

CITY OF FORT LAUDERDALE, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED SEPTEMBER 30, 2004

This section is intended to provide readers of this report with a general overview of the financial activities of the City during FY2004. The information in this section should be considered only in the context of the Transmittal Letter at the beginning of this report, as well as the financial statements and notes to financial statements which follow.

Financial Highlights

- The City's total assets exceeded its liabilities at September 30, 2004 by \$640 million (net assets). Of this amount, \$167 million was from governmental activities and \$473 million was from business-type activities.
- The City's revenues for governmental activities, excluding transfers, totaled \$249 million, a 7.9% increase over FY2003. Expenses for governmental activities decreased by 6.5% to \$220 million.
- Revenues related to business-type activities increased to \$122 million while expenses decreased by \$20 million. The one time write-off of an impaired capital asset in FY2003 accounted for most of the decrease.
- The General Fund's fund balance increased by \$9.5 million due to increased revenue from property tax levies, increased fire-rescue assessments, a code lien amnesty program as well as reduced expenditures generated by employee furloughs and controls on overtime expenditures. The unreserved undesignated balance is \$4,856,000 compared to \$875,000 at the end of FY2003.
- The City's long-term debt increased by \$10.4 million to \$202 million. This includes the issuance of \$18 million Community Redevelopment Agency bonds for the Northwest Progresso Flagler Heights area and an initial \$6.9 million draw on \$29.2 million Florida State Revolving Fund loans for sewer system improvements.
- The total fair market value of the City's investments at September 30, 2004 was \$958 million. Interest rates remained at historically low levels during the fiscal year.

Overview of Financial Statements

The basic financial statements are comprised of government-wide statements that offer a summary of financial activity and more specific fund statements that present more detailed information.

Government-Wide Statements (pages 11 through 13) include the statement of net assets and statement of activities. They provide a broad overview of the City as a whole similar to private sector financial statements. The *statement of net assets* shows the total assets and liabilities for the City with the difference being net assets. The *statement of activities* provides a breakdown of revenues and expenditures by function. Those generally supported by taxes and intergovernmental revenues such as police, fire-rescue, parks and recreation, and public works are considered governmental activities. Those functions that are primarily funded through user fees and charges are identified as business-type activities. In Fort Lauderdale, the latter activities include Water and Sewer, Sanitation, the Parking System, the Executive Airport, and Stormwater.

The government-wide statements include component units such as the City's Community Redevelopment Agency (CRA) and the Sunrise Key Safe Neighborhood District even though they are technically not part of the primary City government. The City Commission acts as the Board of Directors of the CRA and the City Commission is required to adopt the millage rate for the Sunrise Key District when it adopts the property tax levies for City operations and debt service. These financial statements do not include fiduciary funds such as the employee pension plans because those resources cannot be used for the City's activities. Details of the fiduciary funds are provided in the fund statements.

The **Fund Financial Statements** found on pages 14 through 27. The City of Fort Lauderdale uses fund accounting to track the sources and uses of resources for specific purposes. The City categorizes funds into three basic fund types: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds (beginning on page 14) are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the previous statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison highlights the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances offer a reconciliation to assist with this comparison.

The City of Fort Lauderdale maintains 19 individual governmental funds. Of this number, only the General Fund is considered a major fund and thus is reflected separately in the fund financial statements. All the other governmental funds are combined for presentation purposes as nonmajor funds.

Proprietary Funds (beginning on page 21) are comprised of two different categories. Enterprise funds include business-type activities such as Water and Sewer, Sanitation, the Parking System, the Executive Airport, and Stormwater. Internal service funds include vehicle rental, central services (telecommunications, print shop, and central stores), and insurance services. The latter functions provide support to internal City departments rather than services to the public. These funds are also reported as either major or nonmajor funds depending upon the significance of their financial activity.

Fiduciary Funds (beginning on page 26), which are not included in the government-wide statements, are presented in this section and include the City's Police and Fire Pension Plan and the General Employee Retirement System as well as the financial activity of the Arts and Science District Garage.

Notes to Financial Statements (beginning on page 28) are integral to a complete understanding of both the government-wide and fund financial statements. They provide additional explanation of the figures shown in the various statements.

Other Information

This report also includes supplementary information related to the City's employee pension obligations. The combining statements in connection with non-major governmental and enterprise funds, internal service funds, fiduciary funds and non-major component units are presented following the required supplementary information.

Additional statistical information is presented to give report users a better historical perspective and assist in assessing current financial status and trends of the governmental unit. Economic data is presented to allow a broader understanding of the economic and social environment in which the City government operates.

