TOWN OF PALM BEACH
EXECUTIVE SUMMARY
FY2019 PROPOSED BUDGET

Executive Summary

Town of Palm Beach, Florida

July 9, 2018

Honorable Mayor, Town Council and Residents of the Town of Palm Beach;

The proposed FY2019 budget, represents staff's initial efforts to reduce expenditures and begin reorganizing Town operations to ensure the most efficient and effective delivery of high quality public services. The goal was to come up with $5,420,000 in expenditure cuts or revenue enhancements and we have met this goal. A thorough review of each departments' proposed budget and their operations was completed. Through this process, we examined each expenditure line by line and we were able to reduce expenditures in all department budgets, which includes the reduction of 14.65 FTEs, of which 2 have been supplanted by contractual services. Each Department is presenting a FY19 operating budget that is less than the LTFP and less than their FY18 budgets.

This proposed budget is the result of the initial work in finding efficiencies and applying lean government principles on a Town-wide basis. This is a continuous process as there is still more work to be done. We expect to see further reductions in both expenditures and positions in FY20 and beyond. Through attrition, each position and its related responsibilities will be examined to determine if the position is still needed or can be restructured before automatically backfilling.

We have made significant progress with procedural improvements in the procurement process and the sale of surplus equipment. Fiscal year to date the Purchasing staff has measurably generated $143,321 in cost savings through negotiations of awards, and re-structuring of contracts to allow for Direct Owner Purchases. We have generated more competition, conducted more active negotiations and have adopted better business practices. Staff has implemented a new process for the sale of surplus items online. Not only is this process more efficient and saves costs in transportation, overtime and seller premiums, it also has generated additional sale revenues due to more aggressive bids. Since November 2017, we have received $220,475 from the sale of surplus items. During the same period in FY17, the Town received payments of $25,056 for surplus sales.

We are recommending a reduction of the UAAL amortization period from 25 years to 15 years. This change will cost an additional $1,440,000 in FY19 but the total interest expense savings over the next 25 years versus the current 25-year amortization is $47,800,000. With this change, and the additional contribution of $5,420,000, the UAAL could be completely eliminated in approximately 10 to 11 years. The Town is currently paying interest expense on the UAAL at a rate of 7.3%, leading to an annual interest payment of over $7.1 million and

a current principal payment of less than $1 million. I believe the high interest expenses we are incurring under our current amortization plan is not fiscally prudent. Therefore, we have included in the FY19 proposed budget a 15 year amortization plan.

Once the pension plan is fully funded at 100%, the new annual obligation will be roughly $1.5 million (in today's dollars) which will eliminate the need for the current payment levels of over $16 million. **The funding for this change to the amortization period is included in the proposed budget with no increase in taxes for a homesteaded property owner.**

We worked with the actuary to develop alternatives to reduce the UAAL more quickly. The following options were considered:

	Current 25	20 Year	15 Year	10 Year
Annual Cost	9,300,000	9,870,000	10,740,000	13,580,000
Additional Cost over current payment		570,000	1,440,000	4,280,000
Interest Savings		26,900,000	47,800,000	73,500,000

The Town's actuary, Pete Strong, with GRS will attend the July 9th budget meeting to provide additional information and answer any questions the Town Council may have regarding this matter. **We recommend that the Retirement Board vet this financial option when they meet in August** so that when we adopt the final budget in September, we will have their recommendation and if different from ours, we can change the budget before adoption.

Another change that was made in the proposed FY19 budget was the elimination of the Recreation Enterprise Fund and the creation of two independent business enterprise funds for the Town Docks and Par 3 Golf Course. The Recreation Administration, Recreation Center and Tennis program expenses and revenues have been transferred into the General Fund. These actions effectively resets the budgeting models for these programs as they were in FY2003, before the Recreation Enterprise Fund was created. The revenues and expenditures for these programs are shown below the General Fund expenditures for purposes of this meeting so that the presentation shows an "apples to apples" comparison to FY18. The final budget document will blend the Recreation expenditures into the various categories to show the final approved General Fund budget. The transfer from the Town Docks and Par 3 will be set at an amount to cover the Recreation and Tennis expenditures so the net effect on the General Fund is $0 for this transitional year. This change will allow for better transparency, relative to the expense/revenue ratios for each individual program/facility.

General Fund

Historical Trends – Expenditures

For purposes of this discussion, we providing the spreadsheet following this section to illustrate the trend in expenditures by category since 2009 to enable the reader to understand where the growth has come from and to better understand how the FY19 budget compares to previous fiscal years. We compare the FY19 budget first to FY12 because it was

the lowest total budget year in the past decade. We also describe the change since FY09 because that was the highest budget year to date and the catalyst for future budget reforms.

The years FY2009 through FY2017 represent actual costs, FY2018 numbers are the adopted budget, and FY2019 represents the proposed budget.

The overall General Fund expenditures have increased since FY09 by a total of 23.43% or 2.13% per year for the last 11 years. Since FY12, expenditures have increased by 45.85% or 5.7% per year for the past 8 years. We highlight operating expenditures on the spreadsheet to differentiate the costs of the day-to-day operations versus other expenditures of the Town, such as capital improvements, coastal project and large transfers to various funds. Since FY09, operating expenditures have decreased $107,733 or -.19%, and since FY12, operating expenditures have increased by $10,377,455 or 22.76%. Transfers and other expenses since FY09 have increased by 158.66% or $15,544,579 and since FY12, these expenses have increased $14,694,952 or 138.02%. Highlights of the major increases since FY12 are described below:

- The largest driver of expenditure increases since FY12 were pension costs for current employees and retirees receiving legacy benefits, which increased $6,075,225 plus the extraordinary contribution of $5,420,000 and the proposed $1,440,000 to reduce the amortization period. These costs represent 51.6% of the General Fund total increase during this time period.
- The next largest increase was the transfer to the coastal protection fund, which increased $3,389,124 or 13.5% of the total. In FY15, $4,777,000 was added to Town taxes to begin developing a permanent funding source for the coastal program.
- Contractual costs have increased $2,787,868 (11.12% of the total) over the period due in part to contracting out many Town services that used to be performed by Town staff. Increases in sewage treatment and disposal costs alone contributed to the increase of contractual costs by $1,011,752 since 2012, with a $444,460 increase in FY19 alone.
- Debt service costs increased $2,494,738 or 9.95% of the total increase since 2012 due to the issuance of the 2013 revenue bonds.

