

City of Coral Gables City Commission Meeting
Agenda Item H-3
December 16, 2008
City Commission Chambers
405 Biltmore Way, Coral Gables, FL

City Commission

Mayor Donald D. Slesnick, II

Vice Mayor William H. Kerdyk, Jr.

Commissioner Maria Anderson

Commissioner Rafael "Ralph" Cabrera, Jr.

Commissioner Wayne "Chip" Withers

City Staff

Interim City Manager, Maria Alberro Jimenez

City Attorney, Elizabeth Hernandez

City Clerk, Walter J. Foeman

City Clerk Staff, Billy Urquia

Director of Finance, Don Nelson

Public Speaker(s)

H-3 [Start:1:30:23 p.m.]

Mayor Slesnick: Mr. Nelson.

Finance Director Nelson: Yes sir, good afternoon everyone, and what I am going to do is do a powerpoint presentation. The charts that will be shown on the monitor and in your handout that I have placed in front of you track the financial activity over the past ten (10) years. The information assists the City administration to provide a basis for financial planning, however it does not forecast what lies ahead in determining future budgets. It is very important that when I present, this is really going back ten (10) years, we have had a very stable and constant performance, and you will see that as we go forward, it really shows graphically how we have done in the past ten (10) years. Let me start with the first chart that will be coming up, now these it will be hard to see the numbers, that is why you have a presentation in front of you on paper. The most important is the graphic, how on this particular first one is total general fund revenues; and you that you we have had a constant trending upward we started ten (10) years ago at sixty-four point five million dollars (\$64.5-M) in general fund revenues; and of course these are the revenues that provide the essential revenues for essential services, public safety, police, fire, public service, building and zoning and public works. We are currently at one hundred seventeen point nine million dollars (\$117.9-M) in the general fund revenue budget; you can see it has trended up, however in the last three (3) years it has leveled off; and that really is attributed to property tax revenue. As you know we have incurred a five point three million dollars (\$5.3-M) loss of revenue in property tax alone because of the last two (2) legislative issues, House Bill 1B, two (2) years ago, and of course Amendment 1 this year. So, that is why the revenues have leveled off, and we also look to that in the future that we are not going to see growth as it has in

the past. The second page you will see tracks the property taxes of the general fund revenue and again it really follows the same track as the total general fund revenues in the same track and then in the last three (3) years it levels off. As you know the property tax revenue provides forty seven percent (47%) of our general fund revenue. I am sorry total revenue, our total revenue is one hundred and forty three million dollars (\$143-M), forty seven percent (47%) of that comes from property tax and the concern of course is the leveling of tax revenue, which is our biggest revenue producer. The next slide you can see leveling, consistent on the gas tax, and I picked a few revenues that really trend over time very equally on the gas tax, which provides the roadway improvements of paving and curving. Ten (10) years ago we had a one million one hundred and ninety eight thousand dollars (\$1,198,000). Today we still have one million one sixty five (\$1,165,000); so it has trended we expect to stay in that, that is a one half cent (1/2) gas tax that we receive and that will go into continued paving of our streets. The next slide you will see is our transportation sales tax, and that has trended up, it start a partial year of eight hundred and eight dollars (\$808,000), we have moved up to one point two million (\$1.2-M), one point three million (\$1.3-M), and have leveled off at one million four hundred eighty five thousand dollars (\$1,485,000) and really we are expecting about one point five (1.5) million that is consistent and that provides the transportation needs of the City, and that should not be affected too much by the economy. The next slide is up and down of course, but this is the Capital Improvements and our capital project funding, this is how much we fund in our budget each year and you can see overtime it fluctuates but if you take out the two highest peaks which really was for large capital projects, the most recent one the fourteen point eight million dollars (\$14.8-M) was the Miami-Dade Bond program it is included in that of eight point three (8.3), our Capital Improvement Program of four million dollars (\$4-M), but our normal level budgeting, we are budgeting on average about three point five million dollars (\$3.5-M), which over that last ten (10) years has been average except for huge those times when we go out and we do a major capital project, we will go ahead and borrow the funds and then pay that down and we will do it and then a couple of years later we will go out and do another capital project, so we do it very carefully and very progressively, but conservatively we are not issuing new debt all the time and incurring huge capital projects; the leveling of the capital projects is funded through our general fund and our enterprise funds. The next slide shows our total annual debt service payments and you can see also that has continued to go up, but really which I'll show you next, we are currently paying six point one million dollars (\$6.1-M) of principal and interest on our debt, that is like paying the mortgage on your house; which in the next slide it translates to five percent (5%) of our operating expenses. You look ten (10) years we were at three point three million dollars (\$3.3-M), but we have incurred a lot of capital improvements. We have done a lot, but we have done that very carefully and we have done that very methodically, and we have financed those, and you can see on the next slide, the percentage of our operating expenditures have actually gone down and so our level of operating expenses, which is our principal and interest, compared to how much we pay in our operating is 4.4% percent, that is extremely low. A normal city has eight percent (8%) to ten percent (10%) of debt in their budget. The best thing about our debt is that we pay it off from our operating budget, our operating millage rate pays for this operating millage rate, it pays all of our capital improvements.

