



Agenda Item Details

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Public Content

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Statement of Issue:

The City Commission has directed staff to create a transparent budget process that includes more frequent public and Commission updates to promote public participation and dialogue. As part of this effort, quarterly budget updates for fiscal year 2016 (FY16) are scheduled to reflect actual year-to-date results as well as projections for the end of the fiscal year.

Based on prompt action taken by the City Commission in the first quarter, the General Fund is balanced, and in good health. The financial and budgetary trends that Financial Management identified in the first quarter of the fiscal year continue for the general fund in the second quarter. Financial Management does not recommend any operating budget adjustments for the general fund, however monitoring for the Utilities is recommended. The Utilities continue to be impacted by weather and sales, with more detail provided below.

As a result of the adjustments for police hiring and real estate sales in the first quarter, the general fund is projected to have a balanced budget of \$146 million at the end of fiscal year 2016. The Utility funds and all other City operating funds will finish the year with a balanced budget. This update will cover the following individual areas of discussion:

1. City Operating Funds Overview
2. Capital Improvement Plan (CIP) Funding
3. Policy Issues/Updates

This item includes the following updates:

- ~ The Police Department's use of overtime to meet the near-term law enforcement needs of the community and balance staffing until they can work through the short-term logistics of hiring qualified full time police officers;
- ~ The latest Real Estate transactions that result in new one-time revenue sources and the funding of General Government capital projects;
- ~ A recommended change in management practice regarding the Cemetery Fund to redirect revenue to the Cemetery Perpetual Care Trust;
- ~ The creation of a new membership drive at the Hilaman Golf Course in an effort to increase revenues;
- ~ Seeking Commission approval of multiple CIP project budget changes in both the Electric and Underground utilities;
- ~ A request to use the Capital Project Fund to pay for temporary cooling unit cost and to purchase a new HVAC system at Hilaman Golf Course;
- ~ Recommends a policy update of CIP Policy 218 regarding a change to the current Consolidated Master Project concept. The goal is to give city departments' greater project management flexibility when one part of a project, such as right-of-way acquisition, is delayed, but other phases, such as project design, need to continue.

This Q2 update to the Commission also includes the first presentation of a Financial Trend Monitoring system that is in use by the International City Manager's Association (ICMA). It serves one of the recommendations from the peer review of the City's annual budget process. The financial trend monitoring system identifies key drivers to monitor by fund and by quarter, in order to identify fund conditions that warrant short term response by the department or long term trends for further actions.

Recommended Action: Option 1 - Accept the Fiscal Year 2016 Second Quarter (Q2) Budget Update as presented; authorize all second quarter budget amendments; authorize all CIP budget de-obligations and re-obligations as detailed in the update; and provide direction regarding funding and priorities.

Fiscal Impact: Detailed in agenda item and attachments

Supplemental Material/Issue Analysis

History/Facts & Issues

City Operating Funds Overview

This item considers the first and second quarters (October – March) results of the fourteen (14) funds that make up the City's operating budget.

The following table visualizes the status of each of the operating funds. The color coding corresponds as follows:

- ~ Green – The fund as of the current quarterly update is within budget.
- ~ Yellow – The fund's key drivers are being monitored. There is a budgetary issue that is causing some concern.
- ~ Red – The current status of the fund requires action to return it back to a balanced state.

This chart is presented as a pilot approach to evaluate implementation of the International City Manager's Association (ICMA) Financial Trend Monitoring System that was identified in the peer review. The pilot project will evaluate the ICMA tool, the City operating and capital trend analysis needs, and available data to populate this or another internally developed applications. Financial Management will continue to evaluate various ways to best communicate on an on-going and transparent basis the indicators and quick "at a glance" data presentations, such as the ICMA "Key Drivers" approach below, to determine the best methods to present City budget information in a prioritized and relevant fashion to the public and the City Commission. Each fund and fiscal status can be found in the following chart:

City of Tallahassee				
Fund Status-2nd Quarter FY2016				
Fund#	Fund	Key Drivers	Rating	Actions to take
001	General Fund	Revenue, participation/ calls for service, capital plan, re-organization		Monitor TPD staffing regarding the timing of new hires.
115	Donations	External donations		
120	Building Inspection	Permitting activity		With increased permitting activity, Department will monitor response times for inspections and plan review.
130	Fire Services	Fire service fee revenue, calls for service, population density		
400	Electric	KwH sales, off system sales, weather		Monitor sales and weather going into Q3.
430	Gas	NG sales, weather		Monitor sales, which based on trends would be expected to stay low into Q3.
460	Water	Water sales, weather		
500	Sewer	Capital plan, master plan, sales		
540	Aviation	Embarkation, airline prepaids		
580	StarMetro	Ridership, staffing, farebox recovery ratio, grants, GF transfer		
600	Solid Waste	User fees, waste and recycling contracts		
605	Stormwater	Capital master plan, development		
615	Golf Course	Rounds of golf, memberships		Rounds are of concern, planning membership campaign in response
840	Cemetery	Plot sales, investment income		Amend budget for plot sales revenue, evaluate new cemetery options

- ✓ The general fund budget plan, for the second quarter, is balanced and for the year end is projected to be in a balanced budget status. This reflects the first quarter actions the City Commission implemented after amendments to the budget plan for Police hiring and real estate sales.
- ✓ Electric revenues are expected to be \$1,728,309 lower through Q2 due to 1.4% lower sales. Electric Utility sales are down for the 2nd quarter of FY16 because of milder weather than that anticipated by prediction models used for development of the FY16 budget. The Utility will also monitor planned expenditures for alternatives to the use of reserves. The impacts of weather on sales are detailed below.

- ∨ Although revenues and expenses are forecast to come in under budget, the Gas Fund is currently in a surplus condition, which is common for this time of year. However, because of reduced sales Gas is forecasting the Fund to finish the year at or near breakeven. The impacts of weather on sales are detailed below.
- ∨ Revenue from sales for Water and Sewer are on track through the end of Q2. Operating expenses for both funds are well below budget, resulting in a current surplus for each fund. Better operational controls, improved use of technology and optimization of plant functionality continues to drive down both chemical and electrical costs at the TPS wastewater treatment facility. The impacts of weather on sales are detailed below.
- ∨ While not unexpected, the cemetery fund has also been impacted by low interest earnings and depleted inventory.
- ∨ Based on staff analysis, the remaining funds are performing as expected.

Further actions resulting from the observation of key drivers are detailed below.

General Fund

Police Department New Hires

Police sworn personnel continue to forecast hiring of new officers in the May to July, 2016 timeframe. Eleven positions have been filled however, when accounting for existing vacancies and departures, 44 total vacancies remain for sworn personnel. In order to address the ongoing hiring demands, TPD has increased its training and recruitment efforts. An agreement has been reached with the Florida Public Safety Institute to provide an extra certification class for TPD recruits, anticipated to begin in April.

The department continues to meet the policing needs of the community through the utilization of overtime to compensate for the current state of full time staffing. This is especially noteworthy in Patrol Operations where current year actuals are expended beyond the year-to-date budgeted amount, but is offset by savings in unspent position expenditures. These budget actions were addressed in the first quarter amendments. While hiring positions will impact overtime, it is expected that the Police budget will continue to require overtime for emergency response, special events and Fair Labor laws, which require overtime. The actual overtime improvements as a result of adding personnel will continue to be identified during the transition to full staffing, with budget amendments or amended requests for future budget periods.

Growth Management – Building Inspections Division

The continued success of our community is due in part to new housing, commercial, office and experience opportunities that have been created over the last few years. Due to these increased experiences, the Growth Management Department is beginning to experience higher than usual building permitting activities. In recent years, the department has downsized due to the economy. However, the commission directed staff to be vigilant and prepared when the economic downturn ended. The department maintains a high level of customer service with existing staff. However, increased activity in the land development arena has created additional impacts on the permitting system that must now be addressed. Staff is in process of fully developing a plan to more efficiently utilize current staffing as well as utilizing third party permit reviewers to overcome peak period service issues. Staff will return to the commission with formal recommendations in the near future once the necessary data and analysis is completed.

