

City of South Daytona

Office of the City Manager / Department of Finance

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August 5, 2022

ANNUAL BUDGET MESSAGE

FISCAL YEAR OCTOBER 1, 2022 - SEPTEMBER 30, 2023

TO: THE HONORABLE MAYOR AND CITY COUNCIL

In compliance with Article 7, Section 7.03(e) of the City Charter, staff is pleased to submit the tentative Annual Operating and Capital Improvement Budget for Fiscal Year 2022-2023. The budgeting format is designed to afford you an easily readable and understandable budget with a detailed breakdown of revenues and expenditures for the various departments and funds.

The FY 2022-2023 comprehensive budget document for the City of South Daytona is a detailed description of revenues and expenditures of the City's fourteen active funds: General Fund, Police Confiscated Fund, ADA Advisory Committee Fund, Permits and Inspections Fund, Parks Improvement Fund, Redevelopment Trust Fund, Transportation Fund, Capital Project Fund (Cell Tower), Capital Project Fund (ARPA), Water & Sewer Fund, Stormwater Fund, Solid Waste Fund, Internal Service Fund and Community Trust Fund. This budget includes the creation of four new funds that add an additional amount of transparency and clarity as to how the revenues received allow the City to fund expenditures necessary to maintain all services offered by the City. These new funds are the Capital Project Fund (Cell Tower), Capital Project Fund (ARPA), Stormwater Fund, and the Solid Waste Fund. By creating another capital project fund, the City will be able to account for projects being funded by the proceeds from selling the Cell Tower as opposed to those that are funded by ARPA. Additionally, the Stormwater Fund was created to allow the City to more accurately account for the operating impact of stormwater separate from Water and Sewer. Prior to this budget Water, Sewer and Stormwater were all reported in the Utility Service Fund. Finally, the Solid Waste Fund was created to move the income and expenses from garbage services out of the General Fund into a business type fund.

According to the Florida Office of Economic and Demographic Research, not only has the City's population decreased from a high of 13,773 in 2006 to 13,007 in 2021 but South Daytona's percentage of Volusia County's overall population also decreased from 3.55% in 2006 to 2.38% in 2021. Two of the City's major non-ad valorem revenues sources – municipal revenue sharing and sales tax distributions – have primarily population driven distribution formulas. This means that the City continues to provide the same services while the City's portion of State shared

revenues are diminishing. This places additional pressure on already limited fiscal resources making prioritizing and scrutinizing every expenditure of the utmost importance.

This balanced budget is based on a proposed millage rate of 7.7500 mills per \$1,000 of taxable valuation representing a 0.5019 or 6.92% increase above the rolled-back millage rate of 7.2481. Adoption of this millage rate will generate \$394,444 more in ad valorem tax levies when compared to the rolled-back rate. Including new construction, taxable values increased \$129,126,271 or 18.50%. When new construction is not taken into consideration, taxable values increased \$102,614,319 or 14.70%. This is the tenth consecutive year for the City to have increases in taxable value. The City now has a taxable value increase of \$72,466,760 or 9% above the FY 2008 pre-economic downturn taxable value amount of \$754,798,276.

The total budget appropriation for the upcoming fiscal year is \$32,000,535 representing a \$5,095,952 or 13.74% decrease from the previous year amended budget of \$37,096,487.

CITY WIDE TOTAL BUDGET BY FUND

	FY 2020-2021	FY 2021-2022	FY 2022-2023	\$	%
		AMENDED	PRELIMINARY	Increase	Increase
	ACTUAL	BUDGET	BUDGET	(Decrease)	(Decrease)
General Fund	\$ 12,056,292	\$ 13,265,972	\$ 10,132,725	\$(3,133,247)	-23.62%
Police Confiscated Fund	545	14,605	10,000	(4,605)	-31.53%
ADA Advisory Committee Fund	5,000	-	-	-	0.00%
Permits and Inspections Fund	275,346	302,497	326,635	24,138	7.98%
Impact Fee Fund	2,114	4,419	-	(4,419)	0.00%
Redevelopment Trust Fund	1,932,099	2,332,699	3,077,963	745,264	31.95%
Transportation Fund	649,395	1,400,897	1,006,264	(394,633)	-28.17%
Capital Project Fund	-	2,725,000	1,160,000	(1,565,000)	-57.43%
Capital Project ARPA Fund	-	6,551,166	3,350,000	(3,201,166)	-48.86%
Water & Sewer Fund	8,672,035	10,282,832	8,458,870	(1,823,962)	-17.74%
Stormwater Fund	-	-	1,845,440	1,845,440	N/A
Solid Waste Fund	-	-	2,386,128	2,386,128	N/A
Interservice Fund	162,976	196,400	226,510	30,110	15.33%
Community Trust Fund	15,750	20,000	20,000	-	0.00%
Total	\$ 23,771,552	\$ 37,096,487	\$ 32,000,535	\$(5,095,952)	-13.74%

BUDGET HIGHLIGHTS

The following list highlights some of the more significant items affecting the FY 2022-2023 budget. Additional significant highlights will be presented in the individual fund level discussions.

