JOHN R. MARKS, III, MAYOR

CITY OF TALLAHASSEE

October 2011

As the Mayor of the City of Tallahassee and on behalf of the City Commission, it is my responsibility and privilege to present the approved fiscal year 2012 annual operating and capital budgets and the FY12-16 Capital Improvement Plan for the City of Tallahassee. The budget process began with our annual commitment to meet our citizen's high expectations and delivering the best possible services, while remaining fiscally responsible. As in previous years, the economic conditions at the local, state, and federal levels have significantly influenced funding for City services. This resulted in a challenging budget process, but we continue to be committed to the high level of customer service our citizens expect and deserve.

While public workshops have always been part of the budget preparation process, this year more emphasis and weight was placed on citizen input than ever before. A total of three workshops were held, with 782 citizens participating in the process at one of the workshops or through an on-line survey. These workshops provided an opportunity for the Commission and the public to listen, learn, and comment on the proposed budget priorities. This process improved public awareness and helped the commission align financial resources with community priorities. The following highlights the results of that process:

> The City Commission approved an operating budget of $710.7 million, as well as a capital budget of $151.0 million. Additionally, the five-year Capital Improvement Plan totaling $773.4 million will provide a plan for new and enhanced facilities and infrastructure.
>
> The City's approved millage rate for fiscal year 2012 is 3.70, the same rate as in FY 2004, and remains one of the lowest of the ten largest cities in Florida.

This has been yet another challenging budget process, and the final budget represents our collective best efforts at addressing the current economic climate while attempting to maintain excellent service to our citizens.

I am grateful to my fellow Commissioners for their leadership and commitment throughout this budget process. I also would like to express my appreciation for the diligence, hard work, and dedication of City staff, especially the budget staff, and the involvement of our citizens. We continue to be optimistic that the economic climate will improve and that next year's process will be more satisfying for the community as a whole. My goal is to continue to provide the best possible service to our citizens at the most affordable cost.

Sincerely,

John R. Marks III, Mayor

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CITY OF TALLAHASSEE

June 24, 2011

Honorable Mayor and City Commissioners:

It is my pleasure to present to you balanced operating and capital budgets for fiscal year 2012. The proposed operating budget totals $724.9 million, representing a decrease of $2.0 million from the fiscal year 2011 budget. The capital budget totals $148.6 million, representing a decrease of $59 million from the fiscal year 2011 budget.

KEY ASSUMPTIONS

NO INCREASE IN THE MILLAGE RATE OF 3.7 MILLS

REPLENISH THE DEFICIENCY FUND

SALARY ENHANCEMENTS FOR NON-UNION EMPLOYEES OF 2%

ADDRESS CAPITAL FUNDING NEEDS FOR MAINTENANCE OF EXISTING FACILITIES

MAINTAIN GENERAL FUND TRANSFER TO STARMETRO AT THE CURRENT LEVEL (LOWERED FROM PREVIOUS YEARS)

The operating and capital budgets represents a continuation of our efforts over the past few years to address financial pressures facing the City of Tallahassee very similar to circumstances in municipalities across the nation. As we embarked on this year's budget process our focus was to continue to look at operational efficiencies, redirect resources where appropriate, address funding for needed capital projects within the general government area, as well as to continue to look at ways in which the organization can continue to take steps to help stimulate the local economy. Our goal, as always, has been to address these issues while assuring that we continue to deliver quality services to our residents.

As you are aware, a number of difficult decisions have been required in the past to address the financial constraints and maximize the benefit of our available resources including:

- *Elimination of 125.63 positions since FY10.*
- *Elimination of a number of programs.*
- *Reorganization of programs and service delivery.*
- *Implementation of employee furloughs.*
- *Providing early separation incentives for employees.*
- *Privatization of functions previously done in-house, and taking on work previously done by private industry where deemed effective.*
- *Our current millage rate is 3.7 mills.*

Although we are a leaner organization and one that is adjusting to our limited resources efficiently and effectively, adjustments are more difficult as we settle into the new normal of a flat or declining economy.

City Commission Priorities

- Continue to develop and enhance the “Sense of Place” concept in the three targeted areas of Timberlane Road / Market Street, Midtown, and South Monroe Street/South Adams Street.
- Create a vision for the Tallahassee Regional Airport and advance commercial development opportunities.
- Foster a strong local/small business environment throughout the community and identify opportunities for City involvement.
- Maintain the strong financial systems already in place to ensure City of Tallahassee utility sustainability.

The primary goals for the FY 2012 budget process have been to develop a balanced budget that not only continues to provide core city services but also addresses to the extent possible the four City Commission priorities as identified at the City Commission retreat in January. Some of the activities currently underway to address these priorities include the implementation of the NOVA transportation plan; development of an airport master plan; and preparation of rate studies for the electric, water and sewer utilities. Additionally, the proposed budget being presented for your consideration does not recommend any changes to the City’s millage rate. At 3.7 mills, the City’s property tax rate remains one of the lowest of the largest cities in the State of Florida.

The proposed budget also addresses the City Commission plan for continued restoration of funding in the Deficiencies Fund which reached a low point in FY08 and which is still below the required policy level. As you will recall, in FY10, the City Commission approved policy parameters for restoring the Deficiencies Fund within a five to seven year timeframe. The actions taken by the Commission to begin to replenish the reserve, as well as the positive year end positions in the General Fund in the last two years were cited as reasons for the general government bond upgrade from Fitch Ratings earlier this fiscal year. The city’s general obligation rating was also increased to AA and the “negative outlook” was lifted.

FY12 BUDGET PROCESS

As the City Commission is aware, we began this year’s budget process estimating a General Fund deficit of approximately $3.0 million. As we progressed through the budget process we received updated information that worsened the projected deficit. These include:

- Expiration of the current gasoline hedge agreement in mid-2012 and expected increases in vehicle fuel costs.
- Continuing decline in taxable value of property.
- Continuing declining consumption of utilities.
- Decreases in federal and state funding for programs such as housing, social services, and transportation.
- Ratification of the collective bargaining agreement with the Police Benevolent Association in March 2011.
- Updated OPEB contribution rates from the City’s actuarial consultant.
- Increased cost of employee health insurance.

In light of the projected deficits, departments were asked to review their budgets for potential efficiencies and to submit budget requests that continued operations at the FY11 budgeted amounts. And as was done in the FY11 budget process, departments were again asked to submit and analyze their budget and past expenditures on a program basis.

This year we also implemented a new process aimed at getting additional public input earlier in the annual budget process. As a result three community public meetings were held on April 4th, 5th, and 6th in various locations within the community. Staff from every department was available at these meetings to provide information and answer any questions that residents may have had. Attendees were also able to vote on the programs that they felt were most important and least important. Those who were not able to attend the meetings were given the opportunity to cast their votes on the City's website. Although the results of the voting were not statistically valid, they did represent the preferences of those who attended or voted on line. Those results were provided to the Commission at the April 13, 2011 City Commission meeting. For the FY13 budget process, a statistically valid public opinion survey is proposed. This will be done in the fall of this year in order to give the Commission ample time to incorporate the results into the budget process.

