



Office of the Town Manager

Steven J. Alexander
Town Manager

MEMORANDUM

Date: August 13, 2009
To: Honorable Mayor, Vice Mayor and Town Council
From: Steven J. Alexander
Town Manager
Subject: Council Workshop for FY 09/10 Budget

The purpose of this memorandum and workshop is to provide the Council with a framework for future budget decisions and provide the Council with an overview of the preliminary proposed budget for Fiscal Year 2009-2010.

The recommendations presented here are predominantly reductions to ongoing service efforts. Per Council direction, the budget reflects the ad valorem millage **rollback rate of 3.0310**. The reductions are necessary due to the fact that almost all other revenue sources are predicted to experience reductions for the budget period. These reductions approximate a 7% reduction, rather than a 15.4 % reduction.

Budget preparation

The value of the certified tax roll for FY 2009-10 was released by the County on July 1 and was a total of over **19% lower** than the prior year. This corrected figure was almost one-third less than the official estimation from the County Property Appraiser's Office just one month prior. This significant change resulted in a delay in our efforts to prepare a set of recommendations for your review prior to creating a draft budget document for your review. We anticipate that the full Manager's Proposed Budget will be available in the first week in September, or sooner if possible.



Following Council direction, the general budget priorities are:

- To maintain and enhance current levels of service to the extent possible due to the current economic and revenue challenges;
- Provide contingency funds for hurricane and other emergencies;
- Plan and fund future capital improvements and authorize funds to achieve improvements; and
- Continue implementation of a Stormwater Utility.

For ease of comparison, the attached presentation mirrors the format of the Town's FY 2008-9 Budget. The presentation assumes the continuation of the core FY 2008-9 budget as the base for the preliminary proposed budget for FY 2009-10 and highlights the primary changes to the budget to indicate new funding levels.

BACKGROUND

At this time three years ago, the Town was operating out of the unfinished conference room space on the south side of the building. There were a total of four employees, including the Town Manager and the Town Clerk. We have grown substantially since that time with the critical support of the Mayor and Council. We appreciate your continued support and respect.

In the past 12 months, we have been at the forefront of several issues, some of which have gained us significant statewide attention and respect. Additionally, through a huge coordinated effort of our dedicated Department Directors and their staffs we have served the community in an exemplary manner. We currently have 29 full time positions working in the administration and 51 sworn police officers with five support personnel. The parks programs employ some 30 to 40 part-time employees each year.

The Town has been awarded grants approximating \$800,000 for FY 2008-09. Significant awards include \$450,000 from the Florida Department of Environmental Protection, \$108,000 from The Children's Trust, \$60,000 from



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the County Metropolitan Planning Organization, \$50,000 from the Florida Division of Emergency Management, and \$100,000 from the Florida Department of Environmental Protection for recycling programs. Additionally, approximately \$20 million from the Board of County Commissioners' Public Transportation Program (PTP) has been awarded for roadway improvements to Caribbean Boulevard and Old Cutler Road. The planning for these projects begins this year with the Old Cutler Road project.

The FY 2009-10 budget will reflect the Town's second 12-month period as a fully operating Town with the inclusion of the parks, roads, and the Stormwater utility. Therefore higher expenditures in some categories than in the previous years occur despite the current economic situation due to the separate funding sources.

REVENUE PROJECTIONS

GENERAL FUND REVENUES

All municipal revenues typically increase and, at times, decrease depending upon their respective sources and the impact of various sectors of the economy and the legislature's changing philosophies on those sources. The Town's most significant revenue, ad valorem or property taxes, is also typically the revenue with the most significant change from year to year. The legislature's adoption of the "property tax relief" legislation and the approval of the property tax constitutional amendments in recent years, in addition to the end of the real estate "bubble", and general decline in our nation's current economy, has resulted in a reduction in our ad valorem revenues, as well as other revenue streams. Our ad valorem revenue accounts for some 45 percent of our yearly revenue stream.

AD VALOREM REVENUE

Given the current economy, especially the declining real estate market, we will continue to face funding concerns as we develop the budgets for at least the next two fiscal years. The primary reasons for incorporating



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the Town of Cutler Bay was due to the unmet or significantly delayed service priorities and requirements of the residents. As the Town has just begun to address these service priorities and requirements, which seem to be growing in importance to our residents, our ability to continue our progress will be seriously impacted if resources continue to shrink.