- The budget is balanced based on a proposed millage rate of 7.7500 mills per \$1,000 of taxable value representing a 6.92% increase above the rolled-back millage rate of 7.2481 mills as established by the Volusia County Property Appraiser.
- A total of \$450,532 in additional general fund principal debt service payments are proposed to be made comprised of \$229,527 from the dedicated 0.400 mills assigned to

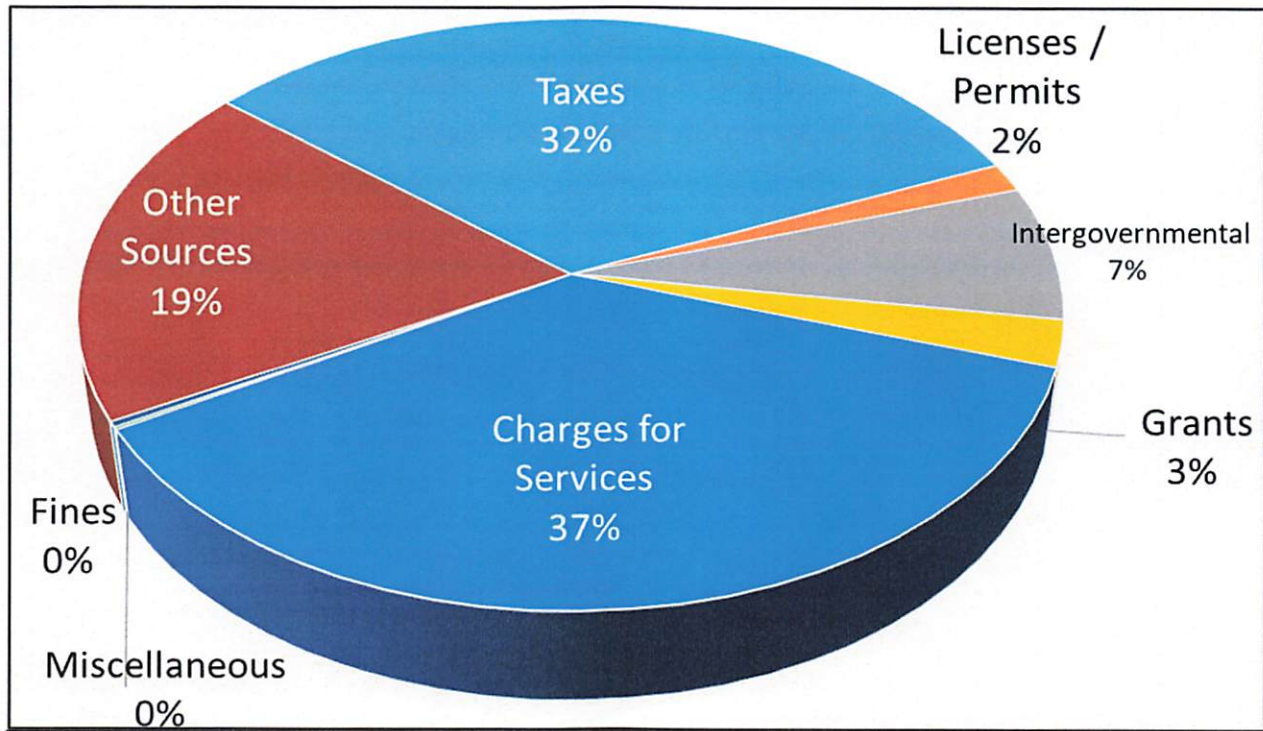
debt reduction and \$221,005 from debt service payments until all debt is retired.

- \$564,860 in additional CRA principal debt service payments are being proposed.
- All employees are budgeted to receive a 4% base rate increase at an estimated cost of \$256,000, including benefits.
- The minimum and maximum pay for each salary grade were adjusted to a new pay plan that has the lowest job salary grade starting at \$15 per hour.
- Adjusting wages to the new pay plan for general employees had an estimated cost of \$76,039, including benefits.
- Police wages increased an additional \$2.52 per non-administrative officer for an estimated cost of \$192,472, including benefits.
- A reserve contingency of \$370,000 is being proposed. \$100,000 in the General Fund. \$100,000 in the Water & Sewer Fund. \$160,000 in Redevelopment Trust Fund. \$10,000 in the Stormwater Fund.
- \$84,611 in operating contingency funding for anticipated Personal Leave Payouts.
- There are 105 positions funded in the FY 2022-2023 budget.
- Included in the budget is \$6,693,357 for capital outlay.
- All revenues and expenditures associated with residential and commercial garbage have been eliminated from the General Fund and are now recorded in the Solid Waste Fund.
- All costs associated with Right of Way maintenance and other Transportation expenses have been removed from the General Fund and are reported in the Transportation Fund.
- To begin funding an annual street resurfacing program, a portion (22.06%) of State Revenue Sharing that is derived from the municipal fuel tax, \$97,728, has been budgeted in the Transportation Fund. In addition, the Transportation Fund will receive a transfer from the Solid Waste Fund to subsidize the budgeted expenditures and to allow for additional street resurfacing needs since the garbage collection trucks contribute towards street degradation. Budgeting these funds in the Transportation Fund rather than the General Fund will allow the City to annually address street resurfacing needs.
- Stormwater has been removed from the Utility Service Fund and is now budgeted in the Stormwater Fund.

