



October 1, 2007

Honorable Mayor and City Council Members
City of Boca Raton, Florida

Dear Mayor and City Council Members:

In accordance with Section 4.04 of the City Charter, I am pleased to submit the approved Operating Budget for the fiscal year beginning October 1, 2007, and ending September 30, 2008, which is a balanced budget as required by Florida Statutes. A balanced budget is defined as revenues and other sources equaling expenditures/expenses and other uses including reserves. The approved budget reflects a fiscally sound plan that provides the City the ability to address community needs, support essential services and to increase emergency reserves. For FY 2007-08, the Citywide combined uses of funds including operations, transfers and fund balance/reserves total \$486,588,200. The approved General Fund portion of the budget is \$158,999,100. The approved citywide total operating budget is \$363,297,400. The approved budget provides for a 7.88% **decrease** in the total ad valorem millage rate.

BUDGET DIRECTION

The goals and priorities established by the City Council, during the April 2007 Goal Setting Sessions, were used as a guide to prioritize funding in the FY 2007-08 budget. The approved budget supports the goals and priorities of the City Council while at the same time maintaining the City's outstanding service levels and AAA bond rating, with expenditures strategically linked to the goals, objectives, core businesses, and existing obligations of the City. The goals and policy agenda priorities include:

GOALS

- Financially Sound City Government
- Top Quality Municipal Services
- Strong Partnership with our Stakeholders

POLICY AGENDA PRIORITIES for FY 2007-08

- **Top Priority**
 - Workforce Housing Policy Direction & Strategy
 - Downtown Vision and Plan
 - FAU Strategy
 - FAU / Boca Raton Community Hospital Project
- **High Priority**
 - LIRP Interim Guidelines
 - FAU / I-95 Interchange
 - Wildflower Property Direction & Actions
 - Retirement / Pension Cost Containment Strategy

Detailed information concerning the Policy Agenda Priorities for FY 2007-08 is located in the Strategic Initiatives Section on pages 71-104. This section also includes action plans and core businesses of the City. Staff will continue to monitor revenue and expenditure trends very carefully. In order to balance the approved budget, it has been necessary to adjust operating expenditures significantly to address ongoing obligations and cost impacts within anticipated revenues. It remains imperative for the City of Boca Raton to continue to look farther ahead than the next fiscal year when making budgetary decisions in order to allocate resources efficiently and effectively and to control the costs of providing services. In addition to the general overall increase in operating costs, the City has several major capital projects nearing completion or anticipated to be completed during the next several years that will have an ongoing impact on the City's future operational costs. These projects include additional library facilities and expanded park operations.

HOW THE BUDGET AFFECTS ITS CITIZENS AND TAXPAYERS

The City strives to meet citizen requests for enhanced services and unfunded state and federal mandates through conservative long-term financial planning. Citizens are directly impacted by property taxes and the rising cost of property insurance and the City has maintained a very low property tax rate for a full-service city. The FY 2007-08 adopted budget includes a property tax rate decrease. In 2007 property values increased 2.95% in the City; 1.95% from reassessments of existing properties and 1.00% from new construction. The FY 2007-08 total millage rate is 3.3057 mills per \$1,000, which is \$.2829 or 7.88% less than FY 2006-07.

For FY 2007-08 a home with a taxable value of \$350,000 in the City of Boca Raton will pay \$99.01 or 7.88% less ad valorem taxes to the City than in FY 2006-07. The overall effect on citizens’ tax bills will depend mainly upon tax rates set by other governmental agencies and changes in the assessed valuation of each property. Taxes paid for State and Local Schools comprise the largest portion (39.26%) of the property tax bill while City of Boca Raton taxes comprise only 17.64% of any homeowner’s total tax bill.

	FY 2006-07		FY 2007-08		CHANGE		
	Millage	Tax	Millage	Tax	Millage	Tax	Percent
Total Millage Rate	3.5886	\$1,256.01	3.3057	\$1,157.00	(0.2829)	\$(99.01)	(7.88%)

The increase in property values in FY 2007-08 is significantly below the City’s twenty-year average growth rate of 7.35% and the smallest increase since 1994.