Government-wide Financial Analysis

The table below summarizes Fort Lauderdale's net assets for the 2004 and 2003 fiscal years.

City of Fort Lauderdale, Florida Net Assets (in thousands of \$)

	Governmental		Business-type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 152,757	122,677	205,180	204,708	357,937	327,385
Capital assets	197,311	186,239	401,948	360,650	599,259	546,889
Total assets	<u>350,068</u>	<u>308,916</u>	<u>607,128</u>	<u>565,358</u>	<u>957,196</u>	<u>874,274</u>
Long-term liabilities outstanding	150,921	143,752	106,372	102,948	257,293	246,700
Other liabilities	31,890	24,362	27,727	21,112	59,617	45,474
Total liabilities	<u>182,811</u>	<u>168,114</u>	<u>134,099</u>	<u>124,060</u>	<u>316,910</u>	<u>292,174</u>
Net Assets:						
Invested in capital assets						
net of related debt	126,094	116,327	369,661	352,314	495,755	468,641
Restricted	14,043	12,976	7,754	7,203	21,797	20,179
Unrestricted	27,120	11,499	95,614	81,781	122,734	93,280
Total net assets	<u>\$ 167,257</u>	<u>140,802</u>	<u>473,029</u>	<u>441,298</u>	<u>640,286</u>	<u>582,100</u>

The City's investment in capital assets (land, buildings, improvements and equipment) net of the related debt outstanding used to acquire those assets represents 77% of its net assets. These capital assets are used to provide services to the citizens and are not available for future spending. The resources needed to repay the debt incurred to acquire these assets will come from future revenues.

The balance of net assets includes resources subject to external restrictions (\$22 million) and unrestricted net assets of \$123 million which may be used to meet the City's ongoing obligations. The unrestricted amount is \$29 million higher than at the end of fiscal year 2003.

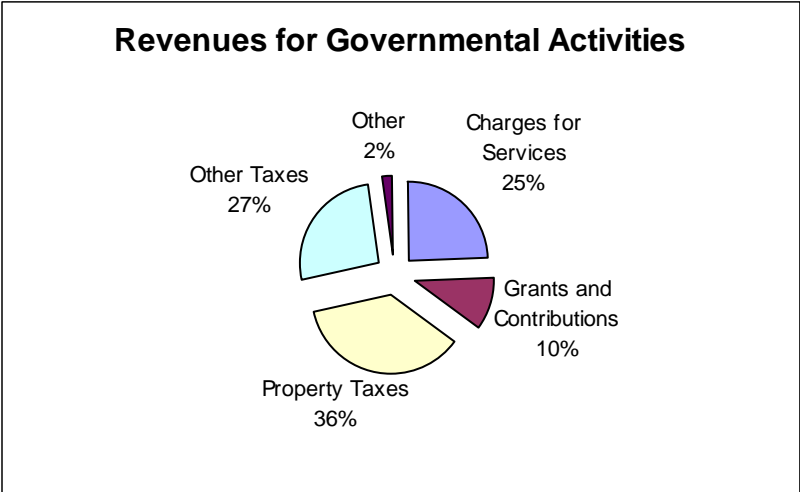
Total net assets increased by \$58 million, a 10% gain over the prior year. The following table summarizes changes in net assets for governmental and business-type activities for the past two fiscal years.

City of Fort Lauderdale, Florida
Changes in Net Assets
(in thousands of \$)

