City of Maitland, Florida
Long Range Financial Projection
2004-2013

Prepared by the Fiscal Advisory Board
With the assistance of City Management Services Department Staff

Issued: July 2003

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Preface

It is important for the reader to understand how this Long Range Financial Projection ("LRFP") was prepared and how the Fiscal Advisory Board ("FAB") that prepared it expects it will be useful to the members of Council, City Staff and the citizens of Maitland.

Primary Purpose of the LRFP

In discussions with the Mayor and certain Council members about the reason for a LRFP, it was expressed that there appeared to be demographic and development trends in place and project opportunities on the horizon that required a process for considering the long-range financial impacts of these trends and the possible long-range financial impacts of major matters expected to come forward for consideration. The annual City budget and Capital Improvements Program ("CIP") process doesn't appear to fully meet the need to consider the impacts of strategic matters the Council may face from time to time.

Subsequently the FAB discussed what use might be made of such a projection and how it might best be used to advantage by the persons elected and hired to guide the City and by the citizens in assessing their "investment of life" in our City. Ultimately, the FAB concluded that the primary purpose of the LRFP was:

> **To assist the Council in assessing the financial capacity of the City so that future commitments made by the City with material incremental financial impacts could be better made balancing the short-term need or desire with the long-term fiscal viability.**

In short, it has to do with being a resource allocation tool for use in the discussion and decision-making processes of our City.

It is worth noting that we have chosen to call this a "Projection" and not a "Plan." In our opinion a Plan has been subjected to the rigors of the resource allocation decision-making process. That is an output of the political and management process of City government, not the input this LRFP is meant to be.

Definition of "Long Range"

One of the earliest and primary matters that the FAB discussed was what period constituted "Long Range" for purposes of this work. The period chosen by the FAB was ten years, which seemed reasonable given these facts:

- The City budget is prepared with a projection two years beyond the budgeted year.
- The City CIP is prepared with a five-year time horizon due to the lead times involved with planning, implementing and operating certain capital assets and facilities.
- Most corporate and some governmental long-range financial plans extend to approximately ten years, reflecting the fact that major resource commitments made currently have significant effects that far out.

Scope and Necessary Restrictions Thereof

The FAB is a volunteer Board that regularly meets only once per month in the evening for a period of usually no more than three hours. During the course of this project, the FAB devoted part or all of 18 meetings to the LRFP – in short, probably no more than 50 hours of education, deliberation and review. As a result of this limited scope, the FAB relies heavily on the City financial staff for assistance in work output. On this project, particularly, the staff was key in preparing the requested sensitivities of various financial inputs in differing scenarios. The City financial staff is already "fully booked" with regular financial management duties and any work they do for the FAB is generally over and above their normal workload. As a result of the Board's and staff resource constraints, the FAB did not have the ability to consider a large range of options and scenarios. Therefore, a reader of this LRFP should understand certain scope limitations adopted by the FAB:

- First, we did not attempt to identify, quantify or assess wholly new sources of potential revenues or expenditures in the City's future. Examples are the prospective Community Redevelopment Authority ("CRA") and electric utility franchise matters. We also assumed that no existing material sources of revenues or expenditures were likely to be removed by choice or operation of law. For additional CRA comments, see pages 9 and 30; for electric utility comments, see page 31.
- Second, we did not attempt to study or predict how the City's rates or fees as currently constituted or as may be set in the future would affect "demand." In other words we did not attempt to address the competitiveness of our rates or the comparability of our expenditures with other Cities in the greater Orlando metro area, even though these are considerations taken into account by builders, owners in and users of our City and its services. We felt this competitive analysis, including competitive response modeling was outside the scope of this Board's work.

- Third, we began with the current City draft budget for the fiscal year ending September 30, 2004 as the base year and used whatever sources of detailed information the City staff could provide beyond that. In particular, this includes the current and preliminary CIP budget that extends to five years.
- Fourth, we did not attempt to create or overlay the dozens of potential model scenarios that exist with regard to combinations of significant identifiable project concepts that may be opportunities and challenges for the City in the next ten years. A number of situations are in discussion that could have significance and represent the kinds of resource allocation decisions we think are critical, notably:
  - Regional and inter-City transportation initiatives of various types and forms that may involve Maitland as it straddles the key metro area transportation corridor (I-4).
  - Downtown re-development initiatives.
  - City-wide utility under-grounding.
  - The upcoming electric utility franchise re-negotiation (considered a use of resource – cash or borrowing power – if the City concludes it should acquire the retail distribution assets).
- Fifth, the potential financial effect of the City's Space Needs Master Plan was analyzed only via a financial model of a two-square-city-block only CRA. The actual prospective CRA under discussion in the City, as mentioned elsewhere in this report, would comprise far more than the footprint of the City's Space Needs.

The substantial uncertainties and the lack of significant projected data available about most of these major and long-term projects implied to the FAB that each one could be considered a potential use of the City's financial capacity that could be weighed one against another within the City's aggregate financial capacity.

Acknowledgements

The FAB would like to acknowledge the assistance of the City Management Services Department in our education of the budget and CIP processes and content as well as actually utilizing such information and developing spreadsheets at our instruction that make up much of the "Long Range Financial Projection – Discussion" section of this document.

Particularly, we would like to recognize and thank:

- Finance Manager, Sharon Anselmo, who serves the FAB as its Staff/Liaison
- Office of Management & Budget Manager, Michelle del Valle

- Office of Management & Budget Analyst, Amy Burkhart
- Assistant City Manager Brian Jones, whose life's motto has been adopted by the FAB as its credo: "Do it once and do it right."
- Mike McKee, who served as Vice-Chairman of the FAB until March 2003 at which time he moved to Seminole County and resigned his position on the FAB

Respectfully submitted,
Fiscal Advisory Board

______________________ Monty K. Allen, Chairman	______________________ Kim Autrey, Vice-Chairman
______________________ Bob Brown	______________________ Jim Houser
______________________ Carolyn Small	

EXECUTIVE SUMMARY

The City of Maitland has an admirable record of fiscal soundness and conservatism. In the past 10+ years, the City has enjoyed the salutary financial effects of a significant increase in property valuations largely due to the commercial build-out in the Maitland Center area west of I-4. As a result, most residents would agree that our City's services have never been of better quality for such a reasonable price.

Nevertheless, we have looked forward for the next ten years using a somewhat imperfect crystal ball and have noted some reasons for concern. They stem principally from the need to provide services to a resident population that has grown about 60% in just 7 years, largely through the final available annexations. Additionally there are services provided to a substantial non-resident workforce population. While the recently annexed new properties have added to the tax rolls, virtually all future additions to the tax rolls will have to come from value increases due to the redevelopment and reassessment of existing properties. There simply aren't any more significant new property tax roll additions to be had.

Those necessary services will continue to escalate in cost going forward. Most of the City's cost base is personnel. People demand increases in pay to keep them ahead of inflation from year-to-year. People seek increased pay as their skill sets and capabilities improve over time. And people expect benefits such as medical insurance. It is a virtual certainty that these costs will increase faster than inflation. We are particularly concerned about the long-term compounding effects of "runaway" medical insurance premiums. As detailed further herein, we believe employee medical insurance premiums could account for over one-eighth of the City's entire General Fund expenditure budget in ten years.

Should the next ten years play out as we portray herein, the City will be faced with tough political and management choices having impacts in type, quantity and quality of City services.

Aggregate Summary of Projected Annual Revenues & Expenditures:

	2004 (Draft Budget)	**2013 (Projection)**
Revenues from all sources	$ 18.1 million	$ 26.0 million
Expenditures, excluding any capital improvements or related operating costs	$(17.2) million	$(24.6) million
Capital Expenditures (CIP)*	$ (1.9) million	$ (3.0) million
Emergency Designations	$ (0.1) million	$ (0.1) million
NET CASH OUTFLOW	$ (1.1) million	$ (1.7) million

* - includes vehicle replacements

As a result of the study we've conducted, we will make the following summary recommendations to attempt to bring equilibrium to the possible coming financial situation:

- **Promote increases in the value of the property tax base through community redevelopment**
- **Increase activity fees and other miscellaneous user charges; consider wholly new sources of revenue**
- **Personnel costs and performance/productivity of City employees should be vigorously managed**
- **Medical insurance costs and coverages should be carefully studied and evaluated**
- **Contributions (by the City to support amenities in the City) should be re-evaluated and new or higher user fees studied**
- **The CIP will require special future scrutiny owing to the fact that such items may more directly impact debt and tax levels**
- **Materials and outside services should be used when financially advantageous (including privatizing or outsourcing); if significant, the RFP or other appropriate bid process should be used to minimize price**

By adhering to these recommendations, should there be ad valorem rate increases necessary City management staff and Council will be able to say with confidence and sincerity that sound management principles were employed and vigorously pursued before the rate increase was implemented.

Fiscal Advisory Board **July 2003**

Long Range Financial Projection – Discussion, Assumptions and Summary Information Charts

During our working sessions, the members of the FAB and those assisting on the City's financial staff reviewed each major revenue and expenditure type that the City currently has in place to pay for (revenues) and provide (expenditures) the City's services. As we looked at trends from the past and applied our knowledge of current environments, we developed a consensus on what was the "most likely" future path for that revenue or expenditure item. Further, in some cases the FAB asked Staff to run various scenarios, both optimistic and pessimistic, through a spreadsheet model to determine if there was any situation that might cause severe impact on City finances.

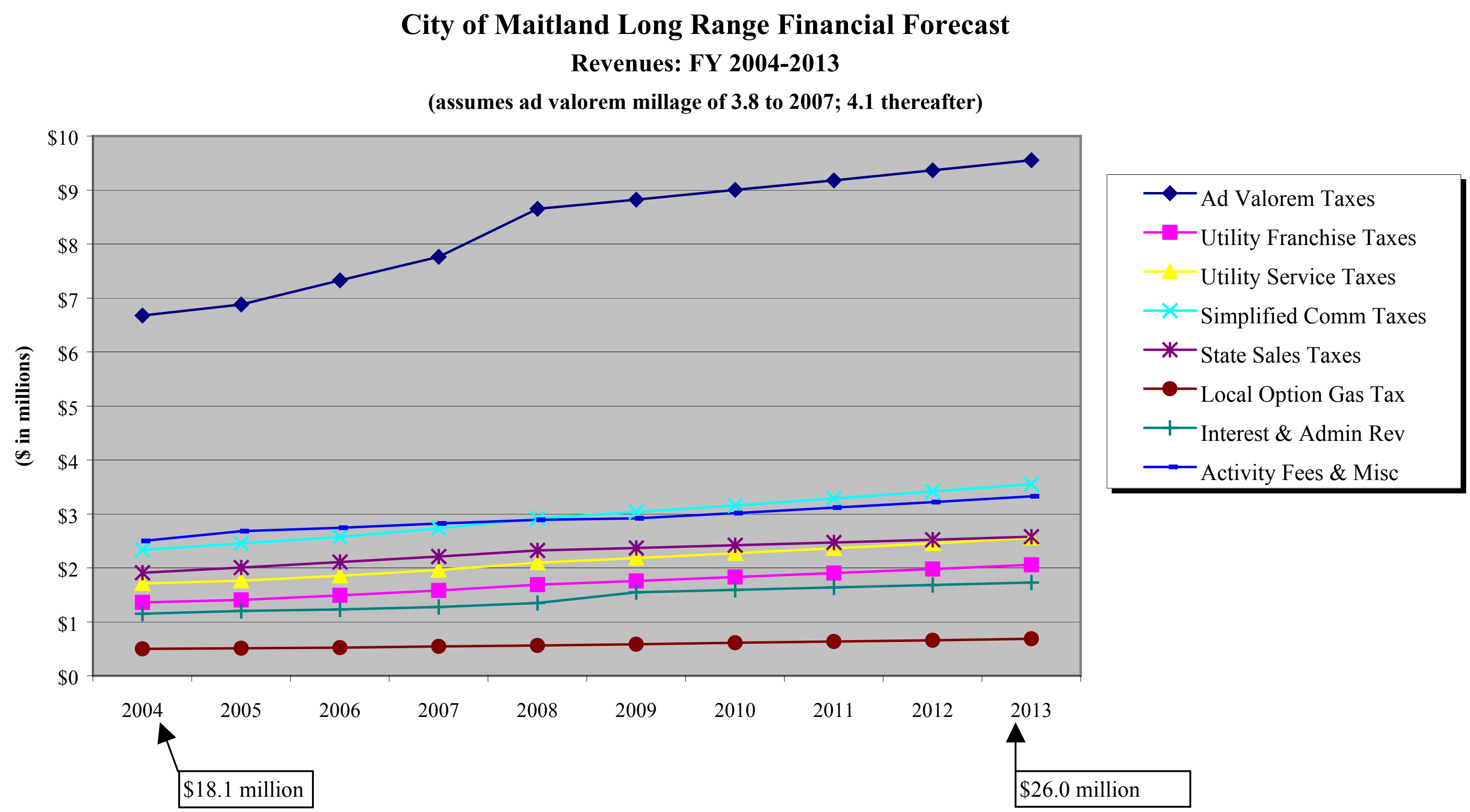
One area of our work was difficult to draw conclusions about. This has to do with the City's Space Needs Master Plan and it's integration with the proposed Community Redevelopment Authority ("CRA"). City Council has reviewed and accepted the Space Needs Master Plan (September 2002). The conclusion therein was that the City's 1971-era downtown public safety, maintenance facilities and City Hall structures are too small, badly aging, and difficult to access (little or no parking). The Space Needs Master Plan includes the concept of a CRA to aid in implementing the Plan as well as to promote re-development of substantial parts of the downtown Orlando Avenue corridor. Like City facilities, much of the City's downtown core dates from the 1950's to the 1970's. This includes the transportation and water/sewer infrastructures as well as the more visible population of buildings. As a result of the inclusion of the implementation of the Space Needs Master Plan in a CRA, there is relatively little implementation of Space Needs in the CIP numbers used through this report. Should the CRA not be put into effect, the City's Space Needs Master Plan would need implementation outside of the CRA and that would cause an increase in CIP numbers over the ten-year projection period in an amount approaching $15 million, without considering inflation or scope changes. This would be a significant change. Similarly due to a lack of any substantial projection information as to the potential redevelopment acceleration, we have no projected benefits of tax roll additions that might accrue from the CRA project activities.

