

July 8, 2003

Mayor and Council
City of Melbourne
Melbourne, Florida

INTRODUCTION

I am pleased to provide the Proposed Budget for the fiscal year ending September 30, 2004 for your consideration. The Proposed Budget offers expenditures within fiscal year 2004 available revenues. The principal purpose of this message is to serve as an executive summary and to highlight the main financial factors, including revenues by fund, major expenditure issues, personnel changes, pay and benefit plan modifications, program changes, and new initiatives.

This year's format is a change from previous presentations. The most noticeable change is a reduction in total length from nearly 600 pages for the 2003 Budget to almost half that length for the Proposed 2004 Budget. The changes are intended to present the budget data in a more easily readable format which focuses on the major operational and funding issues. The major changes are:

- Presentation on a Department basis instead of a Fund basis to focus on the major functions of the City
- Reduction in number of historical data columns to focus on more recent and current data which forms the basis for the Proposed Budget
- Reduction in supplementary data which distracted from the budget message
- Elimination of contra accounts to make it easier to determine total program costs

The effect of the latter item is that internal service charges now appear as redundant expenses which leaves an impression of a large General Fund increase when compared to last year.

A summary of revenues and expenditures/expenses by fund is presented in the front of the Budget document. An overall review of each department is presented, followed by separate sections for each division within that department which provide line item budget detail, explanatory comments for notable increases or decreases, staffing levels, and capital improvements. Appendix information includes Proposed Fee Increases, Computation of Proposed Ad Valorem Tax Revenue, Certification of Taxable Value,

Summary of Millage Rates and Tax Collections, General Fund Undesignated Fund Balance Analysis, Budget Workshop and Public Hearing Calendar, Five Year Capital Outlay Summary by Department, Equipment Replacement Schedule Criteria, Employee Classifications by Pay Grade, and Major Active Grants.

The following table provides a comparison of the Budget for the previous fiscal year, current and projected 2003 fiscal year, and proposed 2004 fiscal year by Fund. The increase in the General Fund from the 2002-2003 Revised Budget to the 2002-2003 Projected Budget primarily reflects the elimination of contra accounts for General Fund services provided to other departments/divisions. Administrative fee revenues were increased and were offset by similar increases in expenditure accounts, so there is no net budgetary impact.

CITY BUDGET – ALL FUNDS

Fund	2001-02 Actual	2002-03 Revised Budget	2002-03 Projected	2003-04 Proposed
General	\$ 44,066,561	\$ 41,884,575	\$ 48,438,801	\$ 50,218,239
Water/Sewer	30,240,087	33,053,541	34,134,776	33,887,706
Golf Courses	2,089,725	2,771,858	2,413,597	2,601,250
Special Revenue*	2,655,103	2,398,432	3,071,425	3,429,592
Stormwater Management	877,984	893,000	888,000	1,068,600
Insurance Fund (Risk Management) (Workers' Comp)	1,333,390	1,788,465	3,270,307	3,517,820
Capital Improvements	6,613,470	12,496,831	12,496,831	18,705,622
TOTAL	<u>\$ 87,876,320</u>	<u>\$ 95,286,702</u>	<u>\$ 104,713,737</u>	<u>\$ 113,428,829</u>

**Includes Downtown Redevelopment, Babcock Street Redevelopment, Olde Eau Gallie Redevelopment, Housing & Community Development, CDBG, SHIP, and HOME.*

This Proposed Budget does not include the Airport Authority's proposed budget, which will be provided separately for your consideration.

REVENUES

GENERAL FUND

The General Fund is in good financial position with the inclusion of revenue adjustments as previously discussed with Council in the budget workshop and as defined herein. The 2004 fiscal year General Fund revenues are estimated to be \$50,218,239, an increase of \$1,779,438 from the projected third quarter 2003 fiscal year budget, primarily resulting from an increase in property taxes and administrative charges.

