

**CITY OF PORT ST. LUCIE
CITY COUNCIL SPECIAL MEETING MINUTES
FEBRUARY 24, 2012**

A Special Meeting of the City Council of the City Of Port St. Lucie was called to order by Mayor Faiella on February 24, 2012, at 8:30 a.m., at the Port St. Lucie Community Center, 2195 SE Airoso Boulevard, Port St. Lucie, Florida.

ROLL CALL

Council Members

Present:

Mayor JoAnn M. Faiella
Vice Mayor Linda Bartz
Councilwoman Michelle Lee Berger
Councilman Jack Kelly
Councilwoman Shannon M. Martin

Others Present:

Jerry A. Bentrrott, City Manager
Gregory J. Oravec, Assistant City Manager/
CRA Director
Roger G. Orr, City Attorney
Abe Alvarez, Police Department
Stephanie Beskovoyne, Asst. City Attorney
Michael Byrd, Police Department
Sherman A. Conrad, Parks & Recreation
Director
Anne M. Cox, Assistant Planning &
Zoning Director
Edward Cunningham, Communications Director
Marcia Dedert, Finance Director/Treasurer
Joel A. Dramis, Building Official
Edwin M. Fry, Jr., Assistant Finance
Director
Kimberly Graham, Assistant City Engineer
Daniel Holbrook, Planning and Zoning
Director
Daniel A. Hakim, MIS Director
Bradley Keen, Parks Administrator
Renee Major, Risk Management Director
Jesus Merejo, Utility Systems Director
Karen A. Phillips, City Clerk
David K. Pollard, OMB Director
Brian E. Reuther, Police Chief
Patricia R. Roebeling, City Engineer
Tricia Swift-Pollard, Community Services
Director
Cheryl Shanaberger, OMB Deputy Director

Tonya Taylor, Facilities Administrator
Susan Williams, Human Resources Director

The meeting resumed at 8:40 a.m.

UTILITY RATE STUDY

Mr. Merejo said, "This study is going to set the tone for the next four years as far as where we're going to be." Ms. Rhoden stated, "We're going to be looking at water and wastewater rates, particularly a summary of the City's current rate structure and the 2011 Water and Wastewater Rate Study, which the Council authorized on February 28, 2011. Rates are determined by balancing known revenues and projected growth against operating expenses and debt service. Some of those expenses are salaries and benefits, chemicals that we use to treat both water and wastewater, the electricity and fuel, supplies and materials we need to do our daily jobs, vehicle and equipment maintenance, the repair, replacement, and maintenance of our systems, and debt service. The data used in this study was for a full 12 months, so it's from 2009/2010. At that time, we had more than 65,000 customers that were billed monthly for all metered water use. An additional 45,000 customers also had sewer service. It's important to note that residential sewer billing stops billing after 8,000 gallons of water use. We also have 141 customers who have just sewer service on our low pressure grinder system, and they are billed a flat rate each month. The study included both short term and long term recommendations, and the Council has already addressed most of the short-term recommendations with rate Ordinance 11-66, which you adopted and made effective last October 1."

Ms. Rhoden continued, "Some of the other rate study findings reinforced some of our previous discussion with the Council. Because we have declining customer growth patterns and lower than projected revenues, we're facing an increase to our annual debt service. We have a need to replace aging vehicles and heavy equipment. These are all issues that need to be considered as the Council looks forward. When we look at customer growth patterns, we like to look at residential growth, because that's where 97% of our customers are. In 1999, we installed 2,080 water meters. With the completion of the water and sewer expansion program, we eventually climbed to a high of 9,613 water meters that we installed in 2005. Then it began to fall pretty rapidly at first. In 2011, we did install 384 new residential water customers. In some communities that would be a high. Looking at the sewer, we started with 854, and grew rapidly. In 2005, we hit a high with 7,713. Falling quickly, we leveled out to 347. The gap between the water and sewer has

narrowed substantially, and it will continue to narrow, because now all new homes must connect to the system. As a result of the declines in our customer growth in installations, our connection fee revenues are not meeting projections. With fewer new connections, our monthly usage revenues are not growing as we had originally projected."

Ms. Rhoden stated, "All of this is compounded by the fact that there are empty houses that are connected to our system, but they're not using water/wastewater services, so they're not producing the projected revenues. Another thing compounding our revenue issue is the SFWMD mandated water use restrictions that they put in place in 2007. We can see that nearly two million gallons per day of water, less than in 2007, is being used. The annual debt service is going to significantly increase next fiscal year, but that's not a surprise, because it's called for in our 2009 bonds. This year, our debt service is just over \$25.2 million. Next fiscal year, it jumps to over \$31 million, which is an increase of more than \$6.2 million for the one fiscal year. It stays in that range for the next three years. There are things that we can do and have been doing to mitigate the revenue deficiencies. For example, we have had reductions in staffing since 2008, and we've reduced by 56.5 FTE's, which is an 18% reduction. We've also reduced operating costs. There have been no heavy vehicle or equipment purchases. We've spent quite a bit of time designing projects in house with staff engineers, and that has been a huge savings. We've taken advantage of grant funding at every opportunity. Ms. Dedert's group has been refinancing bonds whenever they were eligible, and that has also been a big help. Today, we want to look at a series stretching out multiple years of rate adjustments, because 70% of our customer base, the residential group, uses 5,000 gallons of water or less each month."

Ms. Rhoden noted, "The rates I'm going to show you do not include our 6% surcharge. They don't include any late charges, which some of our customers face. They also don't include any of the ten-year interest-free financing that is so popular when someone converts from well or septic. These are just basic rates. The 2009 bond as well as the rate study confirmed that we need a 3.5% increase next fiscal year, giving those amounts for both water and wastewater, with a total bill of \$78. That's a monthly increase over the current rates of \$2.71 and that's per month. The rate study calls for 3.5% for the following three years and then 2% for wastewater. That's because our water system operates at a revenue shortfall, where it is believed that the wastewater is going to generate sufficient revenues to meet its operating requirements. These are increases in the \$2 range. These are based on the available data that we have for

currently projected growth, revenues, and expenses. Where is the utility today and what is our position in the community? We have new water and wastewater infrastructure throughout our service area. We have ample treatment plant capacities. That means residential and commercial or industrial customers can all be added to our system. We don't foresee that we're going to need any major plant expansions for the next ten or more years. All of that combined means that the utility is very well positioned to play a role in the economic development of the City. We would ask that the Council adopt the 2011 Rate Study. We also would ask that you give consideration to adopting or approving the 3.5% rate increase for fiscal year 2012/2013, with the understanding that rate increases for the following fiscal years will have to be addressed annually. It's also important to remember that higher than projected growth would possibly allow for lower than projected future increases. Because of that, we are going to be reviewing that data frequently. The Utility Systems Department is connected to the community."

Vice Mayor Bartz said, "I understand that due to the SFWMD edict of not being able to use water, I have to say that I don't see that as a bad thing. Everyone across the board is getting more conscious of what they're using whether it's water or electricity, and all of us have had to make more with less. A number of us who left the lights on in rooms are turning lights off. We're watching the water use. We're not running it while we're doing dishes. I don't think it's a bad thing that people are becoming aware of what they're doing." Ms. Rhoden stated, "And we would agree with you on that. We're very conscious of the need for all of us, but particularly for the Utility, to be good stewards of our resources." Vice Mayor Bartz asked, "When new houses become empty whether they're foreclosed on or people have just moved out, is there a base rate that we charge?" Ms. Rhoden replied in the affirmative. Vice Mayor Bartz noted, "So it's not a total loss of revenue. I'm assuming that base rate doesn't cover everything, but there is a base rate." Councilwoman Berger commented, "In the future I would like to see the presentation that you gave to us individually, when we had talked about the rates and that there's an incentive program for our users out there, that once they use less it costs less, and what that scale looks like. I would like to have a presentation made to the public, because I think there are a number of people who don't know that we have that in place." Mr. Merejo remarked, "We will address that at the Summer Retreat."

Councilman Kelly pointed out, "I'm not going to be supporting the rate increase this year. We just went through a number of increases five or six months ago, and I was under the impression that was going to be it. I do believe that within the next two

or three years, a number of people will be moving back to Port St. Lucie, and one of the reasons is the utility. To have another 3.5% increase is a big increase. If I were the City Manager I would tell you to try and find it somewhere else. We've given you rate increases, and now you're going to have to do what we've asked everyone else to do, which is finding it somewhere else. You know that no one is a bigger supporter than me, but I think it's time for everyone to cut back." Mr. Merejo said, "I understand what you're saying, but the fact is we borrowed money. We were anticipating that we were going to have a certain number of connections, but they never occurred. The debt is still there, and we still have to pay for it. The rates and connections are not there. There's nothing more that we can do to push that debt further out. The only option we have is to increase our rates per year. We have done everything that we can do in the organization to cut back costs. When we started our installation, we started with about 12 different crews. Now we're down to one crew. I'm not sure if there's any place I can cut. We don't purchase heavy equipment. We're down to the wire, and I believe it was two years ago when we didn't do an increase. That really affected where we are today as a result of not having that increase. If we don't do an increase this year, it's going to continue to affect what happens. The bottom line is that we need to be able to keep our rating in place in order to get these ratings that we've had for the past ten years or so." Councilman Kelly stated, "I was under the impression we were going to coast a little after we put the increases in. Now it's five or six months later and we're asking for more. That's a big increase. There have to be other ways."

Councilwoman Martin asked, "Did we know last year that we were going to be having these issues with the projections of increases for the next five years?" Mr. Merejo replied, "Absolutely. We played that out at every Retreat we've had. We were looking at refinancing and paying debt early. We have done everything that we possibly can. This is the last resort. I wish things were different, but they're not." Ms. Dedert noted, "Every one of our bond issues does outline the next five years, and this increase is in the 2009 bond issue. Right now I'm looking at refinancing the 2004 bonds. It saves the City about \$1 million total, but it doesn't help us but about \$50,000 each of those years. But it's still a savings for the City, so I'm still looking at refinancing those bonds. I've worked on this for 13 years now, and every issue that we do on the bonds, there's a table in the OS that states what the rate increases need to be to maintain the debt service." Mayor Faiella asked, "Is this going to come before Council?" Mr. Merejo replied, "Probably after Mr. Pollard's presentation. At the end of the Retreat we will make a recommendation."

BUDGET STATUS AND PROJECTIONS

Mr. Pollard said, "The bad news is not as bad this time. We're all familiar with the rapid growth that occurred in the late 1990's and early 2000 years. We have stabilized. It's no surprise that we've had rising unemployment rates, and that's not good news. However, the average they have for 2011 is down. We have a better trend starting. For the last six months that it was available on their website the trend has been that it's going down. I'm going to take that as a positive note for the City and our citizens. The rapid growth slowed down with the general economy and the real estate market of the City, and we have a number of fewer connections every year. The number of business licenses in the City is down. Again, it's an indication of the general economy." Mr. Oravec asked, "Do we have the ability to analyze that data by industry type? I would be interested to see if the decrease wasn't due to construction-related industries, etc., over that time period." Mr. Dramis replied, "We can do that. They're divided into seven different categories, and we can pull them up by category. I was able to pull some realtor information from our Community Services Department. It's no surprise that in 2007 when the real estate market had peaked, that's when people were buying and flipping them. It has tailed off, and appears to have stabilized. The number of homes sold and pending is a lot more stable, but the number of homes for sale is down substantially."

Mr. Pollard stated, "We also have the average price per square foot for homes that have sold, and there's a downward trend and it has stabilized. We have over three years of data, and that will dovetail when we talk about our taxable value of the City. We also have the average price of the homes that have sold and those that are on the market for sale. There was a strong downward trend, and then it had stabilized in the last two to three years. When the home is completed you get your CO. The Building Department had all kinds of activity, new construction of residential homes, coming on line in the mid 2000's. It has dropped off substantially in the last two or three years. It's just a shadow of what it once was. In Port St. Lucie we get sales tax revenue based on a formula that takes into account population and so forth. For example, taxable sales occurring in our City don't gain us any more revenue here in our budget than does the taxable sale that occurs in Ft. Pierce. It's all pooled as one collection figure, and then a formula gives us our share. Taxable sales across St. Lucie County are in a downward trend. We have a few things that are taking a turn for the better. You hear us talking about deficits, deficit spending, and deficit balances. Deficit spending is when you're spending more than

you're bringing in, which causes a declining balance. When I say that you have a deficit balance, that's when you pick up your checkbook. You can deficit spend and still have money left, but you're headed down a slippery path."

Mr. Pollard noted, "I put fund balance, contingency, and cash carryforward together to think about. The contingency is what we budget. It's presently set at 4%. Sometimes we're able to have a contingency for future years, more than 4%. That's what we budget. Unless something happens unforeseen, we don't touch that in a fiscal year. That combined with unexpected revenues that may have beaten budget and beaten the projections and/or savings that we're able to generate all combines to create what we call the fund balance at the end of a fiscal year. We then take that fund balance, project what we might have as an ending fund balance, and create cash carryforward. That's the first number, the opening balance for the new fiscal year. We're all very aware that taxable value peaked in 2007, and has been coming down. The downward trend has somewhat flattened out. We had three years in a row with over 40% gain in taxable value. It has reversed itself in past years. The last certified tax value for 2011 was slightly less than half the peak of 2007. Had it not been for some adjustments to the millage rate, the largest revenue of the City would be cut in half. The projection for next year is that there will be no change, no growth and no further decline. We hope that we're somewhat stable going into next year. If we miss the mark and see a further decline in our value, that's going to hurt these long range models and you will have to deal with that at the Summer Retreat."

