DATE: September 22, 2017

TO: Honorable Mayor and City Commission

FROM: Roger M. Carlton, City Manager

SUBJECT: Status of FY 17/18 Budget Adoption Process, Impacts of Not Adopting a Budget, and Potential Solutions

Background:

The FY17/18 Proposed Budget reflects an enormous amount of staff work and an equally enormous amount of review by the City Commission. The City Commission has had four days of workshops (nearly 20 hours) of review for the underlying principles and major decisions under which the budget was built. The 1,100-page budget evolved over time as the City Commission provided direction regarding various subjects during the workshops, based in large part on the 17 Summer Studies. The final recommended budget reflects that direction, admittedly some of which was not unanimous.

We are not alone in the philosophic differences that are causing the current impasse. The federal government is deadlocked on the Affordable Care Act with nearly 60 votes unable to amend or repeal the legislation. Recently, the Miami-Dade County Commission deadlocked on their FY17/18 budget over differences regarding how to resolve their transportation issues. The Miami-Dade County Attorney gave the same advice that our own City Attorney provided at the last Budget Hearing. If the Commission fails to adopt both a tentative millage and a tentative budget on first reading, then the process cannot move on to second reading. That is an incontrovertible fact. Based on this advice one member of the County Commission changed their vote so the first reading could be done.

What happens legally if first reading or second reading fails will be explained by our City Attorney when the City Commission meets Monday, September 25, 2017, at 5:05 pm. This is a continuation of the first reading meeting which failed to adopt a tentative budget and only adopted a tentative millage after Mayor Cooper changed her vote to approve the millage. This was progress but did not cross the legal line necessary to move on to second reading.
**Scenarios:**

There are a number of scenarios which could unfold:

1) **Action:**

The FY17/18 tentative budget is not adopted on first reading by the City Commission.

**Result:**

We will not be able to go on to second reading and the tax bills will be mailed by Broward County (we cannot do this ourselves) without any millage (property tax amounts) for the Hallandale Beach General Fund, the Safe Neighborhood Districts, the Fire Assessment and the General Obligation (GO) Park bonds debt service.

2) **Action:**

We get past the first reading with tentative adoption of both the budget and the millage but **deadlock on the millage on second reading.**

**Result:**

The tax bills will be mailed by Broward County (we cannot do this ourselves) without any millage (property tax amounts) for the Hallandale Beach General Fund, the Safe Neighborhood Districts, the Fire Assessment and the GO Park bonds debt service.

3) **Action:**

We get past first reading with adoption of both tentative millage and tentative budget but **deadlock on the budget on second reading** with agreement on the millage (this is our current status on first reading).

**Result:**

The tax bills will go out with the agreed upon millage but Broward County will release only the roll back millage rate in dollars as well as the Safe Neighborhood Districts millage roll back amount of funds. We are not sure if the GO Parks bond will be at the full amount necessary to pay the debt service. State revenue sharing will be held back until the budget adoption is complete and we are not sure about other shared revenues like gas taxes and the pari-mutuel tax.
Financial and Operational Impacts of Failure to Adopt the Budget and Millage:

While we have had only a short period of time to answer this question, preliminary review results in the conclusion that the impacts will be catastrophic in both the short and long terms, particularly if we fail to adopt both the millage and the budget. Preliminary research at this time shows that the loss of revenue to the General Fund is $33,642,580. This is an order of magnitude number which means that it is close but not exact. In an effort to translate the revenue loss to operational impacts, we have taken the $33,642,580 in revenue loss and spread it across all General Fund departments. Following are the dollars that each department will lose if the budget impasse is not resolved. It should be clear that should we have to operate under such a scenario, there will be layoffs/furloughs and our service levels will decline substantially. This is the cold reality of the current impasse.