KEY ASSUMPTIONS & ACTIONS FOR BALANCING FY12

Over the last few months, staff has been working on ways to address the projected deficit for 2012. The following provides some key assumptions and actions utilized in the proposed budget.

Expenditure Reductions

All line items were reviewed to determine whether funding was appropriate relative to actual expenditures. Expenditure reductions were considered programmatically and to better align actual expenditures with budgeted amounts (both positive and negative).

Vehicle Fuel

City-wide fuel was budgeted at $4.275 million in the FY11 budget. Over the last couple of years the City was able to contain the costs of vehicle fuel by the use of hedging contracts. The current fuel hedge contracts end in mid-2012 and at this time it is unknown whether we will be able to enter into another advantageous hedging contract upon expiration of the current contract. As a result, the FY12 budget requirement for vehicle fuel has been increased by approximately 20%.

To help mitigate this increased cost, the city has embarked in an anti-idling campaign and policies have been implemented for city departments to follow in an effort to eliminate and reduce idling of city vehicles. Additionally a green initiative to reduce fuel usage is being recommended in the proposed budget. Each department is being challenged to reduce fuel usage by 5% and it is anticipated that this action will generate savings of $54,361.

Vehicle Replacement

This is the third year that vehicle replacement charges have been increased in order to bring the fund up to the level needed to ensure timely replacement of vehicles and equipment. To accumulate the dollars needed, contributions to the fund from departments was increased by 12.5% in FY11. For fiscal year 2012 a 3% increase in contributions from departments to the vehicle replacement fund has been included.

Personnel services

Personnel services make up 27.8% of the total city budget and 57.7% of the General Fund budget. Salaries for general employees have been adjusted for a 2% merit salary enhancement in FY12. Police union salary adjustments are included as provided in the contract; .5% across the board increase and a 4.5% average step for eligible union members. Adjustments for fire union employees will be determined in the union negotiations currently underway. Pension rates are 10.6% for general employees, 18.1% for police union employees, and 20.15% for fire union employees based on the latest actuarial study. The matched annuity pension plan rate, also based on actuarial rates, is 7.15%. The City's portion of the cost of employee health insurance increased by 3.8%. To allow for employee turnover, a 3.0% vacancy factor is applied to salaries and benefits.

Position Changes

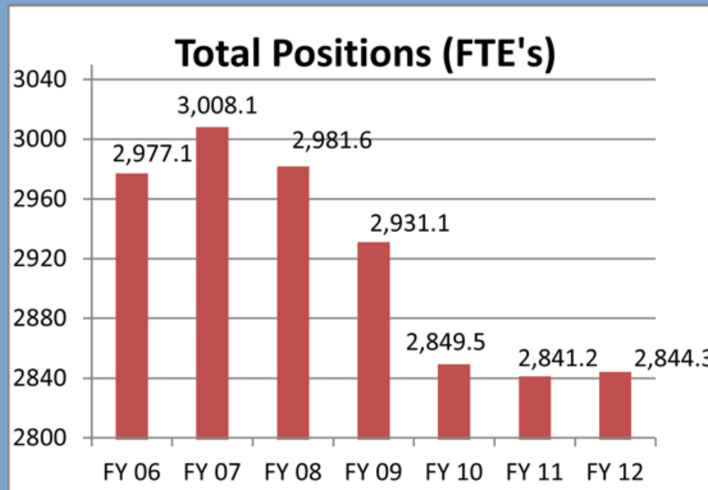
The proposed budget includes funding for 2,844.33 FTEs. This represents a net change of 3.16 positions from the total number of positions in the approved fiscal year 2011 budget. The following table provides a listing of proposed position additions and deletions.

DEPARTMENT	POSITION	FTE
Economic and Community Development	Code Enforcement Officer	-1
Solid Waste	Solid Waste Technician	-1
Management & Administration	Purchasing Agent*	-0.34
Police	Records Technician	-1
	Crime Analyst	-1
Electric	Power Plant Control Room Operator**	-2
	Apprentice Line Worker**	-1
	GIS Analyst	1
	Engineering Technician	2
	Senior Inventory Specialist	1
	Safety Specialist	1
	Utility Training and Safety Specialist	1
Underground Utilities	Program Engineer*	2
StarMetro	Regional Mobility Coordinator*	1
	Mechanic	1
Treasurer-Clerk	Accountant	0.50
Net Change		3.16

*Mid-year.

**Time limited positions.

The chart below shows the growth in the number of FTE's since FY06. As indicated, the total number of positions peaked in FY07 and has declined each year through FY11. The FY12 budget includes 3.16 additional FTE's. The General Fund has 12% fewer positions compared to the FY06 staffing level and all funds together have 3.4% fewer positions.

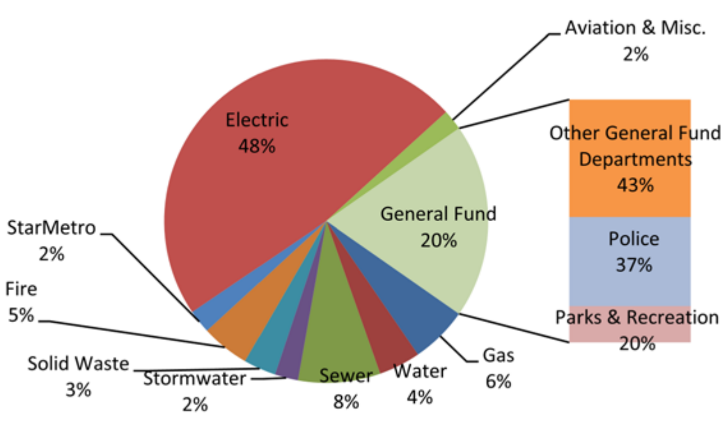


PROPOSED BUDGET

The proposed budget totals $873.5 million and is comprised of two components: the operating budget of $724.9 million and the capital budget of $148.6 million. While the operating budget is further divided into individual funds, the capital budget is appropriated on a project basis. The adjacent chart shows the breakdown by fund of the operating budget. The total operating budget has decreased by .3% over the FY11 budget of $726.9 million. This is due primarily to decreased fuel expense for the utilities. However, other expenses such as personnel services, debt service, and motor vehicle fuel are expected to increase.

Of the total FY12 Appropriation, the General Fund is 20% of the total.

OPERATING BUDGET BY FUND
TOTAL APPROPRIATION $724,909,554



Exclusive of Police and Parks and Recreation, General Fund activities comprise only 10% of the total appropriation.

As shown in the chart, the General Fund, including services such as police, parks and recreation, animal shelter, right of way maintenance and others represents 20% of the total appropriated budget. Electric utility funding comprises approximately ½ of the total budget. Although this is a significant portion of the total budget, 46.9%, $154 million, of this funding is for fuel (including purchased power). When combined with the fuel cost for the gas utility, fuel costs comprise 25.4% of the total budget. Approximately 68% of the budget is for all of the utilities (Electric, Water, Sewer, Gas, and Stormwater).

