



December 14, 2018

Honorable Mayor and Members of the City Council:

It is my pleasure to present to you the balanced Operating and Capital budgets for the City of Palm Bay for fiscal year 2019, beginning October 1, 2018 and ending September 30, 2019. Economic conditions continue to recover, allowing the City to provide improved levels of quality service to our community and residents. The FY 2019 Approved Budget was established with the goal to maintain resources at sustainable levels to ensure that services are delivered; continued assessment of needs, and adjustments are made accordingly. The Budget maintains services, increases total positions by 24.26 FTEs from the previously adopted budget, and maintains minimum required reserves as outlined by the City's Financial Policy. The Budget reflects the City's continued progress towards its goals of maintaining financial stability, maintaining and improving our aging infrastructure, and providing excellent customer service. The budget reflects investments in infrastructure and enhanced public safety within the City's financial means.

The City's tax base of \$3,984,358,260 is moving towards a level last reached in 2009, which had a total taxable value \$4,078,487,209. While still below the 2009 level, property values have continued to rise. The City realized a 10.40% increase in real estate values. New construction of \$87,416,848 was added to the tax roll. The adopted budget reflects a millage rate of 8.4500 for FY 2019, the same rate as FY 2018. Growth and development have returned and is expected to continue, bolstered by efforts to complete several large-scale mixed-use developments within the City.

The City is now operating under a voter approved city charter amendment which may limit growth in the general fund budget. The City Council is restricted from setting a millage rate that would result in total ad valorem growth exceeding the prior year ad valorem revenue by more than three percent, unless approved by a supermajority vote to meet emergency or other critical needs. For FY 2019, the City's Ad Valorem millage rate was capped at 8.0807 mills under the three percent limitation, an increase in revenue of \$1,603,848. The City Council approved by a supermajority retaining the 8.4500 millage rate for FY 2019, an increase in revenue of \$2,978,157 to support funding of deferred critical needs, such as sworn public safety personnel and deferred capital needs.

While the City provides a broad range of services that include public safety, general government, transportation, and parks and recreation, City spending is mainly driven by public safety, which accounts for 51.46% of total general fund spending. Maintaining balanced operations while continuing to meet our sizeable infrastructure needs has continued to be the City's largest

challenge. With stable revenues and rebounding economic activity, the City has been able to fund some, but not all the demands placed upon it in FY 2019. In November 2018, voters approved a bond referendum permitting the City to issue up to \$150 million in general obligation bonds to fund road projects to be repaid over terms not exceeding 20 years per issuance. While not included in the adopted budget, the first series of bonds and projects are expected to begin in FY 2019.

The adopted budget covers current operations, current debt service obligations, required pension contributions by the City, contractually obligated pay increases for all union employees, and a pay increase of 3.00% to general employees. The FY 2019 budget increased from the FY 2018 Adopted Budget for General Fund by \$4,252,409; however, \$11,733,737 in General Fund requests went unfunded.

The second year of the City's Stormwater Assessment continues to provide funding to restore and maintain our long-neglected canal systems, swales, and ponds. It also provides a means to complete a \$40M backlog of known stormwater projects. The annual rates charged were reduced for FY 2019, resulting in almost a \$2 million decrease in revenue. As a result, the timeline for completion of those projects is extended from 2024 to 2030.

City Council's goal of improving road conditions remains a top budget priority; however, deferred critical needs and limitations of available resources in the General Fund impacted the amount budgeted for transfer in FY 2019. At the end of FY 2018, an additional \$547,796 was transferred from City-owned properties sales into the Road Maintenance Fund. The FY 2019 Approved Budget includes a one-time transfer of \$200,000 from the General Fund to the Road Maintenance Fund. Any revenues received from the sale of City-owned properties in FY 2019 continue to be transferred from the General Fund to the Road Maintenance Fund.

To accommodate needs for related one-time expenditures, including emergency-related requests, the City appropriated funds from General Fund's previous fiscal year fund balance. The 2019 Approved Budget, like previous years' adopted budgets, is balanced without the use of reserves. Continuation of balancing the budget without the use of reserves must continue to be a priority for the City to avoid potential impacts on its credit worthiness in the future.