The taxable roll values for the all of the countywide taxing districts declined by between 11.2 percent, and 9.3 percent. The County predicts that we can expect the tax roll losses for 2010 to be worse, as we will not benefit from significant new construction and will record the full effects of the housing foreclosure crisis.

The Council adopted a millage rate that generates revenue at the same level as in FY 2008-09 in order to allow maximum flexibility in its budget deliberations. This is called the roll back rate, as it is the rate at which revenues are "rolled back" to those received prior to equal the loss in value of the tax roll.

The revenue shortfall forecast for the next budget cycle clearly indicates the need to maintain revenue levels. The public services that our community relies upon each day cannot be reduced to make up the shortfalls without serious service level consequences. By not ensuring sufficient revenues to adequately or responsibly fund the budget, would counteract the benefit the Town has gained by removing ourselves from the County's apparent lack of services.

The County Manager has noted in a memo to the BCC, "The call for "tax relief" has been very loud in the past few years and has led to irrational actions by our state legislature. I term them "irrational" because the actions taken did not fix our property tax system: neighbors with homes of similar market value could be paying significantly different amounts in property tax based on when the homes were purchased. Since the inception of the Save our Homes constitutional amendment which placed a cap on the growth in assessed value for homesteaded properties, homeowners have saved tens of thousands of dollars in taxes. For the homesteaded property owner in UMSA whose home has a taxable value of \$250,000 in 2009, he or she saved \$24,000 in property taxes over the last 15 years. Just over the last five years, that homeowner has saved nearly \$1,400 and \$1,100 for just the last two years, if millage rates had remained



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flat. In real terms, that homeowner paid \$496 less in taxes in FY 2008-09 than he or she did in FY 2006-07.

These are real savings that every homesteaded property owner has enjoyed; yet the call remains for property tax relief. No one with a homesteaded property faces foreclosure due to his or her property taxes. However, initiatives are still being pursued that would further reduce local governments' ability to utilize ad valorem revenue to support services. This coupled with a tax roll that will surely decline in 2010 could spell disaster for many local governments, and certainly significant reductions in all services currently provided by local governments."

THE SAVE OUR HOMES EFFECT

As stated earlier, the FY 2009-10 certified property tax roll for Cutler Bay reflects an approximate 19% decline in town-wide property values from the previous year. By default, that percentage is an "average". Some properties will have declined more than that amount and some by less (or, in the case of long-time homesteaded properties, may have actually increased due to the effects of the Save Our Homes amendment).

The State of Florida has created a mechanism for taxing authorities to enact a "rollback rate", which for TRIM purposes is not a tax increase since it simply allows the municipality to bring in property tax revenues in an amount equal to the prior year tax revenues. While the rollback millage rate during periods of declining property values will be greater than the previous year's millage rate, this does not imply a "tax increase" since the amount of taxes generated by the combination of the rollback rate and the lowered property values yields revenues that are flat versus the prior year.

The Save Our Homes (SOH) amendment, which took effect in the mid-1990's, had the effect of limiting the annual increase in the assessed value of homesteaded properties to 3% or the national consumer price index, whichever is less. As a result, long-time homesteaded property owners benefited from years of skyrocketing home values by paying less than a similar but non-homesteaded property owner would have paid in property taxes versus newer home purchasers due to the SOH limits on



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increases in assessed values. Thus many property owners have had the benefit of artificially low tax levies than other property owners.

The FY 2009-10 property tax valuation performed by the Property Appraiser was the first year in which property values dropped for Cutler Bay and in virtually every other municipality in South Florida. This drop in property values now reveals the "other side" of SOH in which long-time homesteaded properties can now actually see their assessed values **increase** by virtue of State Law, even as property market values drop, if the valuation of that individual property is still below market value. Conversely, recent homesteaded purchasers who have not had the benefit of long-term accumulation of SOH benefits, and non-homesteaded properties, will most likely see assessed values decrease.

