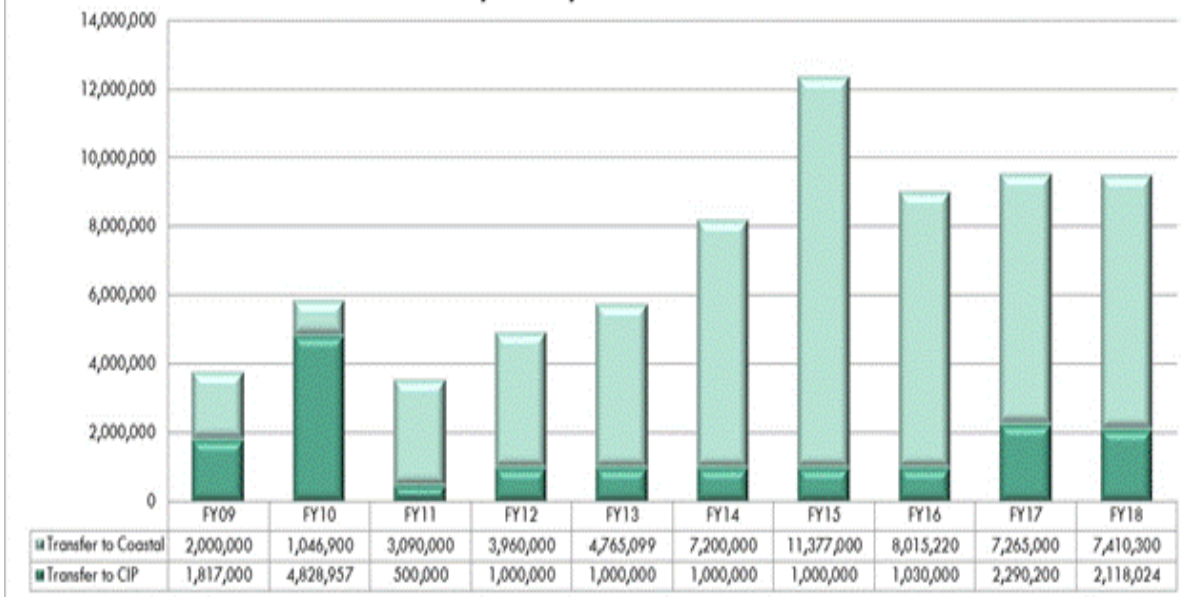
- Pension reform reduced costs in FY12
- Changes in the Investment Assumption in FY14 from 8%-7.5%
- The 4% discretionary DC contribution was added in FY14
- The FY17 budget reflects the changes to the Public Safety pension plan and the changes to the mortality tables and the initial extraordinary transfer
- The FY18 budget reflects the changes to the General Employee and Firefighter pension plans and the new policy required extraordinary transfer to the retirement fund