These four expenditures represent 86.2% of the increase over FY2012. Other important budget trends since FY12 include the following:

- Salary and wages increased $1,994,450 or 8.44% over the 8-year period representing a 1.21% average annual increase. Salary freezes, employee turnover and a modified merit pay system have kept these costs down.
- Since 2012, total FTEs have decreased from 362.65 to 356.22, with all of the decrease occurring in the proposed FY19 budget through the elimination of 14.65 positions.

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- Employee benefit costs over this time period have decreased by 14.33% or $1,160,495. Most of this reduction is due to the decrease in the OPEB trust funding. It is important to note that during this period Town employee health insurance costs have declined $20,227,while health insurance costs nationwide were experiencing increases.
- The longevity and performance bonus program also decreased by $166,274 over the 8-year period.
- Depreciation costs have increased $560,844 during this time period due to higher costs for the Town's large heavy duty equipment and vehicles, despite the elimination of some equipment and extending the life of most equipment.
- The Four Arts Library funding has increased $72,658 due to the programmed 3% per year increase in funding plus an additional contribution in FY17. The total contribution to the Four Arts Library for FY19 is $345,058.
- The other category increases which include commodities, and Risk Insurance increased by less than the rate of inflation over this time period.

To put the FY19 proposed budget into further context, if we were to look back 11 years and compare the FY19 budget to the FY09 budget:

- Total expenditures have increased by 23.43% (2.13% annually) and total operating costs decreased $107,733 or -.19%.
- The pension costs including the annual required contribution, the extraordinary contribution and the additional funding to lower the amortization period contributed to 62.9% of the total increase for a total of $9,716,547.
- Salary costs decreased by $1,724,743 and benefit costs declined by $1,984,535. Total FTEs decreased from 410.39 in FY09 to 356.22 in FY19, a decrease of 54.17 employees.
- Contractual costs increased by $1,093,779 or 12.55%. This increase is due to contracting out services and increases in sewage treatment and disposal costs.
- The Transfers and other category, which include funding for the Four Arts Library, debt service, coastal funding, capital improvement funding, risk funding, the recent extraordinary retirement contribution, and the funding for the amortization change in total have increased $15,544,579 or 138.32% over the 10-year period and accounted for all (100%) of the total increase.

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Expenditure Category	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	Change vs. FY09	Average Annual Change	Change vs FY12	Average Annual Change
Salary and Wages	$ 27,346,561	$ 26,359,068	$ 24,396,539	$23,627,368	$ 22,943,977	$ 23,152,234	$ 23,478,696	$ 23,581,855	$ 24,128,637	$ 26,001,862	$ 25,621,818	-6.31%	-0.57%	8.44%	1.21%
Pension Benefits	6,632,860	7,315,310	8,783,472	3,414,182	4,380,925	6,078,882	6,598,873	7,324,860	8,803,246	9,527,616	9,489,407	43.07%	3.92%	177.94%	25.42%
Other Employee Benefits	8,922,275	8,451,690	8,122,789	8,098,235	8,493,967	8,234,672	8,245,397	7,795,982	8,072,606	7,844,571	6,937,740	-22.24%	-2.02%	-14.33%	-2.05%
Contractual	8,713,162	7,120,084	6,841,604	7,019,073	7,227,726	7,615,442	8,191,691	8,876,317	9,585,132	9,617,449	9,806,941	12.55%	1.14%	39.72%	5.67%
Commodities	1,744,703	1,623,373	1,492,316	1,557,897	1,574,948	1,633,364	1,518,113	1,471,130	1,844,873	1,949,093	1,724,613	-1.15%	-0.10%	10.70%	1.53%
Depreciation/Capital Outlay	2,723,701	2,518,061	2,547,679	1,881,319	2,033,744	2,097,896	1,892,941	2,858,675	3,053,650	2,459,607	2,395,010	-12.07%	-1.10%	27.30%	3.90%
Subtotal Operating Expenditures	56,083,262	53,387,586	52,184,399	45,598,074	46,655,287	48,812,490	49,925,711	51,908,819	55,488,144	57,400,198	55,975,529	-0.19%	-0.02%	22.76%	3.25%
Library	272,400	272,400	272,400	272,400	288,989	297,659	306,580	315,777	350,250	335,008	345,058	26.67%	2.42%	26.67%	3.81%
Transfer to the Risk Insurance Fund	1,918,000	1,904,463	1,896,226	1,791,507	1,892,780	1,876,000	1,925,362	1,934,595	1,838,037	1,828,475	1,898,059	-1.04%	-0.09%	5.95%	0.85%
Transfer to Capital Improvement Program	1,817,000	4,828,957	500,000	1,000,000	1,000,000	1,000,000	1,000,000	1,030,000	2,290,200	1,988,024	2,200,000	21.08%	1.92%	120.00%	17.14%
Transfer to Underground Utility Fund		-	-	-	-	-	-	2,530,250	267,041	130,000	135,000	#N/A	#N/A	#N/A	#N/A
Transfer to the Debt Service Fund	3,790,000	3,922,000	3,500,000	3,500,000	3,500,000	6,100,000	6,100,000	6,265,462	6,088,728	5,982,331	5,994,738	58.17%	5.29%	71.28%	10.18%
Transfer to Coastal Protection Fund	2,000,000	1,046,900	3,090,000	3,960,000	4,765,099	7,200,000	11,377,000	8,015,220	7,265,000	7,410,300	7,349,124	267.46%	24.31%	85.58%	12.23%
Extraordinary Transfer to Retirement Fund	-	-	-	-	-	-	-	-	2,500,000	4,759,016	5,420,000	#N/A	#N/A	#N/A	#N/A
Additional Contribution for UAAL Amortization	-	-	-	-	-	-	-	-	-	-	1,440,000	#N/A	#N/A	#N/A	#N/A
Contingency		-	-	-	-	-	-	-	-	655,877	560,000	#N/A	#N/A	#N/A	#N/A
Subtotal Transfers and Contingency	9,797,400	11,974,720	9,381,746	10,647,027	11,446,868	16,473,659	20,708,942	20,091,304	20,599,256	23,089,031	25,341,979	158.66%	14.42%	138.02%	19.72%
Total General Fund	65,880,662	65,362,306	61,566,145	56,245,101	58,102,155	65,286,149	70,634,653	72,000,123	76,087,400	80,489,229	81,317,508	23.43%	2.13%	44.58%	6.37%
FTE Totals	410.39	399.98	367.33	362.65	353.94	348.94	360.18	365.09	362.87	370.87	356.22	(54.17)	-13.20%	(6.43)	-1.77%

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FY19 Budget Presentation

There are two sets of documents that have been provided to the Town Council and the public. One document contains the program-by-program detail of the General fund and other fund budgets. The other document contains the budget "flex sheets" which show the budget detail by line item and the budget detail sheets for certain accounts throughout the General Fund. The detail sheets represent the detail that the budget team was presented when we began the budget review process. They have not been updated to reflect cuts that were made during this year's intensive budget review.

