



October 2013

On behalf of the City Commission, it is my responsibility and privilege as Mayor of the City of Tallahassee to present the approved fiscal year 2014 annual operating budget of \$689.2 million and the capital budget of \$163 million, for a total budget of \$852.2 million. Throughout the entire budget process, we were determined to meet citizens' high expectations by delivering the best possible services and remaining fiscally responsible.

As in previous years, state and national economic conditions have significantly affected overall funding. Nevertheless, I am confident that the final budget represents our best efforts at addressing the current economic climate, while attempting to maintain excellent service to our citizens.

Public workshops have always been part of the budget preparation process, and in recent years the City of Tallahassee has placed additional emphasis on obtaining citizens' input. Three workshops and an online survey were conducted to provide our citizens with the opportunity to be active participants in the budget discussion. During the workshops, the public, the City Commission, and City staff listened, learned from each other, and offered comments on the proposed budget priorities. The resulting dialog helped the Commission understand citizens' priorities and align our financial resources according to community needs.

I am grateful to the Commissioners for their leadership and commitment throughout this budget process. In addition, the City staff – particularly the budget staff – are to be commended for their hard work and dedication. Looking ahead, as the economy continues to improve, we are hopeful that next year's process will enable your city government to maintain its commitment to fostering a prosperous local economy and a high quality of life for its residents.

Sincerely,

A handwritten signature in black ink, appearing to read "John R. Marks III". The signature is stylized with a large, sweeping initial "J" and "M".

John R. Marks III
Mayor



June 19, 2013

Most Livable City in America

Honorable Mayor and City Commissioners:

It is my pleasure to present to you balanced operating and capital budgets for fiscal year 2014. The proposed operating budget totals \$697.3 million, representing an increase of \$11.7 million or 1.7% increase from the fiscal year 2013 budget. Of the total operating budget, \$142.5 million is for the general fund and \$554.8 million is related to the enterprise funds (electric, aviation, fire, etc.). The capital budget totals \$157.2 million, representing an increase of \$29.6 million or a 23.2% increase from the fiscal year 2013 budget.

KEY ASSUMPTIONS

SALARY ENHANCEMENTS
FOR NON-UNION
EMPLOYEES OF 2.5%

ADDRESS CAPITAL
FUNDING NEEDS FOR
GENERAL GOVERNMENT
CAPITAL PROJECTS

TIME-LIMITED INCREASED
TRANSFER FROM
ELECTRIC UTILITY

ADDITIONAL FUNDING
FOR STARMETRO
SHELTERS AND POSITIONS

As the City Commission is all too familiar, the city has come through demanding economic times where we saw a loss in revenue and, made difficult funding decisions about programs and positions, but we kept to our vision of a better future. We continued to invest in our city and, as always, provided top quality services to our residents. The investments in our community have begun to pay off for both quality of life and economic development as projects are completed such as Gaines Street, Miccosukee roundabout and Fifth Avenue Plaza in midtown. These projects have enhanced neighborhoods and revitalized our city, continuing to make it a draw for new residents and businesses. This is evidenced by both our increase in population and is especially reflective in the local unemployment rate which is down to 5.8%, less than the State at 7.2%. Service delivery has been and always will be a top priority. We first listen to citizen feedback to make sure we are performing to exceed their expectations, but it is no rare occurrence that our departments and employees continue to win awards and recognition by other organizations and peers. Most recently Underground Utilities was named by the Florida Sterling

Council the 2013 Team Showcase Champion for nitrogen reduction. Public Works was recognized by the Florida Chapter of the American Public Works Association (APWA) for their work on the Miccosukee/Fleischmann Roundabout. And of course this year our Electric Utility was named best in the nation. These things would not be possible without the leadership and support of the City Commission.

As a City, we look forward to other projects being completed, such as Cascades Park, as well as private development with both new construction and filling in of existing commercial space. Bass Pro Shops, BJ's Restaurant and Dick's Sporting Goods are a few examples. StarMetro will receive additional funding to provide enhancements to shelters and new positions to help our commuters get to work, school and play. And speaking of play, StarMetro is working to identify a Trolley service to

connect exciting destinations and businesses downtown. Other projects will provide enhanced beautification by turning stormwater collection areas into active parks in the near future.

As an organization, we strive to be financially flexible to influence our own destiny. In that regard we are in a good position, especially considering our peer governments, many of whom are still struggling with the effects of the recession. This is illustrated by how our deficiencies fund continues on the path to policy level and in our bond ratings which reflect our strong financial position allowing us to borrow at lower interest rates. Most importantly, the diversification of our revenues gives us better ability to respond to the needs of the community while dealing with economic fluctuations.

Though the worst may be behind us for the moment, challenges still remain as we adjust to a new normal during recovery and beyond. The most obvious challenge is Ad Valorem revenue. Property value was hit the hardest during the recession and it was already declining in Florida due to tax reform that included doubling the homestead exemption and changing the rolled-back rate methodology. As Ad Valorem is the top revenue for the general fund, the significance of this revenue cannot be overstated. Home values are starting an upward trend, but due to Save Our Homes in Florida, taxable value growth is capped at CPI or 3%, whichever is less. In addition, new construction has begun again, but it can take approximately 18 months before getting on the tax rolls. These two issues combined make for a slow recovery of our number one revenue source for the general fund.

As was heard from the Community Budget Workshops and from the on-line survey, many residents want to maintain high levels of service with most wanting to keep the current level of service. This budget focuses on maintaining existing service levels, while employing solid financial practices to balance funds and still stimulate the local economy, and address critically needed funding for capital projects within the general government area. I believe the budget presented for City Commission consideration addresses these areas.