The City's total taxable property value has increased for the sixth consecutive year, resulting in an increase in ad valorem revenues. To maintain and improve its fiscal soundness, the City's Leadership Team is continuing to implement initiatives to promote sustainable economic growth by attracting new businesses and working with existing businesses to expand within the City.

Fiscal Year 2019 Operational Highlights

The operating budget for all funds total \$183,131,224 and represents an increase of \$9,312,553, or 5.36%, from the FY 2018's Adopted Budget of \$173,818,671. The fund-type appropriations, based on the total operating budget, are as follows:

- General Fund: \$72,567,846 (increase of 6.22% from FY 2018)
- Special Revenue Funds: \$3,118,831 (increase of 9.54% from FY 2018)
- Debt Service Funds: \$8,007,070 (increase of 15.40% from FY 2018)

- Capital Project Funds: \$19,925,798 (decrease of 0.19% from FY 2018)
- Enterprise Funds: \$51,744,857 (decrease of 1.49% from FY 2018)
- Internal Service Funds: \$27,766,822 (increase of 19.54% from FY 2018)

The City realized a 10.40% increase in real estate values for 2018, resulting in budgeted General Fund Ad Valorem revenues of \$31.45 million in FY 2019; this reflects an increase of \$2,959,499, or 10.39%, from FY 2018 actual receipts. These revenues will support increased health insurance allocation costs, increased Police and Fire Pension expenditures, deferred critical needs, contractual obligated pay increases for all union employees, and a 3.00% compensation increase for General employees effective October 1, 2018.

Ad Valorem is the largest, and most flexible, revenue source for the General Fund. The City Council's adopted FY 2019 tax rate of 8.4500 mills reflects no change from the previous fiscal year. Through the City's growth in real estate values and the imposed millage rate, revenue increases allow for current operational funding, in addition to funding for the major enhancements listed below:

General Fund Department	Description of Major Funded Request	Total Amount
C&IT	Superion Naviline Maintenance Increase	14,850
C&IT	Superion OneSolution - Public Safety	630,000
Finance	Full Cost Allocation Plan	13,500
Fire	SCBA Maintenance	15,000
Fire	SCBA Equipment	18,552
Fire	Generator (19FR02)	30,000
Fire	Fire Station 5 (19FR01)	300,000
Growth Management	E-Trackit License	18,000
Parks & Recreation	West Oaks Park Playground Replacement (19PR01)	90,000
Police	Replacement Radios	154,050
Public Works	Pavement Markings	78,494
Public Works	Railroad Crossing Maintenance	100,408
Total		1,462,854

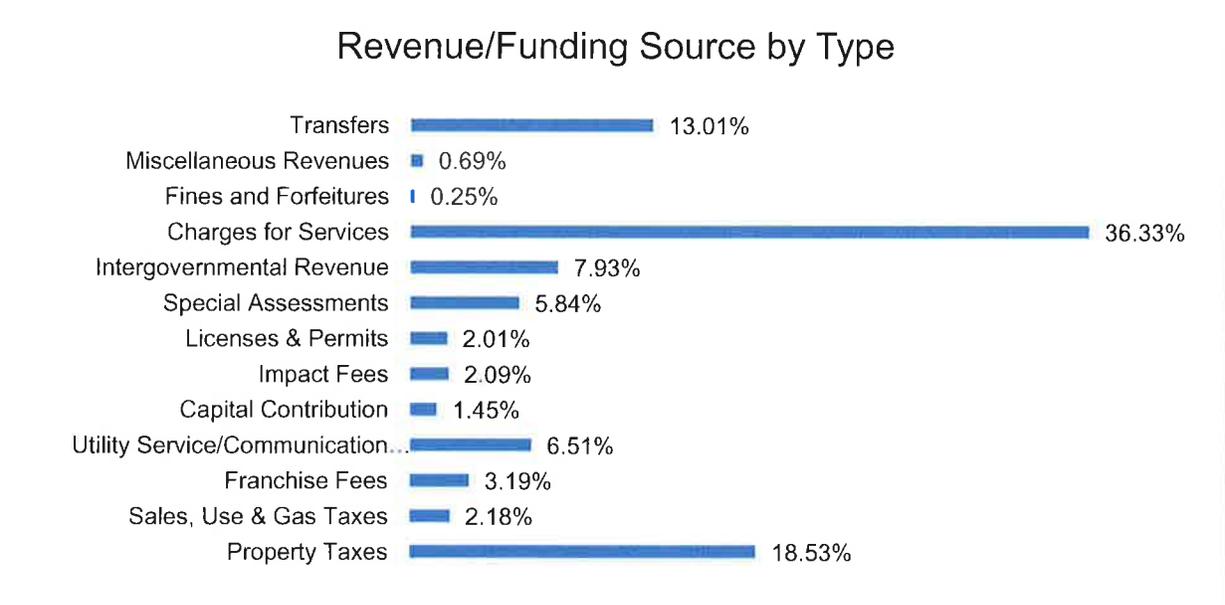
The budget preparation process, which requires departments to build their individual budgets based on pre-determined operating maximums, mimics the previous fiscal year process. Directors ranked their requests based on contractual obligations, regulatory mandates, and departmental priorities, with the understanding that not all submittals may be funded through increased operating revenues.