Mr. Pollard commented, "We peaked in new construction in 2006/2007. Over \$1 billion per year was added to the tax roll. It's now less than \$100 million per year. All of that construction effort meant jobs. There are all kinds of spinoffs from that. It's no surprise that our local economy has suffered. We have the Crosstown Parkway debt at a little over one mill. In earlier years, we adopted it slowly to get it up to a mill, and now we've had to make the adjustment to compensate for the drop in value. It's value times your millage rate that gives you your revenue. For the current fiscal year we adopted the rollback rate, and that gave us equal revenue in the current fiscal year to the year before. We have stabilized our revenue. It's no surprise that we've had to take some cost-cutting measures to compensate for this. We're hoping to have a stable taxable value next year. If we adopt an equal millage rate, we will have equal revenue. We have flat revenue on ad valorem property tax projected in our models. Some of the other revenues that depend on the economy of our local community are sales tax revenues. Sales tax collections across the county have taken a turn for

the better, and we see that in our revenues. We have projected a slight increase in the current year, and for next year. We're counting on the economy running a little stronger. In the first quarter of this year, we're up 4.9%. The sales tax revenue is one of the top five revenues of your General Fund. The six cent gas tax goes into your Road and Bridge Fund. It has basically been flat for a number of years. We get a slight growth in this revenue based on the formula. The formula is based on a rolling five year average on how much we have spent on road activity. That number for Port St. Lucie is compared against the county and the other two cities in our county. Because we've been doing a number of serious road projects over the past five years, we have been able to gain a little in that formula. The actual number of pennies in sales tax collected probably hasn't varied a whole lot in recent years."

Mr. Pollard pointed out, "The Electric Franchise Fee is another one of the top five revenues of your General Fund. We are hoping to see growth in this one also. It had fallen for two years. When we developed the budget for this year and talked about it last summer, we had lower projections. Toward the tail end of last year both of the electric revenues came back some. Last year, even though it was down, it wasn't down as far as I thought. We hope to have growth now. The Utility Tax is the other electric revenue. That's a 10% tax on your electric bill. We changed the rate and it began in fiscal year ending 2011. We went from a 5% to a 10% Utility Tax, and that gave us a nice jump in that revenue. We lost a lot of ad valorem property tax revenue, and these are some of the steps we took a few years ago to help mitigate that. This revenue is up nearly \$4 million, and we're hoping to see growth this year and next year. As rates change, our revenues will change according to that, because the more revenue that FP&L collects and generates, the more Franchise Fee and Electric Utility Tax we get. At the same time, if they have rate increases we get more of this revenue, and then your operating departments have some substantial electric bills. Do we gain or lose? It's a mixed combination. One of the other General Fund revenues we track is the Communication Service Tax. This is a 5.22% rate on all forms of communications. We saw a nice increase in fiscal year ending 2010, because we did a rate adjustment. We were legally allowed to go to 5.22%. When the Communication Service Tax first got implemented we went with the base minimum of 1.5%. This helped offset the drop in value and ad valorem property tax revenue. We're basically flat. We thought there would be more growth, but, apparently, the community or citizens are finding ways to find a better deal on their communications."

Mr. Pollard remarked, "We used to be over \$10 million per year in building permit fees. It's the main revenue for the Building Department. We hope to get \$2 million this year. So far during the first four months of activity we're down 30%. However, the hospital and other activities may come on line. With Road and Bridge fees, instead of earning \$9 million at the peak of activity in 2006, we're down to \$250,000. It pays to combine the revenues of the General Fund to see what the big picture is. In 2009 we suffered a decrease after years of increasing revenues in the General Fund. If you take the top five revenues of the General Fund, you account for 87% of the revenue. All of the other revenues are small potatoes when you're worried about the financial projection. After a decrease, now we're seeing a slight increase. We hope this year, using the budget as a guideline and making a few adjustments for the first few months of collections, to beat last year by a little. The two electric revenues are the standouts at this point. In the General Fund, and the General Fund is the biggest user of ad valorem property tax in the City, our ending fund balance is what's left in the checking account at the end of the year. During the years of growth in our ad valorem property tax, because of value growth and other revenues growing, we were building a fund balance. Since 2008, we have steadily pulled down our fund balance. We had a good year last year. We found some savings in our health insurance program in the General Fund. The two electric revenues did better than projected. The combination of those forces caused us last year to actually add to our fund balance. However, we're still down from where it was, and our projections for the next two years are that we're still scheduled to deficit spend."

Mr. Pollard said, "If we continue to have good fortune on all of the costs of the health insurance claims, we can possibly start budgeting at a lower level. If the Electric Franchise Fee and the Electric Utility Tax will climb and show promise of staying up there, we can start strengthening our projections and show more revenue this summer. We're still saying that there will be deficit spending. We're still in a dangerous situation of spending more than we're bringing in. We do not have a deficit balance, but if you do that enough years going into the future, you will have a deficit balance. We used to say that we could last one more fiscal year before we had a deficit balance in the General Fund. In the long range models, we're good for two more future budget years before we have a deficit balance." The City Manager stated, "You might note that our 4% contingency equals two weeks of expenses." Mr. Pollard noted, "We have worked hard to always have more than that whenever possible. However, the policy of only 4% is very low. The other side of the equation is what we're spending. With General Fund costs, we projected out

to the current year and the future year. There was a steady upward trend in our costs. We peaked in 2009. We were stable, and we have pulled it down. It's a great trend. We all know we've had staff cuts, and we've cut other things. This does not include the debt service or transfers that the General Fund has to make to cover other areas of the City budget. In 2011 it looks slightly less, and certainly less than the year before, and certainly less than the projection for the current year. We drastically pulled down our personal services costs. That was because of staff cuts, and we saved on the health insurance. We are down 160 FTE's. That's roughly 22%. Over one out of five persons are gone. In 2009, we peaked in staffing in the General Fund. It hit all departments and all programs. Our cost per FTE is a slightly different story. In 2011, instead of our cost per FTE coming down, we still had some increases. It has stabilized now and into the future. In 2010, we still had pay raises hitting the bargaining groups. Pay rates were going up. We also had health insurance costs go up. In 2010, we had substantial increases in claims. In fact, we had three budget amendments that year, and each one contained a component for increasing the amount we were going to spend on health insurance. We had to charge the operating departments of the City additional amounts, and push that money into the Medical Insurance Fund to pay the higher claims we were experiencing."

Councilwoman Berger stated, "That reminds me of some of the discussions that were happening at that time, anticipating those costs that were coming on board. That's why the Council chose to change that policy that you just criticized, moving the contingency from the higher percentage to the 4%. That was to make sure we would cover the costs that were coming in as a result of the personnel issues that were going on. To have a conversation about it being in a bad light compared to other organizations, I thought it was pretty good planning. The world didn't end, and we can now bring it back to where it needs to be." Mr. Pollard noted, "That contingency is out there to help offset a tax increase or to cover costs that come on during a year that we maybe didn't have it in the budget. It's important for a number of reasons." Councilman Kelly commented, "There seems to be some confusion every time we mention this. That 160 FTE's we're down from 2009 is just FTE's charged to the General Fund. Is that correct?" Mr. Pollard replied in the affirmative. Councilman Kelly pointed out, "I'm told that we're down over 300 employees. There are 50 or 60 from Utilities alone. We've cut over 300 employees." Mr. Pollard remarked, "That's correct." The City Manager said, "I think it's somewhere between 250 and 300. I don't think it's over 300. Over 22% of our staff has been released in one manner or another." Councilman Kelly stated, "Let's get a definite figure." Mr. Oravec noted, "It depends on

if you look at it on an FTE basis or actual person basis. It certainly would be correct that many people disappeared. That's how you can get a divergence in the numbers. How many part-timers did we lose in Parks and Recreation?" Mr. Conrad replied, "There were 21 part-timers." Mr. Oravec commented, "That equates to fewer FTE's. If they were half, you're looking at 10.5 FTE's, but 21 faces gone from the City."

Councilman Kelly pointed out, "We go by FTE's, so I would stick with the FTE number. I would like to get an exact figure of what it really is." Mr. Pollard remarked, "We peaked at around 1,300 FTE's, and your current year budget shows 964. That's close to 350 FTE's." The City Manager said, "It's 273 FTE's." Councilman Kelly stated, "That's a big difference from 160." Mr. Pollard noted, "We cut far more than that, and it's right at 22% on an overall City average. In 2010, we had pay raises hitting that and we had additional health insurance costs. This is City cost. In 2011, we still had an increase. Pay rates were frozen. No one got a raise in that year. We also held the line on health insurance costs. However, the reason why our costs still climbed was that if someone got a raise in midpoint of 2010, they had six months at the lower rate of pay and six months at the higher rate of pay. When you go into fiscal year 2011, that person got all 12 months at the higher rate of pay. When you collectively put it altogether, our costs still climbed in 2011. In 2012, it's showing a slight increase. Last year we were in good shape on the health insurance claims, so that was a downward pressure on the health insurance. We saved two months of contributions on behalf of the City. In 2012, we budgeted the same number. We didn't assume two months of savings on health insurance. If we continue having good luck, avoid large and costly claims, maybe we can start budgeting lower. The 2012 budget number had to be a little higher than 2011. For 2013, we're going to assume a flat number. We should be stable going into next year. That's our largest cost in the General Fund, and we should be stable."

Mr. Oravec commented, "You had mentioned that operating expenses might have even gone up. Do you have any feel as to why that is? Can you take a look at that?" Mr. Pollard replied, "Fuel costs may have been a factor." Mr. Oravec pointed out, "I was thinking electricity and fuel." Mr. Pollard remarked, "In the group of accounts known as operating costs, electric and fuel are two of the major costs. Vehicle maintenance might be the third one. We will look at that." Mr. Oravec said, "We're always representing that we're making cuts in these tough times. So anytime you see it go the other way, I think it's important to identify it." Mr. Pollard stated, "Our costs per FTE are still going up, but we are now stabilized. We've gotten past the impact of higher health insurance, and the impact of pay rates. The Police

Department is roughly half of the General Fund. Parks and Recreation is your second largest department. They come in around 15%, and there are other smaller departments along the way. The contingency for this current year budget shows 13%. We budgeted 4% per the policy, and then we had additional funds that we were able to put aside for future years. In addition to those two numbers, we have a \$1 million contingency in case we have large insurance claims that come against us. All totaled, it does hit 13%, but that number starts diminishing in future years in the long range models, because of our deficit spending trend. Overall, we've cut 272 FTE's since fiscal year 2008/2009. Wages have been frozen. There were no pay raises for last fiscal year or the current fiscal year. We also dropped the take-home vehicle program. The exception to that is police officers and any of our staff that is on call. We dropped the vehicle allowance. Now you do a mileage form and you put in for the exact mileage that you incurred. We had the employee contribution in the health insurance go up. We also instituted plan changes. Perhaps the biggest help that we've had was favorable claim ratios. Our claims costs were down. We are directly self insured. We have an administrator who pays the claims and administers the plan. But for every dollar that a doctor's visit costs one of our covered members of the plan is a dollar we have to pay. When we have fewer claims, the claim costs go down."

Mr. Pollard continued, "The past six months have definitely been down. We have the level of service reduction. We truly have a lower level of service in some areas. When we made those reductions in staffing in the Parks and Recreation Department, they actually reduced the operating hours in some of the parks. The Police Department made cuts in the detective service area, and, potentially, there is a drop in the level of service there. We hope that most of these drops in the level of service are minor and they have been absorbed into the City government in such a way that it's not that visible to our citizens. The Police Department was able to substantially reduce their overtime two years ago. Fewer employees are given the opportunity to go out for training events. For the most part it has to be directly related to you retaining a certification that you have. The Tuition Reimbursement Program no longer exists. The Public Works and Engineering Departments were officially blended, and in some ways they are joining forces with Utilities. The engineering staffs of all three of those departments are unified and working together on projects. The Neighborhood Services Department was absorbed. Animal Control went into the Police Department, and the Code Enforcement Division is under the direction of our Building Department. We reduced one FTE. We no longer have a department head for the

Neighborhood Services Department, so there's a cost savings there."

Mr. Pollard stated, "We heard about the Energy Audit yesterday. We hope that pays dividends. It might be more of a long-term approach to having actual savings in the budget, but we hope there will be substantial savings over the long haul. We are outsourcing the maintenance staff at the Saints. We now have an outside labor supply company supplying the maintenance staff. We found that saved us substantial money in the City's Saints Golf Course Fund. That and some other shuffling of staff means that the General Fund no longer has to subsidize the golf course. Last fiscal year they held their own, and that will be the budget policy going into the future." Mr. Oravec noted, "The Saints finished last year, the revenue to percentage of expenses, I will say 100% you've broken even. Anything over 100% you're in the black. They finished at 129%. We can't claim an absolute victory, because we still have the one General Fund transfer in the last budget year. However, based on how we're trending with our expenditures and everything, that will hold true. Hopefully, at the Summer Retreat we will be able to give an update and let you know where we are. It's looking good. In a similar vein, the goal for the Civic Center is 50%. Based on last year's numbers at the end of September 2011, when you look at the Civic Center, the Fitness Center, and the Village Square as a unit, they did finish at 52.9%." Councilwoman Berger commented, "I heard that the Civic Center is pretty much booked for the rest of the year." Mr. Oravec pointed out, "It is. It's really doing great. Last night we had the Big Bands, and we had over 1,000 people there. I think we're going to have a big Italianfest this weekend, as well as a big martial arts." Councilwoman Berger remarked, "I think it's an excellent reflection also of the decision to bring in someone on a contract basis to do the marketing and booking. The way they get paid is by what they book."

