



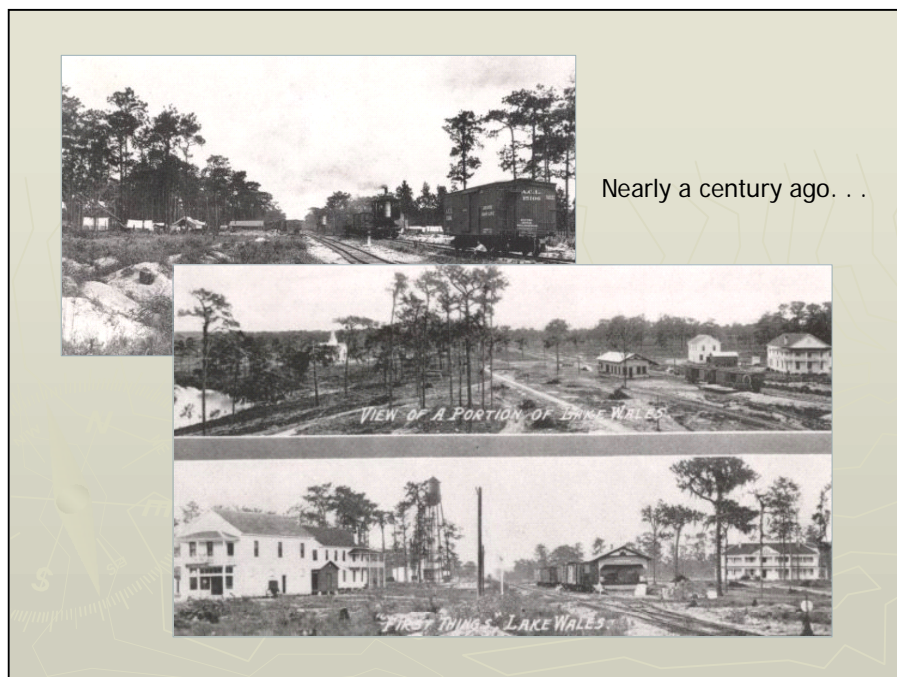
City of Lake Wales

State of the City
January 15, 2010

I would like to thank the Lake Wales Chamber of Commerce for inviting me to talk to you today. I'm proud to share with you the state of our City which, even in these difficult times, is still strong.

2009 was not an easy year at City Hall. As you know, it was marked by difficult transition at various levels in the administration. But city staff pulled together and maintained a continuously high level of commitment to serve Lake Wales. The organization has come through as a unified team dedicated to providing the citizens of this community with the level of service they expect and deserve.

Here we are in 2010, it's the dawn of a new decade.



Our City is 98 years old this year, if we mark its birth year as 1912 --the year that T. J. Parker opened his general store and installed post office boxes to accommodate the start-up of mail service between Bartow and Lake Wales.

It was 1912 that saw the birth of a permanent community as families started arriving from points north and east and west to settle near the shores of two pristine lakes, the ones we call Lake Wales and Crystal Lake.

Some might argue that the City is actually celebrating its 99th birthday this year because it was surveyed and platted in 1911 --that's when streets were laid out and the railroad arrived and construction began on the first hotel. But, we'll leave the birth year question for Mimi Hardman to answer.

What cannot be argued is that in 1917 --93 years ago-- the town received its Charter of Incorporation from the Florida Legislature, elected its first town council, and began the business of municipal governance. The state of the city that year was hopeful, optimistic, focused on making itself ready for the growth that was just over the horizon, welcoming new residents, attracting doctors, lawyers, teachers, mechanics, home builders, shopkeepers... folks who wanted to help grow a community.



Almost a century later, our town fathers would be proud to know that Lake Wales has grown into a beautiful, caring, family-oriented community where quality of life is important. They would be proud that we continue to grow, albeit at a much slower pace than we saw two or three or even ten years ago. We continue to welcome new residents and seek to attract new businesses and know that we must make ourselves ready for the growth that will come back. But we're not quite as hopeful as our town fathers were, our optimism is tempered. We are no longer sure that the sky is the limit.

Like cities throughout the U.S., Lake Wales is suffering from the effects of this recession. As elsewhere, our community is feeling the squeeze of high unemployment rates, rising costs for everything, and home values that are falling like a rock. As has happened everywhere in this nation, foreclosures have literally put an end to the American dream for many of our citizens.