Quantitative & Financial Analysis

The FY 2019 Adopted Budget totals \$183,131,224 across all Funds and includes funding for personnel and operating expenditures, in addition to some newly added capital improvement projects. Any remaining unexpended budget balances related to ongoing capital improvement projects and encumbrances on existing known expenditures will roll from the previous fiscal year to FY 2019; these funds are not reflected in the original adopted budget.

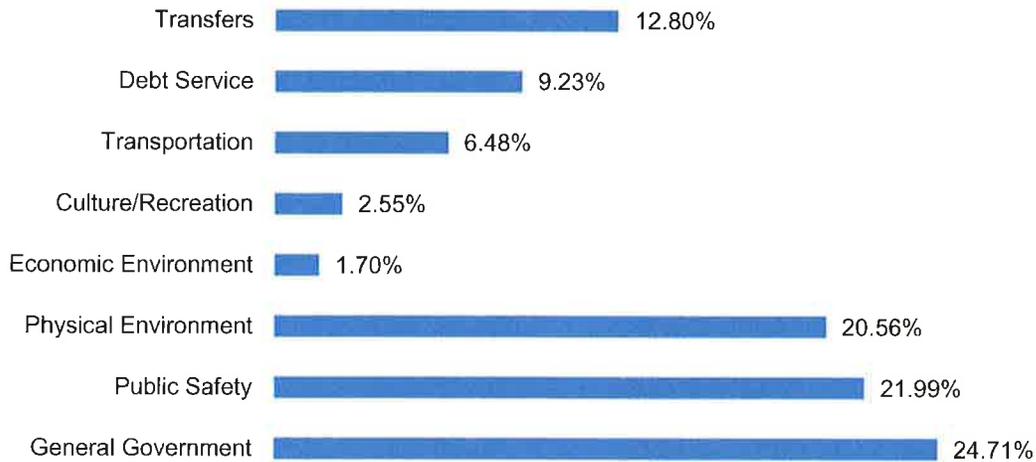
The top three revenue funding sources across all Funds include Charges for Services, Property Taxes, and Transfers. Combined, they make up 67.87% of the total estimated revenue to be received in FY 2019. Charges for Services, the largest funding source, includes a range of revenues generated through water/sewer rates and charges associated with general government operations, public safety, physical environment, including transportation, and culture/recreation-type activities. Property Taxes (ad valorem taxation) are the largest single revenue source within the General Fund and are determined by the Brevard County Property Appraiser's Office with applied allowable homestead exemptions. Transfers, including intergovernmental transfers, account for revenues that are transferred between Funds for billing services, reimbursements, debt payments and general cost of activities budgeted within certain funds that have a direct impact upon the mission of other funds' activities.

The chart below reflects all revenue/funding sources by type across all Funds:



Expenditures are categorized into eight major types which are reflected in the chart on the following page. The top three expenditure types within the FY 2019 Adopted Budget are General Government, Public Safety and Physical Environment. Comparable to the anticipated revenues noted above, these three expenditure types make up 67.26% of all Funds.