Extensive reductions have been made over the last several years which included reductions in staffing and funding levels for departments. If it is found necessary to further reduce expenditures in the general fund it will require the elimination of additional positions, including public safety positions, which will impact service response levels and may eliminate some programs entirely.

City Commission Priorities

- *Create an overarching strategy to connect all areas of the city that enhances how people move about the community including transit, bicycle and pedestrian activity.*
 - *Encourage a thriving local economy through economic development, including utilizing the outstanding resources and partnerships with Florida A&M University, Florida State University and Tallahassee Community College.*
 - *Provide an outstanding quality of life that is enjoyed and appreciated by Tallahassee citizens.*
 - *Enhance the ongoing sense of place development to create unique areas across the community.*
 - *Encourage innovation and engagement to further develop Tallahassee as a unique, world-class diverse city.*
 - *Maintain financial viability.*
 - *Enhance Tallahassee's cultural, arts and historic heritage.*
-

In addition to continuing to provide core city services at existing levels this budget also addresses, to the extent possible, the seven City Commission priorities as identified at the City Commission retreat in January.

Additionally, for the proposed budget being presented for your consideration, we are recommending a partial reclamation of the adjusted rolled-back rate. The rate recommended, 3.9999, is below the allowable adjusted rolled-back rate of 4.3 mills. Even at this rate, the City's property tax rate remains one of the lowest of the larger cities in the State of Florida. For an average home with a taxable value of \$150,000 would pay an additional \$3.75 a month in Ad Valorem.

FY14 BUDGET PROCESS

As the City Commission is aware, we began this year's budget process estimating a general fund shortfall of approximately \$4.9 million. As we progressed through the budget process we received updated information that worsened the projected shortfall. These included:

- Increased Pension contribution rates.
- Increased Fuel costs for StarMetro.

This year we again held three community town hall budget meetings on April 15th, 16th, and the 25th in various locations within the community. These meetings were very successful and incorporated a new game called Tally Twister designed to inform citizens on the level and variety services they receive. In total, the three meetings had approximately 100 citizens in attendance, which is higher than the previous year. As we did last year, staff from every department was available at these meetings to provide information and answer citizens' questions. Attendees were also able to vote on whether they *Want More, Keep the Same, Want Less or Don't Want* programs. Overwhelmingly residents want to keep service levels the same and in some cases they want more. Also, interestingly, citizens indicated they were willing to pay more to keep or enhance services they feel are important.

Those who were not able to attend the meetings were given the opportunity to cast their votes on the City's website. The survey closed as of May 31st and 248 residents had taken their time to provide their priorities. Like the workshops, the results of the on-line voting were not intended to be statistically valid, but they did represent the preferences of those who attended or voted on line. Line in prior years the community budget workshop meetings serve to engage the public in an enhanced understanding of the

Want More and Keep the Same from Community Budget Meetings

Want More

Funding to attract businesses and Jobs (64%)
 Financial support of special events (37%)
 Financial support of arts & culture (50%)
 Pedestrian & bicycle safety (80%)
 Passive parks (53%)
 StarMetro (54%)

Keep the Same

Funding to attract businesses and Jobs (25%)
 Financial support of special events (37%)
 Financial support of arts & cultural (34%)
 Pedestrian & bicycle safety (17%)
 Passive parks (40%)
 StarMetro (30%)

Want More and Keep the Same from On- Line Survey

Want More

Funding to attract businesses and Jobs (40%)
 Financial support of special events (11%)
 Financial support of arts and culture (29%)
 Pedestrian & bicycle safety (56%)
 Passive parks (36%)
 StarMetro (32%)

Keep the Same

Funding to attract businesses and Jobs (32%)
 Financial support of special events (39%)
 Financial support of arts and culture (36%)
 Pedestrian & bicycle safety (25%)
 Passive parks (43%)
 StarMetro (29%)

complexities of the budget process. The results of the Community Budget Workshop were provided to the Commission at the May 8, 2013 City Commission meeting.

PROPOSED 2014 OPERATING BUDGET

The proposed budget totals \$854.5 million and is comprised of two components: the operating budget of \$697.3 million and the capital budget of \$157.2 million. While the operating budget is further divided into individual funds, the capital budget is appropriated on a project basis. The chart below shows the breakdown of the operating budget by fund. The total operating budget has increased by approximately 1.7% over the FY13 budget of \$685.6 million. This is due primarily to increased pension and fuel expenses.

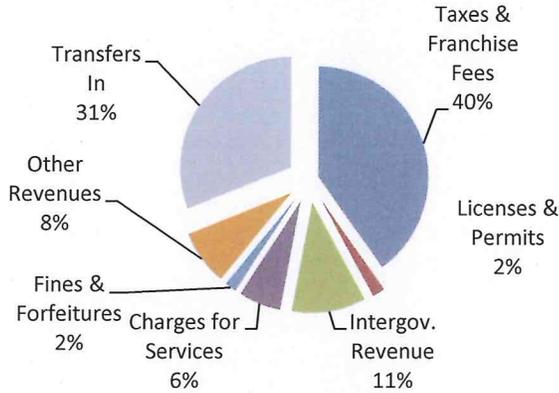
General & Special Revenue	FY13	FY14	Enterprise Funds	FY13	FY14
General Fund	\$138,883,978	\$142,511,409	Electric	\$284,168,903	\$299,922,752
Star Metro	16,585,267	18,174,286	Gas	33,187,702	26,036,382
Fire	33,678,935	35,185,377	Water	30,140,032	31,171,967
Building Inspection	3,186,236	3,258,084	Sewer	60,881,599	63,782,438
Stormwater	17,023,537	17,510,588	Solid Waste	23,933,945	24,398,364
Cemetery	466,981	479,802	Aviation	11,260,257	11,100,798

