

Good morning. Thank you for your time. Last week each of you received a copy of the Palm Beach County Comprehensive Annual Financial Report or CAFR prepared by the Clerk & Comptroller's office for the fiscal year ended 2006. Just as the budget is a prospective view of county spending, the CAFR is the actual report of the past year's spending. The CAFR is an audited financial statement of all county operations including the constitutional offices, and county enterprises such as the airports and solid waste authority. The CAFR represents the clearest financial picture of our county from which we can draw conclusions about our fiscal health and can act as a guide during our current budget process.

Over the past 17 years, the Commission accepted the CAFR as part of the consent agenda. This year, in part because of the public's desire to more clearly understand county finances and our commitment to transparency, a new tradition will begin.

Over the next ten minutes, we will highlight important fiscal issues by focusing on four areas. I'd now like to introduce my Chief Financial Officer, Carter Hammer, who will begin the presentation. Thank you.

# AREAS OF DISCUSSION

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- |                       |  |
|-----------------------|--|
| • Net Asset Review    | Carter Hammer, CFO                       |
| • Debt Review         | Jim Beard, Treasurer                     |
| • Investment Review   | Jim Beard, Treasurer                     |
| • Fund Balance Review | Richard Iavarone,<br>Accounting Director |

Our Fiscal Year-end 2006 Financial Review will focus on the following key areas of discussion:

- A “Net Asset Review”
- A “Debt and Investment Review”
- A “Fund Balance Review”
- and a wrap-up with our “Observations”.

With the recommendation of the Government Accounting Standards Board and the Government Finance Officers Association, we chose these areas of discussion, which are the primary indicators of financial health of our County.

These key financial indicators could also be incorporated into your budget and fiscal discussions this year.

We will now start our review with Net Assets: the most useful indicator of a government’s financial health.

# NET ASSET REVIEW

## Change in Net Assets Total Primary Government

### ACTIVITIES

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2004-2006 % Growth</u>
Total Revenue	\$1,717,190,000	\$1,928,690,000	\$2,200,014,000	28%
Total Expense	(\$1,466,686,000)	(\$1,657,497,000)	(\$1,820,320,000)	24%
Excess Revenue Over Expense	\$250,504,000	\$271,193,000	\$379,694,000	52%

### THE BOTTOM LINE?

Beginning Net Assets	\$2,691,167,000	\$2,941,896,000	\$3,213,089,000	
Add: Excess (Above)	\$250,504,000	\$271,193,000	\$379,694,000	
Add: Special Items	\$225,000	\$0	(\$32,214,000)	
Ending Net Assets	\$2,941,896,000	\$3,213,089,000	\$3,560,569,000	21%

Our “Net Assets” figure represents the amount of assets owned by the County less all outstanding obligations. It provides a snapshot of our “Net Worth” or financial health.

Net Assets grow when a County’s Revenues are growing at a faster pace than Expenses.

As one can see on the far right of this chart:

Revenues have grown by 28% since 2004.

Expenses have grown by only 24%.

Resulting in excess funds.

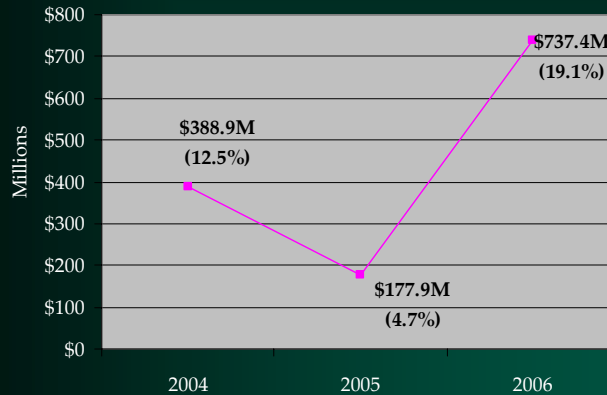
During 2006, we generated Excess funds of over \$379 million dollars, a 52% increase from 2004 amounts.