DOUBLE HOMESTEAD EXEMPTION

On January 29, 2008 voters in Florida voted for a new property tax reform amendment. Previously, homeowners could receive a \$25,000 exemption on their primary residence, which meant the homeowner, doesn't pay property taxes on the first \$25,000 of the just value of the property. The new amendment increased the exemption as follows: Homeowners can receive an additional \$25,000 homestead exemption for the value of homesteads above \$50,000. The new exemption has had a devastating impact on ad valorem revenues statewide as it essentially doubles the previous amount of property value, which may not be taxed, and therefore those revenues, which previously were received for services, are no longer available.

MILLAGE CAP ESTABLISHED

The Property Appraiser will mail required notices to all property owners in August, using proposed tax rates adopted by all taxing authorities in Miami-Dade County. Thus, the millage rate of 3.031 set at the July Council meeting will be used in the notice and will be the amount of Cutler Bay property taxes that appears on the tax bill. This revised millage rate (Cutler Bays' share) is only 10 percent of the total yearly tax bill.



REVENUE REDUCTION VS. SERVICE REDUCTION

This is the first time that Miami-Dade's taxable values have dropped more than they did in 1993 in the aftermath of Hurricane Andrew. That drop was **2.9** percent. This year, the Cutler Bay reduction is over 19 percent. That is the virtual equivalent of 6 Hurricane Andrews occurring at once. These are clearly extraordinary times that require extraordinary leadership and extraordinary courage. As always, we will endeavor to continue to provide the levels of services our community expects and deserves, with ever more limited resources available for this purpose.

Significant challenges in addressing service priorities and requirements, which were the primary reasons for incorporating the Town of Cutler Bay, will remain. Not adequately or responsibly funding the budget by ensuring sufficient revenues would counteract the benefit the Town has gained by removing ourselves from the County's apparent lack of services. The public services that our community relies upon each day cannot be reduced to make up the difference without serious service level consequences.

OTHER REVENUES

Other significant revenue estimates include projected decreases in Electrical Franchise Fees, which will decrease by \$71,000 or 5 percent, and Judgments and Fines, which are projected to decrease \$100,000 or 33 percent versus the prior year budget. Other licenses and registrations (local business tax receipts, burglar alarms and solid waste franchises) are projected to increase \$95,000, or 90%, as a result of the solid waste franchise ordinance being in place for the entire fiscal year resulting in anticipated higher collections of franchise fees.

Local Government Half-Cent Sales Taxes are projected to decrease by \$269,000 or 12 percent, and State Revenue Sharing is projected to decrease by \$122,000 or 12 percent, primarily reflecting weak economic conditions in the State (thus lower tax collections to be disbursed to local governments).



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The Town must rely on estimates from both Florida Power & Light and Miami-Dade County for utility taxes. FY 2009-10 utility taxes are budgeted at \$35,000 or 2 percent less than the prior year budget. The Town is also budgeting decreased revenues from the Communications Services Tax ("CST"), which is projected to be \$566,000 or 37 percent lower than the prior year's budget. The budget for this revenue item is provided by the State Department of Revenue and allocated by municipality. Collections, or allocations, of the CST have not been consistent.

CARRYOVER and RESERVES

Due to management efficiencies, Cutler Bay has achieved an exemplary record of coming in under budget. Each year, the unexpended funds not allocated to a reserve account are placed in the next year's budget as a revenue source called Carryover funds. For this reason, our budget is projected to have over \$2.9 million transferred from last year's budget to this year's revenue as savings from management efficiencies.

There are a number of reserves that are part of the operation budget. The Town strives to maintain prudent reserves, establishing funds for contingencies and emergency situations, as well as for the impact of revenue reforms on the stability of the Town's operating budget and for other items such as grant matches. The budget presentation details the various general fund reserves and their uses.

SPECIAL REVENUE FUNDS

The Special Revenue Fund budget reflects the Town's Building Permit and Planning and Zoning revenues and activities, as well as park and law enforcement impact fees and various local option gas taxes received from the State that must be used for prescribed purposes.

CAPITAL PROJECTS FUND

This fund reflects the major capital improvement projects. Funds from various sources are aligned with the specific projects found in the Capital budget.



