



October 1, 2014

Dear Citizens,

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 2015 operating budget of \$697.3 million and the capital budget of \$116.3 million, for a total budget of \$813.6 million. Throughout the entire budget process, we were determined to meet the high expectations you have set for your local government by delivering the best possible services and remaining fiscally responsible. I am confident this year's budget reflects that commitment.

For the fifth year in a row, the City's millage rate remains at 3.7 – the lowest to comparable cities in the state. Due to a continued focus on operational efficiencies, identifying emerging technologies to improve service delivery, and our reliance on an exceptional workforce, Tallahassee continues to define what it means to “do more with less”. However, while reducing costs is a clear priority, improving the quality of life in our community remains paramount. As such, the FY 2015 budget funds a number of items that will add significant value to our community, including six new police officers for the Community Oriented Policing and Problem Solving Squad (COPPS), and a StarMetro pilot program designed to provide transportation options to Veterans at no cost.

I am proud that the City of Tallahassee is lauded as one of the most livable cities in the nation, due in large part to our commitment to customer service and quality of life enhancements. For example, while other cities have struggled during the recession, Tallahassee has continued to build and invest and now we are seeing the results of those decisions. New amenities, such as Capital Cascades Park and Gaines Street as well as the ongoing construction of FAMU Way have dramatically improved the landscape of Tallahassee. Additionally, the development of innovative programs and technological conveniences for our citizens, including Neighborhood REACH and DigiTally have further solidified Tallahassee as a Smart City. Projects such as these are the direct result of wise long-term financial investment and planning as well as a commitment to provide the types of services that our citizens expect and deserve.

As in years past, citizen input is a key component of the budget preparation process. This year, two workshops and an online survey were conducted to provide our residents 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 your priorities and align our financial resources according to community needs.

Furthermore, 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.

As I reflect upon the last 11 years, I am extremely grateful to have been your Mayor and represent your voice in the budgetary process. While not without its challenges, the opportunity to join you in shaping our community into what it is today has truly been an honor. Thanks to our collective vision and the work we started over a decade ago, we have made Tallahassee into one of the best cities in America.

Sincerely,

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

John R. Marks III
Mayor

June 19, 2014

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 2015. As the City Commission is aware, we as a government organization are emerging from the effects of the recession slower than we anticipated and slower than the private sector. Although we are seeing some hopeful indicators in our revenues, the budget being presented for your consideration is a current service level budget that maintains services while requiring additional revenues from various sources to provide for a balanced budget.

Over the last few years we have been successful at providing balanced budgets and maintaining service levels while still making necessary changes to the way we operate and manage the organization. We have also tapped into one-time revenue sources to balance the budget. If we are to be successful in the future in maintaining and expanding current service levels we will need to start addressing the general fund revenue structure. This budget begins this process with some of the revenue recommendations that are proposed.

The proposed operating budget totals \$681.1 million, representing a decrease of \$8.1 million, primarily \$3.8 million in fuel and \$3.7 million in operating expenses, or 1.2% decrease from the fiscal year 2014 budget. Of the total operating budget, \$141.7 million is for the general fund and \$539.4 million is related to the enterprise funds (electric, aviation, fire, etc.). The capital budget totals \$103.5 million, representing a decrease of \$59.4 million or a 57.4% decrease from the fiscal year 2014 budget.

From FY 2007, the start of the recession, to the proposed FY 2015 budget the general fund expenditures have grown by only 0.6% a year, on average. In comparison, inflation has grown by 2.1% a year, on average. This minimal growth in general fund expenditures was possible because the City Commission has made a number of difficult decisions in the past to address the financial constraints and maximize the benefit of our available resources which included:

- *Elimination of more than 150 positions since FY07.*
- *Reorganization of programs and service delivery.*
- *Implementation of employee furloughs.*
- *Providing early separation incentives for employees.*

KEY ASSUMPTIONS

*NO INCREASE IN THE
MILLAGE RATE FOR THE 5TH
YEAR - 3.7 MILLS*

*SALARY ENHANCEMENTS
FOR NON-UNION
EMPLOYEES OF 2.5%*

*ADDRESS MINIMAL CAPITAL
FUNDING NEEDS FOR
GENERAL GOVERNMENT
CAPITAL PROJECTS*

*INCREASED TRANSFER
FROM UTILITIES*

*ADDITIONAL FUNDING FOR
STARMETRO*

- *Reduction/elimination of pay increases for employees during recession.*
- *Increasing the employee contribution for health insurance premiums.*
- *Changes in the pension plan to reduce or minimize future health insurance costs for retirees.*

Though we have consistently asked our employees to do more with less, they not only accepted the challenge but they continue to exceed expectations. Our outstanding service delivery, which is always a top priority, is reflected in the continuing number of awards and accolades received by the City including the "Silver Walk Friendly Community Designation" from the Pedestrian Bicycle Information Center (PBIC), the 2014 National Planning Excellence Award for a Planning Agency from the American Planning Association (APA), the Thomas P. Smith Water Reclamation Facility received the 2014 Earle B. Phelps Award for Best Operated and Maintained Plant in Florida in the Advanced Wastewater Treatment Category, the best Public Works Director in the Country by American City and County, by underground utilities for receiving the Distinguished People's Choice Award and completion of the Governor's Sterling Challenge, and the Award of Excellence from the Urban Land North Florida Institute (ULI) for the rebuilding of Gaines Street. These would not be possible without the leadership and support of the City Commission.