NOTE: DOES NOT INCLUDE ALL FUNDS

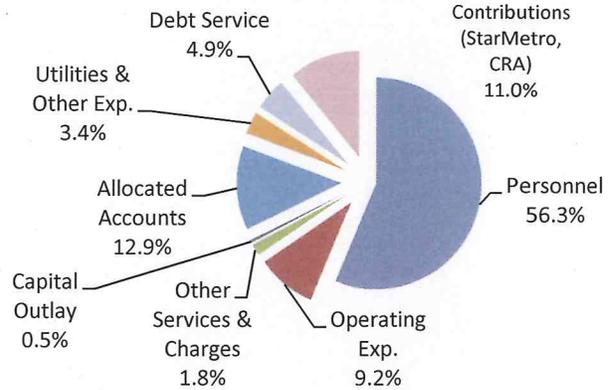
The general fund, (which includes services such as police, parks and recreation, animal shelter, right of way maintenance) represents 20% of the total appropriated budget. Electric utility funding comprises approximately 43% of the total budget. Although this is a significant portion of the total budget, \$131 million or 43.7% of the electric fund is for fuel (including purchased power). When combined with the fuel cost for the gas utility, fuel costs comprise 17.4% of the total budget. Approximately 63% of the budget is for all of the utilities (Electric, Water, Sewer, Gas, and Stormwater).

The proposed budget for general fund totals \$142,511,409 representing an increase of approximately \$4.2 million, or 3% from the FY13 general fund budget. A breakdown of general fund revenue and expenditures is shown in the charts that follow. On the revenue side, all taxes, including ad valorem, communication services and utility taxes make up 40% of revenue. Ad valorem taxes contribute approximately 24% of revenue necessary to operate the general government with transfers from the utilities contributing a slightly greater share at approximately 26%. As indicated in the charts, personnel services account for well over one half of all expenditures.

General Fund Sources 2014



General Fund Uses 2014



KEY ASSUMPTIONS & BALANCING STRATEGIES FOR FY14

Over the last few months, staff has been working on ways to address the projected shortfall for 2014. The items below detail the balancing strategies.

Property Tax Rate

The proposed budget does recommend a partial recapture of the adjusted rolled-back rate. The adjusted rolled-back rate will allow the City to recoup ad valorem revenue due to decrease in property taxes during the recession. The proposed budget recommends a millage rate of 3.9999, which is less than the adjusted rolled-back rate of 4.3 mills that could be approved by a simple majority vote of the City Commission. Preliminary estimates provided by the Leon County Property Appraiser's Office on June 1, 2013, indicate relatively flat growth. Based on this the proposed millage rate will generate approximately \$34.1 million in FY14 representing an increase of 7.6% over fiscal year 2013.

The tax roll for fiscal year 2014 will be finalized this month and we will be receiving the certified taxable value report by July 1, 2013. This is the official estimate that must be used for adoption of the tentative maximum millage rate at the City Commission meeting on July 10, 2013.

Use of One-Time Revenue

The proposed budget recommends using approximately \$4 million of one-time revenue equal to 2.8% of the general fund operating budget. These funds were identified from capital projects and reserves. This practice has been acceptable, though not ideal, due to the recession and continues to be prudent for the short term due to the slow recovery. However, we must address the use of one-time revenue early in fiscal year 2014 in preparation for fiscal year 2015.

Deficiencies Fund Restoration

In 2004 the City Commission modified policies related to the targeted balance for the deficiencies fund. The deficiencies fund was established to provide a reserve for unforeseen expenditures and

emergencies for general government departments. This fund also provides for transfers to support operating deficits for the general government, StarMetro, golf course and fire services funds.

The current policy calls for a minimum reserve level of two months general government operating expenses. This policy is in line with best practices for municipal governments. Based on the policy, the current balance for the deficiencies fund should be equal to \$23,615,163 in FY14. At its lowest level, at year end FY09, the balance in this reserve was \$5,166,989. This low balance was not viewed favorably by the City's credit rating agencies.

During the FY10 budget process, staff, with much involvement with the financial viability of the government target issue committee, presented a plan to restore the fund balance. The plan identified policy parameters and provided for utilizing year end surpluses, one time revenues and increases in various revenue sources above an established amount to replenish the deficiencies fund. The City Commission adopted this plan and indicated that it would like to have the deficiencies fund restored to policy level within a 5-7 year time frame.

In 2010, staff presented a projected schedule for restoration of the deficiencies fund that would result in the following year end balances.

	FY10	FY11	FY12	FY13	FY14
Ending Balance	10,863,838	11,785,027	12,978,960	15,414,884	17,747,640

Since then, the City Commission has approved various actions including the transfer of year-end surpluses, the transfer of 2004 bond series interest earnings, and programmed loan repayments from the building inspection fund to build up the reserve level. In 2011 as part of another routine review of the city's bonds and financial position, the credit rating agencies removed the city's negative outlook and placed the city on a stable outlook. One of the primary reasons for this change was the city's efforts to restore the deficiencies fund.