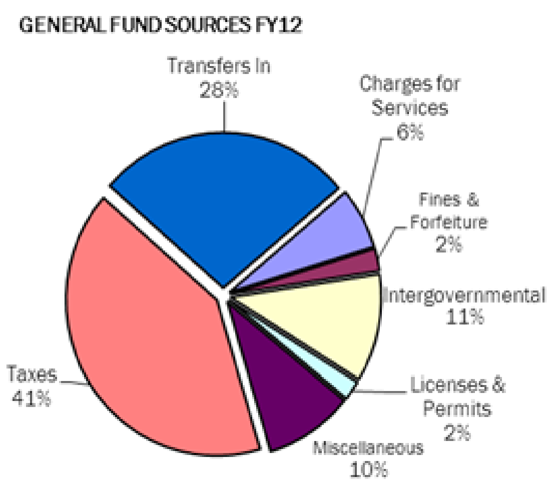
A comparison of the FY12 operating budget with the FY11 operating budget for each fund is provided in the table below:

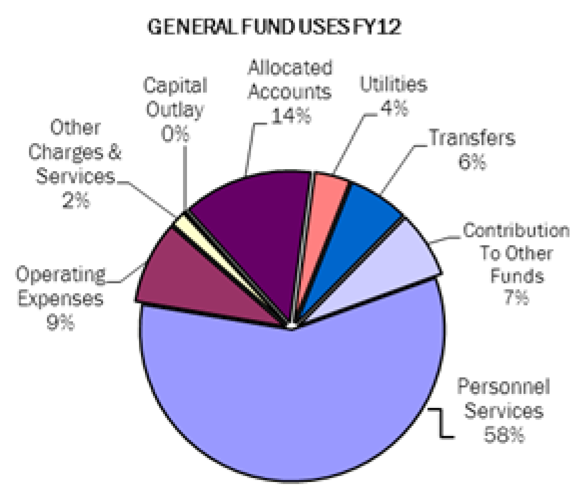
General & Special Revenue	**FY11**	**FY12**	**Enterprise Funds**	**FY11**	**FY12**
General Fund	$135,647,723	$136,583,691	Electric	$341,901,601	$328,484,307
Star Metro	16,318,440	16,796,324	Gas	39,364,389	40,141,393
Fire	33,024,185	33,150,051	Water	28,677,222	28,087,466
Building Inspec.	2,892,060	2,930,220	Sewer	56,181,653	59,401,224
Stormwater	16,008,257	16,684,657	Solid Waste	22,140,245	24,507,715
Cemetery	506,311	491,333	Aviation	12,511,312	11,019,563

NOTE: DOES NOT INCLUDE ALL FUNDS

GENERAL FUND

The proposed budget for General Fund totals $136,583,691. A breakdown of General Fund revenue and expenditures is shown in the charts that follow. As indicated in the charts, personnel services account for well over one half of all expenditures. On the revenue side, all taxes, including ad valorem, communication services, and utility taxes make up 41% of revenue. Ad valorem taxes contribute only 24.8% of revenue necessary to operate the government with transfers from the utilities contributing a slightly greater share at 28%.





Since initial projections for the FY12 budget were developed during the FY11 budget process, additional information is available which changes the earlier estimates. At that time, it was projected that falling property valuations would level off and grow by 1.5%, which did not materialize. Actuarial evaluations for both pension and OPEB have been received and result in a modification of the original estimates. Police union negotiations have been completed which resulted in salary increases above the amount included in the FY11 estimate. Other costs such as motor vehicle fuel costs have also continued to increase. In addition, a change in the utility transfer policy results in a significant change to the General Fund over time. These are reflected in the assumptions used for the budget presented at this time.

GENERAL FUND EXPENDITURE ASSUMPTIONS

Line Item Reductions

All line items were reviewed to align actual expenditures with budget requests. As a result of this review, expenditures in the General Fund were reduced by approximately $200,000. In addition, the General Fund portion of reductions in Internal Service Funds is approximately $300,000 for total savings of $500,000.

Transfer to StarMetro

The general fund transfer requirement for StarMetro is estimated at $8,373,251 in the FY11 budget. The FY12 general fund transfer has been set at $8,582,185 and has been adjusted for the additional cost of fuel expected for FY12.

Transfer to General Government Capital Account (GGCPA)

For FY11, a total of $1.2 million was included for general government capital projects some of which was made available by the additional revenue from the red light camera program. Although the FY12 budget does not include any transfer for the general government capital projects account (GGCPA), a total of $1.6 million has been made available for requested projects by review and closure of open projects and/or changing funding sources to free up additional funding. Most of the projects funded from this source are recurring maintenance projects that are not eligible for sales or gas tax or bond funds. A listing of projects that are recommended for funding is included in the capital budget section of the document.

Debt Service

Approximately $9.0 million in general government debt service was budgeted in fiscal year 2011 and included funding for existing obligations for the 2004 series capital bonds. After appropriations for additional projects in FY12, there is a remaining unappropriated balance from the 2004 bond issue of approximately $6 million. The original bond issue in 2004 totaled $85.8 million and was intended to fund the neighborhood infrastructure program aimed at improving infrastructure in the City's older neighborhoods. The intent was to complete these projects within a three year time frame. For various reasons, e.g. difficulty in acquiring right-of-way needed for the projects, resistance from neighborhoods to projects, etc., a number of the projects originally envisioned will not be completed. On February 27, 2008, the City Commission approved the defeasance of $5 million of 2004 Bond Series debt service which resulted in a reduction in debt service payments of $1.0 million annually. It is recommended that the remaining balance of the 2004 bond funding, approximately $6.0 million, be defeased at this time. This results in savings to the General Fund of approximately $900,000 per year.

> $6.0 million in available 2004 Bond Series Funds are recommended to be defeased, resulting in annual savings of approximately $900,000.

Contingency

One of the main purposes of the contingency account is to provide a cushion for unexpected declines in revenues or increases in expenditures. An adequate contingency can mitigate somewhat any mid-year budget corrections that may be required. For FY11 a contingency of $62,423 was included in the budget. The proposed budget for FY12 includes a contingency of $200,368.

Transfer to Deficiency Fund

The Deficiencies Fund is a reserve or fund balance for General Fund operations. The current balance is less than the policy target balance of two months operating requirements for the General Fund. To address this serious issue, the FY10 budget included a transfer of $1.9 million to the Deficiencies Fund. The FY11 transfer is $1,207,584. For FY12, the transfer is budgeted at $1,193,933 which is possible due to the planned sale in FY12 of the City's former drive through facility located in the Gaines Street redevelopment area.

The current fund balance of the Deficiency Fund is $15.4 million.

GENERAL FUND REVENUE ASSUMPTIONS

Ad Valorem Taxes

The proposed budget recommends no increase in the millage rate for FY12. The current property tax rate at 3.7 mills is one of the lowest of the largest cities in Florida. The following table provides a comparison of millage rates across the State of Florida.

2011 PROPERTY TAX RATES ACROSS FLORIDA (in mills)			
City	**Millage Rate**	**City**	**Millage Rate**
West Palm Beach	8.0739	Pensacola	4.5395
Hollywood	6.7100	Largo	4.3133
Daytona	6.3044	Gainesville	4.2544
Orlando	5.6500	Lakeland	4.1644
Clearwater	5.1550	Fort Lauderdale	4.1193
Pompano	4.9077	**Tallahassee**	**3.7000**

The millage rate is proposed to remain at 3.7mills.