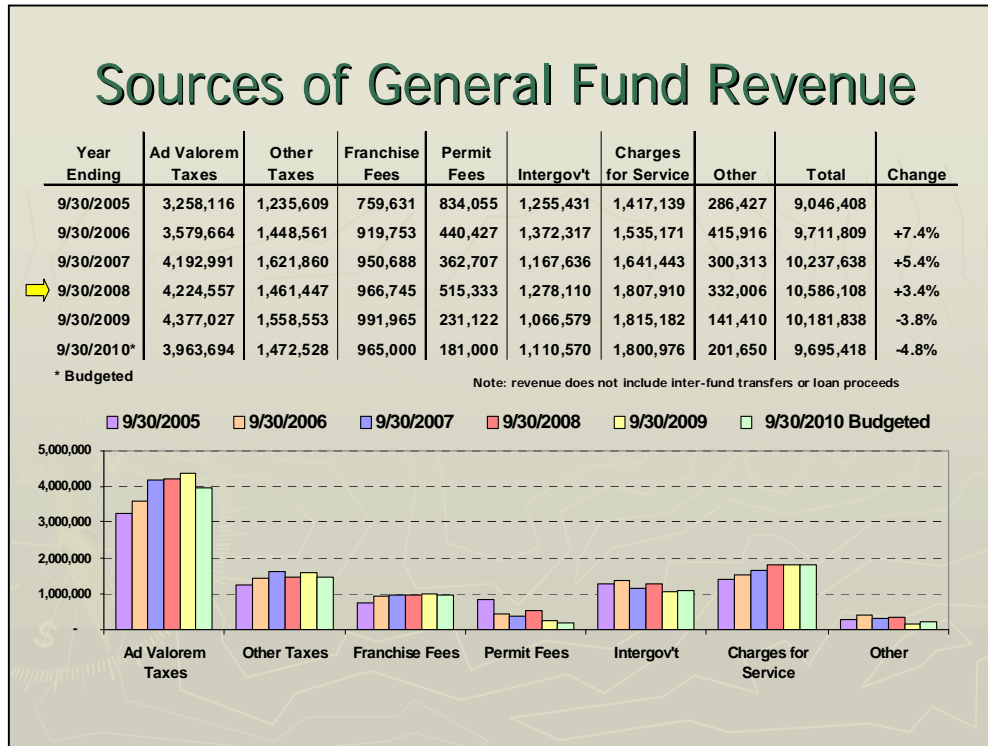
Like most cities in this state and in this country, Lake Wales faces an extended period of lower revenues while our expenses climb. Lake Wales has been, and in all probability will continue to be, faced with less shared revenue coming down to us from Tallahassee as state revenues continue to decline. Like most Florida municipalities, the City of Lake Wales has suffered reductions in revenue from property taxes, sales taxes and gas taxes. The Ledger last week reported that our Property Appraiser, Marsha Faux, has predicted that property values in Polk County will fall another 13% to 15% this year and more next year.

City Hall is not immune from the hardships of this economy. Like families and businesses throughout Lake Wales,

we are tightening our belt as tight as it will go and seeking ways to do more with a lot less. But, as difficult as it might be with diminishing resources, we are strongly resolved in carrying out our responsibilities to the community.

I want to talk a little bit about the City's current financial status. This may be more information than some of you need or want, but I think there are some in this room who are very concerned about city finances and want to know how we stand as we enter the second decade of this century in the middle of a recession.

So, to facilitate a better understanding of city fiscal matters, particularly as it relates to the current state of the City, I'm going to spend a few minutes talking about revenues, expenditures and fund balance. If you have a question that I don't answer here, either our Finance Director, Dorothy Pendergrass, or I will be glad to talk with you about your concerns.



General Fund revenues pay for the operations of the police and fire departments, the building department, planning and development, the entire city administration, the cemetery, parks and recreation. General Fund revenues do not pay the costs of streets maintenance --gas taxes provide that revenue. But if gas taxes fall short of covering streets division expense in any given year, the General Fund must make up the difference.

Looking at our chart, "Sources of General Fund Revenue", we can see what's happening to revenue. It's shrinking.

The years ending 9/30/05 through 08 have been audited, so these numbers have all been verified. We are in the midst of the audit for year ending 9/30/2009, so the numbers shown on the chart are still considered preliminary numbers, but we're far enough into the audit to know the numbers are accurate. The revenues shown for year ending 9/30/2010 are budgeted numbers.

