

CITY OF FORT LAUDERDALE, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED SEPTEMBER 30, 2006

This section is intended to provide readers of this report with a general overview of the financial activities of the City during FY2006. 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, 2006 by \$813 million (net assets). Of this amount, \$283 million was from governmental activities and \$530 million was from business-type activities.
- The City's revenues for governmental activities, excluding transfers, totaled \$366 million, a 27.7% increase over FY2005. Expenses for governmental activities increased by 33.1% to \$312 million. These significant increases resulted from cleanup and repair costs incurred after Hurricane Wilma, a category 3 storm that damaged several City structures and destroyed 30% of the City's mature trees.
- Revenues related to business-type activities increased by \$.5 million to \$129 million while expenses increased by \$13.7 million.
- The General Fund's balance increased by \$12.8 million to \$49.8 million due primarily to higher than anticipated revenues. The unreserved undesignated balance of \$42.6 million represents a significant increase over the \$30.3 million balance at the end of FY2005.
- The City's long-term debt increased by \$1.8 million net of retirements to \$224 million. This includes \$16.8 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, 2006 was \$1.1 billion. Interest rates continued to improve throughout the fiscal year, increasing approximately 160 basis points over the previous 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** 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.

Since the focus of governmental funds is more narrow 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, the General Fund and the Intergovernmental Revenue Fund are considered major funds and thus are 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 2006 and 2005 fiscal years.

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

	Governmental		Business-type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 251,941	197,688	173,924	195,547	425,865	393,235
Capital assets	228,070	212,004	528,460	458,587	756,530	670,591
Total assets	480,011	409,692	702,384	654,134	1,182,395	1,063,826
Long-term liabilities outstanding	148,315	156,164	129,655	115,505	277,970	271,669
Other liabilities	48,318	27,598	42,720	30,038	91,038	57,636
Total liabilities	196,633	183,762	172,375	145,543	369,008	329,305
Net Assets:						
Invested in capital assets						
net of related debt	170,956	144,363	405,589	384,485	576,545	528,848
Restricted	16,094	14,841	11,951	9,158	28,045	23,999
Unrestricted	96,328	66,726	112,469	114,948	208,797	181,674
Total net assets	\$ 283,378	225,930	530,009	508,591	813,387	734,521

The City's investment in capital assets (land, buildings, improvements, infrastructure and equipment) net of the related debt outstanding used to acquire those assets represents 71% 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 (\$28 million) and unrestricted net assets (\$209 million) that may be used to meet the City's ongoing obligations. The unrestricted amount is \$27.1 million higher than at the end of fiscal year 2005.

Total net assets increased by \$78.9 million, a 10.7% 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 \$)

