

MAYOR
THOMAS F. SLATER

VICE MAYOR
ROBERT F. AUWAERTER

COUNCIL:
JESSE L. "SAM" CARROLL, JR.
BRIAN T. FOLEY
DEBORAH H. PENISTON



TOWN MANAGER
JOE GRIFFIN

TOWN CLERK
LAURA ALDRICH

TOWN ATTORNEY:
CHESTER CLEM

MINUTES
BUDGET WORKSHOP MEETING
THURSDAY, JULY 23, 2020
9:00 A.M.

TOWN OF INDIAN RIVER SHORES

6001 N. STATE ROAD A1A INDIAN RIVER SHORES, FL 32963

1. Call to Order

- a. Invocation, Pledge of Allegiance (held for Regular Town Council Meeting to follow)
- b. Roll Call

The meeting was called to order at 9:05 by Vice Mayor Auwaerter, with the Invocation given by Councilman Carroll followed by the Pledge of Allegiance. The Town Clerk called the roll, with those present as follows: Mayor **Slater** (by Zoom), Vice Mayor **Auwaerter**, Councilman **Carroll**, Councilmember **Peniston** (by Zoom) and Councilman **Foley**. Also present were STAFF: Town Manager **Griffin**, Town Clerk **Aldrich**, Town Attorney **Clem**, Town Treasurer **Christmas**, HR/Finance Manager **Wiltzius**, Assistant to the Town Clerk **Pallo**, Public Safety Director **Rosell**, and Building Official **Martinez**. RESIDENTS present were Dylan **Reingold**, IRC Attorney (Peppertree); PZ&V Board Chair Patty **Gundy** (Pebble Bay), Paul **Spellman** (Ocean Pearl), Jerry **Weick** (Bermuda Bay), Mark and MaryLou **Margadonna** (Pebble Beach Villas), John **Rose** (River Club); and Kim **Anderson** (John's Island). GUESTS present were Buck **Vocelle**, Vocelle & Berg, LLP; and Rebecca **Grohall**, MBV Engineering.

2. Agenda Reordering, Deletions, or Emergency Additions

3. Council Discussion

- a. Strategy Discussions

- 1) General Fund Reserve

Vice Mayor Auwaerter referred to a spreadsheet that he provided to his fellow Council members. A Projected General Funds Appropriation number based on the budgets submitted reflected an approximation that may change, as Council works through the budget. The Estimated General Fund Balance column was obtained from Town Treasurer Christmas, and consists of various restricted fund items that cannot be expended unless taken out, such as Infrastructure Replacement and Cell Tower Contingency Reserve. Starting with just under \$5.5 million and subtracting approximately \$735,000, he arrived at the Adjusted General Fund Balance of approximately \$4.7 million. Potential Future Demands includes \$520,000 for the Town Hall (remodeling) Complex, a placeholder for the water situation of \$100,000, and \$80,000 for bringing the General Employee Pension Fund to 100% funded, which probably \$50,000 would cover. In total the Potential Future Needs is \$700,000, and when this is subtracted from the Adjusted General Fund Balance it leaves about \$4 million.

In theory, that \$4 million could be used to mitigate any rise in property tax millage rates or do other things. For example, say Council wanted a Budget Contingency Reserve of 25% or \$1,466,000. The remaining \$2.5 million, in theory, could be given back to the taxpayers. He also ran the numbers at 50% and then 75%, at which point the entire Adjusted General Fund Balance is basically utilized. The break-even number is very close to last year's figure at 68%.

This is a public meeting. The Town of Indian River Shores does not transcribe verbatim minutes. Should any interested party seek to appeal any decision made by the Council with respect to any matter considered at such meeting or hearing, he or she will need a record of the proceedings, and that, for such purpose he or she may need to ensure that a record of the proceedings is made, which record includes the testimony and evidence upon which the appeal is to be based.

He provided this analysis so they could consider the numbers during the discussion to try to make a decision regarding the Budget Contingency Reserve, which the Government Finance Officers' Association recommends be somewhere around 25%. Vice Mayor Auwaerter has argued in the past that the Town needs to have a higher number, given its proximity to the ocean and the risk of hurricanes. When he attended the Florida League of Cities Annual Meeting last year, he learned from the City Manager of Panama City that a lot of liquidity was needed immediately after Hurricane Matthew. Vice Mayor Auwaerter then opened the floor for discussion and comments.

