

JOHN R. MARKS, III, MAYOR

October 1, 2007

As the Mayor of the City of Tallahassee and on behalf of the City Commission, it is my responsibility to present the approved fiscal year 2008 annual operating and capital budgets and the FY08 – 12 capital improvement plan for the City of Tallahassee. In our efforts to continually provide our citizens with essential services, the City Commission has approved an operating budget that includes the collection and expenditure of \$730.4 million, as well as a capital budget of \$223.1 million. The five-year capital improvement plan totaling \$1.0 billion will serve to provide new and enhanced facilities and infrastructure for our growing community.

As always, the budget process began with our annual commitment to meet our citizen's high expectations in delivering the best possible services, while remaining committed to fiscal responsibility. Statutorily imposed property tax reform legislation recently enacted by the Florida Legislature has significantly impacted the way many local governments are funded as well as the level of local government services that are provided to citizens of the state. As a result, providing services that our citizens demand and expect will be a challenge.

As in previous years, many public workshop hours were dedicated to the preparation of the budget. The City Commission and interested members of the public had the opportunity to listen, to learn and debate spending priorities of the city. Budget discussions enabled us to improve public awareness of the spending initiatives and gave us the opportunity to show how our investments in these priorities are paying off. The following are a few of these priorities and activities:

- The City's approved millage rate for fiscal year 2008 was reduced to 3.1686, from 3.7 mills in the FY07 approved budget. The reduction is the result of statutorily mandated rollbacks and penalties approved by the Legislature. This will result in the reduction of some general government services throughout the city. It should be noted that the City's rate still remains the lowest of the ten largest cities in Florida.
- This year staffing resources represents no new positions and a decrease of 26.5 vacant positions citywide from the approved fiscal year 2007 budget. Positions deleted are attributed to program and service reductions and resulted in no lay offs of any city employees.
- An additional \$100,000 in funding for the Community Human Services Partnership, which includes the HOPE Community. This additional funding demonstrates the city's commitment to working with organizations that serve those individuals that are most in need in our community.

I am grateful to my fellow commissioners for their leadership and commitment throughout this budget process. I also would like to express my appreciation for the diligence, hard work, and

dedication of City staff and the involvement of our citizens. This was a difficult budget process due legislative mandated tax policies, and we realize next year is likely to be just as challenging because of the Florida Legislature's continuing efforts for property tax reform. However, it remains my goal to provide the best possible service to our citizens at the most affordable cost based on fiscally sound and responsible budgetary policies

Sincerely,

A handwritten signature in blue ink, appearing to read "John R. Marks, III". The signature is fluid and cursive, with a prominent initial "J" and "M".

John R. Marks, III
Mayor



July 6, 2007

Mayor and City Commissioners:

This year's budget process comes at a difficult time for the City of Tallahassee as well as our sister city and county governments across the State of Florida. Property tax reform legislation recently enacted by the Florida Legislature has impacted the way many local governments are funded as well as impact the level of local government services provided to citizens of each community. Local governments across the state are also feeling the impacts of a softening housing market and slowing down of the state economy, and as a result, funding received directly from services and revenue sharing funds distributed by the State of Florida have shown decline.

We are not alone in facing these mandated property tax rollbacks. Already the impacts of property tax reform legislation are being felt across the state as a result of the mandatory millage rate rollbacks. Municipalities across the state have begun the process of cutting services, raising fees, reducing workforces, and/or delaying and eliminating infrastructure projects. This will be the first year of a two-year process in which local government across the state will have to make difficult decisions on how services are provided.

The proposed budget, presented for your review, provides recommendations on how to adjust to this new financial reality imposed by the State while continuing to provide exemplary city services. Although the budget is balanced for fiscal year 2008, it is not balanced for the remaining years of the five-year financial plan because the projected impacts of the proposed constitutional amendments have been factored into our five-year projections. Should the constitutional amendments be approved by the voters on January 29, 2007, we will be making significant recommendations on how to balance the budget as part of next year's budget process.

This budget message discusses the significant immediate and long-term impacts of property tax reform legislation. Additionally it provides you with an analysis on this year's budget process and provide you with information related to how we came about recommending the various program and service reductions being recommended for fiscal year 2008. A number of unresolved issues are also discussed further in this message. Finally, in an attempt to begin looking at next year's budget process, we have provided some options on areas we can begin looking at over the next year that could help position the city to address potential cuts next year.

Proposed Budget

The proposed appropriated budget presented for your review totals \$729,676,359 and represents a decrease of \$668,237 over the approved fiscal year 2007 budget. The General Fund portion of the budget totals \$134,984,905 for fiscal year 2008 and represents an increase of \$386,099 or less than 0.29% over the approved General Fund budget for fiscal year 2007.

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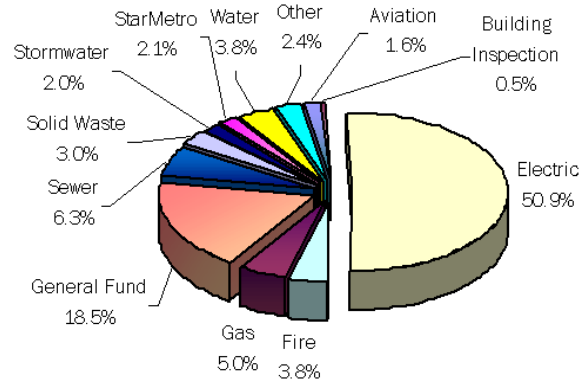
ALLAN J. KATZ
Commissioner

SAM M. McCALL
City Auditor

MARK MUSTIAN
Commissioner

The adjacent chart illustrates how the appropriated budget is allocated between the various funds. It should be noted that approximately 71% of the total appropriated budget is allocated to the utilities.

FY08 APPROPRIATION BY FUND



Within the utility funds, we are indicating deficit positions in the outer years for the Electric and Solid Waste Funds. Rate studies are scheduled for both of these utilities and it is anticipated that recommendations emanating from these studies will address these deficits. Rate increases have been factored into both Water and Sewer Funds in order to provide balanced budgets in each of these funds. Although the Gas Fund is balanced in fiscal year 2008, a rate study for the gas utility is also currently being conducted.

The Fire Fund is balanced in fiscal year 2008 and 2009 with a transfer from the Deficiencies Fund in the amount of \$2.8 million and \$2.4 million respectively. We have recently submitted correspondence to Leon County indicating that we are seeking renegotiation of the fire services and EMS interlocal agreements. Both of these agreements expire on June 30, 2009, and per the contract, either party was required to provide notice of their intent to renegotiate by June 30, 2007. It is our intent to ensure that full cost recovery of fire services to the unincorporated area of Leon County is attained in the new fire contract. Financial projections in the fire fund take this into account beginning in fiscal year 2010.

The StarMetro Fund requires a transfer from the General Fund in the amount of \$7.2 million in fiscal year 2008 as well as transfers in future years. The Golf Fund is requiring a transfer from the General Fund in the amount of \$178,982 in fiscal year 2008, as well as smaller transfers in the outer years of the five-year plan. A discussion of the golf courses is included later on in this message.