Real Estate

In an effort to better and continually inform the City Commission and public on potential one-time revenue sources, staff has examined the use of revenue resulting from the sale of surplus land. Budgeting for land sales presents key challenges:

- ∨ The majority of land sales by the City are unsolicited.

- ~ Negotiations for land sales can fall through at any point in the process.
- ~ Land sales are non-recurring and while important to recognize in a budget plan for responsible use, do not change long term funding decisions that address structural budget plan issues.

Staff is recommending that anticipated one-time revenue from land sales be reported as part of the quarterly update process, but not be forecast into future budget plans until after the sale has been completed. This presents the challenge of making long-term structural decisions about available revenues, while possibly completing a one-time land sale, but ensures we do represent the available amounts accurately.

Real Estate has identified the following list of sold property/land for FY16 in Q2:

Property/Land Description	Proceeds of Sale	Moved to General Government Projects
Arrowhead	\$29,501	\$29,501

Consistent with City policy and any unspent revenues (\$29,501 through Q2) will be used in FY17 for general government projects such as roadway repair, capital maintenance and sidewalks.

Cemetery Fund

Staff is recommending a change to the current practice regarding the use of revenue from the sale of grave spaces. The current practice represents an initial change that was implemented during the FY12 through FY15 year-end budgetary closeouts, which directed this revenue to the General Fund. With the full funding of the deficiencies fund from one time land and real estate sales, staff is now recommending retaining this revenue in the Cemetery Fund. Any surpluses at year end will be transferred to the Cemetery Perpetual Care Trust Fund (PCTF).

For FY16, the year-end transfer from the Cemetery Perpetual Care Trust Fund will be adjusted to account for the decline in interest revenue. Additionally there has been on-going discussion regarding the possibility of finding space and opening a new cemetery location. The expectation was that with a new location there would be a significant influx of additional revenue which could be used in part to replenish the PCTF. The Cemetery Advisory Committee is currently reviewing options to address the long term needs of the Cemetery Division.

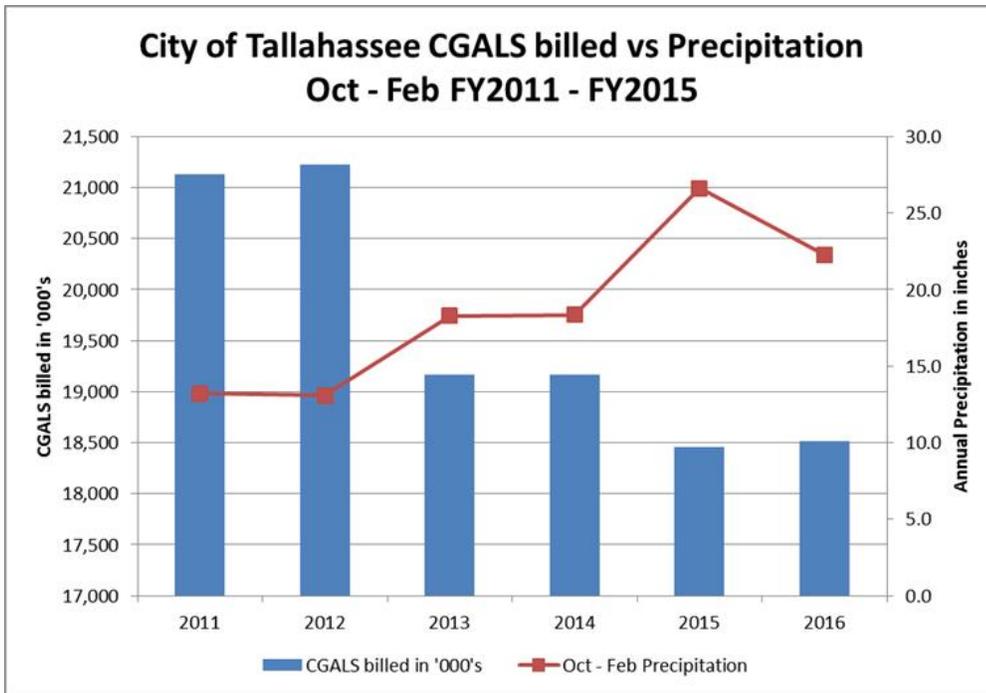
Golf Memberships

Into the second quarter of FY16, the Hilaman Golf Course is experiencing an increase in rounds of play, however, a decrease in revenue. In response a new membership drive is in development in an effort to increase their membership base and look to increase overall membership numbers.