The current balance of \$21,083,188 is above staff's original projections for FY14. However, as part of the FY13 budget, at the direction of the City Commission, \$2,015,865 is programmed from the deficiencies to balance the FY13 budget if needed. Based on these actions the balance in the deficiencies fund at year end will be \$19,067,323, which is still above FY14 projections.

Review of Reserve Funds

Every year as part of the budget process staff reviews existing reserves to determine if available balances are within policy levels. Historically any excess funds in reserve funds have been programmed for budgetary purposes.

As part of the FY13 budget an excess in the Special Insurance Reserve Fund was identified of \$3.7 million with \$2 million of that identified for the current fiscal year and \$1.7 million identified for FY14. The Special Insurance Reserve Fund is established and funded to meet unanticipated losses from catastrophic events, higher than anticipated claims experienced in a given fiscal year, or to meet other claims/resource needs in excess of the Risk Management Fund. The policy requires that 150% of the five year average of claims be kept in reserves. As of September 30, 2012 the fund had \$8,542,937. With the transfer of \$2 million for FY13, the balance is \$6,542,937. With the pay out of a couple of large settlements, the average of claims jumped causing the reserve requirement per

policy to increase significantly to \$6,476,623 from the prior year reserve requirement of \$4,694,178 eliminating the availability of the full \$1.7 million for FY14. Based on calculations, we have programmed \$417,000 from the reserve which keeps the fund at policy levels. We are asking City Commission to allow the use of an additional \$600,000 for FY14.

Modification to Electric Fund Transfer Policy

The second largest general fund revenue source is the electric general fund transfer. The formula was modified last year to a flat amount of \$23,900,000 that will increase annually by the Consumer Price Index. Currently, the CPI-U for August to August is projected to be at 1.5% making the routine transfer amount \$24,258,500.

As we move into recovery from the recession we anticipate increases in revenue sources but this will occur over the next few fiscal years. The proposed budget recommends a three year time limited contribution of \$2 million above the current methodology. The funds will come from the electric operating reserves and will only be used if needed to balance the year-end budget. The following table shows the impact of making this change and the projected additional revenues that will be transferred to the general fund each year. This is an 8% increase and takes the electric transfer from 17% to 18.4% of general fund revenue.

	FY13	FY14	FY15	FY16	FY17	FY18
Transfer Rates without adjustment	23,900,000	24,258,500	24,840,704	25,436,881	26,047,366	26,672,503
New Transfer Rates		26,258,500	26,840,704	27,436,881	26,047,366	26,672,503
Difference		2,000,000	2,000,000	2,000,000	0	0

Use of Capital Improvement Fund Balance

The City’s capital improvement fund is one of the funding sources for general government capital projects. As general government projects are completed, any remaining funds are returned to the capital improvement fund for future use. Current policies call for a 3% contingency reserve to be held in the fund to address unanticipated needs. As of March 31, 2013 the capital improvement fund had a balance of slightly more than \$3 million, with a current reserve requirement of \$2.98 million. Staff is recommending that for FY14 we allow for \$1.9 million to be utilized to fund essential general government capital projects. This leaves \$1,034,874 or 1% in the capital improvement fund as a reserve for unanticipated needs.

Personnel Services

Personnel services make up 25.9% of the total city budget and 56.3% of the general fund budget. Salaries for general employees assume a 2.5% merit salary enhancement in FY14. Police are currently in contract negotiations but 2.5% has been planned in the proposed budget. Fire salary adjustments average 3%. Pension rates are 13.4% for general employees (up from 10.09%), 19.22% for police union employees, and 20.11% for fire union employees. However, a new actuarial study is in process and we will provide the City Commission with any adjustments as soon as they are received. The matched annuity pension plan rate, also based on actuarial rates, is 7.15%. Although we do not have official rates from Capital Health Plan, the City’s portion of the cost of employee health insurance is estimated to increase by approximately 5%. As of the current fiscal budget, health care costs for vacant positions are now budgeted at the individual plus one coverage level

instead of the previous method of family coverage. This has reduced the amount required and brings the budget for health care in line with historical expenditure patterns.

As part of revisions to the FY14 budget assumptions the vacancy factor was been modified to reflect actual historical vacancy factors within individual departments. Vacancy factors ranging from 1.5% to 5% have been factored in the proposed budget. The vacancy factor is to account for routine employee turnover and include savings for salaries and benefits.

Positions in the general fund which are vacant going into the new fiscal year will be budgeted at the minimum hire rate. Historically, vacant positions have been budgeted at max hire rate. Departments will have to identify permanent savings within their budgets to bring employees on above the minimum hire rate. This action is being proposed in lieu of a hiring freeze or eliminating positions.

Position Changes

The proposed FY14 budget includes funding for 2,828.58 FTEs. This represents a net increase of 28.00 positions from the total number of positions in the approved fiscal year 2013 budget. A total of 11 positions have been added to StarMetro in order to assist in maintaining current service level increases and reducing temporary wage and overtime expenses. The budget also includes the addition of six new positions in Police and five positions in Public Works. The following table provides a listing of proposed position additions and deletions.

DEPARTMENT	POSITION	FTE
Management & Administration	Business System Analyst	2.00
Police	Police Officer	5.00
	Sergeant	1.00
Underground Utilities	Program Engineer*	-2.00
	Manager-Stormwater Management Unit	1.00
Fleet	Mechanic	1.00
Growth Management	Permit Technician	1.00
Public Works	Senior Public Works Service Worker	1.00
	Equipment Operator II	2.00
	Engineer Technician II	2.00
Environmental Policy & Energy Resources	Environmental Engineer	1.00
Parks, Recreation & Neighborhood Affairs	Veterinarian	1.00
	Veterinarian Technician	1.00
StarMetro	Coach Operator	7.00
	Special Transportation Coach Operator	3.00
	Mechanic	1.00
Net Change		28.00

*Mid-year.

