



## **OFFICE OF THE CITY MANAGER**

**City of Lake City  
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**October 12, 2009**

**MEMORANDUM FOR:** Mayor and City Council

**FROM:** Wendell Johnson, City Manager

**SUBJECT:** Fiscal Year (FY) 2010 Budget and Administrative Activity Report

### **INTRODUCTION**

Pursuant to Section 404(f) of the City Charter, I am pleased to provide the FY 2010 Finance and Administration Activity Report for your information and use. The City's 2010 budget preparation process was completed with the Council's adoption of Millage Resolution 2009-094 and Budget Resolution 2009-095 on September 28, 2009. The City Council and Staff held three (3) workshops during August and September 2009 leading to the tentative and final "balanced" budget adoption. The cooperation and assistance of the Staff in preparing the budget is greatly appreciated. This report, along with the adopted budget will be posted for public access and information on the City's web site.

Throughout the budget process, the Staff stressed that budgetary pressures would continue throughout FY 2010 and more than likely escalate into FY 2011. With this belief, the City must explore and take advantage of every option for stabilizing and balancing the budget within each respective fund while maintaining the satisfactory performance of core public services.

The City Staff have been charged to be practical in an effort to identify options for funding adjustments and operational changes that could help cut the City's expenses. Dealing swiftly with known funding limitations and threatening budget trends can minimize the anticipated 2011 shortfall that, if unchecked, could severely limit the City's ability to provide basic services to the community in the next couple of years. The need and importance of holding Council/Staff budget workshops beginning no later than January 2010 cannot be overstated. The Staff will present various options for operational cost reductions and revenue enhancements for Council consideration during these workshops including but not limited to:

- a. Alternative services delivery
- b. Personnel costs
- c. Utilities and energy costs
- d. Fleet analysis
- e. Health and safety costs
- f. Opportunity costs for investments
- g. Surplus property
- h. Community redevelopment

The City must aggressively examine each and every facet of its operation in order to reduce unnecessary costs. The objective of budgeting workshops will be to allocate available fiscal resources against the most critical citizen needs without reducing the City's quality of life.

### **ORGANIZATIONAL CLIMATE**

The City's organizational climate throughout FY 2009 was hectic to say the least. Public opinion was generally unfavorable and employee morale suffered. The absence of the crucial leadership positions of a permanent City Manager and Police Chief lead to many months defined by an apprehensive and unstable organizational environment. During the three-month period ending FY 2009, the City hired a new City Manager and a new Police Chief which has provided a "much-needed" calming effect leading into FY 2010.