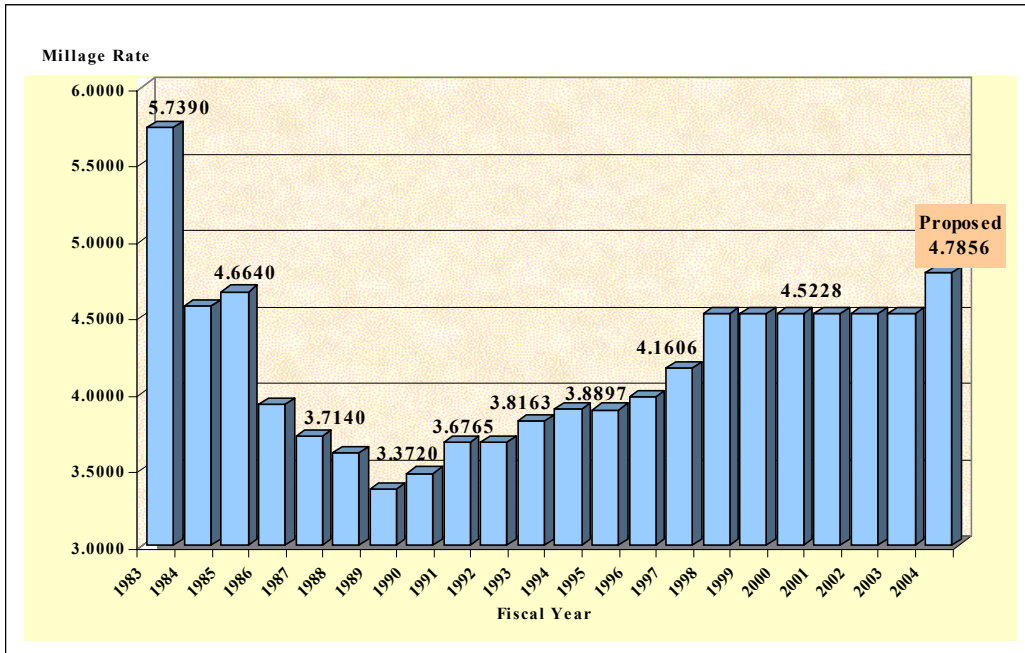
To provide revenue to maintain the current level of service, fund needed capital improvements of \$518,000, and provide nine months debt service of \$95,420 for a new Fee Avenue swimming pool, a variety of revenue increases are recommended. These include property tax increases, as well as certain services fee increases. All revenue accounts have also been adjusted to reflect growth and collection trends.



These increases are consistent with the policy direction provided to maintain current service levels. Salary, health insurance, and pension contributions are increasing \$2,699,451 in the General Fund. The full year cost of adding nine firefighter positions approved in the 2002-2003 fiscal year alone was \$411,528.