Mayor Slater recalled doing some calculations in the past that resulted in the decision that the Town should have about \$2.5 million in a "rainy day" or "hurricane" fund to take care of extraordinary costs involved in cleanup, etc., and still believes that is a good number. Vice Mayor Auwaerter said he did not recall that discussion, and asked Town Manager Griffin if he had any thoughts. Mr. Griffin responded that he did remember that discussion. While it goes against his political thinking, having been in a municipality that experienced a couple of hurricanes in one year, he always opts for as much reserve funds as possible. He agrees with the \$2.5 million mark. He and Town Treasurer Christmas have frequent discussions regarding the lag between applying for and receiving funds from FEMA, which in some cases can be three to four years. It is very amorphous to try to nail down exactly how much is needed, which is why he always tries to have as much as Council will approve. Mayor Slater said he believes our constituents would be comforted by the fact that if a big storm comes, the Town has the wherewithal to clean up and get back to business.

Councilmember Peniston agreed that it made sense. Councilman Carroll tied the Vice Mayor's and Mayor's suggestion to the proposal proffered by the Finance Committee and asked what kind of reserves should be maintained, and how should the reserves be used to prospectively return funds to the taxpayers by keeping the millage rate below what it might be otherwise. He believes that those funds should be returned to the residents gradually over a longer period of time by subsidizing the millage rate with something like 5% per year. He thinks we could be looking at a millage rate in the next fiscal year of somewhere between what the Finance Committee and staff have proposed.

Councilman Foley said he has met with Mr. Griffin and Mrs. Christmas regarding the budget and is feeling a sense of deja vu because their proposal assumed \$100,000 of reserves going back to the residents. He remembers discussing this issue last year and reaching a consensus about it. While he agrees with the Finance Committee's philosophical standpoint that the taxpayers do better spending money than the government, when you look at it in the context of Council's responsibility to establish sufficient reserves for when something disastrous does happen, he believes it is more important to work backwards. He believes in having reserves in the \$2.5 million range and then deciding how much gets returned to the taxpayers. Rather than all at once, if it is gradual over time Council can do a more responsible job of planning.

Vice Mayor Auwaerter said with \$2.5 million in the Budget Contingency Reserve we are looking at almost exactly a General Fund give-back over time of \$1.5 million, of which 5% is \$75,000. He believes last time they talked about this they considered using a 10% number. Councilman Carroll said he believes a range of 5-10% would be appropriate. Councilman Foley said there is no magic number, we are looking at a range and depending upon the flexibility permitted from year to year, it is a sliding scale. Vice Mayor Auwaerter said 10% would get us in the framework of the budget proposed by the Town Manager and Treasurer. He asked whether Council wanted to agree upon that now, or go through the discussion and see what the numbers are from the Finance Committee before deciding on how to approach this.

Mayor Slater said he had some questions for Mrs. Christmas about increased tax revenue, considering housing values increasing and new construction in the Town, even if we kept the millage rate the same. To him this is the major point for discussion, as well as setting the maximum millage rate. There are two more meetings that could result in discussion and action to lower the millage rate from the maximum. Vice Mayor Auwaerter said he is absolutely correct and that it seemed like a reasonable approach, to which there was no objection. He turned the meeting over to Town Manager Griffin and Town Treasurer Christmas to go through the budget.

4. **Town Manager's & Department's Discussion** 9:22 AM

a. Tentative Proposed Budget & Preliminary Maximum Millage Rate Recommended by Finance Committee

Mr. Griffin said that when he and Mrs. Christmas started the budget process in February/March, they were planning on an assessed value of about 6%, which was actually only 3.1% from the Property Appraiser. That was a bit of a shock to them, as they also thought what the Mayor was referred to, that assessed values would be going up considerably in Indian River Shores and that perhaps the COVID-19 influence would hit in the next calendar year. Even so, he and Mrs. Christmas had planned for a very conservative 3% increase.