The effect of Property Tax Reform can be seen in ad valorem tax revenues beginning in year ending 9/30/08. Ad valorem revenue in year ending 07 was about \$613,000 more than it had been in 06, even though the millage rate in 07 was a half mill lower. Ad valorem revenues in year ending 9/30/08 increased only \$31,566 over the prior year --this is the effect of property tax reform. Revenues were up about \$150,000 in year ending 09 thanks to new commercial development completed on US 27 around the mall. But then the bottom fell out of the economy, and property values started to slide downward. Although we have the same millage rate this year as last year, ad valorem revenues are going to be more than \$400,000 short of last year's total.

In the category of "Other Taxes" are electric and water utility taxes, telecommunication taxes and business taxes. Strongly linked to a good economy, these revenues are projected to be down by more than \$86,000 this year.

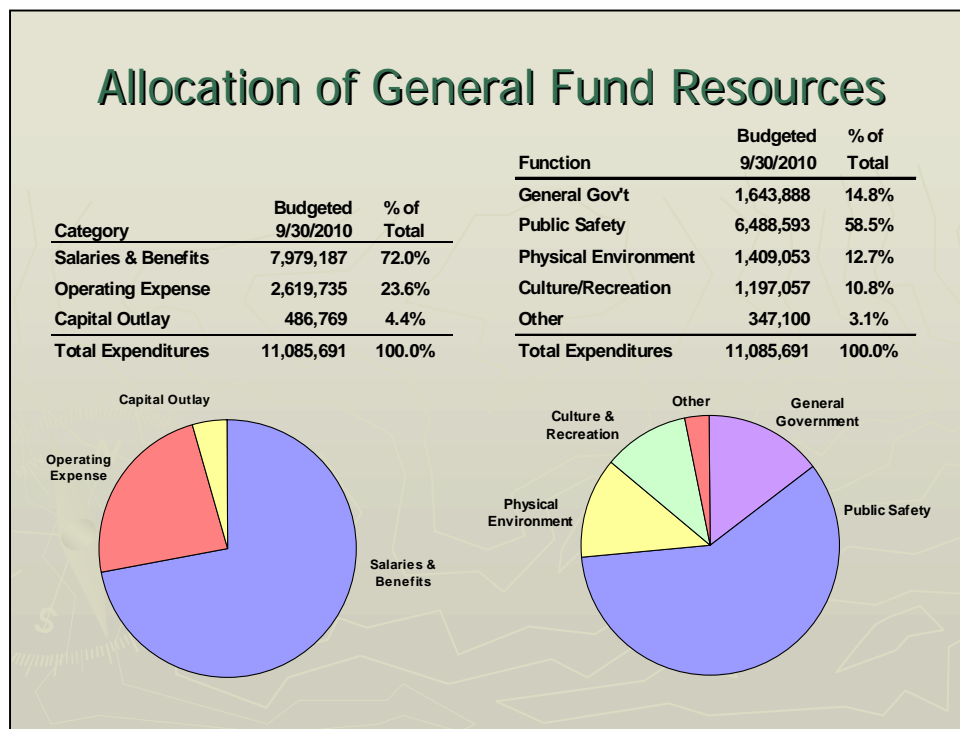
Permit fees, that's building permits and development permits, have tanked. And we know why.

Intergovernmental revenues include state-shared revenues, primarily sales taxes. Last year's total was almost \$212,000 less than the prior year. This revenue category will be closely monitored during the year because it is probable that state revenue projections will be reduced further before this fiscal year is over.

Bottom line. General Fund revenues have plummeted by close to \$900,000 in two years. Revenues this year are expected to be about \$16,000 less than we received in Fiscal Year 2005-2006.

Despite this, the City did not lay-off a single employee with the adoption of the 2009-10 operating budget. Furloughs and across-the-board pay cuts did not happen here, as they did in so many cities. With the change in administration that occurred last summer, we did eliminate two high level administrative positions in order to free up sufficient resources to allow the hiring of four field positions --one each in the parks, streets, water and wastewater divisions-- plus a computer tech and a clerical position in City Hall. All of these positions have long been needed.

Although initial budget requests submitted by the departments exceeded General Fund revenue projections by more than half a million dollars, the organization worked over the summer to identify and prioritize items that could be cut. The budget was balanced without a millage rate increase, without pay cuts, and without lay-offs while still maintaining a reasonable level of service.



How are General Fund revenues spent?

The cost of salaries and benefits consumes 72% of our revenues in this budget year. We are spending 23.6% of our resources on operating expenses and 4.4% on capital equipment and improvements to the cemeteries.

