

**MINUTES
THE TOWN OF INDIAN RIVER SHORES
6001 North Highway A1A, Indian River Shores, FL 32963**

**BUDGET WORKSHOP MEETING
Thursday, July 24, 2008
2:30 p.m.**

PRESENT: Thomas W. Cadden, Mayor
E. William Kenyon, Vice Mayor
William H. Ahrens, Councilman
Frances F. Atchison, Councilmember
David J. Becker, Councilman

STAFF PRESENT: Robert J. Bradshaw, Town Manager
Laura Aldrich, Town Clerk
Judith Lewis, Town Treasurer
William Schauman, Director of Public Safety

OTHERS PRESENT: Joseph Duncan, Finance Committee Chairman
John Godfrey, Finance Committee Member

1. **Call to Order.** Mayor Cadden called the meeting to order at 2:39 p.m.
 - a. Pledge of Allegiance
 - b. Invocation – Vice Mayor Kenyon
 - c. Roll Call – Town Clerk

2. **Finance Committee Presentation**

- a. Power Point Presentation by Joe Duncan – Chairman

Mr. Duncan apologized for the slight delay, as he was using a different program. He asked everyone to follow along with the slides rather than the handout. He said he would review projected revenue, outline key results expected for the current year, and review the proposed budget for next year. Key financial issues will also be addressed.

We are in a tight budget environment, he began, with the mandated 7% millage rate reduction last year. Of key importance is the legal contract for the Public Safety officers, for which last year the personnel costs accounted for 63.6% of the General Fund spending. This proposed budget has 78.9% for personnel costs. One of the issues with personnel is pension funding and medical costs. In FY 05/06, the Town's pension contributions to the pension fund was \$200,000. In 06/07, it doubled to \$414,000, and in FY 07/08 it tripled because of the Council's decision to extend the benefits to other employees and also extend the coverage. In context of a tight budget, it flows from the Town's heavy commitment to its staff and staff costs. The other contextual consideration is our population, the basis for our State Revenue Sharing, which was down slightly. It is 2.8% higher than 2003, so we are not a growing community. Our taxable property values had dramatically increased, but have dropped 1% below 2007 values in 2008. Anticipated growth for 2009 is 1.5% over 2008, so this is also a no-growth environment.

Please Note: The Town of Indian River Shores does not routinely keep verbatim minutes. Any party interested in such an appeal relating to any decision made by the council with respect to any matter considered at this meeting is responsible to record the meeting and include the testimony and evidence upon which the appeal is to be based.

The millage rate has been stable since 2000, thanks to this Council. It had been basically the same since 2004 until the mandated reduction last year. The proposed budget keeps the millage rate the same as last year.

The infrastructure fund is money that comes to the Town from the State for capital improvements only. It is very restrictive on how the funds may be spent. In 2002, we bought the Lost Tree Islands, which depleted the fund that had grown to \$1,000,000. We were almost at the \$1,000,000 level again by last year, when the Council authorized the Public Safety Building addition and renovation. This time last year, we were forecasting that there would be \$530,000 in the infrastructure fund. The actual spending on the Public Safety Building in 2007 drew the number down to \$123,000. At the end of FY 07/08 we will have \$0 according to the Treasurer's budget in front of you. The Treasurer is proposing to use general revenue to pay for the construction, which is addressed later. We should have about \$370,000 at the end of the next fiscal year. Without a capital project, the fund grows.

Budget Overview. Mr. Duncan continued with department overviews, with this year's budget showing a lot of negatives with people not spending as much as budgeted, which is good. We also spent a lot more out of the General Reserves for the capital fund. The Finance Committee spent quite a bit of time reviewing line items, which will not be done at this meeting. The result of the departments' instituting Committee recommendations was about a \$40,000 reduction. It represents a reasonably prudent look at our needs, and is not an excessive budget.

Where we are in trouble is in the capital infrastructure funds, Mr. Duncan added. He said that the infrastructure funds received by the end of the year should total about \$430,000. The Public Safety building and equipment this year is anticipated to be \$961,000. We are short \$529,000 to pay for these. The proposed budget shows taking the funds out of the General Reserves, and on behalf of the Finance Committee, Mr. Duncan urged the Council not to do that, but to consider their alternate plan.