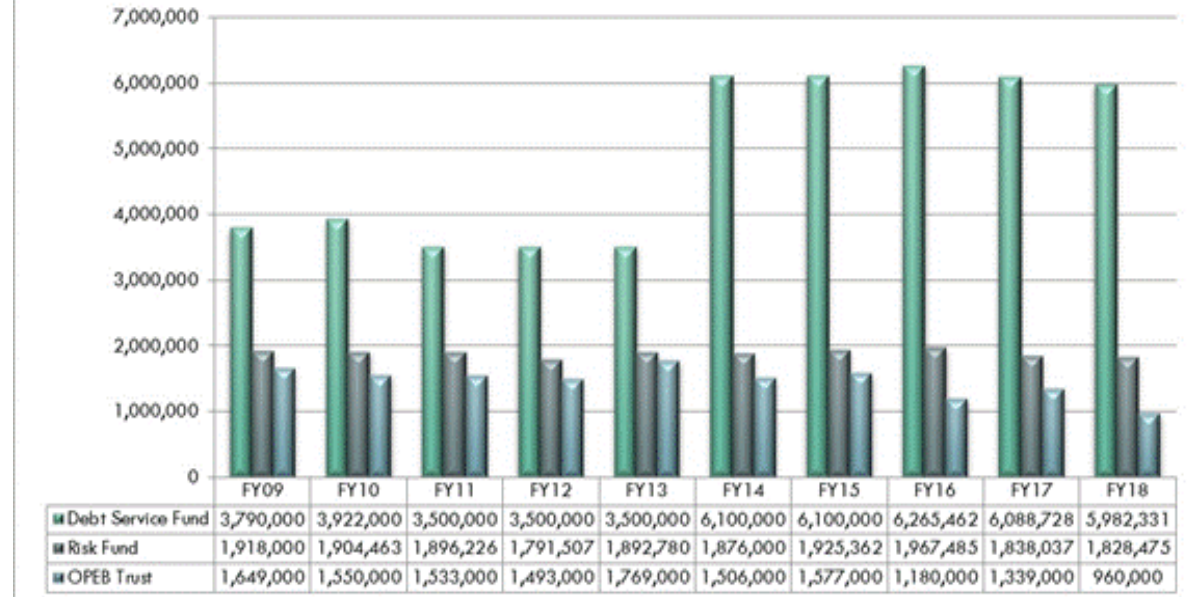
# Transfers

- Transfers for Coastal, Debt Service and CIP Caused Increases since FY09

**Transfers to the Capital Improvement Fund and Coastal Protection**



**Transfers to Debt Service, OPEB Trust and Risk Insurance Funds**



# General Fund Forecast



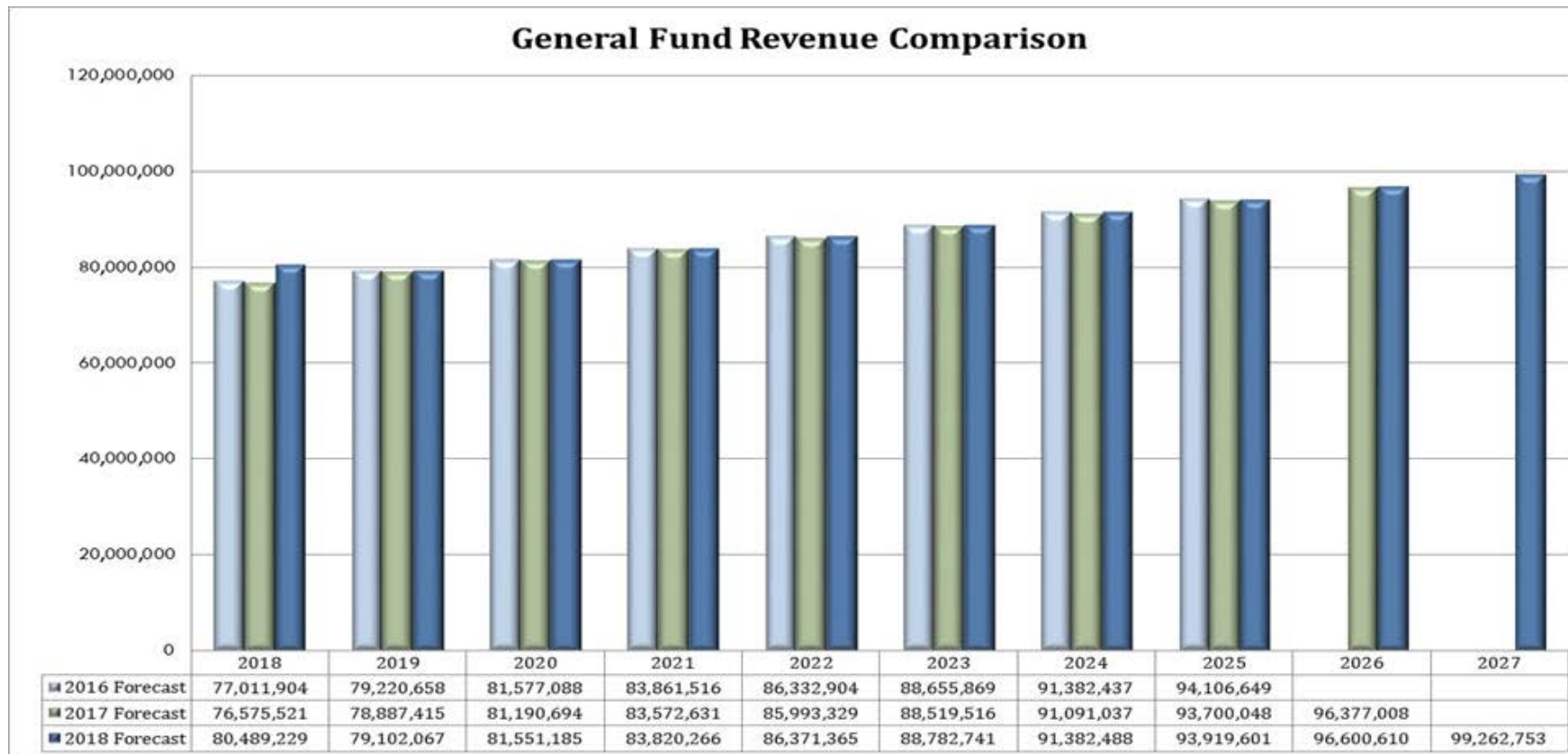


# LTFP Assumptions – 5 Year Snapshot

[illegible]

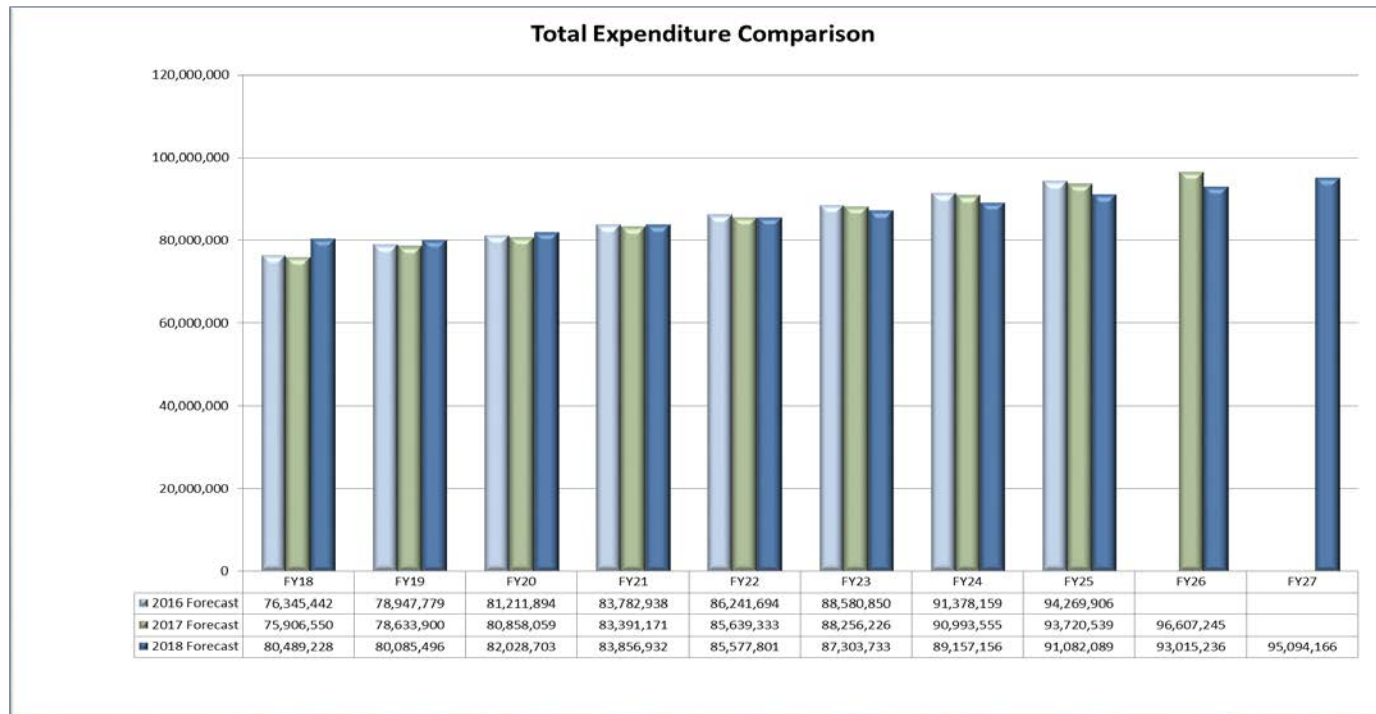
# General Fund Forecast

- Revenue Forecast for 2018 – 2027
  - Conservative Forecast includes a 3.25% increase for property tax revenue each year
  - Non-Tax Revenues are Forecasted Conservatively