Councilwoman Martin said, "It just shows that with the right people in place and with the marketing plans that are being put forward, we can have success, and we have had it. Do we need to set a new benchmark for a goal?" Mr. Oravec replied, "Let's wait for the Summer Retreat, then we will have better trend data." Mr. Conrad stated, "I would like to compliment the staff. They've put in a lot of time and effort. I think that between the time the Civic Center was built and today, the community has changed. It has a positive feeling to it. The plaza is being booked by outside groups. We're running events that are turning out large numbers." Mr. Oravec noted, "The Village Square as a unit is actually at 105%. When you look at what the Village Square does in rentals versus the costs that are charged to it,

it's at 105%." Councilman Kelly commented, "Getting back to the Saints, another projected income is the revenue from the restaurant. Is that correct?" Mr. Conrad replied, "It will start in July with a half payment and August will start the regular payments. They had nine months as part of the contract to get started." Vice Mayor Bartz pointed out, "I've been spending a lot of time going to some of the events at the Civic Center, and the number of people who are there and the number of people who are enjoying it are not just in the Square. If you walk inside the building, those people have walked in and went 'WOW.' The Fitness Center is always busy. The usage just keeps continuing to go up. Overall, I think they're doing a great job." Mr. Pollard remarked, "There are some areas of our budget that are concerns. Right off the top are fuel prices. We have been lucky the last year or two. The City doesn't pay as many layers of taxes when we buy a gallon of fuel, but we're seeing the same trend. Fuel prices are trending up. We tried to hold very little increase in fuel. The budget for fuel in the current year. . . . I hope we don't exceed that budget, and departments start asking for additional funding to complete this year."

Councilwoman Martin asked, "Knowing the volatility of the fuel market, how much buffering do you actually add into the budget to make sure we don't go over on the fuel costs?" Mr. Pollard replied, "It depends what you're spending this year. If I look at a department's budget and they're not going to quite spend this year, then I may say that they can have 10% growth on that projected number going into next year. It certainly makes sense to have at least a 10% growth. If it exceeds that amount, that's what that contingency is all about." Councilman Kelly said, "Thank goodness we did that energy audit report, because this will be part of it." Mr. Pollard stated, "We might save because of lower consumption, but rates might push the budget back to where it once was or even higher. Other concerns are electric bills. That's a big cost to the City. We've tried to help ourselves at the Civic Center with the solar project. With the Energy Audit, we hope to make some improvements there that will reverse the trend of usage of electric. You can't help but think about future staffing costs and health care costs. We've had a good six months, but long-term costs are going to go up. We have made staff cuts. We have stabilized our staffing. Chances are the costs are going to go up long term over the future. I have to bring replacement vehicles to your attention. For two years, we have had zero vehicle replacements. The Police Department just let me know that 84% of their pursuit vehicles or perhaps the entire fleet are six years old or older, or at 120,000 miles or greater. That's the policy or threshold we've used over the years to say that it's time for a replacement."

Mr. Pollard continued, "The Police Department has 296 vehicles. If we follow that policy, we will not be able to afford that many replacements next year. We are going to have to work out what we can do. Even if we drop \$1 million into the General Fund budget for police pursuit cars, they run about \$28,000 for the vehicle and the related package of equipment. We're facing an issue there." Councilwoman Berger stated, "I think that when we have the information in front of us that we're facing an issue, I would like to see an example of what the projected cost is going to be for maintenance on these vehicles versus replacing over the next year. I can't help but see the Director of Utilities face over there after he just got done telling us that for more than a decade they have not replaced their large vehicles and/or most of their fleet as well. Throughout the City we have tried to be conservative over the last couple of years in an effort to keep the level of service the same or as visibly unchanged to the public as possible, while reducing staff and trying not to reduce staff that we don't have to reduce. We have a number of old cars, but we were able to keep some officers as a result of that. There is a give and take that occurs. Before we start replacing vehicles, I'm going to guess that the tone of the Council probably is the same. I would like to make sure that we're not looking to eliminate people in an effort to bring some shiny new vehicles on line. I'm okay with having vehicles that are a little older and that may need some extra attention as long as it's cost effective."

Mr. Pollard noted, "And you're right. We have a vendor who runs our City garage, and we been successful the last couple of years of having no increase to that contract." Ms. Dedert commented, "Actually, it's four years." Mr. Pollard pointed out, "We also have reduced our fleet. Because of the reduction in staffing, we're able to retire some of the older vehicles. We fully expect to replace and should replace some of the fleet. That will have to be made part of the proposed budget. The same is to be said for computers. Most of the departments are budgeting a few replacements every year. Mr. Hakim gave us a schedule of how many needed to be replaced. The Police Department just recently entered into a lease, so they can have regular turnover of their laptops. We're going to try and get a sensible, affordable replacement plan put in place." Chief Reuther pointed out, "With regard to vehicles, we're in the process right now of evaluating the fleet. Since 2009, we have not replaced any vehicles within the budget. Obviously, we're not going to be able to replace a number of the vehicles, but we're trying to come up with a realistic number, where the maintenance costs are a lot higher. Since 2008, we have auctioned 31 vehicles, so we have downsized the fleet." Mayor Faiella asked, "Did we get new ones?" Chief Reuter replied, "The only new vehicles we received was through

the FDOT grant for the ghost vehicles, but they were not replacements. They were additions to the fleet. We did get two vehicles, but we have not replaced any vehicles."

Councilwoman Berger noted, "That's semantics. That was an addition to your fleet. I thought there was more than two. You had two ghost cars, but in the last couple of years how many additional cars have you received either through grants or forfeiture funds? I thought there were about 15." Chief Reuther replied, "I understand what you're saying. There are additions to the fleet, but these are vehicles that are above and beyond. We can't use that vehicle to replace. Yes, we are adding some vehicles, but we also have not replaced. We're looking at the ones that we currently have as to maintenance costs to see if it's something we can continue to keep. When we were building the budget my instruction was that we weren't putting in for any replacement vehicles, and try to go another year. However, we may be at a point where we may have to replace some vehicles this year." Councilman Kelly commented, "I agree with most of the statements made by Councilwoman Berger. I heard her say that she would prefer to have bodies over having new vehicles. To make a point, 120,000 miles on a vehicle like that, especially when we have a pretty good maintenance program, is average sometimes. Engines last a long time, and the vehicles are running pretty well, so I would rather have bodies as well than replacing the vehicles." Chief Reuther pointed out, "This guideline was promulgated a number of years ago primarily to use as a guide. The fact is that we do evaluate. We have vehicles that have over 120,000 miles. If the vehicles are operating properly and the maintenance costs are not high, we will continue to use that vehicle." Councilman Kelly remarked, "We also just purchased a significant number of computers."

Ms. Dedert said, "We haven't had an increase in the First Vehicle Service contract in four years, but if maintenance goes up, it will go up in the non-contract part of it. They contract to do maintenance on the vehicles. Anything that starts breaking is all billed on a non-contract basis. That's where our expenses will go up. We have an annual contract with them. They can increase the actual maintenance on the cars, which is changing the tires, changing the oil, etc." Mayor Faiella stated, "Over what they're already charging us." Ms. Dedert noted, "It's the non-contract that we need to watch." Mayor Faiella asked, "Do you have any figures on that?" Ms. Dedert replied, "No, not in front of me, but I could get them." Mayor Faiella commented, "I would like to see that." Chief Reuther pointed out, "I think there was one thing being looked at when I saw the contract. I thought it was a good idea, and a way to offset their increase. Their contract cost was just by looking at mileage as far as

oils and filters are concerned. Everyone tells you that you should be changing your oil and filter every 3,000 miles, when in fact with the new engines today, you can go beyond the 3,000 miles. If you use a synthetic blend, you can even go 5,000 miles if not more. That was one of the issues that was looked at in the contract to keep the cost down. You can go further by just changing the contract and allowing for vehicles to go longer between oil change intervals. This is going to reduce costs." Councilman Kelly remarked, "You're going to have to have a significant increase in maintenance costs to offset a \$28,000 vehicle, being that it's going to take you years to recover it. You're doing a study, so we will find out what you have." Chief Reuther said, "I think that was a good idea, because I think that was a way to keep the contract down. Obviously, the vehicles can go longer without getting the oil changed."

Mayor Faiella stated, "You're talking about the new cars. You're not talking old cars." Chief Reuther noted, "I'm talking about all of our vehicles. They have the newer engines and they can go longer." Ms. Dedert commented, "When I negotiated the contract last year, we went with a synthetic oil, which allowed us to go longer. That's how I kept the rate the same from 2011 to 2012." Vice Mayor Bartz pointed out, "I want to commend the company that has been doing the maintenance for four years without raising their prices. I know they're doing a lot of maintenance and working many hours on our cars. I think that the evaluation will be a good start. I don't know if we can go to other types of cars that have the history of a longer life. Typically, police cars are police cars across the board. I don't know whether another company might give us a better life span on our vehicles. That's something else that needs to be looked at. I understand when you say that those were additional cars, but the fact is that if you have to sideline a car you have to do it. My only concern is that our officers are safe in their vehicles, and they're running properly. I think the first step is doing the evaluation. I understand that the company may have to raise rates in order to take care of the vehicles, but that's all a balance. It's a tradeoff." Councilwoman Martin pointed out, "At some point we are going to need more cars across the entire organization. Has anyone looked into or thought of looking at cars with regard to the compressed natural gas? I think the Council has had the presentation by Waste Pro about the facility they have put in, and that all of their trucks are going to be using that in the future. Part of the reason they did this was clean energy and the volatility in the market with the gas prices. Is that something that we're going to be looking to as a study for the future when we're going to be needing more and more vehicles to see what that cost is and possible savings?"

Mr. Pollard replied, "We certainly could. I had a presentation a couple of years ago, and at that time the conversion cost to convert one of our petroleum burning vehicles to natural gas really didn't make sense. But perhaps if you buy them from the factory to run that way maybe then the financial equation works. Then the key is to have the refueling station nearby. I read with interest how Waste Pro is going to convert their fleet to natural gas. It's my understanding they will be more economical, run cleaner, and, therefore, run longer. There are some definite advantages. Just like buying a hybrid car for a fleet, we don't have any hybrids. Financially, we haven't been able to see that it works. It's great to go green, but in the interest of our budget we have to see the financial equation work out. We can certainly study alternative fuels." Councilwoman Martin noted, "They are also willing to partner with municipalities and local organizations for that cost sharing. I think it was a very beneficial presentation, and has a lot of validity to it for the future." Councilman Kelly commented, "Just remember the word 'hydrogen.' In two or three years, the engines are coming out. We have had the technology for years. It's the process of building the plants to get the hydrogen to put into these vehicles. The cost is unbelievably less than gasoline." Mr. Pollard pointed out, "There are all kinds of things in our future that we hope are successful and will help us at the City." Vice Mayor Bartz remarked, "I had the opportunity to go to the groundbreaking for Waste Pro, so that means that they're close to being up and running. As they told Councilwoman Martin, they were talking extensively that night about partnering with municipalities."

Vice Mayor Bartz continued, "I'm wondering if it may be worth your while to let them make that presentation to you, so that you can at least look at it as a starting point. We're not necessarily talking about a conversion to the vehicles, but having them done from the manufacturing point, so that we are getting them the way that we need them. I understand that until you look at it we're not sure, but I would suggest that those are things we start looking at. As far as convenience, the fueling station is on Selvitz. I don't know if that's considered convenient for all of our vehicles, but if the cost savings is enough and it really works, then it may be more than worth our while." Mr. Pollard stated, "The other area of cost concern is the road resurfacing program. We have actually reduced the amount of money available in our Road CIP Fund for road resurfacing. We're doing pothole patching on a greater basis. If you get a department to actually tell you in their opinion how much road resurfacing needs to occur annually, we are not funding that satisfactorily. It's an area where we wish we could do more, but because of the budget concerns we have been cutting

back on that. As more and more roads come online that have landscaping and require mowing, trimming, and fertilizing, that cost is going up. In front of us is Becker Road. The final segment of Becker Road is ready to come online in the near future, and that maintenance effort will fall to our City budget."

Ms. Roebeling stated, "At the Summer Retreat, we will be providing a lot of information on our Public Works Division, and a thorough understanding of what we will be facing in the future. Our City is 50 years old now, and those 50-year marks represent a number of different things, such as culverts and roadways. We have some things we really need to look at seriously, and as requested we will give you as much data as absolutely possible at the Summer Retreat, so you can understand and we can give you the cost analysis, etc." Mr. Pollard noted, "The next item is of some impact to the General Fund. It's going to have to help cover the financial shortfalls of the CRA, the Southern Grove SAD, and the City Hall subsidy debt. The last item we have to address is the deficit spending trend. We have been looking at different issues that were trying to reverse that. We basically need some good luck on the side of health insurance and the economy. If those two factors could go in a positive direction, I think we would be pretty close to breaking even in some of those situations."

A recess was called at 10:20 a.m., and the meeting reconvened at 11:00 a.m.