Expenditures by Type

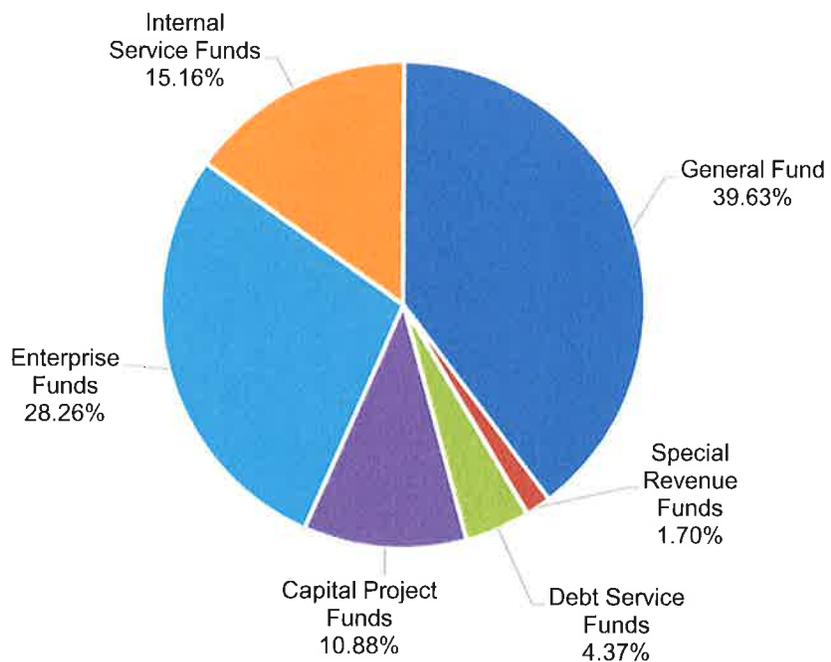


General Government expenditures include personnel and operating expenditures incurred in the General Fund (excluding Public Safety staff); in addition, Internal Service Fund expenses generated through allocations are associated with insurance benefits, risk, and fleet services. Public Safety expenditures are associated with personnel and operating expenses tied to public safety staff made up of Code Enforcement/Building Officials, Police and Fire. Lastly, Physical Environment expenditures are primarily accounted for within the City's Capital Project Funds and Enterprise Funds including Stormwater Utility, Solid Waste, and Utilities.

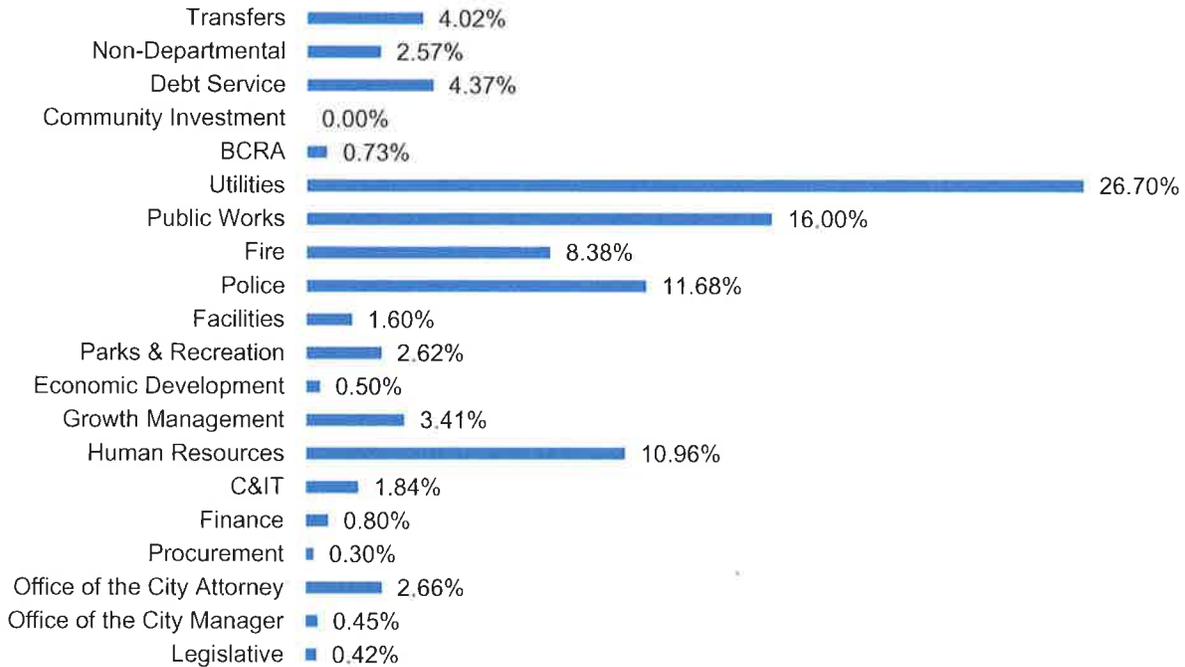
Fund Summary:

The pie chart to the right reflects the FY 2019 Adopted Budget broken down by fund types. The General Fund, which serves as the City's chief operating fund, accounts for the largest portion with 39.63%, or \$72,567,846, of the total budget.