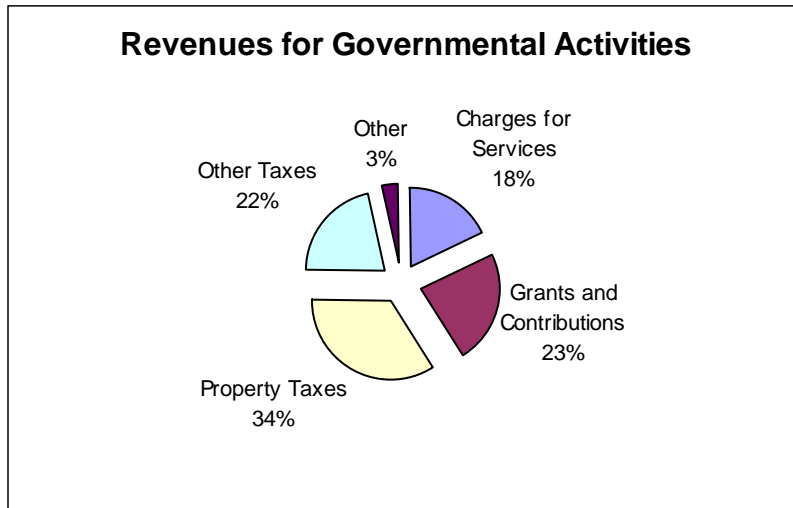
	Governmental		Business-type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:	\$					
Charges for services	66,142	64,106	119,239	119,382	185,381	183,488
Operating grants/contributions	65,481	25,274	41	250	65,522	25,524
Capital grants/contributions	18,780	4,240	2,476	4,663	21,256	8,903
General revenues:						
Property taxes	124,380	111,655	-	-	124,380	111,655
Other taxes	79,528	73,946	-	-	79,528	73,946
Investment earnings	10,257	5,339	7,629	4,511	17,886	9,850
Other	1,739	2,377	-	-	1,739	2,377
Total revenues	<u>366,307</u>	<u>286,937</u>	<u>129,385</u>	<u>128,806</u>	<u>495,692</u>	<u>415,743</u>
Expenses:						
General Government	86,484	39,433	-	-	86,484	39,433
Public Safety	152,861	131,565	-	-	152,861	131,565
Physical Environment	8,176	7,098	89,741	77,954	97,917	85,052
Transportation	8,507	6,641	14,590	12,690	23,097	19,331
Economic Environment	15,628	13,704	-	-	15,628	13,704
Culture and Recreation	36,251	32,495	-	-	36,251	32,495
Interest on Long-term Debt	4,588	3,886	-	-	4,588	3,886
Total expenses	<u>312,495</u>	<u>234,822</u>	<u>104,331</u>	<u>90,644</u>	<u>416,826</u>	<u>325,466</u>
Increase (decrease) in net assets before transfers	53,812	52,115	25,054	38,162	78,866	90,277
Transfers	3,636	2,600	(3,636)	(2,600)	-	-
Increase (decrease) in net assets	57,448	54,715	21,418	35,562	78,866	90,277
Net assets beginning of year	<u>225,930</u>	<u>171,215</u>	<u>508,591</u>	<u>473,029</u>	<u>734,521</u>	<u>644,244</u>
Net assets end of year	<u>\$ 283,378</u>	<u>225,930</u>	<u>530,009</u>	<u>508,591</u>	<u>813,387</u>	<u>734,521</u>

Revenues from governmental activities increased \$79.4 million or 27.7% over 2005. Most of the major revenue sources showed favorable results, including a 92% increase in investment earnings and an 11.4% increase in property tax collections, including voted debt levies. The latter increase is attributed to a 10.3% increase in property values. Other taxes (utility, franchise, communications services and insurance premium taxes) increased by 7.5% with higher franchise taxes coming from Florida Power and Light rate increases. By far the largest increase (185%) was seen in operating and capital grants and contributions. Revenues recognized from federal and state sources for reimbursement for hurricanes Katrina and Wilma cleanup and repairs totaled \$47.6 million. In addition, land valued at \$11.6 was received from Broward County for parks under their land preservation bond program.

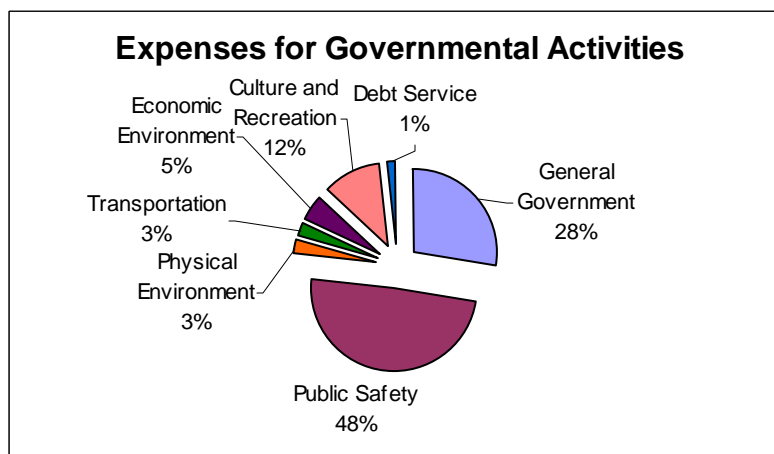
Expenses for governmental activities increased 33.1% overall with general government expenses increasing 119% and transportation 28%. Included in general government was nearly \$47.1 million in debris removal and other costs incurred from hurricanes Katrina and Wilma. Additional costs associated with Hurricane Wilma are included in various other expense categories as well,

including \$2.3 million public safety, \$709,000 transportation, \$487,000 physical environment and \$350,000 culture and recreation.

