

departments and the Executive Team, and include long-term strategies that result in sustainable cost reductions, promotion of operational efficiencies, targeted revenue enhancements, and a commitment to begin restoring and strengthening our reserve levels. I am pleased to report that the proposed budget being presented for the City Commission's consideration is balanced in fiscal year 2010 and makes significant progress in balancing fiscal year 2011.

Although the proposed budget presented to the City Commission for consideration recommends significant proposals for reductions, there are some pieces of good news in this budget that I would like to share. As a result of action by both the City Commission and the County Commission, implementation of a dedicated countywide funding source for fire services is finally a reality. Implementation of the new countywide fire services fee will eliminate the reliance on the city's deficiencies fund for financing our fire department. From a service delivery perspective the community is also benefiting. A total of 18 additional fire fighters will be added, nine in FY10 and nine in FY11, to serve the rural stations. This will allow an increased ambulance service level inside the city limits.

We have also received notification from the federal government regarding additional operating assistance funding for StarMetro for FY09 and FY10, and have also received notification of grant awards totaling approximately \$24 million as part of the American Recovery and Reinvestment Act. This funding will go to a number of areas including CDBG, energy efficiency and conservation, airport security, StarMetro replacement buses and various sidewalk projects in the community. We continue to aggressively monitor and apply for grants as these are announced. Most recently we have received notification of funding to support five police officers for a three-year period, with the City picking up the cost in of these positions beginning in the fourth year. Also, as a result of the Commission's approval of the 3.7 tentative millage rate, we are able to dedicate \$1.0 million towards the city's share of the joint dispatch facility thereby reducing our debt needs for this project.

We have worked diligently throughout the year to implement a number of actions to move us toward continued financial stability. A soft hiring freeze was implemented early in the year which has allowed us flexibility in reducing staffing and payroll costs while minimizing the impact to individual employees who's jobs may otherwise have been eliminated. For example, due to the severe downturn in the housing market, revenues have been insufficient to fully cover the costs of building inspection, requiring that 11.6 positions be eliminated or transferred to other areas. Not only were we able to place most of the affected employees in other open jobs, but at the same time, right sized this function so that it can be fully self-supporting in the coming year.

A number of other cost cutting or efficiency improvements have also been implemented including standardization of small equipment purchases throughout all departments which allows for cost reductions from volume purchasing as well as increased efficiency in maintenance of the equipment. Reductions have been made in temporary and overtime wages, travel and training, and capital outlay. Fuel costs have been decreased not only through contractual agreements but also by reduction of the number of vehicles in the fleet. All of these accomplishments, along with our continued control of other operating costs, help us move toward a sustainable and balanced budget for FY10.

Even with all of these achievements, we are not insulated from the need for job reductions in the organization. In prior years we have been fortunate to have a minimum number of employees

impacted by job reductions, with a total of 85 positions eliminated from FY 2007 to FY 2009. Unfortunately, we are confronted with a net elimination of an additional 96.63 positions in FY 2010, many of which are filled. To mitigate this impact and the impact of additional reductions also expected in FY 2011, the Commission approved a recommended voluntary separation incentive program, VSI, which was implemented on July 1st. Incentives to voluntarily leave city employment were offered to employees whose salary was within 10% or above the maximum hire rate. The program terminates on August 21, 2009 and more than 50 employees have already taken advantage of this opportunity. This voluntary separation will allow flexibility in refilling positions at a lower salary level or eliminating those positions entirely depending on the critical nature of the vacated positions. If all of the positions vacated by the program are filled at a maximum level of 25% above the minimum annual salary, savings will be in excess of \$600,000 annually (based on current enrollees only).

The other significant issues that must be addressed in development of the FY 2010 budget include restoration of minimum reserve levels, funding for capital expenditures to adequately maintain our current facilities, and sufficient contingency levels to offset revenue volatility. The following are areas of concern.

- As previously discussed, due to revenue reductions in the Building Inspection and Fire Services Funds, the City has utilized reserve funds to balance operating costs, which has not served to enhance our historically sound fiscal condition. These reserves must not only be stabilized, but replenished, if we are to maintain our current very good bond rating, which allows us to realize savings through reduced bond insurance costs and lower interest rates.
- Due to decreased revenues, no General Fund dollars have been provided for capital improvements for the past two years. It is important to restore this funding in order to assure that facilities are properly maintained, and any critical new projects be placed in the 5 year capital budget.
- The General Fund contingency is currently budgeted at \$50,000. For the past two years, revenue projections, particularly for state shared revenues, have been adjusted downward after the budget was finalized. Given the continuing economic uncertainties, it is important to provide an adequate cushion to offset changes in revenue projections so that other mid-year reductions may be avoided.

The proposed budget that is presented for your review addresses all of the issues previously discussed and balances expenditure reductions with revenue enhancements to assure that core services can continue to be provided and that the cost to taxpayers remains reasonable. In addition to the position eliminations previously mentioned, other reductions are attributable to furloughs; various expenditure reductions such as overtime, temporary wages, fuel, and capital outlay; the addition of funding for transfer to the capital budget and to start to replenish the Deficiency Fund; as well as increases in fee and ad valorem revenue. The remainder of the budget message includes more detail on each of these as well as information on the budget process, key revenue and expenditure assumptions, the Capital Improvement Program, and each of the enterprise funds.

BUDGET PROCESS

The initial projections for FY10 resulted in a deficit position of \$7.5 million. Initial strategies for addressing this included development of reduction proposals by each service area in order to achieve an over-all 7% reduction of operating costs in the General Fund, and reductions of 5% and 2% in Internal Service and Enterprise Funds respectively. All of the proposals were reviewed by the executive team to achieve a reduction plan for the organization based on the following:

- Consideration of the Commission's direction related to minimizing, to the degree possible, the structural expenses of government.
- Maintaining quality customer service and programming.
- Balancing core service necessities with quality of life realities.

Subsequent to review by the executive team, departments were given an opportunity at budget hearings with the executive team and budget office to present their proposals and discuss the impact of reductions on service delivery to the community. Many of the proposals were discussed with the Commission at the budget workshops held on April 15th and June 18th. Concurrently, the budget office updated revenues and expenditures to reflect the most current estimates including debt service to cover new projects, ad valorem tax revenue to reflect the latest information from the property appraiser, and state shared revenues to reflect official state estimates.