The original FY2012 budget estimate projected a 1.5% increase in the value of properties within the city. Preliminary estimates provided by the Leon County Property Appraiser's Office on June 1, 2012, indicate a reduction of 3.1%. This resulted in a net change to the estimated revenue of $865,222. This has been offset to some extent by a change in the expected collection rate from 95% to 97% based on historical collections in the last few years. The tax roll for fiscal year 2011 will be finalized this month and we will be receiving the certified taxable value report by July 1, 2011. This is the official estimate that must be used for adoption of the millage rate. It should be noted that in years past, the official estimate has frequently been slightly better than the preliminary estimate.

Transfers from the Utilities

Transfers to the General Fund from the utilities have been decreasing largely due to decreasing consumption and the corresponding reduction in revenues to the utilities. In addition, the current methodology for the calculation of transfers for each utility is different. The Water Fund transfer in particular is much higher than for other utilities. In FY10, the Water Fund had a year-end deficit and was unable to make the full transfer amount. Staff has been reviewing various methodologies over the past year to simplify the formulas and bring consistency to the process. Although tentative, given that changes to the transfer policy have not yet been approved, the transfers as shown in the following chart are calculated based on a new formula that is being proposed. As indicated in the chart the transfer amount goes down by $182,646 from the FY11 transfers, although original budget estimates assumed these would increase.

Transfer	***FY2010***	***FY2011***	***FY2012***
Electric	**23,361,081**	**22,366,058**	**23,844,683**
Gas	**2,323,000**	**2,323,000**	**2,512,094**
Water**	**5,854,126***	**6,484,450**	**2,999,663**
Sewer**	**2,981,251**	**3,284,609**	**3,667,474**
Solid Waste	**164,674**	**161,914**	**1,413,471**
TOTAL	**34,684,132**	**34,620,031**	**34,437,385**

*The water transfer was reduced by $824,720 due to a negative year end position in the Water Fund.
**In addition to the formula transfer, both Water and Sewer Funds transfer 100% of the County surcharge revenue which is used to support Parks & Recreation as specified by interlocal agreement with the County.

The proposed change is to go to a straight 6.99% of retail rate revenue for each of the above funds. The Financial Viability of the Government Target Issue Committee has reviewed this proposal and is recommending this change to the City Commission. The revised formulas address consistency issues, as well as rate implications to the Water Fund. However if utility consumption continues to decline in the coming years, potential impacts to revenues in the utilities as well as the general fund transfers from the utilities will have to be revisited.

Communications Services Tax

Collections of the Communications Services Tax in FY11 are significantly lower than budgeted and are expected to be approximately $800,000 lower than originally budgeted. Statewide collections are approximately 5% lower than in FY10. As a result, the estimate for this revenue in FY12 has been reduced by $853,592 below the original estimate.

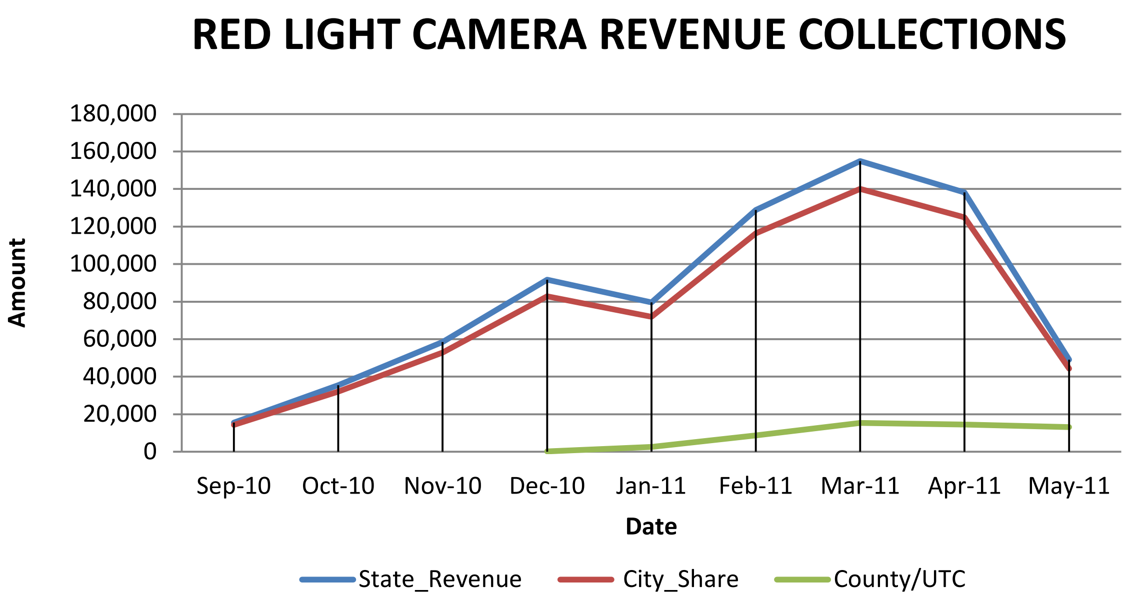
In order to pay back an over payment arising from a pre-2009 audit of the Communications Services Tax, the Communications Services Tax rate was increased effective February 2009 for a period of three years. The additional revenue collected from this increase is used to cover the annual debt service payment to the State of Florida of $487,967. This will end in January of 2012 and it is expected that the State will require that the rate be reduced to the pre-2009 level.

State Revenue Sharing & Florida ½ Cent Sales Tax

April 1, 2010 census population figures used for calculating the City and County shares for State Revenue Sharing and the ½ Cent Sales Tax indicate an increase in the City share of these revenues. In addition, staff is estimating an increase in these revenues of approximately 3%. Both of these sources are estimated to bring in approximately $14.3 million in FY12. Official estimates from the State of Florida are expected by the end of June and the FY12 budgeted amount will be updated with the most recent numbers prior to final adoption of the budget in September 2011.

Red Light Camera Revenue

Currently, we have seventeen red light cameras with the last one activated on January 3, 2011. In addition, the Commission recently voted to add seven more cameras at various locations throughout the City. Through mid-May, gross collections totaled $1,469,937 with the City share of this amount at $679,563 (excluding camera cost, credit card processing fees and the cost of Police review). The State share was $751,731 and County court share was $54,495. The chart that follows shows monthly collections. As indicated, revenue continued to climb until the peak of March 2011 as additional cameras were added and then started to decline. Revenue projections have been increased by $600,000 due to the additional seven cameras.



The red light camera program has proven to be effective in increasing traffic safety in the community. An April 2011 survey indicated that 71 percent of respondents stated that they are more likely to stop at red lights and 77 percent are confident that others are more likely to stop knowing that cameras are operational in the community. Infraction data also indicates that the program is having results. Prior to cameras being installed, more than 400 left turn and straight through potential violations were recorded in one day (from 6 am to 10pm) at the intersection of Monroe and Tennessee streets. Currently that intersection averages 25 violations a day, a 94 percent decrease in violations.