Following is a summary of the budget at the fund level followed by a summary of revenues by source and expenses by type on an entity-wide basis.

FY 21-22 PRELIMINARY BUDGET REVENUE BY SOURCE

	FY 2020-2021	FY 2021-2022	FY 2022-2023	\$	%
		AMENDED	PRELIMINARY	Increase	Increase
	ACTUAL	BUDGET	BUDGET	(Decrease)	(Decrease)
Taxes	\$ 8,682,358	\$ 9,088,462	\$ 10,133,413	\$ 1,044,951	11.50%
Licenses / Permits	434,780	345,675	493,975	148,300	42.90%
Intergovernmental	2,150,100	2,241,479	2,295,280	53,801	2.40%
Grants	228,564	4,703,232	789,403	(3,913,829)	-83.22%
Charges for Services	10,659,668	10,971,060	11,515,043	543,983	4.96%
Fines	118,231	61,450	45,450	(16,000)	-26.04%
Miscellaneous	223,194	153,866	91,450	(62,416)	-40.57%
Other Sources	975,887	8,492,389	5,953,121	(2,539,268)	-29.90%
Transfer from Reserves		1,038,874	683,400	(355,474)	-34.22%
Total	\$ 23,472,782	\$ 37,096,487	\$ 32,000,535	\$(5,095,952)	-13.74%

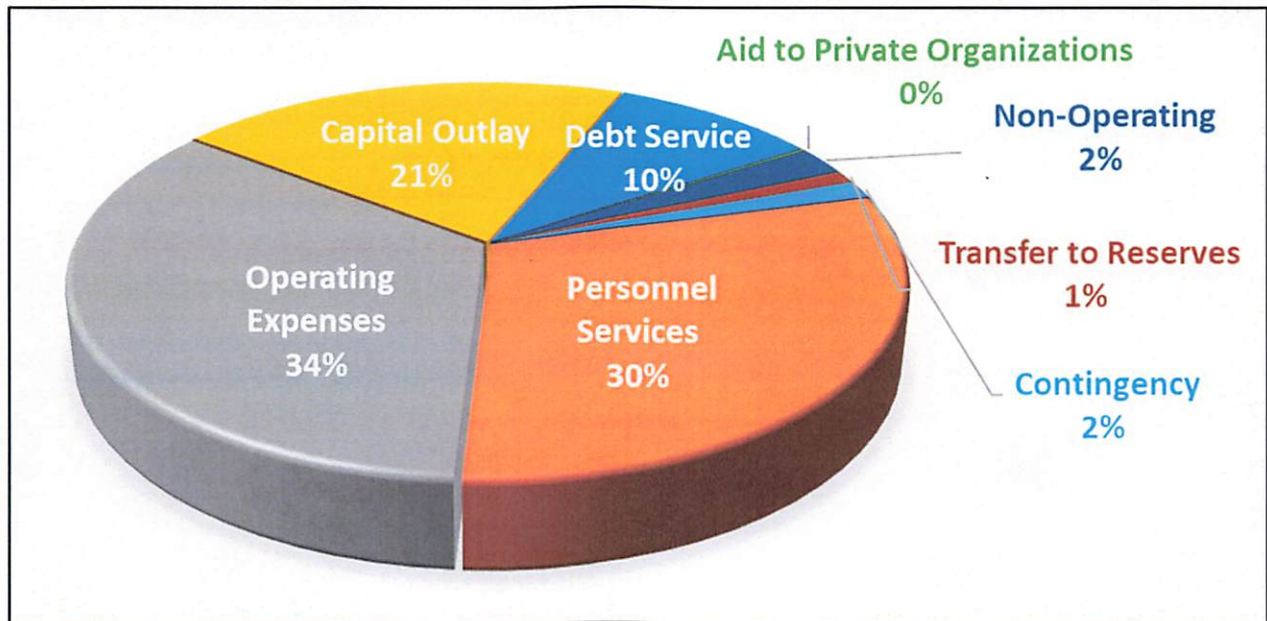


Charges for services is the largest source of revenue for the City. This represents the activities of the business type funds that include water, sewer, stormwater, and solid waste.

Taxes are the second largest source of revenue for the City. This represents ad-valorem, sales tax, and fuel taxes that the City receives. Taxes are recorded in the General Fund or special revenue funds such as the Redevelopment Trust Fund and the Transportation Fund.

FY 21-22 PRELIMINARY BUDGET EXPENDITURE BY FUNCTION

	FY 2020-2021	FY 2021-2022	FY 2022-2023	\$	%
		AMENDED	PRELIMINARY	Increase	Increase
	ACTUAL	BUDGET	BUDGET	(Decrease)	(Decrease)
Contingency	\$ -	\$ 288,456	\$ 454,611	166,155	57.60%
Personnel Services	8,578,286	9,124,684	9,625,097	500,413	5.48%
Operating Expenses	9,714,433	11,038,403	11,010,625	(27,778)	-0.25%
Capital Outlay	825,033	6,834,795	6,693,357	(141,438)	-2.07%
Debt Service	2,936,932	3,023,370	3,076,367	52,997	1.75%
Aid to Private Organizations	17,372	32,000	52,000	20,000	62.50%
Non-Operating	673,827	554,777	753,478	198,701	35.82%
Transfer to Reserves	-	6,200,002	335,000	(5,865,002)	-94.60%
Total	\$ 22,745,883	\$ 37,096,487	\$ 32,000,535	\$ (5,095,952)	-13.74%



The largest decrease in expenditures is a decrease of \$5,865,002 in transfers to reserves. This is due to the Capital Projects Fund reserving \$6,000,583 in the current year budget from the proceeds of the cell tower sale and the American Rescue Plan Act (ARPA) funds which were one-time events and will not be repeating next year.

