



The City of Melbourne



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July 9, 2009

Mayor and Council
City of Melbourne
Melbourne, Florida

INTRODUCTION

The Proposed Budget for the fiscal year ending September 30, 2010 is presented for your consideration. Because the national economy, State revenues, and local economic patterns and trends are all in decline, the staff and administrative leadership of the City have identified steps to reduce expenditures or hold them constant. This cost cutting is necessary despite the expanding need for local government services and products during the downturn economy. Compounding the dilemma for city, county, and school boards has been some very decisive anti-local government actions by the Florida State Legislature in the form of legislation limits and allowances for the voters to “just pay less.” Local governments face the challenge of meeting multi-year labor obligations and the continual rise in cost of government staples such as, fuel, energy, chemicals, and construction. This task is daunting. The remainder of this message will provide a summary of the main fiscal and budgetary direction proposed for the coming fiscal year.

The Proposed Budget offers expenditures based upon revenues projected for fiscal year 2010. Revenues have declined because of the continuing recession. Reductions are evident in State shared revenues, EMS revenue, building/construction related revenues, water sales, and income at the golf courses. Revenues have also declined because of action by the Florida Legislature limiting property taxes, reducing traffic citation revenues, and reducing SHIP funding.

Proposed revenues in all Funds have been adjusted to reflect collection trends and previously approved rate changes. Melbourne’s administrative leadership with the support of the City Council began two years ago to implement measures to hold the line on expenditures to cope with the continuing fiscal downturn. These measures and more are necessary to provide a balanced budget, yet provide vital and important services to our citizens in the next fiscal year.

The total Combined Budget **decreases \$31.6 million** from the 2009 fiscal year to the 2010 fiscal year. For historical context, Table 1 compares the proposed Fiscal Year 2010 Budget by major fund and type to the previous (2008) fiscal year actuals and the current (2009) Revised Budget.

Table 1

<u>CITY BUDGET - ALL FUNDS</u>			
	2007-08	2008-09	2009-10
		Revised	Proposed
<u>Fund</u>	<u>Actual</u>	<u>Budget</u>	<u>Budget</u>
General	\$ 69,644,437	\$ 69,326,279	\$ 69,290,209
Water and Sewer	50,921,514	54,472,468	45,096,315
Golf Courses	2,557,141	2,759,013	2,503,060
Special Revenue			
Housing	718,404	708,785	660,266
CDBG	576,731	555,154	561,885
HOME	247,476	238,832	270,159
SHIP	705,150	705,150	81,409
Downtown	795,831	920,486	797,188
Babcock	673,268	793,274	762,095
EGRF	294,328	443,120	385,124
Stormwater	1,301,026	1,420,918	1,310,000
Insurance			
Risk Management	2,957,505	2,557,471	2,096,210
Workers' Comp	1,717,846	1,536,484	1,348,524
Capital Improvements	23,405,076	24,812,824	4,466,235
TOTAL	\$156,515,733	\$161,250,258	\$129,628,679

References in this Proposed Budget do not include the Airport Authority's proposed budget, which will be provided separately for Council consideration at the September Public Hearings.

Significant factors unique to each Fund are described in the following sections.

GENERAL FUND

The single largest General Fund revenue source is property tax. The Council may establish a millage rate of 5.5425 mills with a super-majority vote as permitted by general law and the special act limited to Brevard County. Although the needs are evident and a higher rate is justifiable and well within the Brevard Special Act Limitations, that rate is not recommended in this budget. That higher millage rate would

generate an additional \$1,593,970 in property tax revenue that could be used to expand the street resurfacing and storm drainage programs to offset the reduced levels of funding in recent years. Because of inflation and tight budgets, the street resurfacing program has been reduced to a replacement rate of every 40 years instead of the more appropriate rate of replacement every 20 years. The Council may wish to offer voters an option to consider capital program enhancements via property tax or other revenue sources.

In 2007 the State Legislature placed limits and reductions on property tax revenues and provided that for the 2010 fiscal year the maximum millage rate with a majority vote is the rolled back rate as adjusted by a State determined factor for population and CPI growth. This year that factor is 2.5%. The property tax revenue included in the Proposed Budget is at a rate of 5.1646 mills. This recommended rate which corresponds to the new legislatively prescribed formula for local tax rates may not be exceeded without a supermajority vote of Council. This is an estimated millage rate because final property values have not been certified by the Property Appraiser for determination of the rolled back rate. It is anticipated that as a result of the final Value Adjustment Board process, the rate above will be decreased an additional 1.0% to 3.0%, (i.e., .05 to .15 mills). Taxable assessed valuation has decreased over \$882 million, or 17%, in the last two years.