The Building Inspection Fund was recently created as a requirement of Florida Statutes. This fund is intended to support all building inspection functions and all revenues and expenditures are accounted for in the fund. The recent downturn in the housing market and the subsequent decline in inspection revenues results in this fund projecting some level of deficits over the next five years. We will be working with growth management staff over the next few months to determine what steps can be taken to address this deficit. The proposed budget provides loans from the deficiencies fund to cover deficit positions in the five-year financial plan.

The Cemetery, Stormwater, and Aviation Fund are balanced in all five-years. Detailed information on each fund is included in the *Fund Proformas* section of the budget document.

The proposed budget includes funding for 2,974.62 FTE's. This represents a reduction of 34.5 positions from the total number of positions in the approved fiscal year 2007 budget. Of the reduction in positions, 33.5 position deletions are attributable to recommendations for program reductions that are discussed further in this message and one position is from a mid-year 2007 position deletion. The proposed budget recommends **no new positions** for fiscal year 2008.

Property Tax Reform

The Florida Legislature met in special session on June 12-14, 2007, to address property tax reform legislation. Two components were ultimately approved at the conclusion of the session. The first is the statutory component, which has an immediate effect on the 2008 budget. This component requires local governments to roll back millage rates to the 2006-07 fiscal year and further reduces the roll back rate by either 3%, 5%, 7% or 9% based upon a state designated formula. The formula identifies per capita growth in property tax collections for the period in between 2001 and 2006. The state formula does not take into account cities that have maintained a low millage rate such as Tallahassee. Based on this formula, the City is required to reduce the rollback rate by an additional 7% for fiscal year 2008. As a result of these adjustments, the City's millage rate will be 3.2444 for fiscal year 2008. The total fiscal impact of the required rollback is \$3.0 million in fiscal year 2008.

The second component involves the constitutional amendments that will be put before voters in a referendum on the January 29, 2007, presidential preference primary election. As proposed the constitutional amendments will change the current homestead exemption process and, if approved, replace it with a super homestead exemption as follows:

- The new super-homestead exemption would cover 75% of the first \$200,000 of market value and 15% of the next \$300,000, for a maximum exemption of \$195,000. All homesteads would receive at least a \$50,000 exemption. Qualifying low-income seniors would receive at least a \$100,000 exemption. The upper \$500,000 threshold would be indexed to grow with changes in Florida personal income, which generally increases 4% per year. Under the proposed amendment, homeowners would be allowed to choose between Save-Our-Homes or the super-homestead exemption.

Additional amendments will seek approval of the following components:

- A new \$25,000 exemption on tangible personal property taxes would be authorized for businesses.
- Targeted property tax relief for affordable housing and working waterfront properties would be authorized.

If approved, these amendments are anticipated to result in a loss of approximately \$6.9 million and will impact the fiscal year 2009 budget. If approved, staff will be bringing back recommendations to address the reduction as part of next year's budget process. It should be noted that although we have provided some options to address the impacts of fiscal year 2009,

significant reductions in programs, services and staffing will have to be implemented in order to achieve a balanced budget for fiscal year 2009 if the referendum is approved.

Slowdown in the State Economy

The recent downturn in the housing market and lower than anticipated tax collections are impacting the state's financial position. Recently the state indicated a shortfall of approximately \$1.2 billion in the state budget as a result of a decrease in collection of tax revenues. As a result, the Governor has ordered budgetary cutbacks for all state agencies.

This slowdown in economic activity is beginning to trickle down to the local level and the city has begun seeing a decline in revenue collections for permit and inspection fees. Additionally, projections for state revenue sharing funds have been revised downward to reflect the state's most recent updates on tax collections, resulting in a reduction of approximately \$784,397 in revenue sharing funds than originally projected.

BUDGET ASSUMPTION/PROJECTIONS

The following sections provide a summary of the most significant revenue and expenditure assumptions for the general fund as contained in the proposed budget working papers. Additional detail on assumptions for all funds can be found in the *Fund Proformas* section of the budget document.

REVENUES

Projected Fiscal Year 2007 Year-End Surplus – Initial year-end estimates indicate a minimal surplus of \$100,000 or approximately .07% of the total General Fund budget. This is a preliminary estimate based on eight months of data. Staff will continue to monitor expense and revenue amounts throughout the budget process to determine the level of surplus at the end of fiscal year 2007. It should be noted that the fiscal year 2007 budget programmed \$450,940 from the Deficiencies Fund to balance the current operating budget. In most years, any surpluses at year-end are utilized to reduce the amount of funding required from the Deficiencies Fund in the following year; however, due to the uncertainties related to the property tax reform constitutional amendments, any surpluses from fiscal years 2007 and 2008 will be carried forward to balance the fiscal year 2009 operating budget.

Ad Valorem Property Tax – The City's millage rate has been rolled back to 3.2444 mills for fiscal year 2008. Based upon the most recent certification of taxable value provided by the Leon County Property Appraiser's we are anticipating total property tax revenues of \$36,269,126 in fiscal year 2008. This will result in a \$3.0 million reduction, or 7.8% loss, from what we had projected to receive in fiscal year 2008.

Utility Taxes (Electric, Water, and Gas) – This is the public service tax imposed upon the sale of electricity, water, and gas within the corporate limits. The current tax rate equals 10% of gross sales. In accordance with the prior approval of phased-in electric rate increases over three years,

projections have been increased. Revenue increases for all utility taxes total \$820,687, the majority of which is reflected in the electricity tax.

State Revenue Sharing – This revenue source from the State consists of taxes from cigarettes, municipal fuel taxes, and state alternative fuel users decal. The State has notified all local governments that there will be no true-up in fiscal year 2007, which means no additional revenue can be expected for fiscal year 2007. Additionally the fiscal year 2008 amount has been revised downward to \$5.5 million, which is \$467,135 less than originally anticipated.

Florida ½ Cent Sales Tax - The purpose of this state revenue sharing program is to provide relief from ad valorem and utility taxes in addition to providing counties and municipalities with revenues for local programs. The State has updated the fiscal year 2008 projections based on population growth and the consumer price index and the city is anticipated to receive \$10,237,725 which is \$317,262 less than originally anticipated.

Transfers from Utilities – The General Fund transfers from the utilities have been updated per the methodology approved in the finance policy. The following table illustrates the changes in the utility transfers from the fiscal year 2007 approved budget.

Transfer	FY 2007	FY 2008	Difference
Electric	22,600,900	22,893,832	292,932
Gas	2,300,000	2,323,000	23,000
Water	5,578,089	5,811,993	233,904
Sewer	1,877,404	2,059,262	181,858
Solid Waste	136,256	138,641	2,385
TOTAL	32,492,649	33,226,728	734,079

EXPENDITURES

Salary Increases – A discussion of proposed salary increases is included later in this message.

Health Care Rates – The City recently received proposals from both Blue Cross Blue Shield and Capital Health Plan for proposed fiscal year 2008 healthcare rate increases. The blended rate is 6.23% and this has been entered into the budget for fiscal year 2008, along with a 5% increase for the remaining years of the five-year financial plan.