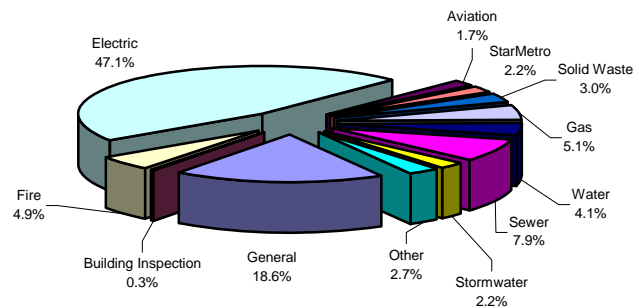
PROPOSED BUDGET

As previously mentioned, the proposed appropriated budget presented for your review totals \$716.0 million and represents a decrease of \$122.4 million over the approved fiscal year 2009 budget. The General Fund portion of the budget totals \$133.7 million for fiscal year 2010 and represents an increase of \$531,231 or .4% over the approved General Fund budget for fiscal year 2009.

The adjacent chart illustrates how the appropriated budget is allocated between the various funds. It should be noted that approximately 66.4% of the total appropriated budget is allocated to the utilities.

Consumption is down in most of the utilities due to a combination of demand side programs and economic conditions. Utility funds use a rate analysis to determine need for specified periods of time, thus all utility funds are balanced for the five years, although usage of reserves and/or reductions in RR&I transfers are required in some of the funds. With the current fee structure for solid waste

FY10 APPROPRIATION BY FUND



services, a transfer from reserves is required in each year beginning in FY11 and a transfer from rate stabilization is programmed for the Electric Fund in FY10. A rate increase for Electric is planned in FY11.

With implementation of a countywide fire services fee and the new interlocal agreement with Leon County effective on October 1, 2009, the Fire fund is balanced in all years of the proforma except for FY14, and transfers from the Deficiencies fund are not required in FY10. In fiscal years 2008 and 2009 over \$4.0 million has been, or will be, transferred from the Deficiencies Fund to the Fire Fund. Leon County has approved a new interlocal agreement effective October 1, 2009 that provides for full recovery of costs.

StarMetro's operating fund is balanced for all five years utilizing transfers from the general fund. The proposed budget for fiscal year 2010 totals \$15.9 million and represents an increase of \$307,531 or 2.0% from the 2009 approved budget.

The Building Inspection Fund was created as a requirement of Florida Statutes. A number of changes were implemented in FY09 in response to the downturn of the construction industry. With these changes, and approval of an adequate fee structure, the fund will be balanced in all years. A small amount is budgeted to begin repayment of the loan from the Deficiencies Fund in FY10.

The Golf Course fund will be fully self-supporting in FY10 and future years as a result of changes being implemented that include elimination of full-time positions and utilization of contractual employees for the majority of maintenance functions, the bolstering of sales at the pro shop, and minor improvements to facilities at the course.

PERSONNEL ISSUES

Personnel services make up 22.5% of the total city budget and 55.8% of the General Fund budget. Control of these costs is crucial in maintaining or reducing overall expenditures.

Salary Issues and Other Personnel Issues

No salary increases have been included for general employees for FY10. For planning purposes, an increase of 2% is included for FY11. For FY10, an increase of 6.5% for police union employees is included as per the existing contract provisions.

The city's cost of employee health insurance is expected to increase by 6% and funding is included at this level. There are no changes in the health care plan. As the budget recommends no employee salary increases this year, staff is recommending that the city absorb the cost of the employee increases for health insurance this year. The proposed budget reflects this recommendation.

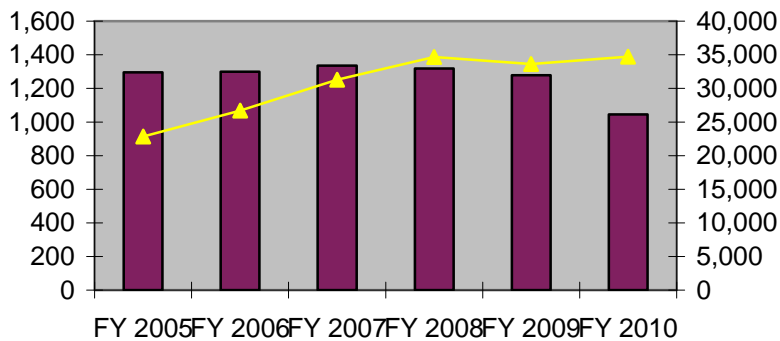
Due to declining earnings in the pension portfolio, it is expected that pension costs will increase significantly in FY11. To mitigate the city's share of this increase, it is likely that general employees will need to increase their contribution. The city's contribution rate for FY10 has not been increased.

Elimination of 110.63 Filled and Vacant Positions

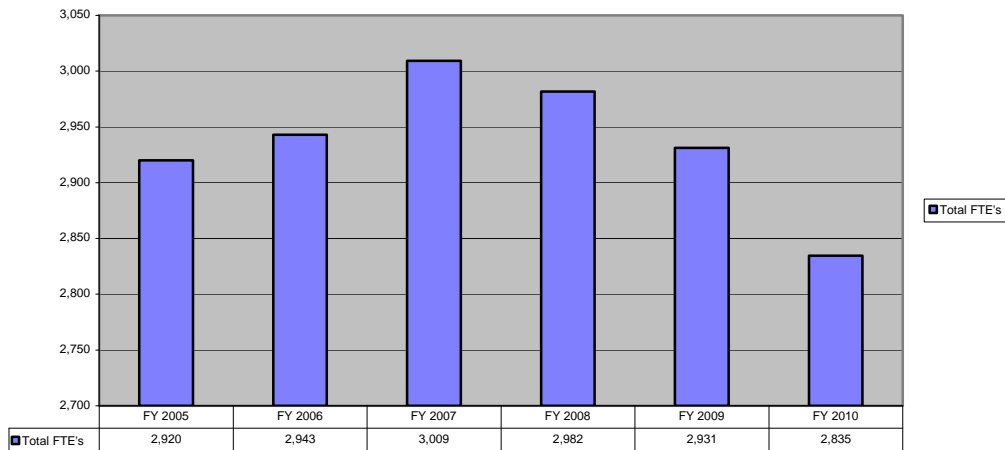
The proposed budget includes funding for 2,834.49 FTEs in fiscal year 2010. This represents a net reduction of 96.63 positions from the total number of positions in the approved fiscal year 2009 budget; elimination of 110.63 positions and addition of 14.0 positions. Eliminated positions impact multiple departments throughout the City. In addition, five police officers and nine firefighters are added. A detail listing of proposed position changes is included in the Organizational Summary section of the budget document.

The two charts that follow compare the number of FTE's in the General Fund and FTE's for all funds on an annual basis for the prior five-year period. For purposes of comparison, StarMetro is included in the General Fund count as this is a subsidized operation. Figures have also been adjusted to compensate for Building Inspection positions. The General Fund chart also shows the corresponding ad valorem revenue received in each of the years. As indicated in both charts, the total number of positions peaked in FY07 and has been declining each year since that time. With the position eliminations in FY10, the General Fund has 6.1% fewer positions compared to the FY05 staffing level and a 2.9% fewer for all funds.