The detailed projections of General Fund revenue and expenditure types and the underlying assumptions we chose to base the projections on are detailed in Exhibits 1 – 4 of this Report.

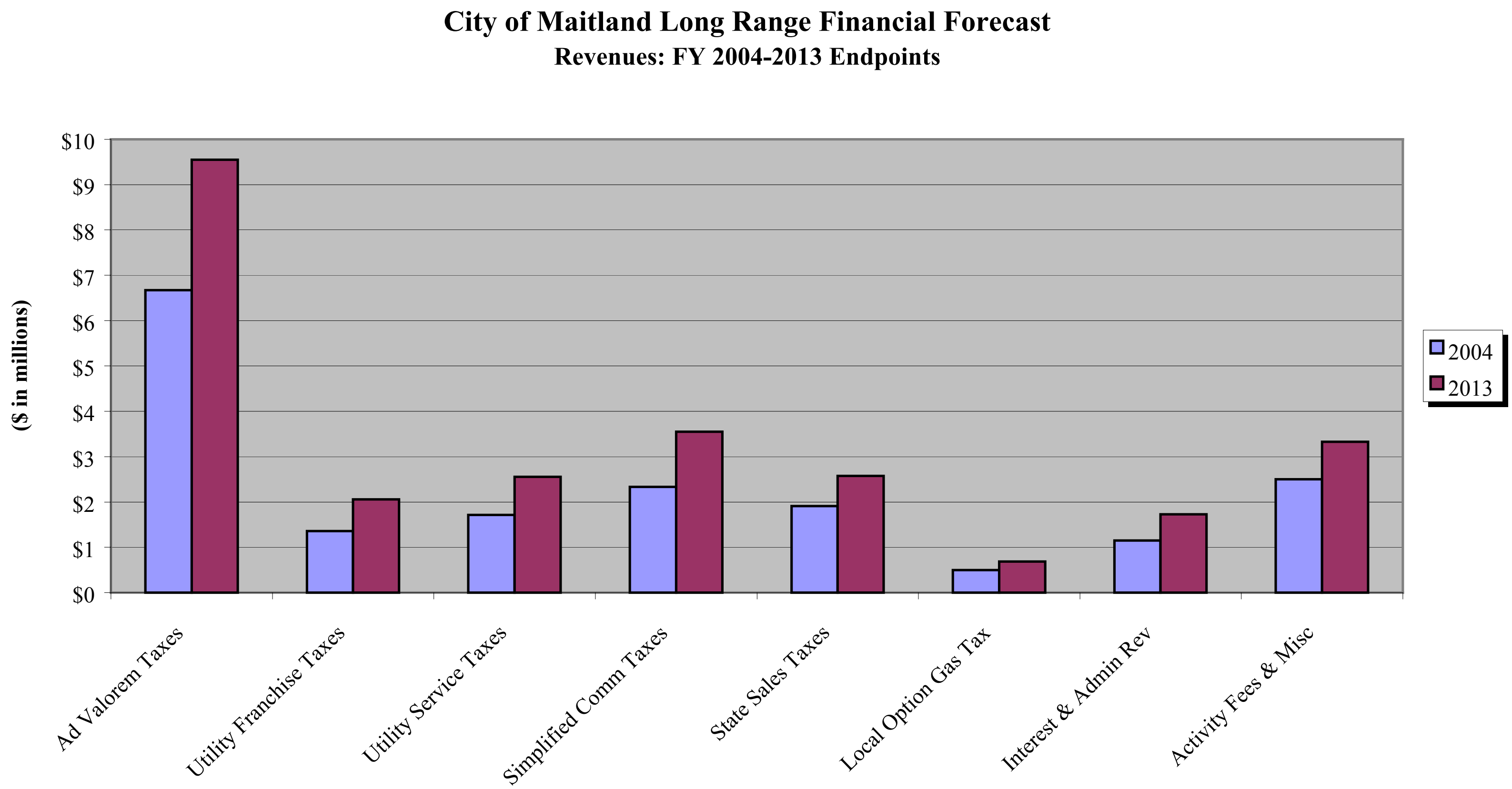
General Fund Revenues

The City's revenues are heavily dependent on various tax levies, most prominently ad valorem tax (property tax) but also including various taxes on the electric franchise and on electric and telecommunications services and a portion of the state sales tax collection.

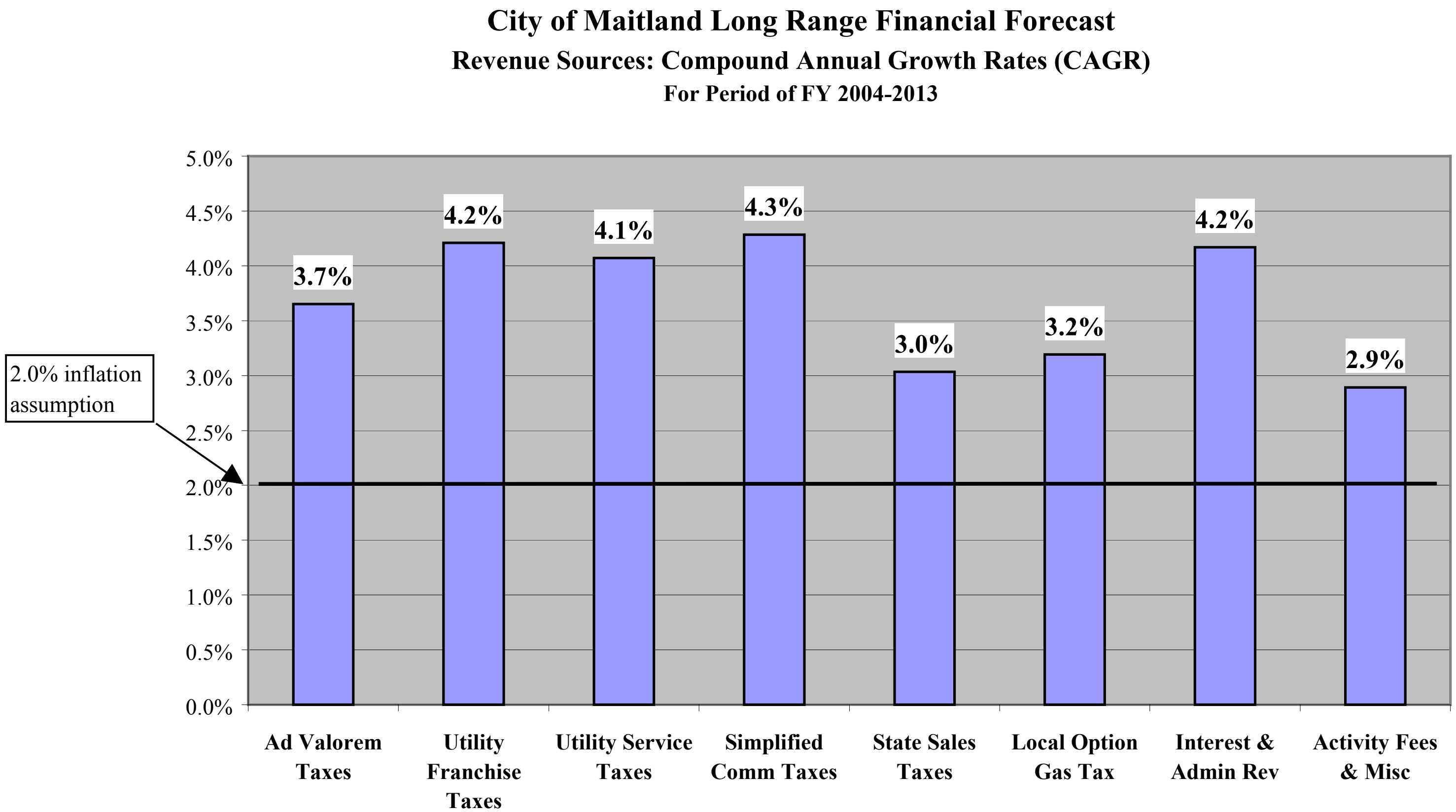
The City's revenue sources are presented in the following chart (data source: Exhibit 1):



Another way to view the City's revenue sources is to examine the dollars from various sources at the endpoints of the projection period (data source: Exhibit 1):



Just as important as the relative sizes of these revenue sources over the period is their projected growth rates. Throughout this LRFP, an inflation assumption of 2% per annum has been used. The chart below shows the compound annual growth rates (CAGR's) for these various sources of revenues.



Notable here is that the CAGR's for utility franchise and service taxes, and the simplified communication taxes, are over 2 points higher than inflation (i.e., more double the inflation rate). Since this LRFP does not assume utility tax rate increases will be implemented, this 2+ percentage point improvement would be derived from either usage or pricing of the underlying services. This may be optimistic and is a point of outcome sensitivity in this LRFP.

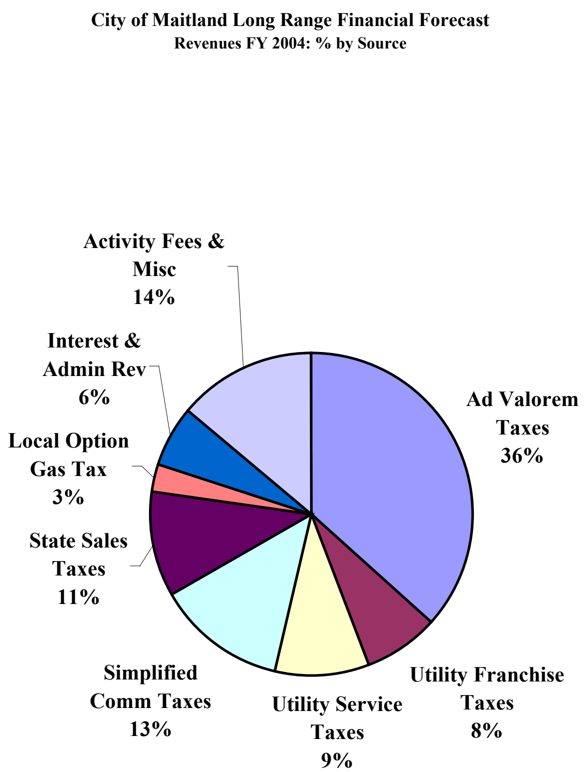
Activity fees and other miscellaneous revenue sources show a rate of increase notably less than inflation and is an area that we will recommend re-examination of policy. User fees have taken hold at most Federal and state government levels in the last decade as an equitable way to deal with cost increases and deficit situations. In this case "equitable" means that the specific user of facilities and services of the City will be the ones to pay for them to reduce a cross-subsidy from other non-user, City residents through general taxation.