Transfer from Gas Tax Fund

Since FY09, an additional transfer of $500,000 above the normal transfer of $204,260 has been budgeted from gas tax fund revenues to offset operating costs associated with traffic/transportation programs. FY12 will be the last year of this increase since this revenue source has been designated to pay for the $1.0 million annual debt service associated with construction of sidewalks for the NOVA transportation plan beginning in FY13.

OTHER FUNDS

The following sections provide a summary of the most significant revenue and expenditure assumptions for funds other than the General Fund as contained in the proposed budget.

SPECIAL REVENUE FUNDS

Building Inspection

The Building Inspection Fund was created as a requirement of Florida Statutes. A number of changes were implemented in FY10 in response to the downturn of the construction industry, including a fee increase that was approved and implemented. As a result, the fund is expected to end fiscal year 2011 with a 1.1% increase in license and permits revenues. For the first 6 months of FY11, the average number of permits issued per month is just over 24. This represents an increase of 10% in the average number of permits issued per month in comparison to last year.

Special Revenue Funds: *Fees are collected for a specific legal purpose or funds are segregated in order to track expenditures for a service.*

Revenue Tracking
- StarMetro
- Building Inspection

Special assessments:
- Fire Services Fee
- Stormwater Fee

Trust Funds:
- Cemetery Perpetual Care

- The Building Inspection Fund is balanced in all five years.
- A transfer from the Deficiency Fund is not expected.

Fire Services

A countywide fire services fee and the new inter-local agreement with Leon County was effective on October 1, 2009. The updated fire services fee was based upon 5-year proforma average rates that were designed to fully fund fire services for a five year period; excess revenue collected in the early years would be held in a reserve account and then used to offset anticipated shortfalls in out-years. Some of the highlights related to the Fire Department are as follows:

- In FY10, the Commission approved a 5.95% salary and benefit increase over a two- year period in the Fire Services Fund.
- In FY11, the City and the International Association of Fire Fighters (IAFF) will be re-negotiating the current union contract that is scheduled to expire in September 2011.
- Additional funding of $482,479 has been budgeted for costs associated with volunteer fire stations as provided in the County contract.
- Funding for capital outlay in FY12 includes $500,000 for the replacement of the department's record management system. The current system will no longer be supported by the vendor and various components including the supply & inventory and training modules, which are required for certification, are not available from the current vendor.
- The current rate structure remains unchanged from the previous two fiscal years – the monthly fee for single-family residential zone 1 structures is $14.91 and $13.42 for zone 2 single-family residential structures.
- The final eight, of 18, new firefighter positions for county stations have been added in FY11 as provided by contract.

Cemetery Fund

The City of Tallahassee owns and maintains five cemeteries with 133 acres. The only remaining inventory of grave space is located at the Southside Cemetery. In FY12, the Property Management Division is proposing to open two platted, but previously undeveloped sections in Oakland and Roselawn. The additional revenue from the sale of grave spaces in these two new sections will allow the FY12 budgeted revenue of grave space sales to be achieved, but not exceeded. At present, revenue from these sales goes to the General Fund.

The Cemetery Perpetual Care Trust was established in 1985 to provide for perpetual maintenance of all city cemeteries. Currently a fee of $93.75 per grave space sold is used to fund the trust. Proceeds from this trust are transferred annually to fund the Cemetery Division.

The Property Management Division has also prepared a preliminary study for purchasing land for a future cemetery and will be bringing additional information to the Commission in the coming year.

The FY12 budget for this fund is $491,333. A transfer of $322,898 from the Cemetery Perpetual Care Fund is required.

Stormwater

The Stormwater fund is balanced in FY 2012-2016. Total revenues for the Stormwater fund for fiscal year 2012 are budgeted to be $16.6 million. Of this $6.4 million will be transferred to the Stormwater capital improvement program. Projections do not include any fee increases for FY12.

StarMetro Adjustments

The proposed budget for StarMetro in FY12 is $16,796,324 including a contribution from the general fund totaling $8.6 million or 51.1% of the department's total budget. StarMetro's FY12 budget increased by $477,884 or 2.8% from the 2011 approved budget. This is due to a net increase of $279,183 in the fuel budget and the addition of a Mechanic II ($43,058) position to assist in increased service due to the start of the NOVA plan. Mileage driven will increase in FY12 from 2.1 million miles currently to 2.3 million miles (244,235 total increase) under the revised route structure. Although total miles will increase, it is expected that this will be offset somewhat by an increased miles per gallon due to longer runs and reduced idle time. One other position, a Regional Mobility Coordinator, was approved by the Commission mid-year and is a one year time limited position funded by a new grant.

In order to offset these increased costs and to improve program efficiency, a change is being proposed in the "Dial a Ride" program (DAR). In order to reduce the number of high cost DAR trips, it is proposed that those riders who are eligible for DAR be offered a free unlimited bus pass in lieu of using the DAR service. For those riders who are capable of utilizing regular bus service, this will provide additional freedom of choice and increased mobility while also reducing the cost for the service. Details regarding this voluntary program are still being developed.

- DAR serves approximately 7,000 elderly and disabled patrons.
- Provision of a free bus pass in lieu of using DAR services will encourage mobile customers to use fixed-route service, when possible.
- Each ride provided through the DAL program costs approximately $16.31.
- Provision of fixed route service is a sunk cost with no additional impact due to the free bus passes.
- It is anticipated that at a minimum 40 riders will take advantage of this new optional program resulting in savings of $73,320.

In addition, revenues are expected to increase due to an $100,000 increase in Federal Transit Administration (FTA) funds and an additional $500,000 ($400,000 FTA funds and $100,000 local match) grant StarMetro was awarded a in January 2011 for the purpose of evaluating the feasibility of constructing a bus rapid transit, streetcar, or light rail line along West Tennessee Street.

ENTERPRISE FUNDS

Rate studies are currently underway for the Electric, Water and Sewer Utilities. The proposed budget will be updated once the studies are complete.

Enterprise funds include not only the utilities but also the airport operations, solid waste collection and disposal, and Hilaman Golf Course. All enterprise funds are expected to recover all costs, both direct and indirect, from charges for the service provided. The Golf Course fund, per Commission direction only recovers direct costs. All other enterprise funds fully recover costs.

Utility funds use a rate analysis to determine revenue requirements for specified periods of time. The last rate study was completed over five years ago. Because consumption is down in the Electric, Water, and Sewer utilities due to a combination of demand side programs and economic conditions, the proposed budgets for these funds are tentatively showing a negative operating position. With the exception of the Water Fund, which does not have any fund balance, all utility funds are balanced assuming the revised General Fund transfers, usage of reserves and/or RR&I transfers, pending the completion of rate studies which are currently underway.

Electric, Water, Sewer, and Solid Waste assume a CPI increase of 1.7% to base rates as previously approved by the City Commission. The Stormwater Fund will not implement the CPI increase in FY12. All other rate changes will be determined in the rate study process.