The General Fund pays for 134 employees, this is 78% of the organization's total payroll costs. The whole organization consists of 176³/₄ full-time equivalent positions this year; the ³/₄ signifies a position that was not funded until January. This is 14¹/₄ fewer positions than the high of 191 positions in fiscal year 2000-2001.

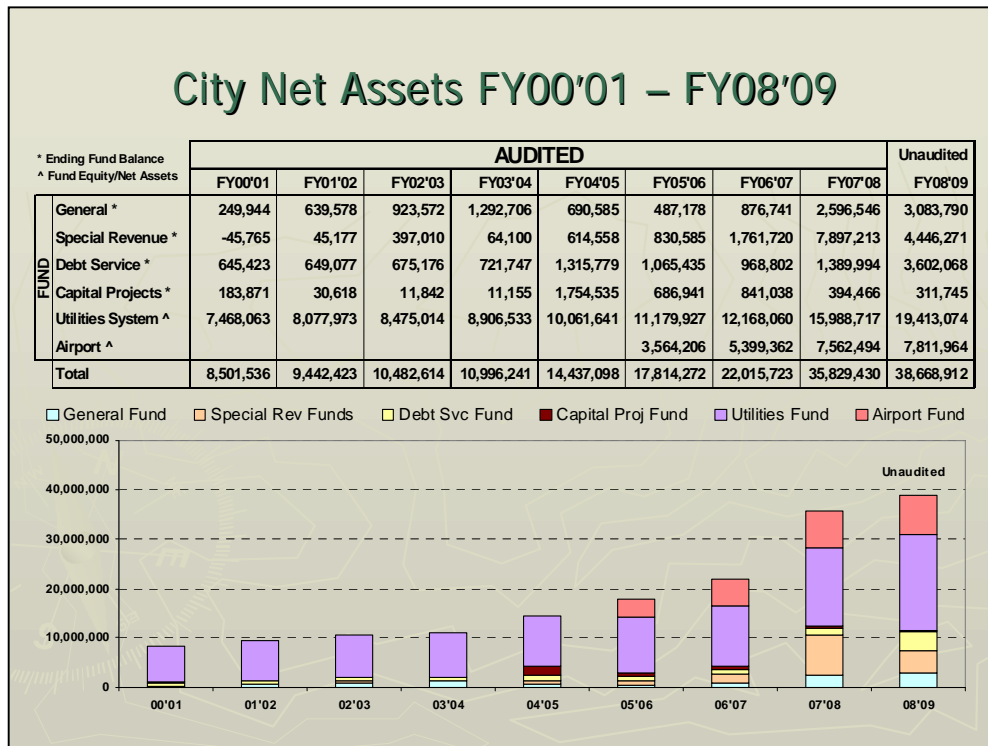
There has been an effort since that time to right-size the work force, cross-train our field employees, and reduce costs by contracting work outside the city when it has been cost-effective to do so. In some cases, we have brought contracted work back into the city because it has been cost-effective to do so. The cost of payroll benefits has also been significantly reduced and is better controlled now.

From the mid-1990's until 9/30/2007, the City was self-insured for health insurance. The City paid the premiums for employee coverage and employees paid for family coverage, if any. Retirees also participated in the group, but paid their own premiums.

In fiscal year 2006-2007, the total premiums paid by the group amounted to \$1.2 million. Because we were a self-insured group, these premiums went into a pool to cover claims. But claims that year totaled nearly \$2.1 million. This was roughly \$867,000 in medical claims that exceeded the funds in the pool. The City was responsible for covering these excess claims, and did. Add this to \$548,000 in excess claims paid in 05-06 and \$354,000 in 04-05. A total of \$1.8 million in excess medical claims was paid by the City over three years with devastating effect on fund balances because these costs were unanticipated and, therefore, unbudgeted.

In October 2007, the City converted to traditional health insurance coverage. Cost to provide this benefit to our employees has increased only 8.6% over the last three years –that’s an average increase of 2.9% per year. While expensive, about \$6,000 per employee per year, the cost is manageable with the revenues we are currently receiving.