Mr. Pollard said, "We're going to start going through some long range models for each of the major operating funds of the City. The first one that draws most of the attention is the General Fund. The General Fund is that unit of financial records that fund and record the costs of the Police Department, the Parks and Recreation Department, and the administrative areas of the City. In the current year, we're experiencing slightly higher Communication Service Tax revenues and Sales Tax revenues. Additionally, we also have the two Electric revenues. Although we saw them drop last year about 4%, this year we're seeing an increase of maybe 3%. For next year, I read that FP&L is looking for a rate increase. That will boost our revenues. Keep in mind our expenses in the outlying departments where they pay for electric use could push that cost higher. Personal services and operating costs are basically flat. We have had small changes in staffing. We have had savings in health insurance, and we hope that's the new trend. Last year and this year there have been no pay rate changes. We hope we can hold a flat trend. We ended last year in the General Fund \$3 million more in the fund balance than what we projected. We beat projections in the

electric revenues, so that gave us more of a fund balance. The other item is the savings in health insurance claims. Keep in mind that fund balance is a one-time revenue or source of funds. The Golden Rule is that with a one-time revenue you should fund a one-time cost or a one-time need. If you take a one-time revenue and add a cost that is consistent every year across the line, you're going to cause yourself financial problems. In the long range models, it bought us time. I mentioned that we were good one more year into the future. We now can go two more years into the future. Also in the General Fund in these projections you will see that we have assumed flat value and therefore flat revenue for the largest revenue in the General Fund."

Mr. Pollard continued, "We also continue with our City Hall complex debt. We have the possibility of CRA debt hitting the General Fund beginning next year. Mr. Oravec will explain how we could use MSTU Funds to cover that responsibility, therefore relieving some of the pressure on the General Fund. We do not anticipate any staffing changes or cost changes. In the fiscal year ending 2015, we will have a somewhat small deficit balance, \$1.2 million. That's a relatively achievable number to try and cover. We also have continued deficit spending. The trend is that we're continuing to spend down our reserves to balance future years. You can only do that for so many years. As noted, the third year in the future we project you would have a deficit balance. The next fund we will look at is the Medical Insurance Fund. We did well last year. The claims were better for several reasons. We saw some information where our costs are down. The claims peaked in 2010. We had claims of over \$2.8 million, and the total cost that hit that fund was \$15.6 million. The claims fell by over \$2 million last year. That's what generated a savings in various department budgets. We also had the employee contributions kick in last year. It was late in the year, but it helped the financial equation of that fund. For the year that we're in, the projection uses the current PEA contract terms, and those same terms apply to all the bargaining groups. We have the higher employee contributions, plus plan changes that were addressed yesterday. As the percentage of contributions for the employees went up, we were able to lower the City's contribution. We are assuming our stable operating and personnel costs. That may or may not be true. We know fuel, electric, and our personal services could have pressure to raise those trends into the future."

Mr. Pollard continued, "We built that into the base model of the General Fund. We have unchanged employee and City contributions for the health insurance. We also established a rate stabilization account. Instead of the 4% contingency, the City Manager said to build a line in the long range model. If we have

claims peak or jump for any reason, we can handle that. We can absorb it without having to do budget amendments and draw money out of the Utility Fund, Road Fund, or General Fund. That has the impact of being able to use it if needed. In a good year, we can even add to it. It gives us more flexibility and cushion." Councilwoman Berger asked, "When did we change the carrier for the clinic?" Ms. Williams replied, "In May." Councilwoman Berger asked, "May of 2011?" Ms. Williams replied in the affirmative. Councilwoman Berger asked, "What was happening with the clinic in 2009/2010? Who was there?" Ms. Williams replied, "Care Here." Councilwoman Berger asked, "Was that the one that was taking four time slots and saying it was four patients instead of actually one patient, so that we were full?" Ms. Williams replied in the affirmative. Councilwoman Berger said, "So people were going to their doctors. We had this service that was supposed to be provided and yet we basically rerouted everyone." Mr. Pollard stated, "We know that the clinic has the potential of saving us money. That's the purpose of having it. Next, we have the Road and Bridge Operating Fund. We anticipate stable taxable value. That's going to give us property tax going into next year. That is the largest revenue in your Road and Bridge Operating Fund."

Mr. Pollard stated, "You have to do road work to be funded by gas tax. It also covers half of your road right-of-way maintenance. Gas Tax is our largest revenue. I believe it's over \$3 million, whereas property tax is approximately \$1 million. Those are the two main revenues. We're hoping to have stable costs going forward. We have had a 26% reduction in staffing costs. We have over the years redirected some staff and reorganized, so we have had staffing reductions. We have experienced a nice drop in personal services here. However, we are deficit spending in this fund in the neighborhood of a half million a year. We will have a deficit balance by the fiscal year ending 2015." Vice Mayor Bartz asked, "How long have we been deficit spending that half million dollars?" Mr. Pollard replied, "I would have to look." Vice Mayor Bartz asked, "If there is a trend that way why aren't we adjusting the budget, instead of continuing to deficit spend?" Mr. Pollard replied, "We probably had growth in revenue during the good years and building a fund balance, so let's say it has been a few years since the property value has been falling, so that has caused the situation. We compensated for that by reducing personal services by 26%. Presently, we are going to reject the bids we had for the road right-of-way mowing and the swale liner cleaning. The department wants to step back and reconsider that program to see if there's a better idea resulting in cheaper costs. We are studying that. Over the past few years those are some of the steps that have been taken."

Vice Mayor Bartz asked, "How long are you reviewing an item like that where we are deficit spending on a yearly basis? I understand that when things were good it was not an issue." Mr. Pollard replied, "I believe deficit spending has been a topic of concern for the last year or two. Unless things change, we will be talking about it again in six months and into the future. Corrective action needs to be taken. We have taken some. We've helped ourselves, but further action needs to be taken. We have had enough staff cuts that cutting further will impact the level of service. Those are real difficult decisions going forward now. We have frozen wages. We have stepped up the employee contribution for health insurance. We've taken a number of steps, but the financial picture tells them we have to take more. We would have to decide if there are other things that can and should be done." Councilwoman Martin said, "For me, the bottom line is revenue. If you're saying that we've taken all of the cuts. . . . We always look for ways to cut more, but the bottom line is revenue." Mr. Pollard stated, "I'm not going to say that costs can't be addressed either." Councilwoman Martin noted, "When we look at the costs, we look at those cost cutting measures." Mr. Pollard commented, "Staff will look at either side, but on the revenue side it's ad valorem revenue and gas tax. Our hands are tied on both. Staff can't adjust the revenues for this fund. We have been shuffling staff. We've done consolidations. We were looking for cost-cutting measures where we can, but we have to go further. Eventually, we run into a serious problem."

Councilman Kelly pointed out, "I think the year before Vice Mayor Bartz came on the Council we had a huge discussion. We didn't have any ad valorem in this fund. We didn't have any way to grow six or seven years ago. I wanted to add it one year and we had quite a battle. The next year we did do it. I don't know if it was a quarter of a mill or whatever, but we added something. That quarter of a mill helped. You had growth, because we had valuation increase. Two things are going to happen. Either we're going to get some valuation next year and the year after, and that could wipe that out, or the consolidation issue. The point I'm trying to make is that it's better than it was six or seven years ago." Mr. Pollard remarked, "Quite a few years ago that was an issue we had to deal with in front of Council. We had to allocate some of the millage rate to give us some growth. We have been able to stabilize that by doing the rollback rate the last few years, but it's still stable. We're trying to control our costs." Councilman Kelly said, "If we hadn't added that it would be much worse than it is right now. You can't keep taking from Peter to pay Paul." Mr. Pollard stated, "It would cause a larger deficit."

In the current year, this fund will receive almost \$2.3 million in property tax revenue, and that's down from past years." The City Manager noted, "A good portion of our gas tax revenue actually goes to pay off existing bonds, so it's basically spent as it's received and not available for anything else." Mr. Pollard commented, "In past years, we issued bonds, not bonds for a specific road projects such as Crosstown, but in this fund in the current year we have over \$5 million in debt service. That's more than twice what the ad valorem revenue is to this fund. To keep that in perspective, the cost of staffing that is charged against the Road and Bridge Fund is \$3.5 million. It's your largest line item on the expenditure side."

Councilwoman Berger asked, "What's the oldest bond issue on that?" The City Manager replied, "Two of the issues are paid off in 2016." Mr. Pollard pointed out, "That will help us in this fund, but we get a transfer in from the Road CIP Fund into this operating fund to pay that. You lose the revenue and expense." The City Manager remarked, "The two additional gas tax increases also expire in 2016, so those are countywide. The revenue source expires when those bonds are paid off. At this point, unless those gas tax additions are renewed the revenue source is going to go away as well." Mr. Pollard said, "We will have no change in staffing and no cost change to staffing in the Stormwater Fund. We have minimum capital projects we're able to achieve unless there is grant funding. The annual rate is \$153. We're going to assume that will stay stable into the future. Keep in mind that if that rate stays the same, your revenue is flat. You get very little growth. The only time you have growth in that revenue is if you have an undeveloped parcel or a residential lot. They're billed at 75% of that rate. When it becomes developed, they pay 100% of that fee. The flat revenue is leading to a deficit balance by fiscal year ending 2014. We have a problem two years out in this fund if we go with flat revenue and continue seeing the costs that we have. Our Street Lighting District Fund is the special revenue fund that pays just for the neighborhood street lighting districts. In this special fund, we charge the citizens \$27, and collectively then pay for the electricity. In past years, we did deficit spend. However, we had built up such a fund balance that was put into the budget in past years. We held the rate down. We had a fund balance that was too large and essentially gave us an extra years worth of funding for expenditures in that fund. We targeted to spend down. We kept the rate low, artificially low for a couple of years, and now we have had to increase that rate to get the revenues up to where they balance against the expenditures."

Mr. Pollard said, "For this year and the upcoming year we hope to hold it at \$27. The rate increase and decrease by FP&L

impacts the costs that you have to pay in this fund and we're tracking that. The Utility Operating Fund long range model was built on the assumption of a future rate increase next year of 3.5%. It's a lesser amount going forward. I believe on the water it's still 3.5%, but on the sewer side it's 2%. We're doing our best to hold the operating costs flat. Some of your largest operating costs besides staff would be electric and chemicals. You also have equipment and maintenance costs. The debt increases next year. We could still survive off fund balance, but it causes a deficit balance by fiscal year ending 2014. Our contingency fund could be used to retire some of the debt early. If we do that your annual debt drops. The negative side is when the bond rating agencies look at us and we want to refinance or possibly issue new debt in the future. They look at what your level of contingency is. In the Utility Fund it's important for that reason to have a contingency. In the CRA Fund, we've had falling revenues. Our costs have been climbing because of debt. We've had operating deficits. We have been relying on fund balance since early 2009. We have been able to sell assets. There are no future staffing costs at all. We don't charge any personal costs to the CRA Fund. It is for the most part debt service. In fiscal year 2012/13, we require subsidy from the General Fund or another strategy that could come forward. MSTU monies might be used. The CRA Fund runs out of money next fiscal year if we don't take any action."

Councilwoman Berger asked, "When we were talking about the bond rating and the concern about paying off debt, the overall concern is that it would reduce or possibly reduce our bond rating. Isn't it positively viewed as well when we reduce our debt ratio or pay off debt? The flip side of that is if we have that much debt should we be concerned with further borrowing, or are we talking about the ratings on existing bonds that we have?" Mr. Pollard replied, "Existing bonds; unless you refinance, you're not worried about your credibility." Ms. Dedert stated, "When we go to the rating agencies we're bumped up another notch because of our contingency fund. They praise us on that. We had a plan to build that higher than it is now. We have not hit that mark, and every time we go that's a question from the same rating agencies as to when we're going to hit our benchmark on our contingency. If the growth had come like we had planned, we would have hit that benchmark, and this wouldn't be an issue." Councilwoman Berger noted, "But we're talking about when we go for new bonds." Ms. Dedert commented, "Or refunding. If I go out for the refunding I talked about earlier, I have to get a rating. It would affect that." Councilwoman Berger asked, "Should we expect from Finance to see things like what the dollar and cents impact would be if we decide to pay off debt? As a byproduct of that maybe our rating gets bumped down to a . .

. . . What would a good bump down to be?" Ms. Dedert replied, "We're 8-3, which is very good for a Utility." Councilwoman Berger asked, "So if it gets bumped down to a 1. . . ? Ms. Dedert replied, "I would have to look at the market to tell you what the ratio difference would be. If I got bumped down one right now, I doubt if I could have. . . . I think my savings on refunding would probably drop by half, and then it wouldn't be prudent for us to go forward with the refunding." Councilwoman Berger said, "I will expect you to have the real answers to that question. To me, I don't know what that answer would be. I would hope that your Finance Department or OMB when we're making these kinds of decisions long term would remember and balance the fact that since we're dealing with taxpayer money we want to try and pay off debt when we can. If we can pay off the debt that should be a first option as long as it's not going to cost us more than if we don't pay off the debt. I think that's where we start to lose the conversation. It's very analytical and it's something I can't figure out on my own. That's why we have an entire department that's doing that. I would like to see some calculations around that as we move forward. My opinion is that we should try and pay off some of the debt, so we're not looking to accumulate more in one area, and still not affect the bond rating in such a negative impact that if we needed to go out we can still go out."

