

CITY OF FORT LAUDERDALE, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED SEPTEMBER 30, 2009

This section is intended to provide readers of this report with a general overview of the financial activities of the City during FY2009. 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, 2009 by \$1.01 billion (net assets). Of this amount, \$396 million was from governmental activities and \$613 million was from business-type activities.
- The City's revenues for governmental activities, excluding transfers, totaled \$314.7 million, a scant .3% decrease from FY2008. Lower property taxes and charges for services were offset by higher capital grants and contributions. Expenses for governmental activities increased by 1.5% to \$293.6 million. Economic Environment expenses increased by \$5.1 million while Transportation costs decreased by \$4.6 million.
- Revenues related to business-type activities increased by \$2.5 million to \$147.1 million and expenses increased by \$19.6 million to \$131 million.
- The General Fund's balance decreased by \$6.1 million to \$85.4 million due primarily to an increase in funding for capital improvements. The unreserved undesignated balance of \$73.1 million represents an increase from the \$62.1 million balance at the end of FY2008.
- The City's long-term debt increased by \$19.8 million net of retirements to \$505.7 million. This included a \$10 million Special Obligation loan for general capital improvements and \$21.5 million in draws on Florida State Revolving Fund loans for water and wastewater system improvements.
- The total fair market value of the City's investments at September 30, 2009 was \$1.1 billion. Interest rates steadily declined throughout 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. Functions 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 22 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 Retirement System 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 amounts 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 2009 and 2008 fiscal years.

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

	Governmental		Business-type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 311,324	288,354	202,641	249,875	513,965	538,229
Capital assets	264,266	247,754	862,809	807,154	1,127,075	1,054,908
Total assets	<u>575,590</u>	<u>536,108</u>	<u>1,065,450</u>	<u>1,057,029</u>	<u>1,641,040</u>	<u>1,593,137</u>
Long-term liabilities outstanding	145,957	134,143	426,656	416,471	572,613	550,614
Other liabilities	34,100	27,670	26,097	43,822	60,197	71,492
Total liabilities	<u>180,057</u>	<u>161,813</u>	<u>452,753</u>	<u>460,293</u>	<u>632,810</u>	<u>622,106</u>
Net Assets:						
Invested in capital assets						
net of related debt	210,703	199,486	450,051	440,451	660,754	639,937
Restricted	16,676	15,772	33,339	32,244	50,015	48,016
Unrestricted	168,154	159,037	129,307	124,041	297,461	283,078
Total net assets	<u>\$ 395,533</u>	<u>374,295</u>	<u>612,697</u>	<u>596,736</u>	<u>1,008,230</u>	<u>971,031</u>

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 66% 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 (\$50 million) and unrestricted net assets (\$297 million) that may be used to meet the City's ongoing obligations. The unrestricted amount is \$14 million higher than at the end of fiscal year 2008.

Total net assets increased by \$37 million, a 3.8% 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.

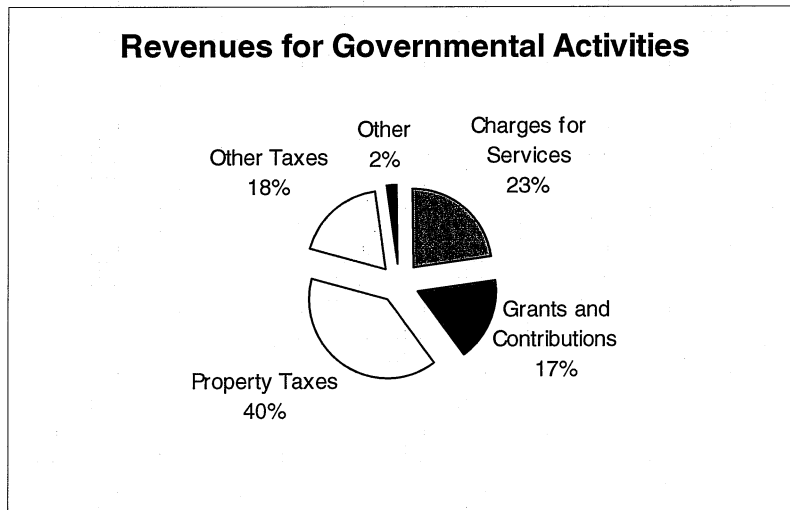
City of Fort Lauderdale, Florida
Changes in Net Assets
(in thousands of \$)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 72,826	75,815	136,818	131,160	209,644	206,975
Operating grants/contributions	25,520	26,545	659	374	26,179	26,919
Capital grants/contributions	12,038	5,486	6,727	8,070	18,765	13,556
General revenues:						
Property taxes	124,803	128,014	-	-	124,803	128,014
Other taxes	57,910	57,390	-	-	57,910	57,390
Grants and contributions	14,388	15,665	-	-	14,388	15,665
Investment earnings	5,579	5,497	2,917	4,971	8,496	10,468
Other	1,647	1,151	-	-	1,647	1,151
Total revenues	314,711	315,563	147,121	144,575	461,832	460,138
Expenses:						
General government	42,893	43,146	-	-	42,893	43,146
Public safety	166,442	165,091	-	-	166,442	165,091
Physical environment	9,835	8,908	112,687	93,476	122,522	102,384
Transportation	7,842	12,464	18,316	17,940	26,158	30,404
Economic environment	22,282	17,174	-	-	22,282	17,174
Culture and recreation	40,801	38,828	-	-	40,801	38,828
Interest on long-term debt	3,535	3,666	-	-	3,535	3,666
Total expenses	293,630	289,277	131,003	111,416	424,633	400,693
Increase (decrease) in net assets before transfers	21,081	26,286	16,118	33,159	37,199	59,445
Transfers in (out)	157	592	(157)	(592)	-	-
Increase (decrease) in net assets	21,238	26,878	15,961	32,567	37,199	59,445
Net assets beginning of year	374,295	347,417	596,736	564,169	971,031	911,586
Net assets end of year	\$ 395,533	374,295	612,697	596,736	1,008,230	971,031