They also wanted to give the Finance Committee some options, such as the \$100,000 give-back to residents by way of artificially reducing the millage rate like they did last year. This year, to do the same using give-backs from the reserves would be 1.3349, for which the Finance Committee voted 4-1 in favor of submitting to the Council for consideration.

b. Manager/Treasurer Recommendations

The Town Manager and Treasurer's recommendation for this year is 1.4146, but they could work with the Finance Committee number. Mrs. Christmas stated the reserves are strong enough to be able to handle keeping the millage rate the same; we would just need to be cognizant that there may be something that pops up down the line. She is always going to be more conservative, and she wanted to show Council all the options.

COUNCIL Discussion. Vice Mayor Auwaerter suggested that Council may have some questions regarding the expenditure side of the budget, and asked her to go through that and then the Council can discuss the **maximum millage rate**. Councilman Foley added that once they set the maximum millage rate, it cannot be increased, only lowered, which Vice Mayor Auwaerter affirmed. Councilmember Peniston received confirmation from Mrs. Christmas that the Finance Committee's recommended millage rate is 1.3349, which is the same as this year, before stating that she is comfortable with keeping it the same as a starting point.

Mayor Slater said that, for the purposes of this meeting, Council should consider setting a higher rate such as the suggested 1.4146, with full knowledge that between now and the final budget the rate could be lowered. Councilmember added that, as Mayor Slater mentioned, housing prices are going up, so even if we keep the millage rate flat this year, we would anticipate a higher level of revenue. Mrs. Christmas stated that the amounts normally go down after they meet with the Value Adjustment Board, so they will not go any higher than the final valuation of 3.1%.

Mayor Slater said while he hopes they can get back to 1.3349, he thinks Council would be wise to set the maximum millage rate higher to give themselves room to look at it more clearly and see what happens, and also to see what happens between now and September 10th, which is the proposed date for the First Budget Public Hearing. Vice Mayor Auwaerter said that would also give them flexibility if something happens weather-wise between now and then.

Councilmember Peniston asked for confirmation of the rate Mayor Slater is proposing, and he stated he would go with the Town Manager & Treasurer's recommendation of 1.4146 for the maximum millage rate, which is a 6% increase over the current rate. He reiterated that would be the maximum rate. We have the luxury, although he does not want to call it a luxury, of the surplus funds that are being held, which is the taxpayers' money. Once these funds are used, they must be refilled a bit, the Mayor added, and agreed with Councilman Carroll's approach of gradually reducing the surplus. Councilmember Peniston also agreed with setting 1.4146 as the maximum rate, with her desire not to go anywhere near that for the final rate.

Revenue Discussion. Councilman Carroll said the 3.1% valuation increase covers the single-most important item the Town has in terms of source of funds, and he thinks Council would be well advised to keep that number as conservative as possible. He referred to the first bullet point on the top of Page 2 of the budget, which states "due to recent economic hit and anticipated revenues decreasing by \$200,000... \$150,000 of that loss was in interest revenue." He said he tried to reconcile that statement with the line item in the budget "Interest Earned" and was unable to do so. Mrs. Christmas apologized and explained that was because this was the amended budget. Originally, \$150,000-\$175,000 was budgeted, but that amount was recently brought down to \$100,000. We expect only \$30,000 in interest revenue in 2021 because we are only getting 50 basis points. Town Manager Griffin asked Mrs. Christmas to advise Council as to where the

two funds are, one is SBA and the other is in our Operating Account. Vice Mayor Auwaerter said they are Money Market Funds.

Councilman Carroll said \$5 million is invested, and we are making 50 basis points. Mrs. Christmas affirmed, adding that some of that money goes into the Building Department and some goes into the other funds. This is just the General Fund portion of it. Councilman Carroll asked if there was an alternative investment that is just as secure. Vice Mayor Auwaerter said there were none, given the restrictions. Mrs. Christmas discussed an option for a custom investment policy established by the Town, rather than following the State's as we currently do, which is very restrictive in what we can invest in. There are more risks as we venture outside of that. Councilman Carroll said he does not believe we should be taking principal risk with the coronavirus still impacting the economy. Mrs. Christmas said the pooled investments (the SBA) are about as un-risky as you can get.