Other Post-Employment Benefits (OPEB) – Governmental Accounting Standards Board (GASB) 45 requires local governments to recognize the liability created by healthcare premium subsidies paid to retirees. All funds, except for the General Fund, have fully funded their respective annual required contribution per the actuarial study. The General Fund has budgeted \$1,314,043 (of the \$2,315,965 annual required contribution). An additional \$409,329 in funding is allocated for the current cost obligation of retiree health care. This amount plus the set aside for OPEB provides a total of \$1,723,372 that can be utilized to address GASB 45 requirements. By not funding the entire amount, the General Fund liability will continue to increase; however, the city has surveyed several cities and every city has indicated that they will either partially fund or not fund any of their OPEB liability in fiscal year 2008. Per GASB 45 requirements, OPEB funding is to be placed in an irrevocable trust fund. Although we are reserving the \$1.3 million in

funding to address GASB 45 requirements, we will not make a decision to place it in the trust fund until after the January 29, 2008 election. It should be noted that failure to fund this liability could result in identification of the unfunded liability in our year-end financial audit and could result in a reduction in the city's credit rating.

This requirement comes at a precarious time for local governments in Florida. When added to the impact of property tax reform, the resulting hit to the budget fiscal year 2008 budget is \$5.5 million in dollars that must be generated in addition to cost of living necessities and out of control fuel and energy costs, in order to just stay even with the board. We are seeking information relative to how other governments in Florida are handling the OPEB requirements. Thus far we are being advised that some are doing nothing (Tampa and Hollywood), some are budgeting partially (Orlando), and other such as Gainesville have issued bonds to fund this liability. This will be discussed as an unresolved issue.

Transfers to Fire, StarMetro and Golf Course Fund – The General Fund proforma includes a projected transfer to StarMetro of \$7,298,871, which is \$633,214 greater than the fiscal year 2007 transfer. The General Fund transfer includes a reduction of \$300,000 to account for various recommended program reductions in StarMetro that are explained below. A transfer from the deficiencies fund to the fire fund in the amount of \$2,899,881 is required in fiscal year 2008. The transfer amount from the general fund to golf course fund is \$178,982 in fiscal year 2008.

Budget Process

This year's budget process has been significantly delayed as a result of the uncertainties over property tax reform. Historically at this time, the City Commission has already been provided with a proposed budget document, we have held budget workshops and a public hearing on the budget and the City Commission has provided input on the proposed budget. This year the schedule is condensed to one week with the first budget workshop on July 9, 2007 and the first public hearing on the proposed budget on July 11, 2007.

At the beginning of this year's budget process, we were aware that the State Legislature would approve some level of property tax reform as property tax reform had been identified as one of the top priorities for the regular legislative session that began in early March. Within this political environment, budget instructions provided to departments requested that all departments continue to operate at current service level funding for fiscal year 2008. Under various exceptions, departments were allowed to request additional resources for increased service levels.

Failing to come to a consensus by the end of the regular session in May, a special session on property tax reform was called for June 12, 2007. Although we could not quantify the final impact of property tax reform on our budget, staff has been working since March on various impact scenarios. As part of this work, departments were asked to look at potential reductions in program and services within their departments. A target of 10% of the departmental budget was identified as the total funding amount for potential reductions. The 10% cut was not intended to

be seen as an across the board reduction, but instead departments were asked to identify the following:

- Low priority programs – Programs that although provide a benefit to the community may not be seen as a mission critical program for the department.
- Low usage programs – Programs where performance indicators showed low participation rates and/or low cost recovery for those fee based programs.
- Increased Efficiencies – Departments were asked to look at all of their operations and identify further efficiencies that could be achieved in order to reduce required resources.
- Recovery of Cost – Departments were asked to identify areas where existing fees charged for services were well below the cost of providing that service.

The focus remained on providing exemplary city services but doing so with significant reductions anticipated. All departments provided a presentation on their proposals and discussed the impact of reductions on service delivery and the community. These factors were considered by the Executive Team when deliberating what reductions would be included in the budget.

Proposed Program and Expenditure Reductions

The proposed budget recommends significant reductions in programs, services, staffing, and capital projects totaling \$6.4 million. The following program reductions are recommended for implementation in fiscal year 2008. These are itemized in an Executive Summary at the end of this message.

Elimination of Vacancies and Freezing of Positions - A total of 33.5 positions are recommended for deletion citywide with a total payroll impact of \$1.8 million in fiscal year 2008. Of these, 14 positions are currently filled, however we do not intend to lay off any employees. Employees in filled positions being deleted will be moved into other vacant positions. In addition to the 33.5 position deletions, we are freezing a total of 36 positions. These positions will remain frozen and unfilled until after the January 29, 2008 constitutional amendment election in order to give us a better picture of what our financial circumstance will be. Total savings from this freeze totals \$528,803. A listing of all positions deleted or frozen is included in the proposed budget document in the Organizational Summary section.

Elimination of City Hall Reproduction Center – The reproduction center located in city hall is recommended for elimination. Additionally, some of the hallway copiers currently located in each floor are also recommended for elimination. In exchange, a new self-service center will be established with some of our existing copiers. This will be provided as a convenience to departments located in city hall, but it is anticipated that most departments will begin utilizing outside vendors for copy services. It should be noted that many departments are either currently sending out big reproduction jobs to vendors and/or have their own copy machines. As a result usage of the hallway copiers and reproduction center has declined over the last few years. Additionally, because of the volume of work, outside providers are often more competitive than our in-house reproduction center. Procurement staff will begin negotiating contractual agreements with local providers to ensure competitive prices for copies.

The reproduction center is staffed with two full-time and one temporary position. One full-time position will be retained to assist with the new self-service center. A total of \$168,757 is anticipated to be saved by implementation of this reduction.

Closing of Hilaman Pool – The pool at Hilaman Park Golf Course is recommended to be closed. This pool is a small "country club" style facility, and is not conducive to facilitating lessons, parties or other events. The use of the pool has been declining over the last few years in spite of efforts to promote it. In the past year, less than \$1,000 in revenue was collected. Total savings are estimated at \$10,720.

Elimination of Victim Advocate Program – The victim advocate program at the Tallahassee Police Department was established in 1992 and provides direct counseling and advocate services to victims of crime. These positions were originally grant funded, however over the years we have picked up the cost of this program. Although this program provides assistance to victims, it is not considered mission critical to the operations of TPD. Four positions are allocated to this program. It is recommended that this program be eliminated for a total savings of \$220,561.

Elimination of DARE Program with Officers Reassigned to Enhance Patrol - The Tallahassee Police Department began its Drug Abuse Resistance Education (DARE) program in 1989. The unit teaches the anti-drug and anti-violence elementary curriculum in 29 public and private schools in Leon County. Currently nine positions are allocated to this program. Although these positions spend approximately 50-75% of their time with the DARE program, the remaining time is spent on patrol or other crime fighting activities.

The proposed budget recommends elimination of the DARE program in fiscal year 2008 but retains and funds all nine positions. Although this program is important and provides prevention education to youth, our priority has to be basic public safety.

In 2002 the City Commission reviewed a staffing study for TPD which indicated a need to increase police officer positions by approximately 50 positions in order to meet growth and response time needs. We have been able to address this by adding a total of 27 police officer positions since 2002. As we are financially unable to add additional positions this year, moving the officers assigned to DARE to full-time patrol is a means of addressing this deficit.