Councilwoman Martin stated, "I agree with that. That does bring it to the flip side. We need to keep up this bond rating, but what are we going out for? What do we need? We don't know what that future is. We know we have to keep it up. We know it's important. However, on the flip side what are our future needs that we're going to be needing to go out for bonds for and what does that look like? I don't think we're aware of what that is. When we're balancing out what Councilwoman Berger just said about paying down, we need to see both sides of that equation so we can have a better understanding of balancing that." Councilman Kelly stated, "The Crosstown Parkway is our future need." Councilwoman Martin noted, "But that's not about utilities. That's completely separate." Councilman Kelly commented, "It affects our bond rating. Every bond that we have affects all of our ratings. I agree with paying off the debt. If you lower your debt, then they say you don't have enough contingency. I think we need to look at it. As far as I know, we have a tremendous contingency in the Utility Department, which we need. Someone has to look at it and see if we can pay off some of this debt. Maybe it should be part of our direction at the end of this meeting." Ms. Dedert pointed out, "Right now I have no bonds that I can call, and that's paying off debt. When you go out for an issue, you have a ten year no call on any bonds that you sell. We have a 2003 issue that is not callable

even in 2013, because of the nature of the bonds. They're called Capital Appreciation Bonds, and they're not callable. The 2004 bonds are next and it's 2014 before you can call those bonds. The way we can save money now is to refund those bonds. You can save money and do that, but that isn't paying off debt, and that isn't pulling your contingency down." Councilman Kelly remarked, "Vice Mayor Bartz would like to pay off \$500,000 in the Road and Bridge Fund, and take some of the money from the contingency. Is that going to affect our bonds?" Ms. Dedert replied, "I couldn't take contingency from the Utility Fund to pay off Road and Bridge." Councilman Kelly said, "I'm just using that as an example." Ms. Dedert stated, "I couldn't do that. I don't have \$5 million in the Road and Bridge Fund to pay off debt. We look at every issue every six months and I do call every bond issue that I can where we have funds to do it. I have called early approximately \$150 million worth of bonds for the City. I have no idea what the savings is, but it's tremendous. Right now, Utilities is in a position where we can't call bonds until 2016."

Vice Mayor Bartz asked, "Were you talking about just this fund or were we talking about paying off debt overall? If we are able in areas to pay off debt, we can certainly add that to the contingency fund, which should make our rating stay where it needs to be." Ms. Dedert said, "If I have a special assessment debt that's in this shoebox over here, I can't call bonds in the General Fund. Each one of these bonds has a separate rating." Vice Mayor Bartz stated, "We're not communicating the way. . . . However, if we have the opportunity along the way to pay off bonds as we were contracted to do, then that means that we no longer have a payment. We no longer have to worry about that debt. Therefore, that debt then moves over where you can look at it as now we have the additional to a contingency fund. . . ." The City Manager noted, "You can't claim it as extra until the entire bond is paid off. If you're ahead of the schedule you still have to make annual payments." Vice Mayor Bartz commented, "I understand that. What we're saying is when it is paid off. . . ." The City Manager pointed out, "Most of those are still many years down the road." Vice Mayor Bartz remarked, "But it is going to not negatively impact our bond rating. It's going to put us in a better position regardless of what that bond is." Ms. Dedert said, "If I had utility bonds I could call, I could use some of our contingency funds and call them. I do not have bonds that are callable right now. I can't take our contingency too low, because they do look at that for future emergencies and future things that will happen in utilities. That's a big plus for us."

Vice Mayor Bartz stated, "I don't think we're talking about reducing our contingency to get there. I think we're talking

about reducing debt. . . ." Councilwoman Berger noted, "In a strategic manner." Vice Mayor Bartz commented, "If we were to get to that point, we're looking at trying to increase. I hear what you're telling me that it's going to take a long time to do that. We're looking at another option for paying off debt and increasing contingency." Ms. Dedert pointed out, "I have a spreadsheet that I will get to all of you that shows how many bonds we have paid off early." Councilwoman Berger remarked, "I know that. The reality is that you've saved us millions of dollars. I was asking for more than what's available during my election time, looking at the division that the City has. We talk with Mr. Merejo about the next hundred years of what the City needs for utilities specifically. Generally, our GO bonds are way beyond the time that any of us are going to sit at this table, but it is our job to look long term and how we can contribute toward paying off the debt. I know that in your mind, in your financial world, and in your department, you know those details. We just don't, because we don't see it at our level. That's okay, because we don't really need to be micromanaging that process. I just didn't know the answers to the questions that I asked. I wanted to know the answers, be educated on it, and now the Council has the collective vision of looking to continue to be strategic in how we pay off debt and how we borrow again in the future, because we do know that the Crosstown Parkway is on our agenda. We want to make sure that we're positioned correctly to get an appropriate bond rating when that time comes. We also want to say to people who are asking what we're doing with their money that we're also trying to make sure we limit the debt that is here for the next generation as well. Truly, I'm looking for more information. I don't know the answers to those questions. I depend on that information from you."

Ms. Dedert said, "I think you're asking for a ratio as to what the bond rating would be to the amount of savings that we would have on a refunding, and what we're doing. That is something that would take some time to pull together, but it can be pulled together." The City Manager stated, "Our ratings are very important. I think last year through refinancing and refunding we probably cut the City's overall debt between \$8 million and \$10 million by being able to do that. If our ratings drop that takes that off the table. We are constantly looking at that. Anytime we can refund or refinance bonds and lower the ultimate payout on those bonds, we're doing that. That's another reason why all of our ratings are very important. If our ratings drop, that takes that option off the table. If our bonds are not callable, we could refinance, but with the low interest rates we could earn right now, we can't defease them, because we can't earn enough interest on the defeased bonds to pay off the

others. Because of low interest rates right now, that option is basically off the table." Vice Mayor Bartz noted, "I think we all understand how important our bond rating is, and we all have been concerned about maintaining that bond rating. I don't think that's an issue. I think we were just looking for some mechanics to it. I don't think that spreadsheet is a bad idea. For future generations, we are paying down that debt." Ms. Dedert commented, "Twice a year the City Manager and I look at everything, every angle that we can look at to save the City money."

Mr. Pollard said, "That wraps up the long range models. We need to review our budgetary policy. The current policy is that we will have no change in City cost of salaries and benefits. There is some flexibility within that. We have been saving on the health insurance plan, and we hope we can save in the future. We have said per policy that we would try to hold the operating expenses to an inflationary factor of 3%, but I have to say we're trying for a flat no increase where possible. The third item in the policy is the Saints Golf Course Fund. The General Fund will no longer need to subsidize the Saints Golf Course Fund. We had a policy that we could contribute between 20% and 25% over to that fund for their operating budget. The last subsidy was last year. In the current year there will be no subsidy, and we don't forecast having to step in and do that into the future. Financially, they will be able to stand on their own."

Mr. Pollard stated, "The policy is that we will hold the millage rate stable unless directed otherwise. In the General Fund, you have 3.5688, and in the Crosstown Parkway Debt Service Fund you have 1.2193. We are saying that we will hold that stable going into next year. We hope the taxable value comes in real close to zero, so that we don't have a drop in revenue. We also have the Road CIP Fund. There's a millage rate there of 0.5710. In the annual Stormwater Fund we project no change to that rate. That should stay at \$153 going into next year. The other policy we have is that we officially put on hold any change or attempt to fund at the proper level the police sworn staffing policy. The policy reads 1.6 officers per 1,000. The current year budget as adopted with 206, we have the opportunity to add one. That was a deal struck between the Parks Department and the Police Department. The Parks Department is funding one additional police officer. They're officially at an approved level of 207 for the current year. That gives us an actual ratio, depending upon what population number you feel comfortable using, of around 1.25 officers per 1,000. We're below the policy, but for financial reasons over the last few years, we have been forced to do that. The next policy is our financial contingency. It is

at 4%. The rating firms look for 20% as a fund balance. We can budget 4%, and then if we are lucky like last year in the General Fund, we can achieve a 20% ending fund balance. In restricted amounts, you take the savings we had in costs and throw that 4% contingency in and hope to get 20%. We have a few budget assumptions that aren't addressed in the policy. We want to make sure that we put those on the table and get direction either way on those. The first item is all of the other rates and fees of the City. The only ones that I'm aware of that we forecast an increase in is the water/sewer rates. We have presented information this morning that the rate study calls for a 3.5% rate increase. We will need direction on that. The Parks and Recreation Department officially follows a CPI Index to look at all of the rates and fees they charge for the various programs. Where it seems reasonable they will take a CPI increase. If that adds two pennies to someone's rate, we more than likely will skip that. The Saints Golf Course fluctuates according to the market. We're continuing to do efficiency reviews. For the most part, we don't anticipate any further changes in staffing. We hope to maintain the level of service."

Councilwoman Martin asked, "When you say staffing levels efficiency reviews, is that something that is being undertaken now or something that's going to be undertaken in the future?" Mr. Pollard replied, "We have had reductions in the past. We could have future ones. As we speak, the Engineering Department has a number of vacancies in the drainage division. They are still new at being a combined Public Works/Engineering Department. You're going to find them looking at some programs, looking at their staffing. They have not told me that we can do away with those vacant positions. They are studying that. Efficiency reviews are underway as we speak." Councilwoman Martin asked, "When do we anticipate a time line? Will we see that at the Summer Retreat?" Ms. Roebeling replied, "Yes. We're going try to bring forward to you as much information as possible. We are a new combined department. It's a little overwhelming, but we're getting there. We have already made a number of changes, and we see a lot of opportunity where we can make more changes, but we want to do it the right way. We don't want to rush it. We want to look at everything all the way down the line, and that's what we are doing. We do have vacancies, and we're leaving them vacant. We haven't eliminated the vacancies until we get to a point where we can share with you and with the City Manager what we feel is the proper decisions." The City Manager noted, "Also throughout the year when we have vacancies, we ask if we can do without this position, or if we need the position we ask if we can lower the level of the position. As we put the budget together, we constantly look at ways to consolidate things or eliminate any positions. We have

departments who are staffed now at levels that they were in the 1990's, when we were serving half the people that we are now. Our departments are pretty much down to the bone."

Councilwoman Martin pointed out, "I know they are, but in talking about the efficiency reviews that's something really important for us to know. We know there's a drop in the level of service. We try to maintain as best we can, but the reality is that the level of service has changed, because the economic times and all of the factors involved. However, it's important for us to know how that's affecting things." The City Manager remarked, "We cut the hours in the parks, and that's a very visible drop in the level of service. People expect immediate answers on a number of things. Our staffing is a lot lower now, so many times it takes longer to respond to citizen's questions. When complaints come in, it may take longer to address them, because our departments are staffed at a much lower ratio than they have been in the past." Councilwoman Martin said, "It's important for us to know what some of those things are, so we can pay attention to it." Mr. Pollard stated, "The Neighborhood Services Department, Animal Control, and Code have recently been absorbed into two other departments. The last item is the Employee Health Plan. We will continue with the same plan features, employee contributions, and City rates going into fiscal year 2012/2013. Now we're at the point where we will turn it over to the Council."

A recess was called at 12:00 p.m., and the meeting resumed at 1:05 p.m.

BUDGET STATUS AND PROJECTIONS (CRA ISSUES, POLICE STAFFING, RESERVE POLICY)

Mr. Oravec said, "We have had discussion today about the utility rates, the debt and the deficits there, the City Hall COP issue, and also the CRA. All of these things boil down to one thing, and that is that we have a rather new City. We didn't start developing until the 80's and 90's. It had to build that entire infrastructure at current costs, and the bottom has fallen out of the revenue side. It doesn't matter if you're talking about utility rates or impact fees. It's what we do in building permits that generate impact fees today as compared to the height. A good day during the height is a good month now for the number of CO's. That's what kind of factor we're talking about. The difference when we're talking about the CRA is that the CRA does not have the ability to raise revenue. It's not like the City with the General Fund, and property taxes that can increase millage rate. It's not like the Utility that can increase the user rates. The CRA's revenue is from tax increment revenue. In

the property tax, the millage rate times the assessed value gives you the property taxes. Tax increment revenue is the product of the incremental increase in value times the aggregate millage rate of the taxing authorities. The first thing I would like to do is quickly take you through the budget of the CRA. During the height, we were close to \$650 million of taxable value in the CRA's. Today that's closer to \$400 million. Total taxable value is critically important for the calculation of property taxes, but for the calculation of tax increment revenue it's that increment, and the discussion we had yesterday on how you calculate increment. You freeze the year when the CRA starts, and then every year thereafter you look at where it is. You subtract the base year and you have the increment."

Mr. Oravec continued, "We peaked around 2008 with over \$400 million of incremental value. Not only has the incremental value and the total taxable value gone down, but the participating millage rate has also decreased over time. All of the factors that go into calculating revenue for the CRA have gone down, which means by definition the revenue has to go down. Mathematically, that's the way it works. You can see where it has gone from a peak of almost \$3.5 million a year in revenue down to \$1.3 million. From time to time you hear talk of the eastern CRA failing. It's still earning \$1.4 million a year in revenue, so it still has money coming into it. The Agency itself is still receiving a significant amount of revenue that many CRA's never realize. When you look at what the CRA spends its money on, and this is where that amount of revenue starts to become a problem, it's the debt service. There are no personal services. There are no people charged to the Agency. There are no administrative charges currently charged to the Agency. It's really all debt service. The CRA has two bond issues. One was in 2004, and those were the first TIF improvements. They were utilized for the extension of Hillmoor Drive, part of the widening of Lennard Road, and the creation of the Mary Ann Cernuto Family Park. That runs about \$940,000 per year. The City Center TIF Bond is kind of backloaded, so that it goes up over time. When you take a look at projected revenue and compare it to the debt service and projected expenses, you can see that the Agency has faced and will continue to face deficits several years into the future. That sums up the budget position. Now we can discuss City Center. Unfortunately, the only things that have materialized are what the City and the CRA did, which is City Center, Village Square, and the Parking Garage. The developer has defaulted on the Redevelopment Agreement. They are \$500,000 in arrears on payments owed to the City for the Civic Center."