Electric Fund

With the exception of salaries and benefits, revenues and expenditures in the Electric Fund proforma were derived from phase I of the draft rate study prepared by the city's rate consultant, R. W. Beck. According to the draft study, projected revenues at existing rates, which are adjusted annually by CPI as per City Commission policy, are insufficient to cover projected expenditures. The rate requirements include the addition of two new positions as previously described. In addition, one position is added in the Warehouse Fund and is allocated among all the utilities. The Electric Fund proforma shows a deficit of $31.2 million in fiscal year 2012 that decreases to $21.6 million in fiscal year 2016. Resolution of this deficit will be addressed in phase II of the rate study process. The Financial Viability of the Government Target Issue Committee has been reviewing information from the rate study and their plan is to continue to study this issue throughout the summer in order to bring back a recommendation on rates to the City Commission prior to final approval of the budget.

Revisions to the transfer policies from the utilities to the General Fund were presented to the Financial Viability Target issue committee of the City Commission. The revised formulas for utility transfers to the General Fund have been included in all of the utility proformas beginning fiscal year 2012. In the Electric Fund, the new transfer methodology will apply 6.99% to a three-year average of retail rate revenues. In fiscal year 2011, the transfer policy applied 8.3 mills to a three year average of actual retail sales. From fiscal year 2004 to fiscal year 2010, the transfer policy was based on 8.3 mills of actual kWh retail sales for the prior year.

Water Fund

The Water fund is balanced for fiscal years 2012 through 2016. Revenues for the water utility system include water sales, development fees, various water service fees, and other miscellaneous fees.

- Total revenues for the Water fund for fiscal year 2012 are budgeted to be $29.1 million versus the fiscal year 2011 budget of $28.7 million. The increase is due mainly to the base rate Consumer Price Index (CPI) increase of 1.7%.
- From FY07 to FY10, average consumption has decreased by 15%.

Enterprise Funds: Fees are collected to recover the cost of a specific service such as water or sewer. These operations are expected to fully recover all costs; both direct and indirect.

In addition, State law allows for collection of a reasonable surplus in some of these funds to be used for any lawful purpose such as a transfer to the General Fund.

The 2012 fiscal year budget reflects operating expenditures (excluding any excess transfers to RR&I) in the amount of $28.3 million, representing a decrease of approximately $400,000 from the 2011 approved budget. This is primarily due to a reduction in general fund transfer. The reduced transfer amount results from a proposed change in the transfer formula discussed by the Financial Viability of the Government Target Issue Committee and recommended for City Commission consideration and approval. A discussion of the revised utility general fund transfer methodologies will be presented as part of the June 30, 2011 City Commission budget workshop.

- The transfer to the General Fund is $2,999,663 for FY12 compared to $6,484,450 for FY11.

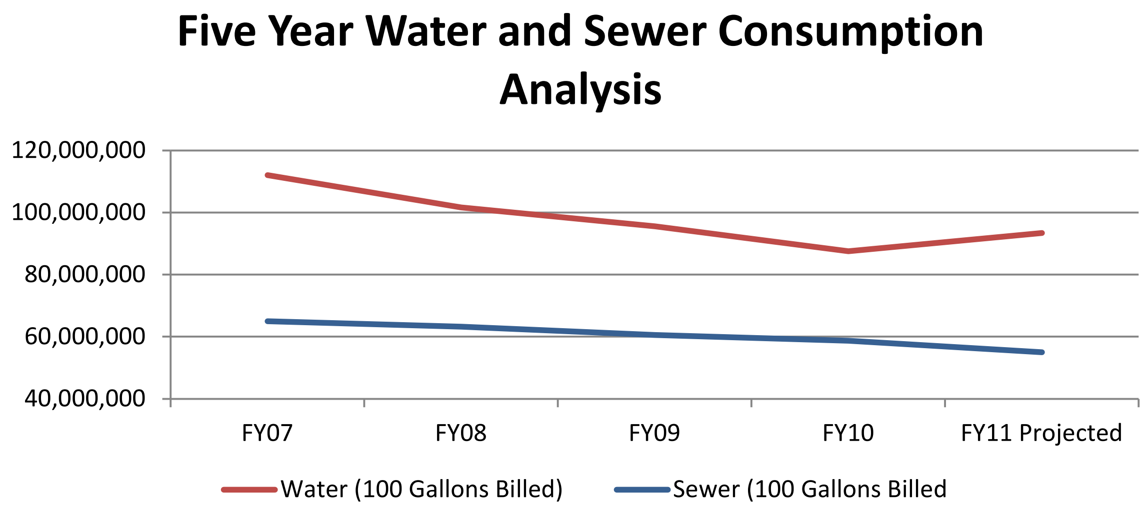
Sewer Fund

The Sewer fund is balanced for fiscal years 2012 through 2016. Wastewater system revenues also include monthly sewer service charges, which are based on water consumption rates, development fees, the sale of effluent and other miscellaneous fees.

- Total revenues for the Sewer fund for fiscal year 2012 are budgeted to be $59.4 million versus the fiscal year 2011 budget of $58.9 million.
- Budgeted revenues for FY11 were based on the rate study completed over five years ago which over-estimated customer growth. No customer growth is currently projected.
- Although no rate increase, with the exception of the Commission approved CPI increase, is used for preparation of the budget, a rate study is in progress that will determine the necessary actions to balance the fund.

The 2012 fiscal year budget reflects expenditures in the amount of $59.4 million, representing an increase of $2.5 million from the 2011 approved budget. This is primarily due to an increase in debt service requirements needed for the Advanced Wastewater Treatment (AWT) facility project.

- Debt service requirements are increased in FY12 by $3.5 million primarily as a result of debt needed for the AWT project
- The transfer to the RR&I fund totals $10.1 million.



As indicated in the chart, consumption has continued to decline each year with the exception of FY11. Water consumption has increased in FY11 due to exceptionally dry conditions.

Gas Fund

The Gas fund is balanced for fiscal years 2012 through 2016.

- No rate increases are planned for FY12.
- Revenues are estimated to increase 1.9%.
- Customer growth is estimated at 2%.

The 2012 fiscal year budget reflects operating expenditures (excluding any excess transfers to RR&I) in the amount of $35.4 million, representing an increase of approximately $640,000 from the 2011 approved budget. This is primarily due to an increase in funds transferred to RR&I account for capital expenses.

- The fiscal year 2012 fuel forecast is budgeted at $20.9 million versus the fiscal year 2011 fuel forecast of $21.3 million.

Aviation Fund

The Aviation Fund is balanced for fiscal years 2012 through 2016. Revenue has been impacted by a declining passenger base due to the global economy and other factors affecting our region. The airport has seen the gain and loss of carriers, the elimination or reduction of services provided by carriers and distinct change in traveler spending behavior.

- Total revenue is projected to decrease by $1.5 million due to a reduction in service by Delta Air Lines and others. This reduction in FY11 has resulted in fewer enplanements from FY10 (343,000) to projected FY12 (300,000) of 43,000.
- Reduced passenger activity also causes reductions in concessions, parking lot revenue and rental car activities.
- Over $250,000 of expenses have been eliminated in the FY12 budget, mainly in contract services and supplies, in order to have a balanced budget.