Privatization of Street Resurfacing – After review of various factors, the proposed budget recommends that the street resurfacing program be contracted out. Growth in the size of the City has increased the resurfacing inventory for which the City is responsible. However, funding for the appropriate number of crews to keep up with this inventory has failed to keep up with the growth rate. As a result, our Overall Condition Index (OCI), which measures the roadway quality, indicates a decline in road quality. It has been the city's historic practice to maintain our roadways at an average OCI of 75 or above. An OCI level of 60 or below was considered the cutoff point for projects to be resurfaced in any given year. Currently, there are 232 lanes miles of streets within the city that meet this benchmark. Because of limited crews and funds, we cannot undertake the resurfacing goal of approximately 30 lane miles per year.

Eliminating a street resurfacing crew will provide savings that can be used to contract out the resurfacing activity. Overall net savings are estimated at \$102,592 and it is estimated that under a contractual program approximately 30 lane miles per year can be resurfaced.

Elimination of Downtown Community Redevelopment Agency (CRA) Interest Payment – The original interlocal agreement for the Downtown CRA with Leon County established caps for both governments (the city's cap was set at \$13 million). The agreement called for interest payments on these caps in order to ensure a revenue stream in the early years of the CRA. The most recent modifications to the contract removed these caps and phased out the interest payments over a three-year period. City and County staffs have discussed not making these interest payments and agree to only provide the CRA with the tax increment payments they are due. The interlocal agreement will have to be modified to reflect this change. A total of \$300,993 is saved in fiscal year 2008 and an additional \$153,067 is saved in fiscal year 2009. The downside of this recommendation is that the CRA will have less immediate funding available for projects within the downtown district. The downtown CRA currently has funding of approximately \$1 million designated for future projects.

Elimination of Repayment of Deficiencies Loan for the Economic Incentives Payments – As part of the agreements with Danfoss Turbocor, the city agreed to provide \$1,583,000 in incentives for the relocation of their facilities. These funds were to be provided in three installments and were based on the accomplishment of certain milestones. Funds for these incentives were budgeted in the General Fund in fiscal years 2006, 2008 and 2010. As a result of Danfoss Turbocor meeting all milestones last year, the City Commission approved payment of all incentives funds on November 8, 2006. Funding from the deficiencies fund was utilized with the expectation that budgeted funds in 2008 (\$475,000) and 2010 (\$455,000) would reimburse the deficiencies fund. The proposed budget recommends that the deficiencies fund not be repaid and that funds intended to repay the deficiencies fund in 2008 and 2010 be eliminated from the budget.

The impact of this action results in the Deficiencies Fund being below the policy level of having two months of general government operating expenses. The current balance in the Deficiencies fund is \$20,637,900, which is below the targeted policy \$1,619,300.

Reduction of General Fund Transfer to StarMetro – A reduction of \$300,000 in the general fund transfer to StarMetro is being recommended. In addition to a \$25,000 reduction in operating expenses, the following reductions are recommended to achieve the \$300,000 reduction. A total of five positions will be eliminated and employees in these positions will be absorbed into vacancies at StarMetro.

Elimination of Afternoon WildCat – The WildCat bus service is used to assist during peak congestion hours. There are currently two afternoon WildCats. Due to rescheduling of many StarMetro routes, there is less need for both WildCat buses and peak demand is being handled by only one WildCat. There is no anticipated ridership loss and savings in the amount of \$54,285 will be generated.

Elimination of Route 9 – Route 9 and Route 1 are interconnected. Both routes perform a circle with one route going clockwise and the other counter clockwise. Together they provide service

every 30 minutes. Elimination of Route 9 is being recommended for a savings of \$119,302. Route 1 will absorb some of the passengers of Route 9 but will only provide service every 60 minutes. Additionally some of the new Florida State University (FSU) routes will also help absorb some of the users.

Elimination of Route 16 – This route is a low performing route for the amount of area it covers. This route was slated for review during StarMetro’s upcoming route restructuring. This route goes up Centerville Road, Woodgate and connects with the Market Square area and has a frequency of 60 minutes. Elimination of this route will result in savings of \$101,412. Restructuring of other routes can be implemented to cover some of the areas of Route 16.

Reduction in Trauma Center Funding – There is no funding available in the 2008 proposed budget to address \$300,000 given last year for the Trauma Center at Tallahassee Memorial Hospital. When this funding was included in the budget as part of last year’s budget process, the City Commission expressed a desire to revisit it as part of this year’s budget process. In light of current budgetary cutbacks it becomes extremely difficult to maintain this amount of funding as a priority. It should be noted that the trauma center recently received state funding in the amount of \$1.0 million. It should also be noted that many noteworthy results have been documented in terms of medical improvements related to the operation of the trauma center. This will also be discussed under unresolved issues.

Reduction in City Donation Funding – Historically the city has funded a variety of donations for cultural, social services, economic development, historic preservation, neighborhood preservation and other purposes. In fiscal year 2007, a total of \$3,000,049 was funded for these various types of donations. Although we have been fortunate that we have been able to fund donations at this level, we are not in a position to fund these at the same level as we have in the past. The proposed budget eliminates fiscal year 2008 funding in the amount of \$100,000 for historic preservation funds. There is currently a balance of \$379,225 allocated in historic preservation projects that can be utilized for projects in fiscal year 2008. An additional reduction of \$251,768, representing a 10% reduction, is recommended for the remaining donations.

City Manager Office Reductions – Various reductions are recommended in the City Manager’s Office budget including the elimination of one Senior Executive Secretary position and funding for the City Manager’s Office Intern Program. Total reductions are estimated at \$80,000.

Training Reductions – A reduction of \$41,621 is recommended in training programs for employees. Of this amount, \$30,000 is for the elimination of the training program for senior management positions. The remaining amount will reduce available funding for the employee tuition reimbursement program.

Reduction in General Government Capital Funding – The proposed budget recommends a reduction of \$1,205,500 from the General Government Capital Projects Account (GG/CPA). Funding in the amount of \$794,500 is retained for cash funding of general government projects. This funding along with available General Government Capital Improvement Fund (GG/CIF) balance will be utilized to fund some of the recurring maintenance type general government

projects. Reduction of GG/CPA funding in fiscal year 2008 will result in the elimination, reprogramming of funding or delay of the following projects.

Project	Funding	Action
Downtown Pedestrian & Vehicular Enhancements	35,000	Reduced by \$35,000 in FY08
Highway Beautification Program	30,000	Moved to GG/CIF in FY08-09
Historic Property Preservation Loan	100,000	Reduced by \$100,000 in FY08 and \$10,000 in FY09
Neighborhood & Sector Planning	50,000	Reduced by \$50,000 in FY08-09
Traffic Calming	120,000	Reduced by \$120,000 in FY08-09
Walker Ford Pool Shell Liner	285,000	Project delayed until FY10
Water and Sewer System Charge	250,000	Reduced by \$250,000 in for FY08-09
Parks Facility Maintenance	235,500	Moved funding to GG/CIF in FY08
Environmental Compliance & Remediation Prgrm	100,000	Moved funding to GG/CIF in FY08
TOTAL	1,205,500	

Reduction in Human Resources Programs – A total of \$165,825 in programs within the Human Resources Department are being recommended for elimination. These reductions include changing the way we advertise vacant positions by maximizing the use of the city’s website, WCOT and the city’s job-line, consolidating all Human Resources staff in city hall, reducing the city’s employee recognition program and other miscellaneous reductions.