Water and Sewer Funds

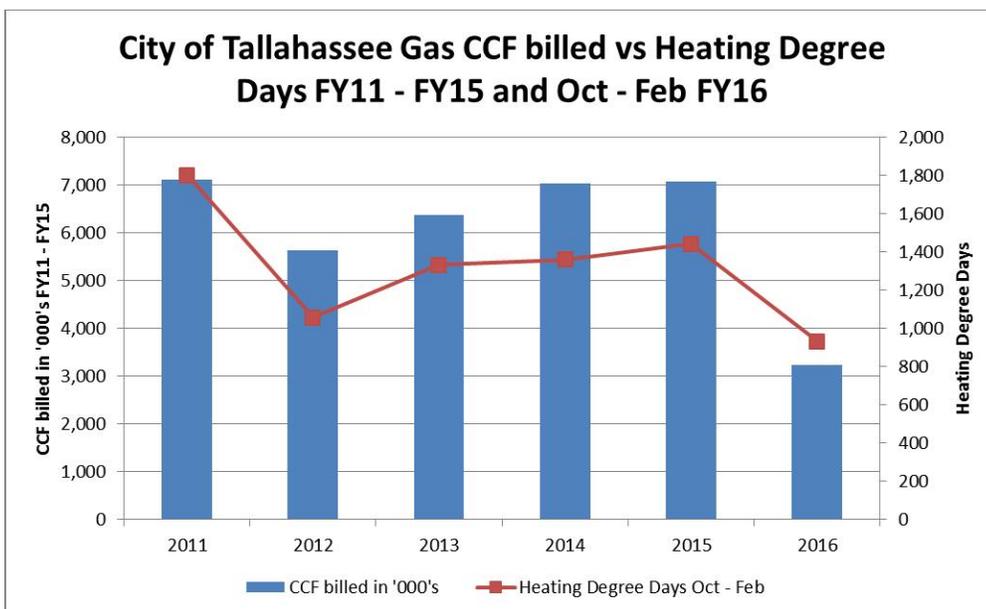
Revenue for both Water and Sewer are on track through the end of the second quarter of FY16.

Water consumption year to date is relatively consistent with the weather variables of rainfall and temperature. There is a tendency for water consumption to drop during periods of higher rainfall and rise during dryer periods. Since wastewater treatment tends to follow water consumption, the same trends apply.