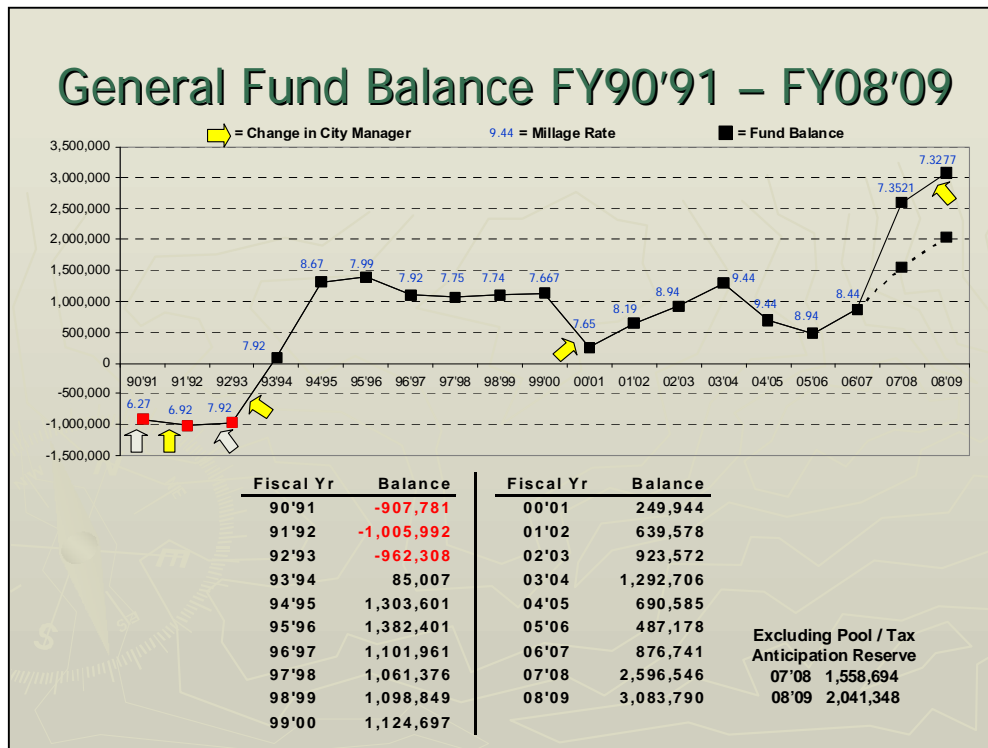
Looking at expenditures from a functional perspective, we see that the public safety function requires most of our General Fund resources, 58.5%. This includes police, fire, and building department services. Protecting the public safety is the most critical responsibility of a local government, and its large portion of the resource pie reflects how seriously we take that responsibility.



Net assets are the difference between assets and liabilities. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The steady increase in the value of net assets over the last decade indicates that the City’s financial position is steadily improving. In fact, it has improved by 321% between 9/30/01 and 9/30/08. If the preliminary unaudited

numbers remain unchanged, the position will have improved by 355% between 01 and 09. If any of you thought we were on the brink of financial disaster, I hope this eases some of your concern.



This chart shows almost twenty years of General Fund financial history. Many of you here today remember the time of the general fund deficit that was discovered in late 1991.

Fund balance is essentially the money left in the account at the end of the year. If the year's revenues exceed the year's expenditures, we have a surplus and fund balance increases. If expenditures exceed revenues, we have a shortfall and fund balance goes down.

The chart pretty much speaks for itself. The small boxes on the graph show fund balance; the black boxes show a positive fund balance, the red boxes show a negative. The blue numbers indicate the millage rate in each fiscal year, the yellow arrows indicate changes in the city manager. The grayish arrows indicate interim management periods.

General Fund expenditures exceeded revenues and reserves by almost \$908,000 at the end of September 1991. Before things started to improve, this deficit had increased to more than \$1 million. Over the twenty years since, fund balance has been up and down, though never has it been as grave a concern as in 1991-92 --when the City nearly ceased to exist as a self-sustaining, viable municipal corporation.

Historically, big increases in fund balance were preceded by big increases in the millage rate. This was true in 94-95 when we pulled out of the deficit, and in the years following 2000-2001 --the lowest point in the last decade. The dip in the graph that we see between 04-05 and 06-07 is the toll taken by \$1.8 million in excess medical claims.

But look at 07-08 and 08-09. These are two years of strong growth in fund balance at the same time that the millage rate has come down by more than a mill. The dotted line indicates where fund balance would be if we exclude the monies in the Pool Reserve/Tax Anticipation Account. Fund balance in 07-08 and 08-09 is still higher than at any point in the past. This fact alone should tell us that things are better than we might have thought.

General Fund balance is an indicator of the financial health of the City, and a cash balance equivalent to 15% to

17% of operating expense is the minimum acceptable amount that we need to respond to emergencies and cover expenses during the first fiscal quarter before ad valorem revenues start flowing in.