BUDGET RECOMMENDATIONS FOR ROLLBACK FUNDING LEVEL

The paragraphs below provide more detailed descriptions of the material changes from budget year to budget year.

GENERAL FUND EXPENDITURES

The cost of living adjustment is budgeted by at least 13 local governments within and including Miami-Dade County for FY 2009-10. Another four local governments are budgeting as much as a 3% COLA and at least five are also including merit raises this year. The cost of living adjustment and merit increase present in each year's budget prior to this one is **not** included in the proposed budget for any employee or any Councilmember. While this is expected to be detrimental for continued retention and attraction of high quality employees, it is a necessary statement of solidarity for the current year.

Below are the highlights of changes for each of the Town's Departments.

Mayor and Council

The budget reflects no cost of living increase, and: the State of the Town to update citizens on their town's progress and challenges was reduced by -\$5,000; Replacement of outdated or broken computers was reduced by -\$5,100; Chamber South membership was added at +\$2,000, as was the US Mayors Conference +\$3,500; both of these organizations have proven to be advantageous to the Town for separate reasons.

Overall reduction \$754 or 0.5%

Town Clerk

The most significant changes to the Clerk's budget are as follows: Elections -\$10,000; Cell Phone +\$1,500; Regal Theater, the venue for the State of the Town address to update citizens on their Town's economic situation was reduced by -\$4,000; Library rent for Council meetings was reduced by -\$3,000; Municode to enable citizens to have ready access to



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the laws the council approved was reduced by -\$5,000; Agenda production -\$1,200; Communication for the deaf at council meetings was reduced by -\$2,100; Miscellaneous supplies was reduced by -\$3,000; Replacement computers were reduced by -\$1,700.

Overall reduction \$24,942 or 10.8%

Town Attorney

There is an 11 percent increase in this budget, partially reflecting increased contractual hourly rates of 5% {\$13K}.

Overall Increase \$50,000 or 11%

General Government

The primary changes in this budget are:

Personnel changes (elimination of an Executive Assistant to the Manager position and addition of a lower classification pool position to be shared with other staff including Public Works) was reduced by -\$8,100 (including benefits), Public Information Officer added +\$81,000 (including benefits); to respond to issues raised by the Communication Committee and others; Budget planning research and preparation of the budget was reduced by -\$20,000; Federal Lobbying was added during the midyear to take advantage of new federal funding opportunities +\$60,000; Public Relations consultant was reduced by -\$60,000; IT support due to the installation of new software for better accountability +\$15,000; Off site backup of computerized data +\$1,800; Marketing consultant (Buxton) was reduced by -\$34,000; Sustainability consultant/green efforts were reduced by -\$150,000; ICMA professional conference and travel for the Manager - \$3,000; Phone equipment was reduced by -\$3,000; Washington DC travel +\$3,000; Office Furniture lease payments were reduced by -\$24,000; FLC insurance, -\$140,000, IT + office equipment repairs and maintenance was reduced by -\$9,000, IT supplies; +\$4,500, Reimbursable unemployment compensation up to \$7,150/person for 6 months +\$30,000; Street pole banners was reduced by -\$15,000; Staff Training was reduced by -\$3,700; Vehicle Fuel, -\$2,000; Signage for entry signs at our town boundaries was reduced by -\$10,000; Office equipment, -\$90,000; Software, -\$15,000.



Overall reduction \$412,476 or 18.3%

Finance Department

Budget reflects the cuts necessary to stay within target and some changing priorities:

Other Post Employment Benefits review -\$5,000; valuation of Town roads required pursuant to governmental accounting standards -\$15,000; valuation of stormwater assets required to enable us to insure the system and to comply with governmental accounting standards +\$25,000; ERP system maintenance town-wide accounting software +\$2,000; ERP system purchase -\$50,000.

Overall reduction \$38,493 or 5.9%

Police Services

Budget increases reflect the stability within the police department staff and the ability to budget at a level closer to actual cost of personnel, as opposed to the worst-case scenario of higher salary ranges necessary during the growth of core staff. Some additional cuts were made in an effort to stay within the required funding level due to the shortage of revenues. Police records clerk was reduced by -\$17,000 (including benefits); Police staffing was reduced by -\$845,599; Cell phones -\$4,500; Hurricane materials was reduced by -\$8,000; Office supplies -\$2,500; Operating supplies was reduced by -\$6,500; Office Furniture -\$10,000; and replacement of outdated or broken computers was reduced by -\$4,000.