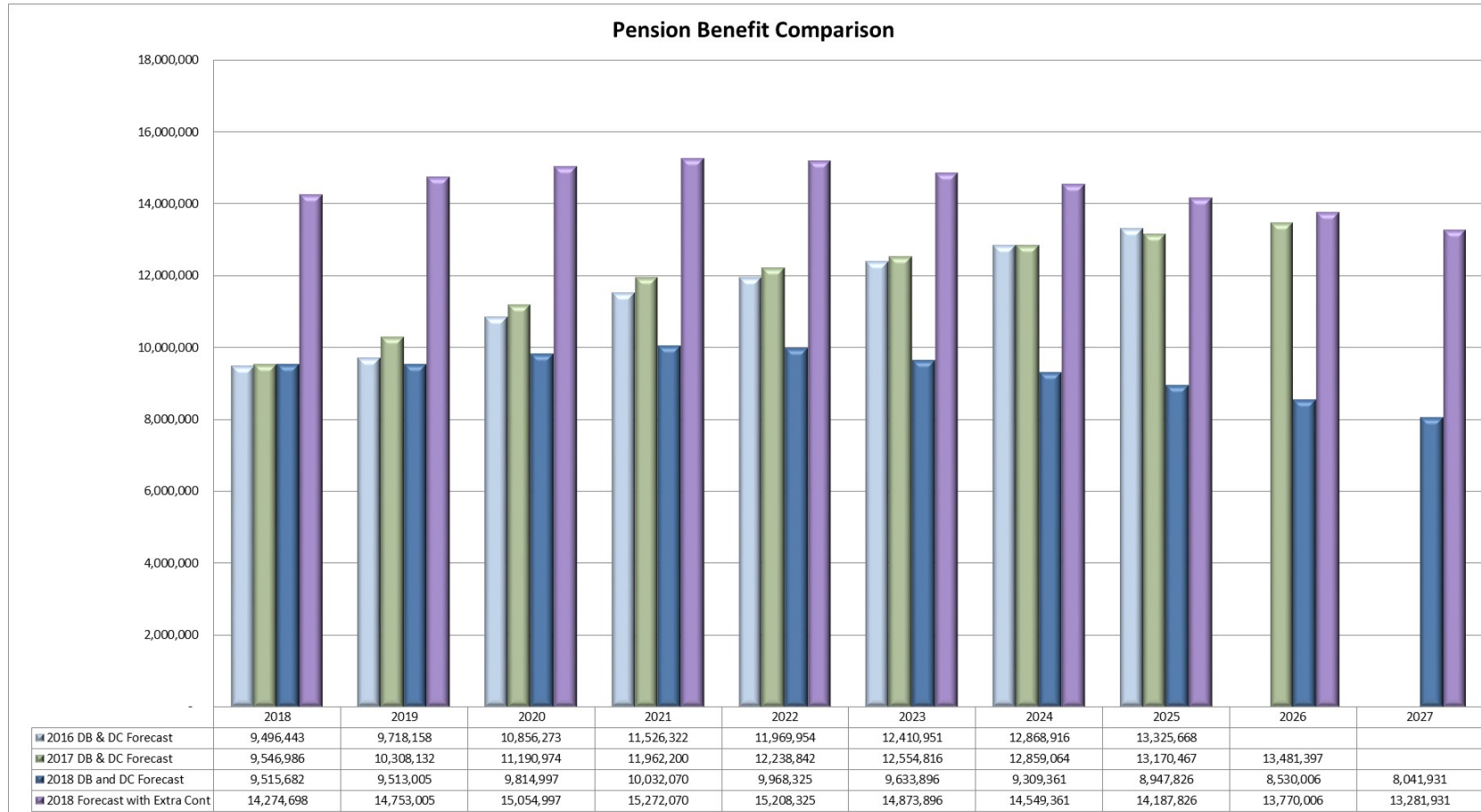
# General Fund Forecast

- Total General Fund Expenditure Forecast
  - FY18 Forecast is slightly more in years FY19 – FY21, and is less than prior forecasts through the rest of the forecast period.
    - The forecast includes the additional pension transfer of \$5,420,000 each year throughout the forecast.
    - Forecast contains expenditure reductions of \$2,569,320 and the approved revenue increases of \$191,505 identified in the Comprehensive Review of Town Operations.