Thanks to those and many other efforts and to the leadership of the City Commission, our residents, businesses and visitors benefit every day. Just a few of the great accomplishments from past year's funding include electric busses, which provide for a cleaner environment and cheaper operating costs, investment of \$1.7 million in new sidewalks making it safer for all pedestrians and children to get to and from school, the StarMetro Rhythm Route to connect entertainment destinations and businesses, and the new jewel of the City, Cascades Park. Not enough can be said about this premiere attraction. The 2.3 miles of paved pathways beg to be strolled or jogged. Interpretive signage and historical markers designate the location's importance to our city's heritage. And there is no doubt from the near-constant laughter that children relish Imagination Fountain.

The ongoing investments in our community have attracted new nationally-recognized businesses to open including Whole Foods, Trader Joe's, Bass Pro Shops, BJ's Restaurant and Dick's Sporting Goods. We continue to see new development around the city, including Gaines Street and

City Commission
Target Issue Committees

Long Range Planning

- Enhance the beauty and walkability of the community
- Improvement on major city corridors
- Way finding system
- Incentives to ride bikes

Quality of Life and Innovation

- Take advantage of new technology
- Build on the Cultural Plan to meet citizen expectations
- Address critical issues in target neighborhoods
- Addressing homelessness
- Enhance the position of women in the workplace and the community

Financial Viability

- Identify a sales tax package that enables the community to meet the needs of the community
- Investigate and implement ways to enhance customer service and convenience for citizens

Economic Development

- Build on the success of Cascades Park as a lynchpin to create contemporary and unique development/ redevelopment spaces
- Focus on strategies that incentivize home grown business development
- Take advantage of the technology now available to deliver services more efficiently and effectively.

Madison Street development, which enhances quality of life and serves as a critical economic development driver. As was mentioned last year, the proof is in our increasing population and in the local unemployment rate of 5.0%, down from 5.8% this time last year, and continues to be less than the state at 6.2%.

Ad Valorem is the top revenue for the general fund and its importance cannot be over emphasized. Property values, (which were hit the hardest during the recession and were already declining in

Florida due to tax reform, the doubling of the homestead exemption and changes to the rolled-back rate methodology), are now starting to slowly recover in our area. However, due to Save Our Homes in Florida, the taxable value growth is capped at the Consumer Price Index (CPI) or 3%, whichever is less. In recent years CPI is running well below 3% and for the FY15 budget, it will be 1.5%. This makes for a very slow recovery which is why this budget includes recommendations for adjusting other revenue sources.

The Community Budget Workshops and the online survey continue to reflect residents' preference of keeping services at the same levels with many wanting higher levels for certain services. This budget meets those preferences by being a continuation budget which maintains existing service levels.

As mentioned previously, reductions have been made over the last several years which included reductions in staffing and funding levels for departments. If the direction is to further reduce expenditures in FY 2015 for the general fund it will require the elimination of more positions, both general employee positions and public safety positions. This will impact service response levels and likely to eliminate some programs entirely.

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

Additionally, the proposed budget being presented for your consideration, recommends a modification to the transfer from the electric, solid waste, water and gas utilities to offset the past use of one-time revenue. Rate

studies will be conducted in 2015 to include the modification to the transfer policies. It is estimated that the results of a rate study will show an increase to average customers around \$2.50 a month. In comparison, an increase to Ad Valorem on the same scale would impact the average homeowner by almost \$7.50 a month.

**Want More and Keep the Same from
Community Budget Meetings**

Want More

Funding to attract businesses & jobs (58%)
Financial support of special events (18%)
Financial support of arts & culture (46%)
Pedestrian & bicycle safety (66%)
Passive parks (32%)
StarMetro (41%)

Keep the Same

Funding to attract businesses & jobs (32%)
Financial support of special events (52%)
Financial support of arts & cultural (40%)
Pedestrian & bicycle safety (28%)
Passive parks (58%)
StarMetro (25%)

**Want More and Keep the Same from
Online Survey**

Want More

Funding to attract businesses & jobs (41%)
Financial support of special events (18%)
Financial support of arts & culture (41%)
Pedestrian & bicycle safety (54%)
Passive parks (39%)
StarMetro (35%)

Keep the Same

Funding to attract businesses & jobs (29%)
Financial support of special events (47%)
Financial support of arts & culture (36%)
Pedestrian & bicycle safety (33%)
Passive parks (47%)
StarMetro (27%)