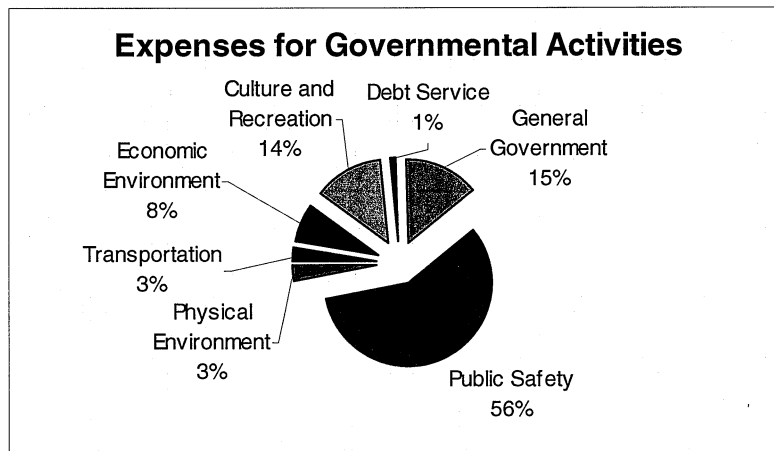
Revenues from governmental activities decreased by \$852,000 compared to 2008. The property tax levy was not increased in spite of a 2.6% decrease in property values. Consequently, there was a \$3.2 million reduction in tax revenues. Another \$3 million loss in charges for services resulted from the weakened economy. These decreases were more than offset by the receipt of land from Broward County valued at \$6.6 million for parks under their land preservation bond program.

Expenses for governmental activities increased by 1.5% or \$4.4 million. Increases occurred in the public safety (\$1.4 million), economic environment (\$5.1 million) and culture and recreation (\$2 million) functions. Transportation expenses showed a decrease of \$4.6 million attributed to expenses incurred in the prior year to beautify the beach corridor with upgraded lighting and landscaping.

As the following chart of revenues from governmental activities (by source) shows, property and other taxes provided 58% of the revenues used to fund governmental functions. Charges for services, such as parks and recreation programs and emergency medical transport, comprised 23% 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 56% of all resources. General government and culture and recreation expenses accounted for 15% and 14%, respectively.



For the business-type activities, net assets showed an increase of \$16 million. Total revenues for these activities increased by a net of \$2.5 million with charges for services showing an increase of almost \$6 million. Capital grants decreased by \$1.3 million and investment earnings decreased by \$2 million.

Expenses for business-type activities increased by \$19.6 million of which \$17.9 is attributed to the Water and Sewer Fund. The write-off of capital assets replaced under the Water Works 2011 plan totaled \$11.2 million and higher operating costs accounted for another \$6.7 million.

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, 2009 was \$85.4 million, a decrease of \$6.1 million from the prior year balance of \$91.5 million. Unreserved and undesignated fund balance increased from \$62.1 million to \$73.1 million. This was primarily due to the reclassification of \$14 million long-term advances to the Intergovernmental Revenue Fund for hurricane related expenses as short-term since reimbursement for those expenses has now been approved by the federal government.

General fund revenues for fiscal year 2009 totaled \$274 million, a \$4.7 million decrease from 2008. Property taxes accounted for \$3.4 million of the reduction, resulting from a 2.6% decrease in taxable assessed value with no change in the operating millage rate. A \$1.9 million decrease in contractor permits reflects the current economic state of the construction industry. Charges for services decreased by \$1.1 million, of which \$508,000 was attributed to alarm fees. State shared revenues, including sales taxes, declined by \$1.3 million. Other revenues increased \$4.2 million, the majority of which resulted from increased fire assessments and other fees.

Total expenditures increased \$3.5 million in 2009 from \$249 million to \$252 million. The only significant increases were \$7 million for salaries and wages and \$900,000 for employee benefits. These were partially offset by reductions in services and materials purchases of \$2.1 million and equipment purchases \$1.6 million. Another \$900,000 was saved in insurance premiums.