The largest increase to the budget City wide was \$500,413 for personnel services. This increase is a combination of implementing a four percent wage increase for all employees, revising the pay chart to reflect a minimum wage for the lowest salary grade to be \$15 per hour, and increases to the Florida Retirement System contribution rates. Staff evaluated all positions in the budget to identify personnel reductions which were used to help offset the proposed increase.

EMPLOYEES AND BENEFITS

As part of this budget submission, the following personnel changes are being recommended:

PROPOSED FY 2022-2023 W/ CHANGES			
Department	2022 Positions Budgeted	2023 Positions Budgeted	Positions Changed
Executive	3	3	
Finance	6	6	
Community Development	6	5	-1 Code Compliance Officer
Information Technology	1	1	
Other General Government	1	0	-1 Custodian
Police	36	35	- 1 Community Service Officer
Fire	14	15	-2 Commanders, +1 Fire Marshall, +2 Firefighter
Public Works - Administration	4	4	
Facility & Grounds Maintenance	12	8	-4 Maintenance Workers
Parks and Recreation	4	9	+4 Maintenance Workers, +1 Staff Assistant I
General Fund Total	87	86	
Permits & Inspections	3	2	-1 Deputy Building Official
Community Redevelopment	3	3	
Water and Sewer Operations	7	7	
Utility Billing	6	5	-1 Utility Billing Clerk
Utility Service Fund Total	13	12	
Internal Service Fund	2	2	
Totals	108	105	

The Fire Department has proposed a reorganization that will have four firefighters on each shift. This reorganization will allow the City to reduce the overtime budget resulting in overall personnel costs for fiscal year 2023 that will be approximately \$40,000 less than the fiscal year 2022 revised budget.

Four maintenance workers were moved from Facilities and Grounds to Parks. Maintenance of the parks will be controlled entirely by the Parks Department moving forward.

One Utility Billing Clerk is being moved to Staff Assistant I in the Parks Department resulting in no change to total personnel cost.

One Deputy Building Official was removed from the budget resulting in a savings of approximately \$73,000.

With respect to overall personal services adjustments, all employees are budgeted to receive an increase of 4% at an estimated cost of \$256,000 including benefits.

To attract a quality workforce in conjunction with the minimum wage mandate, the minimum and maximum amounts for each pay grade level have been adjusted to implement a revised pay plan that makes the lowest salary grade pay \$15.00 per hour. The revised pay plan mirrors the current pay plan with a five percent increase between salary grades 1-8. To keep the wages like the current pay plan, salary grades 9-15 have a ten percent increase between job classes. The revised pay plan has been attached for your review.

The wages for police officers in Volusia County have increased significantly last year. To attract new officers and retain our current workforce, police wages were increased by \$2.52 per hour for each non-administrative officer which results in an estimated cost of \$192,472, including benefits.

Florida Retirement System (FRS) employer contribution amounts increased effective July 1, 2022. Total City contributions are budgeted to increase \$196,233 or 15.8%, across all funds based on budgeted wages and other earnings, including new positions and employees expected to enter the DROP plan or leave employment with the City. Total FRS employer contributions are budgeted at \$1,438,383 for the 2022-2023 fiscal year, up from \$1,242,150 in the prior year amended budget. FRS rates increased as follows:

- Regular employees from 10.82% to 11.91%,
- Senior management from 29.01% to 31.57%,
- Special risk from 25.89% to 27.83%,
- Deferred Retirement Option Program (DROP) from 18.43% to 18.60%, and
- Elected Officials from 51.42% to 57.00%.

Health insurance premiums remained flat with a 0% increase for FY 2022-2023. This is a direct result in our workforce being healthier. It demonstrates that our nicotine free policy and newly installed safety programs are working. The City will continue to offer the HMO plan that employee can “buy-up” to via payroll deductions.

Workers’ compensation premiums are budgeted based on prior year actuals as the City has not received a revised experience modifier nor renewal premiums for the upcoming fiscal year. Total workers’ compensation premiums for the upcoming fiscal year are budgeted at \$189,604.

The City provides an excellent benefit package which supplements the employees’ salary.

Health Insurance

Monthly Premium

Florida Health Care - HMO - Employee Premium – Base Plan	\$ 724.58
Florida Health Care - HMO - Employee Premium – Buy-up Plan	\$ 764.39
Florida Health Care - Triple Option - Employee Premium – Buy-up Plan	\$ 919.35

The City pays 100% of employee only premiums for the base plan. Employees can “buy-up” to

the upgraded plan and may provide coverage for dependents at employee cost via payroll deductions. Non-bargaining unit employees and Council members are eligible for insurance stipends provided they have comparable coverage provided outside the City.