Growth in General Fund Positions and Ad Valorem Revenue



Total Positions



Employee Furlough

The proposed budget recommends a two-day furlough for non-union general employees with salaries greater than \$33,000 and results in citywide savings of \$665,556 and \$206,213 in the General Fund. This is equivalent to a reduction in pay of .76% for affected employees but has the effect of preserving critical positions.

Exchange two Designated Holidays for Floating Holidays

The City currently observes ten official holidays throughout the year. The proposed budget recommends replacing two official holidays with floating holidays that results in savings citywide of \$106,800 and \$44,600 for the General Fund (including StarMetro). Although the specific holidays to be eliminated have not been determined, the average savings per holiday is \$53,400 and the maximum savings is \$64,500. Approximately 800 employees would experience some impact from loss of overtime pay with the majority in StarMetro, Electric, Water Utilities, Solid Waste and Police. The average overtime pay per employee required to work per holiday is \$139.

OPEB (Other Post Employment Benefits)

The City of Tallahassee provides to our retired employees a health insurance subsidy that is considered a post-employment benefit (OPEB). The Government Accounting Standards Board (GASB) issued Statement 45 that requires the City, for the year ending September 30, 2009, to disclose the present value of the estimated total cost to provide the health insurance subsidy to current retirees and active employees (actuarial accrued liability, AAL) in the notes to the City's financial statements along with a description of efforts and progress being made to fund the AAL.

GASB does not prescribe a required funding method but it allows the City to determine the best method to fund the obligation. The Financial Viability Committee directed staff to research and recommend a GASB 45 funding method. Following staff's research and recommendation, the Financial Viability Committee recommended that the City fund the health insurance *explicit* liability only through an actuarially determined annual required contribution (ARC) made to an irrevocable trust and that a portion of the cost of the benefit be paid by General, Police and Firefighter employees.

It is estimated that \$900,000 is needed in the general fund to meet the OPEB obligations. To accomplish this, the proposed budget recommends that General, Police, and Fire employees begin contributing .25% of pay to offset a portion of the cost of the program in FY 2010. The contribution from all three groups would generate approximately \$300,000 per year in the General Fund. The remainder of the City's General Fund contribution, \$600,000, would be phased into the operating budget over a three-year period. Funding from interest earnings from the 2004 Bond Series would be utilized for \$400,000 of the City's required contribution with the remaining portion of the City's contribution coming from General Fund operating revenues. The contribution from bond interest earnings will be reduced to \$200,000 in FY11 and \$0 in FY12. The proposed budget reflects this recommendation.

BUDGET ASSUMPTIONS

The following sections provide a summary of the most significant revenue and expenditure assumptions for the General Fund as contained in the proposed budget.

EXPENDITURE ASSUMPTIONS

Fuel

Although fuel is approximately 30% of the FY10 budget, this is a significant decrease from the FY09 budgeted amount. Actual fuel costs in FY09 were less than budgeted and are expected to remain at the lower cost for FY10.

Transfer to StarMetro

The transfer requirement for StarMetro is estimated at \$7,923,865 for FY10, which is an increase of approximately \$243,809 over the FY09 budget and \$1.1 million more than the estimated actual requirement for FY09. This is due to a budget adjustment to more accurately reflect the cost of overtime expenditures and also to the receipt of unanticipated federal funds in FY09. Additional federal funding is also expected in FY10, but in a lesser amount. No additional funding from this source is anticipated in years beyond FY10.

It should be noted that as part of the StarMetro Renaissance plan approved several years ago, enhancements to the system were approved that have streamlined routes to increase route efficiency, improve on-time performance and provide service to areas not previously served. Additionally new buses have been purchased that increase the fleets fuel efficiency and promote the city's green initiatives.

Transfer to GGCPA

Although \$720,000 was budgeted for GGCPA in FY09, no funding was used for this purpose due to lower than anticipated revenue collections in FY09. The FY10 budget includes funding from a one-time source of \$824,000 for this purpose as well as \$1.0 million from operational revenues. One million of this will be used to cash fund one half of the \$2.0 million FY10 requirement for the Joint Dispatch project thereby reducing future debt service needs. The remainder is used for maintenance of existing city facilities.

Debt Service

Approximately \$9.0 million in general government debt service is budgeted beginning in fiscal year 2010. This includes funding for existing obligations such as the 2004 capital bond series and various internal pool loans. Debt service funding requirements for existing obligations decrease to \$8.9 million in fiscal year 2014. New debt is programmed beginning in fiscal year 2011 for greenspace (only if needed), and the General Fund's portion of the joint dispatch facility. Debt service for parks facilities begins in fiscal year 2012. Collectively, future debt service for these projects total \$780,967 in fiscal year 2011 and increases to \$2.6 million in fiscal year 2014.

Earlier in the year, the Treasurer-Clerk's Office refinanced a variable rate Sunshine State loan (for the Renaissance Building) to a fixed rate that resulted in a General Fund savings of approximately \$500,000 in fiscal year 2010. The savings decrease downward each year to roughly \$200,000 in fiscal year 2014. Additional savings are associated with reduced debt

service expenditures for internal loans in fiscal year 2010 for projects such as the system integration, CIS, EDMS, and police vehicle VRS, among others.

In the Fire Fund, existing debt service payments support the fund's share of 2004 capital bonds and a 2001 Sunshine State loan. New 2010 debt service supports self-contained breathing apparatus that was approved in fiscal year 2009, while Fire's \$8 million share of the joint dispatch facility and debt financing of a potential 1-bay station that could be co-located at the facility are programmed to begin in fiscal year 2012. Total debt service in the Fire Fund is budgeted at approximately \$780,000 in fiscal year 2010. Debt service for fiscal year 2014 is budgeted at \$2.1 million.

CONTINGENCY AND RESERVES

Contingency

One of the main purposes of the contingency account is to provide a cushion for unexpected declines in revenues or increases in expenditures. In the past few years, there have been notable examples of these including the rapid increase in fuel costs in some years and numerous reductions in revenues, especially state shared revenues. The mid year budget corrections that were required as a result of these, could have been mitigated somewhat with a larger contingency. The FY09 contingency is budgeted at \$50,000. For FY10, the proposed budget includes an additional \$150,000 for this purpose.

Transfer to Deficiency Fund

The Deficiencies Fund is a reserve or fund balance for General Fund operations. The policy target balance is two months operating requirements for the General Fund. As of March 31, 2009, the policy level was \$21.9 million and balance was \$9.5 million. The projected balance at FY09 year-end, is approximately \$4.5 million. This assumes a transfer of \$2.7 million to the Fire Fund and \$942,823 to the Building Inspection Fund in FY09 and includes prior year loans to the Building Inspection Fund of \$1.4 million.