To ensure full transparency, relative to the methodology for apportioning health insurance and retirement costs, please note the following:

- Health Insurance costs are calculated and then allocated throughout the budget on a per Full-Time Equivalent (FTE) basis. The Health costs per FTE for FY19 is $10,511.
- Retirement costs are actuarially determined and then allocated throughout the budget per FTE for current and legacy plan costs. The Town's actuarially determined contribution is $9,631,447. Legacy plan costs represent $8,085,882 of the total and the costs for the ongoing plan are $1,545,564. The breakdown by employee group is shown below.

	FTE	Legacy Plan	Ongoing plan	Total Contribution
General	192	2,282,428	758,907	3,041,336
Lifeguard	3	178,457	13,131	191,588
Police	63	2,543,329	392,711	2,936,040
Fire-Rescue	65	3,081,669	380,815	3,462,484
Total	323	8,085,882	1,545,564	9,631,447

FY19 General Fund Revenues

The General Fund is the only fund to directly use property taxes as a revenue source. Property taxes (ad valorem taxes) represent the largest revenue source. Appearing on the following page is a millage rate table that shows what is recommended (highlighted in blue) versus the FY18 millage. The recommended FY19 millage rate represents a 2.14% reduction from FY18, which is a $0 increase for homesteaded properties.

If the Town Council does not approve the recommendation of lowering the pension amortization to 15 years, we have presented the effect on the millage rate and taxes of lowering the amortization to 20 years or maintaining the current 25 year amortization period.

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	FY18 Millage Rate	FY19 with 15 Year Amortization	FY19 with 20 Year Amortization	FY19 25 Year Amortization
Millage Rate	3.2037	3.1350	3.0897	3.0709
Tax Revenue	$51,470,500	$54,210,963	$53,427,243	$52,857,243
Revenue Increase over FY18	n/a	$2,740,463	$1,956,743	$1,386,743
Millage % Increase/Decrease vs. FY18	n/a	-2.14%	-3.56%	-4.15%
Homestead Value Increased by 2.1%	$1,000,000	$1,021,000	$1,021,000	$1,021,000
Town Taxes	$3,044	$3,044	$3,014	$2,982
Increase/(Decrease) over FY18	n/a	$0	($44)	($62)
Non Homestead Tax Increase Ave 7.75%	n/a	$174	$125	$90

The State of Florida requires the Town to calculate a rolled-back millage rate. The rolled-back rate is defined as the millage rate which provides the same property tax revenue for each taxing authority as was levied during the previous year (exclusive of new construction, additions, rehabilitative improvements increasing assessed value by at least 100%, annexations, deletions). The proposed millage is 5% over the rolled back rate of 2.9857. The rolled-back millage rate would represent a 6.8% decrease in the millage and would provide the homestead property owner a $145 per million reduction in taxes. The rolled-back rate is required to be announced at the public hearings in September.

There are a number of revenue types in the General Fund, categorized on the table below:

Revenue	FY2018	FY2019	FY18 vs. FY19 Difference	% Change
Ad Valorem Taxes	**$ 51,470,500**	**$ 54,210,963**	**$ 2,740,463**	**5.32%**
Non Ad Valorem Taxes	**6,150,000**	**6,307,000**	**157,000**	**2.55%**
Licenses & Permits	**9,947,975**	**10,583,108**	**635,133**	**6.38%**
Intergovernmental	**1,185,450**	**1,076,255**	**(109,195)**	**-9.21%**
Charges for Services	**3,943,650**	**3,970,008**	**26,358**	**0.67%**
Fines and Forfeitures	**1,138,800**	**1,171,000**	**32,200**	**2.83%**
Investment Earnings	**581,858**	**828,000**	**246,142**	**42.30%**
Miscellaneous	**420,000**	**434,964**	**14,964**	**3.56%**
Interfund Transfers	**585,000**	**1,365,421**	**780,421**	**133.41%**
Transfers from unassigned fund balance for Extraordinary Transfer to Retirement Fund	**3,500,000**	**-**	**(3,500,000)**	**-100.00%**
Transfers from unassigned fund balance for Contingency and Compensated Absences	**1,565,996**	**1,370,789**	**(195,207)**	**-12.47%**
Total Revenues Before Recreation	**$ 80,489,229**	**$ 81,317,508**	**$ 828,279**	**1.03%**
Recreation and Tennis Revenues and Transfer	**585,000**	**1,148,710**	**563,710**	**96.36%**
Total Revenues	**$ 81,074,229**	**$ 82,466,218**	**$ 1,391,989**	**1.72%**

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Significant highlights for General Fund FY19 revenues include:

- Based upon the Property Appraiser's Preliminary Certification issued July 1, 2018, existing property taxable values in the Town have risen 7.75% over the prior year. The total taxable value is $18,202,287,698.
- There were several revenue increases approved during the Comprehensive Review of Town Operations (CROTO) and the estimated revenues are included in the FY19 revenue projections. Many of these fees are included in Resolution No. 083-2018 which is on the agenda to be adopted at the July 9th budget meeting. The ARCOM fees will be adopted at a future meeting. These revenues and the associated increases are shown below:
    - Increase in ARCOM fees (+$163,000)
    - Increase for Right of Way Permits (+$80,000)
    - An increase in the Lien Search Fee (+$35,000)
    - An increase in the rates for special garbage pick-up service (+$3,000)
    - A new fee for private lateral locates and a cap-off and connection inspection fee (+$18,000)
    - Increase in voluntary ID card fee (+$9,850)
    - Increase in Valet Parking Permit Fees (+2,800)
- The Non Ad Valorem tax revenue has increased based on current trends.
- The increase in Licenses and Permits is based on current trends in permit revenue and the increase in the ARCOM fee mentioned above.
- Intergovernmental revenue is decreasing due to grants that were budgeted in FY18 that are not expected for FY19.
- Charges for services are increasing slightly because of the increases in the fees shown above for lien searches, special pick up services and new fees for private lateral locates. Parking meter charges are expected to increase slightly due to current trend. These revenue estimates do not include any new parking meter locations. If the Town Council decides to add new areas, those revenues will be adjusted in the future. These increases are offset by declines in special detail overtime revenue due to a decline in utilization as well as decreases in other public safety revenue trends.
- Fines and forfeiture revenue increased based on historical trends.
- The interfund transfers represent a transfer of $585,000 from the Town Docks and Par 3 Golf Course enterprise funds and a transfer from the Equipment Replacement Fund for funds that were set aside for the beach cleaning equipment that will not be replaced and the savings on the purchase of the quint fire truck totaling $780,421.
- Due to the separation of the Recreation activities from the Enterprise Fund, we will record an additional transfer from the Town Docks to cover the net costs for the recreation and tennis programs. This transfer will amount to $722,160. This amount

is shown below the total General Fund revenues and included in the recreation and tennis revenues and transfer amount. The recreation and tennis revenues total $426,550. This is less than the FY18 revenues due to the anticipated closing of the Recreation Center for its reconstruction in FY19.

General Fund Expenditures

General Fund expenditures have increased by 1.03% from FY18 before the addition of the Recreation programs. The total expenditures including Recreation and Tennis show an increase of $488,861. The details by expenditure category without the Recreation and Tennis programs are shown in the table below with Recreation expenditures shown after the total. As mentioned earlier, we have shown Recreation separately because we wanted to present an "apples to apples" comparison due to all of the expenditure changes made during the year. For the final budget document, we will combine the Recreation and Tennis expenditures into the various categories.

Expenditure Category	FY2018	FY2019	FY18 vs. FY19 Difference	% Change
Salary and Wages	$ 26,001,862	$ 25,621,818	$ (380,044)	-1.46%
Pension Benefits	9,527,616	9,489,407	(38,209)	-0.40%
Other Employee Benefits	7,844,571	6,937,740	(906,831)	-11.56%
Contractual	9,617,449	9,806,941	189,492	1.97%
Commodities	1,949,093	1,724,613	(224,480)	-11.52%
Depreciation/Capital Outlay	2,459,607	2,395,010	(64,597)	-2.63%
Subtotal Operating Expenditures	57,400,198	55,975,529	(1,424,669)	-2.48%
Library	335,008	345,058	10,050	3.00%
Transfer to the Risk Insurance Fund	1,828,475	1,898,059	69,584	3.81%
Transfer to Capital Improvement Program	1,988,024	2,200,000	211,976	10.66%
Transfer to Underground Utility Fund	130,000	135,000	5,000	3.85%
Transfer to the Debt Service Fund	5,982,331	5,994,738	12,407	0.21%
Transfer to Coastal Protection Fund	7,410,300	7,349,124	(61,176)	-0.83%
Extraordinary Transfer to Retirement Fund	4,759,016	5,420,000	660,984	13.89%
Additional Contribution for UAAL Amortization	-	1,440,000	1,440,000	#N/A
Contingency	655,877	560,000	(95,877)	-14.62%
Subtotal Transfers and Contingency	23,089,031	25,341,979	2,252,948	9.76%
Total General Fund	80,489,229	81,317,508	828,279	1.03%
Recreation Expenditures	1,488,128	1,148,710	(339,418)	-22.81%
Total Expenditures	$ 81,977,357	$ 82,466,218	$ 488,861	0.60%

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Highlights for General Fund expenditures are as follows:

Total operating expenditures decreased $1,424,669 or 2.48% from FY18. Total transfers and other expenses increased $2,252,948 or 9.76%. Recreation Expenditures decreased by $339,418 or (22.81%) due to the planned closing and construction of the new Recreation Center for most of FY19.

Operating Expenditures:

- Salary and wages decreased $380,044 due to a reduction of 14.65 FTEs. This reduction is offset by merit pay increases ($377,030) and a 3% adjustment to the pay ranges ($165,490). Since a compensation and benefit study will not be completed and implemented until FY20, the current merit pay structure was maintained. Current CPI inflation for the Miami-Fort Lauderdale-West Palm Beach, FL area through April was 3.5%, the prior reading as of February showed 3.2% growth.
- The total annual required contribution for the defined benefit plan (DB) and defined contribution (DC) pension benefits decreased by a total of $38,209. This decrease is due to the early payment discount applied to the actuarially determined employer contribution. Defined Contribution costs decreased by $18,018 because of the reduction in staffing. It is important to note that 83.4% of the pension costs represents the costs associated with the legacy pension plan.
- Other employee benefit costs decreased by $906,831 or 11.56%. Health insurance decreased by $249,372 due to improved claims performance and fewer employees. FICA tax decreased by $56,944 due to the decrease in the salary budget. The Longevity/Bonus program decreased by $37,387 due to the phasing out of the longevity program accomplished through retirements. The cell phone allowance decreased by $52,216 due to the reductions in the stipend provided to the employee.
- Included in Other Employee Benefits is the Transfer to the OPEB trust. The transfer to the OPEB trust fund decreased by $524,617 from $960,000 in FY18. In the recent actuarial report, the Town's funding level increased to 113.2% funded. The Town Council requested a recommendation from the Investment Advisory Committee regarding the investment return assumption and Town contribution into the plan. The Committee recommended a reduction in the investment return assumption from 7% to 6.5%, which will take the funded ratio of the plan from 113.2% to 105.1%. The Town's contribution at this rate will be $435,383 for FY19. This recommendation will allow for less exposure to market volatility if returns are below the estimated benchmark and if retiree health claims are higher than anticipated.
- Most of the increase in contractual costs ($189,492) is due to an increase from West Palm Beach for the sewage treatment and disposal costs of $444,460. Contractual costs would have decreased by $254,968 without the increase for sewage treatment.
- The decrease in commodities is mostly due to decreases in office and maintenance supplies ($17,343), fuel, software and minor computer and equipment ($184,383), memberships dues ($17,810), subscriptions ($19,289), and training ($14,557).