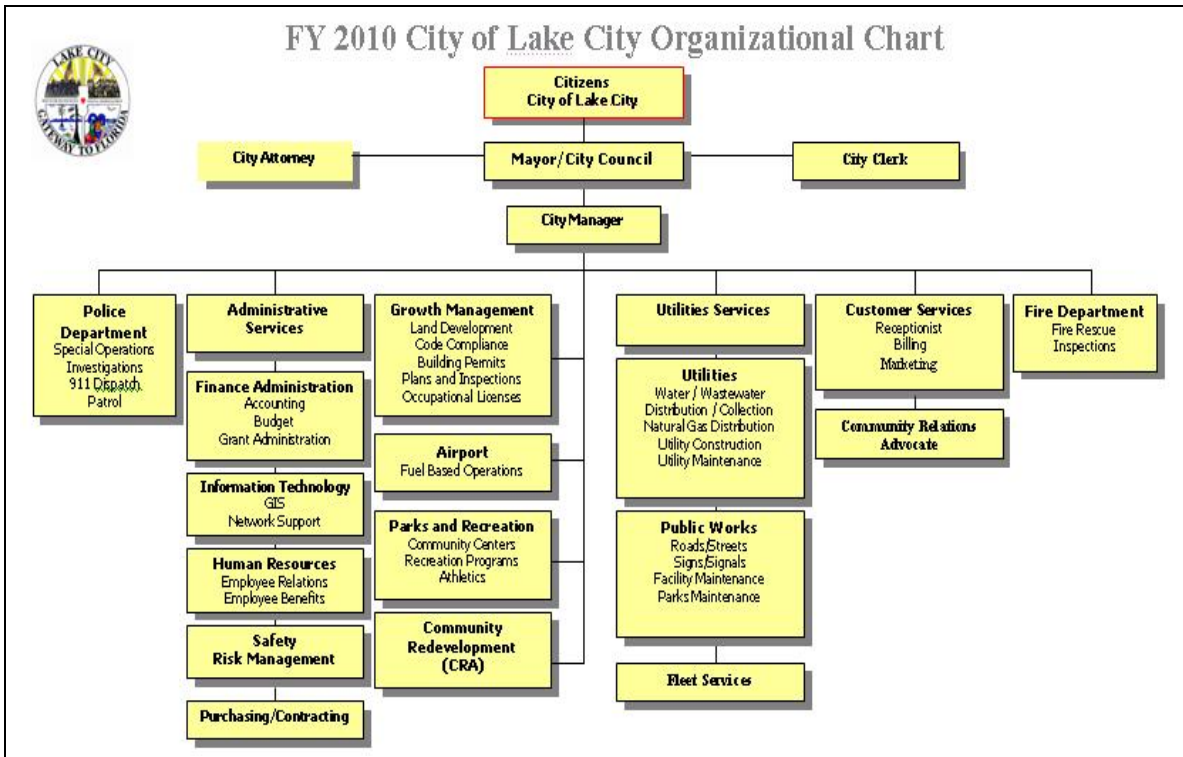
Organizational changes were made in August and September 2009 not only intended to reduce personnel and operational costs, but more so, to enhance workforce confidence and efficiency for FY 2010. The most observable organizational change from FY 2009 was the creation of the City's Administrative Services Department and designation of the "Administrative Services" Director position. As shown in the FY 2010 Organization Chart (Page 3), a more customary and practical line of supervisory authority is now in place.

Staff will move promptly during FY 2010 to prepare and implement a new employee "Classification and Pay Plan" to improve administration of our personnel resources. As we move through the planning phases for the new Classification and Pay Plan, the Evergreen Study will be reevaluated and all pay adjustments made during the three-phase implementation period will be validated. Inconsistencies identified during the process will be corrected.

The classification document will be the first step to improving the City's overall Personnel Management System and will be incorporated into a total revision of the City's Personnel Policy Manual. The need and purpose for total revision of the Policy Manual is evident since the current edition is dated 1995 and thirty-four Personnel and Administrative Directives have been issued since the current manual was implemented. The new manual will establish uniform procedures and serve as a guideline for all personnel activities and will provide customary and reasonable methods to accomplish the goals and objectives of the City Personnel Management System. The new manual

will aid dramatically in stabilizing the organizational climate based upon consistency with the following principles:

- a. Recruiting, selecting and advancing employees on the basis of relative ability, knowledge and skills, including open competition of qualified applicants for initial employment and advancement.
- b. Training employees, as needed, to assure high quality performance.
- c. Retaining employees on the basis of the adequacy of their performance, upgrading substandard or marginal performance, and separating from service those employees whose substandard or marginal performance cannot be upgraded to acceptable standards.
- d. Assuring fair treatment of applicants and employees in all aspects of personnel administration without discrimination with regard to political affiliation, race, color, national origin, citizenship, sex, age, religion, disability, military or veterans status, marital status or any other legally protected status.
- e. Providing for a transparent, fair and consistent system for the presentation and resolution of employee complaints.



## THE FINANCIAL CLIMATE

The financial climate of the City may be determined by review of its recurring revenues, reserve revenues, expenditures, liabilities and debt service. By definition, good financial condition means the City can support its public services on an on-going basis, continue to maintain existing levels of service in all areas, reasonably withstand further economic disruptions, respond to needed changes, and fund needed capital improvements. The City is generally in good financial condition and has reserve funds which are currently at an appropriate threshold based upon the FY 2010 Budget. However, it is a concern that the City does not presently collect sufficient revenue to effectively finance its major infrastructure needs. Expenditures to improve City roadways, walkways, building facilities, and most of all, funds for expansion of the Waste Water Treatment system are examples of pressing infrastructure needs.