Currently, the cash balance in the General Fund is at 27.8% of budgeted operating expense. Excluding the monies in the Pool Reserve/Tax Anticipation Reserve account, the balance is the equivalent of 18.4% of operating expense. It is unlikely that fund balance will increase at the end of this year, and it may decline. This is because we appropriated some of last year's surplus revenues to pay for capital equipment purchases and cemetery improvements this year.

But, if General Fund balance is truly an indicator of the City's financial health, then we can say that the City of Lake Wales is alive and well, and ready to deal with the financial challenges ahead of us. Despite property tax reform, reduced revenues, and other problems visited upon us by the recession, we have balanced the budget, saved jobs, and worked hard to maintain a budget surplus.

This is not to say that we think we have cash to burn. We cannot start spending like a drunken sailor, as some of our citizens would describe it. In the near term, our financial resources will be severely constrained, stretched thin as we continue to deal with the fiscal impact of tax reform and the serious problems in the housing market.

The City of Lake Wales is in a fairly good position to recover from this recession. We have a balanced budget, and, over the past several years, we have been building healthier General Fund reserves. Expenditures must continue to grow conservatively for the next few years, if at all, in order to protect the cash reserves that we have worked so hard to develop. That means that we must keep payroll costs under control. It may be a while before we can afford employee pay increases or benefit enhancements, but our goal during this period of double digit unemployment is to keep all of our employees employed.

But the economic slowdown offers staff the time to slow down and catch its breath. It gives us the opportunity to examine ourselves, to become more efficient, to identify processes and procedures that need improvement. While we deal with the fiscal problems and financial challenges of today, we're also taking advantage of the downturn in development to assess and improve our ability to deal with the future.

Growth Since US Census of 2000

- Population – Up 28%
Increase of 2,873 people from 10,194 to 13,067
- Land Area – Up 40%
Increase of 5.5 sq miles to 19 sq miles
Estimated vacant land – 6,000 acres
- Dwelling Units – Up 50%
Permitted: 2,100 units - Net increase 2,535 units
Estimated units 6,900 currently

Growth surged in Lake Wales during the five years following the US Census of 2000, placing the City 71st in the top 100 fastest growing cities in Florida. The population increased 28% to an estimated 13,067 people, and the land area increased 40% to 19 square miles.

Today, an estimated 53% of the City's land area or 6,600 acres remains undeveloped.

Over 2,100 new dwelling units were permitted since the Census, the greatest number in any decade of the City's history. Most of the growth occurred in the first half of the decade, with the build-out of subdivisions along Burns Avenue, the completion of several apartment complexes, development of Lake Ashton, Carlsberg, Dinner Lake Shores, and Sunset Point, and the annexation of Tower Lakes Mobile Home Park. Residential development peaked in 2004 when almost 600 permits for new units were issued.

Since 2006, construction has slowed to an average of about 75 units per year. In 2009, 27 permits for new residential units were issued.

The current housing stock is about 6,900 units, a 50% increase over the 4,598 units counted in the 2000 Census. An estimated 63% of the City's housing units are single-family, 23% are multi-family, and the remaining 14% are duplex units and mobile homes.

Status of Residential Developments

	<u>Units</u>
• Approved for construction (platted vacant lots)	700 (est)
• In approval process (Mayfair)	1,022
• Preliminary plans on hold (no activity)	2,469

Plans with preliminary approval for nearly 2,500 dwellings have been put on hold in the economic downturn including several developments in the Chalet Suzanne Rd. and Buck Moore Rd. areas as well as Hunter's Glen at Waverly Road and US27 and Oakwood on Capps Rd.

Only a few developments are active right now: Lake Ashton, Dinner Lake Shores, and Whispering Ridge. Mayfair, with a proposed 1,022 units is moving through the approval process.

The prospect of thousands of new residential units proposed in the early years of the decade led the City Commission to question whether Lake Wales was geared to manage growth effectively. The zoning regulations had not been overhauled in some 30 years. Expansion of utilities to serve development would cost tens of millions of dollars.

In 2005, a "Zoning-in-Progress" ordinance halted the review of new residential development to provide staff time to re-write the zoning regulations and growth policies. Allowable densities were adjusted to place high densities near commercial centers and along major roadways.

Commercial regulations were revised to counter strip development. Zoning regulations now encourage infill and redevelopment. They ensure that new developments are designed with respect for natural resources and continue the City's traditions of ample public open space and walk-ability.