To address this serious issue, the FY10 budget includes a transfer of \$1.8 million to the Deficiencies Fund. A small loan repayment is also budgeted from the Building Inspection Fund. In addition, further usage of the fund is not anticipated as several steps have been taken to curtail usage. One step is the functional consolidation of fire and county EMS, with an appropriate fee schedule, that becomes effective on October 1st. Another step is approval of a proposed fee structure for Building Inspection that is adequate to cover costs of that service. Other one-time revenues, such as past due ad valorem tax receipts; will also be brought to the Commission for consideration for additional replenishment of the fund as they become available. It cannot be overemphasized how important it is to replenish reserves for emergency needs as well as financial stability, and bond rating purposes.

REVENUE ASSUMPTIONS

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 City imposes the maximum tax rate of 10% of gross sales. And, although utility rate increases have been implemented over the last year, projections for utility tax revenues have been decreased slightly to reflect reduced utility usage as a result of the city's

demand side programs, customer conservation initiatives, and impacts related to the economic downturn. Projected revenues for all utility taxes (electric, water, and gas) total \$12.9 million and reflect a reduction of approximately \$1.3 million from fiscal year 2009 due to reduced consumption estimates.

State Revenue Sharing & Florida ½ Cent Sales Tax

Over the last year, the State of Florida has provided updated projections for both these revenue sources and as a result, the city will be receiving less revenue than originally projected in FY09. For FY10 projections have been modified based on the most recent information received by the State of Florida. Both of these sources are estimated to bring in approximately \$12.8 million in FY10, representing a decrease of approximately \$308,436 from the FY09 expected receipts.

Transfers from Utilities

The General Fund transfers from the utilities have been calculated per the methodology approved in the finance policy. The transfers total \$34.5 million in FY10 representing an increase of approximately \$1.0 million over the FY09 transfers.

Business Tax

Due to problems in collection of the tax, and in order to assist the business community during the on going recession, the County eliminated the County Business tax beginning in FY10. The City has a separate business tax and also received a share of the proceeds from the County tax. As a result of the County action, the City will have a reduction in revenue as well. The amount previously projected to be collected from the County Business Tax for FY10 is \$147,624.

Ad Valorem Taxes

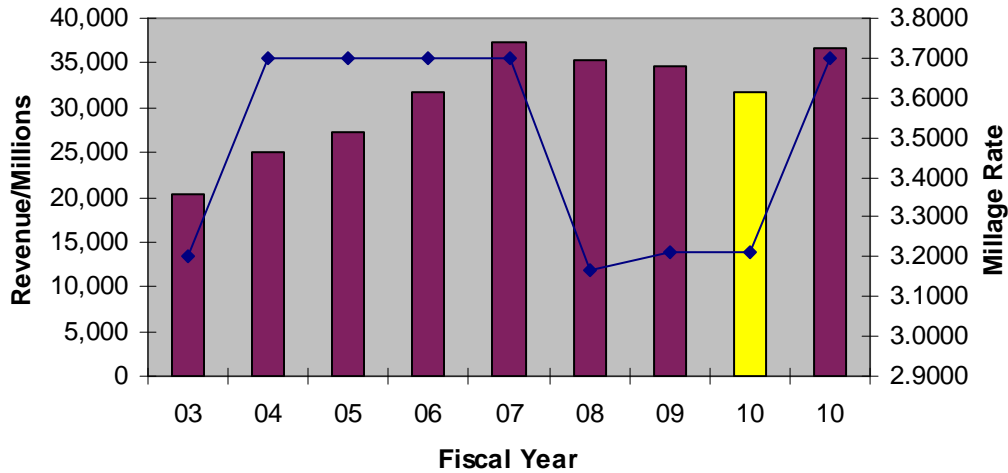
The certified taxable value provided by the Leon County Property Appraiser on July 1, 2009, is \$9.881 billion. This is an unprecedented reduction of \$909 million or 8.4% from the FY09 assessment. Furthermore, values for FY11 are also expected to be less than the FY10 taxable value. The roll back rate (the rate required to raise the same amount of ad valorem revenue given current property values) is 3.5151 mills. The “Maximum Millage Rate” that can be adopted by a simple majority vote, which is the roll back rate adjusted by growth in Florida personal income (FPI) of 2.5%, is 3.6030 mills.

Property taxes represent the largest source of general fund revenues. The chart that follows shows historical growth of ad valorem taxes as compared to the millage rate. The millage rate was increased from 3.2 mills to 3.7 mills in FY04 to recover the cost of debt service for newly issued debt for neighborhood projects. As indicated in the chart the millage rate was reduced in FY07 as a result of state legislative requirements, and although increased slightly in FY09, the amount of ad valorem revenue was still slightly less than for the prior year. The debt service for which the millage was increased, however, continues for many more years. The first amount shown for FY10, in yellow, is the amount that would be collected if the millage rate remained at 3.2115, the current rate. This results in a decrease in revenue of \$2.9 million from FY09. The tentative millage rate adopted by the Commission on July 1, 2009 of 3.7 mills is shown on the second FY10 bar and provides \$1.9 million more than collected in FY09 but is still less than the amount collected in FY07.

The increased millage is needed to assure that adequate funding is available to repay the debt previously issued and to start to replenish the reserves for both operating and capital needs.

Even with the millage increase, Tallahassee’s rate is still lower than eight of the twelve cities used for comparison of services and costs. The millage increase results in an increase of \$73.27 per year for the owner of a home valued at \$200,000.

Ad Valorem and Millage Rates



Other Revenue Increases

Increase in Competitive Gymnastics Fees

Competitive gymnastics fees currently generate approximately \$54,720. It is recommended that the fees be doubled, which would double the revenue, if the number of gymnasts at each level remains constant. This revenue enhancement will generate an estimated additional \$54,720 for FY10. Below is the current fee schedule:

<u>Hours</u>	<u>Fees per Month</u>	<u>Gymnasts</u>	<u>Yearly Rev</u>
14.5	\$73.25	12	\$10,548
8.5	\$56.50	45	\$30,510
5.5 - 8	\$39.50	23	\$10,902
0 - 5	\$23.00	10	\$ 2,760

Audio Tech Cost Recovery Program for Non-Profit Organizations

The City’s current fee for audio services for non-profit organizations is \$25 per hour and for all other organizations \$100/ hour. Expenses for this service total \$60,000. It is proposed that fees will be charged for full cost recovery for non-City events ranging from \$15 - \$100 per hour depending on whether it’s a private or public event.