For FY 2010, the City's General Fund revenue decreased by five percent (5%) while expenditures increased by four percent (4%). This condition supported a decision by the Council to increase the tax rate from the prior year's 3.5550 to 3.7741 mills. The Columbia County's Certification of Taxable Value revealed a growth in Lake City's tax base of \$82,000,000 -- a substantial amount considering economic conditions. With the 3.7741 millage rate imposed for FY 2010, new Ad Valorem tax revenue of \$395,011 is reflected for the City. However, \$343,000 of the projected new tax revenue is obligated for payment to the Columbia County Industrial Authority leaving the City only a modest gain of \$52,000 in Ad Valorem revenue for FY 2010. Other decreases in the General Fund included \$334,752 in state shared funds, \$140,000 in local option revenue, and \$288,643 in interest revenue. When combined with increased expenditures, the City had little choice but to carry forward \$793,251 of General Fund reserves for its capital needs.

Due to the decline in General Fund revenue, the City was not able to provide deserving cost of living (COLA) and merit increases to its employees for FY 2010. To provide these pay benefits would have obligated the City to an additional recurring personnel cost of approximately \$475,000.

The City's FY 2009 personnel costs were \$13,235,334 as compared to the FY 2010 personnel costs of \$12,889,283 -- a \$346,051 reduction. The actual decrease in employee salaries was \$447,168. For clarification in understanding these differences, the transfer of eight (8) dispatch employees to the County (-\$300,000) is primary. Other assorted personnel adjustments provide for the remaining reduced costs. Even with an increase of 4.7% percent in health insurance costs (\$141,439) and the obligation of the City to implement the third and final phase of the Evergreen Pay Study (\$50,000), personnel costs declined noticeably for FY 2010.

Added measures to hold the line and reduce future personnel costs will consist of continued enforcement of a "hiring freeze" other than for essential positions such as fire and police officers and key supervisory personnel. Modified personnel programs designed to enhance cost efficiency will be thoroughly evaluated. Examples of such programs include establishing a "sick leave" bank, offering a health insurance "opt out"

incentive, reducing uniform allowances, offering voluntary retirement buyout, and elimination of vehicle take home where possible.

Funding of Enterprise Fund activities (Water/Sewer/Gas) for FY 2010 should also be viewed with an “air of concern.” The City’s Water/Sewer Fund debt service ratio is near 30% leading into FY 2010 and the influence this could have on future water/sewer infrastructure needs is yet to be determined. All three funds are nearing final completion of rate studies which are intended to bring user fees within an appropriate range to assure adequate revenue for: 1) O&M Expenses; 2) Quality Capital Improvement Programs; 3) Debt Service; 4) General Fund Assessments; and 5) Reserve Set Aside. The rate proposals will be submitted to the City Council for consideration and action by the end of November 2009.

Public perception of the water/sewer “availability” charges continues as a sore spot and the “fixed-costs” rationale in applying this fee is for the most part misunderstood, particularly by owners of vacant properties. The soon-to-be completed water/sewer rate study will provide options for consideration by the Council to redefine the purpose and application of this fee. Staff will request the Council to consider alternatives in assessing the fee to “vacant” properties, possibly providing some form of relief.

Unexpectedly, the City’s “Proprietary” Funds (retirement accounts) are also volatile and subjected to additional expense. For FY 2009, the City had to pay an additional \$32,368 for the Police Pension Fund and \$23,401 for the Fire Pension Fund. It may be reasonably expected that this underpayment may occur again for FY 2010.

In summary, the City’s “budget climate” presently appears stable in both its General and Enterprise Fund activities. However, as revealed during the FY 2010 budget workshops, a great number of needed capital infrastructure and equipment requests were denied because of funding limitations and only the most essential projects were funded. Overall, the City’s Capital Improvement Program (CIP) is seemingly “spontaneous” with no evidence of a prioritized and proactive CIP for each year. A condition has evolved whereby capital needs are excessive in the areas of streets, storm water, sidewalk, water/sewer and public facility repair/improvements. The City also has a disproportionate number of vehicles and equipment which have exceeded operational life expectancy thereby adding to inappropriate maintenance costs. With a fleet services budget of nearly \$500,000, the Staff will evaluate alternatives for fleet services during FY 2010.