The total General Fund budget proposed at \$69.3 million has been essentially flat over a four year period. Inflation adjusted, at \$69 million, the General Fund is 6.0% below that of four years ago. Even though expenditures have been reduced elsewhere in the General Fund, it is necessary to appropriate \$896,819 from Prior Year Surplus to balance the budget. This appropriation represents a use of one-time, non-recurring "revenue" to fund a portion of capital improvements and capital equipment. As approved by Council direction in April, the Budget also includes increased revenues associated with charging standard fees for all groups utilizing the Melbourne Auditorium and Front St. Civic Center, charging all applicants for all services required for runs, walks, and parades; charging all sports organizations for ball field lighting; and increasing summer camp fees.

A significant exception to the flatlined expenditures and one with a major General Fund impact is the increased employer contribution rates for Police and Fire pension plans for next year, as a consequence of investment losses last year. The employer contribution rates increased 21%, or \$237,150, for the Fire Pension Plan and 34%, or \$502,450, for the Police Pension Plan. Because of continued poor investment performance, it is very likely these contribution rates will continue to increase significantly in similar or higher amounts.

SPECIAL REVENUE FUNDS

Housing and Community Development—The federal Community Development Block Grant (CDBG) and HOME program revenues are relatively unchanged from the current

year. The State-funded SHIP program has been severely reduced by more than \$600,000 because the Legislature raided trust funds to balance the State budget. Stimulus funds from the American Recovery and Reinvestment Act (ARRA) are anticipated to fill the gap. ARRA funds will be separately budgeted as each program is awarded.

Community Redevelopment Agencies (CRA)—The Downtown Redevelopment, Babcock Street Redevelopment, and Olde Eau Gallie Redevelopment Agencies all will have tax increment values lower than in the current year. Council made the decision for 2009 to fund tax increment payments at 85% of the tax increment value and that rate of funding is continued for 2010. The modest revenue decreases in these funds are offset by reduced capital expenditures.

WATER AND SEWER SYSTEM FUND

The Water and Sewer Budget is decreased by more than \$9 million dollars from the current year. This is largely because there is no appropriation from Prior Year Surplus for capital projects, as is the case in the current year budget, along with decreased water and sewer impact fee revenues associated with the decline in the building construction industry. Water Sales and Sewer Charges include an overall 5% rate increase that was part of a series of rate increases approved in 2007. The increased revenues only reflect the rate increase since consumption has been flat. Capital projects have been significantly reduced for 2010 to preserve cash flow and to avoid the need for a bond issue next year. Debt service expenditures are reduced by nearly \$2 million due to reduced bond debt service requirements.

STORMWATER UTILITY FUND

Stormwater fees are unchanged at \$21.60 per equivalent residential unit. Stormwater fee revenues are consistent with the current year. Projects scheduled to begin next year are Shenandoah Basin, Spain Street Basin, Fabriform headwalls throughout the City, and a study of the West Eau Gallie Drainage Basin.

GOLF COURSES FUND

The Proposed Golf Course revenues reflect the previously adopted annual fee increases, which correspond to adjustments in the CPI. The Golf Course Advisory Board has recommended the fee increases for electric cart rental and range balls included in the proposed Budget, as well as Brevard County resident rates for daily greens fees. Despite these fee increases, revenues are projected to be less than the current year because golf course usage is reduced by the poor economy. Revenues barely provide for operations and debt service and do not provide for needed capital improvements.

INSURANCE FUND

The Risk Management Fund provides for general liability and property damage coverage with costs allocated to user funds. The Workers Compensation Fund is a self-insured program that is also allocated to user funds. Because of favorable insurance premiums and favorable claims experience, charges to user funds are reduced next year to provide expenditure savings in nearly all operating budgets.

CAPITAL IMPROVEMENT FUND

Capital improvements projects expenditures are reduced more than \$20.3 million from the current level. This is primarily due to the substantial reduction in Water and Sewer projects, as well as, reduced funding for road and drainage projects. The five-year plan is provided in Appendix II. A significant number of projects have been postponed to later years because of funding constraints. As in the past, only the first year (2010) of the multi-year plan has secured funding.