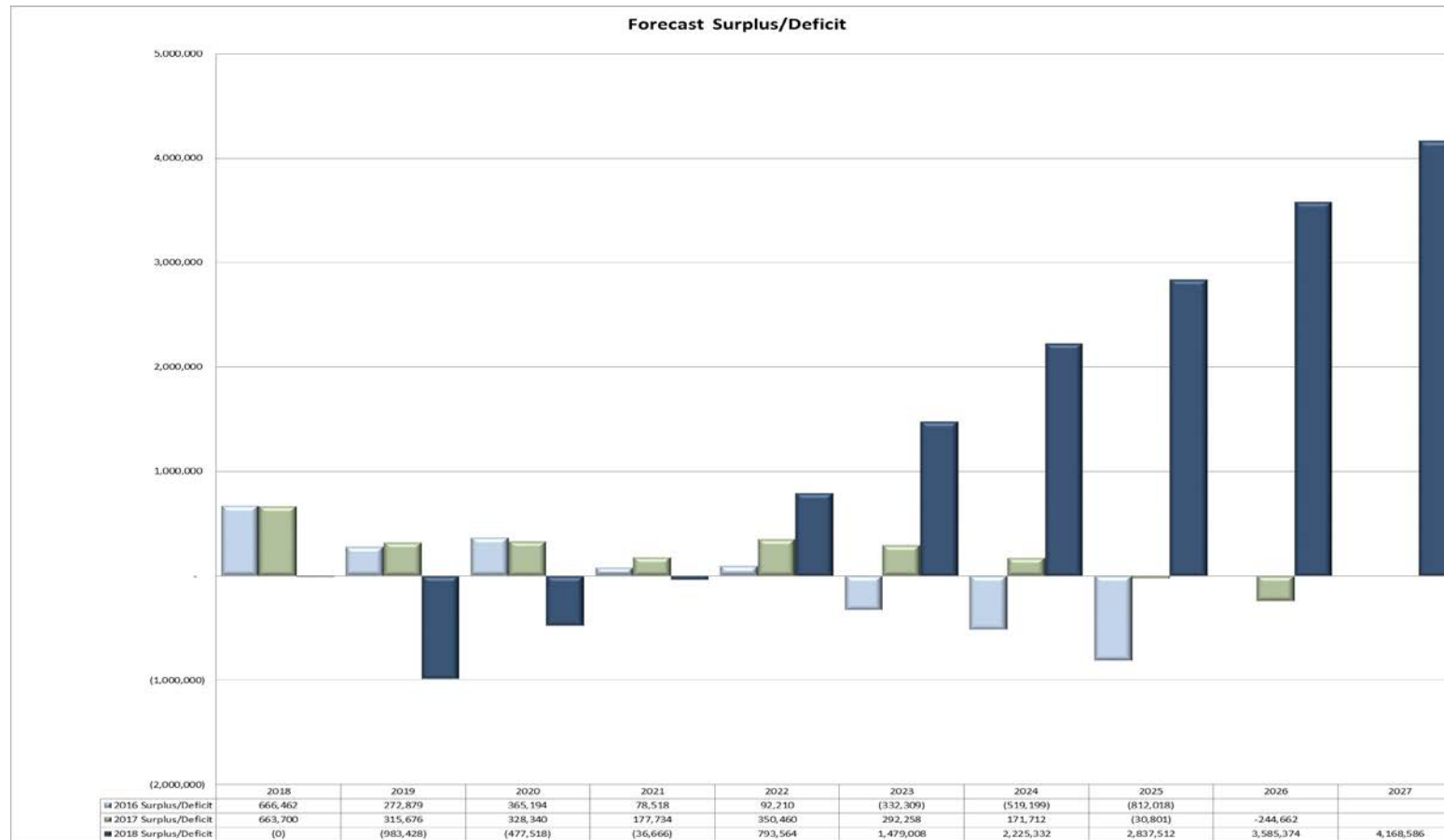
# Pension Forecast

- The FY19 DB and DC forecast has decreased significantly since last year. (Navy bar on chart)
- The purple bar represents the combined Town Contribution and the Additional \$5,420,000 contribution.



# Forecast Surplus/Deficit

- The FY18 forecast shows deficits in FY19, FY20 and FY21 then surpluses through 2027.
- FY19 Deficit is \$983,428
- Deficit will be reduced through the budget review process.



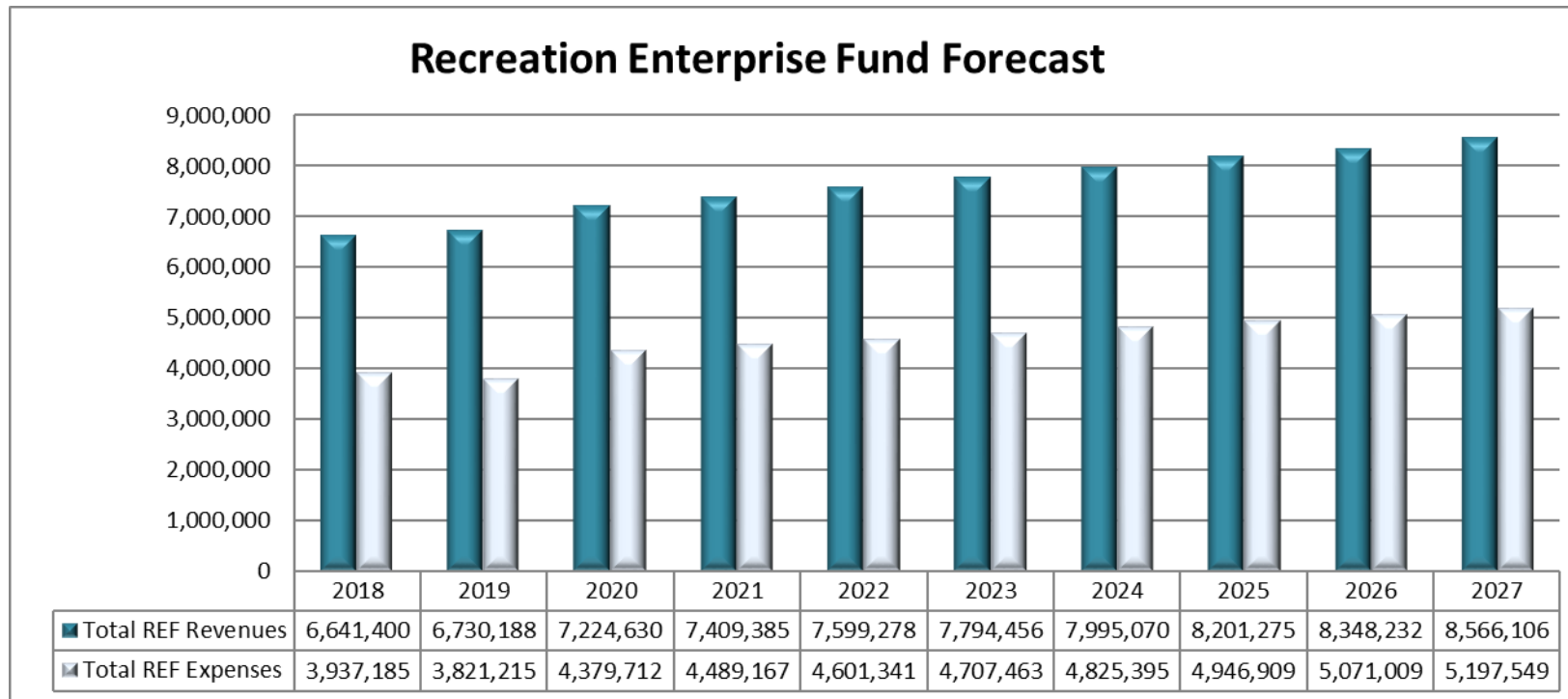


# Recreation Enterprise Fund



# Recreation Enterprise Fund

- Includes decrease in FY19 for closure of Recreation Center and Increases in FY20 for the reopening
- No changes are forecasted for the Town Docks – Once Master Plan has been approved, the forecast will be updated – Expect large revenue increases plus debt service for cost of construction in new forecast.