Miscellaneous Reductions – A total of \$621,700 is recommended in miscellaneous program reductions as follows:

Reduction	Savings
Eliminate the print version of the Cityscope Publication	10,200
Eliminate one day time security guard at City Hall	20,000
Eliminate WCOT Winter Festival Production	7,000
Reduce City Commission Contingency Account from \$100,000 to \$50,000	50,000
Reduce Street Lighting Supplies Budget	121,000
Reduce Fleet Parts Inventory Account	211,000
Elimination of various ISS systems maintenance agreements	100,000
Reduction of financial systems upgrade funding	102,500

Salary & Benefits Expenditures

Our city continues to grow and service delivery needs continue to increase. With the recommended reductions in programs and staffing levels, existing staff will continue to see significant workload increases. Over the last couple of years in an effort to balance our budgets we have passed on required employee contribution increases for pension, health care premiums and co-payments.

The proposed budget includes an increase of 6.23% for the city's share of employee health care. Total impact of this increase is \$580,476 in fiscal year 2008 for all funds and \$194,232 for general fund. Although the proposed budget fully funds the increase in health care rates, a decision on whether or not a portion of this increase will be passed on to employees has not been made. The Benefits Committee will be meeting over the summer months to make recommendations regarding this issue and we anticipate bringing back a recommendation to the City Commission prior to final approval of the budget.

The allocation of funding for merit increases has been reduced by 10% from the original projection for fiscal year 2008. Salary increases for general government employees are budgeted at 2.7% for fiscal year 2008. A decision on merit allocation for these funds will be made later this summer. Salary increases in fiscal year 2008 for employees included in the fire collective bargaining agreements are consistent with the most recent contract and are budgeted at 5%. This is the last year of the collective bargaining agreement for fire. Staff is currently in negotiations for the collective bargaining agreement with the Police Benevolent Union (PBA) and as a result, no increase is factored in the current budget for police raises. It is anticipated that a contract will be finalized prior to final approval of the budget.

Proposed New Revenues and Fee Increases

Each year as part of the budget process, departments review fees and charges to ensure their appropriateness and to ensure that we are achieving some level of cost recovery. This year we are recommending the following new revenues and/or fee increases.

City Hall Conference Room Rental – Currently all city hall conference rooms are available for use by not for profit community organizations free of charge. However, the city is incurring costs such as after hours security, cleaning, and set-up costs associated with use of these conference rooms. The proposed budget recommends a fee of \$25 per hour in order to assist in recovering some of the expenses associated with use of city hall conference rooms.

Tennis Fees – We are recommending a phased increase for tennis fees at Forestmeadows Tennis Complex. A 10% increase in fees is recommended for fiscal year 2008 and is estimated to generate approximately \$7,855 in additional revenues. Another 10% increase is recommended for fiscal year 2009. A recent review of comparable communities indicates that our fees are lower than average. Free court usage will still be available at most of the smaller complexes, and at both Winthrop and Tom Brown Park during non-peak times.

Increase in Lot Mowing Program Fee – The proposed budget recommends increasing the current fee charged for mowing overgrown lots from \$50 to \$90 to more closely reflect the actual cost and to hopefully increase homeowner interest in addressing the need without city intervention. This increase will generate an additional \$2,000 in revenues. The Lot Mowing Program allows the city to correct code violations related to overgrowth on vacant properties.

Increase in Planning Fees – A survey of Planning Department fees conducted by staff indicates that fees for certain processes are significantly below other municipalities. The proposed budget recommends increasing fees for comprehensive plan amendments, rezonings, and Planned Unit Developments (PUD). It is anticipated that additional revenues in the amount of \$100,000 will be generated.

Increase in General Fund Transfer from Gas – The general fund transfer from the gas utility has been budgeted at \$2.3 million per year since 2004. Based upon a review of the gas fund, it is recommended that the transfer be increased by 1% or \$23,000. The gas fund can support this increase and the new general fund transfer will be included as part of the gas rate study currently being conducted.

Increase in fees for Sound Services – The proposed budget recommends changes to how the city provides sound services, with a \$25 per hour charge for local non-profit organizations. Organizations that are on the sanctioned list of events in the city's special events policy will not be charged. All other entities requesting sound services, including governmental entities will be charged a \$100 per hour fee with a two-hour minimum. We anticipate this change in policy will generate approximately \$32,000 in revenues. Private companies charge in excess of \$150 per hour for this service.

Lafayette Park Camp/Summer Playgrounds – Fee increases for both the Lafayette Park Camp and the Summer Playgrounds program are recommended. Fees for both of these programs are significantly below comparable programs in the community. Lafayette Park camp fees are recommended to increase from \$135.25 bi-weekly to \$160 bi-weekly in fiscal year 2008. The bi-weekly amount will increase to \$200 in fiscal year 2009 resulting in additional revenue generated of \$19,800 in fiscal year 2008 and \$51,800 in fiscal year 2009. The summer playground program fees are proposed to increase from \$40 per week to \$50 per week, generating an additional \$37,500 in fiscal year 2008.

Hilaman Park Golf Fee Increases - Hilaman golf fees are recommended to increase by \$2 per round in fiscal year 2008 and \$2 per round in fiscal year 2010, which includes green fees, cart fees, and course improvement fees. The additional revenue in fiscal year 2008 is estimated at \$75,000 and \$150,000 in fiscal year 2010.

Service Level Increases

The proposed budget includes funding for various service level increases. A total of \$693,333 is recommended with approximately 89% of the increased service level funding recommended programmed in the water utilities to address advanced water treatment requirements. It should be noted that none of these increases require additional positions and the proposed budget

recommends **no new positions** for fiscal year 2008. The following service level increases are recommended.

DUI Enforcement Position – A DUI enforcement position was originally funded during the fiscal year 2005 budget as part of a three-year grant from the Florida Department of Transportation. Grant funding for the position has been slowly phased out and in fiscal year 2007 the city was funding 50% of the total cost of this position. It is our belief that this position is critical to continue to ensure that alcohol related driving incidents are reduced. The impact of retaining this position is \$43,282. As this position is already in the city's position inventory, a new position is not required.

Maintenance Funding for Automated Fingerprint Identification System (AFIS) - During fiscal year 2006 the Police Department purchased a state-of-the-art Automated Fingerprint Identification System (AFIS) with grant funding. The AFIS system allows investigators to compare fingerprints found at crime scenes with a statewide database of arrestee fingerprints. Maintenance of the software and workstation, funded from grant funds, will expire in fiscal year 2008. The proposed budget includes funding in the amount of \$11,688 to continue maintenance agreements on this vital crime prevention resource.

Parks & Recreation Swimming Lessons & Tennis Camps – Funding is allocated for additional swimming lessons and tennis camps in the Parks and Recreation Department. Both of these programs generate revenues to cover the cost of providing these services. A total of \$20,736 is budgeted for these programs and it is anticipated that revenues totaling \$34,500 will be generated in fiscal year 2008.

Advanced Water Treatment Resources – Funding totaling \$617,627 is recommended in the water utilities for various components of advanced water treatment.