As you see, the revenue has grown 28% because of several factors:

- Since 2004, Ad Valorem Revenue has grown by 32%. Despite a reduction in your millage rate, increases in assessed values resulted in Ad Valorem Revenue exceeding budget by 17% in FY 2006.
- A 64% growth of Grants & Contributions including FEMA money, contributed to Grant Revenue exceeding budget projections by \$28 million
- A 123% increase in Investment Income resulting from the reinvestment of this growing Excess and a favorable portfolio yield of 51 basis points.

# NET ASSET REVIEW

## Supplemental Appropriations Fiscal Years 2004 - 2006



Note: % = % of original adopted budget

As you saw from the previous slide, our revenues increased by 28% since 2004

It is important to note, that increase was coupled with a corresponding substantial increase in supplemental budget appropriations between 2005 and 2006.

These supplemental appropriations, representing the budget amendments you passed throughout the budget year, added an additional \$737 million dollars or 19% of the original adopted budget.

These budgets amendments represent additional bonds or loan proceeds, new grants, adjustments to capital projects and other appropriations.

One example, was the establishment of contracts between the Sheriff's Office and the municipalities of South Bay, Pahokee, Lake Park and Belle Glade.

Caution is needed when reviewing supplemental appropriation requests. Recurring expenses associated with some of these requests may have negative implications in future years.

With this in mind, let's take a closer look at our 2006 Excess .... (next slide)

# NET ASSET REVIEW

## Change in Net Assets Total Primary Government

<b>Where We Started</b> (Net Assets Fiscal Year-end 2005)		<b>\$3,213,089,000</b>
<b>What We Did In 2006:</b>		
Increased Investments/Cash	\$247,000,000	
Reduced Payables	\$50,000,000	
Increased Other Assets	\$7,480,000	
Increased Capital Assets	\$248,000,000	
Increased Debt	<b>(\$205,000,000)</b>	
Total		<b>\$347,480,000</b>
<b>Where We Ended</b> (Net Assets Fiscal Year-end 2006)		<b>\$3,560,569,000</b>

As we can see from this chart, we started the end of Fiscal Year 2005 with Net Assets of \$3.2 billion dollars.

As a result of our Excess of Revenues over Expenses during the year, we were able to do several things:

- We increased our investments & cash by \$247 million. This contributed to a 14% growth in our investment portfolio balance and increased investment income, which we will discuss shortly.
- We were also able to reduce our Payable balances by \$50 million, increase Other Assets by \$7.5 million and increase our Capital Assets balances by \$248 million.

Capital Assets balances grew as a result of investments in the Vista Center, renovations of the North County Governmental Center, the acquisition of the Village of Royal Palm Beach Utility System, Solid Waste Authority investments in a golf course on the Lantana landfill, and a Security Checkpoint at the Department of Airports.

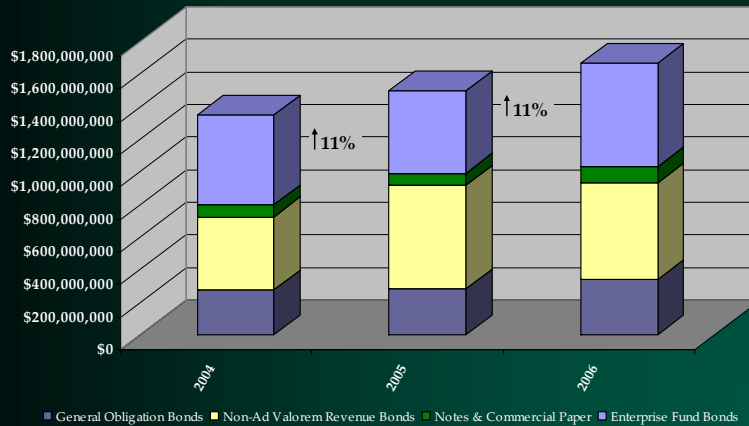
However, this growth of Capital Assets was accompanied by an increase in Debt of \$205 million.