**The two full-time Business System Analyst positions were transferred from the Joint Dispatch Center. These positions were originally transferred from ISS to the Joint Dispatch Center for the FY13 approved budget; however, it was decided that the positions would remain housed in ISS instead of the Joint Dispatch Center. The Joint Dispatch Center is not included in the FTE count for the City; therefore, these positions are considered additions instead of transfers.

State Revenue Sharing

The State of Florida has not released new estimates for 2013 and it is anticipated that these will be released in late June and the FY14 budgeted amount will be updated with the most recent numbers prior to final adoption of the budget in September 2013. The proposed budget anticipates an increase in both the municipal revenue sharing and ½ cent sales tax amounts by 4% over FY13

estimates. A total of \$4.9 million is anticipated in State Revenue Sharing and \$9.4 million in ½ Cent Sales tax revenues in FY14.

Transfer to StarMetro

The general fund transfer requirement for StarMetro in FY14 is estimated at \$10,136,489, representing an increase of \$1,598,559 from the FY13 transfer. The transfer amount has been adjusted for additional personnel and fuel increases anticipated in FY14.

Funding for General Government Projects

As funding continues to be constrained, the FY14 budget process has been able to allocate \$1.9 million for general government projects over the next two years. This funding will come from the general government capital improvement fund (GGCIF) and utilized for needed maintenance projects for existing facilities and sidewalks. Funding in the two fiscal years also includes \$100,000 to support the water and system charge and tap fee waiver program offered through the Economic and Community Development department for the city’s affordable housing activities.

A listing of projects that are recommended for funding is included in the capital budget section of the document.

Debt Service

General government debt service proposed in the fiscal year 2014 proposed budget has decreased by approximately \$1.9 million in FY14 and \$1.4 million each year thereafter. The difference is attributable to the defeasance the 2004 capital bonds last year and changes in both the timing of a future bond issuance and the level of funding needed for projects.

Debt in the fire fund has not changed from the prior year. The proposed issuance of debt is planned for Weems Road fire station, fire’s portion of the public safety complex, purchase of a records management system and replacement of breathing apparatus for firefighters, construction of proposed stations located in the Lake Bradford Road, Station 8, Hartsfield Road, Southwood and Welaunee areas.

Electric, gas, and sewer fund debt service expenses have not changed from FY13. Water fund debt service has decreased by \$1.2 in FY14 due to defeasance of capital bonds.

Transfers from the Utilities

With the exception of staff’s recommendation to modify the general fund transfer from the electric utility, all other general fund transfers from the utilities have been calculated using the existing approved methodologies. The following table provides a summary of the transfers from each utility.

<i>Transfer</i>	<i>FY2012</i>	<i>FY2013</i>	<i>FY2014</i>
Electric	23,844,683	23,900,000	26,258,500
Gas	2,512,094	2,524,732	2,537,356
Water	2,999,663	3,148,743	3,238,663
Sewer	3,667,474	4,075,232	4,320,612
Solid Waste	1,413,471	1,594,428	1,610,924
TOTAL	34,437,385	35,243,135	37,966,055

PROPOSED INCREASED AND REDUCED SERVICE LEVELS

Within our limited financial resources we have been able to identify funding for various increased service levels in the organization. The following provides a summary of those recommendations that are presented for City Commission consideration and approval.

Animal Shelter-Addition of Two full-time positions

Staff recommends adding a veterinarian and veterinarian technician at the shelter in order to increase the number of adopted animals that are spayed and/or neutered. This is consistent with a request from the Animal Shelter Advisory Board. In order to reach ASPCA partnership goals and achieve a substantial increase in our community's live release rate, additional resources are necessary. The Board and partnership members believe that maintaining staffing levels in these specific areas is necessary to directly increase the number of animals that can be saved and ensure that adopted animals are not contributing to the pet overpopulation problem. Total Impact: \$206,042.

Changes in Grant Funding

The FY14 proposed budget includes new grant funding for the Commission on the Status of Women and Girls in the amount of \$20,000. Grant funding in the amount of \$33,950 is proposed for transfer into Parks, Recreation and Neighborhood Affairs' budget to assist in increasing the number of spay/neuters performed in the community. Total Impact: (\$53,950).

StarMetro Increased Service

A total of eleven positions are being added in StarMetro to continue implementation of the decentralization plan in an amount of \$600,000. Ten coach operators and one mechanic have been identified as necessary to improve service levels. StarMetro also had a fuel adjustment in the amount of \$467,000. Additional funding is being recommended for the maintenance of bus shelters and benches as well as operating costs for a trolley service.

Building Inspection Permit Technician

One full-time Permit Technician position has been added to Building Inspection to keep up with increased demand. Total impact: \$48,707. This position is funded through Building Inspection revenues.

Addition of Mechanic (Fleet)

One full-time Mechanic position is recommended in the Fleet division. The additional position will be utilized to enhance the Fleet Bio-Diesel and Less Idle Time (LIT) programs. Fleet Biodiesel has not prospered as planned as a result of the shortage of manpower. Throughout the research, development and implementations of both programs, existing staff have been utilized on a rotational basis for the normal functions of maintaining production as the staffing would allow. The LIT program started out with the installation of specialized battery packs and a/c compressors allowing TPD units to remain climate controlled within the unit without the use of engine idling and has grown to include several other units within the City fleet. The addition of the one (1.00) mechanic

will allow many City Fleet units to be incorporated into the program as well as up the Bio-Diesel production to a profitable outcome. Total Impact: \$59,864.