Review of Reserve Funds

Over the last four years, the city has eliminated a number of reserve funds and modified the policies dictating the reserve levels in other funds. The following provides a summary of some of the actions taken by the City Commission as it relates to reserve funds over the last few years.

Health Care Stabilization Fund – This fund was utilized to help mitigate sharp fluctuations in health care costs. The fund was deleted in February of 2004 and the balance in the fund of \$2.7 million was transferred to the deficiencies fund.

Electric Operating Reserve – The purpose of this reserve was to ensure the budgeted transfer from the electric utility to the general fund in those years where the electric utility could not make the transfer. As part of the fiscal year 2004 budget process this reserve was eliminated. Of the balance totaling \$3.4 million, \$1 million was transferred to the deficiencies fund, \$1.5 million was transferred to the electric rate stabilization reserve and \$910,000 was allocated for one-time capital expenditures.

Deficiencies Fund – The deficiencies fund is utilized to fund unanticipated emergencies, assist with balancing the general fund as needed and for city matching funds for FEMA funds (such as for storm response efforts).

Last year the City Commission reviewed and approved changes related to the Deficiencies Fund. The policy level change approved last year requires that the city retain at a minimum two months of general government (general fund plus StarMetro subsidy) operating funding. The current balance in the reserve is \$20,637,900, which is \$1,619,300 less than the required policy level. The required reserve level is \$22,757,200.

I would like to clarify a misconception related to our reserves, and specifically the Deficiencies Fund. We have made an attempt to keep reserve levels within legal requirements and within best industry practices. However, over the last few years and as situations have dictated, we have tapped into these reserves in order to balance the budget and prevent us from either increasing fees and taxes or significantly reducing services. In fiscal year 2007 we programmed \$880,903 to cover deficits in the general and fire services fund. This year we continue to program funds from the Deficiencies Fund in the amount of \$ 3.1 million to address shortfalls in the Fire Fund and Building Inspection Fund.

As part of the fiscal year 2008 budget process, all city reserve funds were reviewed to ensure that balances within each fund were within the required policy levels. Many of our current reserve funds are legally required through bond covenants and balances within these reserves cannot be reallocated for other purposes. Other funds such as the Cemetery Perpetual Care Trust can only be utilized to fund programs and projects within the cities cemeteries.

The utility reserve funds have been established to address unanticipated expenditures or emergencies related to utility operations and infrastructure. We are recommending a review of the Long-Term Rate Stabilization reserve fund within the electric utility. In 2004 certain funding requirement components were identified within this reserve, i.e. rate stabilization, future generation/power supply, deregulation, and debt retirement/defeasance. We will be reviewing this reserve fund and the various components included in it and will be bringing back recommendations to the City Commission prior to approval of the budget.

The proposed budget document includes a listing of all reserve funds and identifies balances and policy level targets within each reserve on page 11.

OPTIONS FOR CONSIDERATION FOR FISCAL YEAR 2009

Golf Course Fund

Current projections for the golf course fund indicate a substantial deficit. As part of the Financial Viability of the Government Target review of the golf course fund in 2006, a number of recommendations were made in an attempt to address the golf course fund's deficit position. These recommendations were incorporated into the fiscal year 2007 budget and included reducing funding for capital improvements, implementing marketing incentives and increasing the golf course surcharge. At that time, the Financial Viability of the Government Target Issue Committee indicated a desire to continue to review the overall status of the golf course fund to ensure that a general fund subsidy would not be required in future years.

In March of 2007, the Financial Viability of the Government Target Issue Committee reviewed the status of the Golf Fund again as a result of revised projections indicating a deficit position. Recommendations were made to increase fees, reduce on site Pro Shop inventory, and make other operational changes. These have been factored into the proposed budget. However current projections still indicate a projected deficit of \$243,259 by the end of fiscal year 2007 and a projected deficit of \$178,982 for fiscal year 2008. It is our belief that the golf course industry has become competitive in Tallahassee and that other options are available to our citizens at comparable costs.

Based upon our current budget situation, we may not realistically expect to break even with our golf course operations in the future. It may not be the most prudent or priority use of limited general fund resources to subsidize the golf course operations in the amount of \$178,982 in fiscal year 2008. I am recommending that over the next six months we begin to explore options for the city's golf courses to include selling one or both of the courses. Funding from sale proceeds could be set aside to further buy down general government debt and/or utilized to fund critical infrastructure projects for which we have identified future debt.

Neighborhood Infrastructure Bond Funding

In 2004, the city issued bonds to assist with funding the neighborhood infrastructure project. We have had success in completing most of the Bond community infrastructure projects as well as substantially completing a number of neighborhood infrastructure projects including Coble Drive and Harwood, Pershing Street and Young Street. However, to date, Public Works staff has encountered neighborhood opposition to some of the projects primarily related to acquiring rights of way for construction. One of the options discussed during budget deliberations is to eliminate those projects where rights-of-way cannot be acquired and/or the neighborhoods have voiced opposition. The remaining funds, estimated between \$5-\$15 million can either be used to either buy down debt service associated with these bonds, utilized to assist with funding the city's portion of the 800 MHz upgrade project or reprogrammed to other general government projects for which we have identified future debt. Details of this discussion will be part of an agenda item coming to you prior to the summer break.

Reduction in City Fleet

Staff is currently reviewing the entire city fleet to determine usage rates on city vehicles. Based upon an initial review, between 20-30 light duty vehicles can be eliminated in the upcoming budget year. A finalized number will be provided after the summer break. Savings should be realized in operating and capital expenses.

The criteria for replacement of vehicles is also being refined, which could result in additional future savings. This coupled with a review of fleet reserve funds and fleet replacement rates could provide additional budgetary reductions. Recommendations will be developed over the next six months for City Commission consideration; however we anticipate a savings in the area of \$65,000 in fuel and maintenance from the reduction of up to 30 light duty vehicles.

UNRESOLVED ISSUES

As a result of the compressed time frames for developing the fiscal year 2008 budget, a number of issues remain unresolved at this time. Staff will be working on these over the next several months and will provide recommendations for action prior to final approval of the budget in September. The following provides a summary of each of the unresolved issues.

800 MHz Upgrade

The City's current communications system is over 10 years old. Industry standards and studies done by the State of Florida indicate that this type of technology should be replaced every six to eight years. Our current system is an analog system and will become a non-supported platform within the next year. Our current vendor has stopped production of analog radios and will discontinue support of the analog system equipment in 2007. Public safety communications systems are beginning to upgrade to digital technology for improved capabilities and security.

The city will need to replace our current system in fiscal year 2008. Current estimates for upgrading the communications system range from \$2.5 million to \$23 million and depend on whether the city implements an analog upgrade or upgrade to a full digital system. The Public Safety Communications Board (PSCB) has indicated that costs of replacing the 800 MHz system will be shared equally between the City and County. The County has identified \$2.0 million for infrastructure requirements related to joint dispatch and 800 MHz upgrade. We will be working with County staff on funding options for this project.

Replacement of the 800 MHz system is critical to the organization and for the provision of public safety services in the community. One funding option available is the reprogramming of existing funds. We have identified various capital projects that can be deobligated and funds reallocated to assist in funding the city's portion of the upgrade costs.