# Reserve Status

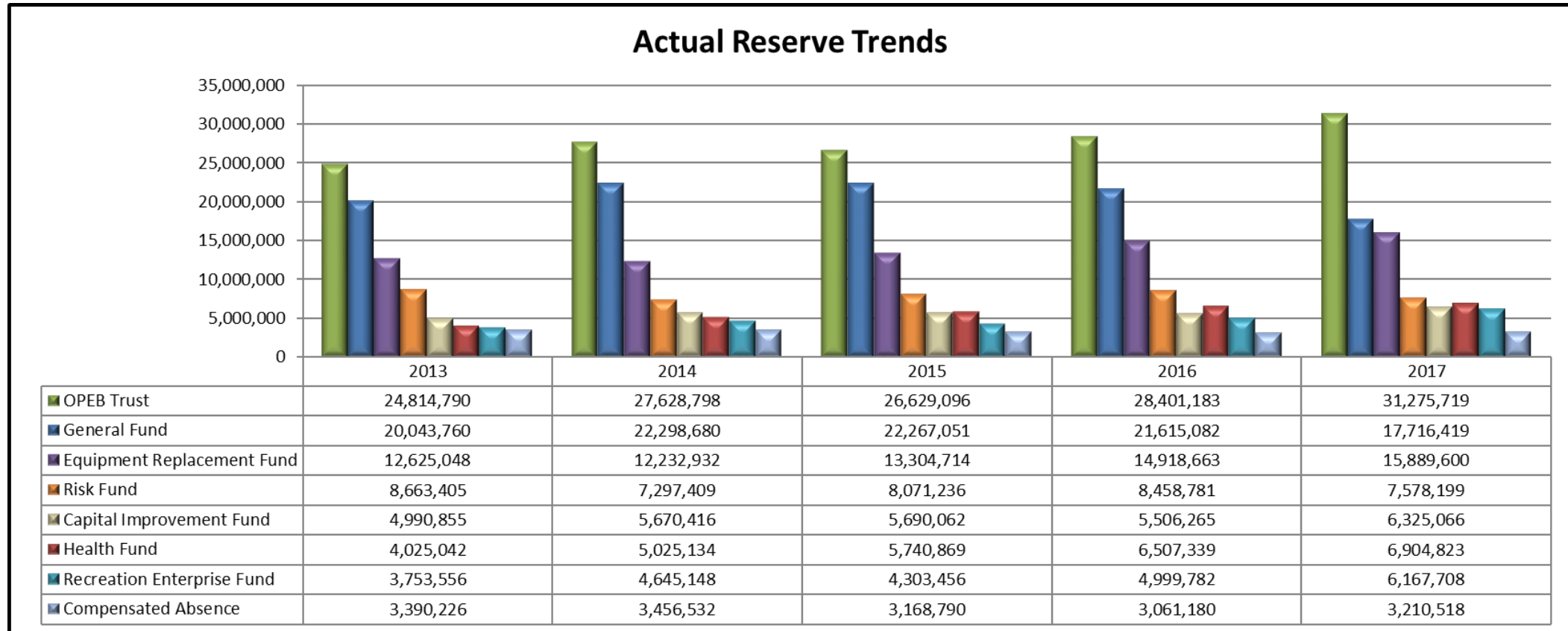


# Reserve Status as of September 30, 2017

- **General Fund – Minimum 25% of Budgeted Expenditures**
  - **FY17 Year End Balance = \$17.7 million**
    - **\$1.1 Million over Minimum**
- **Compensated Absence Reserve = \$3.2 million**
- **Debt Service Fund = \$1.57 Million**
- **Capital Improvement Fund = \$6.3 Million**
- **Coastal Protection Fund = \$19.7 Million**
- **Risk Fund Reserves = \$7.6 million**
- **Equipment Replacement Fund = \$15.9 million**
- **Health Insurance Reserve = \$6.9 million**
- **Recreation Enterprise Fund Reserves = \$6.1 million**
  - **Dock Replacement - \$3.8 million**
  - **Par 3 Golf Course and Clubhouse and Tennis Maintenance and Improvement \$791,478 total**
  - **Equipment Replacement \$651,225**
- **OPEB Trust (for Retiree Health) = \$31.3 million**
- **Pension Fund = \$209.8 million**

# Reserve Status

- All Reserves Are At or Over the Required Minimum
- S&P and Moody's AAA Ratings Reflect Healthy Reserve Levels