Mr. Oravec stated, "They have not delivered any development. We had a series of like kind changes of property scheduled, but only the first like kind exchange was completed. The second one is still outstanding. As a result, they still own some pads that we're supposed to be utilized for parking, and we still own the Auto Kool building at 1654 SE Walton Road, which the Agency currently leases to the Utility for storage of equipment. Going from the City Center general to City Center SAD, the Council is aware that the special assessments re afor the infrastructure improvements at City Center. That includes the City and the CRA, PSL City Center and deGuardiola, and B. Davis Ventures. Only the City CRA and B. Davis Ventures are paying their bill. As a result of deGuardiola not paying his bill, tax certificates were issued. Unfortunately, only about one fifth of the tax certificates actually sold at auction. The City provided CB&A on this bond issue, and per the bond resolution the CB&A has invoked prior to the reserve surety. The actual amount billed is slightly different than the amount of debt service, and that's because you have to account for the 4% discount if you pay early. The actual roll for the City Center SAD is about \$2.65 million per year. That doesn't include Lots 26 and 27, which are currently being paid by the Stormwater Fund as part of the Cane Slough swap. The payment is about \$1.9 million a year for PSL City Center. Payments are made semiannually. There is currently about \$162,000 on hand for debt service."

Mr. Oravec noted, "The Stormwater Fund has sufficient funds to pay off the assessments for Lots 26 and 27, which would provide an infusion of approximately \$2.13 million. We can see the finish line for EWIP. We were able to leverage funds, so that project is going to be in a position to pay those assessments off in full rather than pay them out over time, saving that fund interest. Therefore, as a result of that there will be sufficient funds to make the July 2012 payment, and based on the 2012 tax billing, it's also expected that the January 1, 2013, payment can be made. However, for the July payment of next budget year it's projected to be about a \$1 million deficit, about \$986,000. That deficit would be lessened if any tax certificates sell, and the deficit could be wiped out if a responsible property owner took possession of City Center. With Mr. Pollard's presentation, when he was stating that there was a subsidy needed, we will see in this presentation that it's not actually for the TIF bonds. The TIF bonds make it to the next fiscal year. It's the SAD that's the problem first. In the absence of a responsible property owner or tax certificate, after that first deficit, there will be a \$1.8 million or \$1.9 million annual deficit, and that corresponds with PSL City Center's annual payment. When you're thinking about how to address this problem, I've suggested it internally for a while,

but I think we have to pursue all available legal strategies. I thought that the City Attorney and Ms. Booker had a very good strategy that we tried recently trying to force PNC to step up and address it. They had gone through a foreclosure proceeding, had gotten a judgment that said there was going to be a sale, and then they canceled the sale."

Mr. Oravec commented, "They just left it in this no-man's land. I believe they did that because they didn't want to become responsible for it, so better just to leave it hang out there for as long as possible. We tried to intervene in that, and PNC abandoned their foreclosure, basically giving it back to the property owner. I would really like to throw the kitchen sink at them at this point. I think that the City Manager and I will get together with the City Attorney and all of our team members over the next 30 to 60 days to map out some legal strategy and bring them to you. I think those need to be implemented as soon as possible, and then I think there's also a financial component with both the SAD and the TIF bonds. There may be some financial strategies that we can implement that would end up saving us a lot of money. The City is in the process of hiring a financial advisor. I see that person as being a key person that could help us with this. Even if the only thing we do is cancel the Redevelopment Agreement, you shouldn't be able to dishonor a contract with impunity. There should be a price for that, and I think we're past due on following up on that. The other thing is that the City or the CRA could pay off the assessments on one or more of its properties. As I mentioned, both entities pay into the Special Assessment District. Not only would that cover the debt service, but it would reduce the City or CRA's cost of the assessment. An example is the Civic Center. The original assessment, big picture, had about \$5 million in assessments against it for the City Center SAD. That \$5 million equates to about two years of payments for the entire SAD. If the City would pay that out over time, over the full life of the bond issue, it would actually pay \$10.75 million. If it were to pay off those assessments at the beginning, rather than paying it over time, it will realize a \$5 million plus savings. That's the tradeoff. The bad part is that you have to come up with the \$5 million."

Mr. Oravec pointed out, "The good part is that you save \$5 million or about \$200,000 a year over time for 25 years. The downside of that is that the City or the CRA has to find the money to make the payoff, and that's something we will be working together with our financial staff on to identify if we can come up with the funds to make that happen. It's not something that would have to be paid off in full. Even a partial payment would have benefits for not only the district, but also

the entity paying off that partial assessment. If the City is forced to honor the CB&A due to the failure of the property owner, not only do I hope that we can exact something out of that property owner at some point through legal proceedings, but if we really have to come up with the money, we need to take a hard look at actually purchasing a tax certificate. There would be an additional expense, because you're covering penalties and the cost of the taxes. However, relative to the special assessment, that's not a lot of added amount, and it gives you the ability to actually control the fate of that property. After two years if you're holding the tax certificate, you can bring the property current, which you would have done anyway because you're making the CB&A payment. Now you get to call for the tax deed application and the tax deed auction. At that point, the City can become the owner and then it can put it out for RFP and get it to a property owner that's going to pay the bills versus getting jerked around by PNC and a disappearing property owner."

Vice Mayor Bartz asked, "Do we know the value of those tax certificates?" Mr. Oravec replied, "We do, but I don't have it in front of me. The SAD seems like it's going to be the problem that hits first. Originally, we thought it was going to be the TIF bonds, and the TIF bonds have been identified as a major challenge since the statutory tax reform started. Unlike the SAD bonds, which are the property owner's responsibility, the CRA has the responsibility for the TIF bonds. Again, this responsibility falls to the City should the CRA have insufficient revenue due to a CB&A. The TIF bonds were to pay for property acquisition planning work for parking garages, a contribution to the Civic Center, and the Village Square contingency. In response to the statutory tax reform and the economic uncertainty that became apparent in 2007, only one parking garage was constructed. Surface parking was constructed on the other sites. The resulting savings were set aside to assist in the payment of debt service. When we're talking about these bonds, it's important to understand that you can't call them early. The SAD bonds can be paid off at any time. It makes refinancing and paying off options that should be looked at. With this there is that ten-year period where you can't do anything. Because of today's interest rates, defeasance isn't a good option, because you can't make enough money with the refunding. The TIF bond debt service ramps up over time. It was designed like that, because of expected increases and valuation, which, of course, have not materialized."

Mr. Oravec remarked, "In a similar cash flow analysis that was provided for the SAD, we have about \$4.3 million on hand today. It shows the payments for both the 2004 bond issue and the 2006 bond issue and how that works out over time. It shows that we

make it through 2012/2013 still in the black. It's 2013/2014 budget year when the deficit starts. Starting in 2013/2014, that deficit is going to be roughly \$3.5 million a year. That's based on projected revenue for the CRA of \$1.226 million. We're calling for additional decreases in revenue. Hopefully, they will flatten out. When you look at the CRA, City Center is about the only place you can develop. We've turned a number of the vacant parcels of the CRA into beautiful stormwater ponds as part of EWIP, which are going to contribute to the long term value of the district and focus development at City Center. Even if something happened today, it wouldn't be soon enough or big enough to revert some amount of problem due to that loss in the overall roll. The CRA has a police substation and the vacant lots south of the police substation. It also has the Village Square and the CRA funded portion of the Civic Center. I do think there are financial strategies that we can implement to shave money off and reduce those numbers. I do think that a fundamental strategy is going to be the assets. The current book value or the estimated cost of completion for each of the assets is provided. The police substation is about \$1.3 million. The vacant lot is about \$568,000. The Village Square is about \$3 million, and the CRA's portion of the Civic Center is about \$18 million. I want to get with Ms. Dedert and go over the Village Square and lock down that number, because a number of the Civic Center improvements were lumped together and they didn't have specific descriptions."

Mr. Oravec said, "On the Civic Center, I think it's important to share the history with that. Originally when the Civic Center was conceptualized, the City and the CRA were going to split the cost 50/50. Originally, that facility was thought to be a \$25 million facility. As it turns out, the City didn't even pay the 50% of the \$25. We're still about \$55,000 short. The City changed the scope of the Civic Center project to include the warehouse and some other changes, so the actual price tag for the Civic Center ended up being more than \$30 million. At the very least, even if the City didn't want to entertain the idea of purchasing the assets, it's still several million dollars short of the original 50/50 contribution that was contemplated. Those assets equal about \$23 million, about six and a half years of the projected deficit. The shortcoming with selling the identified assets is that the City is the only likely buyer, and it would have to find the money to purchase the CRA assets. We just spent three hours talking about how tight the City budget is. I do think there's one funding source to explore that isn't the General Fund, and that's the Parks MSTU Fund. That's a fund that the City utilizes to purchase and construct new park facilities. It can't be used for operating, but it's there to create park facilities. In looking at the Civic Center and the

Village Square I can't think of a better Parks and Recreation facility. I do think it's legitimate. While the Parks MSTU Fund does not receive \$3.5 million a year, it is projected to receive approximately \$1.5 million per year, and have a significant cash balance at the completion of the currently programmed Ravenswood and Canal Park projects. In fact, I recently got some good indications on the Canal Park project that it might come in at almost half of the budget amount or in that neighborhood. We hope that holds true. That's an important project that we've been working on for a long time. There are some real funds there that could help. It's hoped that sometime in the future real estate begins to appreciate again. If the recovery never materializes, I really don't know what to tell you if that's the case."

Mr. Oravec stated, "Every year that the budget deficit can be pushed out is another year for the recovery to gain steam." Councilwoman Berger asked, "Isn't this something we talked about years ago at a Retreat, our option of using the MSTU?" Mr. Oravec replied, "I don't know that we talked about that. We have certainly talked about this before. You have been given this presentation before. It has just been updated. We've talked about these concepts. I don't know that MSTU has been talked about formally at a meeting. I've been putting that out there for a while, but I don't know that we have discussed it." Councilwoman Berger noted, "I thought you were putting that out there for a while. I thought I discussed it at a meeting, and I thought it was a Retreat. This is definitely not new. It's something we probably should have taken steps toward last year to make sure we didn't start to accumulate it. I think it's a valid option. It is park and that's exactly what it's used for. It's booked out for the rest of the year as our park. I like the idea." Councilwoman Martin commented, "I like the idea too, especially the fact that although we do have those funds we can't afford to really create or have any more parks right now, because we don't have the funds to operate them. There's no point in holding onto it if we can't do both. Do you foresee doing this on an annual basis until such time as things get better? Are you looking to put a time frame on it, or are you just looking for a general guideline to see if we're willing to do this or not?" Mr. Oravec replied, "As long as you're not opposed to it, I will work with the City Manager and staff, along with that team that I mentioned, and we will bring something to you at the Retreat as part of the budget. I also requested a formal opinion from the City Attorney on it, and I know that he has been in contact with Ms. Dedert, just to make sure everything is above board. It's important to do it right. Obviously, all of this is heavily scrutinized."

Mr. Oravec noted, "There are several conspiracy theories out there to say what it is. We want to make sure that everything is 100%." Mayor Faiella commented, "I totally agree. That's the best way to go at this point." Vice Mayor Bartz pointed out, "The other thing that I would like to make sure that we don't lose sight of is working with Legal to see what types of legal ramifications are out there. It's something that has to be done, and I think we've waited too long to do it." Mr. Oravec remarked, "I absolutely agree." Councilman Kelly said, "Earlier we were talking about the Civic Center, what a jewel it is, and how it's going beyond our expectations for the 50%. I had mentioned that if we had a hotel it would be even better. They are going to happen and they're going to happen quickly. Every year that the budget deficit can be pushed out is another year for the recovery to gain. There is going to be a recovery, and it's going to be one of the first places that are going to build back up. We just need to buy some time, and we're going to be okay. This is a long range plan. It's going to take time, and we have to stick with it. Don't we have to spend everything we take in? If we had \$500,000 left over, we would have give that back to the county or back to General Fund. Isn't that correct?" Mr. Oravec replied, "By law, the CRA has to spend everything. If it doesn't spend it on a project, it has to spend it on debt service or a project within a certain time frame, I believe three years, or give it back. It's not like a city that can reduce its millage and amount of taxes. Everything it earns has to be spent by law to implement that Community Redevelopment Plan, to implement the master plan."

CITY MANAGER WRAP UP

The City Manager said, "My memo is a wrap up of a lot of information that Mr. Pollard and Mr. Oravec have presented today. There are some positive things that are happening. Sales taxes seem to be on the rebound. Our Electric Franchise Fees and taxes seem to be rising. Our health care costs have been very positive for last year plus, and departments have done a great job of coming in under their budgets. We have some real issues that we're going to be facing next year and in some of the future years until we get through the recession and get some recovery in some of our other major funds. The first one is deficit spending. This year we are scheduled to deficit spend in all of our major funds. All of them are scheduled to spend some of their reserves. Last year, we had a good year and we didn't do that. We would hope that this year we will do the same thing. It's not like we're spending down huge amounts, but when the budget was put together in all of the major funds, part of their budget was reserves. We can't continue to do that. The first thing we have to do is stop that. Last year we did. If our

health insurance claims stay where they are, I think there's a good possibility that we could finish in the black again for this year. That is an issue we need to stay on top of. As Mr. Pollard indicated, we're looking at basically stable ad valorem taxes. We're looking at a plus or minus 1%. We probably won't get anything from the property appraiser for a while. As Mr. Pollard stated, there are reports and publications coming out of Tallahassee and regionally that there may be anywhere from a 2% to 4% decrease in valuation again for the next year. If that happens, there will be a corresponding decrease in our assessed value. We have lost over 50% of our assessed value, but we've made up for some of those losses. We've gone to the rollback rate. Also our friends at the state legislature have been talking about increasing exemptions and capping growth either through legislation or on the ballot. Those will have impacts on us again. There was also legislation this year that they wanted to eliminate occupational taxes."