GENERAL FUND

The General Fund operating budget has decreased \$419,500 or .58% from the previous year. At the same time many costs of the City’s operations has increased from the prior year. In order to offset these increased costs and comply with the State Legislative mandates while maintaining a balanced budget, the City has had to make significant reductions in many areas of operations. The increases and decreases can be primarily attributed to the following areas:

<u>Category of Expense</u>	<u>Increase (Decrease) from Prior Year</u>
Police & Fire Salaries and Benefits	\$2,223,000
Police & Fire Overtime	(697,000)
General Employees Salaries and Benefits	1,930,400
Personnel Reductions	(2,892,100)
Payment to Community Redevelopment Agency	(164,400)
Electricity	319,300
Vehicles and Capital Recovery Costs	572,200
Property Insurance	150,200
Other Professional Services	(523,500)
Supplies	(302,200)
Capital Items	(64,100)
Computer Purchases	(318,500)
Special events	(147,000)
Education, training and travel	(94,700)
Non-Profits	(45,700)
Other Operating Expenses	<u>(365,400)</u>
Total Increase (Decrease) in Operating Costs	<u>\$(419,500)</u>

Operating expenses, including, salaries and benefits, electricity, information technology systems maintenance and software costs, continue to increase for FY 2007-08. The approved budget includes significant reductions in personnel costs and other categories of operating expenses to provide a balanced budget and a property tax reduction. In order to achieve an overall budget reduction of \$419,500, operating expenses were reduced by \$4,934,000. All revenues and expenditures were carefully evaluated to identify possible cost reductions to produce an approved operating budget in compliance with the State Legislative mandated millage rate reduction without increasing other fees and charges for services to residents. The approved budget supports existing programs and maintains the City’s overall levels of service. During FY 2007-08 the cost of providing sanitation services is projected to be \$4,937,500, which is a decrease of \$101,500 or 2.01% from the prior year. In order to ensure effective and efficient operations, the City will continue to review several different service delivery options for the provision of sanitation services opportunities during the year, including but not limited to franchising and privatization.

The Approved FY 2007-08 budget also eliminates the borrowing of \$30 million, with an annual debt service of \$2,595,000, for the acquisition and construction of a pedestrian friendly downtown plaza.

There are several large scale Capital Improvement Projects (CIP) scheduled for FY 2007-08 including: the renourishment of the North and South beaches, the installation of a closed drainage system in the Boca Raton Heights Subdivision, the widening of N.W. 12th Avenue, the rebuilding of Fire Station No. 5, and a new downtown library. Due to the significant increases in construction costs and the State Legislature limits on property tax revenues, the FY 2007-08 approved budget includes a transfer from General Fund reserves of \$9,454,500 to complete these projects in a timely manner.

The new State Legislature mandated property tax reform combined with a slowing real estate market will have a significant impact on the City's budget for at least the next several years. Current projections indicate that General Fund revenues will grow at an estimated rate of 4% annually for the next several years while at the same time operating expenses are projected to increase 6% annually. In addition, in January 2008 Florida voters will vote on a constitutional amendment for property taxes which, if approved, could further reduce the City's revenues by an additional 4% or approximately \$2,500,000 in FY 2008/09. In the upcoming years, as a result of these issues, the City will likely be faced with some difficult choices between raising fees and taxes and maintaining existing services.

WHAT'S NEW FOR 2008?

Due to the increased operating cost impacts mentioned above and property tax revenue constraints, the City is severely limited in its ability to support planned service expansions, implement new programs, and hire new personnel without increasing taxes or changing existing service levels.

Program Changes

There are no new programs approved for FY 2007-08

The following programs been eliminated for FY 2007-08

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|--|-------------------------------------|
| ➤ City Hall Annex at Town Center Mall | ➤ Live from Downtown Concert Series |
| ➤ Sunset Music Series | ➤ Halloween Happenings |
| ➤ Holiday Boat Parade Funding | ➤ Green Market |
| ➤ Smart Choices in Schools | ➤ Grants Writing Consultant |
| ➤ BRET (Boca Raton Educational Television) Funding | |

The following programs have been scaled back for FY 2007-08

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|--|-------------------------------|
| ➤ Fourth of July | ➤ Tree Lighting |
| ➤ Holiday Parade | ➤ Allianz Golf Tournament |
| ➤ Festival of the Arts BOCA | ➤ Funding for Not-for-Profits |
| ➤ PAL (Police Athletic League) Funding | |