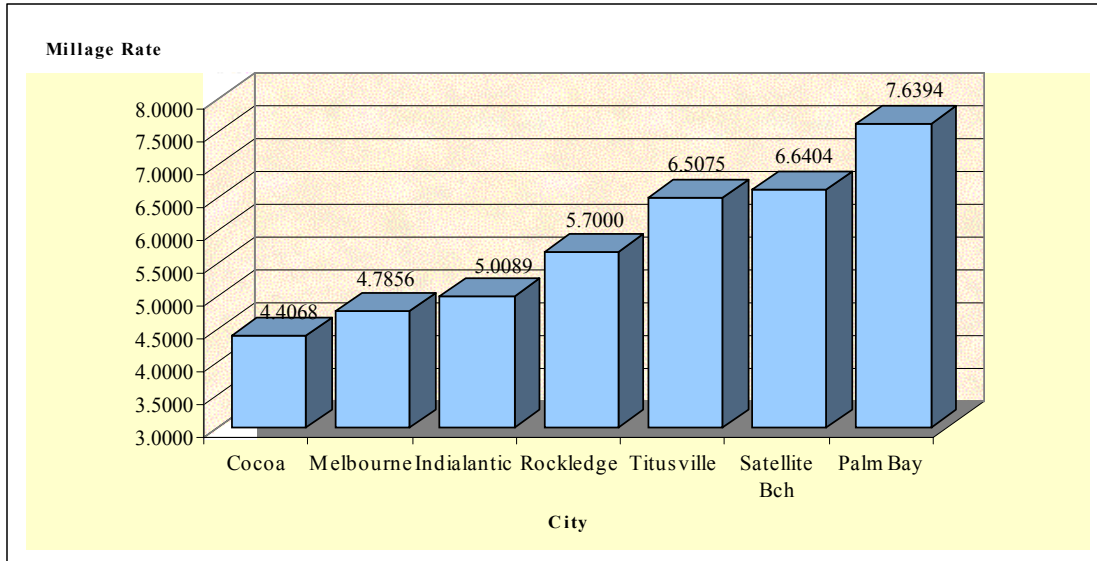
Property Taxes are projected to increase \$1,470,959 to \$13,336,708 based on a proposed millage rate of 4.7856 mills. This is 8.0% over the roll back rate of 4.4311 mills and 5.8% over the current property tax rate of 4.5228 mills. This tax increase is necessary to provide funding for increased costs, particularly for pension costs and labor costs, which are more fully described in the following sections on Expenditures and Pay Plans and Pension Contributions. It is hoped that the one cent Infrastructure Sales Tax will be approved by voters in November. If this occurs, it will take pressure off the need for property tax increases, and it is expected that Melbourne could maintain the same property tax rate for at least the following two fiscal years.

MELBOURNE MILLAGE RATES



As indicated in the chart above, the tax rate that is recommended reflects the first increase beyond the 4.5228 millage rate in seven years. A comparison of Melbourne's proposed 2004 fiscal year millage rates and the adopted fiscal year 2003 millage rates for other cities is presented below:

MILLAGE RATE COMPARISON



Melbourne's proposed millage rate is 4.7856.
 The Titusville millage rate includes recreation special district millage.

Two new revenue sources are included in the budget. The Fire Department has proposed a Commercial Lift Assist Fee to cover the cost of responding to calls from nursing homes, assisted living facilities, and rehabilitation facilities to lift patients. These calls strain Melbourne's fire/medic response system because backup systems must be in place to provide sufficient coverage when staff are responding to the lift assist calls. This fee is estimated to generate \$60,000. The recently approved one percent utility rate of return transfer from the Water and Sewer System Fund is estimated to generate \$320,000. Fee increases in leisure services, pools, auditorium, and civic centers are also recommended. These will generate an



estimated \$70,000. Staff are reviewing other potential fee increases for various services such as fingerprinting, extra duty police officers, lien research, false alarm fines, and trash hauling permits.

WATER AND SEWER SYSTEM FUND

The rate increases adopted in 2002 have generated revenues to adequately operate the System, meet debt service requirements, fund capital improvements, and begin to rebuild working capital reserves during the 2002-2003 fiscal year. The second series of rate increases is scheduled to be effective October 1, 2003 with five percent increases in both water and sewer rates. The estimated 2003-2004 Water and Sewer System fund revenues are \$33,887,706 which include revenues from rates, fees, interest income, and intrafund transfers. These revenues will be necessary to provide for operating costs, including salary, health insurance, and pension increases of \$515,725, and other System costs associated with bond obligations, grant requirements, and capital improvements.

Additionally, staff are reviewing other fees for potential increases such as port-a-let disposal, industrial pre-treatment, and reuse water. A bond issue of approximately \$26 million is scheduled for later in the 2003-2004 fiscal year to finance several major projects planned for the 2004 and 2005 fiscal years. A revenue sufficiency analysis will be completed late fall, 2003 to ensure that rates are sufficient to fund the additional debt service requirements.