The City Manager continued, "I don't believe it's going to pass this year, although I think there's a very good possibility that it will exempt brokers. At this point, I don't think we have an exact figure on what that will cost us just to exempt brokers from occupational taxes. That's not only Port St. Lucie revenue. More cities in the state use that as part of their General Fund revenue source. With reference to Communication Tax, there's proposed legislation that would exempt a number of digital services and devices from the Communication Tax. That will exempt a chunk. It won't necessarily eliminate the Communication Tax, but it will reduce it. All of those are part of our General Fund revenue. Every time it dings one of those taxes, it reduces our revenue. We need to offset that by reducing expenditures or some other way. For the last two years we have gone to the rollback rate. We have lost over half of our valuation. By going to the rollback rate, it has helped some, but we're probably still \$18 million a year less in ad valorem revenue than we were in 2007, and that's a huge hit on our budget as we try to provide services. A good portion of that is General Fund revenue. It's the main source of revenue for the General Fund. I gave you a chart, and on it you will see that Port St. Lucie's mill levy including the Crosstown levy is 5.7289. It's just under the median for the 20 largest cities, and we added Ft. Pierce and Stuart into that mix. Our mill levy is just under median, which isn't bad. The total mill levy in St. Lucie County is 24.7766, and that is the highest mill levy of all of the cities here. If we lose valuation again, I can't recommend that we go to the rollback. Our mill levy is 23% of the total count. I think countywide all of the taxing agencies need to look at ways to bring our mill levy down. If we want to compete for

economic development, we can't have the highest property taxes of anyone."

The City Manager stated, "Right now, there are several others that are close to ours, so it's not like we're way out of range." Councilwoman Berger noted, "Just for purposes of making sure your quote that will be in the paper is accurate, please make sure that when you're saying the total of 24, it's the aggregate of everyone in the county." The City Manager commented, "I'm talking St. Lucie County. That's the School District, the county, the Fire District, and all of the others. Of that total, the City is 23.1%. Under a quarter of that is for operating the City. Everything else is for the county, the Fire District, the School District, etc." Vice Mayor Bartz noted, "Additionally, our City millage, even though the aggregate is high, is low. I want to make sure that word gets out there, because when you are talking about the county and the aggregate as Councilwoman Berger said, we also need to focus on the fact that the City is considered one of the lower." The City Manager commented, "We're below the median for the major cities in the state. I'm not saying the City is the one that's out of whack, although we need to do our part as well, as part of the aggregate of all agencies we need to look at it. Now we get into staffing. Staffing has been reduced by over 22% during the last few years. We have departments operating with staffs that are at the same level they were in the 90's. At that time, we probably had half the population to serve that we do now, so when you ask if we can cut back more, I think if we cut back anymore, we're going to have to look at either eliminating services totally or levels of service. I don't think we can ask operations to cut back on their staffing and expect them to perform."

The City Manager noted, "Regarding the Police Department, by City policy, we're supposed to, have 1.6 officers per 1,000. We're basically running at 1.25 officers per 1,000, and that's significantly lower. Of the safest cities, Port St. Lucie, Cape Coral, Palm Bay, Pembroke Pines, and Coral Springs, not one of these cities is staffed at 1.6. I guess that's the positive side. However, you will also notice that our 1.26 is significantly lower than the rest of them. We need to look at the Police Department and other departments. I would like to commend the Police Department. While crime is up some this year, their clearance rates are also up this year. They are doing a good job, as well as the other departments. I would like to give kudos to all of the department heads and their employees. We have maintained levels of service throughout this considering what we're faced with. At this point I don't see any way of adding any more employees next year. It's going to be tough for the next couple of years." Mayor Faiella pointed out, "In

reference to the Police Department, it's public safety that concerns me. What's the current crime rate?" Chief Reuther replied, "Preliminarily for 2011, we're looking at a 17% increase in crime as compared to 2010. Most of it is in the area of burglary, larceny, and motor vehicle theft. Our violent crime rate has a 3.9% reduction in 2011 as compared to 2010. Actually, our violent crime rate is lower than it has been for the last four or five years."

Chief Reuther continued, "Although burglaries are up 24% and motor vehicle thefts are up 21.7%, our burglary arrests are up 11.2%, and the auto burglary arrests are up 26.7%. We're actually making arrests, and in the last six months there has been a downward trend in auto burglaries. Residential burglaries have kind of leveled off in the latter part of the year. However, overall we will experience a significant increase. Around the state there's going to be a number of cities coming in at a lot higher reported crime rate, which is a challenge for all of us. We try to put forth a number of strategies. This past year the pawn shop ordinance was passed. We assigned a detective full time to repeat offenders to identify and focus on those individuals who are constantly out there committing crimes, getting out of jail, trying to get stricter sanctions, jail time. Our crime notification bulletin goes on our website to our citizens to let them know where the hot spots are and suspect information. We split our DART unit. We have our traffic officers. They're actually assigned in hot spots. We're doing everything we can. With the gold prices the way they are, we're seeing in a number of burglaries where they're going right into the homes, past the electronics, and right to the jewelry and cash. We've had an upswing primarily in the first six months of this year. It has now started to taper off, and I think some of it has to do with the fact that we have made a number of arrests. The officers and detectives are doing a great job."

The City Manager stated, "And still I think theft of motor vehicles and even our burglaries are because people do not lock their cars. That's 75% of the thefts." Chief Reuther noted, "And that's a pretty consistent statistic. About 70% of the vehicles are left unlocked." Mayor Faiella commented, "We're at 46% for overtime at the present time, and we were 23% last year. That concerned me, because of the budget." Chief Reuther pointed out, "With regard to overtime, we have cut overtime significantly in the last several years. Since 2008, we have cut overtime \$890,000. In 2008/2009 our overtime budget was just under \$2.4 million. Our overtime budget today is \$1.5 million. We are running high for the first four months of the year. Some of that has to do with the holidays, vacations, and staffing. About two thirds of our overtime is related to shift coverage. There are

so many variables that factor into staffing. At any given time, we will have four to six officers that are out because of injuries and surgeries. We have one in Afghanistan. They are off the schedule for lengthy periods of time. Right now I have eight that are off the schedule. That automatically impacts your staffing from the beginning. In many cases, you have to backfill in order to provide enough coverage for the street." Councilwoman Martin asked, "With regard to the 1.25 ratio and the fact that you have eight officers out, is that factored into the ratio, or is ratio really lower than that because you have eight officers out?" Chief Reuther replied, "The ratio is based upon what is authorized based upon population. Actually who shows up is going to be less than that number." Councilwoman Martin commented, "So it's less. The City does have a joint task force to combat some of these burglaries, working with Martin County, Palm Beach County, Port St. Lucie, and St. Lucie County. They meet on a monthly basis to talk about the issues and to have a collaboration of who's coming up from down south, and who are the known offenders."

Chief Reuther pointed out, "On the double homicide we had, there was \$19,000 of overtime. The most recent homicide is going to be a lot less. Those are some of the things you run into. Last year we had six homicides, which was a significant increase. We solved five of the six and with the sixth one we have a good idea of who the suspect is, but we haven't been able to get enough probable cause to arrest that individual. Those things have an impact on your budget that you don't have a lot of control over. We are assigning our traffic officers into some zones to do some backfilling. When we have a traffic complaint it takes those officers longer to respond, because we're backfilling our traffic officers by working a zone to take the place of an officer who might be on vacation or leave. I'm hoping to see that overtime rate level off and go down." Councilwoman Berger remarked, "I have a boss who tells me hope is not a plan." Chief Reuther said, "I just explained our plan. Last year we saw the overtime peak in December and January, and then started to taper off." Councilwoman Martin stated, "But the bottom line is that you need more bodies." Councilwoman Berger asked, "Do you have SOP's or a contingency plan for when we have these bad scenarios when someone is murdered? When I hear \$19,000 I'm wondering who was off that day. It sounds like pretty much everyone was on. I think of bigger cities and, unfortunately, they are use to having to deal with these situations. When it happens here, it's probably a little more of a big deal than it is in big cities, and maybe we respond reactively rather than proactively. I didn't know if you had something that actually stays in place, and that you actually

adhere to for SOP's in an effort to be able to work efficiently."

Chief Reuther said, "In a number of major cities, they have enough staff and they're working 24/7. If you're talking about Miami and some of those areas, they have crime scene people working nights. If something does occur after the normal hours, those people are scheduled and are working that time period. We do not. When you have a homicide, the first 24 hours are critical. When we have a homicide scene, we put a number of investigators there to make sure we get all of the leads, and that the scene is processed properly. The clock is ticking and the more you do up front, the better chance you're going to have in solving that crime. The way we respond is the appropriate way. Because we don't have detectives or the crime scene working 24/7, they get called out." Councilwoman Martin stated, "When you do the call out, you call out the people who are technically on call. When it comes to doing the arrest warrant, the affidavits, canvassing the area, talking with everyone, and gathering the witnesses, you need all of those bodies and the crime unit to come in and take care of all of that. A number of people don't understand what it takes in order to get that job done." Councilman Kelly asked, "Who writes the grants for the Police Department?" Chief Reuther replied, "Primarily Michael will write a grant." Councilman Kelly commented, "The Fire District just started writing a grant for 36 firemen. We don't have to put any money up. We were told that we have a great chance of getting it for the Fire District. Are we applying for any similar grants?" Chief Reuther replied, "There is a grant that is coming due. It's the COP's Hiring Grant. It's a 75/25 match, and it's a grant that we put in for last year. We're going to look at applying for that grant going forward."

Mr. Byrd noted, "Because our crime rate is so low that's actually part of the scoring process. One of the factors is economic conditions, and we qualified based on our economic conditions, because of the foreclosure rate and unemployment. Unfortunately, because our crime rate is so low that actually counts against us." Councilman Kelly commented, "We had six murders in one year. I don't think we had six murders in ten years for a long time. The 268 officers they have for 168,000 people are higher than what they have here. That's not acceptable. You would think that on a grant like that, we have fewer officers with many more people than we had five years ago. It seems like we get penalized for doing a good job. We also have fewer civilians than other cities our size." Chief Reuther pointed out, "I looked at the cities last year that were awarded the grants, and many of the major cities have significant economic and crime issues. Camden, New Jersey laid off half of

their police force, and they got 25 officers out of that grant. They're going to look at the crime rate, so it's a double-edged sword. We may be able to get some additional officers from this grant, because of the increases in crime we have seen." Councilman Kelly remarked, "You and Mr. Alvarez write these grants. Is that going to help?" Mr. Byrd replied, "Yes. We are constantly searching for any type of grant money and opportunities to add more personnel, whether it's sworn or civilian." Councilman Kelly asked, "How many officers could we hire under this grant that you're talking about?" Mr. Byrd replied, "Under the COPS Hiring Grant it's based on the percentage of your current staffing rules. Last year, we could apply for up to ten officers." Mr. Alvarez said, "This year's grant that the Chief mentioned is opening up March 1, and they changed the parameters. Last year, it was 100% funding, full salary and benefit, and this year it's 75% with 25% as the local match. It's a three-year grant, and they're also including the criteria that you must hire an officer with military background."

Councilwoman Martin stated, "In order to get us to the ratio of 1.66, you're talking four." Councilwoman Berger asked, "Are you asking to raise taxes? That's exactly what 30 officers means, unless you're going to have a chief that comes in and restructures, so that you have less of the command staff. I'm a little surprised that we have an opportunity for staff to speak to us, give us presentations. Then in the wrap up from the City Manager is a footnote about the Police Department, and yet it's about to turn into a very large conversation. I'm wondering Chief, since you're running for a new role again, why you chose not to make a presentation today?" Chief Reuther replied, "My understanding is that police staffing was placed on the agenda. I spoke with the City Manager, provided the City Manager with the information and the City Manager indicated he wanted to put that as part of his budget presentation. This information was available, and my understanding is that he wanted to include it in the packet with his presentation. That's why it was done that way." Councilman Kelly noted, "We need a new funding source. We talk about health, safety, and welfare all the time. Safety is paramount. Do we go to the people and ask if they want to pay a little more? Do we go to referendum? Do we form a special taxing district? Do we do an MSBU for the Police Department? What do we do to get this? We need this funding. I don't see the political will for someone here to say let's raise taxes. Could we go to referendum for a half mill to hire 40 officers?" The City Attorney replied, "You can do that, but I think that generally speaking you're doing more of a straw ballot. It would take the Council's political will to say okay this is what we're going to do, the same as we did with the Crosstown Parkway one mill

before we actually issued the bonds. Because the Police Department is funded through the General Fund, what you're asking is if we will support whatever the increase is that will be earmarked in the General Fund for the Police Department. Then it would be up to subsequent Councils to keep that promise that it will maintain that earmarking."