FY15 BUDGET PROCESS

As the City Commission is aware, we began this year’s budget process estimating a general fund shortfall of approximately \$6.2 million primarily due to the use of \$6.0 million in one-time revenue. As we progressed through the budget process we received updated information that impacted the projected shortfall. The major impacts for FY 2015 include StarMetro and general government debt service. In an effort to reduce expenditures, Starmetro enacted a cost reduction plan for FY14. Originally, StarMetro proposed a \$1 million reduction that would offset a shortfall in their expenditures. However, due to delayed service changes, the plan was not implemented until May 2014 producing an estimated savings only a savings of \$200,000 for FY14, which will carry forward to FY15. Unfortunately, revenues are now a contributing factor to Starmetro’s shortfall both in FY14 and FY15. Since FY12, Starmetro revenues have been on average 5.9% less than budgeted. We have updated the projection for FY 15 to be consistent with current revenue patterns.

This year we again held community town hall budget meetings as part of the FY 2015 budget process, on April 1st and 2nd in various locations within the community. As with prior years, the community budget workshop meetings serve to engage the public in an enhanced understanding of the complexities of the budget process. We also offered an online survey for budget input. Participants were able to vote on whether they *Want More, Keep the Same, Want Less or Don’t Want* programs. Though the results of the survey are not statistically valid, they do represent a snapshot of our community. Overall, the results mirror last year, in that citizens overwhelming want to maintain the current level of service, and in some cases, enhance service levels. In all, 254 residents took time to provide their priorities. The results of the Community Budget Workshop were provided to the Commission at the May 28, 2014 City Commission meeting.

PROPOSED 2015 OPERATING AND CAPITAL BUDGETS

The overall proposed budget totals \$784.6 million and is comprised of two components: the operating budget of \$681.1 million and the capital budget of \$103.5 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 the major operating funds.

General & Special Revenue	FY14	FY15	Percent Change	Enterprise Funds	FY14	FY15	Percent Change
General Fund	\$138,379,101	\$141,601,611	2.3%	Electric	\$298,679,004	\$302,783,741	1.4%
Star Metro	16,968,124	17,005,057	0.2%	Gas	26,036,382	31,848,304	22.3%
Fire	33,942,932	36,854,540	8.6%	Water	31,171,967	30,257,785	-2.9%
Building Inspection	3,258,084	3,257,996	0.0%	Sewer	63,858,702	59,820,468	-6.3%
Stormwater	17,530,201	16,777,479	-4.3%	Solid Waste	24,928,443	24,835,693	-0.4%
Cemetery	456,444	459,076	0.6%	Aviation	11,100,798	10,913,831	-1.7%

NOTE: DOES NOT INCLUDE ALL FUNDS

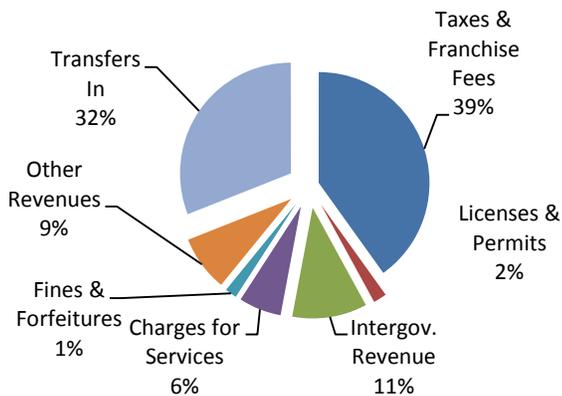
The general fund, (which includes services such as police, parks and recreation, animal shelter, right of way maintenance) represents 21% of the total appropriated budget. Electric utility funding comprises approximately 44% of the total budget. Although this is a significant portion of the total budget, \$129 million or 42.7% of the electric fund is for fuel (including purchased power). When combined with the fuel cost for the gas utility, fuel costs comprise 21.3% of the total budget. Approximately 65% of the budget is for all of the utilities (Electric, Water, Sewer, Gas, and Stormwater).

The proposed budget for general fund totals \$141,601,611 representing an increase of approximately \$3.2 million, or 2.3% from the FY14 general fund budget. The main factors driving the change are as follows;

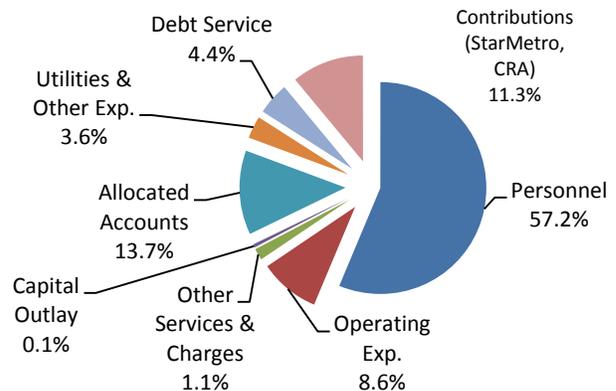
- The City’s contribution to the Consolidated Dispatch Agency increased by \$200,000 in FY 2015 to \$4.9 million.
- Personnel expenses increased by \$2 million, from \$79.4 million in FY14 to \$81.4 million in FY15. (this only includes 2.5% for PBA)
- The General Fund’s portion of allocated costs increased by \$800,000, from \$18.6 million in FY14 to \$19.4 million in FY15.
- The proposed budget for StarMetro includes a contribution from the general fund of \$7.7 million, an increase of \$1.3 million from FY14.
- Ad Valorem property tax revenue increased by \$1.1 million, from \$31.4 million in FY14 to \$32.5 million in FY15. The increase is due to growth in property values, not an increase in the City’s millage rate, which offsets the above increases by \$1.1 million dollars.