As the following chart of revenues from governmental activities (by source) shows, property and other taxes provided 56% of the revenues used to fund governmental functions. This percent is lower than in past years due to hurricane reimbursements and would otherwise be 63%. Charges for services, such as parks and recreation programs and emergency medical transport, comprised 18% of total revenues.



Expenses for governmental activities (by function) are guided by City priorities as seen in the following chart. Public Safety, comprised of Police, Fire-Rescue, and Building department services, is clearly the highest priority, consuming 48% of all resources. General government and culture and recreation expenses accounted for 28% and 12%, respectively. Without the hurricane cleanup costs included under general government, these percentages would be 57%, 15% and 13%, respectively, more in line with past years.



For the business-type activities, net assets (before transfers) showed an increase of \$25 million. Total revenues for these activities increased marginally with investment earnings showing the only solid increase of \$3.1 million.

Expenses for business-type activities increased by \$13.7 million with physical environment functions (water and sewer, sanitation and stormwater utilities) accounting for \$11.8 million. Of that amount, \$3.8 million resulted from an increase in a liability to the Environmental Protection

Agency for property purchased with grant funds that the City has retained for use other than originally intended. Also included are higher operating costs for services and materials such as for electricity, chemicals, gasoline and vehicle maintenance.

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, 2006 was \$49.8 million, an increase of \$12.8 over the prior year balance of \$37 million. Unreserved and undesignated fund balance grew to \$42.6 million.

General fund revenues for fiscal year 2006 totaled \$273 million, a \$22 million increase over 2005. Property taxes accounted for most (\$12.5 million) of the increase, resulting from a 10.3% increase in property values reflecting continued investment by the private sector in the City of Fort Lauderdale. Franchise taxes on electric service grew by \$2.8 million due to utility rate increases and a larger customer base from annexations. Other revenues increased \$2.8 million of which \$1.8 is attributed to rising interest rates and the General fund balance increase.

Total expenditures increased \$25 million in 2006 from \$208 million to \$233 million. The most significant increase (\$9 million) was for salaries and wages up due to progress made filling vacancies, the addition of 89 full time equivalent positions and the granting of the first cost of living adjustment to employees since April 2003. Higher contributions to the City's pension plans accounted for \$4.2 million and higher premiums paid to the City Insurance Fund \$1.9 million. Services and materials costs increased \$3.7 million reflecting higher utility costs, general inflationary increases and the added cost to serve the residents in the annexed Rock Island and Twin Lakes North neighborhoods. Vehicle maintenance and replacement costs paid to the Vehicle Rental internal service fund also increased by \$2.1 million.

The Intergovernmental Revenue fund balance increased by \$2.9 million including \$2.5 million remaining unspent from \$6.7 million transferred in from the General and enterprise funds to support hurricane cleanup and repair efforts. These funds remain designated for this purpose.

The combined fund balances of the non-major governmental funds increased by \$9.8 million with tax increment revenue growth accounting for \$2.6 million and investment income another \$1.9 million. The governmental funds ended the year with \$161 million in fund balance including \$56 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 FY2006 no enterprise fund had an operating loss or decrease in net assets. Net assets of the Water and Sewer fund grew by \$13.3 million with total enterprise net assets growing by \$20.3 million. Each of the enterprise funds showed a decrease in income from operations, however, due to rising costs for services and materials and little growth in operating revenues. Contractual services rose \$1.7 million and the cost of electricity rose \$1.5 million. Consumable supplies and materials such as fuel and chemicals increased another \$1.4 million.

