Office of the City Manager

CITY OF SUNRISE

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July 30, 2012

Honorable Mayor and City Commissioners
City of Sunrise
City Hall
10770 West Oakland Park Boulevard
Sunrise, Florida 33351

Dear Mayor and Members of the City Commission:

Attached please find the proposed Annual Budget for the City of Sunrise, Florida, for the fiscal year beginning October 1, 2012 and ending September 30, 2013, as well as the Five Year Capital Improvement Program (CIP). The budget is being presented in accordance with Section 4.04 (g) of the City Charter.

This document is the product of considerable staff effort, guided by clear direction from the City Commission to not raise ad valorem taxes while maintaining current levels of service. The City has improved a number of processes and programs during this past year, while simultaneously addressing the impacts from the fifth consecutive year of economic stress. It is this tension – improving services while utilizing fewer resources – that frames our efforts heading into next year. Accordingly, this document represents a continuation of the systematic and substantive changes we have made in the manner which city government provides services to our residents and businesses. Due to the combined impacts of state mandated tax reforms and ongoing financial stress, we continue to focus on making our government work more efficiently and effectively. Our efforts have been successful. Examining trends over the past five years, it is clear we have made significant progress – however there is still significant work to be done.

This budget submission anticipates a significant use of fund balance in the General Fund to preserve services, and it brings the City to a fiscal tipping point as it looks for budget balancing solutions in future years. ***To balance the City's General Fund for next year, a little over $4.5 million in reserves is being used for operations.*** Additionally, as highlighted to the City Commission during our workshops, in balancing the budget staff has also utilized one-time revenues that will need to be identified in future budgets. ***This use of reserves, and the use of one-time revenues, represents the ongoing structural budget problem the City must address in future years.***

FY 2013 General Fund Budget Highlights

Although property tax values saw a small uptick in the valuations released by the Property Appraiser on July 1, property tax revenues have been reduced significantly in the City since FY 2007 – a decline of 20.2%. Based on state initiatives, economic conditions and City Commission actions, a significant number of property owners in the community have seen the City portion of their property tax bill decline and substantial numbers of property owners now pay little or no ad valorem taxes to the City. ***For the typical homesteaded property owner in the City, this has provided substantial tax relief***. Table 2 shows the cumulative savings to a single-family homeowner during this time.

Single-Family Homeowner	FY 2007 Taxes	Proposed FY 2013 Taxes	**Total Savings**
Non-Senior Citizen	$ 715	$ 673	**5.9%**
Senior Citizen	$ 563	$ 371	**34.1%**

Table 2: Typical homesteaded single-family property tax burden

This proposed budget utilizes a property tax rate of 6.0543 mills—the same rate for the fourth consecutive fiscal year. In order to offset a portion of the City's rising costs, a $30 increase in the residential fire assessment fee and a $2 increase in the monthly residential garbage fee have been incorporated, as well as anticipated minor changes in the Community Development department fee schedule.

In addition to the $7.2 million decline in property tax revenues since FY 2007, a number of other revenue factors have also impacted the City. Budgeted interest revenues in the General Fund alone have decreased by $1.4 million from FY 2007. The same holds true for revenues received from the state — they have finally stabilized, but are far below the levels seen before the recession. Over the last five years, our revenues have not kept pace with the annual rate of our expenditure growth.

While revenues are finally leveling off after years of decline, numerous operating costs are increasing at a rate not typically seen over the past several years. Typical of all local governments, the City has seen cost increases to our pension plans, requiring additional funding in the General Fund of almost $2 million for next fiscal year and $8.3 million since 2008. The budget, while anticipating no cost-of-living adjustments (COLAs), does anticipate normal merit adjustments pursuant to our collective bargaining agreements. The ability to mitigate that impact will require agreement with our collective bargaining units. Increases in operating expenses are primarily driven by vehicle replacement funding, and an increase in anticipated non-departmental leave payout based on the number of employees expected to retire during the upcoming year. Where possible, staff is negotiating with vendors and service providers to reduce inflationary impacts. We have also adjusted slightly our net position summary for next year, deleting an additional two positions within the organization.