Reinstate Stormwater Manager Position

In 2008, this position was moved to the Water Utility which directs all of water resources engineering including water, wastewater, the water quality lab division, water production and in addition supervises the stormwater program. It is proposed to move this position back to Stormwater due to the increasing complexity of federal and state storm water regulations.

Police

The FY14 proposed budget includes the addition of five police officers and one sergeant. The workload for patrol officers continues to increase as the number of calls-for-service and the average response time to priority calls increase. The additional six full time positions will assist in reducing response times to achieve the department's goal of 5.0 minutes for priority one calls and 9.0 minutes for priority two calls. Current response time is 6.8 minutes for priority one calls and 10.4 minutes for priority 2 calls. Fiscal Impact: \$810,308 (the first year cost includes one-time costs of \$325,000).

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. Over the last few years and as the impacts of the economic downturn impacted the fund significantly, a number of changes were implemented including transferring positions out to other areas and implementing a fee increase. Activity has picked up and it is anticipated that the fund will end FY13 with a surplus. For the first 6 months of FY13, the average number of permits for 1&2 family homes issued per month is just over 36. The average number of permits for new commercial buildings decreased when comparing the first two quarters for FY12 and FY13 from 29 to 20. However, there is an increase of fees collected by 150%, from \$156,238.46 to \$391,370.38. Overall, while Building Inspection permits for the first two quarters of FY13 are down 15% in comparison to the first two quarters of FY12, from 1278 to 1077, there is an increase in revenues collected due to high value construction projects. The fund is projecting a surplus of \$678,618 for FY13 and continues to show a surplus in the five year forecast. The majority of the surplus will be used to repay the Deficiencies Fund.

- The Building Inspection Fund projected revenues exceed projected expenses in all five years.
- Repayments to the Deficiencies Fund are anticipated in all five years.

Fire Services

On March 12, 2013 the Leon Board of County Commissioners voted to exercise their option to terminate the existing Fire and Emergency Medical Services Inter-local Agreement with the City of

Tallahassee. At the same time the County Commission authorized their staff to proceed with a renegotiation with the City of Tallahassee regarding the provision of Fire Services to the unincorporated area and emergency life support services in the City limits. Currently the City and County are in negotiations with the goal of reaching mutually agreeable terms for providing services.

In previous discussions and negotiations it was determined that a new Fire Fee Rate Study should be completed by FY14 in order to ensure continued financial sustainability for the Fire Fund. The results of negotiations with the County will have a significant impact on funding sources and needs within in the five year planning period, particularly the need for additional stations or expanded services as well as future fire apparatus replacement needs. Although no firm conclusions have been reached, the County has requested that we extend the rate study period for another year. Staff will study this request and bring back a recommendation to the commission as to whether or not this is financially prudent.

- The Fire Prevention Division is statutorily mandated to enforce the Florida Fire Prevention Code as adopted by the State Fire Marshal. Currently, two independent and unequal fee schedules exist for these services; one within the City of Tallahassee and one within Leon County, though the services provided are the same. Additionally, the fees for services as adopted by the City of Tallahassee Leon County have not been evaluated for cost verse collection since 2004 and 1998 respectively. The budget includes \$25,000 for a fee study to address the fees for service to be completed in conjunction with the Fire Fee Rate study to be completed this year.
- Succession Planning – The Fire Department experienced a great deal of growth during the late 1980's, with the service expansion in the unincorporated area. As a result, a number of employees were hired and are now beginning to transition into retirement. The department is expected to lose over 58% of its Captains and Chief Officers over the next five years, to include the entire command staff. Plans must be made to ensure a smooth leadership transition and the maintenance of a diverse workforce that represents the community. For this purpose, the Fire Fund budget includes a transfer of \$45,000 to the City for Human Resource services to specifically address recruitment for the Fire Department and other critical recruitments as necessary.
- Facilities - Facilities include fifteen fire stations, five training buildings, and an administrative building ranging in age from three to over sixty years old. The budget for FY14 through FY 2018 includes \$300,000 per year to address the maintenance and repair needs at these facilities to ensure a safe working environment and extend the useful life of the assets.
- Hydrants – Ongoing maintenance, as well as making necessary replacements of fire hydrants is critical to the Fire Department's mission. To this end, the budget includes almost \$850,000 for such needs in FY 2014 and each year through FY 2018.

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.

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 continues to explore new revenue opportunities including additional plot spaces at existing cemeteries, and looking at the feasibility of construction of mausoleum and columbariums at city cemeteries.

The FY14 budget for this fund is \$466,981. A transfer of \$320,039 from the Cemetery Perpetual Care Fund is required.

Stormwater

The Stormwater fund is balanced in FY 2014-2018. Total revenues for the Stormwater fund for fiscal year 2014 are budgeted to be \$17.5 million. Of this \$6.4 million will be transferred to the Stormwater capital improvement program. The stormwater rate ordinance calls for automatic annual consumer price index increases and the proposed budget includes a rate increase of 1.5%, consistent with CPI estimates.

The City Commission policy number 224.5.A requires a fund balance not exceed 3% of the collective sources of the respective capital. Currently due to a number of circumstances related to yet to be released federal requirements the stormwater fund construction fund balance exceeds the 3% policy requirements. We are recommending an exemption to this policy as part of the FY14 budget. The balance in the fund is \$20.9 million and will be programed in future years once all Total Maximum Daily Load (TMDL) requirements are known.