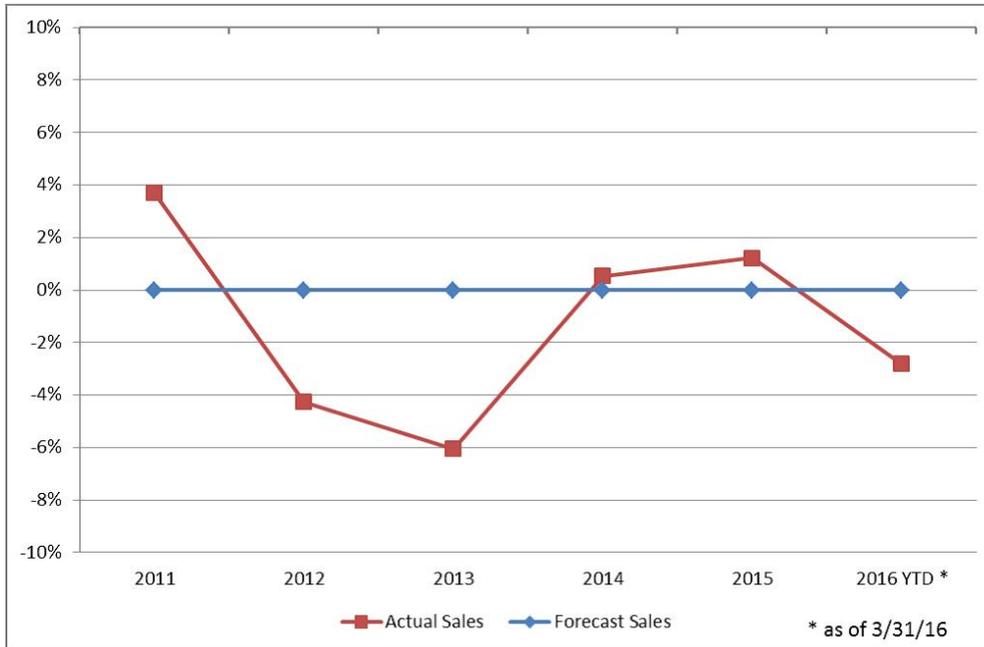
Gas Fund

Factors affecting the Gas Fund are weather, fuel cost, and customer growth. Due to the mild winter Gas consumption on average, across all customer classes, is down about 16% on a year-to-date basis compared to FY15. Compared to longer term historical averages such as 3 and 5 year periods, year to date consumption is down by 9.8% and 6.7% respectively. Fuel, as a direct pass-through cost to the Fund, causes revenue and expenses to fluctuate directly with fuel costs with no net budget impact. Customer growth is tracking projections at 1% year to date. Although revenues and expenses are forecast to come in under budget, the Gas Fund is currently in a surplus condition which is common for this time of year. However, because of reduced sales we are forecasting the Fund to finish the year at or near breakeven.



Electric Fund

Annually, the Electric Utility develops a sales forecast for use in the annual budget process. This sales forecast is based on a number of inputs such as heating and cooling degree days, economic growth and population growth, with weather being the most variable input. During the 1st 6 months of FY16, we have experienced milder weather than normal, resulting in lower sales. Through the 2nd quarter, sales are running slightly less than 3% below forecast. Assuming the balance of the year's sales meet forecast, we are projecting the end of the year we will be approximately 1.3% below forecast on sales. From a financial perspective, this equates to a revenue decrease of approximately \$1.6 million over projected. The Electric utility is continuing to monitor expenditures to account for the reduction in revenue. The following chart shows a five year history of the relationship between actual and forecasted sales.



CIP Funding Overview

Electric Capital Project Funds – Summary (More detailed information provided in the Attachments/References section at the end of this agenda item.)

The Electric Utility is requesting to adjust the current approved Capital Improvement Program as follows:

- ~ To move \$2,934,482.78 in CIP funding from seven (7) Electric Utility Bond Revenue (Fund 423) projects to two (2) Electric Utility Repair, Replacement and Improvement (Fund 401, RR&I) projects.

These adjustments do not change the current level of funding for the FY16 Capital Improvement program, but rather moves money between projects. The seven Fund 423 projects were expected to be closed at the end of the year, and rather than delay the progress of the two Fund 401 projects is expected to have zero impact. The need for these adjustments is due to:

- ~ Funding that was to be moved to the Operations Center RR&I Project (16055) at the end of FY 2015 did not occur.
- ~ The funding for the recurring Overhead to Underground conversion project being funded from a Master project, which was required for other projects. This funding was recommended in FY13 to build a base for undergrounding requests, which are sporadic, but when requested need prompt response. The Master project approach does not insure that this funding is available, hence the recommendation for a stand-alone project.

There is also a separate request for a supplemental appropriation for Project 16036 – the Electric Accounts Receivables (A/R) Master project in the amount of \$750,000. This project is used to bill customers directly for services that are not appropriate for the rate payers, such as accident repairs, or customer requested undergrounding, special services, etc. The A/R project is funded by the repayments made for the billings, and they are exceeding the \$250,000 current project cap. Uncollected receivables can be written off through a year end close-out process.

Additional detailed information regarding this request can be found in the Supplemental Material/Issue Analysis portion of this Agenda Item write-up.

Water, Sewer and Stormwater Capital Project Funds (CIP) Summary

As part of the issuance of Consolidated Utility System (CUS) Bonds in FY 2015, and our ongoing effort to match our cash flow needs with the practical realities of planning, engineering, design and construction schedules, the following reductions in project balances are requested.