The CAGR for ad valorem tax is based on two key assumptions. First, this LRFP assumes the millage increase from the current 3.8 to 4.1 in fiscal 2008 to fund the Stormwater/Lakes initiatives. Secondly, since there is no formal City projection of the tax rolls after 2008, this LRFP has assumed a 2% per annum increase thereafter in total taxable values. We believe that this is a reasonable projection. Excluding new property additions (i.e. annexations) to the tax rolls, the underlying valuation growth rate has been about 2½% per year over the last decade.

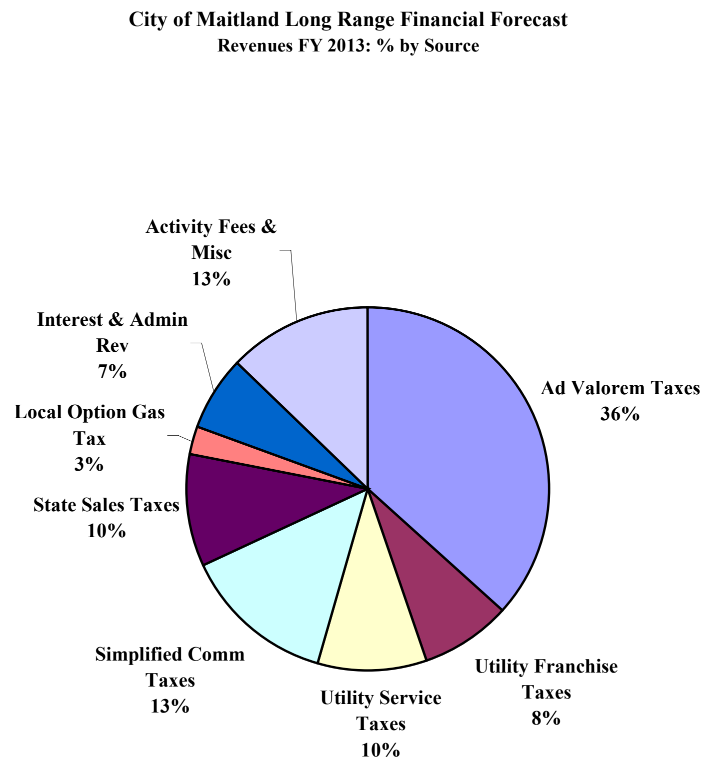
The City's current tax base is about 65% commercial property and 35% residential. This mix, which has been advantageous to residential property owners in terms of lower ad valorem rates and has been a source of City financial strength for years, is primarily due to the substantial commercial property values created in the last twenty years on Maitland's west side. Residential property values are a) far less volatile, and b) subject to a cap of a 3% annual increase assuming no title change. Commercial property values are more volatile due to the principal factors that influence commercial property values being driven by local and national economic conditions (rental rates, occupancy rates, mortgage interest rates, energy costs, etc.).

Two final views of revenues are presented in the two pie charts on the following page that show percentages of revenues by source at the endpoints:

2004:


City of Maitland Long Range Financial Forecast
Revenues FY 2004: % by Source
Activity Fees & Misc 14%
Interest & Admin Rev 6%
Local Option Gas Tax 3%
State Sales Taxes 11%
Simplified Comm Taxes 13%
Utility Service Taxes 9%
Utility Franchise Taxes 8%
Ad Valorem Taxes 36%

2013:

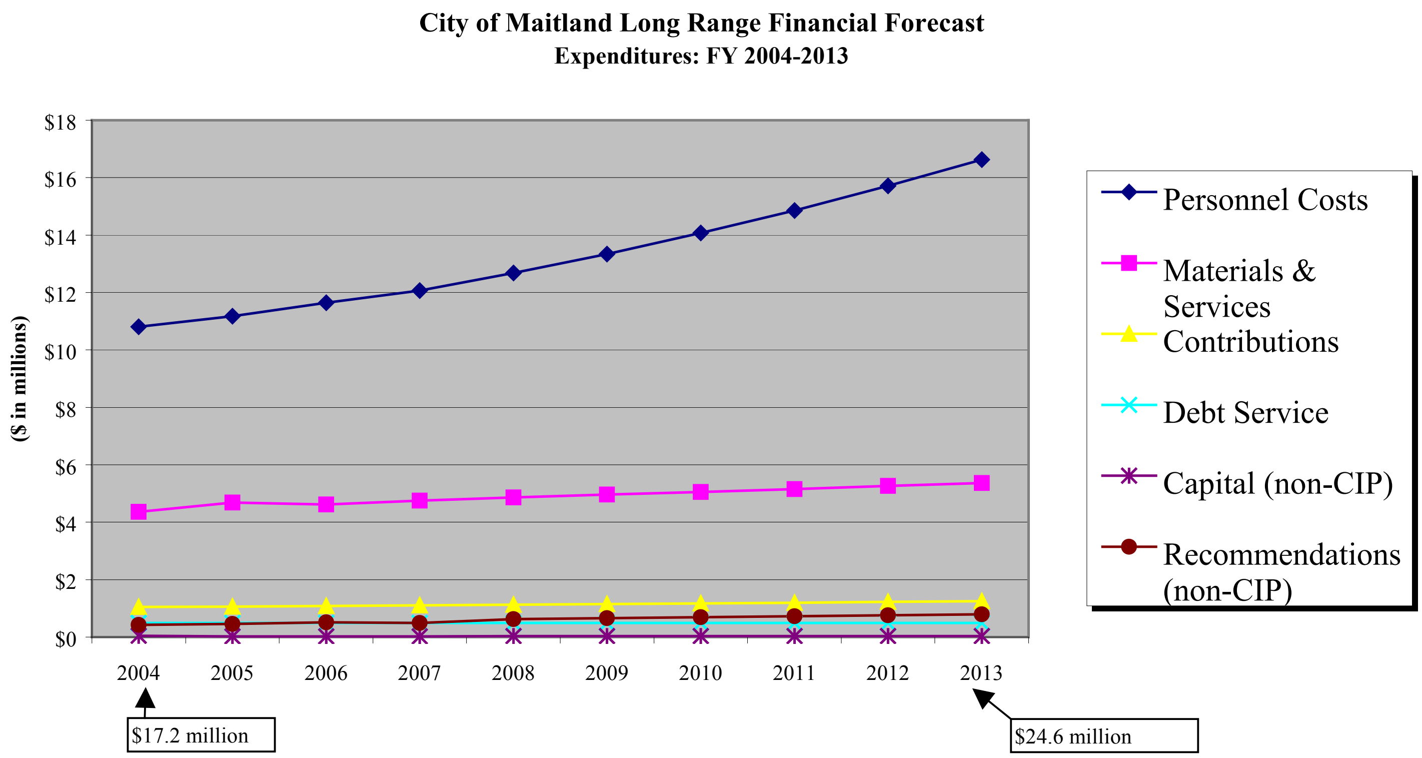

City of Maitland Long Range Financial Forecast
Revenues FY 2013: % by Source
Activity Fees & Misc 13%
Interest & Admin Rev 7%
Local Option Gas Tax 3%
State Sales Taxes 10%
Simplified Comm Taxes 13%
Utility Service Taxes 10%
Utility Franchise Taxes 8%
Ad Valorem Taxes 36%

General Fund Expenditures (without CIP)

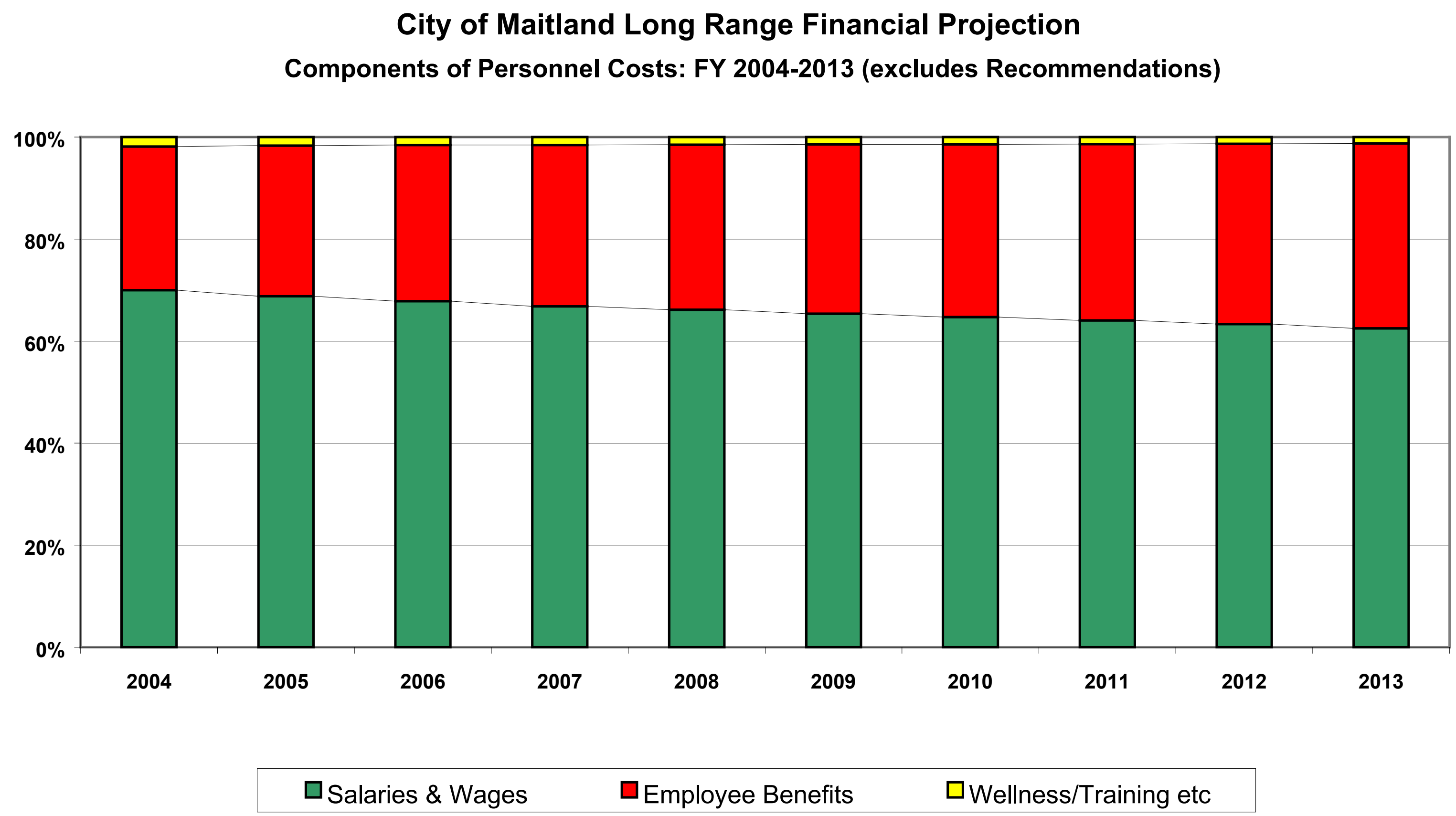
We did not examine City spending grouped by program or department in great detail. We instead focused on the type of expenditures that are incurred, such as personnel costs, purchased materials and services and contributions to fund City amenities such as the Library, Art Center and Historical Society.

The City's expenditures are primarily the costs of employing the personnel who manage the City and provide for the City's critical services such as public safety (police and fire) and water/sewer/roads maintenance.