Overall reduction \$898,232 or 10.1%

Community Development

This Department budgets for Building Permit activities that are completely offset by the revenues generated by the permit processes. The decrease in expenditures reflects the actual activity for Building Permits, which was less than anticipated in the prior year budget due to the current economic condition. Planning consultant -\$35,000; Land Development



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Regulation preparation and refinement was reduced by, -\$70,000; Pattern books which help insure quality design in new development +\$40,000; Document scanning for reduced cost of storage & access by residents was reduced by -\$49,000; Miscellaneous planning +\$10,000; Master plan US1 Charrette -\$50,000; Impact fee study -\$35,000; Miscellaneous printing -\$2,500; Office supplies -\$3,000; Operating supplies -\$2,000; Lawn maintenance for foreclosed properties +\$5,000; Fuel for planning and code enforcement business -\$31,000; Copier -\$7,000; Hybrid leases (2) -\$7,000; Vehicle maintenance +\$3,000; and Miscellaneous equipment -\$8,000.

Overall reduction \$227,799 or 13.6%

Public Works

Some Budget changes for Public Works include the addition of Stormwater Utility revenues and grants, which help fund portions of certain salaries and work components. Right-Of-Way maintenance +\$30,000; Office space funded by the stormwater utility +\$20,000; Sidewalk repairs was reduced by -\$250,000; Fuel for buses -\$4,000; GIS equipment for detailed infrastructure data to reduce costs of personnel was reduced by -\$9,600; Median beautification and improvement Projects was increased by +\$47,000; additional intersection generators to add emergency electricity to critical intersections was reduced by -\$15,000; and overall Personnel costs were reduced by -\$50,439 (including benefits).

Overall reduction \$234,487 or 16.4%

Community Services and Parks

Parks & Recreation

Architectural and engineering services -\$10,000; Lincoln Park Maintenance was reduced by -\$10,000; Community based activities was reduced by -\$10,000; Parks Utilities -\$14,000; Lightning detectors was reduced by -\$2,000; Pressure cleaner was reduced by -\$1,700; Park maintenance was reduced by -\$65,000; Equipment and supplies was reduced by -\$13,000; Picnic tables +\$3,000; Skateboard equipment



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+\$5,000; Franjo safety netting +\$5,000; Pool IT +\$2,000; and Defibrillators +\$5,000.

Overall reduction \$215,859 or 13.5%

Stormwater Utility

This is a new department, which is administered by the Public Works Director. We have created the department for budgeting purposes and the revenues and expenses for this activity will be tracked in a separate fund for accounting purposes. The entire department is funded by the Stormwater utility revenues and not the general budget, meaning that no ad valorem funding is assigned to this function. The stormwater budget is included here for general information, as it does not effect utilize revenues contained in the millage or state revenue dependant sections of your budget. Stormwater manager +\$99,000 (including benefits); FEMA CRS program -\$6,500; General engineering -\$15,000; Water funding consultants +\$40,000; Swale litter collection, -\$45,000; Repairs and improvements - \$15,000; System mapping and inventory +\$70,000; and a Cell phone for the new stormwater manager +\$1,500.

Overall increase \$111,618 or 11.8%

Reserves

The budget includes a number of different general fund reserves. Based on the Government Finance Officer's Association (GFOA) recommended practices, we strive to maintain an unreserved fund balance of at least 10 percent of the operating revenues of the General Fund. Specifically, they recommend keeping unreserved General Fund balance between 5-15% of operating revenues, or no less than one to two months of regular General Fund operating expenditures. They make no specific comment about "contingency reserves," but we have gone further in making this a designated unreserved fund balance, which we call the "contingencies and emergencies" reserve, and exceeding the GFOA's relative recommended level of unreserved fund balance.



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For FY 2009-10, we budget {\$1 million} to the contingency reserve which can be used in the event of any Town-related emergency, unique opportunity or contingency. Additional reserves of approximately {\$52K} are budgeted in FY 2009-10 to provide for revenue stabilization, {\$1.1 million} for potential grant matches that may come up during the year, {\$360K} for short-term financing costs, and {\$136K} for insurance contingencies.