- Depreciation/Capital outlay costs decreased due to reductions in the purchase of equipment in FY19 versus FY18 ($131,965). This decrease was partially offset by an increase in depreciation on new equipment ($67,368).
- The funding for the Four Arts Library increased by 3%, which is the planned annual increase. In 2010, in the midst of the recession, the Four Arts Library funding was frozen at $272,400 until FY13 when an increase of 6% was granted. Since FY13, the Town has provided a 3% increase to their funding each year and in FY17 gave the Four Arts an additional $25,000. In the future, we believe the increase for the Four Arts Library should be tied to the local inflation amount with a cap set at 3%.

Transfers and Other:

- The transfer to the Risk Fund increased by $69,584 due to anticipated increases in the fixed costs of property, liability and worker compensation insurance.
- The transfer to the Capital Improvement Fund increased by ($211,976) or 10.66% over FY19. The increase is proposed to build up reserves for future capital projects once the ACIP II bond proceeds have been spent which should occur in FY19. We will be analyzing these expenditures in the future to prioritize all capital projects and possibly use these funds for other purposes.
- The transfer to the Underground Utility Fund represents the transfer of funds to pay for the Project Manager's salary and benefits.
- The transfer to the debt service fund increased by $13,406. This increase is the result of an increase due to the transfer of bond funds from the coastal protection fund to the ACIP program since most seawall and groin work will not be completed by the deadline to spend the bond funds. This transfer caused an increase in the general fund transfer to the debt service fund of $192,431. This increase to the general fund is offset by a decrease in the transfer to the coastal protection fund. In addition, the Town Council approved during the CROTO, the use of the debt service reserves of $1,500,000 to lower the annual transfer by $187,500 from the General Fund.
- Coastal funding decreased by $61,176 due to the above mentioned transfer of debt service.
- The extraordinary transfer to the retirement fund to accelerate improvements to the UAAL increased by $660,984. The transfer in FY18 was comprised of the budgeted $4,759,016, a supplemental contribution in FY17 of $300,000 using the DC savings and forfeiture funds, and $360,984 in excess contributions made in FY17 and FY18 over the annual required contribution totaling $5,420,000. In order to fund the $4,759,016 in FY18, The Town Council approved a transfer of $3,500,000 from the General Fund reserves, FY18 budget cuts of $1,200,000 and $59,016 from property taxes. **In FY19, the full $5,420,000 is funded through the budget without any transfers from reserves.**

- As mentioned earlier, $1,440,000 is included in the budget to fund the cost of reducing the UAAL amortization from 25 years to 15 years. In just reducing the amortization period, $47,800,000 in interest savings will be realized. More interest savings will be realized with the extraordinary contribution and the actuary is preparing this calculation for presentation at the budget meeting. We believe this is a fiscally prudent recommendation that will allow for a much faster reduction in the UAAL.
- Contingency is funded at 1% of operating expenditures. Absent extraordinary unforeseen circumstances, this amount should be enough to cover unexpected expenditures.

Fund Balance

The General Fund Unassigned Fund Balance as of September 30, 2017 was $17,716,419. This amount was $1,165,947 above the policy required minimum. The FY19 budget includes a transfer of $560,000 from fund balance to fund the contingency reserve and $810,789 from the reserve for compensated absences to fund the compensated absence payouts. After the contingency transfer, the remaining balance in the unassigned fund balances will be $605,947.

Based on results thus far for FY18, we expect to add an estimated surplus of over $4 million to the unassigned fund balance at FY18 year end. This surplus is the result of many vacant positions that have not been filled and higher than anticipated revenues for building and other permits. If we experience a storm event or other unforeseen expenditures, this amount will decrease. If we finish the year with a large surplus, we may recommend using it as a one-time additional contribution to increase the extraordinary contribution to the retirement fund.

Personnel Complement

The total personnel complement (for all funds Townwide) for FY19 is 356.22 full-time equivalent personnel (FTEP), which is a decrease of 14.65 FTEP from the adopted FY18 budget. A chart of the FTEP by department is shown on the following page with the entire history back to FY09. The decrease of 14.65 FTEs in FY19 is made up of the following position eliminations:

- Communications specialist
- Office Assistant in Town Clerk's Office
- Town Nurse (contracted service)
- Accountant
- Courier/Warehouse Assistant
- Assistant Director of PZB
- 3 Firefighters
- Director of Public Safety
- Police Officer
- Office Assistant in Public Works
- Equipment Operator
- Beach Cleaner (contracted service)
- ROW Inspector
- Engineering Technical Support
- Part time staff across Recreation -.67

Executive Summary

The FTE reductions described above were offset slightly by an increase in the Marina FTE total of 0.26, an increase of 0.5 for a HR Specialist, and an increase of 0.75 for a Golf Course Maintenance Associate.

Department/Fund	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Town Manager	6.00	6.00	5.00	5.10	5.10	5.10	5.10	5.00	8.00	8.00	7.00
Information Systems	6.00	6.00	6.00	6.00	6.00	6.00	8.00	8.00	8.00	8.00	8.00
Human Resources	4.90	4.95	4.57	4.52	4.38	4.38	4.63	5.13	5.03	5.03	4.59
Finance	17.95	17.45	17.45	17.95	18.14	18.14	18.64	18.56	15.56	15.56	14.74
Planning, Building & Zoning	29.25	28.75	27.25	26.75	26.25	26.25	27.25	28.25	28.25	28.25	27.25
Fire-Rescue	81.50	90.20	86.40	82.90	79.90	75.90	75.90	75.90	75.90	81.90	78.40
Police	129.5	115.05	102.85	103.85	104.35	103.35	103.35	103.35	103.35	102.85	101.80
Public Works	101.46	97.75	86.35	86.85	88.02	88.04	87.04	88.54	88.07	88.64	83.64
Recreation	17.03	16.81	16.66	14.89	9.49	10.21	15.25	15.18	13.81	14.4	11.75
Town Docks	3.63	3.63	2.63	3.77	2.63	2.63	2.85	3.17	3.17	3.13	4.19
Par 3 Golf Course	9.07	8.59	8.19	7.05	6.45	5.71	7.94	9.20	8.32	7.70	9.19
Underground Utility Fund	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.25	1.00
Coastal Management Fund	0.00	0.00	0.00	0.00	0.00	0.00	1.00	1.00	1.50	1.75	1.00
Kruesler Park	2.20	2.20	2.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Risk Fund	1.50	1.00	1.00	1.00	1.00	1.00	1.00	1.16	1.16	1.66	1.16
Health Fund	1.10	1.10	0.53	0.80	0.79	0.79	0.79	0.97	1.01	1.01	.92
OPEB Trust	0.50	0.50	0.45	0.72	0.73	0.73	0.73	0.90	0.95	.95	.98
Retirement Fund	0.00	0.00	0.00	0.50	0.71	0.71	0.71	0.79	0.79	.79	.61
Total Authorized Positions	**410.39**	**399.98**	**367.33**	**362.65**	**353.94**	**348.94**	**360.18**	**365.09**	**362.87**	**370.87**	**356.22**