Increase for Clay Court Tennis League Fees

The City charges tennis leagues a fee for tennis court reservations that varies based upon playing on a clay court or hard court. In addition, the reservations come with the option of having rainout rescheduling. If the league opts to pay for rainout insurance and a match is cancelled due to weather conditions, PRNA will reschedule the match at no additional cost. If they do not opt to have the rainout guarantee, then the league would have to pay for their match to be rescheduled. It is recommended that all fees be increased and that the City no longer provide a

discount for not having rainout insurance. Revenues for this increase are anticipated to be approximately \$20,000. Below is the proposed fee schedule for FY10:

FEE INCREASE FOR COURT RESERVATIONS WITH RAINOUT RESCHEDULING

<u>Current Fee</u>	<u>Proposed FY10 Fee</u>	<u>% Increase</u>
\$7.25 (Clay)	\$13.60	88%
\$3.75 (Hard)	\$ 6.40	71%

FEE INCREASE FOR COURT RESERVATIONS WITHOUT RAINOUT RESCHEDULING

<u>Current Fee</u>	<u>Proposed FY10 Fee</u>	<u>% Increase</u>
\$7.00 (Clay)	\$13.60	94%
\$3.25 (Hard)	\$6.40	97%

Building Inspection Fee Increase

In order to fully recover costs in the Building Inspection Fund, a fee increase is necessary. Permit fees are not currently structured to fully recover costs of the division’s budget. The study that established the current fee structure was based on permit activity prior to FY 2006 and therefore did not properly reflect current construction activities. Prior to the FY 2006 rate study, FY 2002 was the last update of the fee schedule. The fee increase is approximately a 25% increase overall.

Red Light Camera Revenue

On May 27, 2009, the City Commission adopted ordinance No. 09-O-22, which implements a red light camera safety program effective immediately. Other Florida cities and cities throughout the United States have implemented red light camera programs and have seen significant improvement in traffic safety. Red light camera programs seek to monitor vehicles running red lights, which enhance public health, safety, and welfare by providing an additional deterrent to traffic control signal violations, and reducing accidents and injuries associated with such violations. Red light camera programs not only improve traffic safety, but they generate revenue. It is anticipated that the fee will generate \$800,000 in FY10.

Increase parking rates in garages for non-city users

Parking rates are below market in city garages and in some cases, rates may be lower for outside users than for employees. Increases in rates was discussed in the FY09 budget process but not implemented. Increases in both Eastside and Kleman parking garages for transient, monthly, and special event parking will generate additional revenue of \$250,000.

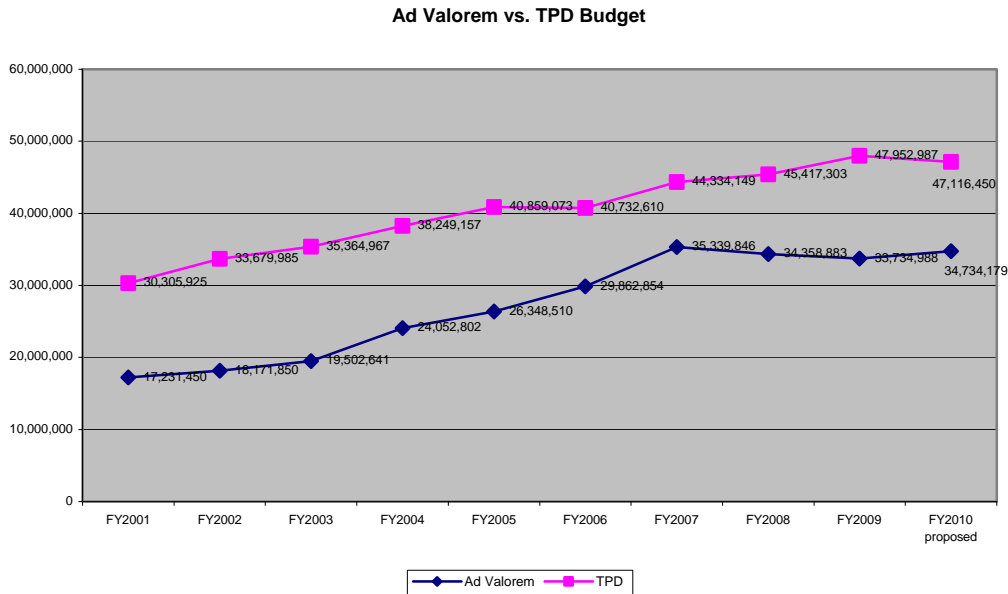
PROGRAM IMPACTS- GENERAL FUND

As part of the budget process, a number of programs have been discussed for elimination. The vast majority of these programs involve either the elimination of filled or vacant positions. The following provides an overview of the most significant programmatic reductions that have been identified. In addition to the items discussed below, a number of other efficiency measures that may also include elimination of full time or temporary positions, have also been identified. Additional detail on the other reductions is provided in the Service Area sections of the budget document.

Safety and Neighborhood Services

Police

As indicated in the following chart, the cost of police services has generally increased at a rate comparable to the increase in ad valorem revenue.



When ad valorem revenue started to decline in FY07, the gap between the cost of police service and available revenue for funding this service widened. The increased millage rate proposed for FY10, begins to narrow this gap again.

Given this funding gap, and the fact that police services comprise 35.2% of the General Fund budget, a number of cost reduction proposals have been identified. The following recommendations are included in the proposed budget:

- Elimination of Sixteen (16) Police Officer Positions – Chief Jones has reluctantly recommended the elimination of sixteen police officer positions with projected savings of \$976,394 will require the transfer of some officers from specialty units to patrol squads to backfill the losses. This is not expected to have a significant impact on response time for high priority calls for service.
- This will be somewhat mitigated by the addition of five new officer positions that will be funded from a federal grant, and imminent retirements from TPD.
- Reduction of the Police Officer Reserve Program by one-half in FY10. Fewer reserve officers will be available to assist during special events, staff inspections, towing company regulation, and personnel recruiting. These duties will shift to full-time officers. The projected savings in FY10 is \$104,512.

In addition to the above major reductions, a number of other reductions in the Police Department are being recommended including eliminating city-funded police overtime for security at all special events except for FSU and FAMU football games, parade activities, dignitary protection

and city-sponsored events; elimination of the DEFY drug education program; elimination of overtime for the party patrol; elimination of various administrative positions, and others.

Fire Administrative and Supervisory Costs

Although the Fire Department is a special revenue fund supported by fees, programmatic changes are shown here in order to provide a broader view of public safety issues. Four positions have been identified for elimination including one administrative position and three lieutenant positions with savings of \$302,052.