Tools to Manage Growth

- Zoning regulations (updated in 2005)
- Growth policies in Comp Plan (amended 2005)
- Impact fees overhauled to ensure growth pays for facilities it needs
- Limiting new potable water service to properties within City limits
- Requiring pre-payment of utility impact fees for capacity reservation
- No development approval unless services are or will be available
- Annexation policies to encourage infill and improve tax base

It should be noted that this 2005 "Zoning in Progress", which was strongly urged by our Planning and Development Director Margaret Swanson, served to halt the virtual tsunami of residential development that was then overwhelming cities all over Central Florida. In retrospect, this conservative and rational approach to new development in 2005 spared the City from subdivisions full of foreclosed homes today.

A major concern of growth management is expanding public services to meet the needs of new development. In 2005, an impact fee study revamped development fees to ensure that new development pays for expansion of facilities, and that taxpayers do not subsidize development.

However, the difficulties of timing, financing, and constructing improvements to be in place when needed remained daunting. The City could not afford to finance costly projects with the risk that proposed development would not materialize to foot the bill. The solution was the enactment of a "queue" system that requires residential developments to pre-pay utility impact fees to reserve capacity in the sewer and water systems. The queue system provides an orderly method of projecting need by requiring developers to partner with the City for facility expansions.

A decision by the City Commission to provide new potable water service only to properties within the City limits is key to managing growth. Much of the unincorporated land around the City can be developed at up to 3 units per acre if municipal water is provided, creating leap-frog, scattered development. Residents in such developments would pay no City taxes or impact fees for libraries and parks, yet would enjoy these services and reduce the levels of service for taxpaying citizens.

Evaluating proposed annexations in terms of benefit to the City is a priority for the Commission. In a workshop in 2009, the Commission took the position that only those annexations that represent infill or improve the City's tax base will be looked upon favorably.

Today, the City has mechanisms in place to effectively manage growth.

Currently there is adequate capacity to accommodate growth into the foreseeable future. Utility capacity currently "available" --that is, "unused" and "unreserved"-- is more than sufficient to provide water service for 5-7 years and sewer service for 7-9 years into the future.

With improvements now in the works, capacity will serve growth for at least 12 years. Projects include upgrades to the wastewater treatment plant planned for 2010/2011 to increase treatment capacity to 2.19 million gallons per day and establishment of a system to use reclaimed water, or treated wastewater, for irrigation.

Service projections are very conservative, assuming residential growth will resume immediately at the high, pre-recession rate of 200+ new units per year. Capacity for about 700 already platted lots has been set aside and is not considered "available." Allowance has also been made for approved commercial projects.



In the past decade, over \$80 million in non-residential development has been completed in Lake Wales. Over \$25 million in new construction in the Eagle Ridge Mall area includes two new hotels, Lowe's, and several commercial plazas. The State Road 60 commercial corridor has seen about \$15 million in construction, and Longleaf Business Park, about \$16 million. Another \$23 million has been invested in development in various areas of the City, including the US 27 and SR17 corridors and the industrial area near the Airport

The opening of the Village Kitchen Shoppe, Brenda's Gifts, Polka Dots, Lollipops, and other specialty shops have brought new life to our Downtown, and the scope of activity has expanded with the renovation of the second floor of the Bullard Building for residential and office condos. Redevelopment of the One Scenic Highway Building has attracted new personal services and professional offices, and a new gourmet coffee shop is promised early in 2010.

The opening of the renovated Old City Hall as the new Polk State College Campus provides a significant anchor for the downtown. At the opposite end of the district, plans for the Hotel Grand have been moving through a number of approvals for the renovation of the exterior of the building in the first quarter of 2010. This project will represent \$5 to \$6 million in private investment in the central business district and preservation of the historic structure for residential and commercial use.

Although 80% of vacant acreage has been designated for residential development, about 750 acres is slated for non-residential growth.

Future Land Use – Vacant Land

<u>Land Use Designation</u>	<u>Acres</u>
• General Commercial	210
• Neighborhood Commercial	35
• Business Park	135
• Industrial	310
• Professional & Limited Commercial/Residential	60
TOTAL	750

Note: Figures do not include infill parcels

Increasing the non-residential tax base and creating jobs is a priority of the City Commission. A number of measures have been taken to make Lake Wales attractive for businesses.

In 2004, the Economic Development Director position was created to spearhead development of Longleaf Business Park and improve economic conditions. Harold Gallup, works closely with Planning and Development to facilitate zoning and development approvals. Cliff Smith, our Building Official, and Chuck Croley, our Fire Marshal, provide courtesy inspections for prospective businesses to identify issues and solutions for compliance with state codes.