MAJOR EXPENDITURE ISSUES

Overall, City expenditures reflected in the Proposed Budget are down \$31.6 million, or 20%, from 2009 levels. All expenditure reduction measures incorporated in the 2009 Budget are carried forward to the 2010 Budget. All the actions approved by the City Council at the April 28, 2009 meeting have been incorporated in the 2010 Budget, except the reduced school resource officers, since the Brevard County School Board agreed to provide partial, but increased funding, and the Council accepted this rate at a previous meeting.

Personnel expenses are proposed to increase \$1.6 million. This is due to contractual wage commitments for Police and LIU bargaining groups and modest adjustments for IAFF and general employees, offset by the economic value of furlough days, and increased pension contributions. To offset substantial contractual payroll expense increases from two of the City's largest employee groups next year (Police at 4.5% and LIU at 5.5%) and to avoid claims of disparate treatment from other employee groups, staff has pursued discussions to renegotiate some terms. These are multi-year contracts and discussions are taking one or more of the following directions:

1. Delay some or all of the scheduled raises within the next fiscal year (to April instead of October).
2. Delay some or all of the scheduled raises to a subsequent fiscal year.
3. Pay cash (lump sum) for some or all of the scheduled raises.
4. Negotiate substantially lower future increases in contracts.
5. Reduce costs or trade away from current benefit levels such as insurance, leave accruals, leave payouts, DROP and pension provisions, holidays, holiday call-back pay, and overtime.

6. Impose furlough days (1-6 unpaid days off per year) per Council budget direction in April.
7. Restructure health insurance to allow a third consecutive year of no increases in premiums.

Personnel expenses have been reduced as a result of normal attrition, delayed hiring, position elimination, and expedited attrition through the voluntary severance buyout program. This has resulted in the combined decrease in staff of nearly 37 positions from the previous total of 870 a few years ago. Aggressive use of these cost-cutting programs has saved millions in payroll costs and, in addition to the economic savings in furloughs, is expected to continue to provide big savings. A summary of the savings is presented here and a list of the affected positions is provided in the appendices to this letter.

1. Frozen or eliminated positions saved approximately \$582,000 in 2009, and are expected to save \$1.3 million in 2010.
2. Current vacant positions saved \$313,000 through June 2009, and savings from the soft hiring freeze (60-day delay in hiring) saved nearly \$364,000 last year.
3. Expedited attrition through the recently enacted buyout program is estimated to save \$484,000 next year.

Of course, the work performed by these positions is either not getting done or is done in ways that are not as timely or effective. Because of so many “lost” positions, the work burden is often transferred to remaining workers.

Additional savings result from reductions in overtime costs in recognition of the holiday/vacation swap negotiated with Police and LIU bargaining units, reductions in overtime in the Fire department in anticipation of reassignment of three Station 73 personnel, and reductions in salary expense at the Community Centers as the operating hours of the Centers have been reduced. Savings are also realized in the General Fund and Housing and Community Development Fund because some Planning staff costs have been allocated to the three Community Redevelopment Agencies, two police officer positions are held vacant in anticipation of a special ARRA/Byrne grant award, and the CDBG Coordinator costs are charged to projects.

Operating expenses, debt service, and transfers are proposed to decrease \$12.1 million. While there have been no major programmatic reductions, operating costs in all areas have been reduced and the City has benefitted from the reversal of the energy cost run up since 2008. Significant reductions in transfers for capital projects represent the largest change in this category as capital projects are being postponed because of revenue constraints. Debt service was reduced because of the final payment of the bonds that financed the Babcock Police Facility and reduced water and sewer bond debt service requirements. Transfers to Water and Sewer Impact Fee Reserve accounts are reduced because of the decrease in those revenues. Reductions in Risk Management Charges are reflected in the user funds. The Water and Sewer System

auto read meter replacement program was cut in half. Funding for grants to local not-for-profit organizations was reduced by one-third as directed by Council in April.

Capital outlay, major vehicles, and equipment, included in the division budgets, is proposed to decrease nearly \$800,000 to \$2.8 million. Approximately \$2.7 million that was scheduled for equipment replacement this year as identified in the 2009 Budget has been further deferred.

Capital improvements are proposed to decrease \$20.3 million. This is a significant reduction from traditional levels. The single biggest decrease is in Water and Sewer projects, down \$17.5 million from the current year. This postpones the need for bond financing and preserves cash resources. Typically, the Water and Sewer Fund transfers \$3-million to \$4-million each year to fund ongoing maintenance and improvement projects, but this has been reduced to \$275,000 in 2010.