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 23% of revenue necessary to operate the general government with transfers from the utilities contributing a slightly greater share at approximately 29%. As indicated in the charts, personnel services account for well over one half of all expenditures.

General Fund Sources 2015



General Fund Uses 2015



KEY ASSUMPTIONS & BALANCING STRATEGIES FOR FY15

Over the last few months, staff has been working on ways to address the projected shortfall for 2015. The items below detail the balancing strategies.

Property Tax Rate

The proposed budget does not recommend an increase to the millage rate. This will be the fifth consecutive year keeping the millage rate at 3.7. The preliminary estimates of taxable value from

the Leon County Property Appraiser’s Office on May 30, 2014 indicate a 2.7% increase after netting out the payments to the community redevelopment agency which is equal to slightly over \$800,000 in additional revenue for the general fund.

The tax roll for fiscal year 2015 will be finalized this month and we will be receiving the certified taxable value report by July 1, 2014. This is the official estimate that must be used for adoption of the tentative maximum millage rate at the City Commission meeting on July 9, 2014.

Ad Valorem is the largest single revenue source for the general fund. In addition, because of the process required per state statutes to set the millage rate annually it also is the most predictable and reliable source of revenue. During FY15, we will evaluate the need for increasing the millage rate to ensure the long term financial health of the City.

Transfers from Utilities

It is staff’s recommendation to modify all utility transfers, excluding sewer for FY15. The following tables provide a summary of the transfers from each utility and percent comparison of general fund total revenue. Funding from existing reserves will be utilized as an interim measure and only as needed pending a rate study which will take place in 2015. It is estimated that the results of a rate study will show an increase to average utility customers around \$2.50 a month. In comparison, an increase to Ad Valorem on the same scale would impact the average homeowner by almost \$7.50 a month.

<i>Transfer</i>	<i>FY 2012</i>	<i>FY 2013</i>	<i>FY 2014</i>	<i>FY 2015</i>
Electric	23,844,683	23,900,000	26,258,500	28,840,704
Gas	2,512,094	2,524,732	2,537,356	2,801,441
Water	2,999,663	3,148,743	3,238,663	3,694,369
Sewer	3,667,474	4,075,232	4,320,612	4,560,850
Solid Waste	1,413,471	1,594,428	1,610,924	1,811,976
TOTAL	34,437,385	35,243,135	37,966,055	41,671,964

<i>Transfer % of GF</i>	<i>FY 2012</i>	<i>FY 2013</i>	<i>FY 2014</i>	<i>FY 2015</i>
Electric	17.9%	17.7%	17.5%	20.4%
Gas	1.9%	1.9%	1.9%	2.0%
Water	2.2%	2.3%	2.3%	2.6%
Sewer	2.7%	3.0%	3.1%	3.2%
Solid Waste	1.1%	1.2%	1.2%	1.3%
TOTAL	26.3%	26.7%	26.6%	29.5%

Use of One-Time Revenue

The proposed budget recommends using approximately \$3 million of one-time revenue equal to 2.2% of the general fund operating budget. These funds were identified from capital projects fund balances, reserves and deficiencies fund. 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, In FY15 we will seek to set a target to minimize the use of one-time revenue for recurring expenses to less than 1% of general fund expenditures and to achieve this target by FY 2017.

Deficiencies Fund Restoration

Currently, \$336,826 is being recommended to be used from the deficiencies fund to balance the FY 2015 budget. There is an additional projected \$500,000 for PBA negotiations, which has not been included at this time, for a total of \$836,826 from the deficiencies fund for FY 2015 budget.

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 \$23,600,268 in FY15. 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 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 \$19,826,085 is above staff's original projections for FY14 (see chart above). Utilization of this funding source would leave us above the projected balance when we put the five year plan in place, but \$5 million below the policy level of \$23 million. In addition, the building inspection fund owes \$1,079,904 to the deficiency fund. A payment of \$165,150 is planned for this year with the remaining balance in full in the next four to five years.