At September 30, 2006, the City's insurance fund had a net assets balance of \$4 million, up from \$248,000 in 2005. Very favorable claims experience in the health insurance area accounted for \$2.4 million of the increase. On the casualty side the improvement of \$1.3 was not as good as anticipated due to increased property insurance premiums and less favorable workers' compensation claims developments.

General Fund Budgetary Highlights

Actual General Fund revenues for fiscal year 2006 were greater than the final FY2006 Budget by \$14 million. Electric utility and franchise taxes derived from Florida Power and Light rate increases accounted for \$3.7 million of the favorable results. Another \$3 million was gained from growth in other taxes including \$1.5 million property and \$900,000 communications services. The half-cent sales tax and state revenue sharing brought in an additional \$1.6 million and \$900,000, respectively due to the strong economy. Alarm fees were \$1 million higher than anticipated. Other revenues exceeded budget by \$2.8 million with rising interest rates generating \$2.2 more than expected and assessments and impact fees contributing \$700,000.

Total expenditures of \$237 million (including encumbrances of \$4.2 million) were \$7 million below the final FY2006 Budget. This is mainly attributed to lower personal services costs resulting from an average position vacancy rate of over 6% during the year.

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. Additions for the year included land valued at \$11.6 received from Broward County purchased under the 2000 Safe Parks and Land Preservation Bond Program which the City will develop as public conservation or park sites over the next five years. Completed projects included \$2.9 million in improvements to War Memorial Auditorium and \$4.4 million to expand and improve the City's Riverwalk Linear Park and other recreational facilities. In addition, infrastructure with a book value of \$3.8 million acquired or constructed between October 1, 1979 and September 30, 2001 was added to complete the implementation of Governmental Accounting Standards Board financial reporting requirements related to capital assets.

Capital asset balances of the business-type activities increased by \$70 million reflecting ongoing major capital improvements in the water and sewer and stormwater systems. Among completed projects were \$10.2 million for the wastewater collection system, force mains and pumping stations, \$3.2 million for water mains and \$7.6 million for water plant improvements. 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			
	2006	2005	2006	2005	2006	2005
Land	\$ 49,532	37,888	25,937	25,937	75,469	63,825
Buildings	82,580	80,615	94,054	95,375	176,634	175,990
Improvements other than buildings	41,683	41,180	233,483	216,973	275,166	258,153
Machinery and equipment	33,761	29,615	6,939	7,279	40,700	36,894
Infrastructure	10,309	8,849	-	-	10,309	8,849
Construction in progress	10,205	13,857	168,047	113,023	178,252	126,880
Total	\$ <u>228,070</u>	<u>212,004</u>	<u>528,460</u>	<u>458,587</u>	<u>756,530</u>	<u>670,591</u>

The City issued no new governmental activity debt during the year. Principal retirements amounted to \$12.7 million. In the business-type activities, \$16.8 million was drawn on Florida state revolving fund loans authorized for a total of \$70.8 million. Principal retirements for these activities totaled \$2.4 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			
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 47,405	53,005	-	-	47,405	53,005
Excise tax bonds	9,240	11,480	-	-	9,240	11,480
Revenue bonds	-	-	87,150	89,470	87,150	89,470
Tax Increment revenue bonds	19,803	20,946	-	-	19,803	20,946
Capital leases	5,339	7,025	-	-	5,339	7,025
Loans payable and other obligations	19,145	21,160	36,038	19,234	55,183	40,394
Total Debt Outstanding	<u>\$ 100,932</u>	<u>113,616</u>	<u>123,188</u>	<u>108,704</u>	<u>224,120</u>	<u>222,320</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 FY2007 is \$499.5 million or 10.4% higher than the FY2006 adopted budget. The General Fund budget for FY2007 is \$304.9 million or 13.5% higher than FY2006. Included in this amount is a carryforward fund balance of \$31 million. The millage rate was decreased 6.4% from 5.4313 to 5.0826. Water and sewer rates were increased 5.5% and stormwater rates were increased 5%.

The adopted General Fund budget in FY2007 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 an 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.