PAY ADJUSTMENTS AND HEALTH INSURANCE

Pay adjustments have been factored in the budget at a level that meets contractual obligations, but reduced by furloughs as directed by the City Council in April. Negotiations continue with all labor groups to achieve savings. For the non-unionized employees and IAFF represented employees, a pay adjustment is more likely to occur mid-year rather than during the traditional October time period. It is recommended that non-unionized employees pay rates be adjusted at roughly the same range of increases as the unionized employees to offset any claims of disparate treatment. Non-contracted pay changes are typically brought for Council action in late September or early October.

While minimal increases have been included in the Proposed Budget for health insurance increases, it is expected that any such increases can be mitigated by restructuring the benefits slightly to avoid health insurance rate increases for a third year.

ONGOING FISCAL ISSUES

The effects of the economic downturn are expected to linger for the next few years. Even when the economy starts to improve, there will be a lag before improvement is realized in the government sector. Management will be diligent in pursuing methods to reduce costs, particularly those steps identified for further study at the April 28, 2009 Council meeting. Staff is seeking stimulus money to reduce energy costs, consolidation of dispatch services, and possible transfer of police officers to the FRS to displace operating costs. Although no funding is recommended for reduction of Other Post Employment Liability (OPEB), staff is continuing efforts to mitigate this liability through contract negotiations and legislative changes.

The significant reduction in capital equipment purchases and capital improvements is a temporary measure. These investments are needed, although they must be deferred to a future year. To the extent that failures occur in capital equipment, facilities, or infrastructure, expenses will be handled on an emergency basis as funding permits.

ACKNOWLEDGMENTS

I wish to express appreciation to all staff who continue to provide outstanding levels of service despite very serious staffing reductions. Department Directors and all department staff have been very forthcoming with suggestions to reduce costs and restructure operations. The Budget staff faced a considerable challenge to prepare a balanced budget in light of the poor economic outlook. It is my belief that this document reflects staff's best plans, and recommendations for continued services to our citizens. With the guidance and leadership provided by the Mayor and City Council, we will make every effort to provide quality services to Melbourne residents and businesses.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jack M. Schluckebier".

Jack M. Schluckebier
City Manager

JMS:ml

c: Department Directors

FROZEN POSITIONS

<u>Department</u>	<u>Position</u>
Management Services	PC Technician Senior Budget Analyst
Financial Services	Accounting Specialist
Leisure Services	Maintenance Worker I Maintenance Worker I Maintenance Worker I (.4 FTE) Recreation Aide (.51 FTE) Recreation Leader (.4 FTE) Senior Secretary
Police	Deputy Chief Police Officer Police Officer SRO Police Officer SRO
Fire	Code Compliance Inspector Fire Captain
Planning & Economic Development	Planner
Engineering	Traffic Engineering Supervisor
Public Works & Utilities	Assistant Fleet Management Supervisor Clerical Assistant II Clerical Assistant II Electrician Lab Supervisor Maintenance Worker I Meter Reader Operations Supervisor Senior Secretary Water Production Operator C Water Production Operator C Water Production Operator C Water Reclamation Mechanic Water Reclamation Operator B
Housing & Community Development	Rehabilitation Specialist

VACANT POSITIONS

Department

Division

Leisure Services

Custodian
 Equipment Operator I
 Maintenance Crew Leader
 Maintenance Worker I
 Maintenance Worker I

Police

Communications Officer
 Community Service Officer
 Police Officer
 Police Officer

Fire

Firefighter
 Firefighter

Engineering

Traffic Engineering Manager

Public Works & Utilities

Equipment Operator III
 Maintenance Worker I
 Maintenance Worker I
 Maintenance Worker I
 Maintenance Worker II
 Maintenance Worker II

FROZEN POSITIONS FOLLOWING VOLUNTARY SEVERANCE BUYOUT

<u>Department</u>	<u>Position</u>
Management Services	Clerical Assistant I Personnel Director
Financial Services	Accounts Clerk (.5 FTE)
Leisure Services	Custodian Equipment Operator I Maintenance Worker I
Engineering	Principal Secretary
Public Works & Utilities	Equipment Operator I Equipment Operator II

POSITION REDUCTION – VOLUNTARY FURLOUGH

Police	Records Clerk
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