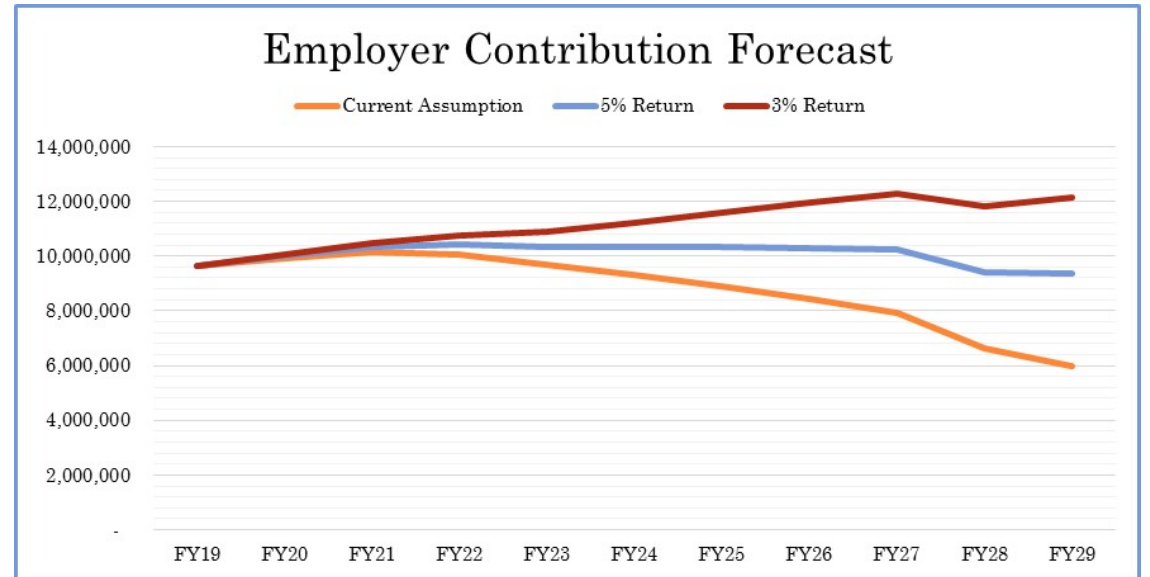
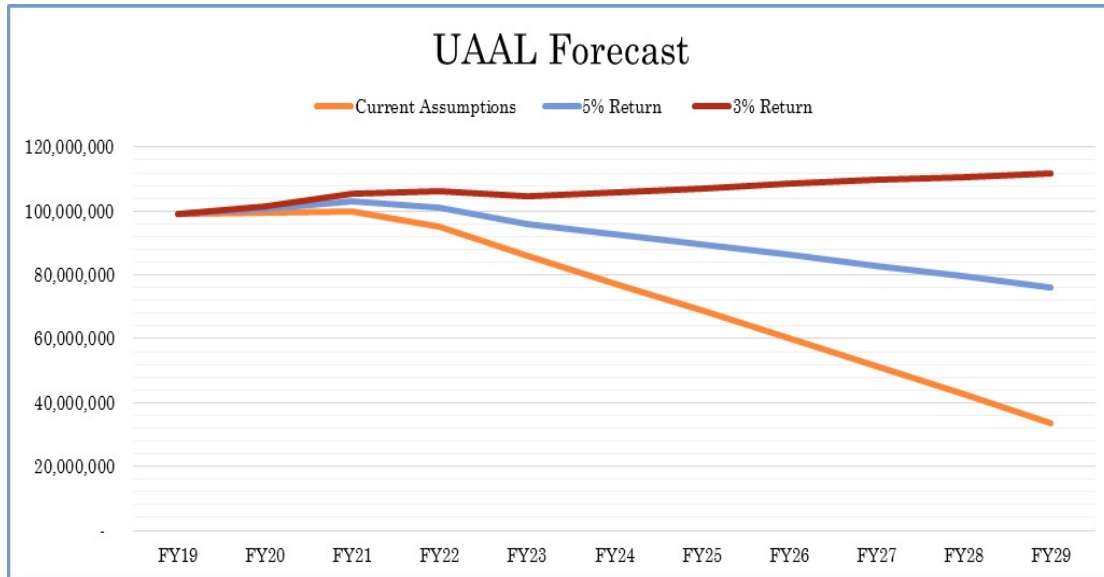
# Pension Fund Update





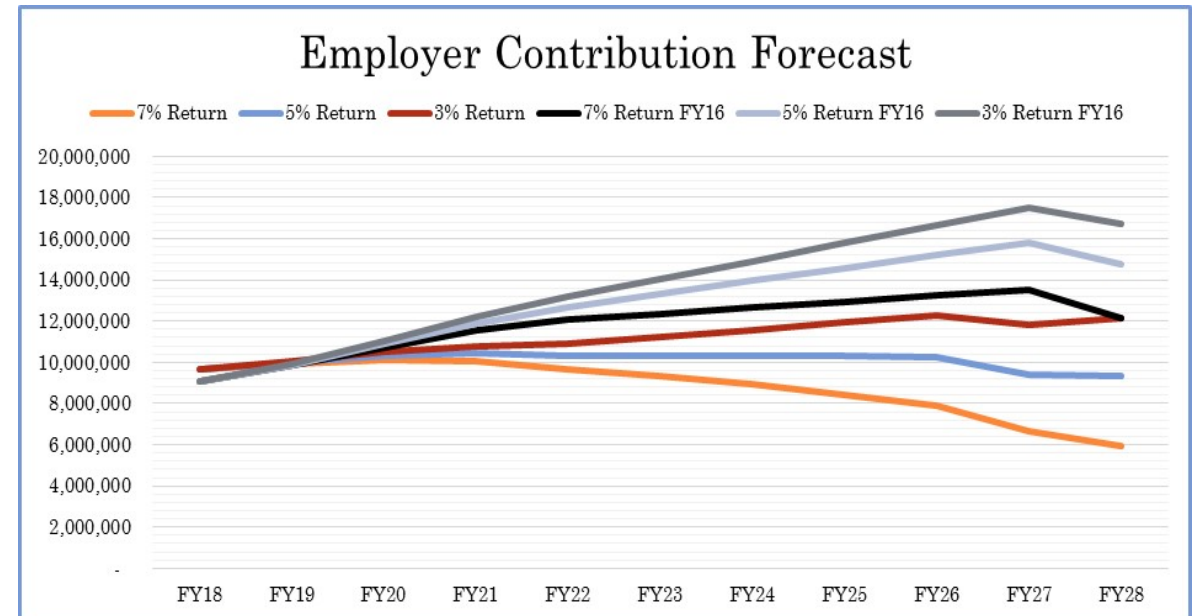
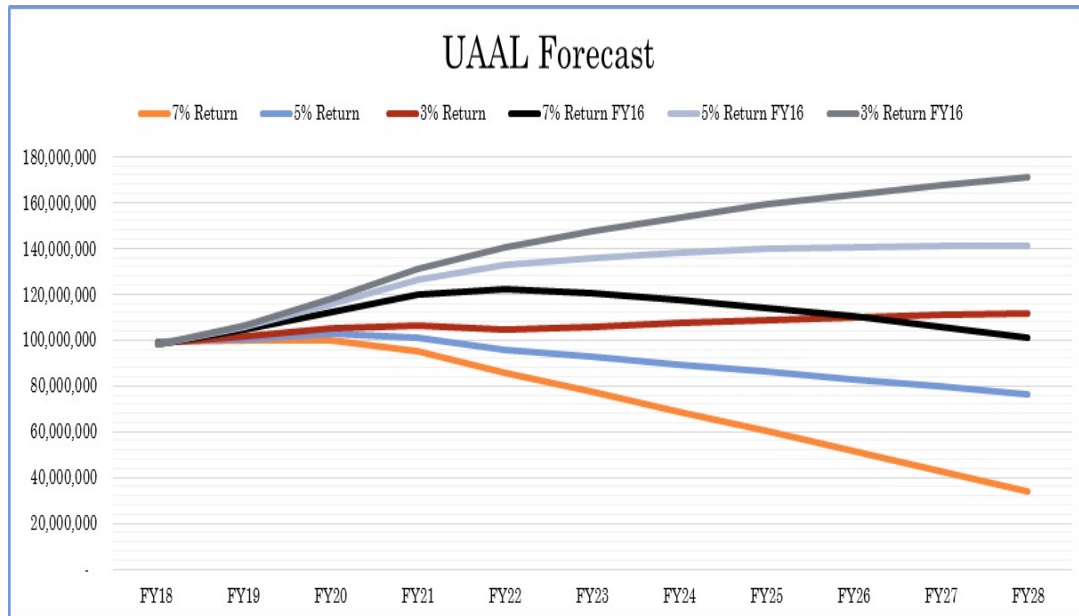
# Pension Update