The combined fund balances of the non-major governmental funds increased by \$15.4 million to \$128.6 million due in part to a \$10 million increase in pay-as-you-go funding for general capital improvements in 2009 provided by the General Fund. The governmental funds ended the year with \$214 million in fund balance including \$90 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. Net assets of the Water and Sewer fund grew by \$10 million with total enterprise net assets growing by \$15 million. Total enterprise operating income fell from \$19.8 million in 2008 to \$16.7 million in 2009 with the loss by the Sanitation Fund of a \$2.5 recurring revenue stream from the Broward County resource recovery operation. An operating loss in the Airport Fund of \$1.3 million resulted from lower aviation revenues coupled with higher repair and maintenance costs. The Water and Sewer fund remained strong with \$19 million in net operating revenues, \$2.4 million higher than in 2008.

At September 30, 2009, the City's insurance fund had a net assets balance of \$11.5 million, up from \$9.6 million in 2008. Favorable claims experience in all the casualty areas contributed to this increase.

General Fund Budgetary Highlights

Actual General Fund revenues for fiscal year 2009 were lower than the final FY2009 budget by \$2.3 million. Although property and utility tax revenues came in higher than anticipated by \$3.2 million, most other revenue sources showed unfavorable results. Among them were licenses and permits at \$1.4 million, Intergovernmental revenues and charges for services each at \$1.5 million and other revenues under budget by \$642,000.

Total expenditures of \$258 million (including encumbrances of \$5.5 million) were \$14.5 million below the final FY2009 Budget. This is mainly attributed to services and materials costs that were \$8.8 million lower than anticipated. Of those, \$2.9 million in professional services were not needed, savings in fuel costs of \$2 million were realized and utilities costs and other outside services were lower by over \$1 million each. Personal services cost savings of \$2.8 million were lower than in past years as historical vacancy rates were considered in the formulation of the 2009 budget and the vacancy rate for the year (4.1%) was lower due to the poor job market.

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. Net additions for the year for governmental activities totaled \$16.5 million, with park land acquisitions totaling \$9.3 million and \$4.3 million for fire stations.

Capital asset balances of the business-type activities increased by \$56 million, reflecting major ongoing capital improvements in the water and sewer and stormwater systems. Among completed projects were \$113 million for the wastewater collection system, force mains and pumping stations, \$19 million for water mains and \$65 million for water plants. 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 Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 62,916	53,599	25,937	25,937	88,853	79,536
Buildings	91,814	86,595	166,967	102,659	258,781	189,254
Improvements other than buildings	38,068	39,902	465,981	305,117	504,049	345,019
Machinery and equipment	42,299	37,114	8,480	7,330	50,779	44,444
Infrastructure	11,887	11,629	-	-	11,887	11,629
Construction in progress	17,282	18,915	195,444	366,111	212,726	385,026
Total	\$ 264,266	247,754	862,809	807,154	1,127,075	1,054,908

During the year the City issued \$25.5 million in special obligation loans for governmental activities of which \$15.4 was used to refund older variable rate loans and \$10 is being used for general capital improvements. Principal retirements, other than for advance debt repayments, amounted to \$8 million. In the business-type activities, \$21 million was drawn on Florida state revolving fund loans authorized for a total of \$106 million. Principal retirements for business-type activities totaled \$12 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 Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$ 36,920	39,305	-	-	36,920	39,305
Excise tax bonds	-	3,520	-	-	-	3,520
Revenue bonds	-	-	328,065	335,105	328,065	335,105
Tax Increment revenue bonds	16,352	17,544	-	-	16,352	17,544
Capital leases	9,750	2,639	-	-	9,750	2,639
Loans payable and other obligations	25,433	15,410	89,131	72,316	114,564	87,726
Total debt outstanding	\$ 88,455	78,418	417,196	407,421	505,651	485,839

* Excludes unamortized bond premiums, 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 FY2010 is \$601.4 million or .2% lower than the FY2009 adopted budget. The General Fund budget for FY2010 is \$327.5 million or 5.9% lower than FY2009. Included in this amount is a carryforward fund balance of \$65 million of which \$7.1 million is earmarked for pension plan contributions. The millage rate was increased slightly from 4.2495 to 4.2536 to meet debt service payment requirements. However, the operating millage of 4.1193 was not changed and actually equates to a 10.46% decrease considering the decline in property values. A rate structure change and rate increase was adopted in July 2009 that increased Water and Sewer revenues by 20% effective August 2009 and included a 5% rate increase for August 2010. In addition, 5% increases in stormwater rates were also adopted for August 2009 and August 2010.

The adopted General Fund budget in FY2010 addresses the five key priorities established by the City Commission to meet the challenges the current economic conditions, including no property tax increase, no increase in fire assessment fees, maintenance of adequate reserve funds, no reductions in vital City services and no layoffs.

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.