The City's expenditures are presented in the following chart (data source: Exhibit 2):

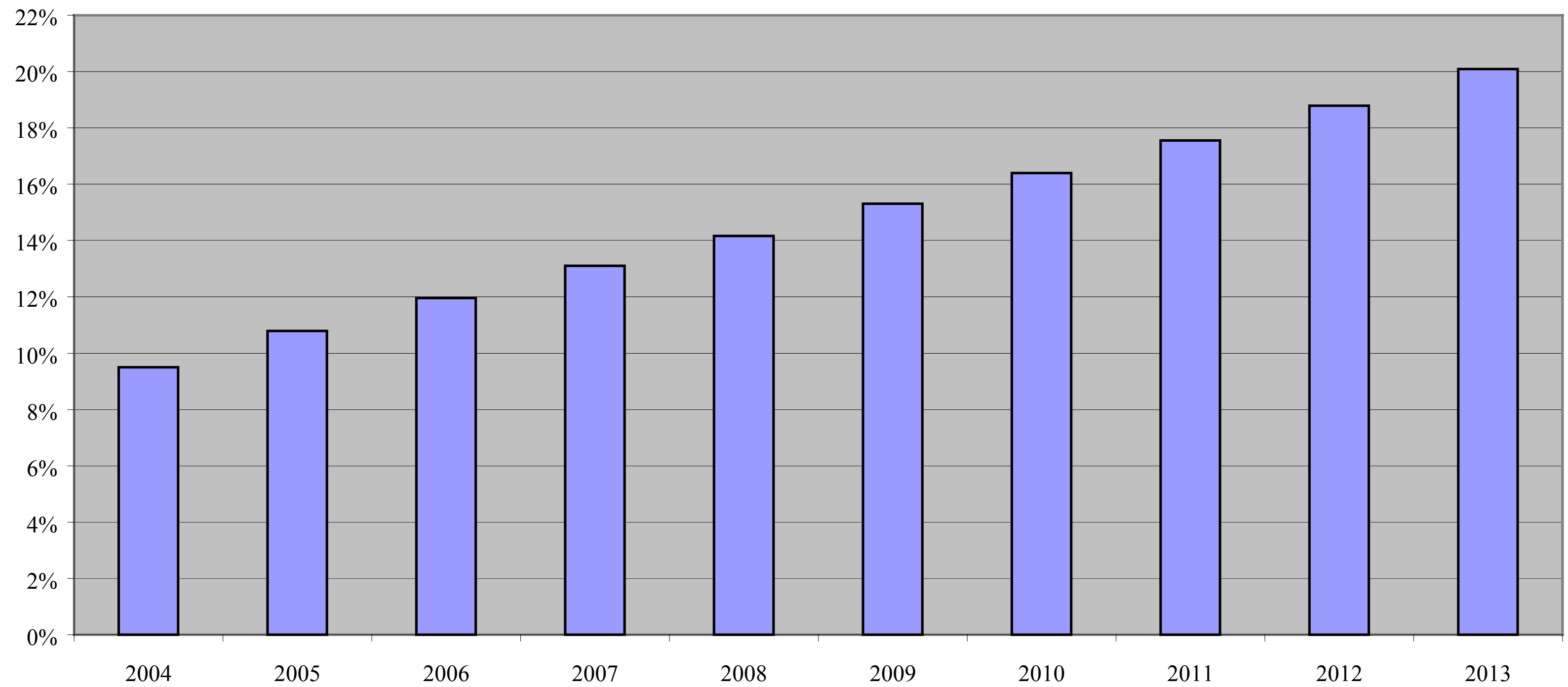


Personnel costs are made up of salaries and wages, employee benefits and other miscellaneous costs such as wellness and professional training and development programs. They are detailed over the period in the following chart as the portion of each component to the whole of personnel costs. "Recommendations" are personnel additions in the year of the new hire – such additional budgeted positions undergo particular scrutiny in the City's personnel management process. They are excluded here due to their small dollar amount in any one period.



As can be noted above, the cost of employee benefits is projected to grow substantially over the period in both its share of the total of personnel cost and in absolute dollars. The most notable causal element of this benefits growth matter is the cost of providing medical insurance. This issue is bedeviling both private business and governments at all levels. Medical insurance costs have recently been increasing at a rate that is more than 10 times the rate of inflation. Such a rate of increase over a period of time such as ten years has a dramatic compounding effect. For example, using the assumption that providing the current approximate level of medical insurance will increase at rates ranging from 14% per annum to 17% per annum during the LRFP period (20% in 2004 over 2003) means that medical insurance costs, which are currently over 9% of total personnel costs, will rise to about 20% of total personnel costs as depicted below:

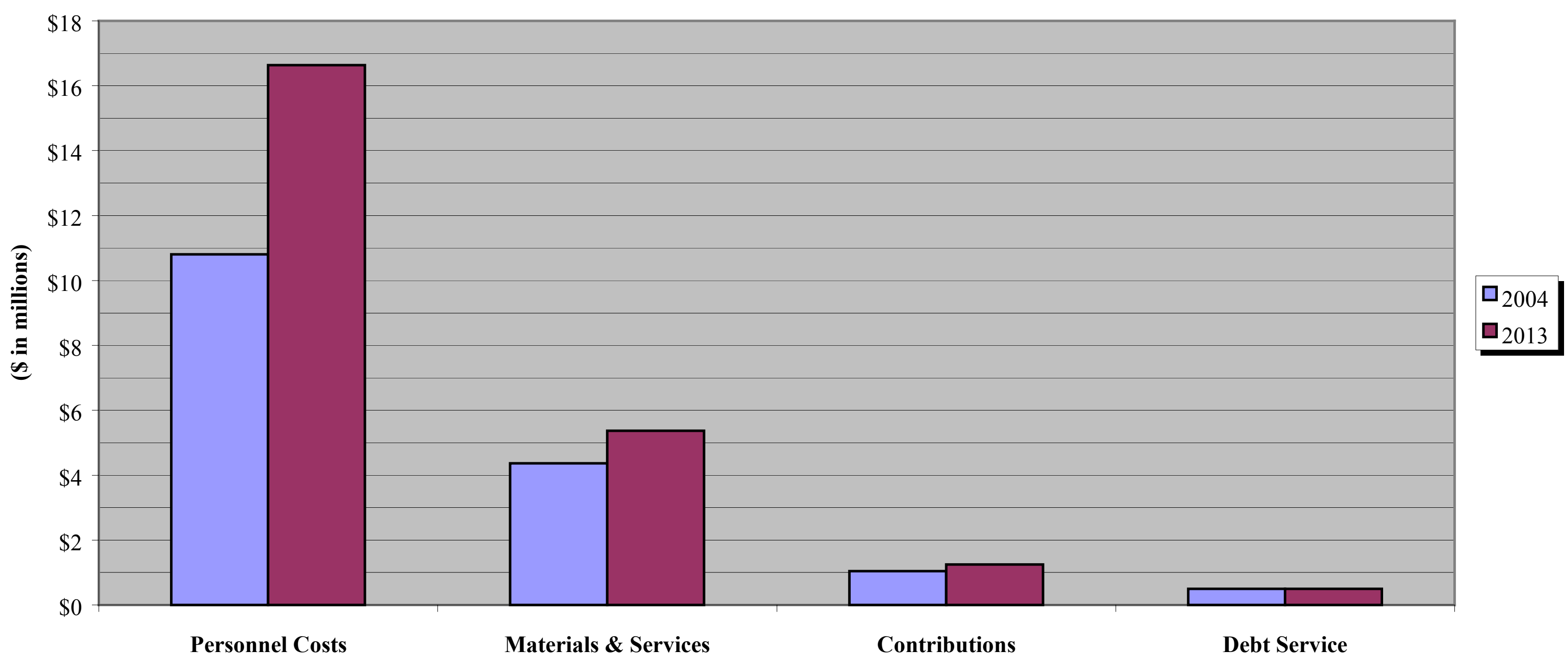
City of Maitland Long Range Financial Forecast
Medical Insurance Cost as % of Personnel Costs



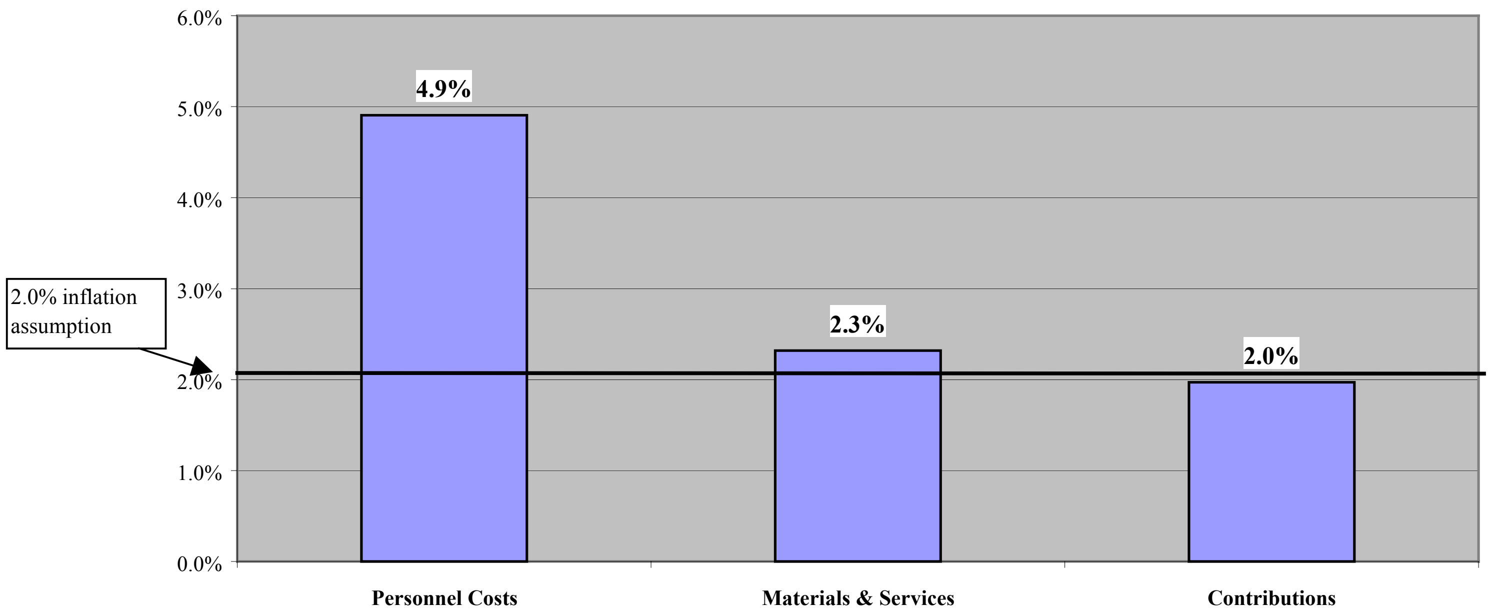
Should this come to pass, providing just medical insurance for City employees at current levels would consume fully one-eighth of our General Fund expenditures by 2013. If duplicated on a national level it would mean that health care spending of all kinds would comprise some 25% of the national economy. This seems implausible to us currently and may mean that Federal legislation intervenes to curb health care costs and address other seeming inequities in health care access.