Councilman Kelly commented, "There is no money. I think we need to ask the people, whether by a straw poll or an actual referendum, to form a special taxing district. We have a low millage rate already. It's not the lowest like it used to be. In this time of economic conditions, I think it's time to ask the people if they want to fund this for two or three years. We already spend our entire ad valorem for the Police Department. I'm putting it on the table. I think it's a good idea, and I think we need to do it immediately." Councilwoman Martin pointed out, "Before I say that I want to look at raising taxes, I would like to pursue that grant opportunity again, and see where it gets us. Our crime rate is higher now, so maybe that will help." Councilman Kelly remarked, "I'm not asking the Council to raise taxes. I'm asking the Council if they want to ask our constituents if they want taxes raised, so we have a safer City and bring our Police Department up to where it should be. If you don't think it's a good idea, I will back off. We have half the detectives we had before. If someone else has a way to try and raise that money, I'm willing to listen. This is one way where our constituents can tell us exactly how they feel. I'm not asking you to vote for a tax increase. We did it with the West Virginia Corridor." Chief Reuther said, "Just to get to 1.6, which was the policy, you're looking at 57 officers whose salary and benefits alone are about \$5 million. That's the 1.6 ratio. That doesn't include equipment." Vice Mayor Bartz stated, "You can't just look at staffing. Obviously, if you have staffing you have to have the other equipment. Those numbers have to be put into that. I have no idea what equipment is necessary." Chief Reuther remarked, "You're going to have an additional \$13,000 to \$15,000 per officer."

Vice Mayor Bartz said, "We're looking at another \$100,000." Chief Reuther stated, "If you're talking about radios, handguns, and laptops, you're looking at approximately \$100,000 per officer." Mr. Oravec noted, "It's \$87,719 plus the Chief's \$13 to \$15. For easy math, call it \$100,000." Ms. Dedert commented, "To put this in perspective, in the General Fund last year we took in \$22,197,000 and spent \$35 million in the Police Department's budget." Councilwoman Berger pointed out, "I would like to go back to the days when John Skinner was Chief, and we would hear about the importance of hiring the right officers. When I first started, I had an orientation where I had the

opportunity to sit down with the Chief and try to understand how a Police Department of quality worked. Chief Reuther might have been there as well. The conversation was about selecting the right people, selecting the right talent, bringing them in, making sure they're of a high caliber quality person. The productivity and the result of the department is a direct reflection of who you hire. When we take a look at the fact that we do have probably one of the leanest departments, yet we're getting some of the best results, I think we should celebrate the fact that it goes back to the selection process. It could be as far back as 10 and 15 years ago when some of these officers and people were selected. That is definitely something to be celebrated, because our other cities listed here, I don't know what their qualifications are for hiring new hires, but I know that ours are pretty high."

Councilwoman Berger continued, "We ask that they come on board with a Bachelors, and that they continue their education. There were years when the Police Department and the General Fund funded opportunities for them to continue their education. I think what we see is a result that should be celebrated along with knowing that things have to change and we have to move in that direction. In the leanest of times, that's a good thing. That was a good investment." Chief Reuter stated, "You hit the nail on the head. With the people, regardless of what the staffing is, I think everyone here would tell you we need more staff. Policing is labor intensive, and 85% of your budget is salary and benefits. When you lose one third of your criminal investigations something has to give. We always hear about the 24 officers that were laid off. Fortunately, we were able to bring 16 back as a result of attrition. They weren't additions. Realistically when you look at the staffing in January 2008 to today, we were actually 254. We're 207 today. We lost 47 actual bodies. I want to thank Mr. Conrad and Mr. Keen for coming up with the idea of funding the Parks officer, because I think it's a win/win. We're going to do the best job we can for the citizens of Port St. Lucie with the resources that you provide us. I do appreciate your continued support now and in the past for our policing efforts, because I know with each one of you it's very important. We're going to continue to work hard and look at the strategies we employ."

Mayor Faiella asked, "Does the Council want to entertain Councilman Kelly's recommendation?" Councilwoman Martin asked, "Specifically, what does it entail?" The City Attorney replied, "There are two ways of doing it. You can have it as a ballot item on a regular election. The next regular election is probably going to be in September, which would be the runoff for local candidates should a primary election be needed. If you

hold a special election for it, then the City has to pay for all of the costs that are connected with the Supervisor of Elections in setting up the election. I think the last number I heard to do that, which is quite a number of years ago, is somewhere on the order of \$60,000. You would have something in that magnitude, if not higher, as an upfront cost that the City would have to advance to hold that election." Councilman Kelly said, "I wouldn't want to have a special election. We also would need a plan from the Police Department and our City Manager as to how many officers they want. What are they going to do to cut even more in the Police Department, so we can get these sworn officers? We need a plan on how much it's going to cost. Everyone says that we need equipment for these officers, but there must be equipment somewhere from the officers who have left. The referendum would have to be written, and it has to be honest. I can't think of any other honest and upfront way to get this money to bring the Police Department where it belongs without asking the citizens of the City if they want to do it." Vice Mayor Bartz asked, "If there was a primary and we put it on the ballot then, there would be no cost to us?" The City Attorney replied, "That's my understanding. If there's an election anyway, I don't believe there's a cost for us to have an additional ballot item. I have not spoken with the Supervisor of Elections on that, but we have done this in the past, and had City-only issues that were part of the ballot, and I don't believe there was a cost to the City for having that City-only issue included. We have also had some straw ballots dealing with some parks issues. The way the City's funding goes, I don't think you can have an issue that is legally binding on future Councils in terms of that type of a decision. I think what you're asking is if the citizens of our community are willing to support a tax increase."

The City Attorney continued, "If you would want to increase the millage rate beyond the rollback, I believe you can go 10% above the rollback. If you go up to 10% you have to have a super majority of the Council. If you go over a certain amount, you have to have a referendum. If you did that, then it may be more binding on how those monies are used, but I don't think that referendum process anticipated a particular earmarking. I think what the Council is talking about is that you want to see if there's support to increase the millage rate X, and those monies are going to be earmarked for police budget items. If you look at Mr. Pollard's presentation, we do earmark certain components of the budget. That's what you would end up doing in this situation. It would be an internal earmark." Councilman Kelly stated, "The Crosstown millage rate grew with valuation. If you get valuation on this, there would also be growth." Vice Mayor Bartz noted, "All I asked was if there was a cost to put it on

the ballot. How long prior to the ballot do you have to do that? Those are things that I think need to be looked at, but the biggest thing is the plan and to know what's in front of us. I don't know how long that will take the Chief to put together. I don't think we can even make a decision of any sort until we hear what the plan is, what it's going to cost, etc." Mayor Faiella commented, "I agree. Before you do the plan, I want to make sure that you have cut and looked at every position in that Police Department." Ms. Dedert pointed out, "Since I was throwing the Police Department under the bus with the millage and their budget, they did cut over \$4 million from the prior year in their expenditures."

Mr. Oravec asked, "What would the question be on the ballot? I guess it's hand in hand with the plan. What millage do you designate when the police budget exceeds the entire millage rate of the general fund? You can say that your entire millage is. . . ." Councilman Kelly said, "We can play back what I said, because that's exactly what I was saying. We need to know how we're going to word the referendum, and we need to know how much we're looking for." Vice Mayor Bartz asked, "When the crime rate is determined, is the determination also considered by whoever else is doing the calls in the City?" Chief Reuther replied, "If the Sheriff's Office takes a crime in the City of Port St. Lucie, it's still our crime, because it occurred in Port St. Lucie." Councilwoman Berger stated, "The plan would also have to include pensions, long term health care, and things that we don't think about on a daily basis that's associated with bringing people in general on to work. Down south was considering going to referendum for some Fire District issues. The thought was that they could make sure we secure our personnel so we don't have to constantly worry about people getting laid off. Some commissioners in some cities were going to bring it forward, and then it was pulled. With the collaboration, they determined that it may set a tone that they weren't ready to have to deal with afterward. The tone was that they expected the referendum may fail. What do you take that referendum as? Does that mean then that people don't care enough about safety? That they weren't willing to pay for their extra portion of the fire department? Then the concern was would the Commissioners turn around and say that they would make more cuts. We have been talking give and take and push and pull all day. There's a give and take and a push and pull to interpreting referendums that need to be considered when you're putting a plan out there. It's more than just dollars and cents on what we can do today. The conversations that are going to continue are going to be the same ones that our Budget Advisory Committee brought to us. If that's the conversation everyone is willing to

have, then let's just have the conversation and be done with it."

Councilwoman Berger noted, "I think we're far from crisis mode. I get that the officers are stretched, but when you see the results that are happening, it's fantastic. We do have a department that's making it work, and we need to plan accordingly. I think it's appropriate to say that we're not at the level where we should be. The plan should be how we get back into an area where we can make sure that we have the ratio correct, and being able to do it at the same dollar amount that we're spending in today's dollars, and not a plan that says let me spend that same time and make a plan that asks for more money. Spend that same time and make a plan that allows us to strategically get to where we need to be. I really would have preferred, if we were going to have this kind of conversation, to have a presentation by the Chief. The Chief of Police is a department director, so we do need to have that information. I love the fact that Councilwoman Martin can provide some of the background that we don't have on a regular basis. However, I don't want to depend on Councilwoman Martin, because she and I could go to jail for breaking Sunshine if she tells me something that I have to vote on at some point. I prefer a presentation in the future." The City Manager noted, "The next area to talk about is our vehicles and computers. We are going to have to put some money in operating capital. We are going to have to replace some police cars and maybe some selected vehicles in other departments. The last few years as we downsized the organization we were able to get rid of older vehicles and vehicles that outlive their usefulness. We had a fleet that was in very good shape going into the recession, but we're at a point now where we are going to have to start looking at it. It's the same with the computers. The existing computers are no longer able to operate, so we are going to have to start putting some money in our budget to make some of those purchases."

The City Manager continued, "At the pumps, fuel prices are close to \$4 a gallon. A number of projections are that we will be over \$4 a gallon by summertime. I heard a report a few days ago that we could approach \$5 a gallon. If that happens, most of our departments are very dependent upon vehicles. We burn gasoline and diesel fuel. We can't do our jobs without moving around in vehicles. That's a cost that we can't control. With reference to pension costs, we're very lucky. Most of our employees are in defined contributions, so the percent that we put into the pension is set and has stayed the same. The police pension has had some unfunded liabilities. It has increased over the last few years. I think this year we put in excess of \$1 million to cover the shortfall. Hopefully, that's coming to a peak where we

won't, but right now we're at 18.27% of salaries to go into the police pension. In some cities all of their employees are in defined benefit plans and it's really difficult. If it doesn't peak, it's a cost that will have to be handled every year, and it has been going up about \$300,000 extra every year. That's three officers a year. That's another way that we could be putting more people on the streets, but it's going into other cost. We're 50 years old now, and a number of our large culverts were installed when the City was laid out. Whether it is concrete or corrugated steel those culverts are wearing out. We have a replacement program, but we are putting more locations on the list than we're taking off every year. I think it has been over 20 years since a number of our streets have been overlaid."

The City Manager stated, "If we don't get them overlaid properly, we lose a street, and the cost of rebuilding a street is considerably more expensive than overlay. I think about three years ago we received an amount of over \$50 million in cost to replace a street." Ms. Roebing noted, "The interesting part about the roadways is when the roadways start to deteriorate, even culverts that aren't that old start getting crushed as well. It's a no-win situation." The City Manager commented, "We have an annual overlay program, but it's not close to where it needs to be to stay current with what we need to do. That's not a General Fund issue for the most part, but it's a problem that we're going to have to come to grips with. Mr. Oravec's presentation on the CRA was very adequate, but we are going to have to address that starting in this next budget. In future budgets, we're going to have to set some funds aside to deal with that issue. The last is the reserve. After you go through the litany of all of the things that are problematic and that we're going to have to spend money on, we really need to make sure that we do keep our reserves at a level that protects the City. If we get a hurricane or something, we will burn through that 4% in no time, not to mention what it's going to do for overtime costs and everything else. For our bonds and things we should have a minimum of 20% and probably closer to 25%. Don't confuse the reserve with the contingency. We need to protect that not only for our bond ratings, but to protect the City overall. We are going to proceed with putting the budget together. We will look at our policing. I don't see any way that we're going to get to 1.6 officers per thousand. We're talking over one mill just to add what you're talking about."

The City Manager said, "We need to protect the Utility and meet our obligations under the bond issues. We will take a look at anything we can do, but we will have to take a look at what the dollars would be with the proposed rate increases. We're not looking at any other increases. If FP&L's rates go up

significantly, we will have to change the rate there. However, right now we're not anticipating anything there. Unless you want to tell me to look at raising the mill levy, we will not be putting a proposed budget together. Even if the valuation decreases 3% or 4%, at this point I would not recommend that we go to rollback this next year. Our mill levy is fairly significant right now. All of our departments get as many grants as they can, and that has to do a number of projects and a lot of work. We have some fairly difficult issues that we're going to have to take care of." Mayor Faiella asked, "Did you want us to vote on anything today or give direction?" The City Manager replied, "I told you basically what I would recommend and how we're going to put the budget together. If you want to vote on any of those issues, we can do that. Other than that, what I just read through are the parameters that we're going to go through as we put the budget together. If we need to have votes, we will bring them up at a regular meeting beforehand. We will look at the rate increases for Utilities' budget, and see what else we can do. However, we have some issues that we will look at putting those rate increases in. I will get with Chief Reuther regarding police staffing. I guess I could ask for a vote for another year to suspend the 1.6 staffing ratio." Councilwoman Martin noted, "It's already in abeyance. Do we have to vote on that?" The City Manager commented, "I think we've been doing it a year at a time." Mr. Pollard pointed out, "It's my opinion that what we put up there would stay in place unless changed." The City Manager remarked, "I don't think we will be looking at rate increases for stormwater or any other of operations. Unless any of you want to give staff or me other direction, those are the parameters that we will start putting our budget together for."

ADJOURN

There being no further business, the meeting adjourned at 3:00 p.m.

Karen A. Phillips, City Clerk

Carol M. Heintz, Assistant City Clerk