Capital Project	Funding
Delete Tennessee Street Gateway Enhancement	3,812,400
Reduce Major Intersection Improvements by 50%	3,000,000
TOTAL	6,812,400

Additionally, reprogramming of neighborhood infrastructure project funds, previously detailed, could also be reallocated for the 800 MHz upgrade project.

Joint Dispatch

With the elimination of the Municipal Services Taxing Unit (MSTU) as a dedicated funding source option for joint dispatch, the City and County have been attempting to find alternative approaches for joint dispatch within existing resources. Accomplishing this will be difficult, as there are resource requirements in order to ensure that all public safety agencies are utilizing the same Computer Aided Dispatch (CAD) and Records Management System (RMS). It is estimated that at a minimum, funding ranging from \$3 to \$4.1 million will be required to implement a joint dispatch system with dispatchers either staying at their existing locations or merging at TPD headquarters. The Public Safety Communications Board will need to review these options and make recommendations to both the City Commission and County Board (PSCB). The next meeting of the PSCB is scheduled for July 24, 2008. We will provide updates to the City Commission over the summer months.

Functional Consolidation of Programs

At the last County Board of Commissioners retreat in December of 2006, the County Board identified functional consolidation as a priority of the County Board. At various Mayor-Chair meetings this issue has been discussed and the County has requested that both governments appoint staff to do a preliminary review to develop a list of programs that may lend themselves to functional consolidation. Executive staff budget deliberations included discussion of potential areas for analysis of functional consolidation including: growth management, stormwater, animal control, parks and recreation and information system services. If it is the City Commissions desire, staff can begin discussions with Leon County on examining the potential functional consolidation of some of these services.

Homeless Shelters

Recently a private donor has come forward with a proposal to build a new full service homeless shelter and has indicated a willingness to donate \$1.0 million for this project. City staff has been exploring the feasibility of this proposal as it relates to location, management, capital and on-going operational costs. Based on preliminary estimates funding in the range of \$4-5 million would be needed to build a new shelter with estimated annual operating costs of approximately \$1.0 million. The proposed budget does not include any funding for this proposal.

Funding for Hope Community is also an issue that I would like to bring to your attention. Last year's budget allocated \$903,250 in funding for the Hope Community Center. This year funding in the amount of \$400,000 is being recommended.

Performing Arts Center

Last year, the City Commission voted to designate the Johns Building site for the proposed performing arts center. Discussions on a purchase option for the property are now in progress. This site had been acquired by the city from the state at a cost of \$2.95 million and was funded with the city's share of the sales tax extension funding. Proposed estimates for the construction of the performing arts center range from \$115-\$150 million. Operating costs have been estimated at \$7.7 million with facility income estimated at \$6.0 million. There are no funds allocated for a performing arts center in the five-year financial plan. If a performing arts center in Florida's capital city is a priority for our community, we must begin to acknowledge and confirm via budget commitment our intent to move forward.

OPEB and Trauma Center Funding

As indicated earlier in this message, both the Other Post Employment Benefit (OPEB) funding requirement as a result of Governmental Accounting Standards Board (GASB) directive 45 and funding for the Trauma Center are issues that will need to be further discussed during our budget workshop on Monday.

CAPITAL BUDGET

Despite the financial challenges we face, planning for growth, development and the maintenance and expansion our utility infrastructure remains to be an essential task. This is reflected in the proposed FY08-12 capital improvement plan (CIP). The proposed capital budget for fiscal year 2008 totals \$212,159,241 with the five-year CIP totaling \$1,334,360,821. Compared to the current FY07-11 CIP of \$1,216,687,513, this represents an increase of approximately 10% over the approved five-year plan, which is mainly caused by increases in the utilities.

The electric, gas and water utilities, are estimated at more than \$1 billion over the five-year CIP. These expenses are due to costs associated with the construction and improvements in transmission lines and electrical systems, as well as maintaining sewer pump stations, gas mains and water wells throughout the city. The other areas throughout the five-year CIP have realized significant funding reductions to account for decreases in projected revenue due to property tax reform mandates proposed by the State of Florida.

The general government capital project account (GG/CPA) funding has been reduced from its annual appropriation of \$2 million to \$794,500 to assist with balancing the General Fund budget. Additionally, several general government sales tax extension projects have been reduced resulting in a \$3.4 million reduction in sales tax projects for fiscal year 2008. The city continues to repay general government debt from issuances made in 2004 and 2001. The city's fiscal year 2008 general government debt service is above the recommended target, 10% of general government expenditures, but well below the cap of 13.5%. Due to limited funding, several projects such as the construction of several fire stations, the construction of bocce courts, the expansion of tennis courts at Forestmeadows, and park roadway renovations have not been recommended.

In addition to the above, there are challenges to maintain a positive balance in gas tax funding. The majority of funding is for two projects, the Street Resurfacing Program and the Residential Traffic Calming and Bike/Pedestrian Program. Revenue growth has not kept pace with increases in prices for asphalt, concrete, and other road construction materials in the last several years. If this trend continues, staff will have to look at funding traditionally funded gas tax projects with other sources or make the difficult decision of scaling back the level of resurfacing and sidewalk projects.

Charter and Executive Services

The Executive Services Division is responsible for maintaining and upgrading City Hall. As the building continues to age, it is important that infrastructure is maintained. Among the projects being recommended are cooling towers, heating for the first floor, replacement of HVAC equipment, updated mechanical air handlers, and waterproofing the exterior. A total of \$250,000 is included in the proposed fiscal year 2008 budget and \$3,330,000 is included over the five-year CIP.

The Treasurer-Clerk's Office is also requesting funding in the amount of \$25,000 in fiscal year 2008 to upgrade the utility drive through facility. The total five-year CIP for this area is \$1,681,400. This amount includes several new projects, which are budgeted for revenue and licensing system enhancements.

Administrative & Management Services

Technology systems continue to play a vital role in ensuring the successful operations of the government. The five-year CIP recommends funding for several projects aimed at maintaining our existing communications infrastructure. One new project has been requested to expand these efforts by upgrading the city's existing computer servers. The fiscal year 2012 budget request for this project is \$350,000, and is intended to replace 31 servers, which have reached the end of their warranty periods. Upgrading these servers is critical in order to maintain the city's server environment, while reducing maintenance costs and inefficiencies due to downtime.

Safety and Neighborhood Services

A total of \$2,675,526 in funding is recommended in fiscal year 2008 for this service area. To ensure that our public safety facilities are kept up to date, the proposed budget allocates funding in the amount of \$200,000 in the Fire Department and \$150,000 in the Police Department for routine maintenance of facilities. Funding in the amount of \$100,000 from general government funding and \$187,526 from Community Development Block Grant (CDBG) funding is also recommended for routine maintenance at the City's service centers. These projects will provide funding for facility repairs and improvements for the Senior Center, Lincoln Center, and Smith-Williams Service Center. The Police Department's five-year CIP also includes funding for the police vehicle recording system project, and the department master facility study. Both projects are requested to receive funding in future years.