Project	Code	Fund	Current Balance	Proposed Reductions	Revised Balance
Water Quality Building Relocation	08148	479	979,042.58	979,042.58	-
Water Resources Alternatives	08156	479	9,592,927.60	9,100,000.00	492,927.60
Stormwater SCADA Implementation	14053	606	968,906.31	500,000.00	468,906.31
Mobile Work Management	15066	431	187,500.00	75,000.00	112,500.00
Mobile Work Management	15066	461	187,500.00	75,000.00	112,500.00
Advanced Wastewater Treatment Program	06132	501	949,413.99	890,754.99	58,659.00
Advanced Wastewater Treatment Program	06132	503	343,752.84	343,752.84	-
Advanced Wastewater Treatment Program	06132	505	1,000,000.00	1,000,000.00	-
Advanced Wastewater Treatment Program	06132	529	1,557,266.54	1,557,266.54	-
Advanced Wastewater Treatment Program	06132	539	359,374.54	359,374.54	-
			\$ 16,125,684.40	\$ 14,880,191.49	\$ 1,245,492.91

These changes will provide the appropriate amount needed to complete current activities for Stormwater SCADA, Mobile Work Management and the Advanced Wastewater Treatment Program, while returning balances to each Fund for re-programming in the Proposed FY 2017 Five Year Capital Improvement Plan according to updated cash flow needs and with appropriate funding sources. Due to the scope and timing variables inherent in large scale capital improvements, Underground will continue to monitor the progress of projects and cash flow needs and provide updates when appropriate.

The HVAC system at Hilaman Golf Course is in need of immediate repair/replacement. Prior to the repair being made, however, funds will need to be utilized out of the Operating budget to purchase temporary coolers. This request is to set up a project in the General Government Capital Project fund in the amount of \$40,000 to both fund the HVAC system (\$35,000) as well as reimburse the Hilaman Golf Course operating budget for the cost of temporary coolers (\$5,000).

Policy Issues/Update – Capital Projects Management Policy 218

As a component of the City of Tallahassee reorganization and financial management review, the Office of Financial Management has begun a comprehensive review of existing financial policies and procedures. The intention is to more accurately align City policy with new and existing best practices and to provide departments with greater decision making flexibility and authority. Rather than address all elements of a policy at a single point in time, staff will be suggesting key changes throughout the year. This will allow departments to phase new procedures into their operations as well as allow management time to gauge the success of individual policy changes.

The first of these changes is the introduction of the Consolidated Master Project concept. Since 2012, the Electric Utility has operated with an exception to the existing policy, which allows for the creation of both specific and sub-

projects from recurring master projects at the department level. Utilization of the consolidated master approach has provided management greater flexibility in meeting critical system needs, reduced administrative workloads, and improved the department's ability to affect more timely assignment of surplus capital appropriations within the same work areas. For example, instead of setting up 6 stand along sub-station construction projects with their own contract management, design budget and contingencies, these projects were combined into one master project. For those projects where the construction that proceeded faster, the master project concept enabled the use of the master project funding from those projects that were delayed by right of way acquisition, contract negotiations, or unrecognized engineering complications.

A full strike-thru copy of Policy 218 is included as an attachment.

Options

1. Accept the Fiscal Year 2016 Second Quarter Budget Update as presented, authorize all second quarter budget amendments/de-obligations as detailed in the report and provide direction concerning any requested issue or policy updates.

Pros:

- *Facilitates the accurate amendment of fiscal year 2016 budget for current conditions
- *Updates the FY16 budget in accordance with existing City policies
- *Provides for timely expenditures of unspent revenue amounts

Cons:

- *Amendments will be conducted either in subsequent quarters or at year end

2. Do not accept FY16 budget update or amendments and provide further information.

Pros:

- *Fund status will become more clearly known in the upcoming quarters

Cons:

- *Timely budget amendments will be made at a later date

Attachments/References

Attachment 1. Complete strike-thru copy of Policy 218

Attachment 2. Electric Utility Capital Project Fund Details

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