Moving forward we will continue to evaluate and work on additional cost savings in our daily operations that, when implemented, will further benefit our control of the overall budget.

FY 2013 Other Funds Highlights

Three years ago the Commission decided to contract day-to-day operations of the golf course to an outside contractor. The redesigned, renovated and rebranded course – *Seven Bridges at Springtree Golf Club* – is in marvelous shape, and has received positive feedback from golfers and visitors since opening. The FY 2013 budget reflects these positive changes, most notably the stabilization of the General Fund subsidy, which is projected to be the lowest in eight years.

The Utilities Department continues its multi-year reorganization, which is generally intended to flatten the organization and provide more resources in the field to accomplish the department's core mission. In particular, the proposed budget adds two project managers to help manage the $200+ million CIP, which is entering or nearing the construction phase for several projects. Additional new positions include a laboratory technician and AC technician to improve the organization's technical capacity and reduce its dependence on costly contracted services. To accomplish the requested restructuring of the workforce during these extraordinary economic times, the Utilities Department has eliminated a number of positions, resulting in a net impact of one fewer position.

The FY 2013 proposed budget anticipates rate studies related to water, wastewater, and reuse services, including connection and impact fees, that will be needed to support future growth. While the cost of the rate studies has been included in the FY 2012 and proposed FY 2013 budgets the amount of bond financing required has not yet been fully determined, potentially requiring staff to bring budget amendments for this supplemental item to the City Commission during the upcoming fiscal year.

Designated Reserves

According to Resolutions 86-155-10-A and 10-125, the City's budget submission each year must include a recommendation for a General Fund contribution to the contingency reserve and revenue stabilization accounts. The Fiscal Year 2011 Comprehensive Annual Financial Report (CAFR) lists our revenue stabilization account at $4,569,089. Based on our audited General Fund actual operating expenditures of $95,367,960, our revenue stabilization should be $4,768,398. As conditions have remained relatively stable, and being guided by prudent financial practices, our recommendation is to maintain funding for this account at 5% of the most recent audited general fund actual operating expenditures, thereby increasing the account by $199,309.

Likewise, our contingency reserve account should be at least 15% of our audited General Fund actual operating expenditures. Based on the audited financial information, our contingency reserve would change from $13,707,267 to $14,305,194, for an increase of $597,927. We recommend maintaining our reserve at 15%.

In Conclusion

As previously noted, the City is at a fiscal tipping point. While the City Commission continues its commitment to providing strong leadership and staff continues to demonstrate a tireless work ethic, years of economic struggle and repeated use of reserve funds and one-time revenues to fund ongoing operations brings us to a significant moment for the City. From a budgetary perspective, the City will face a structural gap of approximately $11 million beyond fiscal year 2013 that cannot be sustained. It will be incumbent upon staff to work with the City Commission to identify substantive opportunities to both increase revenues and reduce expenditures – and thereafter implement policies necessary to address the underlying problem. With an operating budget that is more than 75% labor costs, a successful solution must include an evaluation of staffing levels and employment benefits. It is unreasonable to expect the City's dedicated workforce to bear the entire burden of balancing future budgets, therefore compelling the City to ask its residents and businesses to increase financial support for the exceptional services and facilities provided for their benefit. The temptation to continue balancing the budget using reserves must be resisted if the City is to maintain its strong financial position and reputation, and to provide the resources needed to continue future infrastructure improvements.

We remain committed to being an open and responsive government for our residents and businesses. The ongoing guidance from the City Commission related to our strategic vision remains an important component of these continued efforts. It is because of the hard work and cooperative relationship between elected officials and employees that we continue to be recognized as a city government of excellence.

Respectfully submitted,

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City Manager

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