Vice Mayor Auwaerter said the reality of the situation is that the yield curve is extremely flat, so by extending out, you get almost no additional income. There is a substantial principal risk even if rates go up a little bit. The SBA fund and the other fund used are comparable to a fund that he ran at Vanguard in terms of yield.

Continuing, Mrs. Christmas commented she expects to receive the final revenue numbers from the State within the next week or two, and was very conservative in her revenue approach this month because of all the cuts that happened. Vice Mayor Auwaerter said he doesn't expect they will help very much, as the Governor only cut the budget by \$1 billion, sales tax revenues are down and grant money is going to be down. The Town did receive some money from the CARES Act, but that has to be used very specifically.

Town Manager Griffin stated the Town's percentage of ad valorem revenue reflected is around 96%, which is the historical collection rate, but maybe it should be reduced to around 94% due to the COVID influence. Mrs. Christmas added 95% is the minimum we can show per the TRIM law. Vice Mayor Auwaerter asked if they really thought there would be problems collecting property taxes within our boundaries, and Mrs. Christmas was not sure; this will be a consideration for the following year.

Expenses. Mrs. Christmas briefly went through each Department. The *Town Council* budget shows a significant increase of \$8,000 primarily due to expenses related to the Election and ordinance codification. The *General Administration Department* had become a hodgepodge of expenses, so expenses related to the resolutions and ordinances are being reallocated into Town Council budget. If you take that out, the increase is \$4,000-\$5,000.

The *Town Manager's* budget does not include a pay increase this year. There is a 10% increase for the health insurance premiums, based on the insurance that was approved at the last Council meeting. The Town Manager and Town Treasurer are exploring raising the Building Department allocation to somewhere between 5% and the maximum allowable of 10%.

Mrs. Christmas noted the significant increase in the *Finance Department* budget was due to a title change with a salary increase, with the allocations also increased to allowable funds. The General Employee Pension Fund numbers have not been received, but they anticipate a higher contribution for 2021 to compensate for losses in 2020. This amount can be adjusted based on actuals closer to year-end. Health insurance costs are also higher due to adding a spouse to the Town health insurance.

The *Town Clerk's* budget includes the purchase of Document Management Software, as well as 4% merit increases. The Finance Committee recommended moving merit increases to each department rather than the General Administration budget, and 4% was used for all employees as an average of between 3% and 5% based on performance as of their anniversary date. There is also a 10% health insurance increase. Councilman Carroll noted the insurance has almost doubled since FY 17-18 and Mrs. Christmas explained that was due to a full-time employee being hired in that time frame.

There were no significant changes in the *Postal Center* budget.

Regarding the *Public Works Department*, Mrs. Christmas explained they are constantly looking at the responsibilities of the maintenance employees and how their salaries should be allocated within the General Fund and the Road & Bridge Fund. They are spending a lot more time doing internal work at Town Hall, but that does save money in the end as we don't have to contract that work out. The pension expense for the current year is \$0 due to a staffing change. Councilman Carroll asked what the marginal expense would be

to contract out the work that is being done internally. Mr. Griffin answered that it has been significant. Heretofore, we were relying solely on the two people in the Public Works Department to do those things, and some tasks were not getting accomplished, such as cemetery maintenance and the landscape maintenance around Town Hall. A conscious decision to outsource some of those duties to ensure that we have our Public Works Department actually doing maintenance of the Public Safety Building as well as the Town Hall Complex has improved the situation. The outsourcing number has been significantly increased, with just the cemetery maintenance costing somewhere around \$400 per month. He has feedback from residents about the vast improvement in our presentation to the Town, and what we have to offer at Town Hall is going to be coming along with the remodeling of these three buildings and the remodeling of the Public Safety Building in the following years.

Vice Mayor Auwaerter asked if the Public Works Department is involved in NPDES assessments regarding rainfall volume on construction sites, or whether that is handled by Code Enforcement. Mr. Griffin stated that the Town's Code Enforcement Officer handles that on new construction sites. The other day-to-day NPDES responsibilities, including inspections and reporting, have been outsourced to MBV Engineering so as to relieve the Building Department of those duties as approved by Town Council through the Work Authorization. Mrs. Christmas mentioned we do save significantly by having some land clearing done in house by Mr. Bryant, as well as some patchwork on our streets with millings.

