

CITY OF FORT LAUDERDALE, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED SEPTEMBER 30, 2005

This section is intended to provide readers of this report with a general overview of the financial activities of the City during FY2005. 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, 2005 by \$731 million (net assets). Of this amount, \$222 million was from governmental activities and \$509 million was from business-type activities.
- The City's revenues for governmental activities, excluding transfers, totaled \$287 million, a 13% increase over FY2004. Expenses for governmental activities increased by 4.9% to \$235 million.
- Revenues related to business-type activities increased by \$6.5 million to \$129 million while expenses decreased by \$3 million.
- The General Fund's balance increased by \$23 million to \$37 million due primarily to lower than anticipated spending. The unreserved undesignated balance of \$30.3 million represents a significant increase over the \$4.8 million balance at the end of FY2004.
- The City's long-term debt increased by \$20 million net of retirements to \$222 million. This includes the issuance of \$20 million General Obligation bonds for Fire-rescue facilities and \$12 million draws on Florida State Revolving Fund loans for sewer system improvements.
- The total fair market value of the City's investments at September 30, 2005 was \$1.044 billion. Interest rates rebounded throughout the fiscal year, increasing approximately 200 basis points by year-end over the previous years' historically low levels.

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** are 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 20 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 and printing services), 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 2005 and 2004 fiscal years.

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

	Governmental		Business-type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 197,688	152,757	195,547	205,180	393,235	357,937
Capital assets	<u>208,186</u>	<u>197,311</u>	<u>458,587</u>	<u>401,948</u>	<u>666,773</u>	<u>599,259</u>
Total assets	<u>405,874</u>	<u>350,068</u>	<u>654,134</u>	<u>607,128</u>	<u>1,060,008</u>	<u>957,196</u>
Long-term liabilities outstanding	156,164	150,921	115,505	106,372	271,669	257,293
Other liabilities	<u>27,598</u>	<u>31,890</u>	<u>30,038</u>	<u>27,727</u>	<u>57,636</u>	<u>59,617</u>
Total liabilities	<u>183,762</u>	<u>182,811</u>	<u>145,543</u>	<u>134,099</u>	<u>329,305</u>	<u>316,910</u>
Net Assets:						
Invested in capital assets						
net of related debt	140,545	126,094	384,485	369,661	525,030	495,755
Restricted	14,841	14,043	9,158	7,754	23,999	21,797
Unrestricted	<u>66,726</u>	<u>27,120</u>	<u>114,948</u>	<u>95,614</u>	<u>181,674</u>	<u>122,734</u>
Total net assets	<u>\$ 222,112</u>	<u>167,257</u>	<u>508,591</u>	<u>473,029</u>	<u>730,703</u>	<u>640,286</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 72% 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 (\$24 million) and unrestricted net assets (\$182 million) which may be used to meet the City's ongoing obligations. The unrestricted amount is \$59 million higher than at the end of fiscal year 2004.

Total net assets increased by \$90 million, a 14% 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.

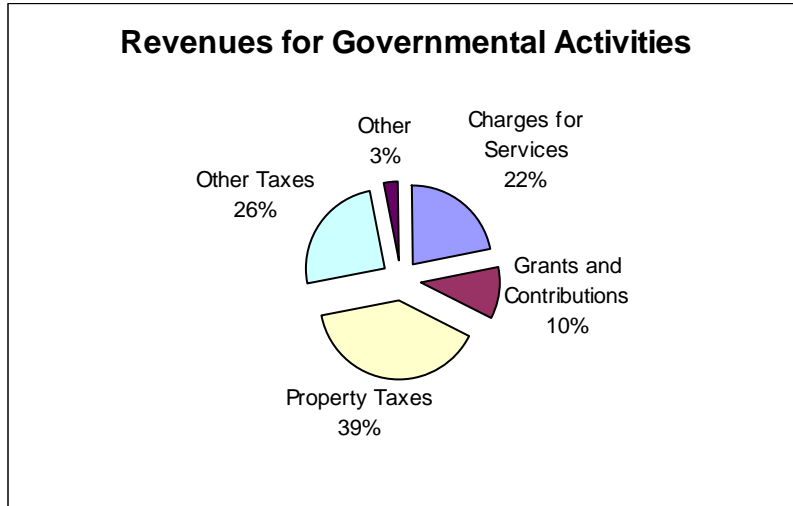
City of Fort Lauderdale, Florida
Changes in Net Assets
(in thousands of \$)