GOLF COURSES FUND

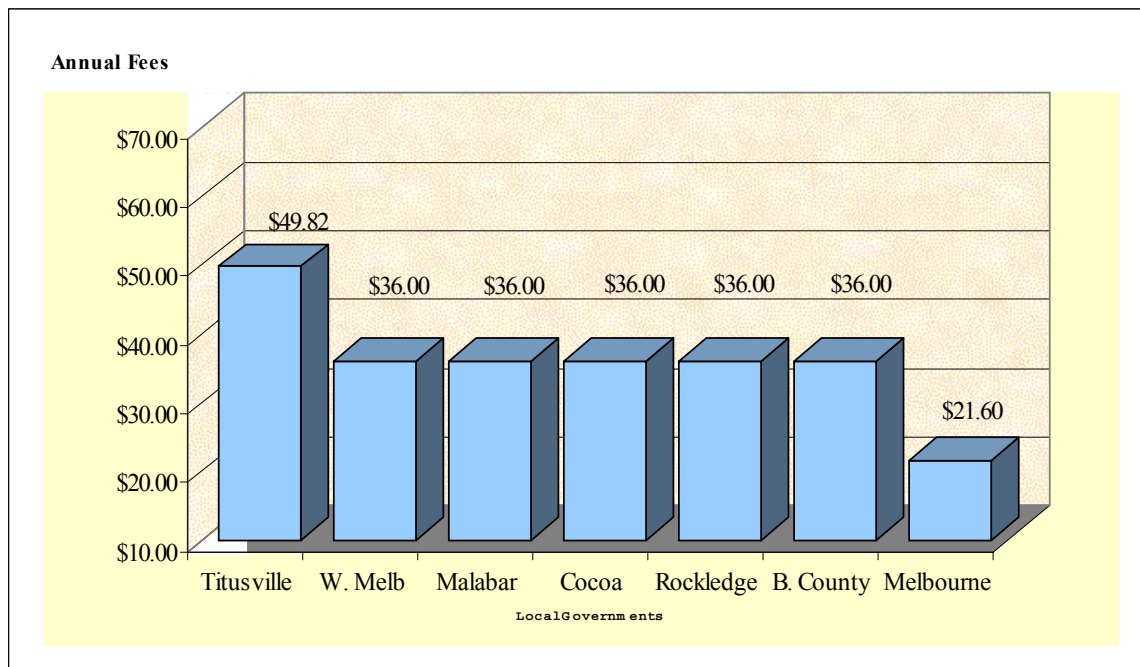
The Golf Courses continue to suffer losses. Revenues have not been sufficient to provide for operations and fund capital replacement. Although no fee increases are proposed for this \$2,601,250 Proposed Budget, if the Golf Courses have a second consecutive year of operating losses, we will recommend allocating up to \$20,000 for a study to review rates in the upcoming fiscal year in time for those rates to be adopted for the 2004-2005 fiscal year. As indicated in the past, our rates remain substantially below private and other municipal courses.

STORMWATER UTILITY FUND

An increase in the stormwater fee from \$18.00 to \$21.60 per year per equivalent residential unit is included in the Proposed Budget to fund additional stormwater improvement projects. The total proposed for stormwater projects is \$814,700, an increase of \$455,342. Also, to be consistent in the allocation of General Fund costs in support of all enterprise funds, a similar administrative charge is budgeted in the Stormwater Utility Fund. By comparison, even after the increase, Melbourne's stormwater rate remains lower than the applicable rates of other cities and unincorporated areas of Brevard County.



LOCAL STORMWATER UTILITY FEES



SPECIAL REVENUE FUNDS

Housing and Community Development--It is anticipated that the federal Community Development Block Grant (CDBG) program will be funded at \$700,507. These funds will be used for park improvements, landscaping, Booker T. Washington neighborhood revitalization, grants for community programs, code enforcement, and program administration. The federal HOME program is expected to receive \$287,009 to provide for housing construction and rehabilitation and rental assistance for low income residents. Additionally, the State Housing Initiative Partnership (SHIP) is expected to receive

\$643,614 for owner occupied and rental housing rehabilitation, tenant assistance, and purchase assistance programs for low income residents. These programs are administered by the Housing and Community Development Department. CDBG funding dedicated to the incubator project may have to be rededicated if that project remains in its current stalled position.