He then reviewed the Public Safety Building Project, which Mr. Duncan called a wonderful addition to our community. There were unanticipated renovations, unexpected mold issues, and capital equipment that added to its cost. Last year, charges identified to this project were \$513,000. This year there is \$961,000 in expenses attributed for a total of \$1.2 million, including furniture, equipment, vehicles, and fire assets. The deficit is \$529,000, and the budget shows depleting our Capital account by \$525,000. Furniture and equipment cost us \$263,000 this year, fire rescue assets another \$25,498, and police equipment \$75,000, or a total this year of \$739,000 counting the building. At the beginning of the year, we knew we only had \$123,000, and had already spent \$500,000. We thought we would spend another \$356,000 for the assets plus the construction this year. This is about half of the expenditures, or the forecast was off by a factor of two. This suggests that we need to be a bit more detailed in our forecasting.

On page 16, the Defined Benefit Pension Fund had another \$200,000 contributed last year. We should not have to do that again. Mr. Duncan said that he had raised a red flag for the Council in alerting them that the stock market was down, and after moving the funds to a more stable environment for this year, we have not budgeted anything in excess of the required funding. We did have a Contingency Fund of \$170,000 of which none was spent, and none is budgeted for next year. Last year's budget had a surplus of \$164,000, and next year there is no surplus.

The Postal Center remains a thorn in our budget. We did an expansion to eliminate the \$30,000 annual loss we had been experiencing, hoping that adding more boxes would generate more revenue and break even. Rather than reducing our deficit, we will have an expenditure from the General Fund (GF) of \$70,000 rather than \$30,000. The budget next year is optimistically projecting that we will only lose \$40,000 rather than \$70,000. Mr. Duncan added that the number that really grabs him is the \$500,000 budget, questioning the purpose of offering the service.

Returning to the subject of the alternative plan, Mr. Duncan said that rather than taking the building (overage) cost out of the GF, he proposes creating an accrual account which would be a loan from the GF to the infrastructure account. As a paperwork activity, the journal entry would show that we paid the bills at a \$525,000 loss on the balance sheet. He continued that the anticipated \$370,000 of infrastructure funds next year would counteract a large portion of this. He said that he had spoken with the auditors, who are the experts regarding the legality of this, who informed him that there is no problem with this solution, we could amortize it over several years. Mr. Duncan proposes spreading this over two years, and the \$525,000 would not come from the General Reserves but would be a loan from the General Reserves. It would be paid for as we receive the infrastructure funds over the next two years. With no capital projects in the forecast, this seems risk-free. The net funds left after the planned capital expenditures will be \$370,000. Mr. Duncan showed a chart with the infrastructure plan under his proposal as recommended by the Finance Committee. It is a very good way to preserve the Capital flexibility. The \$525,000 loan would be repaid over the next two years.

Mr. Duncan began his conclusion by stating that we are a very fortunate community to have flexibility with a good cash flow, and have done a great job rebuilding infrastructure. All of our departments work hard, and are fairly prudent with their spending. He suggested that our experience this year with respect to the capital situation has not been subject to close management controls, explaining that he was referring to our Town Manager, Treasurer, Building Supervisor, and the Council. We need to make sure the capital funds do not get like this again in the future.

We are in the ten percent of towns who have their Pension Fund fully funded, as many of the municipalities are under-funded and have horrendous liabilities. Mr. Kenyon asked if the pension fund investments are conservative now, and Mr. Duncan said that we have no numbers more recent than last March. We have been in a high growth environment, but we are not going to have a growing tax base. Our responsibility is to not be overcommitted and to maintain within the tight fiscal environment. Mr. Duncan concluded that the budget is a reasonable budget, with one exception. He would not spend the Reserves today when we do not have to.

b. Questions for Finance Committee

The Council and Mayor thanked Mr. Duncan, and asked if there were any questions or comments for him. The Vice Mayor asked what he recommended about keeping tighter controls. Mr. Duncan said that it is a little late now, but whenever there is a project, they have a responsibility to follow up on its progress. He found no record of change orders, budget re-estimates, or actions by Council. The Mayor said that simplistically the questions were asked every meeting if we were within the budget, adding that it was the worst failure he has seen in management. Vice Mayor Kenyon suggested some sort of oversight. Mayor Cadden said that the Council deluded themselves and had been misled by the staff.