	Governmental		Business-type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:	\$					
Charges for services	64,106	61,919	119,382	111,660	183,488	173,579
Operating grants/contributions	25,274	17,763	250	-	25,524	17,763
Capital grants/contributions	4,240	8,278	4,663	7,944	8,903	16,222
General revenues:						
Property taxes	111,655	89,414	-	-	111,655	89,414
Other taxes	73,946	70,914	-	-	73,946	70,914
Investment earnings	5,339	2,603	4,511	2,644	9,850	5,247
Other	2,377	2,495	-	-	2,377	2,495
Total revenues	<u>286,937</u>	<u>253,386</u>	<u>128,806</u>	<u>122,248</u>	<u>415,743</u>	<u>375,634</u>
Expenses:						
General Government	39,433	33,482	-	-	39,433	33,482
Public Safety	131,565	129,213	-	-	131,565	129,213
Physical Environment	7,098	7,922	77,954	81,021	85,052	88,943
Transportation	6,501	5,414	12,690	12,731	19,191	18,145
Economic Environment	13,704	13,808	-	-	13,704	13,808
Culture and Recreation	32,495	30,452	-	-	32,495	30,452
Interest on Long-term Debt	3,886	3,405	-	-	3,886	3,405
Total expenses	<u>234,682</u>	<u>223,696</u>	<u>90,644</u>	<u>93,752</u>	<u>325,326</u>	<u>317,448</u>
Increase (decrease) in net assets						
before transfers	52,255	29,690	38,162	28,496	90,417	58,186
Transfers	2,600	(3,235)	(2,600)	3,235	-	-
Increase (decrease) in net assets	54,855	26,455	35,562	31,731	90,417	58,186
Net assets beginning 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>
Net assets end of year	<u>\$ 222,112</u>	<u>167,257</u>	<u>508,591</u>	<u>473,029</u>	<u>730,703</u>	<u>640,286</u>

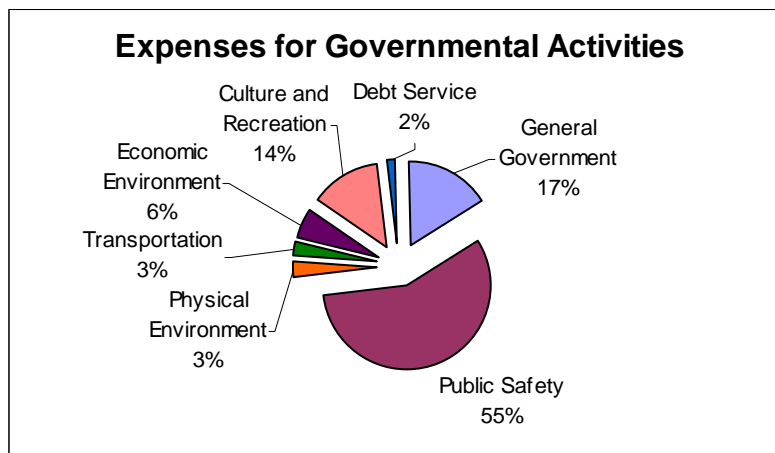
Revenues from governmental activities increased \$33 million or 13% over 2004. Most of the major revenue sources showed favorable results, including a 105% increase in investment earnings and a 24.9% increase in property tax collections, including voted debt levies. Other taxes (utility, franchise, communications services and sales and use taxes) increased by 4.3% while grants and contributions used for both operating and capital needs increased by 13.3%.