Dental Insurance

Monthly Premium

MetLife - Employee

\$ 46.89

The City pays 100% of employee only premiums. Employees may provide coverage for dependents at employee cost via payroll deductions.

Life and AD&D Insurance

The following term life insurance and accidental death and dismemberment insurance coverage is provided by the City at a cost of \$0.38 per \$1,000 of coverage:

Position

Coverage

Council Members

\$ 50,000

City Manager

Per Contract

Department Heads

\$ 100,000

Supervisor/Administrative

\$ 30,000

Regular Employee

\$ 30,000

This coverage includes an Employee Assistance Program (EAP) at no cost to all eligible employees. The EAP assists employees and their eligible dependents with personal or job-related concerns such as emotional well-being, family and relationships, legal and financial matters, healthy lifestyles and work and life transitions. The program offers unlimited telephone access to EAP professionals 24 hours a day, seven days a week and three face-to-face sessions with a counselor (per household per calendar year).

The City pays 100% of employee only premiums. Employees may provide coverage for dependents at employee cost via payroll deductions. The City also offers a Section 125 Plan under the Internal Revenue Code which allows pre-tax deduction of employee premiums for medical, dental and employee supplemental life insurances.

Disability Insurance

Disability insurance is available to all employees at employee cost.

Deferred Compensation

The City contributes \$195 per year per employee hired before October 1, 1992. The City also permits employee elected contributions up to the IRS limits.

Retirement

The City of South Daytona is a member of the Florida Retirement System.

Holidays

The City of South Daytona observes ten holidays of paid leave per year. These holidays include New Year's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving (2 days), Christmas Day, one floating holiday, and the employee's birthday.

Personal Leave

The City provides personal leave benefits to full time employees based on their length of service

ranging from 176 hours to 288 hours annually.

Educational Reimbursement

The City of South Daytona provides an educational reimbursement program for job related courses and degree requirements and requires the employee to remain in the City's employment for three years after reimbursement.

GENERAL FUND HIGHLIGHTS

General Fund Revenues

The total preliminary estimated taxable value for FY 22/23 is \$827,265,036. This is an increase of \$129,126,271 or 18.5% and includes \$26,511,952 in new construction. Adoption of the rolled-back rate of 7.2481 would result in an increase of \$162,856 in the ad valorem tax. Adoption of the proposed rate of 7.7500 would result in an increase of \$452,083 in property taxes. This increase is the net result of increases in the taxable values of existing properties coupled with additional taxes generated from new construction. Adoption of either the rolled-back rate of 7.2481 or the proposed rate of 7.7500 would require a majority vote of the Council. Adoption of the proposed rate of 7.7500 would require the City to advertise a tax increase.

Adoption of the proposed rate of 7.7500 mills would result in an increase of ad valorem revenue in the amount of **\$394,444 over the rolled-back rate or \$51.77 annually, or \$4.31 monthly, per average residential parcel composed of the following:**

Residential Cost FY 2022	\$703.44
Increase to roll back	44.25
Cost at roll back rate	<u>747.69</u>
Increase to 7.75 mills	<u>51.77</u>
Cost FY 2023	\$799.46

From an overall fiscal standpoint, adopting the proposed millage rate will assist the City in maintaining its undesignated general operating fund balance while meeting its near-term debt obligations. Both are extremely important to the City. The Government Finance Officers Association (GFOA) recommends an unassigned fund balance-to-expense ratio to be at a minimum of two months of expenditures or 16.67%. It is important to note that unassigned reserves should primarily be used for emergency purposes. Appropriating unassigned reserves to meet annual recurring expenditures is a fiscally unsound policy that can lead to financial difficulties. General Fund unassigned reserves are projected to remain at 20% by the end of FY 2021-2022.

On November 3, 2020, Florida voters approved a constitutional amendment to gradually increase the state's minimum wage each year until reaching \$15.00 per hour in September 2026. **The timing of the increase in home values coupled with the long-needed addition of new construction to the tax roll allows this budget to address the mandated payroll adjustments.** The City is experiencing difficulty in hiring a quality workforce when many other businesses in the area are paying a higher starting wage without the need for a clean background.

Elevating our starting rate will make the City more competitive and give us the opportunity to hire a quality workforce.

The dates for adoption of the tentative and final millage rates are Monday, September 12, 2022, and Tuesday, September 27, 2022, respectively.

While the home values have increased as evidenced in the property value increases, the economy remains unpredictable with inflation and wage increases pointing to a possible recession which can be seen in the General Fund revenue projections. Several revenue sources such as Electric Utility Taxes, Electric Franchise Fees, Communication Services Tax, State shared revenues and Sales Tax are budgeted with little or no increases. This budget does not include the use of any unassigned reserves.