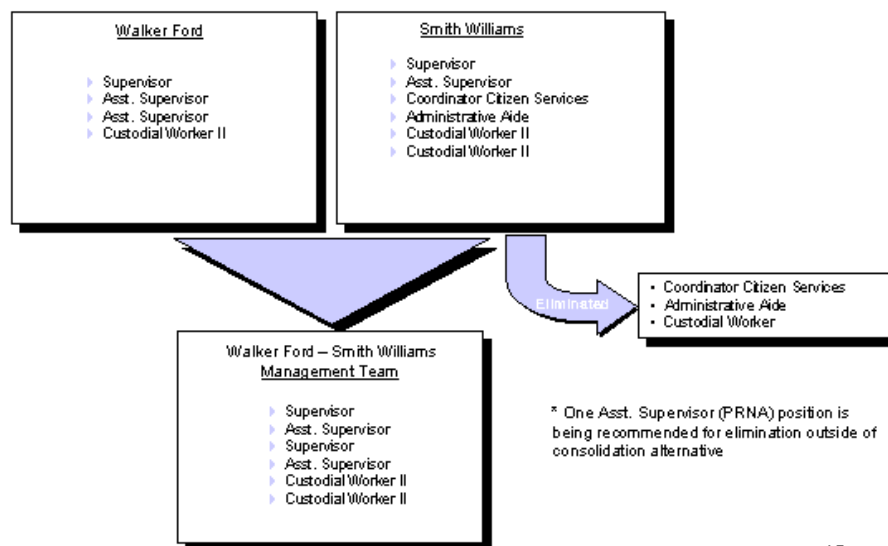
Parks, Recreation, and Neighborhood Services

The proposed budget recommends the closing of Palmer Monroe Community Center located on Jackson Bluff Road. Demographics of the neighborhood where this community center is located have changed dramatically. Currently, college students and community groups primarily utilize the center. Two public schools in the area have recently closed leaving other nearby schools and facilities as sources for youth activities. Participation at this community center has greatly declined in the past few years. The community center used to average approximately 320 participants per day; currently, it averages around 170 people per day. The closing of this community center would result in the deletion of three full-time positions with savings projected to be \$211,319 in FY10.

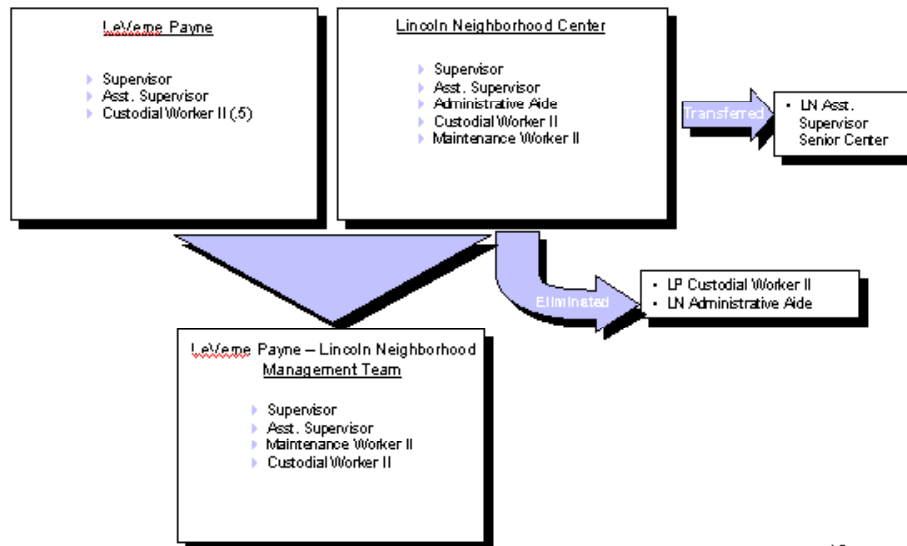
Economic and Community Development

Consolidation of staffing of four recreation and community centers will result in more efficient operation and allow for expansion of senior services in other areas of the city. The consolidation will result in the elimination of four and one half positions as shown on the following page.

The Walker Ford/Smith Williams consolidation results in the elimination of three positions



The LeVerne Payne/Lincoln Neighborhood Center consolidation results in the elimination of 1.5 FTE positions and the transfer of one FTE to the Senior Center



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Development and Transportation Services

Public Works: Reorganization/Consolidation of Street Construction Program

The proposed budget includes a major reorganization for the Department of Public Works which will consolidate the department from four to two divisions: a capital division, and an operating division. It will also provide a more efficient and streamlined management structure to direct and support these activities. In order to accomplish the resulting elimination of 18 positions, some work now performed in-house will be contracted out. The reorganization will result in the savings of \$889,767.

Growth Management: Restructuring of the Growth Management Department

Staff is recommending a restructuring of the Growth Management Department that will result in the transfer of three code enforcement positions from the Building Inspection Fund to the General Fund, with savings of \$167,715 to the Building Inspection Fund and a corresponding increase in the General Fund. The budget recommends elimination of three planner positions in Growth Management and the permanent transfer of the three employees into vacant positions in Planning that was done on a temporary basis in FY09. Total savings of \$643,128 will be realized through the elimination of three positions previously mentioned and five additional positions, which impact stormwater pond certification and GIS functions.

StarMetro Route Adjustments

The proposed budget recommends a budget for StarMetro in FY10 of \$15,950,343 including a contribution from the general fund totaling \$7.9 million or 49.6% of the department’s total budget. In FY09, StarMetro’s budget increased by \$912,909 or 6% from the 2008 approved budget. Due to a change in federal regulations, StarMetro is receiving \$808,988 additional funding that can be used for operating costs in FY09. It is expected that approximately \$404,000

will also be available for FY10. The transit action plan for FY10 as approved by the City Commission, identifies route restructuring and the elimination of the following routes, to achieve savings of \$113,562. These are as follows:

- Elimination of route 10, which is a Saturday only route and closely follows weekday route 18.
- Elimination of route 35, which is the evening route 23.

Additionally the proposed budget recommends the elimination of two administrative positions in FY10, which result in an additional savings of \$116,032.

Administration and Management Services

Special Appropriations Funding for Outside Agencies

Excluding special events, funding for outside agencies totals \$2,865,118 for FY09. Special events funding is approximately \$500,000 for a total of \$3,368,118. While reductions in other general government spending has been required over the past two years and, will be required for FY10 as well, funding for these agencies has either remained constant or increased. The proposed budget recommends an overall reduction totaling \$357,359 in funding for outside agencies, excluding social services. A listing of recommended funding reductions by agency is included in the Operating Budget Appropriations Summary section of the budget document.

PROGRAM IMPACTS - INTERNAL SERVICE FUNDS

Program reductions in internal service funds will impact all funds that are charged for the services provided by the fund.

Warehouse Reduction and Reorganization

Staff is recommending the closure of the Municipal Supply Center and the transfer of four (4) employees to the Electric Utility, along with the remaining inventory. The warehouse function is currently located in the Purchasing unit of the Department of Management and Administration. One employee will remain to coordinate surplus sales activity and three (3) other positions will be eliminated. The projected cost savings in Purchasing in FY10 is \$274,316.

Information Systems Services Reductions

The Information Systems Services (ISS) unit of the Department of Management and Administration is revising contractual agreements and other expense accounts in FY10. ISS is also eliminating an administrative position mid-year. The projected savings in ISS in FY10 is \$613,706.