Use of Capital Improvement Fund Balance and Reserves

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, 2014 the capital improvement fund had a balance of \$660,451 with a current reserve requirement of \$1.87 million. Staff is recommending moving eligible expenses for the Gaines Street project to the 1989 sales tax. This will generate an additional \$1.8 million in fund balance. Staff further recommends using approximately \$900,000 to fund essential general government capital projects. The remaining balance of \$1.2 million would be transferred to the General Fund for FY15.

In addition, 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. Staff has identified \$942,000, for the FY15 budget.

Personnel Services

Personnel services make up 26.1% of the total city budget and 57.2% of the general fund budget. Salaries for general employees assume a 2.5% merit salary enhancement in FY15. Police are currently in contract negotiations but 2.5% has been included in the proposed budget. Police increases for FY11, FY12 and FY13 were given 5.02%, 5.02% and 6.14% respectively. Fire salary adjustments this year average 3%. We have received the official rates from Capital Health Plan and the City's portion of the cost of employee health insurance will increase by 4.76%. 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 FY15 budget assumptions the vacancy factor has 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.

Assistant City Managers and Department Directors have been asked to critically review request for potential new hires beginning in FY 2014 which will carry over into FY 2015 with the intent of holding vacancies open longer to reach a minimum savings of \$500,000 for the general fund.

Unclassified Contractual Services

After a review of actual expenditures to budget, a 2% freeze is being placed on all unclassified contractual services which will result in just over \$200,000 in savings for FY15.

Position Changes

The proposed FY15 budget includes funding for 2,824.75 FTEs. This represents a net increase of 14.17 positions from the total number of positions in the approved fiscal year 2014 budget. A total of 12 positions have been added to Fire to support staffing for the new fire station on Weems Road. These positions will be paid for from the fire services fee. The budget also includes the addition of 2 positions in Management and Administration to be responsive to audit issues which have been identified. These positions costs are spread to all funds, including the general fund which will fund a portion. The following table provides a listing of proposed position additions and deletions.

DEPARTMENT	POSITION	FTE
Management & Administration	Accountant III	1.00
	Senior Financial Systems Specialist	1.00
Ethics Office	Ethics Officer*	1.00
Treasurer-Clerk	Administrative Specialist I**	0.12
Economic & Community Development	Economic Development Planner***	-1.00
	Director-Economic and Community Development***	0.05
Fire	Fire Engineer	3.00
	Firefighter	6.00
	Lieutenant	3.00
	Net Change	14.17

*Mid-year.

**The Administrative Specialist I position in Treasurer-Clerk will be converted from a part-time to a full-time position. The position is currently funded as a 0.88 FTE for FY14 and is proposed to be funded as a 1.00 FTE for FY15.

***The Economic Development Planner position will be transferred from Economic and Community Development (ECD) to Community Redevelopment Agency (CRA). In addition, the Director of Economic and Community Development position will be fully-funded in ECD for FY15. In FY 14, the position was split-funded between ECD and CRA. The CRA is not included in the FTE count for the City; therefore, these positions are considered deletions/additions instead of transfers.

State Revenue Sharing

The State of Florida has not released new estimates and it is anticipated that these will be released in late June and the FY15 budgeted amount will be updated with the most recent numbers prior to final adoption of the budget in September 2014. The proposed budget anticipates an increase in both the municipal revenue sharing and ½ cent sales tax amounts by 4.69% and 6.09% or \$150,999 and \$214,858 respectively over FY14 estimates. A total of \$5.3 million is anticipated in State Revenue Sharing and \$9.6 million in ½ Cent Sales tax revenues in FY15.

Funding for General Government Capital Projects

As funding continues to be constrained, the FY15 budget process has been able to allocate \$1.5 million for general government capital projects. 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 \$150,000 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 fund debt service expense budgeted in fiscal years 2015 through 2019 has declined by \$5.1 million compared to debt service expenditures budgeted in the fund for 2014 through 2018 in the FY14 approved budget. Debt service in fiscal years 2015 and 2016 has decreased by approximately \$2.4 million each year, while 2017 and 2018 expenditures have decreased by a total of nearly

\$720,000. Debt service of \$6.96 million is budgeted in fiscal year 2019 to support bonds issued in 2009, 2012 and 2014 for capital projects in the fund. The \$5.1 million reduction is attributable to ongoing savings associated with last year's defeasance of the 2004 bonds and the transfer of nearly \$1.4 million in 2015 and 2016 principal and interest payments for the 2008 bond issue to the debt service fund.

Fire fund debt service increased by approximately \$837,000 in fiscal year 2015. Debt service expenditures for fiscal years 2016 through 2018 remain the same as budgeted in fiscal year 2014. Expenditures of \$2.8 million in FY19 support construction of the three new proposed stations in the Welanuee and Southwood neighborhoods and the Lake Bradford Road area, as well as relocation of the existing station on Hartsfield Road.

Electric, gas, and sewer fund debt service expenses have decreased by a total of \$19.4 million between 2015 and 2019, most of which (\$18 million) is in the electric fund. The gas and water funds also have reduced debt service expenditures totaling approximately \$3.8 million between 2015 and 2019 compared to the five years of the FY14 approved budget, while sewer fund expenditures have increased by \$2.5 million during the same period.