	FY 2020-2021	FY 2021-2022	FY 2022-2023	\$	%
		AMENDED	PRELIMINARY	Increase	Increase
GENERAL FUND	ACTUAL	BUDGET	BUDGET	(Decrease)	(Decrease)
Taxes	\$ 6,404,295	\$ 6,599,126	\$ 7,036,074	\$ 436,948	6.62%
Licenses/Permits	181,485	190,840	190,840	-	0.00%
Intergovernmental	2,142,545	2,065,755	2,136,216	70,461	3.41%
Grants	129,114	271,753	92,286	(179,467)	-66.04%
Charges for Services	2,328,270	2,367,324	103,305	(2,264,019)	-95.64%
Fines	118,231	61,450	45,450	(16,000)	-26.04%
Miscellaneous	187,025	125,947	67,950	(57,997)	-46.05%
Other Sources		544,903	333,604	(211,299)	-38.78%
Transfers from Reserves	565,327	1,038,874	127,000	(911,874)	-87.78%
Total	\$ 12,056,292	\$ 13,265,972	\$ 10,132,725	\$ (3,133,247)	-23.62%

Charges for services in the General Fund decreased by \$2,264,019. This is a result of moving all garbage collection charges to a newly created solid waste proprietary fund. A proprietary fund is used to account for activities that receive significant support from fees and charges. Removing solid waste from the General Fund will allow the City to better understand the taxes needed to support the general operation of the City.

Other sources decreased by \$211,299. This amount represents the portion of transfers from the Utility Service Fund that covered the administration charges in Public Works which had been budgeted in the General Fund. Public Works administration charges are now recorded in the Water & Sewer Fund and the Stormwater Fund where they should be. Respectively, the transfers out of those Utility Service Funds have been decreased.

	FY 2020-2021	FY 2021-2022	FY 2022-2023	\$	%
		AMENDED	PRELIMINARY	Increase	Increase
GENERAL FUND	ACTUAL	BUDGET	BUDGET	(Decrease)	(Decrease)
Contingency	\$ -	\$ 113,063	\$ 132,718	\$ 19,655	17.38%
Personnel	5,999,929	6,185,964	6,407,354	\$ 221,390	3.58%
Operating Expenses	3,690,661	4,897,464	2,476,168	(2,421,296)	-49.44%
Capital Outlay	289,737	1,178,654	598,800	(579,854)	-49.20%
Debt Service	862,913	890,827	517,685	(373,142)	-41.89%
Aid to Private Organizations	7,500	-	-	-	0.00%
Non-Operating Transfers	108,500	-	-	-	0.00%
Transfer to Reserves	-	-	-	-	0.00%
Total	\$ 10,959,240	\$ 13,265,972	\$ 10,132,725	\$ (3,133,247)	-23.62%

General Fund Expenditures

General Fund expenditures are budgeted to decrease by \$3,133,247 or 23.62%.

Personal Services

General Fund personal service costs are estimated to increase \$221,390 or 3.58% above the prior year amended budget due to the following:

- The budget includes the Citywide average 4.0% wage adjustment
- Implementing a revised pay plan
- Market wage adjustment for all non-administrative officers
- Increased costs for FRS
- Personal leave payouts budgeted in prior years

Operating Expenditures

General Fund operating expenses are estimated to decrease \$2,421,296 or 49.44%.

- \$1,701,139 decrease for solid waste services no longer budgeted in General Fund
- \$276,696 decrease for moving public works administration out of the General Fund
- \$439,774 decrease from moving transportation costs out of the General Fund

Significant Operating items included in the General Fund:

- Charter fiber connection for City Hall, Police and Fire Department (\$15,000)
- 6 Desktop computers greater than 10 years old (\$5,400)
- Lease 8 unmarked police vehicles (\$32,000)
- 4 Mobile computer for vehicles (\$10,000)
- Refurbish 2 Men's showers in Fire Department (\$8,600)
- Fire Rooftop Repair/Replacement (\$10,000)
- Resurface Basketball Court Ned Wagner Park (\$8,000)
- Riverfront Park improvements add lighting, replacement of bricks (\$15,000)

Capital Outlay

The following capital outlay has been budgeted in the General Fund for FY 2022-2023:

Information Technology	
Replace servers at City Hall, Police, Fire, Parks, Public Works	\$ 41,500
Police Department	
4 Handheld Speed Radars	6,400
7 Tasers	8,500
4 Patrol Vehicles	204,000
Tag Reader	25,000
Drone	16,000
Fire Department	
10 Self Contained Breathing Apparatus Bottles	15,500
Vehicle Extraction Gear	14,100
Annual reserve for fire truck replacement	50,000
Parks Department	
Reed Canal Park Design	60,000
Skag Mower	11,000
3 Maintenance Trucks	87,000
John Deere Compact Tractor	33,000
Total Funded by Current Budget	<u>\$ 572,000</u>

Debt Service

In addition to the payments based on amortization schedules, the City will designate an additional \$450,532 in additional principal payments to fulfill the goal of being debt free by 2024.

Challenges/Opportunities

Over the past decade, the City has tried to keep costs down for our residents. To do so we made significant cuts in personnel and operating costs. The commitment to a capital program has begun slowly. While departments have made significant personnel and capital requests to keep pace with demand and growth, this budget has funded the capital needs that have been deemed to be the most critical at this time. These investments in capital need to continue in the future to allow the City's equipment to be viable and in service to benefit the residents of the City.

The City will need to continue to make capital investments in future years. Consumer price index increases, fuel increases, and the adjustment for \$15 minimum wage will continue to make it difficult to balance operational needs with the desires and outcomes our citizens want at a price we can all afford.

TRANSPORTATION FUND HIGHLIGHTS

Transportation Fund Revenues

Overall total revenue in the Transportation Fund is decreasing \$394,633.