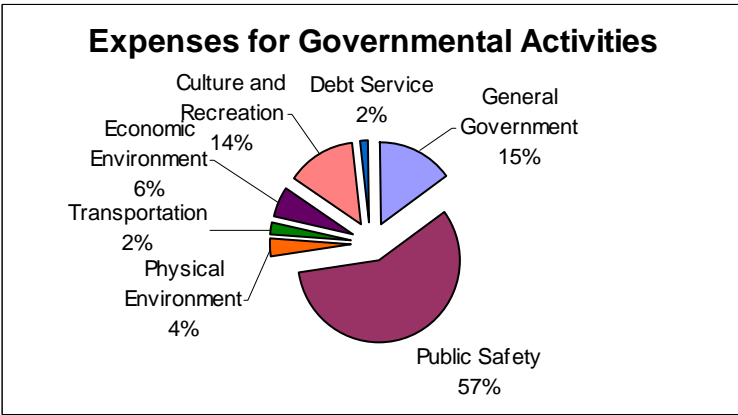
	Governmental		Business-type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:	\$					
Charges for services	61,919	52,792	111,660	106,541	173,579	159,333
Operating grants/contributions	17,763	18,867	-	108	17,763	18,975
Capital grants/contributions	8,278	4,850	7,944	1,858	16,222	6,708
General revenues:						
Property taxes	89,414	81,615	-	-	89,414	81,615
Other taxes	66,809	68,182	-	-	66,809	68,182
Investment earnings	2,603	3,230	2,644	3,337	5,247	6,567
Other	2,495	1,578	-	22	2,495	1,600
Total revenues	<u>249,281</u>	<u>231,114</u>	<u>122,248</u>	<u>111,866</u>	<u>371,529</u>	<u>342,980</u>
Expenses:						
General Government	33,482	30,348	-	-	33,482	30,348
Public Safety	125,108	131,672	-	-	125,108	131,672
Physical Environment	7,922	7,465	81,021	102,111	88,943	109,576
Transportation	5,414	7,926	12,731	11,936	18,145	19,862
Economic Environment	13,808	17,209	-	-	13,808	17,209
Culture and Recreation	30,452	36,704	-	-	30,452	36,704
Interest on Long-term Debt	3,405	3,434	-	-	3,405	3,434
Total expenses	<u>219,591</u>	<u>234,758</u>	<u>93,752</u>	<u>114,047</u>	<u>313,343</u>	<u>348,805</u>
Increase (decrease) in net assets						
before transfers	29,690	(3,644)	28,496	(2,181)	58,186	(5,825)
Transfers	(3,235)	2,494	3,235	(2,494)	-	-
Increase (decrease) in net assets	<u>26,455</u>	<u>(1,150)</u>	<u>31,731</u>	<u>(4,675)</u>	<u>58,186</u>	<u>(5,825)</u>
Net assets beginning of year	<u>140,802</u>	<u>141,952</u>	<u>441,298</u>	<u>445,973</u>	<u>582,100</u>	<u>587,925</u>
Net assets end of year	<u>\$ 167,257</u>	<u>140,802</u>	<u>473,029</u>	<u>441,298</u>	<u>640,286</u>	<u>582,100</u>

Revenues from governmental activities increased by 7.9%. Most of the major revenue sources showed favorable results, including a 17.3% increase in charges for services and 9.6% increase in property tax collections, including voted debt levies. Other taxes (utility, franchise, communications services and sales taxes) declined slightly (2%) while grants and contributions used for both operating and capital needs rose 9.8%.

Expenses for governmental activities decreased 6.5%. Public safety expenses decreased 5% as a result of closing the City's minimum security jail, cutbacks in overtime costs and employee furloughs. In addition, savings in culture and recreation programs totaled more than \$6 million. The general government expenses increased as a result of City contributions for self-insured health benefits and worker's compensation claims, partially offset by lower payroll costs.



Property and other taxes provide 63% of the revenues for governmental activities while charges for services, such as parks and recreation programs and emergency medical transport, comprise 25% of total revenues.



Expenses for Governmental Activities are guided by City priorities. Public Safety expenses (Police, Fire-Rescue, and Building Services) consume over half of all resources.

The net assets (before transfers) of the business-type activities increased by \$28 million. Total revenues for these activities increased by \$10 million. Charges to customers for services grew by \$5 million and capital grants and contributions increased by \$6 million.

Expenses for business-type activities showed a decline of \$20.3 million reflecting \$4.3 in cost cutting measures, including the closing of the trash transfer station. The remaining \$16 million is attributed to the write down of the compost plant in 2003.

Analysis of the Government’s Funds

The fund financial statements for *governmental funds* provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Fort Lauderdale’s financing requirements. In particular, the unreserved fund balance is a useful indicator of the City’s net resources available at the end of the fiscal year.

The General Fund balance at September 30, 2004 was \$14 million with \$4,856,000 unreserved and undesignated. This compares to a total fund balance of \$4.5 million last year and \$875,000 unreserved undesignated, reflecting the measures taken in FY2004 to improve the City's financial position. The non-major governmental funds showed an increase as well with the issuance of \$18 million tax increment revenue bonds. Overall, governmental funds ended with \$95 million in fund balance including \$11 million unreserved and undesignated.

The City's *proprietary funds* are presented in more detail in the fund statements but represent the same activities reflected in the business-type activities. Proprietary funds also include internal service funds. In FY2004 no fund had an operating loss or decrease in net assets. The Water and Sewer Fund's operating income of \$14.6 million compares to a loss of \$6.4 in the prior year resulting from the write down of the compost plant. The Sanitation Fund operating income of \$1.5 reflects the closing of the trash transfer station and rebates to participating cities from the county's resource recovery operation. The non-major enterprise funds, including parking, airport and stormwater had combined operating incomes of \$3 million, up from \$2.4 million in FY2003.