Other Funds

Below are highlights from the budgets for other Town funds. Additional information can be found at the tabs in the back of the Budget Document behind the General Fund information. The Town's other funds include: Special Revenue, Debt Service, Capital Improvement Funds, Enterprise Funds (Town Docks and Par 3 Golf Course), Internal Service Funds (Health, Risk, Equipment Replacement), and Trust Funds (Pension and OPEB Trust).

Special Revenue Fund (122) Townwide Underground Utility Project

The Townwide Underground Utility Project fund accounts for the project costs and associated assessments and borrowings for the project. During FY19, we expect to complete

Phase 1 and begin construction of Phase 2 of the project. Engineering design is underway for Phases 3 and 4 of the project.

Debt Service Funds (205, 206)

The Debt Service Funds provide for the payment of principal and interest on the Town's outstanding bonds. During FY10, the Town authorized the issuance of $57,035,000 for a portion of the Town's Accelerated Capital Improvement Program (ACIP) and refunding all of the Town's existing debt. In addition, bonds totaling $14,770,000 were issued for the Worth Avenue Commercial District Project. On August 25, 2016, the Town issued bonds to refund the 2010A & 2010B bonds. This transaction produced gross savings of $8,900,539 over 23 years. The net present value savings was $6,895,965 or 13.35%.

In 2013, the Town issued $55,590,000 for the second phase of the ACIP, "bondable" coastal projects, and the Town's portion of the Par 3 clubhouse project.

Year Issued	*Outstanding Principal Balance September 30, 2018*	*Purpose*
2010A	$7,125,000	Remaining Balance on First Phase of ACIP Debt
2010B	$650,000	Remaining Balance on Original Worth Ave Debt
2016A	$39,320,000	First Phase of the ACIP and Refund Outstanding Debt
2016B	$10,255,000	Worth Avenue Commercial District Project
2013	$51,735,000	Second Phase of ACIP, Bondable Coastal, and Par 3 Clubhouse
Total	$109,085,000	

The Town's outstanding Revenue Bond debt as of September 30, 2018 is shown below:

As of September 30, 2018, the Town's net bonded debt will amount to 12.04% of the legal limit of $905,914,254 (5% of preliminary FY19 taxable value of $18,118,285,079).

The 2016A and 2013 Series Revenue Bonds debt service is funded from non-ad valorem revenues. A portion of each ($199,338) is funded through the Recreation Enterprise Fund for the Town's portion of the Par 3 golf course and clubhouse renovation, and a portion is funded through the Coastal Management Fund ($542,606). The non-ad valorem revenue transfer from the General Fund for FY19 is $5,994,738.

The 2016B Series Revenue Bonds debt service appropriation of $708,762 is funded through non ad valorem assessments on the property owners within the Worth Avenue Assessment District.

In addition to the above Revenue Bonds, the Town has issued Commercial Paper for the Underground Utility Project. The total amount of authorized commercial paper is $22,155,000.

Capital Improvement Funds (307, 309, 311, 314)

For FY19, the following items totaling $6,037,500 are included in the Capital Improvement Fund (307):

- Pavement Management - $1,000,000
- Drainage Improvements - $1,280,000
- Sanitary Sewage System Improvements - $1,650,000
- Water main improvements (WPB) - $800,000 (Funded by West Palm Beach)
- Landfill site maintenance - $27,500
- Bulkheads/seawalls - $180,000
- Facility improvements - $1,100,000

The transfer to the Capital Improvement Fund has increased by $211,976.

Bonds funds in the ACIP II fund are projected to be used to fund the remaining capital projects outlined in the ACIP II budget section of this document but we plan to reexamine all projects before finalizing spending plans.

Coastal Management

The Coastal Management Fund (309) is used in part to fund the construction costs of the coastal projects. The details of the FY19 budget for Coastal Management can be found in the Annual Budget Document. This plan has been updated by Public Works to include estimates for future projects based upon current costs. The transfer to the Coastal Management Fund decreased $61,176 to $7,349,124. Due to the recent grant award of $8,280,324 from the State of Florida, the annual contribution to the coastal fund can be reduced. We are recommending a reduction of $1,500,000. We would recommend these funds be transferred to the pension fund to further reduce the UAAL.

Enterprise Funds (401, 402)

We are proposing the separation of the Town Docks and Par 3 Golf Course into individual enterprise funds and moving the Recreation and Tennis activities that were a part of the Recreation Enterprise fund to the General Fund. This will allow for a clearer financial status

of the operations of the Town Docks, Par 3 Golf Course, Recreation Center and Tennis programs.

Town Docks

Town Docks revenues are expected to increase in FY19, if Town Council approves the recommended fee increases for annual and transient dockage rates, as you traditionally do each year. It is expected these increases would result in revenue growth of approximately 22.7%. Forecasts for FY19 anticipate that the Town Docks will realize a gross operating profit of $3,573,701, and a net profit of $1,738,427 after depreciation capital, contingency and the transfer to the general fund.

We are annually accruing funds in the Dock Replacement Reserve, which, at the end of FY17 totaled $3,801,256. We expect the FY2018 ending balance to be approximately $4,255,000.

Par 3 Golf Course

Golf Course revenues are expected to increase during FY19, if Town Council approves the various fee increase recommendations, as you traditionally do each year. Recommendations for fee changes for FY19 include increases to multiple fees and the implementation of some new rates such as a weekend and holiday rate, to maximize revenues during peak demand. It is anticipated that these fee adjustments would generate over $40,000 in additional revenue. The Par 3 Golf Course anticipates a gross profit of $484,039 in FY19 before depreciation, capital expenses, debt service, contingency and the transfer to the general fund. After these expenses the Par 3 Golf course will reflect a loss of $692,848.