Vice Mayor Kerdyk: Don, the question I have to ask you is the six million dollars (\$6-M) total debt payment how much of that is offset by rents that we receive or by projects we have completed in the City of Coral Gables.

Finance Director Nelson: Great question, as you know we have funded the Biltmore Hotel through many many loans.

Vice Mayor Kerdyk: Or Parking Garages.

Finance Director Nelson: Out of the six million dollars (\$6.1-M), they are paying almost one million dollars (\$1,000,000) of that principal and interest every year, so that actually is a conduit that we have loan the money to the Biltmore for various projects, and they are paying us back actually nine hundred forty two thousand dollars (\$942,000) a year in principal and interest, which really lowers our annual principal and interest down to five point two million dollars (\$5.2-M); which is very, very low, even if you take the five point two (5.2) compared to our operating, that really drops instead of at four point four percent (4.4%) of operating, it brings it down below four percent (4%).

Vice Mayor Kerdyk: Couldn't you also say that we get revenues from our garages, that we have financed that also help to offset that?

Finance Director Nelson: Yes.

Vice Mayor Kerdyk: And I guess what I am getting to is how many of these are just capital improvements that we have received no financial benefit from, as opposed to how many of these something that we receive money back?-so I would argue that the parking garages would fall into that category and I would say the Country Club, if we had a tenant in there, it would fall into that same category.

Finance Director Nelson: We are financing of course three (3) parking garages, and five point two million dollars (\$5.2-M) of that we would bring that down to about three point two million dollars (\$3.2-M).

Vice Mayor Kerdyk: That is fair enough.

Finance Director Nelson: So that is significant, and not counting the rents that we receive, if you were to throw in the rent we receive from the Biltmore Hotel, which is one point seven million dollars (\$1.7-M), and you take that away, but we try to keep everything separate.

Vice Mayor Kerdyk: Thank you.

Commissioner Anderson: Thanks that was a good point.

Finance Director Nelson: The next slide this is the Annual City Retirement Contribution. This is the one that we all have been looking at, and when you look at it on a chart it is the most significant funding that the City has been faced with in the budget. As you know our biggest cost in our budget is payroll. Our wages represent seventy percent (70%) of our budget; in that is the funding on top of the retirement system worth twenty one point five million dollars (\$21.5-M). Ten (10) years ago we were funding five million thirty four thousand dollars (\$5,034,000),

five million dollars (\$5,000,000). Ten (10) years later we are now up at twenty one point five million dollars (\$21.5-M), and that is significant, being that seventy percent (70%) of our costs of payroll and forty six percent (46%) of every dollar that we pay out in payroll we are funding our retirement system.

Commissioner Anderson: Can you repeat that.

Finance Director Nelson: For every dollar that we pay in payroll we are paying another 46 cents in retirement benefits, in order to fund twenty one point five million dollars (\$21.5-M), which is the biggest funding requirement in our budget. Now we anticipate that this, it is a five year averaging, so as we go forward, had the market been good, and I'll show you on the next page how the market is with the pension funds, which translates to how much we have to fund every year to keep the pension fund actuarially sound. We were on a trend going down. Now, if you remember 2001-2002, which were historically low markets, we were low, we had to go up in funding and that is why the rise in funding level in the annual contribution, we are now starting to trend down because of the five (5) year average valuation on those returns, but now with the market of this year, we would start seeing that twenty one point five million dollars (\$21.5-M) start going back up again. It will go up on a gradual scale and not a rapid scale, but if you go to the next slide, which translates to the value of our investments in our pension fund, ten (10) years ago we were at two hundred and twenty two million dollars (\$222-M), and as of September 30th which all of this numbers are reporting we were at two hundred and twenty-one million dollars (\$221-M) as of September 30th. Now currently since September 30th we have dropped down to one hundred eighty nine million dollars (\$189-M), as of Friday December 12th, that was our last valuation just this past Friday. We are down to one hundred eighty nine million dollars (\$189-M) in the pension fund. Before the market meltdown and before really the financial issues took place over the summer to get a good gauge back on June 30 of this summer, June 30, 2008 that was before all of the financial crisis, we were at two hundred forty six million dollars (\$246-M), that was an average actually, we were at a high of two hundred sixty three million dollars (\$263-M) at one time, two hundred forty six million dollars (\$246-M). We are down twenty three (23%) in our pension fund right now from that gauge at one hundred eighty nine million dollars (\$189-M), and then again it will take time before that comes back we have the plan and the fund manage by thirteen (13) individual managers in various areas of investments.