This year's budget significantly increases the various operating reserves a total of {\$2.6 Million} as the Town plans for future capital improvement projects and builds prudent emergency reserves.

Special Revenue Funds

Special Revenue Fund Revenues

The following summarizes the increases and decreases of the various special purpose revenues in this fund. Local Option gas tax revenues are expected to decline for the coming budget year {\$595K}. Building permit fees reflect the correction in revenue projection to more closely match the Town's experience trends {\$480K}. The {\$1.7 million} fund may be used for future projects that consist primarily of revenues collected from prior years (primarily impact fees and unexpended gas taxes) and held for appropriation once sufficient funding levels and planning is complete.

Special Revenue Fund Expenditures

For the most part, the Special Revenue Fund expenditures are transfers to the General Fund for specific activities and projects (building and zoning activities and public works projects) and the transfer of funds to the Capital Fund for specific capital projects described below.

Capital Projects Fund

In FY 2007-08, the Town established a Capital Fund wherein major capital improvement projects are budgeted. Revenues are aligned to specific projects. The budget includes four new projects, and the funded completion of one project currently in progress, and the associated costs that will be expended within the fiscal year: potential acquisition of Park property {\$871K}; completion of Cutler Ridge Park and Pool Improvements



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{ \$172K }; Bel Aire Park improvements { \$179K }; Saga Lake improvements { \$113K }; and Saga Bay Park improvements { \$387K }. Reserves of approximately { \$61K } are also provided for any contingencies that may arise. Project revenue sources for the above include grants from QNIP funds, Safe Neighborhood Bond funds, Florida Recreation and Development Activities Program funds, and Town General and Special Revenue funds.



REVENUE REDUCTION SUMMARY BY TYPE GENERAL FUND

Assuming Full Rollback rate of 3.0310

	Adopted FY 08/09	Proposed FY 09/10	Increase (Decrease)	% Change	Comment
General Revenues:					
Ad Valorem	6,538,046	6,501,502	(36,544)	-0.6%	95% of DR-420 amount (at 3.0310 rate)
Utility Taxes	1,910,000	1,875,300	(34,700)	-1.8%	95% of projection, assuming 6% decline in usage
Local Gov't Half-Cent Sales Tax	2,264,807	1,996,003	(268,804)	-11.9%	95% of amount assuming 10% decline
Communications Services Tax	1,538,143	971,897	(566,246)	-36.8%	95% of amount assuming 10% decline
Revenue Sharing	1,035,905	913,691	(122,214)	-11.8%	95% of amount assuming 10% decline
Franchise Fees	1,410,607	1,339,500	(71,107)	-5.0%	95% of projection, assuming 6% decline
License Registrations	105,000	200,000	95,000	90.5%	
Parks Fees	178,635	148,460	(30,175)	-16.9%	
Judgements and Fines	300,000	200,000	(100,000)	-33.3%	
Misc Revenues	28,000	75,000	47,000	167.9%	
Investment Income	190,000	145,000	(45,000)	-23.7%	
	<u>15,499,143</u>	<u>14,366,353</u>	<u>(1,132,790)</u>	<u>-7.3%</u>	



DEPARTMENTAL RECOMMENDATION SUMMARY GENERAL FUND

Assuming Full Rollback rate of 3.0310

Department	Adopted FY 08/09	Proposed FY 09/10	Increase (Decrease)	% Change
Mayor & Council	162,443	161,689	(754)	
Town Clerk	231,919	206,977	(24,942)	
General Government	2,258,603	1,846,127	(412,476)	
Finance	656,202	617,709	(38,493)	
Town Attorney	450,000	500,000	50,000	
Community Development	1,671,814	1,444,015	(227,799)	
Public Works	1,432,504	1,198,017	(234,487)	
Law Enforcement	8,900,296	8,002,064	(898,232)	
Parks	1,601,462	1,385,603	(215,859)	
	<u>17,365,243</u>	<u>15,362,201</u>	<u>(2,003,042)</u>	<u>-11.5%</u>