Last year the Par 3 Clubhouse M&I reserve was modified to transfer a portion of the profits of the Par 3 Golf Course to the Dock Replacement Reserve. Now that these operations are in their own enterprise fund, we recommend that this policy be reversed so that the Par 3 Golf course can build reserves for maintenance and improvements to the clubhouse and the course. We plan to bring a revised policy back to the Town Council in the coming months to make this change.

Internal Service Funds (501, 502, 320)

The transfer to the Risk Fund (501) has increased by $69,584 (3.81%) from FY18 to FY19. The increase is related to anticipated increases in the fixed costs for liability and property insurance.

The Health Insurance Fund (502) experienced a decrease in the proposed expenditure budget of 9.29% due to favorable claims experience and to fewer employees in the plan. The Town's contribution decreased a total of $271,747 or 6.86% from FY18.

The Equipment Replacement Fund (320) contains the accumulated depreciation of all fixed assets over the established thresholds of $5,000 for capital equipment and $3,000 for computer equipment. A detailed listing of planned equipment purchases is located in the Internal Service Funds section of the Annual Budget Document.

Trust Funds (600 & 610)

Retirement (600)

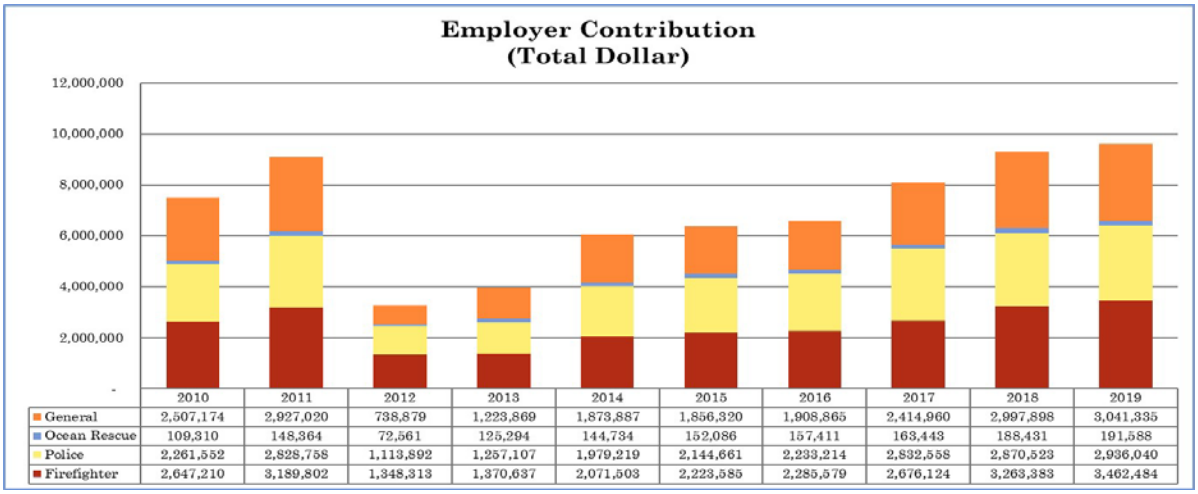
The FY19 actuarially determined contribution to the DB plan originally totaled $9,631,447. The Town began contributing the entire contribution in October of each fiscal year beginning in FY17. This early contribution will create interest savings due to the earlier than expected payment timing, so the budgeted contribution is $9,302,382 (or $329,065 less). The actuary calculated the savings for FY19 and the amounts by employee group are shown below versus the FY18 contribution.

Town DB and DC Retirement Contributions

Town Retirement Contributions	FY2018	FY2019	Change	% Change
General Employees DB	$2,997,898	$2,937,426	($60,472)	-2.02%
Lifeguards DB	188,431	185,042	($3,389)	-1.80%
Police DB	2,870,523	2,835,728	($34,795)	-1.21%
Fire-Rescue DB	3,263,383	3,344,186	$80,803	2.48%
Total DB Contribution	$9,320,235	$9,302,382	($17,853)	-0.19%
DC Contributions	$630,774	$601,882	($28,892)	-4.58%
Total Town DB And DC Contribution	$9,951,009	$9,904,264	($46,745)	-0.47%

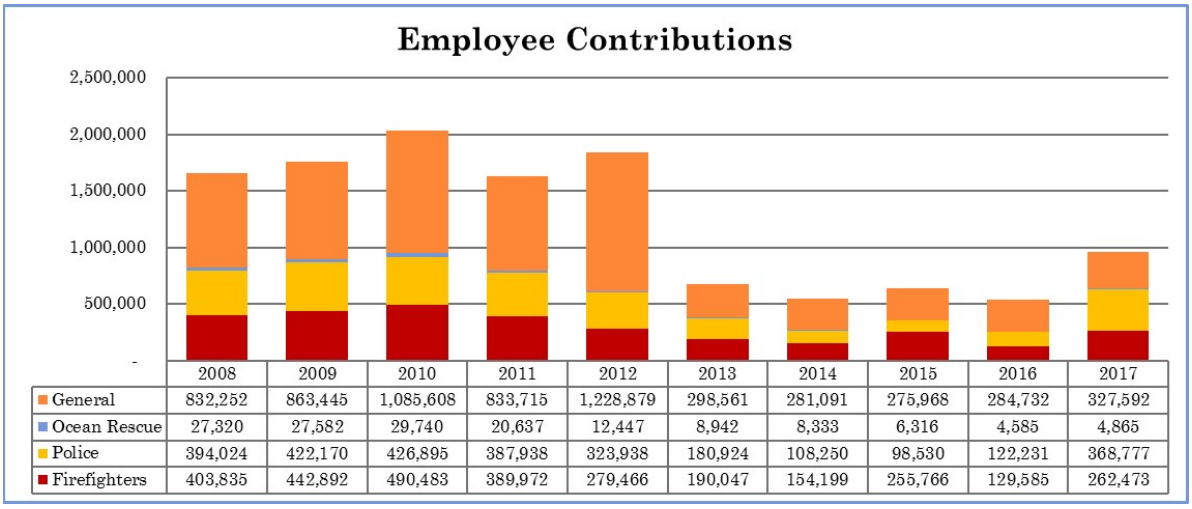
The historical 10 year trend in Town actuarially determined pension contributions is shown on the following page.