Community Redevelopment Agencies (CRA)—The Downtown Redevelopment, Babcock Street Redevelopment, and Olde Eau Gallie Redevelopment Agencies have projected tax increment revenues of \$378,748, \$243,193, and \$47,513, respectively. A change in the upcoming year is that the CRAs will fund 66% of the Economic Development Administrator and 60% of a secretary. This will free a planner's time to provide more support for the planning functions and to assist in the rewrite of the zoning code. The most significant proposed capital improvement is the installation of decorative/historic lighting in downtown Melbourne, to be financed by bond proceeds.

INSURANCE FUNDS

Because Melbourne has a self-insured workers compensation program, the revenues of the Workers Compensation Fund are primarily provided by charges to the user funds. These charges are based on a percentage of the workers compensation manual premium calculation. Since Melbourne is self-insured and the claims are relatively low, it has not been necessary to budget at the full manual premium level in the user funds. No significant changes are proposed for the new fiscal year.

The Risk Management Fund provides for general liability and property damage coverage to the user funds. This Fund was previously presented as a department of the General Fund, but is now presented as an Internal Service Fund to better identify the costs of this program and allocate the costs. As a result of updated asset valuations, the allocations to the respective user funds has been revised. Overall, these allocations were not increased, although insurance premiums are expected to increase approximately \$200,000. This is because the insurance reserve expense has been reduced based on reserve requirements for the past few years.

CAPITAL IMPROVEMENT FUND

Funding for major capital improvements of \$18,705,622 is provided from the General, Water and Sewer, Stormwater Utility, and Golf Courses Funds; the Downtown and Babcock Street CRA's, Local Option Gas Tax, Transportation Impact Fees, Sidewalk and Bikeways Impact Fees, and Bond Proceeds.

EXPENDITURES

The proposed total budget identifies expenditures of \$113.4 million, which is approximately 10.1% and \$11.4 million higher than the projected third quarter current fiscal year budget.

This change is identified in three major cost components: personnel expenses, operating and debt service expenses, and capital outlay/improvements.

Personnel expenses are proposed to increase approximately \$3.6 million, or 7.5%, to \$48.1 million. This results from a combination of scheduled pay adjustments, proposed across-



the-board raises and related fringe benefit increases, minor adjustments to personnel, health insurance increases, and pension increases. Proposed personnel improvements are described in the following section. Health insurance costs are expected to decrease approximately \$59,000 but the Budget includes funding for a possible increase in premium costs for the April 2004 contract renewal. A significant increase is in the required

actuarial contributions to the three local pension plans and the Florida Retirement System (FRS), which are expected to increase by \$636,899.

Operating and debt service expenses are proposed to increase \$6.1 million, or 13.9%, to \$44.1 million. The primary increases are in insurance, General Fund administrative charges, Information System costs, chemicals for the Water Treatment Plant, electricity for the Water and Wastewater Treatment Plants, and debt service for the Fee Avenue pool and Eber Road widening bonds. A transfer of \$220,000 has been proposed to the General Fund Capital Construction Account to provide funding for design of City Hall renovations. Additionally, General Fund Contingency has been increased to \$250,000 which is 0.5% of the General Fund budget. The recommended contingency for this Fund is \$500,000 although it will likely take a few years to scale up to that level. The contingency used to be \$150,000 and had been decreased to \$74,000 in the 2003 fiscal year. A contingency level below 1.0% invites regular use of trust funds and reserves.