Solid Waste Fund

The Solid Waste fund is balanced for FY12. Revenues are projected to increase slightly in fiscal year 2012. Revenue projections for fiscal years 2012 through 2016 assume little customer growth and include only modest increases.

- For the fiscal years 2012 through 2016, an annual consumer price index (CPI) adjustment is included to offset increases in landfill tipping fees and contractual fees paid to Waste Pro.
- One solid waste technician will be eliminated due to service changes previously implemented.
- The current contract with Waste Pro will end September 30, 2013.
- A planned transfer to the Solid Waste reserve of $653,123 will be made in FY12. Beginning in FY13, transfers from the reserve will be required to balance the budget.
- The current residential garbage fee is $16.09/ month.
- The County has increased the tipping fee to $41.80 per ton for FY12.

Golf Course Fund

The proposed budget recommends no subsidies for Hilaman Golf Course in fiscal years 2012 through 2016. Changes implemented since 2009, including reductions in the number of full-time positions, utilization of contractual employees for many maintenance functions, increased sales at the pro shop, and improvements to facilities at the course, have resulted in increased customer usage. Financially, these changes have resulted in revenues that substantially exceed expenditures, thereby providing for surpluses at the end of each fiscal year. The surplus for fiscal year 2012, which will be transferred to the Golf Course RRI fund, is projected to be approximately $228,000.

FUTURE BUDGET ISSUES

Although not addressed in the FY12 budget, there are other significant issues that must be addressed in development of future year budgets. The following are areas of concern.

- Due to decreased revenues, General Fund dollars have been reduced for capital improvements in the past few years. It is important to maintain this funding in order to assure that facilities are properly maintained. The cost of not providing routine maintenance outweighs the solid practice of keeping facilities in good operating order. For FY12, $1.6 million is included for general government capital projects not eligible for other funding sources such as debt, gas tax or sales tax.

- Cascades Park, which will be operational in FY12, will require additional operating expenditures of $327,402 annually and one-time costs of $174,400.

- Demand side management programs as well as current economic constraints on residents and businesses have resulted in decreasing consumption in utilities. Although this is occurring as planned, there are both rate and transfer impacts that will need to be addressed as a result of the decline.

- Rate studies are currently underway for the Electric, Water and Sewer Utilities. The budgets included in the proposed document are tentative pending completion of these studies.

- The methodology for the transfer policies has been reviewed and changes to these are recommended. The methodology for the transfer policy was last changed in 2004. It is staff's belief that changing economic times have warranted revisiting these policies. These changes will affect not only the utilities but the General Fund as well.

- The current collective bargaining agreement with the International Association of Fire Fighters (IAFF) union expires on September 30, 2011 and is being re-negotiated for the three- year period. Although this does not impact the General Fund, potential financial requirements from this negotiation are not included in the current budget estimates.

- Grant funding, e.g. CDBG, SHIP, HOME, used to support City departments and programs from various agencies has been or may be reduced by the Federal and State governments in the coming years.

- During the FY10 and FY11 legislative sessions, certain transportation trust funds were swept to help balance the State of Florida budget. This could have an impact on the amount of dollars that will be available to support the Airport and other transportation projects.

- SHIP funding was not appropriated by the State of Florida for FY11 or FY12. This funding has in the past supported approximately 1/3 of the City's affordable housing program. Although the Department of Economic and Community Development currently has fund balance available to support this program, the program could be affected in FY12 if other funding sources are not identified.

- As a result of passage of the federal budget, the CDBG entitlement for the City has been reduced by $374,588, from $2,090,952 to $1,743,364. This has resulted not only in program reductions but also in a reduction to support administrative personnel for this program. The SHIP, HOME, and CDBG administrative reductions together total $217,783

- Funding for reimbursement of transportation for Medicaid clients by the Community Transportation Coordinator, CTC, program has been reduced by 4%. Since this program is contractually provided and fully reimbursed, this may affect the level of service that can be provided.

We have had to face similar challenges in the past few years and we have been able to overcome these by making some very difficult funding decisions and by developing new and creative ways to accomplish our priorities. We will continue to move forward in addressing these new challenges in the same way and emerge as a stronger and more viable community in future years as well.

FY12 CAPITAL BUDGET &
FY12 – FY16 CAPITAL IMPROVEMENT PLAN

The fiscal year proposed capital budget totals $148,604,600 and the five-year capital improvement plan (CIP) totals $759,467,800. The 2012-2016 proposed CIP is $66.9 million, or 8.1%, less than the 2011-2015 CIP. Fluctuations have occurred in nearly all departments' capital budgets, with the greatest being Underground Utilities ($45 million reduction), Public Works ($22.6 million reduction), Electric ($19 million reduction) and Parks and Recreation ($5.2 million reduction). Reductions have been offset by increases in the five-year capital improvement plan for Aviation

($10.4 million), Executive Services ($1.5 million), Fire ($3 million) and StarMetro ($6.8 million). Smaller adjustments have occurred in the capital budgets of Energy Services, Economic and Community Development, Treasurer-Clerk, DMA, and Police.

It should be noted that although the 5-year CIP provides a listing of projects over a five-year period, the City Commission only appropriates funding in the first year, with the latter four years representing a projected plan on how projects will be funded. Frequently, funding sources are insufficient to support projects, which results in many of them being deleted or delayed pending availability of various funds. With general government projects in particular, decisions are made annually, as we get closer to the year in which funding has been requested.