PROPOSED INCREASED SERVICE LEVELS GENERAL FUND

As stated before, this budget reflects a continuation level of service with the exception of one area presented below for City Commission consideration and approval.

Accounting Services Division

The Accounting Services Division is receiving an Accountant III and Senior Financial Systems Specialist position to assist in addressing concerns raised in prior year audits as well as the 2013 Comprehensive Annual Financial Report (CAFR). Total impact: \$180,938; however general fund impact is only \$72,375. Positions have been significantly reduced in accounting over the past several years and external auditors have expressed concerns that can be addressed by these two positions.

UNRESOLVED ISSUES FOR FISCAL YEAR 2015

Due to limited financial resources, this budget does not address additional requests, such as funding of services related to special events. These items will be discussed during the City Commission budget workshops and are listed below.

- Special Events Policy - (to be discussed at July 2, 2014 Financial Viability Target Issue Committee for recommendations to bring to full City Commission)
- Word of South Literary Festival - \$55,218
- Cost of Freedom Tribute \$5,000
- Breast Cancer Walk – (\$1,000 provided past year. Request to be considered as part of co-sponsored special events).
- Whole Child -\$25,000 (for additional part time staff)

- Trauma Center Funding - \$75,000 (funds are used to leverage a state grant paid to TMH for the Low Income Pool program which is to ensure continued government support for the provision of health care services to Medicaid, underinsured and uninsured populations).

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. While there is not an upward trend to support the complete recovery of the unfavorable impacts, the fund has displayed some positive activity. While permits for 1 & 2 family homes decreased 11%, from 149 to 133, in the first two quarters of FY14 as compared to FY13, multi-family dwelling units increased from 0 to 303, when compared to the same period. The number of permits for new commercial buildings decreased when comparing the first two quarters of FY13 and FY14, from 20 to 14. The commercial square footage applied for also decreased in the same period, from 300,960 square feet to 87,229 square feet. This resulted in lower permit fees for the first two quarters of FY14 as compared to the first two quarters of FY13. However, overall, Building Inspection permits for the first two quarters of FY14 are up 30% in comparison to the first two quarters of FY13, from 1077 to 1397. Staff anticipates that building permit applications for the build-out of these large projects will continue to be submitted during FY15. The fund is projecting a surplus of \$165,150 for FY14 and continues to show a surplus in the five year forecast. The majority of the surplus will be used to repay the Deficiencies Fund. Currently, the outstanding obligation is \$1,079,904 of which, \$165,150 is anticipated to be repaid at the end of FY14.

- 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 enter into negotiations for a new Fire and Emergency Medical Services Inter-local Agreement with the City of Tallahassee by exercising their option to end the current agreement. In September of 2013, the City and County reached an agreement for the unincorporated areas of the County which, among other provisions; (1) extends the current agreement for eleven years, through September 2025, with no change in customer fees through September 2015, (2) provides that City will staff the Weems Road Fire Station 16 (scheduled to open in August 2014) with existing staff through at least September 2015, and delay the construction of the future Lake Bradford and Southwood Stations and, (3) that the City and County will jointly commission a new fee study funded through the existing fire fees to establish a cost-based fee to begin in October 2015.

In addition to completing the Fire Fee Study, a study has been funded to address other charges for fire services. 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, this year.

Although the joint City/County agreement for Fire Services allows for later deployment, the FY 2015 Fire budget includes staffing for First Station 16 to being in the spring of FY 2015, funding \$616,000 of the anticipated annual budget of \$1 million.

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 possible expansion onto adjacent airport property and potentially developing a small portion of the Welaunee property.

The FY15 budget for this fund is \$459,076. A transfer of \$299,294 from the Cemetery Perpetual Care Fund is required.

Stormwater

The Stormwater fund is balanced in FY 2015-2019. Total revenues for the Stormwater fund for fiscal year 2015 are budgeted to be \$16.8 million. Of this \$4.7 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 FY15 budget. The balance in the fund is \$17.4 million, \$14.6 million above policy, and will be programed in future years once all Total Maximum Daily Load (TMDL) requirements are known.

StarMetro

The proposed budget for StarMetro in FY15 is \$17,005,057, including a contribution from the general fund of \$7.7 million and from the gas tax fund of \$2.3 million, or a total of 59% of the

department's total budget. StarMetro's FY15 budget has a modest increase of \$36,933 or 0.2% from the 2014 approved budget. During FY14, StarMetro reviewed existing routes and passenger counts, making adjustments that decreased operational costs, while still addressing ridership needs. Changes included reducing the frequency of night and weekend routes and early morning trips.

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 2015 through 2019. Proposed operating expenditures of \$302.8 million budgeted in fiscal year 2015 reflect an increase of \$4.1 million or 1.4% over those budgeted in 2014. The relatively small increase primarily is due to reductions in fuel and transfer accounts.