At September 30, 2004, the City's insurance fund had a deficit of \$13.4 million (assets of \$12.6 million offset by estimated claims liabilities of \$26 million). This is an improvement from 2003 when the fund deficit totaled more than \$20 million.

General Fund Budgetary Highlights

General fund revenues for fiscal year 2004 totaled \$215 million exceeding budget by \$1.2 million. Emergency service transport fees and park impact fees accounted for most of the increase. Total expenditures of \$194 million were almost \$3.6 million below the final budget. The City-wide emphasis on cost control resulted in budget savings in general government (\$1.8 million) and culture and recreation (\$764,000) functions. In addition, public safety, economic environment and transportation expenditures were each \$300,000 under budget. In other areas, the budget savings on debt service costs were nearly \$800,000 and funding needed for the Community Redevelopment Agency was almost \$500,000 less than planned. Coupled with a beginning unreserved fund balance which was \$2.4 million higher than anticipated, the total fund balance was \$8.4 million better than the adopted budget.

Capital Assets and Debt Administration

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities is shown in the following table. Additional land was purchased for recreational activities (\$4.5 million) and a new fire station was opened which houses engine companies from two former stations as well as Fire-Rescue administration, fire prevention and training operations. Capital asset balances of the business-type activities increased by \$41 million reflecting ongoing major capital improvements in the water and sewer and stormwater systems. Parking System capital assets increased \$7 million with the transfer of the Oceanside parking lot land from the Community Redevelopment Agency and major improvements to the downtown parking garages. Additional information about these activities is available in the financial statements and the notes to the financial statements.

City of Fort Lauderdale, Florida
Capital Assets (net of depreciation)
(in thousands of \$)

	Governmental		Business-type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Land	\$ 35,232	30,712	25,937	20,236	61,169	50,948
Buildings	71,380	66,504	90,628	93,502	162,008	160,006
Improvements other than buildings	36,280	38,109	210,752	194,319	247,032	232,428
Machinery and equipment	27,426	31,664	7,418	8,296	34,844	39,960
Infrastructure	265	124	-	-	265	124
Construction in progress	26,728	19,126	67,213	44,297	93,941	63,423
Total	\$ 197,311	186,239	401,948	360,650	599,259	546,889

The City's governmental activity debt increased by \$7 million net of principal retirements of \$11 million. The CRA issued \$18 million tax increment revenue bonds and capital leases increased \$800,000 for computer equipment. In the business-type activities, \$6.9 million was drawn on Florida state revolving fund loans authorized for a total of \$29.2. Principal retirements for these activities totaled \$3.5 million and included the final payment on the parking system's bonds.

City of Fort Lauderdale, Florida
Outstanding Debt *
(in thousands of \$)

	Governmental		Business-type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 38,110	43,005	-	-	38,110	43,005
Excise tax bonds	13,645	15,740	-	-	13,645	15,740
Revenue bonds	-	-	91,740	93,975	91,740	93,975
Tax Increment revenue bonds	21,705	4,127	-	-	21,705	4,127
Capital leases	4,350	4,563	-	-	4,350	4,563
Loans payable and other obligations	25,865	29,115	6,897	1,325	32,762	30,440
Total Debt Outstanding	\$ 103,675	96,550	98,637	95,300	202,312	191,850

* Excludes unamortized bond discounts, gains/losses on advance refundings and other liabilities such as estimated insurance claims and compensated absences.

Economic Factors and Next Year's Budget and Rates

The State of Florida, by constitution, does not have a state personal income tax and therefore the State operates primarily using sales, gasoline and corporate income taxes. Local governments (cities, counties and school boards) primarily rely on property and a limited array of permitted other taxes (sales, gasoline, and utilities) and fees (franchise, occupational license) for their governmental activities. For the business-type and certain governmental activities (construction services and recreational programs), the user pays a related fee or charge associated with the service.

The adopted operating budget for FY2005 is \$415.2 million or 10.1% higher than the FY2004 adopted budget. The General Fund budget for FY2005 is \$245.1 million or 14% higher than FY2004. The millage rate was increased from 5.1970 to 5.7698. Water, sewer, and stormwater rates were all increased 6%. The City also increased the non ad valorem assessment for fire services to recover 75 percent of fire suppression costs.

The adopted General Fund budget in FY2005 provides for increased pension costs and insurance as well as City priorities for annexation, improvements in public safety, higher reserve amounts, and appropriate funding levels for capital needs.

Requests for Information

This financial report is designed to provide a general overview of the City of Fort Lauderdale's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Fort Lauderdale, 100 North Andrews Avenue, Fort Lauderdale, Florida 33301.