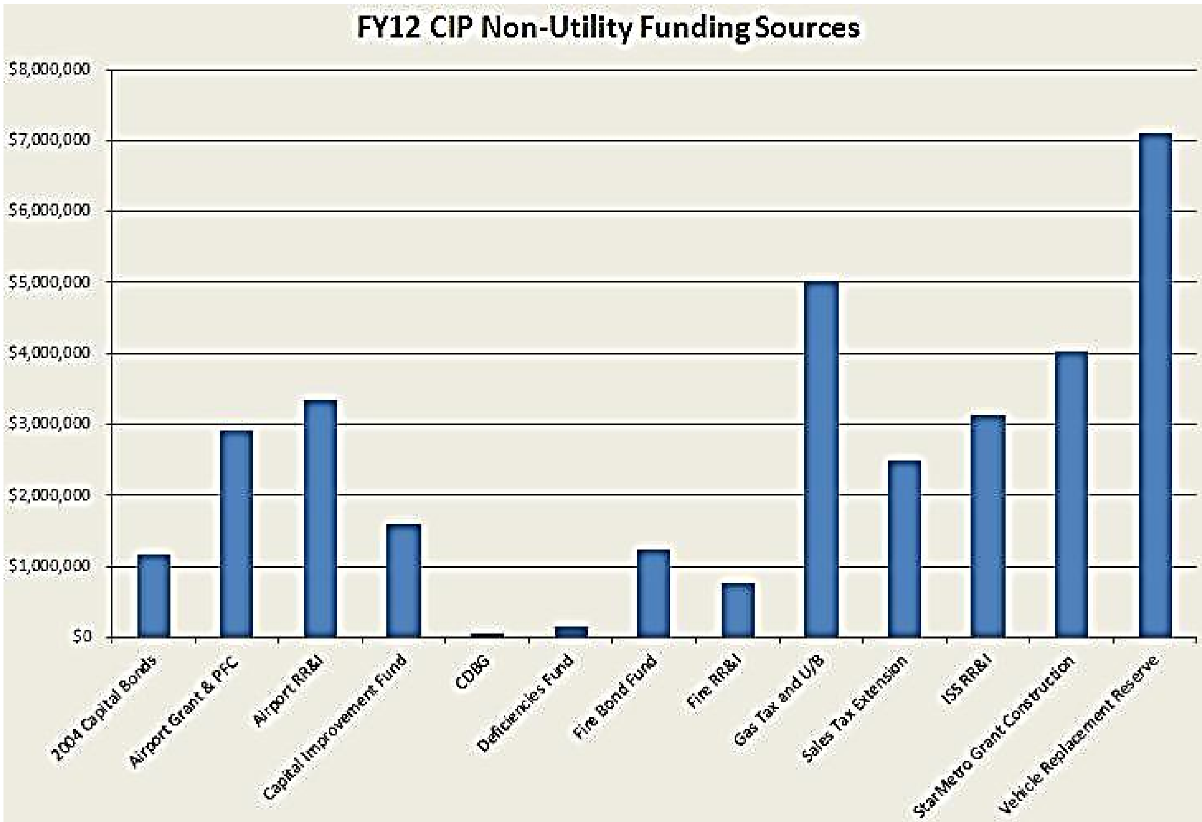
An example of this is FY12 funding requested from the Government Capital Project Account (GGCPA) and General Government Capital Improvement Fund (GGCIF). Requested projects totaled nearly $5 million, yet no GGCPA funding is included in the FY12 operating budget to support the requests. Instead, a total of $1.6 million in GGCIF funds were made available as a result of deobligating funds from the Weems Road PASS and Public Safety Complex projects, which will be supplanted with proceeds from the city's gas tax and sales tax extension funds.

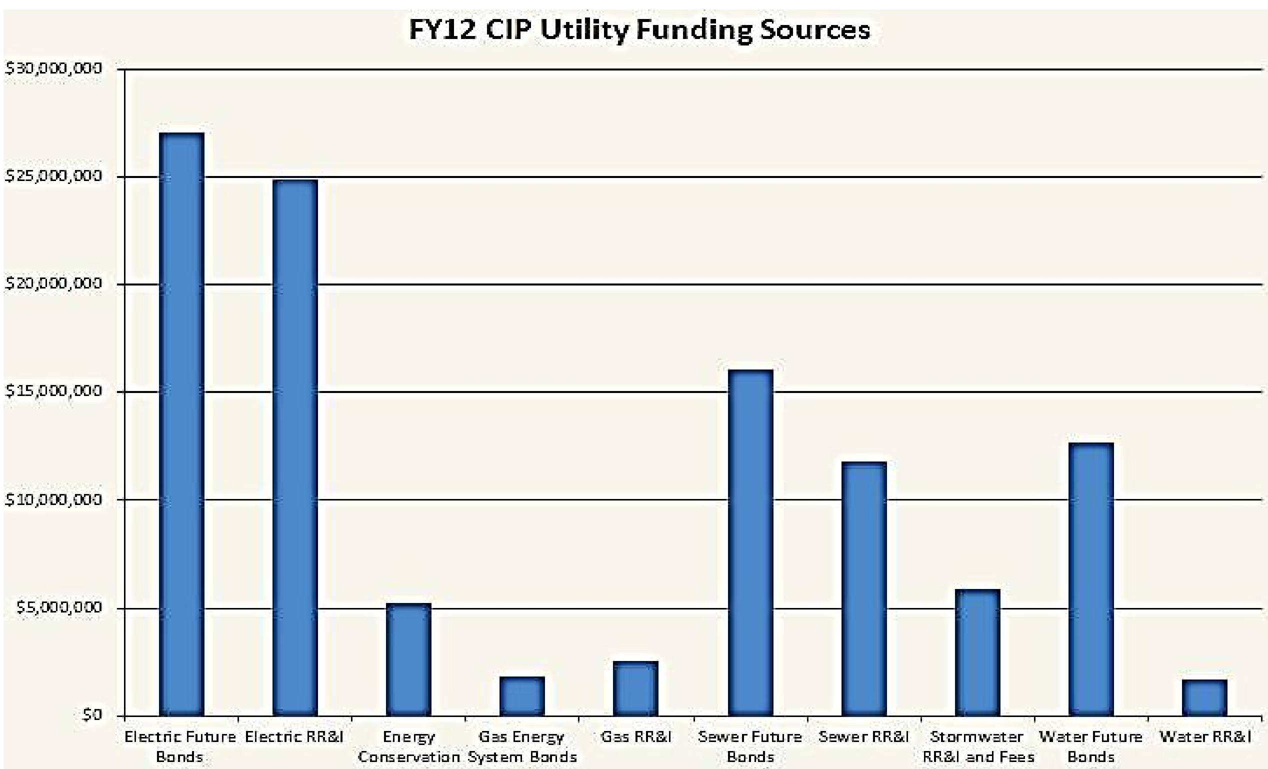
FY12 projects and proposed GGCIF funding include:

1. Parks, Recreation & Neighborhood Affairs	
Parks & Recreation Center Refurbishment	$250,000
Park Facility Maintenance	$350,000
Meadows Soccer Complex Renovations	$100,000
2. Police	
Police Vehicle Video Recording System	$82,950
Repair, Replace & Improve Police Facilities	$75,000
3. Public Works	
Guardrail & Handrail Installation/Replacement	$10,000
4. Executive Services	
City Hall Master Project	$707,050
5. Economic & Community Development	
Water & Sewer System Charge & Tap Fee Waivers	$25,000

Funding by source (bonds, RRI, state funds, etc.) and department as well as by individual project by service area and department with 5-year funding totals by project are provided in the Capital Budget Appropriation and Financial Summaries section of this document.

The charts that follow identify funding programmed in fiscal year 2012 from utility and non-utility sources.





Funding from non-utility sources totals $33 million in fiscal year 2012, while utility sources total $110 million. Collectively, the sources represent 96% of funds proposed for projects.

CONCLUSION

Although we are cautiously optimistic about the city's financial condition, we are still aware that there are areas we will have to continue to closely monitor and as well as re-evaluate our assumptions and strategies over the coming months and even years. Given that the rate studies for the Electric, Water, and Sewer Funds have not been completed at this time, there will need to be further discussion of the rate and budget implications that come from these studies. We will need to assure that we have adequate funds for maintenance of our existing infrastructure. And we will need to address ways to adjust for potential revenue reductions from ad valorem taxes, utility transfers, and other sources. But, first and foremost, we will need to find ways to continue to move forward in addressing new challenges so that we continue to maintain our position as a strong and viable community in future years.

I look forward to discussing the proposed budget and our recommendations with you at our upcoming operating and capital workshop scheduled for June 30, 2011. Staff from the Office of Budget and Policy and I are available to answer any questions or provide any additional information you may require.

Respectfully submitted,

Anita F. Thompson

Anita Favors Thompson
City Manager