Personnel Changes

The approved budget includes the elimination of 72 full-time positions for FY 2007-08. This includes 48 vacant positions and 24 positions that were filled. The eliminated positions are summarized below:

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|--------------------------------------|--|
| ➤ City Managers Office – 2 Positions | ➤ Development Services – 4 Positions |
| ➤ Police Services – 6 Positions | ➤ Fire-Rescue Services – 2 Positions |
| ➤ Municipal Services – 9 Positions | ➤ Recreation Services – 31.7 Positions |
| ➤ Beautification - .5 Position | ➤ Beach & Park District – 10.8 Positions |
| ➤ Utility Services – 5 Positions | ➤ Information Technology – 1 Position |

In addition, the approved budget includes the elimination of 70 part-time positions for FY 2007-08. This includes 49 vacant positions and 21 positions that were filled.

The approved budget combines the Office of Management and Budget and the Financial Services Department. This reorganization increases operational efficiency, improves internal controls, provides for better overall coordination and projection of revenues and expenditures, and results in cost savings.

FUND BALANCE PROJECTIONS

Consistent with the General Fund Long Range Financial Plan, the planned fund balance provides revenues to be used in the next year's budget. The total fund balance is projected to be \$30,443,200, which includes a reserve for emergency preparedness of \$5,200,000. The fund balance therefore exceeds 10% of operating expenditures, which is the minimum recommended for coastal communities by Moody's Investors Services. Should any of these funds be used to provide

additional programs or projects within the current year, the Long Range Financial Plan projections will need to be reanalyzed.

OTHER FUNDS

The General Fund is just one component of the City's overall budget. The category of "other funds" also has significant impact upon the citizens of Boca Raton and overall service delivery. These funds include: Water and Sewer Enterprise Fund, Right-of-Way Beautification Fund, Greater Boca Raton Beach and Park District Fund, Cemetery and Mausoleum Fund, and the Golf Course Enterprise Fund. The City manages and allocates resources from these funds in support of its overall vision, mission, goals, and objectives.

Cost of services provided to the Beach and Parks District for FY 2007-08 decreased by \$911,200.

The City's Right-of-Way Beautification Fund provides the maintenance for the landscaped medians in the City. Due to continued expansion in the median beautification program, increased costs of existing medians, the Beautification Fund may not be able to continue to support the costs of maintaining and beautifying the medians in the future without support of the City's General Fund. This would have an adverse affect on the City's General Fund.

The Water and Sewer Enterprise Fund and related portions of the budget includes a Consumer Price Index (CPI) increase of 2.73% in rates. The increased cost of electricity and chemicals is having a significant impact on the Water and Sewer Enterprise Funds. For FY 2007-08 the cost increase for these two items alone is estimated to be \$1,415,400 or 19%. Since FY 2004-05 these costs have escalated \$3,316,200 or 60%. The City commenced a Water and Sewer rate study in FY 2006-07 and will present the recommendations in the Fall of 2007.

ANNEXATION

The approved budget does not include any funds to provide services to the areas that may be annexed to the City. If the City decides to implement any annexations, the budget may need to be amended to provide services to the newly incorporated areas. It is anticipated that reserves will be used to fund these services for the first year, if required. No annexations are currently being studied.

RISKS INVOLVED IN BUDGET PROJECTIONS

The budget document is based upon the most current financial information available. Since none of us can predict the future with certainty, staff must assume that, in presenting this budget, all amounts used can be reasonably relied upon. **In particular, under-performance in the stock markets and its impact on the City's pension plans, potential declines in overall property values and continued increases in fuel costs, among other factors, could have a significant impact on the City's operating revenues and expenses.**

CONCLUSION

This budget incorporates the recommendations and analysis of your professional staff. The recommended programs and staffing support the Goals and Policy Agenda Priorities established by City Council.

I wish to thank the Mayor and City Council for sharing your priorities and ideas for the City during the Goal Setting Session so that they could be reflected in the proposed budget. I extend my appreciation to the Department Heads and their staff for their dedication to the timely and effective completion of the budget, and I especially thank Linda Davidson, and the Office of Management and Budget staff, Sharon McGuire, Ella Moore Poitier, Nancy Asher, and Leslie Harmon for their dedication in the creation and compilation of this document.

Sincerely,



Leif J. Ahnell, C.P.A., C.G.F.O., C.P.F.O.
City Manager