StarMetro

The proposed budget for StarMetro in FY14 is \$18,174,286 including a contribution from the general fund totaling \$10.1 million or 55.8% of the department's total budget. StarMetro's FY14 budget increased by \$1,598,559 or 9.6% from the 2013 approved budget. These changes were made to provide current service levels for FY14 and to assist in decreasing temporary wages along with overtime wages.

ENTERPRISE FUNDS

Enterprise funds include not only the utilities but also the airport operations, solid waste collection and disposal, and Hilaman Golf Course. Enterprise funds are expected to recover all costs, both direct and indirect, from charges for the service provided.

Utility funds use a rate analysis to determine revenue requirements for specified periods of time. A rate study for the electric utility is anticipated to be completed in the fall. Water, Sewer, and Solid Waste assume a CPI adjustment of 1.5% to base rates as included in the rate ordinances previously approved by the City Commission.

Electric Fund

The electric fund is balanced for fiscal years 2014 through 2018. Operating expenditures of \$299.9 million budgeted in fiscal year 2014 reflect an increase of \$15.7 million or 5.5% over those budgeted in 2013, primarily due to the cost of fuel. Fuel expense of \$ 119.6 million was budgeted in FY13; it has increased to \$131.1 million in FY14.

A base rate increase of 5.5% became effective April 1, 2013, which was offset by a decrease in fuel-related electric charges.

A change in the methodology to determine the electric fund's transfer to the general fund resulted in an increase of approximately \$2 million in fiscal year 2014, as discussed earlier.

Gas Fund

The Gas fund is balanced for fiscal years 2014 through 2018.

- Revenue is expected to experience a slight increase from historical average in FY2014.
- Customer growth is estimated at 2%.

The 2014 fiscal year budget reflects operating expenditures (excluding any excess transfers to RR&I) in the amount of \$26.0 million, representing a decrease of approximately \$7.2 million from the 2013 approved budget. This is primarily due to a decrease in cost of natural gas purchased.

- The fiscal year 2014 fuel forecast is budgeted at \$10.4 million versus the fiscal year 2013 fuel forecast of \$14.0 million.

Water Fund

The Water fund is balanced for fiscal years 2014 through 2018. 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 2014 are budgeted to be \$31.2 million versus the fiscal year 2013 budget of \$30.1 million. The increase is due mainly to the base rate Consumer Price Index (CPI) adjustment of 1.5%.
- From FY07 to FY13, average consumption has decreased by 12%.

The 2014 fiscal year budget reflects operating expenditures (excluding any excess transfers to RR&I) in the amount of \$29.9 million, representing a small increase (\$800,000) from the fiscal year 2013 approved budget. The increase is attributable to a higher transfer to the Renewal and Replacement fund.

- The transfer to the Renewal, Replacement and Investment fund is \$3,807,000 for FY14 compared to \$3,110,972 for FY13.

Sewer Fund

The Sewer fund is balanced for fiscal years 2014 through 2018. 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 2014 are budgeted to be \$63.8 million versus the fiscal year 2013 budget of \$60.8 million.
- Budgeted revenues for FY14 were based on the rate study completed over six years ago which over-estimated customer growth. No customer growth is currently projected.
- An annual Consumer Price Index (CPI) adjustment of 1.5% is scheduled to take effect on October 1, 2013.

The 2014 fiscal year budget reflects expenditures in the amount of \$63.8 million, representing an increase of \$3 million from the 2013 approved budget. This is due to an increase in transfers to the renewal, replacement and investment fund (RR&I) that funds capital projects.

- Renewal, Replacement and Investment transfers are increased in FY14 by \$1.6 million.
- Pension costs and costs associated with temporary employees are increased by \$700 thousand in the FY14 budget.

Aviation Fund

The Aviation Fund is balanced for fiscal years 2014 through 2018. Revenues are continuing to recover after years of a declining passenger base due to the global economy and other factors affecting our region. The airport is experiencing increased traffic and service provided by the carriers as well as increased revenue from business development opportunities.

- The Aviation Department is experiencing a market share recovery with improved growth at Tallahassee Regional Airport with a 3% growth in TLH's fiscal year 2012 activity as opposed to a 0.6% increase nationally. This upward trend is projected to continue in FY14.
- Increased passenger activity also causes increases in concessions, parking lot revenue and rental car activities.
- Over \$160,000 of expenses have been eliminated in the FY14 budget, mainly in debt service, in order to reduce overhead charges to airlines and ultimately passengers.

Solid Waste Fund

The Solid Waste fund is balanced for FY14. Revenues are projected to increase slightly in fiscal year 2014. Revenue projections for fiscal years 2014 through 2018 assume little customer growth and include only modest increases.

- The current contract with Waste Pro will end October 1, 2018.
- A transfer to the general fund of \$1,610,924 is budgeted for FY14.
- The current residential garbage fee is \$16.09/ month.
- The City is in current negotiations with the County to reduce disposal fees at the Leon County Transfer Station.

- An annual Consumer Price Index (CPI) adjustment of 1.5% is scheduled to take effect on October 1, 2013.

Golf Course Fund

The proposed budget recommends no subsidies for Hilaman Golf Course in fiscal years 2014 through 2018. Changes implemented since 2009, including reductions in the number of full-time positions, utilization of contractual employees for many maintenance functions, and improvements to facilities at the course have resulted in efficiencies in operations and increased customer usage. Financially, these changes have resulted in revenues that exceed expenditures, thereby providing for surpluses at the end of each fiscal year. The surplus for fiscal year 2014, which will be transferred to the Golf Course RRI fund, is projected to be approximately \$59,000.

