

**Minutes for the
Crystal River City Council
Budget Workshop
Monday, April 9, 2012 6:00 p.m.
Council Chamber, City Hall**

1. CALL TO ORDER

Mayor Farley called the meeting to order at 6:00 p.m.

Council Present: Mayor Jim Farley; Councilmember Ronald E. Kitchen, Jr.; Councilmember Mike Gudis; Councilmember Maureen McNiff

Council Absent: Vice Mayor Paula Wheeler

Staff Present: Andy Houston, City Manager; Michael Brannigan, City Attorney; Carol Harrington, City Clerk; Deanna Rowe, Finance Director; Jackie Gorman, Planning Director

2. CITY MANAGER'S PRESENTATION

This is the first workshop for fiscal year 2012/13 budget development. We are going to ask at the 7:00 Council meeting to schedule a second Budget Workshop for May 29th. Departmental requests will be presented at that meeting along with expenditure levels. Today we are starting with the revenues.

We have provided you with an updated 5-year projection of revenues and expenditures. These have not been adjusted to balance each year. We have given you a summary of the revenue projections we used in developing this revised 5-year projection. An additional sheet is included that takes the budgeted vs. actual for last fiscal year and projection for this year. We have a couple of significant revenue sources that have been problematic for us.

Utility Franchise Fees and Electric Utility Services Taxes have both come in low last year as well as starting low this year. This year he sees us being a little behind our prediction with the warm winter. We have also had shortfalls in the Telecommunication Tax. This year the legislature has decided to take about \$10,000 off the top of that to help them solve their budget issues.

The good news on the Ad-Valorem is that the projection has been about right for last year. The bad news is that it is not coming out of the negative numbers as quickly as we had planned. When we did the 5-year projection last year, we were anticipating that by 2014 we would be at least in neutral country. In speaking with Geoff Greene, he has told us to expect in the range of 5% or so for this year and he is expecting another 3.5% -4 % reduction next year.

We have gone back and anticipated that Ad-Valorem is going to be under for at least a year longer than we had originally planned. We have moved the assumptions on the Electric Franchise and Electric Utility Service Tax down to reach where they have actually been coming in. The one ray of light we are getting from the State is that they are saying that the Sales Tax is actually showing signs of life and may be better this year than they had projected and stronger even next year.

Looking forward to the next few years where we have projected revenues and expenses recognizing that the expenses are assuming 3% growth in services and commodities. There is no salary increase in that number. The biggest unknown is pension cost for both our employees and probably more significant for the Sheriff's employees since their cost passes on to us and they are in the high-risk category of the pension. He has spoken with the Administration folks and they are taking the same course of action as

the Florida League of Cities has recommended. That recommendation is to wait and see what the courts do before doing anything. For now, we have assumed 3% for most of the services and commodities. With what we are seeing on projects out, we have a shortfall for next year, but it is not an unmanageable shortfall.

That is subject to change as we start getting the Departmental requests. We have a couple of areas that we know we will have some savings for next year. He doesn't know where we may also have some cost surprises. When we bring you the Departmental requests in May, we will discuss where we have seen increase and Council will give him direction at that point. He will bring in a recommended balanced budget in June per Council's direction from the May meeting.

General Fund

He believes this to be a relatively, manageable deficit based on these numbers. We will wait and see what happens in the next couple of months.

Water Sewer Fund

We are in the 3rd year without an increase. The last rate study was done prior to the 2009 fiscal year. That study recommended a 3% rate increase each year. What we did instead was push out some of the major capital work i.e. water pumping station for the Methodist Church well. That allowed us to defer any rate increases. We are getting to the point where we may want to look at some kind of rate increase. We may recommend something very small this year. Mr. Houston stated that next year would be the year we want to do the next rate study. Next year we will have areas 112/113 of the DSC Grant coming on line. We will also be pretty much through the installation of service into 114. At that point in time we will have expanded our customer base by 20% -25%. Those folks will be paying the 25% surcharge for being outside the City limits. He thinks that would be an appropriate time to get a 5-year look going forward for the water/sewer system. Our Capital costs will be pretty much through the DSC Grant, so the cash flow with that will give us a better idea. We should also have a better idea of the cost of the effluent line project.

Sanitation Fund

This is pretty straightforward. We need to match up the contract revenue and the contract cost.

CRA

We recently updated the forecast of the remaining years of the 5-year term. The amount of revenue that should be available net of the expenses is about \$1.9M over the next five years. That is without having anything other than the planning money that is in this year's budget for the Riverwalk.

Mr. Houston asked if there were any questions.

3. COUNCIL DISCUSSION AND QUESTIONS

Councilmember Kitchen asked Mr. Houston to remind him how we dealt with the \$90,000 for 2012. Mr. Houston stated that the 2012 Budget was balanced when it was adopted. We actually ended up with about a \$200,000 net increase to the Fund Balance even though the revenues came in about \$100,000.

Councilmember Kitchen asked why we were still showing \$91,000 deficit on our Worksheet. We know that is not the case.

Mr. Houston stated he understood the question now. Just like fiscal year 2011, we started seeing revenue shortfall about the six-month mark. We held a couple of positions vacant. We will be doing something similar this year to deal with that.

