



Madeira Beach

...two miles long and a SMILE wide!

August 5, 2008

Honorable Mayor and Board of Commissioners
City of Madeira Beach
Madeira Beach, Florida

Dear Commissioners:

Again this year, development of the Proposed Budget has been a challenge. Property Reform legislation which affected the preparation of the Budget for the current fiscal year (2007-08) has further complicated the Budget for the coming fiscal year (2008-09). Even so, staff has preserved the strategic direction and decisions you have made within the recommended Budget as both a strategic and financial plan for the coming year. We have developed a Budget that supports our continued mission to preserve and improve the community's quality of life.

The City of Madeira Beach is fortunate to have managed its finances in a responsible manner and remains in stable condition for the coming fiscal year. Yet, there are a number of issues which will present challenges for the City, both in the short- and long-term. Property tax reform is the most significant of these issues. The first phase, which redefined the maximum millage rate, was implemented for the current year (FY 2008). It required that the City adopt a millage rate no greater than 97% of the rollback rate, where in the past the maximum rate was 10 mills. Because our property tax values declined somewhat as the real estate market corrected itself, we were spared from implementing the "worst case" budget cuts that management envisioned for the current year. For the coming year, we are again faced with reduced taxable values, as a result of both the continuing decline in market values, as well as the impact of Amendment 1, which created increased exemptions for certain property owners. The Board of Commissioners could have proposed a millage rate in excess of the current rate to make up the difference in property tax revenues caused by the decline in market values, but not to recoup the loss in revenue caused by reductions in taxable value due to Amendment 1. However, staff is pleased to present to you a balanced budget which maintains the current millage rate of 1.7954 and thereby extends to our property owners the tax savings that was intended by the passage of Amendment 1 by the electorate in January of this year. This has been the greatest challenge in the preparation of the General Fund budget.

Although the General Fund remains in stable condition for the coming fiscal year, we continue to be concerned about the City's ability to maintain our enterprise funds for long-term operating and capital needs. In recent years we have undertaken a number of studies to chart the future course of these funds. A Cost of Service & Business Plan for Sanitation Services was completed in 2006 and provides a basis for continuing this valuable City

service with incremental rate adjustments. A Business Plan for the Municipal Marina was written and approved in 2006 to provide an analysis of rates and guide revenue enhancement. A forensic audit was also completed in 2006 to determine if the Marina Redevelopment Plan could be financed from the additional revenues generated by the proposed improvements. The City continues to rely upon the Stormwater Master Plan adopted in 2000 to identify priorities for drainage improvements to be scheduled as funding permits.

Each year, we seek ways to reduce personnel costs. General Fund staffing levels were reduced by two positions in FY 2008 due to attrition, and one full-time Parks employee has been replaced by a seasonal position in the Proposed Budget, also due to attrition. Consistent with the City's collective bargaining agreements, the City continues to fund 100% of employee benefits. Beginning in FY 2006, the Human Resources Manager has directly sought proposals for employee insurance benefits and is continuing that practice for FY 2009, as approved in the Pre-Budget Workshop in May. The Proposed Budget includes funding for health and dental insurance premiums for full-time employees, as well as the Employee Assistance Program, life insurance and long-term disability. Group health insurance premiums have decreased 12%, while dental insurance premiums have increased 10%. As in the past, we sought two-year proposals for the Employee Assistance Program as well as life insurance and long-term disability, and we are fortunate to have secured the current rates for another two years, until September 30, 2010. A 10% increase is anticipated in the Workers Compensation rates, primarily as a result of our recent claims history.