- Forecast has improved from last year
- Employer Contribution forecast has decreased from last year. Results reflected in LTFP – Current Assumptions

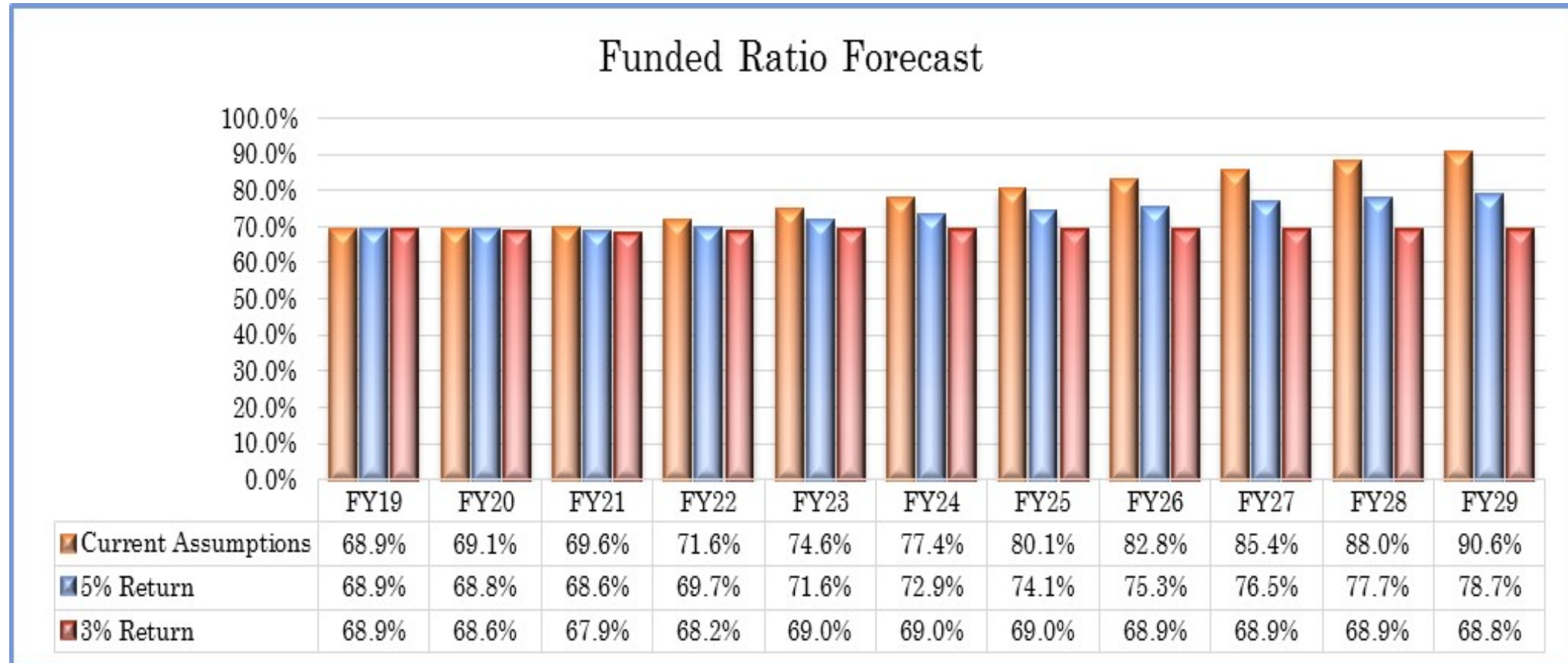


# Pension Update

- Current FY17 forecast vs. FY16 Actuary Forecast (Grey and Black lines)