Operating expenditures, broken down by departments, are located on the following page.



Expenditures by Department



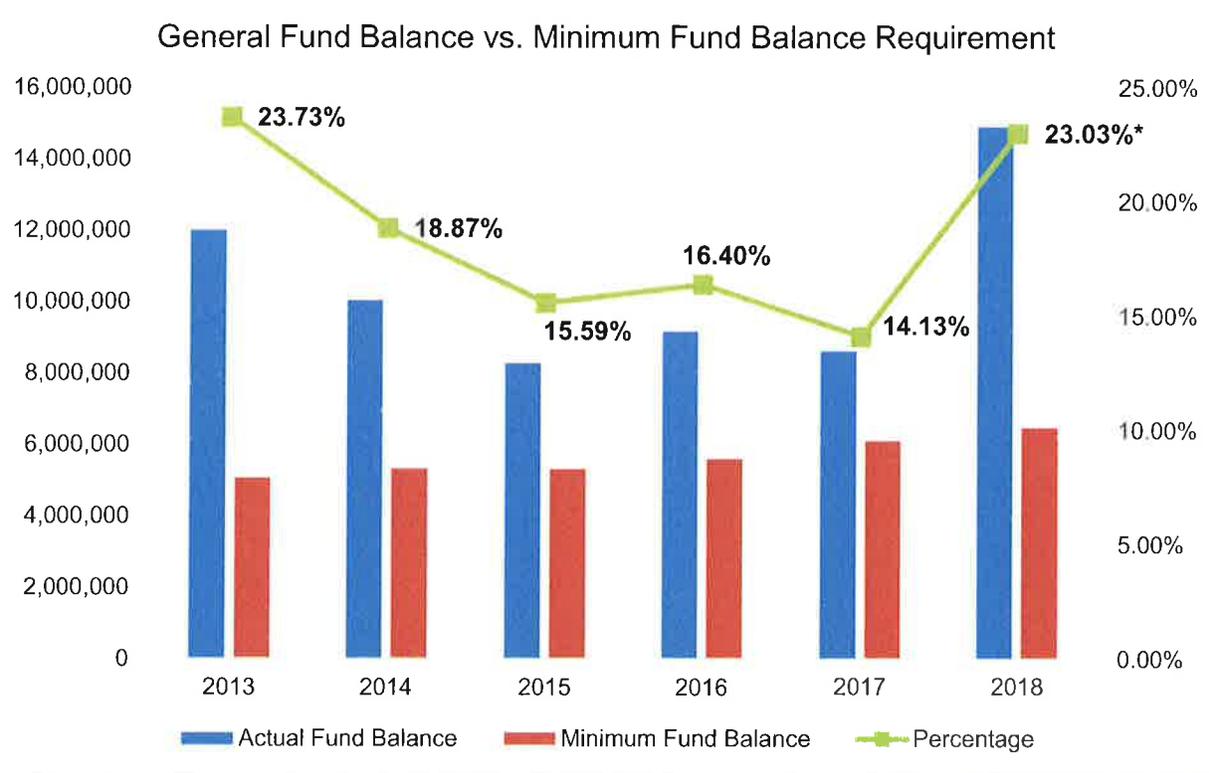
The City's FY 2019 Five-Year Capital Improvement Program (CIP), totaling \$12,492,155, includes information related to funding sources, project names/details and total estimated expenditures. The CIP Summary, which separates Non-Utility Departments from the Utility Department, reflects new projects and new sources of funding for existing and ongoing projects; any remaining unexpended budget balances from the previous fiscal year will roll to FY 2019. The table below provides an overview of FY 2019 approved expenditures by Fund and Department:

Funding Source	Department	FY 2019
General Fund	C&IT	22,500
General Fund	Fire	330,000
Impact Fees	Fire	80,000
Building Fund	Growth Management	45,000
Impact Fees	Public Works	50,000
Stormwater Utility Fund	Public Works	4,011,501
Total Non-Utility Departments Only		4,539,001
Operating Fund	Utilities	1,401,565
Connection Fee Fund	Utilities	109,109
Renewal & Replacement Fund	Utilities	6,283,328
Main Line Extension	Utilities	159,152
Total Utility Department		7,953,154
Total FY 2019 CIP Funding		12,492,155

General Fund – Fund Balance

The City Council’s fund balance policy for the General Fund requires that the Fund shall establish an Unreserved Fund Balance equivalent to a minimum of ten percent (10.00%) of the subsequent fiscal year’s budgeted expenditures less capital outlay and transfers out as originally adopted by ordinance in September. The minimum required fund balance for FY 2019 is \$6,478,266. The FY 2018 ending General Fund Balance (unaudited as of this date), reflects a total fund balance of \$14,912,355, or 23.03%.

The chart below provides a six-year historical summary of minimum requirements and actual fund balances.



*Unaudited as of publication date

The General Fund’s fund balance provides a measure of the financial resources available for future spending or appropriation. While the fund balance itself does not reflect the general health of the government, the increase or decrease in the unassigned fund balance is an important indicator. It is equally important to look at the likelihood of potential unanticipated costs or revenue reductions that can draw on the City reserves. The City’s Leadership Team is generally targeting an increased percentage as a financial planning tool; however unexpected one-time costs have made it necessary to go back to General Fund for appropriation to cover these unanticipated costs.

Debt Obligations

In FY 2019, the City will have fourteen bond debt issues, four internal loans, and four capital leases outstanding totaling \$216,556,856 (\$133,197,543 in principal, \$83,359,313 in interest). Since the beginning of FY 2018, the City has taken out one new bank note and one new capital lease; it has paid off two interfund advances and one capital lease; details are listed below. Debt is monitored for opportunities to refinance to reduce costs.

Month	Amount	Details
February 2018	9,000,000	Funds borrowed in the form of a bank note to fund the I-95 Connector Road
March 2018	63,000	Prepayment to be applied as principal payment on the Utility Special Assessment Note, Series 2016
July 2018	4,363,350	Funds borrowed in the form of a capital lease to fund the Energy Savings Project at various city-owned facilities

The City's bond ratings monitored and adjusted by the "Big Three" credit rating agencies, are reflected in the table below. On November 28, 2018, Fitch Ratings has taken the following rating actions:

- Long-Term Issuer Rating (IDR) affirmed at 'AA'
- Public Service Tax Revenue Bonds, Series 2010 were upgraded to 'AAA' from 'AA'
- Taxable Special Obligation Bonds, Series 2013 were upgraded to 'AA+' from 'AA'

Palm Bay, Florida Underlying Bond Issue Ratings			
	As of November 30, 2018		
	Moody's	S&P	Fitch
Long-Term Issuer Rating (Implied GO):	Aa3	A+	AA
Sales Tax Revenue Refunding Bonds, Series 2015	---	A+	---
Taxable Special Obligation Refunding Bonds, Series 2013	---	A+	AA+
Public Service Tax Revenue Bonds, Series 2010 (Taxable BABs)	---	AA-	AAA
Taxable Special Obligation Bonds, Series 2004 (Pension Funding Project)	---	---	---
Utility System Improvement Revenue Bonds, Series 2001	Aa3	AA-	---
Special Assessment Bonds, Series 2003A (W&S Improvements - USA 1)	A1	A+	---

National and State Economic News

In the State of Florida, year-over-year job growth is predicted to average 2.4% in 2019, 1.6% in 2020, and 1.3% in 2021. Strong payroll job formation has supported Florida's labor market. The state is expected to outperform the national economy by 0.6 percentage points in job growth through 2021.

Modifications in economic policy by the federal government will continue to benefit Florida's economy over the next four years. The state economy is anticipated to expand by 4.3% in 2019.