Mrs. Christmas asked Chief Rosell if he had any comments regarding the *Public Safety* budget, and he did not. She stated the budget is based on the same staffing levels of 6-man shifts, the Chief, Deputy Chief, Captain and Lieutenant, as well as three administrative staff. The per diem wages are broken down into the Fire Inspector, the IT Manager and Investigation coverage, which is the equivalent of two full-time detectives using per diems or coverage for those officers. We are covering officer's vacation hours with 75% per diem staff, and 60% covers sick leave. The sick time absenteeism rate is 6.6%. There are also hours for training coverage and school training. We anticipate that 2-3 employees will be retiring and not just entering the DROP plan.

Councilman Carroll asked how many cases are involved in investigation coverage, and Chief Rosell said about 40 cases in any given year. The reason for additional investigators is the high-profile cases they have been working for a couple of months involving elder abuse, which is very time consuming. Mr. Griffin added he queries the Chief from time to time regarding this, and he has ground rules that he has asked of the Chief, namely that if there is absolutely anything sensitive that the Town Manager does not need to know about, the Chief is not obligated to tell him. Mr. Griffin tries to keep a tight line between where the Chief has to go with his investigations and confidential information, and what he needs to know as Town Manager. He believes they have a good relationship in that regard.

Vice Mayor Auwaerter asked about Footnote 4 on Page 26, which mentions an estimated required contribution rate of 20%. He realizes that number is probably a bit fuzzy given how the markets are bouncing around, and asked whether Mrs. Christmas used some interim actuarial value for the Public Safety Employee Pension Fund to come up with that number, and if so, for what date. Mrs. Christmas answered that the number is more of a rough estimate that she will be looking at it in further detail, but just wants to make sure that we are not hurting ourselves. Vice Mayor Auwaerter asked if she was looking to catch up in a year's time, and she answered that it is because we have to match the market value; it is not a smoothing method. Councilman Carroll said we started the year at 106% funded. Mrs. Christmas said yes, but she wants to get a little bit closer to year-end so we are not caught off-guard.

Vice Mayor Auwaerter asked whether it was necessary to spend \$2,100 on a fax machine, as the technology is outdated. Chief Rosell stated they have three fax machines. Vice Mayor Auwaerter said his computer came with software that emulates a fax machine and asked whether we really need to spend that money. Chief Rosell said he believes they need them for documents that must be sent securely, i.e. not through email, but he will double check. Vice Mayor Auwaerter also asked about the \$8,400 fiber line for the internet, which struck him as high. Chief Rosell said they have certain parameters per FDLE. Mrs. Christmas stated that she knows Mr. Aldrich is trying to negotiate with AT&T to have that price lowered, but they are kind of stonewalling him at this point. The fiber line also provides redundancy for the Town Hall itself, so if the Comcast goes down we pick up some of the redundancy from there. Mr. Griffin said he would

ask Mr. Aldrich to attend the next Council meeting in August to give a sanitized update on what he has accomplished in the last year to Council.

Mrs. Christmas stated that another big line item in the Public Safety budget is for dispatch software, which is \$29,000. Chief Rosell and Deputy Chief Shaw are working hard to obtain a grant to cover half of this expense this fiscal year, but again, she never wants to be caught off-guard. Councilman Foley said he noticed a lot of these increases in PSD operating expenses are either required due to harmonizing with the County system or are required to maintain accreditation, so it may be helpful for the **next meeting to have a list of which expenses are so required.**

Mayor Slater said that two things are clear: Town Manager Griffin and Town Treasurer Christmas are working hard to keep costs as low as possible, and, on the other hand, they are being conservative because they don't want to over-promise and under-deliver. They would rather keep the promise at a certain level and then exceed it with cost-savings. He believes this is another reason why Council should adopt a higher maximum millage rate with the knowledge that we are working to lower that rate. He is sure that the Finance Committee went over the budget in great detail, and he is comfortable that they have done the best they can do. Councilmember Peniston said she agreed, as did Councilman Foley. Councilman Foley added that he believes they have a history of careful and judicious spending by the Departments, even if it is allocated in the budget, because it is just a budget, it is not a mandate to spend.