Expenses for governmental activities increased 4.9% overall with general government expenses increasing 17.8% and culture and recreation 6.7%. Included in general government was nearly \$4 million in debris removal costs after hurricane Katrina and \$1.3 million in increased funding for the City Insurance Fund. Increases in culture and recreation came from the restoration of funding for programs that were scaled back in prior years.

As the following chart of revenues from governmental activities (by source) shows, property and other taxes provided 65% of the revenues needed to fund governmental functions. Charges for services, such as parks and recreation programs and emergency medical transport, comprised 22% of total revenues.



Expenses for governmental activities are guided by City priorities as seen in the following chart of governmental expenses (by function). Public Safety, comprised of Police, Fire-Rescue, and Building department services, is clearly the highest priority, consuming over half of all resources. General government and culture and recreation expenses account for 17% and 14%, respectively.



For the business-type activities, net assets (before transfers) showed an increase of \$38 million. Total revenues for these activities increased by 5.4% with charges to customers for services showing a \$7.7 million gain and investment earnings improving by nearly \$2 million.

Expenses for business-type activities declined by \$3 million, as a result of staff turnover and the privatization of the remaining residential curbside garbage collection routes.

Financial 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 for spending at the end of the fiscal year.

The General Fund balance at September 30, 2005 was \$37 million, an increase of \$23 over the prior year balance of \$14 million. Unreserved and undesignated fund balance grew to \$30 million.

General fund revenues for fiscal year 2005 totaled \$251 million, a \$36 million increase over 2004. Property taxes accounted for most (\$22 million) of the increase, resulting from an increase in the operating millage rate and increased property values, reflecting continued investment by the private sector in the City of Fort Lauderdale. A fire assessment fee increase approved to recover 75% of fire suppression costs (compared to 50% in past years) accounted for another \$4 million. Intergovernmental revenues were up \$3.2 million. \$1.2 million was received from the Federal Emergency Management Authority to partially offset hurricane expenses that occurred late in FY2004 and \$1.5 million in state revenue sharing funds came from a funding increase by the State of Florida.

Total expenditures increased \$15.8 million in 2005 from \$192 million to \$208 million. The most significant increase (\$5 million) was for higher actuarially determined contributions to the City's pension plans. In addition, premiums paid to the City Insurance Fund increased \$3.2 million as part of the three-year plan to eliminate the deficit in that fund. Services and materials costs increased \$3.6 million reflecting higher fuel, electricity and communications charges as well as greater replacement equipment purchases. Personal services costs were unchanged compared to FY2004 since higher payroll costs related to hurricanes were offset by position vacancies.

The combined fund balances of the non-major governmental funds increased by \$18 million with the issuance of \$20 million general obligation bonds for fire rescue facilities. The governmental funds ended the year with \$136 million in fund balance including \$41 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 include both the enterprise and internal service funds. In FY2005 no enterprise fund had an operating loss or decrease in net assets. The Water and Sewer Fund's operating income of \$22.4 million represents an increase of \$7.8 million over the prior year. The Sanitation Fund also showed an increase in income from operations to \$2.8 compared to \$1.5 million in FY2004. The non-major enterprise funds, including parking, airport and stormwater had combined operating incomes of \$3.9 million, up from \$2.9 million in FY2004.

At September 30, 2005, the City's insurance fund had a net assets balance of \$248,000. This is a significant improvement from 2004 when the fund had a net assets deficit of \$13.4 million. The deficit had resulted from estimated self-insurance claims for worker's compensation, general liability and employment practices in the casualty area, as well as the City's self-insured health program. In the last two fiscal years, operational and contractual improvements were made to claims handling and a funding plan to eliminate the casualty deficit was put in place. In the health insurance area, a combination of benefit changes and increased premiums for the City and employees were instituted. In FY2005, the effect of these changes, along with very favorable claims experience, resulted in the elimination of the deficit two years earlier than planned.