The same endpoint and CAGR presentations for material expenditure categories as was used above for revenues are presented here to assist the reader in understanding material projected City expenditures:

City of Maitland Long Range Financial Forecast
Expenditures: FY 2004-2013 Endpoints
(excludes non-CIP capital and Recommendations)



City of Maitland Long Range Financial Forecast
Expenditures: Compound Annual Growth Rates (CAGR)
For Period of FY 2004-2013

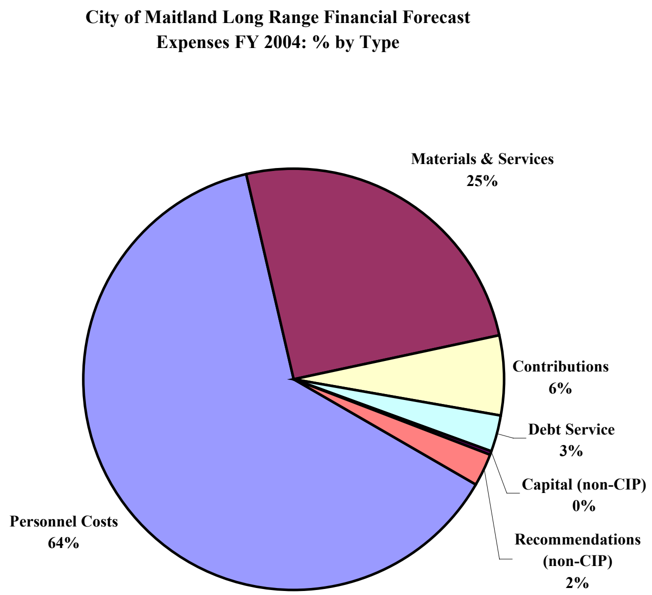


The CAGR for Personnel Costs, 4.9%, is comprised of the aforementioned mid-teen's rate for medical insurance and various other rates of increase for other elements. The other rates assumed are generally about 4% with salaries and wages being most prominent. To further put the alarming impact of the medical insurance increase forecast into perspective, it should be noted that they account for the following percentages of the overall cost increases as follows:

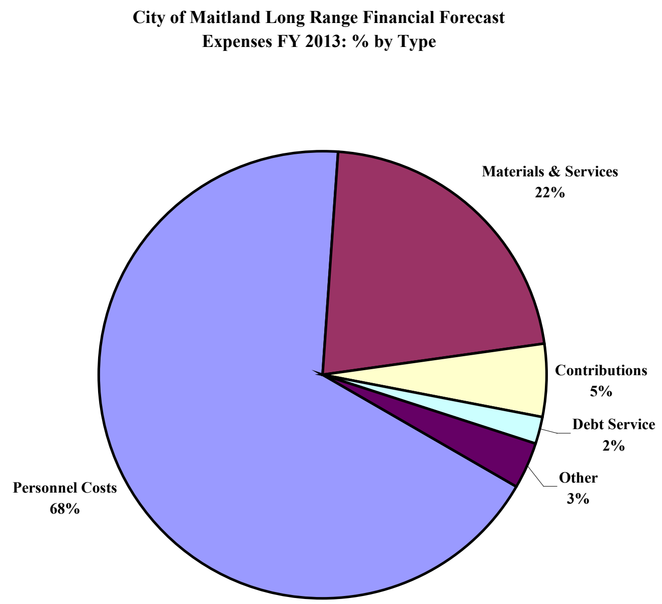
Medical insurance cost increases to total personnel cost increases	40%
Medical insurance cost increases to total General Fund expenditure increases	31%

Two final views of expenditures are presented in the two pie charts below that show the percentages of expenditures by source at the endpoints:

2004:



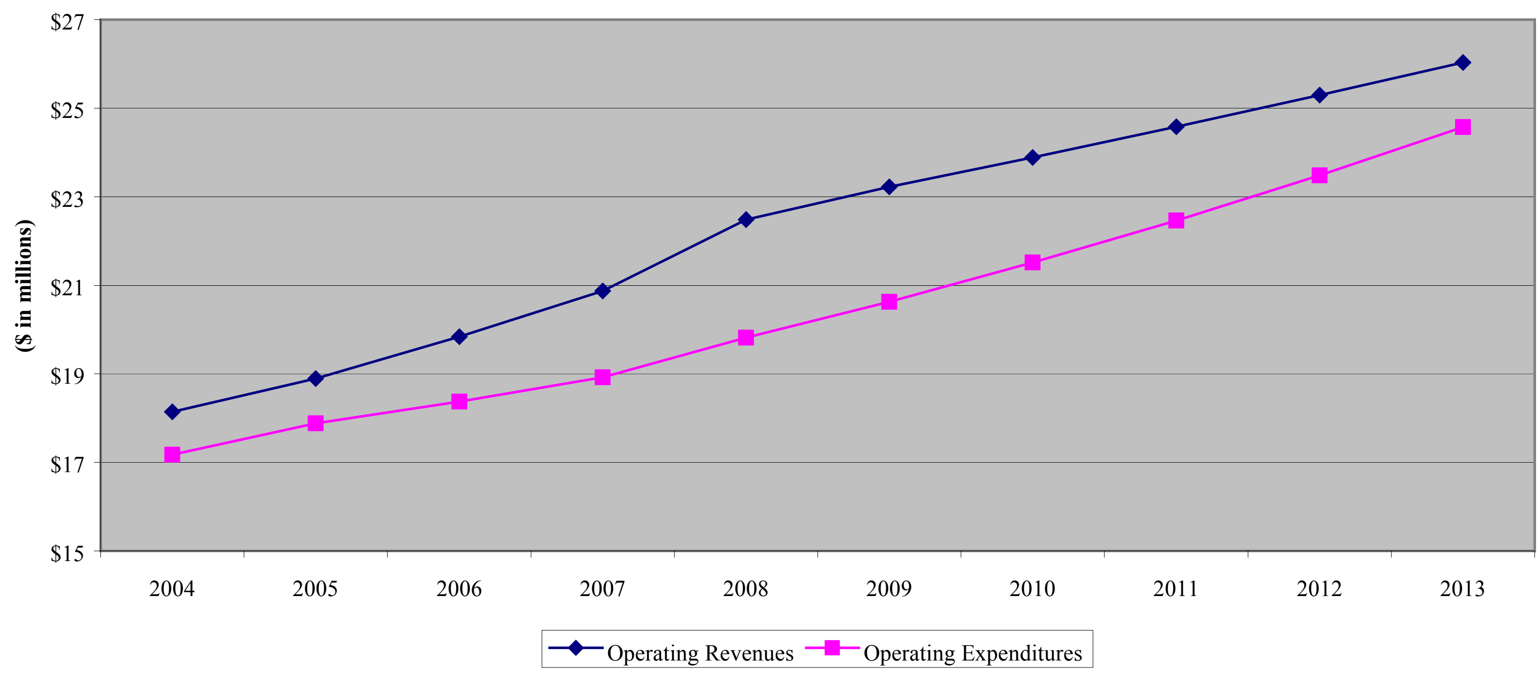
2013:



General Fund – Summary

In the projections we have made herein, the City's day-to-day operating expenditures (expressed by the General Fund without the CIP and Vehicle replacement spending), will be roughly "in balance" with revenues in excess of expenditures - but by a declining amount over the years (bolstered by the proposed ad valorem increase in 2008). This is a good start to a financial picture for Maitland, the equivalent of "living within your paycheck":

City of Maitland Long Range Financial Forecast
General Fund Summary: FY 2004-2013
(does not include CIP or Vehicle Replacements)



Capital Expenditures: Capital Improvements Program (CIP) and Vehicle Replacements; Emergency Designations

After the extrapolation of the City's various General Fund revenue and expenditure components (using our assumptions), a ten-year picture of the City's financial "health" begins to emerge (see prior chart). Then comes the CIP.

To this point in the report we have not addressed the City's Capital Improvements Program (CIP) and vehicle replacement spending. In other words, long-lived assets integral to the City's providing of services to residents and the workforce. For our CIP numbers, we used the current City CIP that extends out for five years and then we assumed a 5% per annum increase for years after 2008. For vehicle replacements, we used the current City Vehicle Replacement Schedule through 2013.

There is a separate and substantial document published by the City reflecting the details of the CIP for the next five years. As a result we have not attempted here to detail the various items that make up the planned spending in that period. CIP does include the West Side public safety improvements currently under construction, other public safety capital items, traffic improvements, water system improvements, pavement treatments (including bike/sidewalk network), city computer equipment and several master plan initiatives, such as Stormwater/Lakes Management, Cultural Corridor, Downtown Redevelopment, Parks, and Water/Sewer Master Plans.

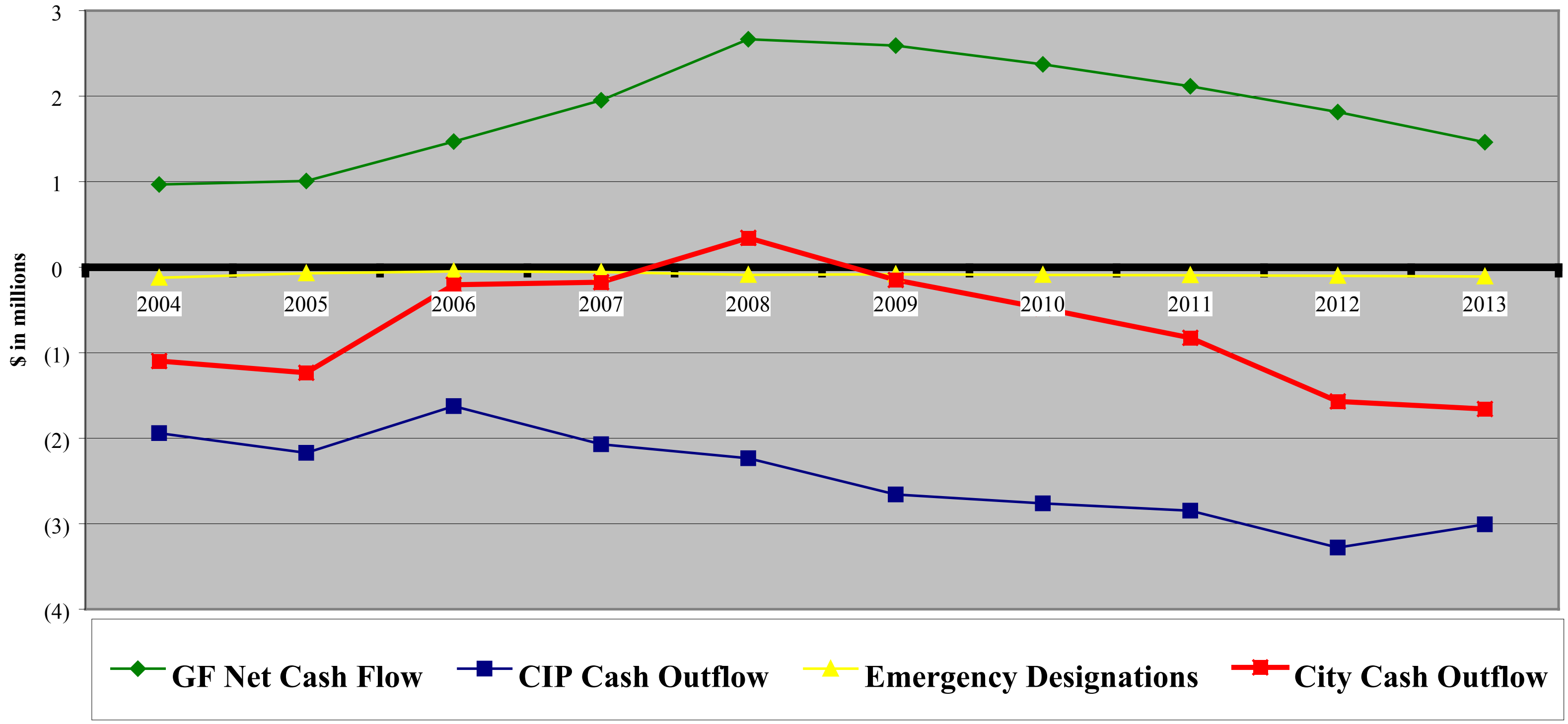
Vehicle replacement is also capital spending and represents the regular multi-year cycle replacement of police, fire and other public safety vehicles and city maintenance vehicles and related equipment.

Emergency Designations

The City of Maitland has been well managed. Part of sound financial management is the accumulation of reserve funds for certain kinds of emergency needs. An example would be the one-time, extraordinary costs to clean-up streets, restore water and sewage service and repair public facilities caused by a major sinkhole appearing in an arterial roadbed or a major hurricane passing over the Orlando area. In household management this is the more-than-proverbial "saving for a rainy day." Part of the City's history of sound financial management has been that we have built certain such emergency designation funds in its overall cash reserves. As part of this report we have not considered "drawing down" these funds to forestall cash flow deficit effects. We agree with City management that the continued and regular addition to such funds is prudent financial management and have therefore built in a component of spending to maintain the emergency designations reserve at 10% of the operating budget spending in any given year throughout this projection as such operating expenditures grow.

With CIP, Vehicle Replacements and Emergency Designations deducted from the GF operating "margin," the City's finances will be "cash flow negative," as noted in the following chart, in all but one year in the projection period.

City of Maitland Long Range Financial Forecast
General Fund with CIP & Emergency Designations Cash Outflow:
FY 2004-2013



Alternatives for Funding Cash Flow Deficits

Maitland has been well managed and fortunate for many years in that it has been able, with vigorous growth in revenues from construction and annexation, to pay its operating expenditures and CIP largely from operating revenues of the period. Our projection shows that this is no longer feasible.