The deviation from the existing transfer methodology for determining the electric fund's transfer to the general fund resulted in an increase of approximately \$3.96 million in fiscal year 2015.

Gas Fund

The Gas fund is balanced for fiscal years 2015 through 2019. Based on current estimates for FY 2014, and due to the projected increase in the cost of Natural Gas, which is then recovered in service charges, revenues are estimated to increase by 22.3% in FY 2015 to a total of \$31.8 million.

- Customer growth is estimated at 1.5%.
- The 2015 fiscal year budget reflects operating expenditures (excluding any excess transfers to RR&I) in the amount of \$30.8 million, representing an increase of approximately \$6.2 million from the prior year. \$5.6 of this increase is due to the increased fuel cost estimate.
- The fiscal year 2015 fuel forecast is budgeted at \$16 million versus the fiscal year 2014 fuel forecast of \$10.4 million.
- A transfer to the general fund of \$2,801,313 is budgeted for FY15, a \$213,338 deviation from transfer policy.

Water Fund

The Water fund is balanced for fiscal years 2015 through 2019. 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 2015 are budgeted to be \$30.3 million versus the fiscal year 2014 budget of \$31.2 million. The decrease of approximately \$1 million is based on projected service charge estimates based on the current year's downward trend.
- The 2015 fiscal year budget reflects operating expenditures in the amount of \$30.3 million, a \$700,000 reduction from the prior year.
- A transfer to the general fund of \$3,694,369 is budgeted for FY15, a \$484,053 deviation from transfer policy.

Sewer Fund

The Sewer fund is balanced for fiscal years 2015 through 2019. 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 2015 are budgeted to be \$59.8 million versus the fiscal year 2014 budget of \$63.7 million. This reduction of \$4 million is due to the reduction in transfers from RR&I budgeted in FY 2014 and an estimate decrease in charges for services.
- 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 and anticipated charges for services in FY 2015 are projected to decrease by 1.6%.
- The 2015 fiscal year budget reflects expenditures in the amount of \$59.8 million, representing a decrease from 2014 approved budget of \$63. This reduction of \$4 million is due to a reduction of \$5.2 million in transfers to RR&I budgeted in FY 2014, offset by a proposed increase in capital outlays of \$1.2.
- The transfer to the Repair, Replacement and Improvement Fund decreased, net, by \$728,000 as proposed in FY 2015.

Aviation Fund

The Aviation Fund is balanced for fiscal years 2015 through 2019. 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.

- Overall passenger growth for calendar year 2013 of 1.8% over calendar year 2012 was slightly higher than the average 1.3% growth for the other top U.S. markets and 0.6% nationally.
- Delta has begun up-gauging aircraft size to Atlanta (ATL). By April 2014, five of the seven Atlanta flights will be flown by mainline aircraft. This is a seat increase of 21% year over year for April 2014.
- Silver Airways added nonstop service to Orlando (MCO) on November 21, 2013. Silver now has one-stop or connecting service to both Ft. Lauderdale (FLL) and West Palm Beach (PBI) twice daily.
- American also announced a second direct daily 50-seat regional jet flight to Dallas-Fort-Worth (DFW) which began on March 9, 2013.

Solid Waste Fund

The Solid Waste fund is balanced for FY15. Revenues are projected to increase slightly in fiscal year 2015. Revenue projections for fiscal years 2015 through 2019 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 \$1,811,976 is budgeted for FY15, a \$200,000 deviation from transfer policy.
- The current residential garbage fee is \$17.23/ month.
- An annual Consumer Price Index (CPI) adjustment of 1.5% is scheduled to take effect on October 1, 2014.

Golf Course Fund

Revenues and expenditures are balanced for Hilaman Golf Course in fiscal year 2015. However, a shortfall is projected in fiscal years 2016 through 2019, primarily as a result of allocated expenses. As always, the Office of Budget and Policy will look to minimize the impacts of the allocated accounts should the golf course fund not generate enough revenue to cover the full cost allocation plan. Practices put in place 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 improved efficiencies.

OTHER CONCERNS

Although not funded in the proposed FY15 budget, there are other significant issues that I would ask the City Commission to consider.

Need for Additional Police Officers

- Public safety is one of the core functions of any government, affecting economic development and overall quality of life. Businesses want to invest in a city where their stores, offices, and employees are safe. Residents want to feel safe in their homes, neighborhoods and while enjoying all the great amenities a city has to offer. I would recommend adding six (6) police officers, at \$811,122 in FY 2015 to be funded from deficiencies for one year if the City Commission is willing to commit to funding these positions with Ad Valorem starting in FY 2016 and going forward. This would leave our deficiencies fund balance at \$18,587,124, still above the FY 14 projection of \$17,747,640.

General Government Capital Projects

- Although we have identified very minimal funding to address general government capital projects for the next fiscal year, there is almost no funding after 2015. Without additional financial resources for capital projects in FY17, we will be unable to adequately maintain assets we already have –in terms of both routine maintenance and renovations as required. The cost of not providing routine maintenance outweighs the solid practice of keeping facilities in good operating order.