<table>
<thead>
<tr>
<th>ACCT. #</th>
<th>DESCRIPTION</th>
<th>FY 2017/18 Recommended Budget</th>
<th>Proposed Reductions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>$69,576,299</td>
<td></td>
</tr>
<tr>
<td>311100</td>
<td>Ad Valorem Tax - Current</td>
<td>-$28,700,469</td>
<td></td>
</tr>
<tr>
<td>311200</td>
<td>Ad Valorem Tax - Discounts</td>
<td>$861,014</td>
<td></td>
</tr>
<tr>
<td>315200</td>
<td>Communication Services Tax</td>
<td>-$1,303,332</td>
<td></td>
</tr>
<tr>
<td>319100</td>
<td>Penny Ante Poker Tax</td>
<td>-$137,000</td>
<td></td>
</tr>
<tr>
<td>335120</td>
<td>Intergovern.-State Revenue Sharing (Municipal Rev. Sharing Program - Sales &amp; Use Tax)</td>
<td>-$957,900</td>
<td></td>
</tr>
<tr>
<td>335140</td>
<td>Intergovern.-State Revenue Sharing (Mobile Home Licenses)</td>
<td>-$25,000</td>
<td></td>
</tr>
<tr>
<td>335150</td>
<td>Intergovern.-State Revenue Sharing (Alcoholic Beverage Tax)</td>
<td>-$17,000</td>
<td></td>
</tr>
<tr>
<td>335181</td>
<td>Intergovern.-State Revenue Sharing (Half-Cent Sales Tax)</td>
<td>-$2,696,926</td>
<td></td>
</tr>
<tr>
<td>335230</td>
<td>Fire Supplemental Pay-Received from State for Reimb.for Degrees for Firefighters</td>
<td>-$32,260</td>
<td></td>
</tr>
<tr>
<td></td>
<td>175 &amp; 185 State Funding to offset Pension Cost Police &amp; Fire</td>
<td>-$601,707</td>
<td></td>
</tr>
<tr>
<td>335410</td>
<td>Intergovern.-Motor Fuel Tax Rebate</td>
<td>-$32,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Reductions</td>
<td>-$33,642,580</td>
<td></td>
</tr>
<tr>
<td>Expenditures</td>
<td>$</td>
<td>-$</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>-------</td>
<td>--------</td>
<td></td>
</tr>
<tr>
<td>1110 City Commission</td>
<td>517,827</td>
<td>250,380</td>
<td></td>
</tr>
<tr>
<td>1210 City Manager</td>
<td>1,374,040</td>
<td>664,377</td>
<td></td>
</tr>
<tr>
<td>1305 Budget &amp; Program Monit</td>
<td>454,103</td>
<td>219,568</td>
<td></td>
</tr>
<tr>
<td>1310 Procurement</td>
<td>581,250</td>
<td>281,047</td>
<td></td>
</tr>
<tr>
<td>1410 City Attorney</td>
<td>1,284,795</td>
<td>621,226</td>
<td></td>
</tr>
<tr>
<td>1510 Finance</td>
<td>1,489,447</td>
<td>720,179</td>
<td></td>
</tr>
<tr>
<td>1610 Innovation Technology</td>
<td>2,183,188</td>
<td>1,055,618</td>
<td></td>
</tr>
<tr>
<td>1710 Human Resources</td>
<td>898,146</td>
<td>434,273</td>
<td></td>
</tr>
<tr>
<td>1910 City Clerk</td>
<td>437,721</td>
<td>211,647</td>
<td></td>
</tr>
<tr>
<td>1920 Office of Capital Improvements</td>
<td>10,496</td>
<td>5,075</td>
<td></td>
</tr>
<tr>
<td>21 Police</td>
<td>22,304,505</td>
<td>10,784,894</td>
<td></td>
</tr>
<tr>
<td>22 Fire</td>
<td>14,398,398</td>
<td>6,961,930</td>
<td></td>
</tr>
<tr>
<td>40 Public Works Admin</td>
<td>158,188</td>
<td>76,487</td>
<td></td>
</tr>
<tr>
<td>Property And Grounds</td>
<td>1,038,116</td>
<td>501,951</td>
<td></td>
</tr>
<tr>
<td>Construction And Maint</td>
<td>1,234,411</td>
<td>596,864</td>
<td></td>
</tr>
<tr>
<td>Development Services</td>
<td>4,748,955</td>
<td>2,296,220</td>
<td></td>
</tr>
<tr>
<td>Human Services</td>
<td>1,927,070</td>
<td>931,779</td>
<td></td>
</tr>
<tr>
<td>Parks And Recreation</td>
<td>4,836,879</td>
<td>2,338,733</td>
<td></td>
</tr>
<tr>
<td>Marina</td>
<td>56,886</td>
<td>27,506</td>
<td></td>
</tr>
<tr>
<td>Non-Departmental</td>
<td>2,210,340</td>
<td>1,068,746</td>
<td></td>
</tr>
<tr>
<td>Administrative Charges</td>
<td>140,000</td>
<td>67,693</td>
<td></td>
</tr>
<tr>
<td>Interfund Transfers</td>
<td>7,293,138</td>
<td>3,526,387</td>
<td></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>$69,578,299</td>
<td>-$33,642,580</td>
<td></td>
</tr>
</tbody>
</table>

*CRA TIF Payment $4,948,357*

If we get to second reading and adopt only the millage and not the budget, the $33,642,580 will be reduced to $7,674,000, this is because we will eventually receive the roll back rate revenues. This will still greatly impact City core services. Both numbers are very tentative as there is no precedent for this situation in the history of the State of Florida.