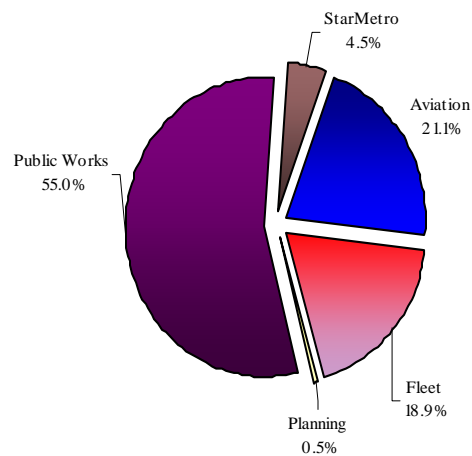
Resources continue to be allocated for the city's parks and recreation facilities and the proposed budget recommends funding in the amount of \$250,000 to continue construction of the Lafayette Heritage Trail that entails development of a 795-acre regional park in the southeast sector of the city. Funding has been budgeted in the amount of \$100,000 for the maintenance and upgrades of

tennis courts at Forestmeadows, Hilaman Park, Winthrop Park, and Tom Brown Park. Sales tax extension projects have been budgeted in fiscal year 2008 for Ox Bottom Park (\$3,000) and Springsax Park (\$400,000). The Ox Bottom Park project is for the design of an 86-acre park, with construction set to follow in fiscal year 2009. The Springsax Park project is designed for the restoration of three ball fields. Other sales tax extension projects, which will be funded in future years, include a scaled-back project at A.J. Henry Park, a community park and trail amenities at Governor’s Park, and the development of Northwest Park.

Development & Transportation Services

Approximately 20% of city resources are dedicated to projects within this service area. Funding in the amount of \$42,619,564 is being recommended. The adjacent chart illustrates where funding is being allocated.

**Development & Transportation Services
FY 2008 Budget**



The fiscal year 2008 budget for the Public Works Department includes funding for a number of transportation related projects. Several project amenities include sidewalk enhancements and additions, reconstruction of existing roadways, upgrades in storm drainage systems to prevent street flooding, construction of bicycle enhancements and amenities, and landscaping amenities.

In efforts to cut costs and alleviate spending, several projects have been delayed or scaled back in fiscal year 2008. The Weems Road project, which was funded at \$8.2 million in the fiscal year 2007 CIP, has been delayed until fiscal year 2009. Once this project begins, it will alleviate a portion of the traffic congestion at the intersection of Mahan Drive and Capital Circle N.E. by extending Weems Road to Capital Circle N.E. This will also assist the city in complying with Senate Bill 360, by reducing the number of vehicle trips traveling through the Mahan Drive and Capital Circle Northeast intersection.

The Tennessee Street Gateway Enhancement project has been deleted from the five year CIP and we are proposing that these funds be reallocated to the upgrade of the 800 MHz system. The Bradford Road project is scheduled to receive funding in fiscal year 2008 in the amount of \$661,000. This project is for the reconstruction of Bradford Road in order to add curb, gutter and sidewalks. Design and planning for this project is set for fiscal year 2008, while construction is planned for fiscal year 2011.

Funding is also recommended for various recurring projects in Public Works. These include the traffic management systems improvements, traffic calming and sidewalk, street paving, and street resurfacing. The vehicle replacement project continues to be funded, but under the purview of the Fleet Program.

This is the fifth year of funding for the Americans with Disabilities (ADA) sidewalk rehabilitation and neighborhood infrastructure enhancement projects. The neighborhood infrastructure project is well under way, with several projects completed and many others currently in the construction phase. The fiscal year 2008 capital budget includes funding in the amount of \$1 million for the ADA project and \$3.7 million for the neighborhood project. As indicated earlier in this message, we are recommending revisiting balances available in the neighborhood infrastructure project and potentially utilizing these funds to repay the bonds early or reallocate these funds to other projects.

Utility Services

We continue to ensure that funding is available for the maintenance and refurbishment of our utility systems. Over 80% of our resources in fiscal year 2008 are for utility projects and nearly 81% of our resources in the five-year plan are being allocated for utilities. The following provides a summary of recommended funding for each of our utilities.

Electric

The Electric Utility's capital budget for fiscal year 2008 totals approximately \$80.1 million and the five-year capital improvement plan totaling nearly \$714.5 million. This is a 22% decrease over the fiscal year 2007 capital budget, but an 11% increase over the FY07–11 CIP. Of the \$714 million proposed CIP, \$466 million is for three projects. These projects are for the city's partnership in the Taylor Energy Center, purchase and installation of distributed generation near substation five, and for the support of the city's demand side management and energy efficiency program. All three projects will provide the city with additional capacity to meet our system requirements.

Water Utility

Water Utility's five-year CIP of \$275.6 million has increased significantly compared to the \$183.8 million five-year CIP approved in fiscal year 2007. Approximately \$160 million is for advanced wastewater improvements, including downstream nutrient removal at the Thomas P. Smith Treatment Plant. Additionally, over \$25 million is budgeted for a series of capital projects that are geared towards various water distribution system activities. Such activities include the installation of new fire hydrants, water taps for new services, water main replacements and upgrades, and the replacement of older water services.

Gas Utility

The Gas Utility's capital improvement plan continues to provide funding for maintenance, improvements, relocations and expansion of our gas system. The proposed capital budget for fiscal year 2008 is \$5,005,663 and the FY08–12 capital improvement plan amount is \$25,373,863.

Performance Measures

Increasingly, citizens are demanding that local government be accountable for their spending and that measurable results be reported through public documents. In recognition of this trend, and anticipated impacts of property tax reform, parameters were implemented in this year's budget to

help improve accountability and identify opportunities to assess additional resource requests through performance measures.

As an example, if new programs were requested, they were expected to recover 100% of their costs. Position requests for existing services and programs had to be accompanied by historical performance measures that reflect the need for additional resources and the specifics of what was to be accomplished and by what timeframe. Further, departments were requested to provide documentation that other alternatives such as resource shifting and rethinking the need for the additional service had been researched and analyzed. These requirements resulted in significantly less, but more well defined, requests than in previous years.

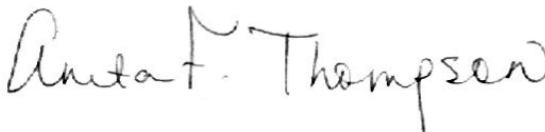
Currently, departments report on over 1,000 performance measures, more than half of which are workload measures. The Office of Budget and Policy reviews this data quarterly and will be identifying trends and reporting them to the leadership team quarterly beginning fiscal year 2008. Although the provision of benchmark data by departments is an area targeted for improvement, the city's participation in the Florida Benchmarking Consortium (FBC) is gradually enabling us to collect and analyze performance data for specific services to facilitate benchmarking. As a result, this is expected to be an on-going effort as the FBC expands to include more service areas in its measurement and benchmarking processes.

Conclusion

As may be expected, this has been one of the most challenging budget cycles the City of Tallahassee has faced in the last decade. The recommendations contained in this document provide our best efforts at addressing property tax reform and significant community growth, while maintaining excellent service delivery to our citizens

I look forward to discussing the proposed budget and our recommendations with you at our upcoming operating and capital budget workshops scheduled for July 9, 2007. Staff from the Office of Budget & Policy and I are available to answer any questions or provide any additional information you may require.

Respectfully submitted,

A handwritten signature in cursive script that reads "Anita Favors Thompson".

Anita Favors Thompson
City Manager