Capital outlay/improvement accounts are proposed to increase \$6.4 million, or 30%, to \$21.2 million. This represents a combination of a 25.8% decrease in capital outlay and a 33.2% increase in capital improvement projects. Capital outlay budgets were decreased because the fixed asset threshold was increased; therefore, items which would have previously been purchased from capital outlay are now recorded as operating expenses. Some of the large capital improvements proposed are:

- Replacement of Fee Avenue swimming pool – \$1,000,000
- Annual resurfacing program – \$450,000
- Realignment of Babcock Street and Hibiscus Boulevard intersection – \$400,000
- City Hall renovation design – \$300,000
- Historic lighting in downtown Melbourne – \$1,700,000
- Phase II of the Surface Water Treatment Plant improvements – \$7,640,692
- Engineering for process modifications to the Reverse Osmosis Water Plant – \$900,000

Several projects are proposed to be funded by bond issues and this funding source is identified for those projects in the respective department budgets. Debt service budgets have been proposed for the Fee Avenue pool and Eber Road widening projects and to refinance the Babcock Street Community Redevelopment Agency Note which matures in 2004. Although a Water and Sewer bond issue is expected in the middle of the 2003-2004 fiscal year, no increase in debt service is proposed at this time because very little of the associated debt service is expected to be funded during this fiscal year.

PROPOSED PERSONNEL IMPROVEMENTS/MODIFICATIONS

This budget includes a net increase in staffing of one full-time and two part-time positions. Specific staffing additions and deletions are identified as follows:

Leisure Services

Add a Painter position to paint the interior and exterior of Leisure Services buildings and pavilions.

Police

Delete a Commander position.

Delete an average of \$300,000 in overtime.

Add four Police Officer positions to be partially funded by the COPS UHP grant.

Add a Training Coordinator position and a Senior Secretary position in Support Services to better monitor training activities and cope with the increasing volume of police records.

A Police Training Officer position will be redeployed to Police Operations.

Fire

Delete a Fire Training Captain position.

Engineering

Delete a Survey Party Chief position and an Engineering Technician position.

Add a Traffic Engineer position to provide engineering support for traffic functions.

Upgrade the Survey Assistant to Engineering Technician II to recognize the duties being performed.

Add a part-time Clerical Assistant III to provide clerical support for the National Pollutant Discharge Elimination System (NPDES) permit process and stormwater activities.

Planning and Economic Development

Add a Planner position to assist with growth management, annexations, and concurrency.

A Planner position will be redeployed from the Community Redevelopment Agency functions to provide more support for planning functions and assist with rewriting the zoning code.

Housing and Community Development

Add a part-time Senior Secretary position to assist grant reporting.

Public Works and Utilities

Delete an Electrician position, two Equipment Operator II positions, a Maintenance Worker I position, and a Clerical Assistant II position which are currently vacant.

Add a Utility Service Worker position in Wastewater Collection Division to assist existing crews with the jet vac truck and the camera truck to evaluate the condition of the wastewater lines.

These added/deleted positions do not reflect transfers of positions between Departments/Divisions and are in addition to the realignment of Divisions and positions which are occurring as a result of the Departmental Reorganization described below.

DEPARTMENTAL REORGANIZATION

About nine years ago Melbourne had two Assistant City Managers—one for Management Services and one for Public Works. Both Assistant City Managers were also able to provide some level of support to the City Manager's office. When the Assistant City Manager for Public Works retired, that position was deleted as a cost saving measure and many of the former Public Works functions were assigned to the remaining Assistant City Manager. The result is that the Assistant City Manager was tasked with managing a number of disparate functions, and both the City Manager's office and the departments reporting to the Assistant City Manager lost some level of support. Usually an Assistant City Manager supports the City Manager and does not also serve as a Department Director.

To improve upon the current situation the following reorganization has been made in existing departments to achieve optimal efficiency. To enable the Assistant City Manager to provide more support to the City Manager's office, the Purchasing and Risk Management Divisions will be reassigned to the Financial Services Department; the Facilities Maintenance, Fleet Management, and Solid Waste/Recycling Divisions will be reassigned to the Public Works and Utilities Department; and the Traffic Signage and Signal Division will be reassigned to the Engineering Department. The Grants Administrator, now in the Financial Services Department, will be reassigned to the Housing and Community Development Department. Once these transitions are complete, there may need to be minor restructuring within certain positions. As a general guideline none of the affected individuals (division chiefs or otherwise) lose stature or pay by these changes. Further, the timing occurs based on real program work considerations, or the fiscal year, as explained to each affected division chief or unit supervisor by the affected department directors.