Employment growth in Florida will average 1.5% from 2018 to 2021, according to forecasts. "The sectors expected to experience the strongest job growth are Construction (6.6%), Professional &

Business Services (4.6%), Financial (2.1%), Leisure & Hospitality (1.4%), Education & Health Services (1.3%), and Trade, Transportation & Utilities (1.1%).”¹

Single-family housing demand will rise above national trends. Total new construction starts are expected to hit 148,610 in 2019.

Future and Priorities

The City of Palm Bay has experienced steady growth in 2018 in employment and commercial investment. This growth pattern is anticipated to continue into the near future. These successes are in line with the City Council’s priorities in relation to enhancing economic development through targeted messaging and seizing on opportunities.

The primary strategy set by the City Council and Administration is continued diversification in the City’s economic base. The objectives set in 2016 regarding the desire to increase the percentage of commercial property permitting relative to residential property permitting has shown continued improvement. Over the past two fiscal years, the City of Palm Bay’s economic growth has been active, particularly in the commercial sector. Palm Bay has realized a 22% increase in total construction values, growing from \$210 million the previous year to \$257 million. This includes \$36 million, a 20% increase, in permits issued to commercial projects, which represents a \$6 million increase from the previous fiscal year.

Other priorities include augmentation of funds for projects enhancing the protection of the Indian River Lagoon through utilization of the Storm Water Utility Fund; investing in utility expansion projects to foster additional economic development opportunities; intensified support of private investment in the Bayfront Community Redevelopment area; supporting public-private partnerships (P3) undertakings; and recreational facility expansion strategies that increase quality of life standards, encourage tourism, and assist in workforce retention and recruitment for local companies.

Distinguished Budget Presentation Award

The Government Finance Officers Association of the United States and Canada (GFOA), a national organization, each year nationally recognizes budgets that meet certain rigorous standards. GFOA has awarded the City of Palm Bay this recognition for each of the past 28 years. To receive the budget award, a government must publish a budget document that meets program criteria as a policy document, as a financial plan, as an operations guide, and as a communications device.

We believe that this budget document continues to conform to program requirements and will be submitted to the GFOA to determine its eligibility for another award. This award, along with the Certificate of Achievement for Excellence in Financial Reporting received for the City’s Comprehensive Annual Financial Report, helps the City of Palm Bay present a quality image to

¹ University of Central Florida. (2018, August 2). Florida & Metro Forecast: Robust State Economy to Remain Ahead of U.S. Outlook - College of Business. Retrieved from <https://business.ucf.edu/florida-metro-forecast-robust-state-economy-remain-ahead-u-s-outlook/>

our citizens, bond rating agencies, and any other outside agencies with which the City does business.

Public Process

The proposed budget was presented to the members of City Council on July 16th, 2018 for review. At the Council Meeting held on July 19th, 2018, City Council set the tentative millage rate of 8.4500 mills. A Budget Workshop was held on August 9th, 2018 which serves as a discussion session for City Council and staff members. Agenda items discussed during the Budget Workshop include millage rate options, projected revenues and sources of funds, expenditures, and approvals of additional budget requests submitted by each department.

The first public hearing on the tentative millage rate, budget, and Utility fee rates was held on September 4th, 2018. The second public hearing adopting the final millage rate and budget, position control plan, capital improvement program, and all other fees was held on September 18th, 2018. All citizens were encouraged to attend and participate in all previously noted workshops and meetings. The budget was posted to the City's website two days prior to the first public hearing and the budget meeting agendas were posted to the City's website approximately one week prior to each public budget hearing.

Summary

The City's budget, as in previous years, remains lean and does not provide a great margin in the event actual revenues and/or expenditures vary from the provided estimates. While the budget does include some moderate investments in deferred projects and programs, uncertainty continues to place senior management in a position that adds difficulties to the proper long-term planning process. General Fund capital asset maintenance and replacement continue to remain significantly underfunded. The second year of having a dedicated stormwater funding source and the upcoming general obligation bonds for roads will bring much needed relief to the City in meeting its infrastructure funding needs in FY 2019 and coming fiscal years.

Despite various challenges, the FY 2019 Approved Budget reflects the continuation of the City's Leadership Team collaboration. A budget has been presented to City Council that continues to build the foundation for future growth and improved financial stability. Foremost, the budget allows the City to continue its focus of providing excellent services to all residents.

Thank you for your continued support of the City's team as we work together in servicing our community.



Lisa Morrell
City Manager