FUTURE BUDGET ISSUES

Although not addressed in the FY14 budget, there are other significant issues that must be addressed in development of future year budgets. The following are areas of concern.

- Although we have identified funding to address general government capital projects for the next fiscal year, there is very limited funding after 2014. Within our limited financial resources for capital projects, we are concerned about our ability to adequately maintain what we already have –in terms of both routine maintenance and renovations as required. Additionally we also have concerns about being able to adequately staff maintenance crews at some of our high use facilities so that these are properly maintained. The cost of not providing routine maintenance outweighs the solid practice of keeping facilities in good operating order.
- During the last few legislative sessions, bills have been filed that would limit local government's ability to continue generating or limiting revenues for a number of general fund revenue sources, including ad valorem taxes, occupational license tax, red light cameras, etc. We believe that these bills will continue to be an issue for upcoming legislative sessions.
- The use of one-time revenue for ongoing expenses is necessary and fiscally prudent to assist with the slow recovery from the recession. However, we cannot continue to rely on this source of funding and in order to address this will require other permanent revenue enhancements or expenditure reductions during FY2014.

These are not new challenges and it seems that every year we are confronted with the same types of issues. As we have done in past years we will continue to adjust to the new realities and we will continue to make the difficult decisions necessary to continue to deliver quality services to the community.

FY14 CAPITAL BUDGET & FY14 – FY18 CAPITAL IMPROVEMENT PLAN

The capital budget proposed for fiscal year 2014 totals \$157.2 million and the five-year capital improvement plan (CIP) totals \$769.2 million, which is an increase of \$35.2 million over the FY13-

approved CIP. The FY14 capital budget funds projects in all program areas in various geographic areas of the city. FY14 general government funding for capital projects, which primarily supports maintenance of existing facilities, totals \$13.9 million. Funding proposed in FY14 includes the purchase of trolleys, compressed natural gas buses, and benches and shelters. Overall, the five-year capital improvement plan reflects the City Commission's priorities in the areas of transportation, utility master plans, community reinvestment, parks, recreation, transportation, and public safety.

Given the significance of our investment in the city's capital assets, and the fact that identified capital needs exceed resources, we continue to seek opportunities to augment financing that enables us to maintain and improve these assets. Revenue projections from the sales tax extension fund have been increased to reflect actual collections. This was coordinated with Leon County's budget staff. Revenue from this source supports projects in the Public Works department and reduces general government bonds that otherwise would be needed to complete many projects. Projections of gas tax revenues, primarily used by Public Works for sidewalks and street resurfacing activities, also have been reassessed. Although modestly increased, gas tax revenue available for projects begins to decline in fiscal year 2015. This is attributable to the cost of debt service for sidewalks associated with the \$16 million bond-funded Nova2010 initiative; gas tax revenues were designated to absorb those costs.

As discussed in the debt service section above, staff of the Public Works, Treasurer-Clerk, and DMA departments reviewed open projects funded from the 2004 capital bond issue. The goal was to identify active projects and those delayed by various circumstances, so as to remove the balance remaining in the 2004 bond fund. This was accomplished by supplanting future general government bond funding in projects whose activities have been completed with proceeds from 2004 bonds. In addition, funding remaining in several open sidewalk projects (also funded from future general government bonds) was shifted to proceeds of the 2004 bond issue. These actions reined in the 2004 bond issue balance, allowing the city to avoid potential arbitrage issues, and reduced the level of future bonds needed to support current projects.

The reduction of future debt service needed for current projects increases the financial capacity to support new projects or to fund additional needs for ongoing projects such as FAMU Way. Funding needs for this project have increased from \$7.5 million in fiscal year 2013 to \$23.5 million this year. An expanded discussion of this project, and other Public Works capital needs not included in the FY14 proposed budget, will be scheduled for a post-budget City Commission workshop.

Other capital improvement projects, including those for construction of new facilities or new and expanded infrastructure, may result in additional operating costs or savings in future years. For example, while new fire stations in the CIP will result in additional costs for staffing and operations, repaving a street, or bringing it to full city standards, may result in reduced need for maintenance. Those costs or savings are not included in the capital budget estimates, but are incorporated in the operating budget, beginning in the year facilities are expected to become operational.

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.

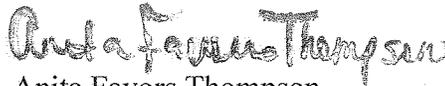
The Capital Budget Appropriation and Financial Summaries sections of the budget provide funding for all five years of the CIP by source (bonds, RRI, state funds, etc.) and department. The section also identifies individual project titles and descriptions by service area as well as projects that are not funded.

CONCLUSION

We have come through one of the worst recessions in history and we did so while keeping the millage rate flat, investing in the community and providing a great level of service. This was only possible by identifying efficiencies, reductions and employees doing more with less throughout the entire government. Now as the economy recovers, we are in a position to continue to build upon our successes and influence our destiny. Although our financial condition is strong, we will need to immediately address the use of one-time revenue at the start of the fiscal year as well as closely monitor our budgets for the next couple of years. Over the next few months we will fine-tune our assumptions and projections, incorporate City Commission input from the budget workshops and provide a final budget for consideration in September.

I look forward to discussing the proposed budget and your feedback and guidance at our upcoming operating and capital workshop scheduled for June 19, 2013. 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 Favours Thompson
City Manager