Regarding CIP and Vehicle Replacements, which appears to be one of "the culprits" that moves us into a cash flow deficit position, one can ask the question as to whether our CIP and Vehicle Replacement spending can be significantly reduced? It can be argued that it is a totally inclusive part of the City's services delivery and visibility; in fact, CIP projects and vehicles are the "visible evidences" of the City's presence to many of its residents. However there is also an overriding duty to manage City affairs in a fiscally sound manner. This issue of CIP and related expenditure management will occupy considerable amount of City staff and Council deliberations.

To manage prospective deficits, then, there are really only a handful of major alternatives or the employment of a combination of them:

- Revenue increases (from any source)
- Expenditure decreases or at least moderation in the rate of increases
- CIP and Vehicle Replacement reductions
- Assumption of Debt

The FAB has formulated a number of recommendations that we believe should be pursued and they are included near the end of this Report. Our City has a high quality management staff and none of these recommendations will be new or unique to them. They "work these issues" every day. What this Report can perhaps portray is the potential seriousness of the situation and the tough management and policy decisions ahead.

Beating Back the Cash Flow Deficit: Two Scenarios

Solving the cash flow deficit can be portrayed in two ways that represent extremes of effect from the use of what tools are available:

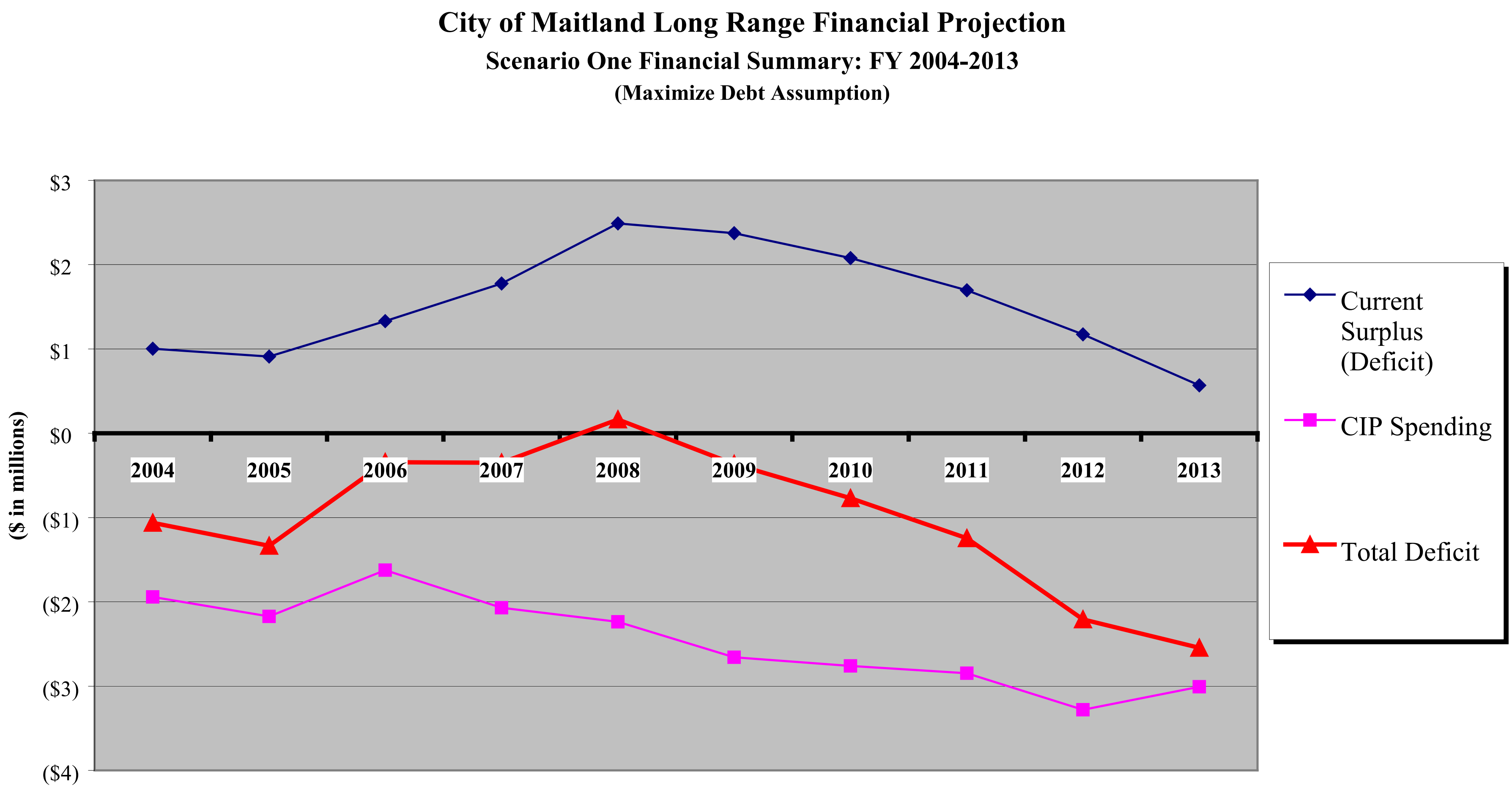
- One is to assume that cash flow deficits are financed as needed with debt.
- Two is to assume that the assumption of debt is generally to be avoided and that any shortfalls be made up with increases in the City's most controllable revenue source, ad valorem taxes.

Scenario One: cash flow deficits are financed as needed with debt

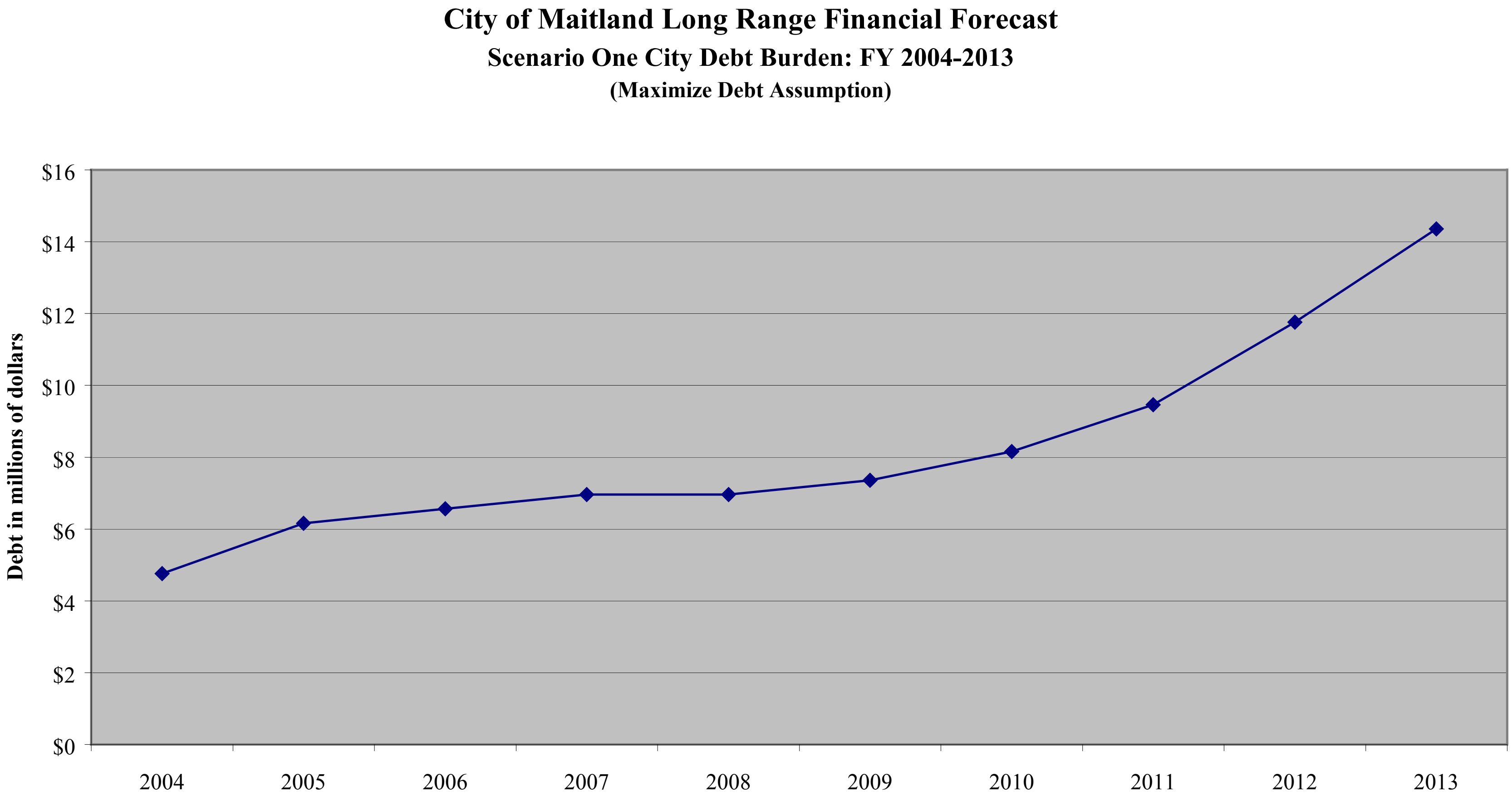
This scenario simply assumes that each year's net cash deficit after CIP, Vehicle Replacements and Emergency Designations is borrowed at a 5% interest rate and that cash repayment begins immediately on a 15-year amortization schedule. While many other creative debt scenarios can be envisioned and have been done in the municipal debt marketplace, **this is a simplified portrayal of the effect of accumulation of debt to cover deficits**. One key element of the debt assumption is that making payments on it becomes a part of the normal annual operating expenditures of the City thereafter until paid off. As the debt climbs in this scenario, operating expenditures climb without offsetting revenue changes. Eventually, as can be seen below, the positive annual operating cash flow drops off to be a net cash user itself, still before CIP and vehicle replacements. This cannot be long sustained.

Debt limits: Good financial management includes the adoption of policies and the installation of controls to prevent financial "catastrophes." The aforementioned Emergency Designations is one of those policies. Another are debt limits. This prevents the City from issuing debt over certain amounts based on metrics that are both commonly accepted and variable with city size and financial condition. Maitland has long had two primary debt limit policies. One is that annual debt service shall never exceed 10% of annual operating expenditures. The second is that total City debt outstanding shall never exceed 1% of the ad valorem tax base of the properties in the City. While calculating this scenario one, we tested these limits annually as the spending added to debt. Note that as presented in the chart below, and in Exhibit 3, that while we do not exceed the debt limit in this scenario, we do reach about 50% of our defined capacity by 2013.

The Financial Summary for this Scenario One is presented below (data source: Exhibit 3):



The total city debt outstanding would climb in Scenario One as illustrated below (note that starting debt in 2003 is just under $4 million):

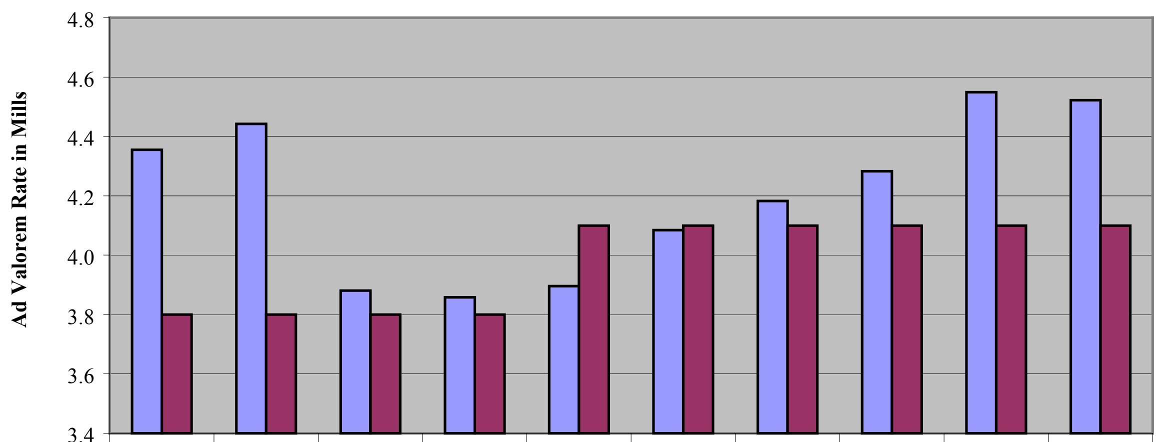


Scenario Two: cash flow deficits are met each year by raising the ad valorem rate such that the budget is “balanced”

This scenario simply assumes that each year’s net cash deficit after CIP, Vehicles and Emergency Designations is made up with whatever ad valorem tax rate is needed to make it up. This “extreme” scenario ignores many other sources of potential revenues, both existing and new. It also ignores operating cost controls over those costs portrayed in this projection and reductions in CIP. As the ad valorem rate rises in this scenario, it also ignores the self-defeating reduction in City growth due to its possible lack of regional competitiveness. Again, this is simply presented as the alternate extreme to allow the reader to bracket the effect of balancing the budget via one controllable rate vs. the “all-debt” scenario one.