Finally, revenue transfers from Enterprise Funds to the General Fund are inconsistent and driven largely by a General Fund deficit which must be considered as excessive. Although the City can be proud of its historically low Ad Valorem tax rate, the consequences are reflected by several indicators noted in the preceding paragraph, compounded by the most obvious effect - no funds for reserve set aside. Therefore, a methodical and detailed review of the City’s financial practices should be immediately implemented with the objective of eliminating conditions that will surely worsen as time goes by.

## BUDGET OVERVIEW

The City's **FY 2010 Operating and Capital Budget totals \$32,989,050**. The FY 2010 budget decreased by \$2,094,523 which is six-percent (6%) less than the FY 2009 budget. The City is funded at an acceptable level to provide continued quality services to its residents during the coming year. Departmental adjustments are shown as follows:

	<u>FY 2010</u>	<u>FY 2009</u>	<u>Increase (Decrease)</u>
<b>General Fund</b>	\$13,836,292	\$13,340,028	\$496,264
<b>CRA</b>	\$836,394	\$1,021,648	(\$185,254)
<b>Gas</b>	\$4,070,423	\$5,898,240	(\$1,827,817)
<b>Water/Sewer</b>	\$10,731,559	\$10,419,450	\$312,109
<b>Airport</b>	\$1,285,998	\$2,146,825	(\$860,827)
<b>Fire</b>	\$1,929,409	\$1,960,734	(\$31,325)
<b>Debt Service</b>	<u>\$298,975</u>	<u>\$296,648</u>	<u>\$2,327</u>
<b>TOTALS:</b>	<b>\$32,989,050</b>	<b>\$35,083,573</b>	<b>(\$2,094,523)</b>

Balancing the FY 2010 Budget was met with adversity and many detrimental decisions. Most noticeable, eliminating an assortment of capital projects and purchases to provide sufficient revenue to meet essential operational costs was required. Nearly all the capital projects removed for this purpose were realistically needed. The FY 2010 Budget passed with an increase in the City tax rate from \$3.5550 per \$1,000 of taxable valuation to \$3.7741 per \$1,000 of taxable valuation. It may be assumed that the actual impact on the tax bills for many taxpayers will be less than the millage rate increase because most of the property owners realized a decrease in assessed taxable value. In order to fund "essential" capital needs and balance the budget, the City was required to draw from both General Fund and Enterprise Fund reserves. Also, due to extreme revenue shortfalls, the City was unable to fund employee cost of living or merit increases for the coming year. The FY 2010 Budget overview follows:

### PROJECTED REVENUES - UNRESTRICTED

Ad Valorem Taxes	\$ 2,781,961	
General Fund	\$ 12,983,739	
Gas Fund	\$ 4,070,423	
Water/Sewer Fund	\$ 10,466,066	
<b>Total Unrestricted Funds</b>		<b>\$ 30,302,189</b>

### PROJECTED REVENUES - RESTRICTED

Debt Service	\$ 298,975
Grant Proceeds Water/Sewer	\$ 265,493
C.R.A. (Tax Increment Funds)	\$ 836,394

Airport	\$ 1,285,999	
<b>Total Restricted Funds</b>		<b>\$ 2,686,861</b>
<b>TOTAL PROJECT REVENUES AND OTHER FINANCING SOURCES</b>		<b>\$ 32,989,050</b>

**PROJECTED EXPENDITURES/EXPENSES - UNRESTRICTED GENERAL FUND**

Executive-City Council	\$ 178,022
Administration	\$ 5,249,371
Growth Management	\$ 621,289
Police	\$ 3,237,431
Health & Welfare	\$ 133,000
Fire	\$ 1,929,409
Street	\$ 2,144,056
Solid Waste	\$ 1,517,078
Recreation	\$ 756,044

<b>TOTAL PROJECTED GENERAL FUND EXPENDITURES</b>	<b>\$ 15,765,700</b>
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**ENTERPRISE FUNDS**

Gas	\$ 4,070,423
Water/Sewer	\$ 10,466,066

<b>TOTAL PROJECTED ENTERPRISE FUNDS EXPENDITURES</b>	<b>\$ 14,536,489</b>
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**PROJECTED EXPENDITURES – RESTRICTED**