Vice Mayor Auwaerter referred Retiree Health Insurance on Page 30, stating the proposed budget is \$29,500, and Footnote 4 says "During fiscal year 2020/2021, based on the results from the OPEB review, we may make the recommendation to pull funds from the trust fund to cover these costs. If we do so, we will recommend a budget adjustment to offset these costs." He recalled that at the close of the fiscal year on September 30th, this OPEB fund was extremely well-funded at 121%. He said it may have gone down and come back up and so forth, and discussed it with Mr. Griffin and Mrs. Christmas. While it is good to have a lot of money in there, we don't want to have too much money. He asked his fellow Council Members for their thoughts on this, explaining to the audience that we use very conservative future investment return projections of 5.63% return rate, unlike many parts of the country. He suggested that the **Council create a policy that anytime the actuarial value is above 110%, that money be moved out to fund the annual retiree healthcare insurance contribution to bring it down to 110%**, so we don't have a situation where we are funding retiree healthcare insurance out of the General Fund at 140-150%. Councilmember Peniston, Mayor Slater and Councilman Foley agreed that it made sense. Town Treasurer Christmas said they will **bring a drafted Resolution to the next meeting** to set that in stone. She will make the changes and give Council the adjusted numbers once complete.

Vice Mayor Auwaerter said his last question is regarding the *Building Fund* on Page 41. His understanding is that our reserves cannot exceed a 4-year trailing average of operating capital costs. Mrs. Christmas said we are targeting towards that, as this is a new State Statute introduced this past July. Councilman Foley said on Page 33 there is no revenue from *Code Enforcement*. Mrs. Christmas explained that the Code Enforcement revenue is inside the General Revenue and that the projected amount is \$3,000.

Vice Mayor Auwaerter asked if there were any other questions, and there were none.

5. Audience Discussion 10:01 AM

Mr. **Paul Spellman** from Ocean Pearl introduced himself and stated he has been a year-round resident for the past seven years. He asked whether Council was concerned with the \$600,000-\$800,000 of the annual sales tax lost in the State, and whether that will impact any of their revenues that the Town gets that we may not have anticipated in this budget. He also asked how much money is being taken out of the reserves and how much is in the hurricane fund. If he understands it correctly, it looks as though the hurricane reserve right now is about \$2.45 million, with suggestions that it be at \$2.5 million. He asked how that number was determined, and if money should be taken out of the spendable funds and put it in the non-spendable funds to bring that fund up to \$2.5 million? He said there are a lot of costs on the horizon, and was very complimentary of the long-range view the Council takes on issues such as the water. He asked if Council was concerned about how to rebuild the funds for infrastructure in the future, and if it was not reasonable to increase the tax over time so that it doesn't hurt too many people, as opposed to increasing it all at once?

Vice Mayor Auwaerter said regarding assigning a portion of reserves where the funds are kind of locked-down, he personally prefers the flexibility as things change. The reality is that the five members of this Council cannot bind any future Council, so that they are unable to change things. Regarding the sales tax, those revenues we receive are used primarily for capital expenditures rather than for the General Fund. Mrs. Christmas said last year they budgeted \$663,000 for sales tax revenues, and anticipates getting \$581,000 this year, budgeting only \$552,000. She should have a better idea of the numbers by the end of this month, but she did try to anticipate the cuts. Mr. Spellman asked what those numbers were based on, and Mrs. Christmas responded that they are based on discussions with other members of the FGFOA (Florida Government Finance Officers Association).

Mayor Slater said the Town has been blessed with very good Councils over the years who look at protecting the finances of the Town, including the Hurricane Fund and others. He believes there needs to be flexibility and is not in favor of locking money down, but he believes it is part of their responsibility to ensure the funds are there.

6. **Adjournment**

The Budget Workshop Meeting was adjourned at 10:07 AM.

Respectfully submitted,

*Approved by the Town Council at the August 27, 2020
Regular Town Council Meeting.*

/s

Laura Aldrich, MMC
Town Clerk