EXPANDED SERVICES/NEW INITIATIVES

The following highlights major changes and program improvements in the budget proposal:

- Realignment of Departments and Divisions to improve operational efficiency—more fully described in the section above on Departmental Reorganization
- A project for replacement of the Fee Avenue swimming pool to be funded by bond proceeds. In this way, it is hoped that the summer 2004 swim season will not be missed, and the project will occur regardless of sales tax referendum action.
- Swimming pool hours are extended to six hours a day six days a week.
- Funding for consultant services to assist with historic preservation and to prepare blight studies for possible expansion of the Downtown and Olde Eau Gallie CRAs
- Police overtime is reduced approximately \$200,000 because of revised and more effective scheduling. These reductions are beyond the nearly \$400,000 reduction in current fiscal year overtime costs.
- Replacement of police vehicles is significantly reduced to only four vehicles next year, which generates about \$350,000 in budget savings.
- A columbarium is proposed in the Cemeteries budget to provide cremains niches. The fee for these niches will be proposed after evaluation of all cemetery fees in comparison to market prices.

- Phase II of the Surface Water Treatment Plant improvements project is proposed to disinfect water with ozone, which reduces the need for chlorine. Ozone is a more effective disinfectant, and significantly improves the taste and odor of the finished water product. The work will be financed by bond proceeds.



- Automated read meters, where the meter readings are automatically transmitted to a computer, are proposed to be provided to new homes, with the cost to be recovered in increased water impact fees.
- Additional funding has been provided for the annual street resurfacing program while funding to pave unpaved roads has been decreased to address more urgent needs.

PAY PLAN AND PENSION CONTRIBUTIONS

Normal pay adjustments have been factored for budget purposes for non-bargaining and bargaining employees consistent with agreements for Police (PBA), Fire (IAFF), and “blue collar” (LIU) employees.

The contribution to the Police Pension Plan increases by 25.8%. The new level, 28.47% of payroll, is an increase of \$469,441. The contribution to the Fire Pension Plan increases by 35.6%. The new level, 5.33% of payroll, is an increase of \$67,687. The contribution rate to the FRS as a percentage of payroll increases from 5.76% to 7.39% for regular employees, from 6.06% to 9.37% for senior management class employees, and from 11.86% to 15.23% for the elected officials class, which all together is an increase of \$99,771. The FRS contribution rate for DROP employees remains at 9.11% of payroll. The contribution to the General Employees Pension Plan is budgeted at 13.2%, which is the required rate for the 2003 fiscal year. Updated contribution rates for the 2004 fiscal year will be provided by the actuary, and the associated budget adjustments will be made next year.

INFRASTRUCTURE SALES TAX

The City Council has supported a potential one cent Infrastructure Sales Tax, which is anticipated to be on the ballot in November, 2003. If approved, this tax is estimated to generate \$46.6 million in the next ten years. This money would be used to finance a lengthy list of capital projects and will require a specific project management component to complete in a timely manner.

Accordingly, if the one cent Infrastructure Sales Tax is approved, I will recommend the addition of a second Assistant or Deputy Manager resulting in two Deputy Managers—one for administration and one for operations—to better administer the needs of the City of Melbourne while making the voter supported improvements. Additionally, the methods used to schedule and build projects and the prioritization of the Council regarding the project lists will undoubtedly need to be revised with more input from Council.

ACKNOWLEDGMENTS

I wish to express appreciation to all the departments and staff who have assisted with their suggestions in formulating this budget proposal, and particularly to the Budget staff who thoroughly reworked the format to provide a more functional document. It is my hope that this document adequately reflects staff's best efforts and plans for continued service improvements to our citizens. With the guidance and leadership provided by the Mayor and City Council, we believe we can meet our objectives in providing high quality service.

Respectfully submitted,

Jack M. Schluckebier, Ph.D.
City Manager