Executive Summary



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General	2,507,174	2,927,020	738,879	1,223,869	1,873,887	1,856,320	1,908,865	2,414,960	2,997,898	3,041,335
Ocean Rescue	109,310	148,364	72,561	125,294	144,734	152,086	157,411	163,443	188,431	191,588
Police	2,261,552	2,828,758	1,113,892	1,257,107	1,979,219	2,144,661	2,233,214	2,832,558	2,870,523	2,936,040
Firefighter	2,647,210	3,189,802	1,348,313	1,370,637	2,071,503	2,223,585	2,285,579	2,676,124	3,263,383	3,462,484

The 10-year trend for employee contributions is shown below:



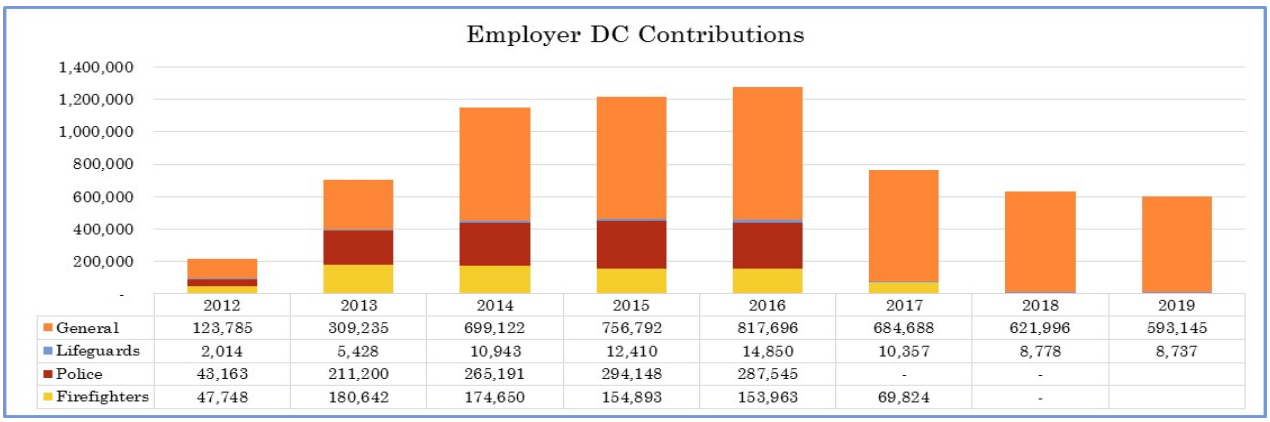
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General	832,252	863,445	1,085,608	833,715	1,228,879	298,561	281,091	275,968	284,732	327,592
Ocean Rescue	27,320	27,582	29,740	20,637	12,447	8,942	8,333	6,316	4,585	4,865
Police	394,024	422,170	426,895	387,938	323,938	180,924	108,250	98,530	122,231	368,777
Firefighters	403,835	442,892	490,483	389,972	279,466	190,047	154,199	255,766	129,585	262,473

Based on recent pension changes, the Town no longer provides a DC plan for public safety employees. For General Employees and Lifeguards, the new plan was modified and now the Town contributes a mandatory match of 3% and an optional match of 2% to the Defined Contribution (DC) plan. Total employer contributions to the DC plan are shown in the chart on the following page:

Employer Defined Contribution Funding

DC Contributions	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Budget	FY2019 Budget
General	$756,792	$817,696	$684,688	$621,996	$593,145
Lifeguards	12,410	14,850	10,357	8,778	8,737
Police	294,148	287,545	0	0	0
Fire-Rescue	154,893	153,963	69,824	0	0
Total	**$1,218,243**	**$1,274,054**	**$764,869**	**$630,774**	**$601,882**

The Employer Defined Contribution trend since inception in 2012 is shown below.



Health Insurance (OPEB) Trust (610)

The actuarially determined transfer to the OPEB trust from the General Fund in the FY19 budget is $435,383. This amount is $524,617 (54.6%) less than FY18. The Town Council requested that the Investment Advisory Committee make a recommendation regarding the FY19 funding for the OPEB trust. The actuarial report showed a 113.2% funded ratio at the end of FY17 at an investment return assumption of 7%. The following options were reviewed by the committee:

	7%	6.5%	6.25%
Actuarial Accrued Liability	$29,249,750	$30,015,464	$32,515,671
Funded Ratio	113.2%	105.1%	101.1%
Town Contribution	$216,729	$435,383	$546,800

The Investment Advisory Committee recommended a 6.5% return assumption to provide a cushion with excess reserves to help maintain funding if the investments fall short of the target or if retiree health claims are higher than anticipated. The Town's balance in the OPEB trust fund continues to be well ahead of other government agencies across the country.

Executive Summary

Worth Avenue Special Assessment District

The budget for the Worth Avenue Special Assessment District is included in the Capital Funds and the Debt Service section of the budget document. The budget includes funding for maintenance and debt service. These costs are fully offset by the assessments charged to property owners within the district.

Tentative Millage Rate

Resolution No. 082-2018 adopting a tentative millage rate of 3.2037 is included in the backup. This rate is set slightly higher than the proposed rate of 3.1350 in case changed circumstances and/or Town Council decision later this summer require the final millage rate to be set higher than our proposed rate. Florida law requires a first class mailing to all taxpayers if the millage rate is increased above the tentative millage rate adopted by the Town Council prior to the September public hearings. The final millage rate will be set at the public hearings in September.

Upcoming Meeting Schedule

The State mandated schedule requires that two public hearings be held in September to provide for the final adoption of the Tow's FY19 budget and millage rate. The proposed public hearing meeting dates are as follows:

- First Public Hearing – September 13, 2018 at 5:01pm
- Second Public Hearing – September 20, 2018 at 5:01pm

Conclusion

This concludes the executive summary portion of the FY19 proposed budget . Please see the documents that follow this summary for detailed information about the FY19 budget. Staff will be prepared to answer any questions you may have.

Respectfully Submitted,

Kirk Blouin
Town Manager

cc: Jay Boodheshwar, Deputy Town Manager
Department Directors

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