Debt Service	\$ 298,975
Grant Proceeds Water/Sewer	\$ 265,493
Community Redevelopment Agency	\$ 836,394
Airport	\$ 1,285,999

<b>TOTAL PROJECTED RESTRICTED FUNDS EXPENDITURES</b>	<b>\$ 2,686,861</b>
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<b>TOTAL PROJECTED EXPENDITURES/EXPENSES - All funds</b>	<b>\$ 32,989,050</b>
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**INFORMATIONAL FACTS**

- Adopted tax rate for FY 2010 is 3.7741 mills. For a home owner with an assessed home value of \$150,000, and the \$50,000 homestead exemption, this means the owner would pay \$377.41 annual City Ad Valorem taxes.
- City **payroll** for FY 2010 = **\$12,889,283**. This is substantially the same as for FY 2009 since City employees **did not receive a COLA** increase which would have been an additional \$380,000 @ .03%.; and City employees **did not receive a Merit** increase which would have been an additional \$95,000.
- **Transfer** from General Fund : **\$793,251** (to fund annual capital needs only)
- **Transfer** from Enterprise Fund: **\$953,814**. (to fund annual capital needs only).

- **New taxable value** from new growth for FY 2010 = **\$82,379,640**.
- New Ad Valorem tax for 2010. With a millage rate of 3.7741, approximately **\$395,000 additional tax revenue was realized**. However, **\$343,000** of new tax revenue is obligated as payment to the Columbia County Industrial Development Authority leaving only \$52,000 which can be used for the General Fund.
- The City’s General Fund **revenue decreased by \$638,987** from 2009.
- The City General Fund **expenditures increased by \$496,264** from 2009.
- State Shared Revenue **decreased by \$334,752** from 2009 and further decreases are expected.
- The **General Fund “contingency”** for this year is established at **\$250,000**.
- The Saint Margaret Street Waste Water Facility Reuse Water project is currently at 85% of completion. Of the \$3,000,000 Suwannee River Water Management District (SRWMD) alternative water supply grant funds, \$2,397,441 have been expended and \$515,355 of the City’s \$750,000.00 project match has been met. A request was submitted in September 2009 to the SRWMD for reallocation of funds (\$400,000) from the storm water interlocal agreement to the reuse water interlocal agreement. The anticipated cost for completing the reuse project in its entirety is \$1,617,000.00.
- New Kicklighter Road WWTP Facility. The preliminary engineering report and conceptual design is complete and work continues with Tetra Tech Engineering on their proposals to complete the groundwater modeling and several deep soil borings that would support moving into final design of the plant. At present the conceptual cost of the new facility is \$17,000,000.

### CAPITAL EXPENDITURES SUMMARIES

#### General Fund

Re-roof City Hall	\$80,000
Police vehicles (2)	\$40,100
Growth Management vehicles (2)	\$42,000
Street/Drainage Improvements	\$440,123
Street Sweeper	\$187,000
Public Works Facilities upgrades	\$62,000
Public Works signage	\$44,052
Recreation upgrades	\$11,770
Fleet Management upgrades	\$93,467
<b>TOTAL :</b>	<b>\$1,000,512</b>

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#### Airport Fund

New Airport Terminal	Planned \$2,700,000 terminal (est. grant funding but not reflected in budget)
Airport vehicle	\$15,000
Airport facility upgrades	\$14,812
<b>TOTAL :</b>	<b>\$29,812</b>

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**Water – Sewer Fund**

Water Plant upgrades	\$31,325
Water Distribution upgrades	\$877,853
Waste Water Plant/Collection upgrades	\$115,137
Waste Water Sprayfield upgrades	\$103,793
Waste Water Utility upgrades	\$216,054
<b>TOTAL :</b>	<b>\$1,344,162</b>

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**Gas Fund**

Gas projects	\$251,848
Gas equipment	\$48,152
<b>TOTAL :</b>	<b>\$300,000</b>

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**Community Redevelopment Fund**

Property acquisition	\$250,000
Redevelopment Grants	\$200,000
Lake Desoto Board Walk/Trail	\$250,000
CRA projects	\$48,000
<b>TOTAL :</b>	<b>\$748,000</b>

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**TOTAL CAPITAL EXPENDITURES FOR 2010: \$3,422,486****TOTAL CAPITAL EXPENDITURES FOR 2009: \$2,756,719**

The FY10 Budget is lean and will most like get leaner in 2011 because of the continuing economic conditions. Although State Tax Reform actions of 2007 (Amendment 1) has been somewhat of an impact on availability of General Revenue to the City, the lack of new construction activity and decreased property values appear to be the more significant cause of revenue losses. Ad Valorem and state shared revenues will decline further during FY2011 and possibly beyond.