The Proposed Budget provides cost of living and pay plan adjustments consistent with the City's negotiated collective bargaining agreements with the Communication Workers of America (CWA) and the International Association of Firefighters (IAFF). The negotiated adjustments are budgeted for year three of the three-year agreements. Negotiations will commence several months in advance of the new contract start date of October 1, 2009. As approved in the Pre-Budget Workshop, the City's pay plan for non-union employees provides a pay plan adjustment of 4.1%, which is consistent with the City's past practice of extending cost of living adjustments equal to the previous December's Consumer Price Index (CPI) to non-union employees, including permanent part-timers. Following are the approved pay adjustments reflected within the Proposed Budget:

	COLA / Pay Plan Adj.	Merit / Step Increase
IAFF	4.0%	3.0%
CWA	4.0%	0.0%
Non-Union	4.1%	0.0%

Contributions to employee retirements plans will not increase for the coming year. Employees hired prior to January 1, 1996 and all firefighters are included in the Florida Retirement System. For the third year in a row the City's contribution will be 9.85% for employees in the Regular Class, 20.92% for employees in the Special Risk Class, and 10.91% from employees in the DROP Plan. General employees hired after January 1, 1996 are included in a defined contribution plan with ICMA-RC. The City contributes 9% of covered payroll for these employees after one year of employment, and vesting occurs after five years of employment.

Following is a brief summary by fund of the total proposed Budget:

	Balance 10/1/2008	Rev.	Exp.	Balance 9/30/2009
General Fund	\$ 8,565,362	\$ 5,666,350	\$ (5,666,350)	\$ 8,565,362
Special Projects Fund	1,053,331	454,110	(805,000)	702,441
Sanitation Fund	625,604	1,213,500	(1,185,045)	654,059
Stormwater Fund	487,238	375,000	(181,895)	680,343
Marina Fund	576,528	2,590,260	(3,022,905)	143,883
John's Pass Village Fund	<u>(84,478)</u>	<u>548,200</u>	<u>(347,090)</u>	<u>116,632</u>
	\$ 11,223,585	\$10,847,420	\$(11,208,285)	\$10,862,720

A. General Fund:

1. Revenues: Aside from property taxes, the City controls relatively few General Fund revenue sources. Franchise fees are established within long-term agreements. Utility service and communications taxes are limited by state statute and already levied at the maximum rates permitted. State-shared revenues are dependent upon population-based, per capita funding formulas. Fines and Forfeitures distributed to the City are determined as a percentage of the amounts collected. Local Business Taxes (formerly known as Occupational Licenses) have already been increased by the maximum 5% for the current fiscal year, and another increase will not be permitted until October 1, 2009.

In addition to the reduction in property taxes, some of the other significant General Fund revenues are expected to decline in the current year. As we discussed mid-year, many of our revenues have not reached the Department of Revenue's initial estimates, and budget amendments were made to recognize the anticipated shortfalls. Therefore, revenue estimates in the Proposed Budget are more conservative than in years past. For the past few years, we have been working to achieve greater cost recovery through user fees for youth programs, summer camp and after-school programs, and we have increased the rates in the past two budgets to accomplish this goal. In the current year, we eliminated the before-school program. There are no rate increases recommended for the recreation programs in the Proposed Budget, as attendance has fallen somewhat and further increases will only exacerbate the issue. We project recovery of almost 57% of the cost of our recreation programs and services via user fees in the coming fiscal year.

Staff is to be commended for bringing forth revenue-enhancing suggestions. The Fire Department has proposed increasing the fee for Life Safety/Fire Inspections. For many years the City has charged a fee of \$10.00 for the initial inspection, and then a \$30.00 reinspection fee if not cleared after the first 30-day reinspection. The proposed fee schedule ranges from \$50.00 to \$350.00 for the first inspection, depending on the type of establishment, and could generate revenue in excess of \$17,000 per year. The idea of charging a fee for residential parking permits also deserves consideration in these tight budget times. The City issues 800-900 free residential parking permits each calendar year. In the past, these permits were only valid at the smaller beach access lots and John's Pass Village, which was added to the list in December 2004. In the near future, the Board will consider an ordinance to extend free parking to residents at all beach lots, including the larger ones with restroom and/or shelter amenities. Staff suggests a \$10.00 fee for these annual permits to offset printing and administrative costs. Neither of these suggestions has been included in the Proposed Budget, pending approval from the Board.