A pamphlet was developed to guide businesses through the approval process, and staff provides one-on-one assistance with site plans, particularly for small businesses that do not have the resources to hire consultants.

Revisions to the zoning regulations streamlined the development review process with the Planning & Development Department coordinating the review process from A to Z --- conceptual plans to certificates of occupancy.

Special permits are now a one-stop process by the Planning Board, no longer requiring final approval by the Board of Adjustment. Site plans meeting code requirements do not need Board approval but are administratively approved. Planning Board has broad powers to waive strict compliance with regulations for parking, landscaping, fences, and other dimensional requirements so that special circumstances and needs of applicants can be taken into account.

Flexibility is built into the code to encourage redevelopment of the downtown and older commercial and industrial areas. A wide range of uses are allowed by right in these areas. The Planning Board can approve a change in use from one non-conforming use to another if compatible with the neighborhood. Parking requirements for downtown take into account the availability of public lots and street parking.

Since the 2005 revisions, numerous adjustments have been made to improve user friendliness of the zoning regulations. Adjustments in review fees are made whenever inequities are found. For instance, the review fee for painted signs which do not require a building permit was reduced to cover zoning review only. The codes, including

sign, landscaping, and parking regulations, are currently under review to ensure that they do not present an undue burden on local businesses.

Avoiding over-regulation while protecting and enhancing the quality of the community is the goal. We know that in order to attract new economic activity, City Hall must be seen as a friendly place to do business.

So, we want to get rid of red tape. We're looking for ways to simplify or streamline the development process without compromising the best interests of the public. We're making customer service a priority. We're listening to the business and development community and addressing the concerns that we hear. In addition to finding ways to make ourselves "user friendly," the city is committed to finding ways to cut costs for our customers. We're taking a look at impact fees and fire sprinkler fees and restructuring the usage blocks in our water rate schedule. We've introduced economic development incentive programs. We want to do everything possible to make sure that the City of Lake Wales is competitive in the development marketplace and fair to our new and existing customers.

We want to prepare ourselves for economic recovery. We want to be ready. We want to be well-positioned, looking forward, "good to go" when we emerge from this bad economy and face a good one. It is vitally important that we be so.

Every day hundreds, if not thousands, of Lake Wales residents stream out of town to jobs outside of our community in Winter Haven, Lakeland, Orlando and elsewhere. That's why the City Commission has made economic development a top priority. That's why the City and the Chamber of Commerce have formed a joint committee to develop a way to utilize all the community's resources to bring new high quality jobs to this city in this new decade, while helping retain and grow existing businesses.

If there's one thing we can all do to help, it's to spend our dollars right here in our own community. Fill up our gas tank [here](#) before we leave Lake Wales. Pick up groceries [here](#) on our way home. Support our car dealerships, our restaurants, our wonderful specialty shops, our mall. Think Lake Wales before making that online purchase. Shopping locally benefits all of us --it keeps dollars here, it keeps businesses here, it keeps jobs here.

There is just so much I want to share with you about what we're doing in all our city departments, but I'm really out of time.

Let me just add this one thing about two of our departments. Lake Wales is served by some of the finest law enforcement and firefighting professionals in the area. With Police Chief Herb Gillis and Fire Chief Jerry Brown at their respective helms, we stand well-trained, equipped and ready to deal with any emergency. The men and women in these two departments can be counted among public safety's best. I strongly believe that Lake Wales could not expect to receive this same level of professional service from such a well-trained group of dedicated individuals who are fully committed to protecting this community if our public safety services were outsourced to any other agency.

You can read about the Police Department and Fire Department and all our city departments in our just completed 2009 Annual Report. To save printing costs and conserve paper, we are publishing the Annual Report on our web site at www.cityoflakewales.com. We have printed a limited number of copies for citizens to pick up in the City Hall lobby, and there are some available here if you'd like to pick a copy up as you leave.

Let me close with this. You can be certain that the folks at City Hall are working tirelessly to get through these difficult economic times. I am so proud of our staff for their hard work, their commitment to this community, the way they are managing to stretch dollars and cut costs without cutting corners. And you can be proud too.

While it is clear we will face seriously difficult budgetary conditions for the next several years, the residents and business community should be confident that their tax dollars are in good hands, and that individuals committed to serving Lake Wales are watching over every dime of the taxpayers' money.

Of course we cannot ignore economic realities. We have some very real, very tough challenges to overcome. But, be assured, we will get through it. The state of our City is strong.