Commissioner Anderson: In the last retirement board meeting minutes in this packet, there was a lot of discussion over the whole issue of this market meltdown and the effect on our retirement system. There was some thought that we should diversify ourselves of equity, I mean of our equities, make some changes, however the majority of the board wanted to go back to the Plan, whatever it is.

Finance Director Nelson: The target

Commissioner Anderson: The target values, could you speak briefly on that.

Finance Director Nelson: We have an investment policy.

Commissioner Anderson: Right.

Finance Director Nelson: And that investment policy provides the guidelines whereby the board follows on how much stocks or equities they are to invest, how much of fixed income or bonds or government bonds, how much in real state, how much in international stock, all of those have ranges, there is a minimum and there is a maximum and then there is a target range; and once they reach over that target, then what we do is we take fund from the good performers, bring back to the targets and actually invest in the lower performing which are equities, and there was a lot of discussion at the last retirement board meeting. Should we take money from good earning investment?-which actually was the real estate, we are over our target in real estate, and move those funds into stocks were there is a lot of concern that do you put money into an evaporating market and so we got in this major debate are we in for timing the market or should you just go in when the market is low?-well how low is the market going to go and that is the big debate. So we are actually having another meeting tomorrow morning, at 8 o'clock to discuss the actual portfolio and the reallocation of the assets in order to rebalance; but there is concern that do we hold back and not fund additional monies into the stock market and put them into fixed income; and of course our advisors are saying, you stay with your discipline of your targets and invest in equities, but that is the dilemma that we are dealing with right now, should we go into more equities buying at a low price and a long term perspective of the market, because we have a longer term perspective than we do individually.

Commissioner Anderson: Right.

Mayor Slesnick: I am not a financial advisor, and I know that there are systems and so forth, but had we had in fixed returns in 1998 until today, we would be a whole heck of a lot better off.

Finance Director Nelson: I believe actually.

Mayor Slesnick: I mean if you look at how much we have lost during those three drops.

Finance Director Nelson: Correct, but they have actually done studies on fixed income over the worst markets and the best markets and over a long, long term the equity or stock market has outperformed all of them, but you have to have the fortitude to stay with the highs and the lows; and of course the problem is right now we don't know when the low market is going to hit, how long is it going to be there and should we invest more money, or now go into more fixed income and be more secure.

Mayor Slesnick: Have we had any investments that we have lost, outright lost?-in other words I understand that we are waiting for that market to bounce back, but are there any that have gone away bankruptcies.

Finance Director Nelson: We had a very, very small percentage, and very small dollar amount, I believe it was one hundred thousand dollars (\$100,000) in Lehman Brothers when they went down, but other than that there were no other securities is a very small lost.

Mayor Slesnick: And any of our investments are not involved in any of this latest racketeering

Finance Director Nelson: No we are not involved in any racketeering. Ours are in direct stocks, not in any particular fund or hold fund, as you have all read about. They are in direct stocks and in good solid companies. The next slide is the Taxable Property Value; as you know we have had an incredible climb in our values of property, and this of course is a major concern going forward. We are thirteen point four billion dollars (\$13.4B) of property value, commercial making up thirty four percent (34%) of that and residential making sixty six percent (66%) of that thirteen point four billion dollars (\$13.4B). We came ten (10) years ago from a value of five point two billion dollars (\$5.2-B), climbing up to thirteen point four (\$13.4). An incredible growth rate, it leveled off from an average of ten percent (10%) to twelve percent (12%) average growth per year over the last seven years, to three point five percent (3.5%) growth this past budget year, and that was even unprecedented compared to other communities in Dade, Broward and even throughout Florida. We were one of the rare Cities that actually increased our value, even with doubling of the homestead exception and of course we growth of new construction and increase, we grew at three point five percent (3.5%). We don't anticipate that this year, it is hard to project because the property appraiser completes the evaluation January 1, 2009; that is when properties stop, the property appraiser in Miami-Dade, then calculates the value, and then we would get our first notice of value for budget purposes on June 1, that is when we will know if our thirteen point four billion dollars (\$13.4B) will stay. If it is going to maintain itself, we would still have new growth because of new construction; the doubling of the homestead exception is already included in there; so we shouldn't feel that it would be whether the evaluation of properties commercial and residential decline.