2. Expenditures: Reductions in the recommended Budget bring the coming year's requests well below the maximum millage rate (i.e. the rollback rate adjusted by the growth in per-capita Florida personal income for 2008 of 4.15%) calculated pursuant to Chapter 200.185(5), Florida Statutes.

Operational expenditures within the proposed General Fund departmental budgets have decreased over the current year. Overall, the General Fund expenditures are 7% **less** than the current year, which is 9% less than the previous year. We have reduced discretionary items by going through further "belt tightening" exercises. Increases have been budgeted in some nondiscretionary areas, such as group insurance, workers compensation, fuel and utilities. We all know the dramatic increases in fuel costs in the past year, and Progress Energy is seeking a rate adjustment in the coming year of at least a 16% in order to pass through increased fuel costs to their customers. (Fortunately, some of this increase will be offset by increased franchise fees and utility service taxes, which are collected as a percentage of the amounts billed). Pinellas County Utilities has also announced modest increases in water and sewer rates.

The Agreement for Law Enforcement Services from the Pinellas County Sheriff's Office reflects a 4% increase in the cost per deputy for the coming year. Although increased fuel costs are also a factor, a new formula for calculating fuel usage has mitigated the effect somewhat. Funding is available in the Proposed Budget to continue to secure the services of six deputies for round-the-clock coverage; however, the Community Policing Officer position has been eliminated for the coming year, which has reduced the total contract cost significantly. We do not anticipate any decline in service levels as a result of this reduction.

Provisions are made within the Proposed Budget for the continuation of replacement programs for computers and vehicles, as well as other capital outlay items as follows:

- Replacement of 3 air handlers at City Hall - \$9,000 (Non-Departmental)
- Design of Madeira Way streetscape - \$165,000 (Streets)
- Beach Rake - \$50,000 (Streets)
- Mobile Data Terminal for Chief's vehicle - \$4,500 (Fire Department)
- Hazardous Materials Gas Detection Devices - \$4,000 (Fire Department)
- Riding mower - \$7,800 (Parks Department)

While we have provided for continuation of replacement programs, phase two of the property tax reform requirements (i.e., Amendment 1) has necessitated shifting renewal and replacement programs, such as curb and gutter replacements and street resurfacing, to the Special Projects Fund. This provides an annual savings to the General Fund of \$125,000, which is largely the reason that we have been able to maintain the millage rate in the wake of declining taxable values.

Proceeds from the sale of the sewer system to Pinellas County on October 1, 2006 remain set aside in the General Fund and have not been used to balance the Budget for FY 2009.

Renovations to the former "Snack Shack" at Archibald Park intended to render the structure code compliant are anticipated to be funded in the current FY 2008 budget from the available contingency line item, and should not impact spending in the Proposed Budget. Funding for any additional work that may be required to prepare the building for its intended use, which has yet to be determined, will be addressed at such time as funding becomes necessary. Improvements to the Archibald Park site, excluding the building renovations, are included in the Special Projects Fund.

B. Special Projects Fund:

1. Revenues: The Special Projects Fund is a Special Revenue Fund primarily funded by the Local Option Sales Tax (Penny for Pinellas). Fiscal Year 2009 will be the ninth year of the current ten-year levy, which expires in 2010. In March 2007, voters approved the Penny for Pinellas Sales Tax initiative for 10 additional years – through 2020. These special purpose revenues must be used for nonrecurring, capital improvements. The ability to fund projects through this source has and will continue to offer relief to the General Fund, which would have been the only available funding source for certain capital projects.

2. Expenditures: In FY 2006, we appropriated beautification funds that had been accruing for several years to undertake a landscape/entrance median improvement at the northern entrance to the City. The engineering design and permitting effort for the entrance median is now complete and funds have once again been re-appropriated and supplemented for possible construction of the project in the coming year. Funds are set aside again to accrue for seawall repairs and beautification over the next several years, as well as future street resurfacing and curb and gutter projects, which have been transferred from the General Fund as discussed above.