Utility Business and Customer Services

The proposed budget recommends the phasing out of 10 temporary and full time meter reading positions, as planned, due to the installation of smart meters in 2009. Total savings realized by this recommendation are estimated at \$287,480.

Equity and Workforce Development, Human Resources, Accounting, and Revenue Funds

A total of 3 positions have been identified for elimination in these funds. The fiscal impact of these positions is \$300,838. As a part of this, the Human Resources Department and Equity and Workforce Development Department are being merged into the Department of Management and Administration. As a result, these areas will become divisions of the Department of Management and Administration allowing for the elimination of two department director positions, one in FY09 and one in FY11.

PROGRAM IMPACTS- SPECIAL REVENUE FUNDS

Building Inspection Fund

To reflect the appropriate funding source for the code enforcement function, building inspection staff with code enforcement responsibilities are being transferred from the Building Inspection Fund to the General Fund, resulting in net savings of \$167,715 to the Building Inspection Fund. Eight additional positions were moved out of the fund during FY 2009. For FY10, expense reductions of \$54,423 are proposed in temporary wages (one temporary full time inspector) and other miscellaneous line items.

The Building Inspection Fund is balanced in all five years with no loans from the Deficiencies Fund. In order to accomplish this, the proposed budget recommends a fee increase. The department has met with representatives of the construction industry to develop an increased fee structure of approximately 25%. The revised structure provides for an automatic annual adjustment.

Fire Services Fund

The Fire Services Fund is balanced in all years of the proforma, although a transfer from the fire services operating reserve is projected in fiscal years 2012, 2013 and 2014 as projected in the rate study. The city's contribution to the Fire Fund, through the Deficiencies Fund, will not be required in fiscal year 2010 with implementation of the countywide fire services fee. Deficits projected in fiscal years 2012 and 2013 will come from surpluses projected to accumulate in the fire services operating reserve. To the extent any surplus dollars are expended and not replenished, an alternative source of revenue will need to be identified.

The department's fiscal year 2009 overtime expenditures are expected to decrease by approximately \$372,000 when compared to 2008 actual expenditures. The 2009 overtime expenditure level is expected to continue into fiscal year 2010, allowing the department to maintain expenditures at a level equal to or less than budgeted expenditures.

As previously indicated, expenditures have been adjusted to eliminate four positions effective October 1, 2009. The addition of nine firefighters for county stations effective April 1, 2010 has been budgeted, as are the addition of another nine on October 1, 2010. The fund's internal services allocation for Utility Services expense has increased to cover the city's cost for countywide billing for the fire services fee. The fund's vehicle replacement allocation also has increased to cover the cost of acquiring additional rolling stock. Funding is not budgeted for operation of any additional stations that may be added during this period.

ENTERPRISE FUNDS- FY10 UPDATE

Aviation Fund

The Aviation Fund is balanced in all five years as a result of eliminating temporary wages, reduction in operating expenses, an increase in capitalized wages, restructuring of building services staff in the Facilities Division and changing law enforcement requirements by eliminating the midnight shift at the airport.

Electric Fund

Electric revenues are projected to generate approximately 18% less revenue than budgeted in fiscal year 2009. Average kWh consumption in all customer classes through April 2009 is down approximately 1.5% when compared to April 2008. Revenue and consumption projections for fiscal years 2010 through 2014 are projected to decline resulting in less transfer to support operations of the General Fund than had been projected at the beginning of the 2009 for 2010 and beyond.

One-time fiscal year 2010 expenditure reductions totaling approximately \$11.8 million planned by the department include the following:

- Deferral of debt service associated with the demand side management project.
- Reduction of RR&I funding to support capital projects.
- Reduction in various operating expenditure accounts.
- Reduction in various capital outlay accounts.

Beginning in fiscal year 2011, transfers to support debt service payments and cash for capital projects increase from \$57.4 million to \$70.1 million or 22%. This category of expenditures is projected to increase to \$79.2 million by fiscal year 2014. New rate study revenue is programmed annually in fiscal years 2011 to 2014 to support the Electric Fund's expenditure base.

Gas Fund

The Gas fund is balanced for fiscal years 2010 through 2014. The average residential customer natural gas bill increased \$2.50 on April 1, 2008, and will increase by \$1.10 on October 1, 2009. The 2010 fiscal year budget reflects expenditures in the amount of \$36.7 million, representing a decrease of \$3.0 million from the 2009 approved budget. This is primarily due to the decrease in estimated fuel expenses. The fiscal year 2010 fuel forecast is budgeted at \$23.3 million versus the fiscal year 2009 fuel forecast of \$25.7 million. To address the issue of declining consumption, two positions are proposed for elimination.

Water Fund

The Water fund is balanced for fiscal years 2010 through 2014. Revenues for the water utility system include water sales, development fees, various water service fees, and other miscellaneous fees. Total revenues for the Water fund for fiscal year 2010 are budgeted to be \$29.8 million versus the fiscal year 2009 budget of \$30.2 million. The decrease is due mainly to the lower than expected growth in customers and service points and a decrease in average consumption.

Sewer Fund

The Sewer fund is balanced for fiscal years 2010 through 2014. Wastewater system revenues also include monthly sewer service charges, which are based on water consumption rates, development fees, the sale of effluent and other miscellaneous fees. Total revenues for the Sewer fund for fiscal year 2010 are budgeted to be \$56.8 million versus the fiscal year 2009 budget of \$51.7 million.

Solid Waste Fund

The Solid Waste fund is balanced in FY 2010-2014. Revenues are projected to decrease in fiscal year 2010 mainly due to a decrease in commercial demand. Revenue projections for fiscal years 2011 through 2014 assume little customer growth and include only modest increases. For the fiscal years 2011 through 2014, an annual consumer price index (CPI) adjustment is included to offset increases in landfill tipping fees and contractual fees paid to Waste Pro. Six positions are planned for elimination due to service changes previously implemented. In addition, two mechanics are being transferred to the fleet department in order to consolidate the vehicle maintenance function within the city.

Stormwater Fund

The Stormwater fund is balanced in FY 2010-2014. On March 30, 2005 the City Commission approved a stormwater fee increase of \$1.70 per equivalent residential unit (ERU) to implement the stormwater pollution reduction program (SPRP). The fee increase was phased in over five years, at a \$.34 per ERU, and is in the fifth year in FY10. Total revenues for the Stormwater fund for fiscal year 2010 are budgeted to be \$15.9 million.

Golf Course Fund

The proposed budget recommends no subsidies for Hilaman Golf Course in any of the five- year proforma period. The budget includes:

- Elimination of four positions.
- Use of contract employees in lieu of in-house staff.
- Reduction in total salary expenditures.
- Transfer of functions to fleet for small engine repair.
- Implementing a marketing plan to increase revenue via a new annual membership program.
- Increasing concession sales.
- Elimination of RR&I funding.