Deanna Rowe explained that part of the increase in the expenditure is because we have added to the budget when we have appropriated some funds from the Reserves. When we have projects that we bring to you and need additional funding, it is taken out of Reserves.

Mr. Houston stated that when we see revenues that are going to be short, we do something on the expense side as well. We did last year and we will this year as well.

Councilmember Kitchen stated that anyone that would look at our Budget it would like we have a \$91,000 shortfall this year. That is his problem. The average person is suppose to be able to look at our worksheets and budgets and know where we are financially. Without some type of footnote, how is the public going to understand that we didn't spend \$91,000 more than what we said we were going to.

Mayor Farley stated that he remembers that we agreed that we would place an asterisk and note actions at the bottom of the page as an explanation.

Mr. Houston stated that they would add that. Each year we do get to a balanced budget. In Fiscal Year 2017 we are not looking at a \$300,000 shortfall to make up in one year. This is supposed to be a rough idea. If we don't do anything, this is the kind of hole we dig ourselves into.

Councilmember Kitchen stated that it has always been a policy as long as he has been here that we do not spend Reserves on operating or recurring expenses. He doesn't see that we have done that.

Councilmember McNiff stated she did not see it quite the way Mr. Kitchen did. If it had been the end of the year, that would be misleading. This is saying that if we continue without making any adjustments, that's the situation we will find ourselves in. What she is hearing and has been our experience is that adjustments are made.

Councilmember Kitchen stated that he understands that. His question was; are those adjustments being made by Administration.

Mr. Houston replied that using Fiscal Year 2011, he didn't come in and ask Council to formally reduce the budget. If you look at the Audit Report, we just held down expenses. Last year, the revenues came in about \$80,000 below what we projected, but expenses were close to \$300,000 below what we had budgeted. We don't formally modify the budget.

Councilmember Kitchen asked who made the decision to cut the \$300,000. Did you do that unilaterally? Mr. Houston replied that he did. That is his responsibility. His obligation is that at the end of the year, we have not spent more than Council has approved.

Councilmember Gudis stated that the \$91,000 that Mr. Kitchen is speaking about would be clearer if as the year goes by, you could show what the actual situation is. We are not really \$91,000 in the hole. Mrs. Rowe explained that she took the numbers at the six-month timeframe and projected them out to see what it would look like if we continued at the same rate. Mr. Gudis stated that from a realistic standpoint, it is nowhere near \$91,000. Mrs. Rowe replied that he was correct. Mr. Gudis stated that it would be clearer if a footnote was inserted or the figures were adjusted.

Councilmember Kitchen asked if we are still placing \$100,000 a year into the Firetruck Renewal and Replacement? Mr. Houston replied that we have been doing that.

Councilmember Kitchen asked how we were handling the pension situation. Are we still taking that 3% out of the paychecks? Are we setting that aside as contingency funds? Mr. Houston explained that the Florida League of Cities (FLC) is recommending that cities maintain their status quo. The Courts have

indicated that they will be hearing this fairly quickly. The prevailing advice is to continue as we have been. He does not think that this would be a huge dollar amount. This should not create an emergency if and when it is resolved. The bigger issue is going to be the Sheriff's Department.

Councilmember Kitchen asked if we have had any conversation with the Sheriff as far as the issues about the MSBU/MSTU. Mr. Houston replied that the Sheriff responded that it is not a Sheriff issue. That issue is a Board of County Commissioner's issue. He has already passed on his thoughts to Council about this and Council has not told him to go forward to place this before the County Commission. That issue for him is still very much out there.

Councilmember Kitchen stated that he thinks we are running a tight ship. If we need to push back a capital improvement project for a year or two to balance the budget, that would be his recommendation. That is all he has.

Councilmember McNiff stated she agrees. She does not think this is a good time to raise the millage rate. She thinks it will be a couple more years before the economy turns around.

Mayor Farley asked if the Sidewalk Project is still going forward? Mr. Houston stated that it has been scaled back. Our discussions to this point have been what you said tonight; he would look to transfer the Capital Improvement Fund if needed. He would push a project back before he would go into the equipment reserves. Particularly for the Fire Department, that equipment is expensive and needed.

Mayor Farley asked if there was anything in the capital improvement that was critical. Mr. Houston stated nothing he sees as critical. If we need to find \$75,000 in CIP to push back, we could do so.

Council consensus was not to use Reserves to balance the budget.

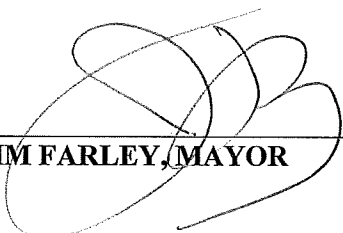
Councilmember Gudis agrees with what has been said, but he would like to review expenses before we pull money out of CIP.

Councilmember Kitchen stated that we have been weathering this recession well. We have laid out a good plan and Mr. Houston has very effectively stuck to that plan.

Mr. Houston stated to Council that in staff discussions, we have not discussed a millage increase. He didn't think it would happen and really isn't needed.


4. ADJOURNMENT

Mayor Farley adjourned the meeting at 6:28 p.m.



JIM FARLEY, MAYOR

ATTEST:



**CAROL HARRINGTON, CMC
CITY CLERK**