Staff has conducted a financial analysis for each department in the City based on an assumed reduction in funding of approximately 48 percent, which equates to approximately $33 million of General Fund expenses. The reductions presented by each
department represent the elimination of approximately 269 full and part time positions (approximately 45 percent of the City’s workforce). The scenarios for the various departments are included below.

Fire Rescue and Ocean Rescue Services – Required Cuts ($6,961,930)

1. Proposed Operating/Personnel Budget Cuts - $6,961,930
2. Elimination of 44 positions including Division Chiefs, Captains, Paramedics, Driver Engineers and Life Guards.

The impact to the City in terms of services would include:

- Elimination of Rescue 90 and closing down the Three Islands Station.
- Elimination of the City’s only ladder truck
- Elimination of one of the two fire trucks in the City.
- Reduction in the minimum daily staffing policy from 16 personnel per day to 10 personnel per day.
- Paramedics on a rescue truck would decrease from 3 to 2.
- Elimination of Inspection Program.
- Elimination of Ocean Rescue Program.
- Citizen and employee safety in serious question.
- New rescue unit and fire apparatus order will be canceled.

Police Department – Required Cuts ($10,784,894)

1. Proposed Operating/Personnel Budget Cuts - $10,848,660
2. Elimination of 64 positions including Command Staff, Sworn Officers and Civilian Staff.

The impact to the City in terms of services would include:

- Increase in call response times with greatest impact on non-emergency calls.
- Reduced investigatory services for less serious offenses.
- Elimination of all services not directly connected to patrol including, community involvement, street crimes, Police Athletic League, traffic unit, crime laboratory, and the K9 unit.
- Elimination of 7 of 10 Command Staff.
- Elimination of preventative patrols because officers are on emergency and non-emergency calls.
- Significant reductions to Equitable Sharing (Federal Forfeiture) because the Police Department will not be able to participate in investigations.

Human Services Department – Required Cuts ($931,779)

1. Proposed Operating/Personnel Budget Cuts - $931,779
2. Elimination of 19 positions.
The impact to the City in terms of services would include:

- Elimination of the afterschool program including curriculum, field trips, childcare subsidy.
- Reduced transportation services for the seniors.
- Elimination of access to Social Services for seniors.
- Elimination of Special Events including Thanksgiving feeding and Holiday programs.
- Elimination of Community Partnership Grants.

**Procurement Department – Required Cuts ($281,047)**

1. Proposed Operating/Personnel Budget Cuts - $281,041
2. Elimination of 3 positions.

The impact to the City in terms of services would include:

- Services provided to all departments would be reduced by over 80%.
- Removal of extra photocopiers in each building as the leases expire (each building would have one copier).
- No training for employees, and increased processing time for essential RLI's, RFQ's and RFP's.

**Development Services – Required Cuts ($2,296,220)**

1. Proposed Operating/Personnel Budget Cuts - $2,300,000
2. Elimination of 22 positions.
3. Due to staff reductions there would be a loss of revenues of $1,800,000, as a results of services not provided.

The impact to the City in terms of services would include:

- No front desk operations at City Hall directing visitors.
- We would return to the large backlog for building permit applications, zoning applications, public record requests, and inspection requests.
- Significant increase in processing time for business tax receipts. Revenues from business tax payments would decrease and potentially be lost completely.
- Significant reduction in citywide code enforcement activities.
- All transportation, code enforcement, urban planning, general management would cease.
- Development projects in the City’s pipeline would decrease, or would take years to be approved, permitted and constructed thereby affecting the City’s tax base in millions of dollars.

**Finance Department – Required Cuts ($720,179)**

1. Proposed Operating/Personnel Budget Cuts - $720,527
2. Elimination of 8 positions.

The impact to the City in terms of services would include:

- Reduce internal financial controls. Finance's ability to provide fiscal oversight would be greatly reduced.
- Severe backlog for all financial transactions.
- No bank reconciliations and no ability to verify accounts.
- City would be out of compliance with Federal, State and Local laws.
- Almost all finance functions would be degraded.
- Ability to produce the annual audit would be severely impacted.

Parks and Recreation Department – Required Cuts ($2,338,733)

1. Proposed Operating/Programs/Personnel Budget Cuts - $2,368,421
2. Elimination of 52 positions.

The impact to the City in terms of services would include:

- Severe reduction of programs and services including afterschool, summer camp, learn to swim, and all special events.
- Three properties will be shuttered/taken out of service (BF James Pool, Curci House, and School House).
- Reduction or elimination of the care and maintenance of park properties.
- Services to PAL athletic league will be eliminated.