State Legislation

- As always, 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.

One-Time Revenue

- The use of one-time revenue for ongoing expenses continues to be necessary and fiscally prudent to assist with the very slow recovery from the recession. However, we must address this issue by incorporating a policy that will provide a floor and cap on the use of one-time revenue from ongoing operational expense. This new policy will be brought to the Financial Viability Target Issue Committee and full City Commission in FY 2015.

South City

- In response to widespread quality of life concerns raised by South City residents, clergy, and social service organizations, a City action plan has been developed. Through the plan, certain projects have been prioritized as critical and immediate project needs (i.e. roads, sidewalks, open drainage ditches etc.) There is funding for some aspects of the plan in existing departmental budgets, but overall costs for the plan are still being calculated.

Though these are not new challenges, we continue to make the best financial decisions to resolve them on an annual basis to continue to deliver quality services to the community.

FY 2015 CAPITAL BUDGET & FY 2015–FY 2019 CAPITAL IMPROVEMENT PLAN

The capital improvement plan provides a schedule of planned improvements over the next five years and identifies revenue sources that will pay for those improvements. The capital budget proposed

for fiscal year 2015 totals \$103,559,548 and the five-year capital improvement plan totals \$694,904,214. The proposed five-year CIP represents a \$69 million, or nine percent, reduction from the capital improvement plan approved in fiscal year 2014. The Office of Budget and Policy is working with the underground utility to resolve funding for several capital projects which is the primary cause of the reduction stated above. The work will be completed prior to adoption of the final budget and will add back projects to the five year capital plan.

The five-year plan includes investments in roadways, public safety and recreation facilities, parks, mass transit, utility infrastructure, routine maintenance of existing facilities, and technology enhancements. This includes funding for the construction of several major projects already underway, such as FAMU Way and Weems Road Extension as well as updates to existing facilities, such as modernization of the airport terminal. The CIP includes new improvements like the fire stations planned for three areas of the city and construction of a new distributed generation unit. While supporting these higher profile new and enhanced improvements, the plan also recognizes efforts to maintain existing city assets. The CIP includes numerous ongoing programs and one-time projects to perform regular maintenance on infrastructure and to replace those assets that have reached the end of their useful lives. Examples include our IT network infrastructure projects, applications and database upgrades, as well as repairs, replacements and equipment upgrades in the Parks, Recreation, and Neighborhood Affairs Department.

As in the past few years, capital needs exceed available resources and funding for several projects was deferred to a future year, reduced, or eliminated to balance the capital budget in fiscal year 2015. However, the CIP isn't balanced in all years and will require a deliberative process to refine requests so that they are in line with projected funding. This pertains to projects supported from pay-as-you-go (GGCPA/GGCIF) funding, gas tax revenues, and projects in the water and sewer utilities. As noted in the past, the City Commission only appropriates funding in the first year, with the latter four years representing a projected plan on how, and which, projects will be funded.

Fiscal year 2015 funding of \$947,750 from the undesignated balance of the capital improvement fund (GGCIF) is available to support the following projects:

- Animal Service Center RR&I = \$75,000
- City Hall Windows & Wall Sealants/Waterproofing = \$236,250
- City Hall Master Project = \$175,000
- Police Facilities RR&I = \$75,000
- Residential Sidewalks = \$236,500
- Water/Sewer System Charge and Tap Fee Waivers = \$150,000

The undesignated fund balance above is only possible by approving staff's recommendation to move eligible expenses for the Gaines Street project to the 1989 sales tax. This will require as part of the budget hearing to amend the list of capital projects for the 1989 sales tax to include the Gaines Street project.

Staff is also requesting a small change for a project in the Aviation Department, in which actual FDOT funding came in lower by \$112,500 from estimated funding for the Airfield Signage Improvements project (#08125). As a result of less FDOT funding, Airport RR&I matching dollars

no longer are required. If the Commission approves this action, Aviation will amend the project by reducing the FDOT grant and eliminating RR&I funding.

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

There is no doubt that we have strong financial discipline. This is evidenced by your leadership in reducing or holding the line on expenditures during an unprecedented time in our history. We have kept the millage rate flat for five consecutive years, kept growth in expenditures to less than half of inflation all the while delivering unmatched services to our residents, businesses and visitors. With the recession almost behind us, I am confident we can rise to the next challenge — identifying revenues to meet basic service demand and provide enhancements to continuously foster Tallahassee's unmatched quality of life.

Over the next few months we will refine our projections, incorporate City Commission input, and provide a final budget for consideration and adoption in September.

I look forward to discussing the proposed budget and obtaining your feedback and guidance at the June 23, 2014 City Commission Budget Workshop. Office of Budget and Policy staff and I are available to answer questions or provide any additional information you may require.

Respectfully submitted,


Anita Favors Thompson
City Manager