In November 2006 the City entered into an interlocal agreement with Pinellas County for funding in the amount of \$50,000 for dune walkover construction and repair at public beach access sites. Three walkovers were repaired in December 2006 at a cost of \$28,820, and the remaining \$21,180 is available until December 2008 for additional dune walkover repairs. The Proposed Budget includes repair of the three dune walkovers at Archibald Park to be funded by this allocation from Pinellas County. As discussed above, site work at Archibald Park is also included in the Proposed Budget, to be completed in conjunction with the renovation of the former "Snack Shack" building. This site work will include landscaping, irrigation, lighting, resealing and restriping of the parking lot, and reconfiguration of the ingress and egress for more efficient traffic flow. Staff is researching a FRDAP Grant to offset the costs of this project.

C. Enterprise Funds:

1. Sanitation: The last rate increase for sanitation services was approved in September 2005 for FY 2006, when rates were increased 12% across the board. The Proposed Budget is predicated on the current rate structure. The Cost of Service & Business Plan which was completed in 2006 recommended that we consider an inflationary annual adjustment to the rate schedule. We have been fortunate to maintain our rates for so long while still maintaining fund equity at an acceptable level.

The Proposed Budget provides for purchase of a replacement pickup truck in a Sanitation Fund. As with all vehicle replacements, the cost of the truck has been accruing over the last several years and is reserved specifically for this purpose. However, the entire replacement cost of \$19,500 is funded from operating revenues without tapping into the reserve.

2. Stormwater: The Stormwater Fund continues to represent a challenge in terms of generating sufficient revenues for operations and implementation of the Citywide Stormwater Master Plan. Three years ago, the Stormwater Utility Fee was increased from \$2 per Equivalent Dwelling Unit (EDU) to \$5 per EDU per month. That increase generated additional revenue that allowed us to recover from a previous fund deficit. There are no

rate increases or capital projects planned for the Stormwater Fund in the Proposed Budget. Instead we propose to add to the reserve for future capital projects as established within the Citywide Stormwater Master Plan. Rather than attempting to fund the large-scale, multi-year projects as outlined in the Stormwater Master Plan of 2000, staff proposes to undertake manageable, one- or two-year projects that can be fully funded with resources accrued within the Stormwater Fund and provide a favorable stormwater management impact.

The pump station on 141st Avenue was completed in February 2008 with a matching grant from the Southwest Florida Water Management District in the amount of \$300,000, the balance of which will be reimbursed in the current fiscal year.

Staff suggests that funds be appropriated in the near future for a comprehensive review of the existing EDU data base for non-single-family properties to reevaluate changed land uses since the Stormwater Fee was originally established in 1990. The methodology for EDU calculations has not been reviewed since the fee's inception. Once the reevaluation has been completed, staff can better gauge the impact upon Stormwater Utility Fee revenue.

4. Marina: For many years, the Madeira Beach Municipal Marina was operated by a lessee under a contractual agreement with the City. In December 2002, the City hired four employees and resumed the daily operations of the marina. Since that time, the financial status of the Marina Fund has been in question. It is safe to say that the marina generates sufficient revenues to cover the operating expenses. However, operating revenues have not, for the most part, been sufficient to fund the capital improvements that have been necessary to restore and upgrade the facility to the desired condition. Regular fee increases have been approved, both as a measure to ensure the solvency of the fund as well as to keep pace with market rates in the area as evidenced by periodic rate comparison surveys. Still, fund equity continues to be depleted as improvements progress. A \$300,000 transfer from the General Fund in FY 2007 boosted the reserves somewhat, but we find ourselves going into the next fiscal year with a list of projects that exceeds available funding.

As discussed at the Pre-Budget Workshop, the first capital priority is the boat ramp construction project which is currently underway. This project is partially funded by a Florida Boating Improvement Program Grant, and the deadline for completion has been extended from June to December of 2008. Funding is included in the current year. The second priority is replacement of the underground fuel storage tanks, which is provided for in the Proposed Budget. The Florida Department of Environmental Protection has mandated that all single-wall tanks be replaced by double-wall tanks by 2010.