General Fund Budgetary Highlights

Actual General Fund revenues for fiscal year 2005 were greater than the final FY2005 Budget by \$11 million. Intergovernmental revenues (from Federal and State sources) accounted for \$3.4 million of the favorable results and property tax collections were \$955,000 higher than anticipated. Additional emergency transport fees of \$900,000 resulted from an increase in the number of transports, changes in fee schedules at the Federal government level and an improved collection rate. Other revenues exceeded budget by \$1.6 million with improved interest earnings generating \$800,000 more than expected and miscellaneous revenues contributing \$600,000.

Total expenditures of \$212 million (including encumbrances) were \$11 million below the final FY2005 Budget. This is mainly attributed to lower than planned personal services costs. In FY 2002 a three-year deferred retirement option plan (DROP) was approved for members of the General Employees Pension Plan. At the time about 100 eligible employees enrolled who were then mandated to retire within three years. In FY2005 the last 75 of the initial DROP members retired. Those retirements along with normal attrition resulted in the \$11 million salary savings throughout most of the departments.

Also in FY2005, an important new financial policy was adopted to guide future financial decision-making. This policy established a minimum undesignated fund balance equal to 7% of budgeted operating expenditures in the General Fund to protect the City when faced with emergencies or natural disasters, unanticipated economic downturns or unpredicted one-time expenditures. It also provides flexibility to respond to unexpected opportunities.

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 (\$2.6 million) and a new office building was opened for building, planning and zoning services. Major improvements to Carter Park recreational facilities (\$8.6 million) also came online, financed primarily from the 1997 parks bond issue.

Capital asset balances of the business-type activities increased by \$56 million reflecting ongoing major capital improvements in the water and sewer and stormwater systems. Among completed projects were \$5.6 million for the wastewater collection system, force mains and pumping stations, \$4.4 million for water mains and \$2.5 million to improve raw water sites. Additional information about the City's capital assets can be found in note 7 to the financial statements.

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

	Governmental		Business-type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Land	\$ 37,888	35,232	25,937	25,937	63,825	61,169
Buildings	80,615	71,380	95,375	90,628	175,990	162,008
Improvements other than buildings	41,097	36,280	216,973	210,752	258,070	247,032
Machinery and equipment	29,615	27,426	7,279	7,418	36,894	34,844
Infrastructure	5,114	265	-	-	5,114	265
Construction in progress	13,857	26,728	113,023	67,213	126,880	93,941
Total	\$ 208,186	197,311	458,587	401,948	666,773	599,259

The City's governmental activity debt increased by \$9.9 million net of principal retirements of \$13.9 million. The City issued \$20 million general obligation bonds for fire rescue facilities and capital leases increased \$3,856,000 for fire apparatus and police vehicles. In the business-type activities, \$12.3 million was drawn on Florida state revolving fund loans authorized for a total of \$38.5 million. Principal retirements for these activities totaled \$2.3 million. Additional information about the City's long-term debt can be found in notes 10 and 11 to the financial statements.

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

	Governmental		Business-type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 53,005	38,110	-	-	53,005	38,110
Excise tax bonds	11,480	13,645	-	-	11,480	13,645
Revenue bonds	-	-	89,470	91,740	89,470	91,740
Tax Increment revenue bonds	20,946	21,705	-	-	20,946	21,705
Capital leases	7,025	4,350	-	-	7,025	4,350
Loans payable and other obligations	21,160	25,865	19,234	6,897	40,394	32,762
Total Debt Outstanding	<u>\$ 113,616</u>	<u>103,675</u>	<u>108,704</u>	<u>98,637</u>	<u>222,320</u>	<u>202,312</u>

* 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) 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 FY2006 is \$452.4 million or 9% higher than the FY2005 adopted budget. The General Fund budget for FY2006 is \$268.6 million or 9.6% higher than FY2005. The millage rate was decreased 6% from 5.7698 to 5.4313. Water and sewer rates were increased 2.5% and stormwater rates were increased 5%. 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 FY2006 provides for strict adherence to the fundamental principles that have led to the City's improved current financial stability, with a focus on service and emphasis on quality of life.

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.