Fuel Taxes

Fuel taxes in the Fiscal Year 2021-2022 are trending slightly under budget; therefore, a slight decrease in gas taxes had been budgeted for next fiscal year.

Intergovernmental

Intergovernmental revenue is decreasing \$27,904. During the mid-year budget for Fiscal Year 2021-2022 state shared revenue increased to match actual revenue. The amount budgeted for next year is the original amount budgeted for Fiscal Year 2021-2022.

Grants

Grants decreased \$868,929 as the design of the Sun Trail project are expected to be complete in the current year and, therefore, not warranted in next year's budget.

Other Sources

Other sources increased \$435,000. This amount represents a transfer from the Solid Waste Fund to help fund street resurfacing. In past budgets, the revenue from solid waste remained in the General Fund and helped to subsidize transportation expenses that were recorded in the General Fund. Moving all transportation expenses to the Transportation Fund and supplementing the fund with a transfer from Solid Waste is a more transparent way to budget.

Transportation Fund Expenditures

Overall Transportation expenditures decreased \$394,633 from the previous amended budget.

Personnel services has an increase of \$134,549 as Facilities and Grounds Maintenance workers are no longer being allocated to the General Fund. All payroll for Facilities and Grounds workers are expensed either to Transportation or Stormwater where they should be allocated.

Operating Expenses increased \$289,414 from the previous amended budget. Transportation expenses that were recorded in the General Fund are now being accounted for in the Transportation Fund.

Capital Outlay decreased \$793,972 due to the design of the Sun Trail project that was expensed this year not needed to be included in next year's budget. All of Capital Outlay for the fund, \$201,507 is dedicated to street resurfacing.

CAPITAL PROJECTS FUND HIGHLIGHTS

Starting with this budget, the City is operating two separate Capital Project Funds. The first capital fund includes the revenue received from the American Rescue Plan Act (ARPA) in response to the Coronavirus pandemic. The second capital fund that was set up is the revenue from the sale of the City's cell tower in FY 2022.

Setting these two revenue sources into separate funds allow staff and the City Council to track every expense to comply with the assigned goal of maximizing our return on investment and “investing in us”.

The **Capital Project Fund (ARPA)** will now track all proceeds and expenses for ARPA funds. These capital projects are included in the budget from ARPA this year:

- The installation of auto-read meters \$1,600,000
- Replacing Lift Station #1 \$1,000,000
- Sewer Lining \$750,000

The **Capital Project Fund (Cell Tower)** will now track all council approved expenditures funded by the sale of the cell tower. One of the goals using the cell tower proceeds is to maximize the capital projects by supplementing the city funds with proceeds from grants. The following projects are budgeted using the proceeds from the sale of the cell tower:

- Magnolia Park Improvements \$500,000 (\$240,000 grant, \$260,000 city)
- Splash Pad and Pavilion Improvements \$240,000 (\$67,117 grant, \$172,883 city)

UTILITY SERVICE FUND HIGHLIGHTS

Starting with this budget, the City is removing stormwater from the Utility Service Fund and will create a separate Water & Sewer Fund, Stormwater Fund, and a Solid Waste Fund. All three of these funds are Enterprise or Proprietary Funds since they receive significant support from fees and charges. Budgeting these funds separately will assist in setting rates to cover services, allocate shared billing costs, and to plan and fund renewal and replacement.

Water & Sewer Fund Revenues

The Water and Sewer Fund operates as an enterprise fund and is the City’s second largest fund. Revenues are budgeted to decrease \$1,823,962 or 17.7%. Charges for services makes up 91% of the revenue for the fund. The reason for the decrease to the fund is the removal of stormwater revenues, \$1,112,762, that are now recorded in a separate fund.

Intergovernmental

Intergovernmental revenue is budgeted to decrease \$117,880 or 61.12%. This decrease is primarily attributable to grant funding for the Septic-to-Sewer project which is near completion.

Charges for Services

Water and Sewer Combined Utility

The revenue from water/sewer and miscellaneous service charges is budgeted at \$7,713,070 representing an increase of \$245,546 from the prior year amended budget. The most recent water and sewer rate study was implemented in September 2019. Revenues were budgeted to increase 3.5% according to the City’s rate study.

Other Sources

Overall, non-operating revenue sources, including transfers from reserves, decreased \$838,916 or 55.70%.

Transfers from Reserves

Transfers from reserves represents the amount of restricted fund balance used in the following budget year. In this budget, \$75,000 is budgeted from existing sewer impact fees for the Sheri Blvd. sewer extension project. The prior year amended budget included additional budgeted transfer from prior year appropriation to fund expenses incurred during the fiscal year.

Water & Sewer Fund Expenditures

Expenditures in the Utility Service Fund are budgeted to decrease by \$1,823,962 or 17.74%.

Water & Sewer Contingency

A contingency amount of \$114,289 is included in the budget. Of this, \$14,289 is for funding of unanticipated personal leave termination payouts. The remainder is an operating contingency for unanticipated expenses in the amount of \$100,000.

Water & Sewer Personal Services

Personal services are budgeted to decrease \$434,725 or 23.18%. Portion of utility billing salary has been reallocated by sending twenty percent of personnel services to the Stormwater Fund and twenty percent to the Solid Waste Fund. The remaining decrease is due to the salary for facilities and grounds maintenance that is for stormwater is now budgeted in the Stormwater Fund. The budget includes the Citywide average 4% wage adjustment, increased costs for FRS and personnel changes.