The Financial Summary for this Scenario Two is presented below (data source: Exhibit 4):

City of Maitland Long Range Financial Forecast
Scenario Two - Forced Millage Rate to Balance: FY 2004-2013



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Forced Ad Valorem Level	4.4	4.4	3.9	3.9	3.9	4.1	4.2	4.3	4.5	4.5
Base Plan Ad Valorem Level	3.8	3.8	3.8	3.8	4.1	4.1	4.1	4.1	4.1	4.1

The “forced” ad valorem levels above, required to “balance” the annual cash flow of the City, represents a level that translates into an annual tax increase of from $(41) to $128 per “typical” Maitland single-family residence ($200,000 in taxable value) in any given year in the 10 year projection. Over the course of the full ten-years in this scenario, this “typical” Maitland single-family residence would incur an additional $450.

Summary Final Comments

It is not the intention of the FAB to advocate either “extreme” scenario outlined above. Usually managing any single variable to the extreme and to the exclusion of all others is a mistake in any discipline, including municipal government management. However we believe these two variables – debt assumption and ad valorem taxes – are most controllable by City officials. It was therefore instructive to see the extreme effect of each.

To a great degree, members of the FAB that developed this report believe that our low level of City debt currently represents both a) soundness in prior and current management of the City and b) a capacity to do things that are in the best interests of the residents and people employed within the City of Maitland in any given period when we otherwise couldn’t afford to do them. But this capacity is limited and the use of the City’s capacity, particularly debt capacity, should be viewed as among the most critical strategic decision making done by City staff and the Council.

Recommendations of the FAB

Revenue Increases – we believe the following should be considered or pursued:

Recommendation: Promote expansion of the ad valorem tax base through community redevelopment

Discussion: Ad valorem tax revenue is simple: it is the millage rate, wholly controlled by the City, times the total taxable property values. Property values are tangentially influenced by the City, but are mostly a function of local and national economic factors.

The City's influence over property values primarily has to do with the development and re-development process through the building permitting and inspection process. For example, permit fees can be waived to encourage development. Since the land area in the City of Maitland is substantially "built out," it is really re-development of commercial and residential properties that will enhance the tax base.

Residential re-development will proceed at a steady but deliberate pace based on the age of the housing stock and the demand for wholly new features and design in our desirable neighborhoods. Commercial redevelopment can be more actively promoted and encouraged by the City via various programs.

We believe that tax base expansion to increase revenues could be the single most valuable approach allaying growing concerns over the future financial health of Maitland. Recently an interesting approach to this has been proposed: the use of a Community Redevelopment Authority (CRA) as a vehicle to focus redevelopment efforts on downtown Maitland. It would be a vehicle to embody much of what the Downtown Redevelopment/Cultural Corridor Master Plans have had as objectives. It has as its objective to spur tax base growth. In the late 1980's and well into the 1990's, development of Maitland's West Side (west of I-4) greatly increased Maitland's financial health. We believe that significant future study should be made to assess the potential of a CRA as a redevelopment vehicle.

As part of our work on this project, the FAB spent all or parts of two meetings considering the issue of the City's space needs and the incorporation of that project into the CRA. The City staff's financial model we reviewed with regard to this limited the impact to just two square city blocks in a 2-mile long redevelopment corridor. The City's space needs would consume the use of about 35% of the development dollars in those two square City blocks.

Recommendation: Increase activity fees and other miscellaneous user charges

Discussion: Significant dollar levels of activity fees include such revenues as EMS transport (ambulance fees), the various after school care programs under the auspices of the Maitland Activities Club ("MAC"), and numerous fees for the use of sports facilities (these items alone are over $700,000 out of a $900,000+ revenue source in 2004).

Like any business activity, raising fees may affect your competitiveness in the marketplace. So fees should only be addressed after study of competitive alternatives and rates. However, the concept of user fees has a sound basis in fairness in that once the City has an investment made in the program and/or equipment to provide a service, it should be the specific users who contribute to it.

The FAB believes that the goal for activity fees should be that they increase at a per annum rate at least equal to inflation in order to cover cost increases that will be incurred in the activities. Many of the operating costs incidental to providing these services are personnel costs and we know that they likely will increase at a rate more than double the assumed inflation rate.

Recommendation: Consider wholly new sources of revenue

Wholly new sources of revenue need to be creatively envisioned and studied. Some will prove valuable in City financial management and others will prove infeasible or immaterial. One that has been proposed to us regards the coming potential resource decision regarding the renewal of the City's electric power franchise. We did not study this coming issue due to its complexity and the existence of another Board to address it. We view it as a resource allocation decision that might be made in the context of the risk and rewards of the action in the face of the financial picture portrayed in this Report. However, it was pointed out to us that there are sixteen municipalities in Florida alone who have taken over ownership and management of the retail distribution assets in their community and are able to operate the resultant enterprise fund at a positive cash flow that may strengthen the financial status of the community and not detract from it.

Expenditure Controls – we believe the following should be considered or pursued:

Recommendation: Personnel costs and performance/productivity should be vigorously managed

Discussion: The City of Maitland is a service organization and therefore it is people and their efforts that deliver the value of governmental output. We are confident that Maitland has high quality employees who are increasingly productive: note that one measure of productivity (the number of residents per City employee) has been increasing steadily in the last five years as various residential annexations have not been accompanied by equivalent staffing increases.

Nevertheless, City management should re-evaluate to the extent that is feasible such matters as:

- Organizational structure and size (minimize management layers)
- Job descriptions and task balance between jobs
- Workflow patterns and customs in communication
- Training and development gaps to maximize individual productivity
- Compensation programs (performance incentives?)
- Technology investments (such as the new financial management software)
- Outsourcing opportunities (e.g., solid waste in 1993)

This re-evaluation should be made with the goal of maximizing productivity of all City employees and departments to be able to pay competitively and deliver an efficient service level. Metrics that can be used to measure efficiency and productivity at the lowest possible level should be employed wherever possible to help both the service employee and management regularly see the level of performance being achieved.

It is timely that the City is early in the planning for entirely new space to house City employees. It is the experience of some on the FAB that such an endeavor is a good focal point for some of the creative thinking, discussions and hard decisions that might be made to “streamline” the organization. If expertise on organizational development and design is not in-house now, it might be considered that a limited scope organizational development consulting engagement be RFP’d to assist in this during the space design process.

Recommendation: Medical insurance costs and coverages should be vigorously studied and evaluated

Discussion: As a subset to Personnel Costs, particular efforts need to be directed to the medical insurance "crisis." Reference should be made to the comments on page 16 regarding the numerical magnitude of this cost if either the market-pricing trend doesn't abate or coverage dynamics aren't significantly modified.

A small consolation exists in that this is a problem faced by most businesses and governments. That same fact may create an opportunity as well. The FAB recommends that City management actively open or continue communications with other Central Florida city and county governments regarding their approaches. This might even lead to an inter-governmental task force to address the issue in a way that is effective in reducing the rates of increases that are foreseen or at least lead to a "best practices" approach that most governmental entities take to the problem such that our City maintains its competitiveness in attracting and retaining employees.

Recommendation: Contributions should be re-evaluated; user fees studied

Discussion: Contributions are monies outside of personnel costs that are spent to operate various City amenities. Most of our contributions are to the Library, the Art Center and the Historical Society. While the members of the FAB are strong advocates of each of the institutions as "defining" of Maitland and bringing a heightened sense of community to us, we would also recommend that an evaluation be conducted as to what services being provided could be done so at less cost or at a lower net cost by charging new fees or higher fees for usage. This recommendation is aligned with the comment about user fees for certain services and activities noted above. It is predicated on the equity principle that users pay more and directly and non-users pay less through the general tax burden.

Recommendation: Materials and outside services should be used as sparingly as possible; if significant, the RFP or other appropriate bid process should be used to minimize price

Discussion: We believe that the projected numbers for materials and services in the LRFP may be optimistic. They are predicated on such costs increasing only slightly faster than inflation over the LRFP period. Given the weakness in pricing power in business goods right now, this appears reasonable. However, most of us remember the days of inflation at 1% <u>per month</u> and know that during this 10-year period the assumption may easily prove faulty. Therefore, it is important that as much discipline as possible be invoked in the processes utilized by the City for procuring such materials and services.

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Plans for Update of this Projection by the FAB

We have prepared this LRFP document at the direction of Council as an adjunct to the City's budget and planning process. We welcome input from Council and Staff members regarding the usefulness of this initial attempt at a long-range projection. At Council's direction, and as events unfold in the future, we will revisit this report no less often than every second year to again extend the projection to the ten year point on the horizon.

EXHIBIT 1
City of Maitland
General Fund Revenue Sources

City Fiscal Year	Prelim Budget 2004	Plan 2005	Plan 2006	Plan 2007	Plan 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Primary Assumption
Ad Valorem Taxes	6,671,920	6,877,040	7,324,120	7,760,900	8,651,110	8,824,127	9,000,607	9,180,626	9,364,238	9,551,520	Assumes millage of 3.8 to 2007; 4.1 thereafter. After 2008, assumes 2% per year increase in tax rolls
Utility Franchise Taxes	1,361,000	1,404,000	1,492,800	1,580,970	1,689,930	1,757,520	1,827,820	1,900,940	1,976,980	2,056,070	Assumes 3% increase in 2004 and 2005; 6% per year from 2006 through 2008; and 4% thereafter.
Utility Service Taxes	1,712,500	1,763,890	1,851,760	1,962,180	2,098,480	2,182,420	2,269,710	2,360,500	2,454,920	2,553,120	Assumes 2% per year in 2004; 3% in 2005; 5% in 2006; 7% in 2008; and 4% thereafter.
Simplified Comm Taxes	2,335,000	2,451,750	2,574,340	2,728,800	2,919,820	3,036,610	3,158,070	3,284,390	3,415,770	3,552,400	Assumes 5% per year in 2005 & 2006; 6% in 2007; 7% in 2008; 4% thereafter.
State Sales Taxes	1,910,000	2,005,500	2,105,780	2,211,070	2,321,620	2,370,370	2,420,150	2,470,970	2,522,860	2,575,840	Assumes 7% per year in 2004, 5% per year from 2005 through 2008; 2.1% thereafter.
Local Option Gas Tax	500,280	510,440	520,630	541,460	563,120	585,650	609,080	633,440	658,780	685,130	Assumes 2% per year in 2005 & 2006; 4% thereafter.
Interest & Admin Revenues	1,148,550	1,199,720	1,227,160	1,272,690	1,348,560	1,547,140	1,590,180	1,634,730	1,680,840	1,728,580	Assumes 3½% per year for admin revenues; interest income a function of fund balances and interest rates
Activity Fees & Miscellaneous*	2,500,400	2,682,120	2,743,320	2,819,100	2,889,550	2,916,940	3,014,180	3,114,710	3,218,660	3,326,180	
	18,139,650	18,894,460	19,839,910	20,877,170	22,482,190	23,220,777	23,889,797	24,580,306	25,293,048	26,028,840	