Vice Mayor Kerdyk: I have a question for that out, we have discussed this before but let me just elaborate on it right now we are assessed at thirteen point four billion dollars (\$13.4B) and we are counting on that revenue, I think we are counting on ninety five percent (95%) of that revenue right. What is our historical trends when it comes to the percentage that pay as far as the assessed values?

Finance Director Nelson: As you know you are correct, we budget instead of 100% of collections we take the total value times the tax rate of \$5.25 times ninety five percent (95%). Historically we have always hit that number.

Vice Mayor Kerdyk: So it has always been five percent (5%).

Finance Director Nelson: Yes, five percent (5%) differential, there had been un huge amount of value adjustment board requests.

Vice Mayor Kerdyk: This is where I was going.

Finance Director Nelson: And it is increasing and therefore the projection, may not come in at ninety five percent (95%) we are watching our tax receipts now, as they come in and we are tracking them compared to our budget of sixty seven million dollars (\$67-M).

Vice Mayor Kerdyk: Not only is it going to be the appeals, but it is going to be the foreclosures, the people that cannot afford to pay their real estate taxes; and I am concern that that ninety five percent (95%) is going to come down, I can't tell you how much it is going to come down from

there but I think you have to be aware, I think you need to budget a little more conservatively even with the next trending cycle, but really concern with the facts that it might have in this years budget.

Finance Director Nelson: We are going to definitely as I mention the tax receipts are heavily coming in November 1, to get the full discount December and January; we track it, we also compare that with how are receipts have been in prior years, are they delayed?-like the foreclosures not coming in at all.

Vice Mayor Kerdyk: What are you finding?

Finance Director Nelson: So far of course they are coming in real big, because the mortgage companies are paying their mortgages in November it will not really show up until January.

Vice Mayor Kerdyk: Well let me just give you a helpful hint. Go read the Daily Business Review at the mortgage foreclosure side and the people that are not paying their real estate taxes from last year, and you are going to get a pretty good idea of what is going to happen this year, because last year looks like economic pandemonium, compared to this years field and the market.

Finance Director Nelson: Right, and so therefore that is the concern going forward with the \$13.4 billion will that hold or would it of course go down?-and the Evaluation Adjustment Board the foreclosures even though we do have growth in new construction.

Commissioner Anderson: It is slower, it is much slower.

Finance Director Nelson: It is slower, it is starting to slow down and of course the revaluation of home and businesses are being affected and it will affect this thirteen point four billion dollars (\$13.4B) number it is a huge number, it is a huge number and also the fact that going down with ninety five percent (95%) to a ninety two percent (92%) to ninety percent (90%) in going forward in next years budget; we will presenting that probably at mid-year to show how we are doing with our receipts compared actual to budget. This one of course is our Tax Millage Rate. As you know we have shown this chart in the past over the past ten (10) years we have maintain our millage rate, five point five (5.5) ten (10) years ago, five fifty (\$5.50) per thousand, five twenty five (\$5.25) ten (10) years later, excellent holding the millage rate, but the previous chart of course the property values have increased and that of course translates to additional revenue to the City. Great chart as we have presented in the budget as you know in homeowners great value and a great investment in Coral Gables, it continues to be that will probably level off, but this is the average assessed value of a residence. You can see that five (5) years ago it was four hundred sixty five thousand dollars (\$465,000), now it is up to five hundred sixty one thousand dollars (\$561,000) this is the average assessed tax value, not the market value. The market value is always higher because of the save our homes three percent (3%) cap on every year increasing valuation if your home is homesteaded it can only grow by a maximum of three percent (3%). However, that will probably level off around five hundred eighty one thousand dollars (\$581,000), and it will be interesting to see the average assessed value coming in this new budget year that will be covering in the summer of 2009; and the last chart is the general fund reserve,

and this does look like the stock market; it has gone to a high ten (10) years ago of ten million dollars (\$10-M). As you know, we have gone down we have utilized that, we are up, we are down, we are up, we are down, and usually that is due to the budget and then we need to use those funds for contingencies and unfunded expenditures and then we will fund that the next year and build our reserves back up then we will need the contingency funds to be utilized and then it will go down.