Town Treasurer Judith Lewis said she was trying to understand what Mr. Duncan was referring to with the loan situation, as infrastructure is a deferred revenue account. Since it doesn't get created until the money actually comes into the Town, she wondered how we could borrow from money that is not there. Mr. Duncan showed a slide of a letter from auditor Ross Whitley, of whom he had asked the same question, and read it aloud. In summary, you budget what you have overspent, and loan the GF with the amount of the shortfall. Mrs. Lewis said that it would be true if the infrastructure money was maintained in a different fund, but the Town maintains the infrastructure fund in the GF. Mr. Duncan said that he gave her arguments to Mr. Whitley, who disagreed. Mrs. Lewis said she would be happy to discuss this with him. Mr. Duncan said he had asked Mr. Whitley to look at the laws of the State, and what was feasible for the Town, and this is what he recommended. Mr. Duncan added that he recommends that they follow the auditor's recommendations. Mrs. Lewis said maybe his facts were mixed up and he was not looking at the Town's financial statements, as we maintain the infrastructure fund in the GF, and we can't borrow from ourselves. She asked to be able to check with Mr. Whitley, cautioning that if we don't use undesignated General Fund, we will be over-budget by \$525,000. Mr. Duncan said that they had a big debate in the Finance Committee, and all of the members of the Finance Committee join him in making the recommendation as presented.

Mayor Cadden told Mrs. Lewis that he holds her significantly responsible for letting them spend money that did not exist. Therefore, he accepts the Finance Committee recommendation, and said she could check further into the situation if she wanted to. Mayor Cadden said he assumes the auditors know what they are talking about.

3. **Council Discussion**

He asked if there was any further discussion on how we handle the infrastructure. Councilman Becker asked how the infrastructure money comes from the State, and Mr. Bradshaw said it was the one-cent sales tax. Councilman Becker asked if it was a guaranteed amount of money, and Mr. Duncan agreed if the economy dips a little bit, there will be less money. He added that it is restrictive in what we can do with it, and it is not easy to predict. Mayor Cadden said that we would have to use ad valorem funds if that happens. Councilman Becker asked for, in simplistic terms, the downside of just paying the debt off from the GF rather than giving a loan from the GF to the infrastructure fund. Mr. Duncan said it would be using about two-thirds of the fund, so there would be much lower reserves. The real issue is not that, but in his ten years of doing this (being on the Finance Committee), there is always a question of what to do with the infrastructure money, or how we can spend it, which is very restrictive. This is a one-time event, building a building, which is a legal use of the money, and we don't have to touch our reserves.

4. **Audience Discussion**

None.

5. **Recommendations**

- a. Set Tentative Millage Rate. Councilmember Atchison made a **motion to set the tentative millage rate at 1.3923, the same as last year**, which was seconded by Vice Mayor Kenyon and **passed unanimously**.
- b. Approve Tentative Budget. Mayor Cadden said that there will be Public Hearings later with another opportunity to approve the tentative budget, and Mr. Duncan said that the proposed budget before them does not include his recommendation of taking the \$525,000 out of the General Fund.

Vice Mayor Kenyon made a **motion to amend the proposed tentative budget to include the Finance Committee's recommendation to loan \$525,000 from the General Fund to the infrastructure fund and replenish it over the next two years from the State infrastructure funds.** This **motion** was seconded by Councilman Ahrens and **passed unanimously.**

The motion **to approve the tentative budget of \$4,085,181** was made by Councilman Becker and seconded by Councilman Ahrens. The **motion passed unanimously.**

6. Adjournment

Mayor Cadden adjourned the meeting at 3:21 p.m.

_____/s_____
Laura Aldrich, CMC, Town Clerk

(Approved by the Town Council at the 8-28-08 Meeting)