*** - Detail of Activity & Miscellaneous:**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Primary Assumption
Licenses & Permits	540,080	548,130	551,710	563,000	566,910	586,760	607,310	628,560	650,550	673,320	Building Permits is primary item
Intergovernmental (x-State Sales Tax)	441,080	452,340	486,700	495,820	505,140	449,060	459,930	471,080	482,510	494,240	State Revenue Sharing is primary item
Contribution from Solid Waste	248,700	253,670	258,740	263,910	269,190	278,610	288,360	298,450	308,900	319,710	
Service Charges	923,540	1,080,980	1,097,940	1,135,940	1,175,270	1,216,410	1,258,970	1,303,020	1,348,620	1,395,840	EMS transport is primary item
Fines & Forfeitures	347,000	347,000	348,230	360,430	373,040	386,100	399,610	413,600	428,080	443,070	Court fines is primary item
	2,500,400	2,682,120	2,743,320	2,819,100	2,889,550	2,916,940	3,014,180	3,114,710	3,218,660	3,326,180	

EXHIBIT 2
City of Maitland
General Fund Expenditures

City Fiscal Year	Prelim Budget 2004	Plan 2005	Plan 2006	Plan 2007	Plan 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Primary Assumption
Personnel Costs	10,806,245	11,169,300	11,645,470	12,062,980	12,676,480	13,340,300	14,071,620	14,859,580	15,710,630	16,631,690	See below
Materials & Services[3]	4,365,340	4,678,810	4,616,870	4,748,920	4,860,510	4,957,660	5,056,730	5,157,730	5,260,730	5,365,790	Mostly 2% pa inflation through period
Contributions[1]	1,045,840	1,064,160	1,085,390	1,107,100	1,129,240	1,151,830	1,174,860	1,198,360	1,222,330	1,246,790	Mostly 2% pa inflation through period
Debt Service[2]	493,990	493,990	493,990	493,990	493,990	493,989	493,988	493,987	493,986	493,985	Assumes current debt repayment schedule only
Capital (non-CIP)	41,500	23,900	21,250	24,180	31,150	31,760	32,400	33,050	33,710	34,390	N/A
Recommendations (non-CIP)	420,070	455,170	508,590	487,870	624,250	655,463	688,236	722,647	758,780	796,719	Assumes 5% pa after 2008
Expenses	17,172,985	17,885,330	18,371,560	18,925,040	19,815,620	20,631,002	21,517,834	22,465,354	23,480,166	24,569,364	

1 - supports Library, Art Center & Historical Society
2 - debt OS at 2003 only
3 - includes ~$50K per-annum non-CIP capital

Detail of Personnel Costs:

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
Salaries & Wages	7,559,970	7,682,780	7,898,450	8,060,670	8,382,810	8,717,810	9,109,750	9,519,290	9,947,270	10,394,470	3% pa 2004-05; 4% 2006-09; 4½% 2010-13
Employee Benefits	3,048,005	3,298,650	3,562,580	3,811,660	4,101,540	4,427,230	4,761,720	5,136,880	5,554,870	6,025,350	CAGR 7.9% pa 2003-13
Wellness/Training etc	198,270	187,870	184,440	190,650	192,130	195,260	200,150	203,410	208,490	211,870	0.7% pa 2003-13
Total Personnel Costs	10,806,245	11,169,300	11,645,470	12,062,980	12,676,480	13,340,300	14,071,620	14,859,580	15,710,630	16,631,690	
Memo: Medical Ins $	1,027,220	1,205,330	1,393,020	1,580,370	1,795,390	2,042,200	2,306,900	2,608,250	2,951,360	3,342,060	20% pa 2004; 17% 2005; 15% 2006-09; 14% 2010-13

EXHIBIT 3
City of Maitland
Financial Summary - Scenario 1

City Fiscal Year	Prelim Budget 2004	Plan 2005	Plan 2006	Plan 2007	Plan 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	
Operating Revenues	18,139,650	18,894,460	19,839,910	20,877,170	22,482,190	23,220,777	23,889,797	24,580,306	25,293,048	26,028,840	
Operating Expenditures	17,172,985	17,885,330	18,371,560	18,925,040	19,815,620	20,631,002	21,517,834	22,465,354	23,480,166	24,569,364	
Incremental Debt Service for Deficit Fundi	(35,401)	99,478	138,015	176,552	176,552	215,090	292,165	417,411	638,999	889,490	
Current Surplus (Deficit)	1,002,066	909,652	1,330,335	1,775,578	2,490,018	2,374,685	2,079,798	1,697,541	1,173,883	569,986	
Capital Improvements Plan:											
Vehicles Replacements/Adds	289,570	417,400	407,400	225,230	186,260	505,960	502,430	474,340	789,530	391,870	(1)
CIP - General Fund	1,650,990	1,754,400	1,217,190	1,845,410	2,049,440	2,151,912	2,259,508	2,372,483	2,491,107	2,615,662	(2)
Total GF CIP	1,940,560	2,171,800	1,624,590	2,070,640	2,235,700	2,657,872	2,761,938	2,846,823	3,280,637	3,007,532	
Emergency Designations	124,063	71,235	48,623	55,348	89,058	81,538	88,683	94,752	101,481	108,920	
Annual Deficit after CIP	(1,062,557)	(1,333,383)	(342,878)	(350,410)	165,260	(364,725)	(770,823)	(1,244,035)	(2,208,235)	(2,546,466)	
Assume 15 year amortizing debt at 5%:	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
Starting debt	3,660,000	4,760,000	6,160,000	6,560,000	6,960,000	6,960,000	7,360,000	8,160,000	9,460,000	11,760,000	
New debt requirement (deficit after CIP)	1,062,557	1,333,383	342,878	350,410	(165,260)	364,725	770,823	1,244,035	2,208,235	2,546,466	
New debt assumed	1,100,000	1,400,000	400,000	400,000	-	400,000	800,000	1,300,000	2,300,000	2,600,000	
Ending debt	4,760,000	6,160,000	6,560,000	6,960,000	6,960,000	7,360,000	8,160,000	9,460,000	11,760,000	14,360,000	
Approximate total annual debt service	(458,589)	(593,468)	(632,005)	(670,542)	(670,542)	(709,079)	(786,153)	(911,398)	(1,132,985)	(1,383,475)	
Debt Policy Limitations:											
Annual Debt Service <10% of											
current operating expenses	1,717,299	1,788,533	1,837,156	1,892,504	1,981,562	2,063,100	2,151,783	2,246,535	2,348,017	2,456,936	
Compliance?	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	
% Capacity Used	27%	33%	34%	35%	34%	34%	37%	41%	48%	56%	
Total Debt Outstanding <1% of total											
ad valorem taxable value	18,289,256	18,851,542	20,077,088	21,274,400	21,912,632	22,350,885	22,797,903	23,253,861	23,718,938	24,193,317	
Compliance?	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	
% Capacity Used	26%	33%	33%	33%	32%	33%	36%	41%	50%	59%	
Estimated total ad valorem taxable value	1,828,925,639	1,885,154,152	2,007,708,776	2,127,440,040	2,191,263,241	2,235,088,506	2,279,790,276	2,325,386,081	2,371,893,803	2,419,331,679	(3)

Note about CRA financial effects in this LRFP: there are certain financial effects already assumed in the City's CIP above for the implementation of the City's Space Needs Master Plan. These financial effects are limited to the City's use of certain land and operation of certain facilities within the CRA geographical area. Due to a lack of available information about the aggregate effect of the full proposed CRA on the City's finances, the FAB believes, based on the theory of CRA structures and financial incentives, that the effect of the CRA is most likely to be neutral to positive and less likely to be negative to the City's financial picture.

Notes:
(1) - From vehicle replacement schedule.
(2) - Assumes 5% per annum increase after 2008.
(3) - Staff forecast of taxable property value.

EXHIBIT 4
City of Maitland
Financial Summary - Scenario 2

City Fiscal Year	Prelim Budget 2004	Plan 2005	Plan 2006	Plan 2007	Plan 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013		
Operating Revenues	18,139,650	18,894,460	19,839,910	20,877,170	22,482,190	23,220,777	23,889,797	24,580,306	25,293,048	26,028,840		
Operating Expenditures	17,172,985	17,885,330	18,371,560	18,925,040	19,815,620	20,631,002	21,517,834	22,465,354	23,480,166	24,569,364		
Current Surplus (Deficit)	966,665	1,009,130	1,468,350	1,952,130	2,666,570	2,589,776	2,371,963	2,114,952	1,812,882	1,459,476		
Capital Improvements Plan:												
Vehicles Replacements/Adds	289,570	417,400	407,400	225,230	186,260	505,960	502,430	474,340	789,530	391,870		(1)
CIP - General Fund	1,650,990	1,754,400	1,217,190	1,845,410	2,049,440	2,049,440	2,049,440	2,049,440	2,049,440	2,049,440		(2)
Total GF CIP	1,940,560	2,171,800	1,624,590	2,070,640	2,235,700	2,555,400	2,551,870	2,523,780	2,838,970	2,441,310		
Annual Deficit after CIP & Required Addition to Operating Revenues via Ad Valorem	(973,895)	(1,162,670)	(156,240)	(118,510)	430,870	34,376	(179,907)	(408,828)	(1,026,088)	(981,834)		
Ad Valorem Revenues as component of Operating Revenues above	6,671,920	6,877,040	7,324,120	7,760,900	8,651,110	8,824,127	9,000,607	9,180,626	9,364,238	9,551,520		
Original Assumption for Ad Valorem Rate	0.0038	0.0038	0.0038	0.0038	0.0041	0.0041	0.0041	0.0041	0.0041	0.0041		
Tax Roll Assumed	1,755,768,421	1,809,747,368	1,927,400,000	2,042,342,105	2,110,026,829	2,152,226,098	2,195,270,000	2,239,177,073	2,283,960,488	2,329,639,024		
Necessary Ad Valorem Revenues to fill "ga	7,645,815	8,039,710	7,480,360	7,879,410	8,220,240	8,789,752	9,180,514	9,589,454	10,390,326	10,533,354		
Ad Valorem Rate Necessary to fill "gap"	0.0044	0.0044	0.0039	0.0039	0.0039	0.0041	0.0042	0.0043	0.0045	0.0045		
Increase in Ad Valorem Tax for Taxable Value of $200,000 ("typical" Maitland SFR	$ 111	$ 128	$ 16	$ 12	$ (41)	$ (3)	$ 16	$ 37	$ 90	$ 84	$ 450	(3)

Notes:
(1) - From vehicle replacement schedule.
(2) - Assumes 5% per annum increase after 2008.
(3) - Total 10 year add'l. tax on "typical" Maitland SFR.

July 9, 2003

City Council
City of Maitland

Re: Clarifying Opinion on the Fiscal Advisory Board's Long Range Financial Projection 2004-2013

Dear Mayor and Council Members:

While I signed the Long Range Financial Projection 2004-2013, issued July 2003, submitted to you by the Fiscal Advisory Board, I feel compelled to offer a clarifying opinion. This should not be interpreted to mean that I disagree with the recommendations, as I consider the end recommendations to be good general practices that I am sure staff is already doing annually as they prepare a budget and CIP for your review and adoption. While there are areas I disagree with, these areas did not warrant a negative vote.

I feel this document is a "discussion" (defined as consideration of a question, usually through informal debate) or "dissertation" (defined as written treatment of a subject) but not a plan or a projection. To call it a "plan" would suggest the FAB is recommending debt or tax increases, *which they are not*, as a resolution to the increasing costs and a "projection" would infer that these expenditures creating future deficits are probable. As mentioned in the document, there are many other possible scenarios, including delaying or phasing in or cutting all together some projected expenditures, finding other revenue sources, or unforeseen changes in government finance.

I believe the document's primary benefit is as a "red flag" to the commission to watch CIP, vehicle and personnel recommendation expenditures and be aware of the cost of space needs looming, not in the future, but at present time. My greatest concern is that, as disclosed herein, the document does not include the space and downtown transportation and water and sewer infrastructure needs or the impact of the planned CRA. These items are simply too large and to imminent to ***not*** be fully considered in any future plan, or current 5 year CIP, to make the plan of predictive value. My training leads me to firmly believe the beginning of a document like a Long Range Financial Plan or Projection must begin with an assessment of current financial condition with established benchmarks over a sufficiently long enough time period to provide a historically valid trend analysis as your base. Not having been a part of the early revenue and expenditure discussions, I was hesitant to put my name behind the projections.

The other members of the FAB have spent many volunteer hours and bring a lot of valuable technical financial knowledge and historical perspective to this document that alone make it a worthy paper to review regarding areas of future concern to the City.

Sincerely,

Carolyn C. Small

Carolyn C. Small