Mayor Slesnick: But, Don let's not downplay the fact that this Commission found itself with basically a zeroed out contingency fund balance in 2001; and with your good work, with the Manager's good work, with the Staff's good work and the Commission's good work it has been built back up.

Finance Director Nelson: Clearly you can see a low of six hundred seven thousand dollars (\$607,000) when you came into office in 2001; and you as a Commission and Administration have built this up to a present ten million dollars (\$10-M) reserve; and that is really to really tight budgeting and monitoring.

Mayor Slesnick: We should probably be at fifteen million dollars (\$15-M).

Finance Director Nelson: Yes, and actually our goal is to achieve a twelve million dollars (\$12-M) reserve, because that is ten percent (10%) of our general fund operating budget, our operating budget is one hundred twenty one million (\$121-M) general fund; and that is our goal to reach a twelve million dollars (\$12-M) reserve; maintain that all the time and take care of all of our expenses and keep the financial stability of the City and that is our goal. We use that to track of course going forward, we have to be very conservative, we have to monitor our monthly expenses, all of the departments are great at maintaining their budget, watching their overtime, watching their operating expenditures, and maintaining the department expenditure budget and we monitor their revenues to make sure they are being adhered to.

Commissioner Withers: How many unfilled positions do you have currently out of the City's workforce?

Finance Director Nelson: Right now? I don't have an exact number but I know it averages about twelve (12) to eighteen (18) positions.

Commissioner Withers: and are there any frozen positions in this current budget?

Finance Director Nelson: Not at the present time no.

Interim City Manager Jimenez: We are reviewing each position and there has been one (1) or two (2) that we are holding onto as a result, in some areas.

Finance Director Nelson: Right, every position that does come up; and if it is vacant we look at how we can consolidate that or delete or merge it into another function, because personnel is the only way that we can really cut our costs. Being seventy percent (70%) and with a flat line revenues for next year we are seeing that the evaluation should be flat, no new increases in

significant revenues we went through that during the budget sessions. I don't see how we can go an attract any great new revenues next year, so we have to maintain our level of expenditures and highly monitor that, and be ultra conservative, and when there is a position that comes vacant, do we need that position.

Commissioner Withers: Since you have your debt as part of the operating expense, can you extend any of that out?

Finance Director Nelson: We can, we can actually, most of our debt is laddered, so that every four (4) to six (6) years, we have a maturity that is paid off; and that is done for a reason because it provides a new funding that can provide additional capital projects. So therefore, instead of needing to increase the level of debt service we pay off that, we have that available, and pretty much every four (4) to six (6) years, we solve the need to do something major.

Commissioner Withers: I am just thinking because it is going to be a tough budget cycle coming up, especially if you go to ninety percent (90%), as oppose to ninety five (95%), I don't know what number you are going to come back, but sounds like you are going to drop it somewhat.

Finance Director Nelson: I am, to be conservative for next year, it is necessary to be, I rather be more conservative and come to you at Mid Year with good news, then have to find money; and so we can extend, the only one that we can extend is our variable rate, which is very short term but there are some that are coming up within the next six (6), ten (10), twelve (12) years than can be extended to twenty five (25); and as you remember we locked in five (5) years ago at very extremely low financial rate we locked in the fixed rate financed in twenty five (25) years which was fabulous, so that locked in about half of our debt on an extremely low twenty five (25) years financing tax exempt, and the other variable rate, which is riding the market, variable rate it is extremely low right now. We are very concern about the future, we are very concerned about the Japanese coming and we will be coming in.

Interim City Manager Jimenez: Thank you Don.

Mayor Slesnick: We should put some of that on our website.

Finance Director Nelson: We can.

Mayor Slesnick: As an explanation to some people.

Commissioner Cabrera: You know, and just as a sidebar, speaking of websites and it just keeps getting better and better, but I am just wondering if we ever take the time to look at other Cities websites. I go on websites of other communities throughout the country; and I am always learning new things that they are doing, and it is a really interesting exercise. For example Carmel, California, Beverly Hills, California, Coral Springs, Florida, some really unusual informational links that they have that are extremely helpful, I am not taking anything away from our website though. Just some interesting food for thought.

Mayor Slesnick: Thank you.

Commissioner Anderson: thank you very much.

[End: 12:58:57 p.m.]