Water & Sewer Operating Expenditures

Operating expenses are budgeted to decrease by \$622,112 or 11.04%. The storm water portion moved out of the fund resulted in a decrease of \$756,561 for the Water & Sewer Fund. Water and Sewer purchases are budgeted to increase by \$288,552. The increase in the pending wholesale purchase agreement is predicated on the consumer price index which is calling for 4.02% increase. **It is important to note that our CPI adjustment that will be passed onto our residents is 3.5% per our utility rate study while the City of Daytona Beach will increase our rates by 4.02% per the assigned index. To keep the Water and Sewer Fund from degrading, we need to ensure that our yearly CPI adjustment matches that of Daytona's once a water and sewer agreement is reached.**

Water & Sewer Capital Outlay

Capital outlay is budgeted to decrease by \$272,053 or 8.72%.

The following Capital Outlay is included in the Utility Service Fund FY 2021-2022 budget:

Water & Sewer Operations

Lift Station Improvements	\$	25,000
LS #15 Replacement - Foxcroft Lane		130,000
Annual Waterline Improvements		32,000
Annual Sewerline Improvements		30,000
Sheri Blvd. Sewer Extension		350,000
Utility Body Truck		37,000
Total Budget Water & Sewer Fund Capital Outlay	\$	<u>604,000</u>

Water & Sewer Debt Service

Debt service for the Water & Sewer Fund has decreased by \$323,273. This decrease is due to moving the appropriate portion of the Utility Service Fund to the Stormwater Fund. The City's Enterprise Funds are still on pace to be debt free by 2024.

Water & Sewer Non-Operating

The transfer to the General Fund has been decreased due to the administrative charges being properly allocated into their separate funds.

Water & Sewer Transfer To Reserves

The Water & Sewer Fund is budgeted to have a transfer to reserves of \$325,000. This is \$130,000 more than the amount transferred in the FY 2021-2022 amended budget. Budgeted transfers to reserves will lead to increased cash in the fund which will allow the fund to budget for renewal and replacement in future years.

STORMWATER FUND HIGHLIGHTS

City staff began identifying stormwater personnel costs separate from Water & Sewer personnel to assess if the rates charged for stormwater were sufficient to cover stormwater operations. Staff identified that most of the capital projects and the debt associated with funding the projects completed in the Utility Service Fund were stormwater related. Starting with this budget, all revenues and expenses related to flood control have been moved to the Stormwater Fund. To make sure that the Stormwater Fund did not operate at a loss this year, the rate charged for stormwater fees needs to be increased.

Stormwater Revenues

The revenue budgeted from stormwater management fees is budgeted to increased \$176,278 from the prior year amended budget. This revenue projection is based on a \$10.50 per Equivalent Residential Unit (ERU). The most recent stormwater rate study conducted in 2008 set the rate of \$9.00 per ERU and recommended for an annual consumer price index (CPI) adjustment. The

annual CPI adjustment was not included with the resolution passed by City Council. If the ERU rate had been adjusted annually, the ERU rate for FY 2022-2023 would have been \$12.13. Staff also recommends that the stormwater rate should be adjusted annually by the CPI moving forward.

Stormwater Reserves

Staff has reviewed the operations for the Stormwater Fund back to 2007 and found that the Stormwater Fund has a negative cash balance of \$1,966,132. In the current budget, \$321,233 is budgeted for Stormwater related debt service payments. Once the debt is eliminated, the Stormwater Fund can start to have cash on hand available to pay for capital improvements and for renewal and replacement.

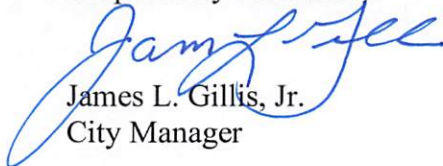
SOLID WASTE FUND HIGHLIGHTS

To assess the total general fund expenditures that needed to be funded by taxes, garbage revenue and expenditures have been moved into their own separate enterprise fund. In past budgets, revenue generated from garbage subsidized the General Fund budget. By removing all expenditures that should be funded by other sources out of the General Fund, such as Transportation, Solid Waste, and Public Works Administrative charges, the budget now clearly shows what services are being funded by each revenue source. The profit from the Solid Waste Fund is now being transferred to the Transportation Fund to help fund the needed street resurfacing from wear caused by the garbage trucks.

CONCLUSION

In conclusion, this is the fourth year that I have submitted the budget for your consideration in accordance with the City Manager's duties prescribed in our Charter. The balanced budget is predicated on maintaining our existing millage rate which is an increase over the roll back millage rate. With the rising cost of supplies such as asphalt, concrete, pipe material and fuel, holding our millage rate at 7.75 is our best option to ensure our viability. This budget is proposed with conservative revenue projections and realistic expenditures that reflect your objectives of reducing debt and increasing reserves while maintaining the same level of service to our residents. The direction provided by the City Council has been a valuable part of preparing a budget that reflects what services the City can provide to the South Daytona residents.

Respectfully submitted,



James L. Gillis, Jr.
City Manager