**GRANTS:**

The City will benefit from a generous amount of **grant funded activity during FY 2010** as follows:

a. U.S. Department of Justice	\$288,254
b. FDOT Airport Grant	\$653,000

c. HUD Emergency Set Aside	\$1,100,000
d. CDBG Housing Rehabilitation	\$550,000
e. Governor's Office (OTTED)	\$129,966
f. Workforce Florida (QRT)	\$151,000
g. FDOT (Loquat Bridge)	\$260,000
h. Florida DEP	\$1,549,143
i. SRWMD	\$400,000

**GRANT FUNDS ANTICIPATED FOR FY 2010: \$5,081,363**

**CITY DEBT:**

The City's collective debt ratio is as follows:

<b>City of Lake City Long Term Debt</b>		
	<b><u>FY 2010</u></b>	<b><u>FY 2009</u></b>
Debt Service	\$298,975	\$296,648
Water Sewer Fund	\$2,479,555	\$2,277,519
<b>TOTAL</b>	<b>\$2,778,530</b>	<b>\$2,574,167</b>
<b>BUDGET</b>	\$32,989,050	\$35,083,574
<b>Debt Ratio:</b>	8.4%	7.3%

It is anticipated that the City may incur additional debt during FY 2011/2012 to fund further expansion of its Waste Water Treatment System. The expected cost of the new Kicklighter WWTP is estimated at \$17,000,000.

**BUDGET GOALS**

a. Implement cost-cutting measures and identify additional revenue sources which will ultimately eliminate the City's General Fund revenue deficit and reliance on Enterprise Fund transfers.

b. Ensure that the City has adequate capacity in wastewater systems to meet future demands of anticipated growth and to comply with regulatory requirements. Continue plans for the New Kicklighter WWTP Facility.

c. Strive to improve the efficiency of City government by making better use of information technology as a tool and by consolidating certain government functions through intergovernmental cooperation where beneficial, and where possible.

d. Work to expand the City through annexation. Complete detailed benefit analysis on each annexation to assure financial benefits (taxes, user fees, etc.) exceed service liability.

e. Complete the CRA Redevelopment Plan revision during 2010 to incorporate a redevelopment vision for the expanded area and to update the vision for the older CRA.

f. Continue to support creative programs in compliance with the Redevelopment Plan and strive to achieve Plan goals and objectives to improve tax base.

g. Place a high priority on working and supporting the Columbia County Industrial Development Authority in meeting development goals for quality job creation and strong capital investment levels for businesses desiring to locate within Lake City.

h. Work aggressively to bring the proposed “Inland Port” facility to Columbia County. The City’s new water plant and planned sewer expansion will be economically advantageous to serve the proposed Columbia County site for a port.

i. Work aggressively in corporation with the Columbia County and all local government and community business leaders to assure the Hotel Blanche is revitalized as an economical and historical asset for the City and County.

## CONCLUSION

The City’s FY 2010 Budget only covers fundamental expenses. Balancing the FY10 Budget was achieved due to: 1) the City did not fund many needed capital projects such as paving, sidewalks, and stormwater upgrades, 2) only essential capital items were purchased, 3) the Council increased the millage, and 4) Employee COLA and merit pay increases were withheld, and 5) the City used reserve funds. Unquestionably, the City will be challenged with very difficult financial conditions for FY 2011.

Again, thanks to the City Staff in working with me to produce this budget. I appreciate the leadership and the support of the Council to approve a budget which will carry our community through the coming year. I look forward to working with each of you as we enter into workshop discussions and prepare to face the future.

Respectfully submitted,

*Wendell Johnson*

Wendell Johnson  
City Manager