Beyond these two smaller projects, the Marina Redevelopment Plan can go one of two ways. We can continue to fund, design and construct improvements on a piecemeal basis, or we can design and construct one cohesive project which encompasses all of the upland improvements envisioned for the site, which includes the Public Works facility as it is located on the same parcel. To this end, the Proposed Budget includes an appropriation for such a design. Costs for waterside improvements, such as boat slips and the fuel dock, are not addressed at this time. Regardless of the direction the Board eventually chooses, the Marina Fund is unable to finance these improvements from within its own resources, and borrowing must be considered – a big step for a city that has not incurred any debt since 1987! Since the next project on the list, the ship's store, has already been designed, the Proposed Budget provides for the construction costs of the building.

In addition to improvements slated for the existing Municipal Marina facility on 150th Avenue, the concept of constructing boat slips in Boca Ciega Bay along the City Hall and Recreation Center properties has been progressing. As we were informed by our consultant at the January Workshop, the permitting process for this type of project is very lengthy, and it could be several years before the slips are actually constructed. Still, funds are being committed as needed to move the design and permitting process along. Staff envisions replacing the boat slips at the Municipal Marina at the same time as these new slips are constructed to achieve economies of scale.

Although the Building Maintenance Worker position is not funded in FY 2009, creating a cost savings to the Marina Fund for the second year in a row, it remains on the list of authorized positions for future years. Because the position has remained vacant since the incumbent transferred to Code Compliance in February 2006, this did not result in a layoff situation.

5. John's Pass Village: Revenue is generated from the rental of the former Board of Realtors building (which is leased to Fantasy Planet Beach Company, a retail store, through September 2009) as well as parking meters located in the Village. The revenue estimate for rental income from Fantasy Planet is consistent with the existing lease agreement. Parking meter rates were increased from fifty cents to \$1.00 per hour in June 2007 with the additional revenue generated over the current year's projection of \$225,000 dedicated to repayment of the Boardwalk Project loan. The loan was scheduled to be paid off in September 2010; however, parking meter revenues have exceeded our expectation, and the loan is anticipated to be satisfied by September 2008.

There are no new capital projects proposed for the FY 2009 Budget; however, staff has learned of a funding opportunity from the Department of Housing and Urban Development (HUD) in the amount of \$49,000. The grant stems from an earmark appropriation that was initially requested by Congressman Young in January 2006 to help fund the renovation of the boardwalk. When the earmark appropriation fell through, the City proceeded with the project using a loan from the General Fund, and the boardwalk was completed in December 2006. Staff has recently been notified that Economic Development Initiative (EDI) funds are now available from HUD for improvements at John's Pass Village to enhance public use. Staff will pursue this grant for possible renovation of the public restroom facility in the Village, but will not appropriate funds for the project until the award is made.

In the past the John's Pass Village Fund has transferred money back to the General Fund to pay for the average cost of one Parks Department employee performing grounds maintenance functions in the Village, as well as \$60,000 which is intended to make the General Fund whole after parking meter revenues were moved to the John's Pass Village Fund in 2002. In light of the additional personnel costs which are incurred due to more frequent collections necessitated by increased parking meter rate, we began allocating a portion of the cost of the Parking Enforcement function to the John's Pass Village Fund in FY 2008. For FY 2009, this amount is estimated to be \$84,400.

In summary, the Proposed Budget continues our trend of reducing staffing levels and discretionary expenses without sacrificing service levels. We have strived to ensure responsible maintenance and repair of existing facilities, streets and equipment replacements. Although the effect of property tax reform has been minimal so far, it will eventually impact service levels that residents will realize. In the short-term, only those participating directly in programs or seeking approvals will experience the impact of

property tax reform. In the future, service and cost reductions for quality of life items will be experienced by all residents. The cumulative effect of the property tax reform legislation will be increasingly difficult to meet without sacrificing such discretionary expenses and laying off employees.

We thank all the department heads and staff for their efforts in making voluntary cost reductions and suggesting alternatives for addressing our service delivery needs and expectations. We appreciate the guidance and input of the Board of Commissioners in the budget process and your support for this Proposed Budget.

Respectfully Submitted,

W.D. Higginbotham, Jr.

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