City Clerk – Required Cuts ($211,647)

1. Proposed Operating/Personnel Budget Cuts - $211,617
2. Elimination of 2 positions.

The impact to the City in terms of services would include:

- Greatly reduce the City’s records management program.
- Severely reduced response time for Public Records Requests.
- Elimination of Special Services.
- Longer wait times for City Commission and HBCRA Meeting Minutes.

Innovation Technology – Required Cuts ($1,055,618)

1. Proposed Operating/Personnel Budget Cuts - $1,055,618
2. Elimination of 4 positions.

The impact to the City in terms of services would include:

- Reduction of services to all departments. Priority tech support will be limited to Police, Fire and the Department of Public Works.
• Reduction in broadcasting support including, social media, websites, newsletters.
• Reduction in wireless communications will be limited to core Police and Fire Department users. All calls for service would be performed via radio, reports will be written upon returning to station.
• Reduction in software titles such as Municode, Clearpoint, robo call system, mobile app, and the City’s online HR system. Software maintenance support will only be available to Police and Fire Departments.
• Reduction in hardware and printing maintenance.

Department of Public Works – Required Cuts ($1,175,302)

1. Proposed Operating/Programs/Personnel Budget Cuts - $1,255,625
2. Elimination of 20 positions.

The impact to the City in terms of services would include:

• Delaying the start of any new contracts.
• No vehicles citywide will be replaced. Replacement period extended.
• Elimination of building materials for repairs of Municipal Complex
• Sidewalk repair reductions
• No ability to rent specialized equipment as the need arises
• No maintenance of entrance feature fountains throughout city.
• Reduction of the frequency of landscape maintenance on roadways.

City Attorney’s Office – Required Cuts ($621,226)

1. Proposed Operating/Personnel Budget Cuts - $621,226
2. Elimination of 3 positions.

The impact to the City in terms of services would include:

• Severe reduction in response time to City’s legal matters including lawsuits.
• Severe reduction in response time to all departments regarding contracts and agreements.
• Reduced assistance from City’s Outside Counsel due to budget being cut in half.

Department of Human Resources – Required Cuts ($434,273)

1. Proposed Operating/Personnel Budget Cuts - $434,273
2. Elimination of 2 positions.

The impact to the City in terms of services would include:

• Severe reduction in the time it takes to process benefits, serve staff and train staff.
• Severe reduction in capability to manage employee discipline and other matters.
City Commission – Required Cuts ($250,380)

1. Suggested Operating Budget Cuts - $265,422

The impact to the City in terms of services could include:

- Elimination of the City Commission travel allowance.
- Elimination of allowance for professional services for federal and state lobbyist.
- Elimination of meetings and seminars.
- Elimination of City Commission sponsored projects.

City Manager’s Office – Required Cuts ($664,377)

1. Proposed Operating Budget Cuts - $638,827
2. Elimination of 2 positions.

The impact to the City in terms of services would include:

- Elimination of the Rogers Raiders Employee Mentorship program.
- Greatly reduce oversight and accountability for City programs.
- Inability to provide “after action reports” for the City Commission agendas.

Budget and Program Monitoring – Required Cuts ($219,568)

1. Proposed Operating Budget Cuts - $219,568
2. Elimination of 2 positions.

The impact to the City in terms of services would include:

- No monitoring of expenditures, budget transfers.
- No more monthly “budget to actual” reports.
- No special projects including summer studies.

*Not included in the final calculations from the various departments are Non-Departmental, Administrative Charges, and Interfund Transfers.

Hallandale Beach Community Redevelopment Agency Impacts

Based on the recent discussions regarding the budget, I had our HBCRA financial team run the numbers regarding a scenario in which the City Commission does not approve a millage rate or a budget.

The revenues for the Hallandale Beach Community Redevelopment Agency (HBCRA) would be immediately reduced by approximately 45% due to the elimination of Tax Increment Financing (TIF) in the amount of $4,948,357 from the City. The remaining budget would be based on revenues in the amount of $6,106,702, which is primarily comprised of Broward County TIF and other miscellaneous revenues.
In order to attempt to bring the remaining budget into balance due to the major financial shortfall created by the lack of City TIF, as well as previous financial commitments for various redevelopment agreements that are under construction, the HBCRA would be required to make severe reductions to programs and services. These reductions to programs and services include the elimination of the funding for the Neighborhood Enhancement Team (NET) program which pays for five Police Officers, the elimination of the contribution to the Community minibus, the elimination of two of the three Code Compliance positions that the HBCRA currently funds, the elimination of our business incentive programs, and finally, the elimination of our affordable housing and land acquisition programs for FY17/18.