# Pension Update



# Pension Cost by Benefit Tier

- Legacy Plan Costs are 83.4% of Total Cost

Actuarially Determined Contribution Breakdown by Benefit Tier					
Valuation Date: September 30, 2017					
	Total Plan	General	Ocean Rescue	Police	Firefighters
Participants	290	174	4	54	58
<i>Total Plan</i>					
Employer Normal Cost	7.95%	6.65%	7.42%	9.91%	9.75%
Amortization of UAAL	41.35%	20.00%	100.84%	62.76%	78.90%
<b>Total</b>	49.30%	26.65%	108.26%	72.67%	88.65%
Town Contribution	\$ 9,631,447	\$ 3,041,335	\$ 191,588	\$ 2,936,040	\$ 3,462,484
<i>Plan B - Ongoing Plan</i>					
Employer Normal Cost	7.69%	6.33%	7.42%	9.55%	9.75%
Amortization of UAAL	0.51%	0.49%	0.36%	0.48%	0.59%
<b>Total</b>	8.20%	6.82%	7.78%	10.03%	10.34%
Town Contribution	\$ 1,601,171	\$ 778,308	\$ 13,768	\$ 405,236	\$ 403,859
<i>Plan A - Legacy Plan</i>					
Employer Normal Cost	0.26%	0.32%	0.00%	0.36%	0.00%
Amortization of UAAL	40.84%	19.51%	100.48%	62.28%	78.31%
<b>Total</b>	41.10%	19.83%	100.48%	62.64%	78.31%
Town Contribution	\$ 8,030,276	\$ 2,263,027	\$ 177,820	\$ 2,530,804	\$ 3,058,625

# Cost to Reduce Investment Return Assumption to 7%

- Increase Contribution by \$674,955
- Increase UAAL - \$11,092,789

	Total Plan
<b>Current Rate of 7.3%</b>	
<b>Employer Normal Cost</b>	7.95%
<b>Ammortization of UAAL</b>	41.35%
<b>Total</b>	49.30%
<b>Town Contribution</b>	\$ 9,631,447
<b>UAAL</b>	\$ 98,995,141
<b>Funded Ratio</b>	68.90%
<b>Assumption Change to 7%</b>	
<b>Employer Normal Cost</b>	8.70%
<b>Ammortization of UAAL</b>	44.06%
<b>Total</b>	52.76%
<b>Town Contribution</b>	\$ 10,306,402
<b>UAAL</b>	\$ 110,087,930
<b>Funded Ratio</b>	66.60%
<b>Difference</b>	
<b>Town Contribution</b>	\$ 674,955
<b>UAAL</b>	\$ 11,092,789
<b>Funded Ratio</b>	-2.30%

# Florida Municipal Budget Requirements TRIM Law





# State of Florida TRIM law

- Florida Legislature passed the “Truth in Millage” (TRIM) act in 1980
  - Millage is the term for property tax rate
- TRIM is designed to inform taxpayers which government entity is responsible for taxes levied
- TRIM is designed to ensure taxpayer is aware of proposed millage and budget changes
- TRIM established the statutory requirements all taxing authorities levying a millage rate must follow including:
  - Notices
  - Budget hearing requirements
  - Timelines for public hearings
  - Voting Requirements for Tax Levies
- Notifies taxpayers of the percent of change in the rolled-back rate.
  - Rolled-back rate is defined as millage rate which provides the same property tax revenue as was levied during the previous year (exclusive of new construction)

# TRIM Timetable

1. June 1<sup>st</sup> Property Appraiser delivers the Preliminary Taxable Value
2. July 1<sup>st</sup> Property appraiser certifies the taxable value
3. Within 35 Days Town must provide the property appraiser the proposed millage and the calculated rolled-back rate and date and time of public hearings. The Town's public hearings cannot conflict with the County or School Board Hearings. Public Hearings must be after 5:00pm.
4. Property Appraiser mails TRIM notice to property owners within 55 days of July 1 advising property owners of the proposed millage and rolled back rate and date and time of public hearings.
5. Town must hold a public hearing to adopt the tentative budget and proposed millage rate within 65 to 80 days of July 1.
6. Within 15 days after tentative budget hearing the Town must advertise a proposed tax rate increase and budget summary.
7. Town must hold the final public hearing to adopt the final millage rate and budget 2 to 5 days after the advertisements.
8. Within 3 days after final public hearing the Resolution adopting the final millage rate is sent to property appraiser, tax collector and Department of Revenue

# Town of Palm Beach Budget Legal Code Requirements



# Town of Palm Beach Charter Requirements

- Section 4.04 – The Town Manager shall:
  - Prepare and submit the annual budget and capital programs to the Town Council in a form provided by Ordinance and, at the outset of the annual budgetary process, prepare and submit a written budget message to the Town Council
  - Keep the Town Council fully advised as to the financial condition and future needs of the Town and make such recommendations to the Town Council concerning the affairs of the Town as the Town Manager deems desirable
  - Submit to the Town Council and make available to the public a complete report on the finances and administrative activities of the Town as of the end of each fiscal year
- Section 7.01 – Annual Budget
  - Annual budget may be adopted by ordinance or by resolution as determined by the Town Council. However, budget amendments adopted subsequent to the annual budget shall be adopted only by Ordinance.

# Town of Palm Beach Code Requirements

- Division 4 – Budget Procedure - Section 2-541
- No later than September 1 of each year the Town Manager shall investigate fully the finances of the Town and shall make an estimate of the revenues and receipts other than from taxes to be levied, reasonably to be expected, from October 1 to September 30 of the following year and shall transmit the same to the Town Council including an estimate of the expenditures of the town for the ensuing year.
  - Report should include a detailed estimate of expenses showing the increase or decrease in requests compared with the corresponding appropriation for the current year.
  - Recommendations of the Town manager as to the amount of money to be appropriated with the reasons therefor in such detail as the Town Council may direct or as the Town Manager may deem advisable to submit.
- Prior to making the tax levy for the year, the Town Council shall review the Town Manager's estimate and recommendations and make an estimate of the necessary and ordinary expenses for the fiscal year next ensuing. Such estimates when fixed by the Town Council shall be adopted in the manner provided by state law.

# FY19 Budget Process





# FY 19 Budget Process

- Departments begin work on their budgets in March.
- Once each Department finishes their budget proposal, the budget committee consisting of the Town Manager, Deputy Town Manager, Finance Director and Assistant Finance Director, meets with each Department and conducts a thorough review their line item budgets.
- The Finance Director works with the Departments to develop the Non Ad Valorem Revenue Estimates
- The Taxable Value numbers are provided by the Property Appraiser on June 1, and the budget is finalized for presentation

# FY19 Budget Presentation

- The presentation of the proposed FY19 Budget will be held on July 9, 2018 at 9:30AM
- The Town Manager and Staff will present the proposed FY19 Budget which includes a review of the budgets for each fund of the Town

# Questions?