FY10 CAPITAL BUDGET AND FY10 – FY14 CAPITAL IMPROVEMENT PLAN

The fiscal year 2010 capital budget totals approximately \$164.2 million and the total five-year capital improvement plan of \$878.5 million. Of this, projects that support general government activities total \$12.0 million and \$89.2 million respectively. A substantial portion of the funding is allocated to Public Works, although funding is dispersed among several departments for a variety of projects.

Public Safety Building

The proposed budget includes funding for the city's portion of the Public Safety Complex. This facility will house a joint city/county communications facility for joint dispatch, the regional transportation management center, administrative offices for the Tallahassee Fire Department administrative functions and Leon County EMS administrative functions. The city's share of this project is \$26.5 million and will be funded with grant funding from FDOT, and future debt funded from the general fund and the fire services fee. The recently approved fire services fee rates include debt service associated with the fire department's portion of the cost of this facility. As part of the budget process, we have also identified \$1 million in FY10 to reduce future debt requirements.

Sales Tax

Reductions in the projected level of sales tax revenues expected to be generated and the current financial position of the city's sales tax fund have necessitated changes to projects funded from this source in fiscal year 2010. Sales tax receipts have experienced reductions in the past couple of years that have negatively affected the level of funding available to support capital projects. Currently, funding appropriated to existing projects (already open) exceed the dollars available in the sales tax fund by \$20.6 million. To address the shortfall, no new sales tax funding has been recommended for projects in 2010. Instead, \$5 million that was requested for projects is being funded by reprogramming funds from existing projects and reducing appropriations for certain project activities.

The Public Works Department has closed a number of projects funded from 1989 sales tax and 2004 capital bond proceeds, making approximately \$1.55 million available to support the current capital program.

Neighborhood Infrastructure Project

Funding from project closeouts is not sufficient to fund all recommended projects in FY10. The Lake Bradford Road Gateway Enhancement project requires an additional \$1.0 million in funding. It is recommended that funding from the unspent/unallocated balance in the Neighborhood Infrastructure project be dedicated for this project.

DRI Funding

The Weems Road Improvement project is partially funded with \$4 million from the Fallschase Development of Regional Impact (DRI) funds, with an additional \$3.8 million proposed to be funded from future capital bonds.

General Government Capital Project Account (GGCPA)

The city's general government capital account (GGCPA) and general government capital improvement fund (GGCIF) also have been negatively impacted by the reduction in property taxes and other revenues that make up the General Fund base. Collectively, these fund general government capital activities such as operating and maintenance of the city hall, police, neighborhood and parks facilities. The sources also have supported tennis facility renovations, historic property preservation and waivers for water/sewer system charge and tap fee waivers. Of the nearly \$3.1 million requested in fiscal year 2010 for these activities, only \$824,000 has been programmed to support them.

Funding recommended in FY10 supports (at reduced levels):

- Repairs, Replacement and Improvements for City Hall \$150,000
- City Hall Window Sealant/Waterproofing \$ 50,000
- Repairs, Replacements and Improvements for Police Facilities \$ 75,000
- Park Facility Maintenance \$374,000
- Neighborhood Center Facility Building Repairs \$100,000
- Downtown Pedestrian and Vehicular Enhancements \$ 75,000

FY10 funding of \$100,000 for the Environmental Compliance and Remediation Program will be funded from the fleet reserve fund. The Water and Sewer System Charge and Tap Fee Waivers projects have unspent FY09 dollars and the proposed budget recommends that this funding be carried over to FY10 to continue to fund these projects. Dollars programmed from the preceding funding sources have been maintained as requested in the last four years of the CIP. However, they will be reviewed and adjusted, as appropriate, to fall more in line with revenue projected to be generated from each source.

Aviation

The Aviation Department's fiscal year 2010 capital budget includes projects for terminal building rehabilitation, runway reconstruction, airfield preservation and miscellaneous major/minor repairs, replacements and improvements, among others. The department's five-year CIP is comprised of continued funding for several of the previously mentioned projects, as well as projects that support apron expansion, airfield signage improvements, taxiway rehabilitation, ongoing support for air service improvement and marketing and promotional study, and hangar development, building bridge replacement, and terminal loading bridge installation. The FY10 capital budget is \$13.4 million and the five-year CIP totals \$52.3 million.

StarMetro

StarMetro's \$6.2 million FY10 capital budget and \$32.2 million five-year CIP supports bus acquisition and the Job Access Reverse Commute program "JARC".

Utilities

As has occurred historically, the Electric and Underground Utilities departments comprise the majority of the budget and five-year plan. Electric's five-year CIP totals \$340.8 million and is comprised of projects that support substations, transmission lines, purchase of Talquin facilities, and those for the Corn-Hydro, Purdom and Hopkins facilities. The department's fiscal year 2010 budget is slightly more than \$41 million.

Underground Utilities' fiscal year 2010 budget totals \$66.5 million while the five-year CIP totals \$270.4 million. The 60 projects in the department's CIP address infrastructure needs in gas, water, sewer and stormwater, and range from small stormwater initiative projects to larger ones such as Frenchtown Stormwater Improvements and Upper Lake Lafayette Nutrient Removal Facility. Gas projects run the gamut from recurring funding for system relocations/adjustments to system expansion. Water and sewer projects are predominated by master plan improvements, advanced water treatment, recurring funding for water and sewer system rehabilitation and replacement, and improvements to the Lake Bradford Road and T. P. Smith facilities.

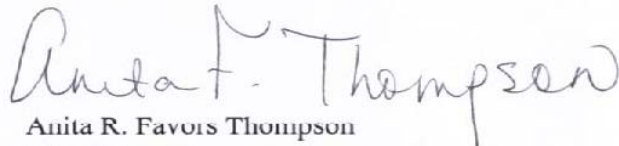
CONCLUSION

For the past few years, we have had to face significant challenges in order to develop a budget that is reflective of the needs of the community, yet within our financial means to provide those services. And although this year has been as difficult, or even more difficult than prior years, I feel confident that the budget that has been provided to you will not only meet the needs of the community, but also help us to begin to recover from financial issues brought on by tax reform and the economy in prior years. The strategies used for FY10 will also help us to address in a more positive manner the continued economic conditions expected to last well into FY11.

I look forward to discussing the proposed budget and our recommendations with you at our upcoming operating and capital workshop scheduled for August 24, 2009. Staff from the Office of Budget and Policy and I are available to answer any questions or provide any additional information you may require.

I want to also thank the Mayor and Commission for the time and effort you have already invested in the financial security of the government and the hard decisions previously made.

Respectfully submitted,



Anita R. Favors Thompson
City Manager