**Proposed Solution:**

City Attorney Merino and I have been discussing proposed solutions with members of the City Commission and want you to know where these discussions stand as of Friday, September 22, 2017 in the late afternoon. In hope of compromises, these solutions will be presented to the City Commission as an amendment to the budget ordinance for your adoption. Following are the recommended solutions:

1) As an alternative to the sale of the solid waste commercial and multi-family franchise, the rates will be increased for these customers to make up the $1.5 million from the sale needed to balance the FY17/18 budget and additional funds to make the solid waste budget, including the single family homes (fees already proposed to increase) break even. The proposed additional rate increase for FY 17/18 is 30 percent for multifamily and commercial. This calculation is spread across many variables depending on the volume of solid waste produced and the frequency of collection.

2) The number of body worn cameras will be reduced to 100 from the 200 proposed. The $100,000 savings from the first year lease payments will be used to fund the Employee Health Insurance Relief Fund described in no. 3 below.

3) To further mitigate the health insurance high deductible transition, an Employee Health Insurance Relief Fund in the amount of $100,000 will be established. This will help employees earning less than $50,000 annually to make up the deductible difference between the current health insurance and the new health insurance.

The question has been raised regarding doing the aforementioned for all employees, regardless of salary or need. The cost would be $600,000 and the entire health insurance program would have to be restructured with the City’s premium also increasing by a substantial amount as well. The Administration does not recommend this action. We do recommend the Employee Relief Fund for those that are in the greatest need and are the most impacted.

4) The budget ordinance will contain a provision that sets a floor for reserves in the major funds as follows:
<table>
<thead>
<tr>
<th>FUND</th>
<th>% of ANNUAL EXPENDITURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>16%</td>
</tr>
<tr>
<td>Utility Fund</td>
<td>12%</td>
</tr>
<tr>
<td>Stormwater Fund</td>
<td>12%</td>
</tr>
<tr>
<td>Fleet Services Fund</td>
<td>12%</td>
</tr>
<tr>
<td>Sanitation Fund</td>
<td>12%</td>
</tr>
<tr>
<td>Liability/Self Insurance Fund</td>
<td>12%</td>
</tr>
<tr>
<td>Workers Compensation</td>
<td>12%</td>
</tr>
</tbody>
</table>

The only manner in which the reserve levels can be drawn down below the levels shown above is with an emergency situation or a public hearing. This will only be in effect for FY17/18 and during the year, a long term reserve policy will be presented for adoption.

5) $7,500 will be provided to match the grant from Kaufman Lynn for youth programs to be determined by the Parks and Recreation Department.

6) $20,000 will be provided to the Police Department for safety-related equipment. Additional body armor discussed at the first budget hearing has already been funded based on a grant that the Police Department applied for previously and was awarded.

7) The HBCRA contribution to the local match for the SW Drainage Project will continue to be replaced with the increased charges from the stormwater utility. If additional funds beyond the current projected local share are needed (a possibility but not yet a certainty), those funds will come from the HBCRA through a budget amendment process after the bids are received. We cannot put the FEMA grant at risk through further debate on the source of local share which has currently been resolved.

**Conclusion:**

We find ourselves in a very difficult place. The widely varying philosophies held by our City Commissioners makes it very difficult to reconcile, but that fact should be irrelevant at the eleventh hour.

The progress that has been made during FY16/17 to return the City to fiscal health has been done without substantial layoffs, with minimizing impacts on our elderly and youth, and in a manner that shared the burden on all segments of the community including our residents, visitors, businesses and employees.

There have been good and helpful public policy discussions as we moved through the awareness, resolution and direction phases of the budget workshops. While staff would have preferred a more detailed budget message, Hurricane Irma made that impossible to achieve.
In reality, while the proposed resolution of the impasse contained in this memorandum only contains seven (7) items, we respectfully acknowledge that each of you will have to modify your goals to a certain degree. That is the art of matching resources with expenses and maintaining adequate reserves and appropriate levels of taxation. Now we are past the budget stage that is “what we want to do” and to the stage “what we can do” to adopt a budget. As your City Manager, I firmly believe that you all care deeply about the City of Hallandale Beach and want to resolve this issue. Please consider the implications of a continued impasse as we meet to adopt to FY17/18 Budget on first reading on Monday, September 25, 2017, at 5:05 pm.

Cc:  Jennifer Merino, City Attorney  
     Maggie Gouin  
     Senior Staff  
     All City Employees  
     Union Representatives