Our Excess generated during 2006, contributed to over a \$347 million increase in Net Assets. Thus, as you will see from the bottom of this slide, we ended Fiscal Year 2006 with a Net Asset balance of over \$3.5 billion.

Jim Beard will now discuss the implications of this growth of debt and investments on the county's financial health.

# DEBT REVIEW

Palm Beach County, Florida Total Bonded Debt  
9/30/2004 to 9/30/2006



Note: % = % increase over previous year

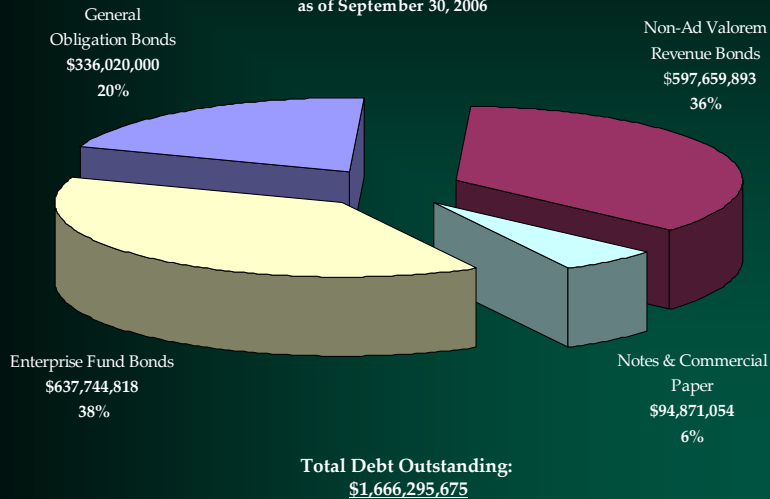
The County's triple-A bond rating by all of the major rating agencies has made borrowing funds in the capital markets quite easy for the County.

The County has gone to the capital markets several times during fiscal year 2006.

As you can see in this graph, the total bonded debt - which includes municipal bonds, notes, and loans - have a net increase of 11% in 2006 and 11% in 2005.

# DEBT REVIEW

Palm Beach County Debt Outstanding  
as of September 30, 2006



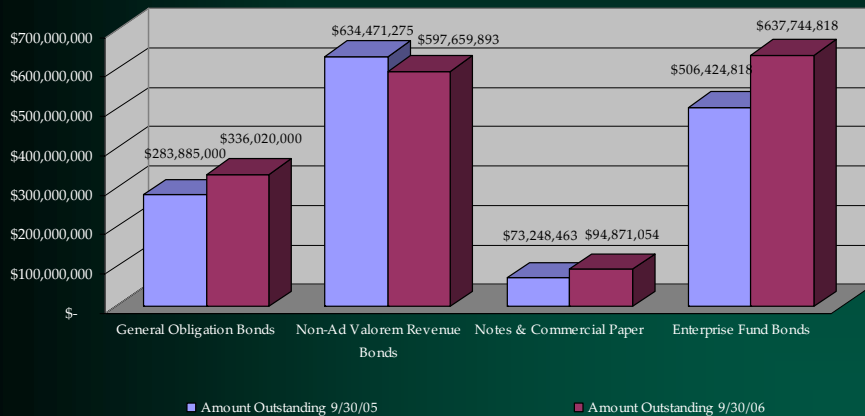
As of September 30, 2006 the total outstanding bonded debt was 1.67 billion dollars.

The composition of the debt is depicted in the chart and consists of \$637 million in Enterprise Fund Bonds, \$597 million in Non-Ad Valorem Revenue Bonds, \$336 million in General Obligation Bonds and \$94 million in Notes, commercial paper and other short term instruments.

This slide also shows that the majority of the debt outstanding is Non-ad Valorem Revenue Debt and Enterprise Fund Debt which shifts the bulk of repayment burden to the users of the various facilities and avoids the issuance of General Obligation debt which requires voter approval.

# DEBT REVIEW

Palm Beach County Debt Outstanding  
9/30/2005 Balances Compared to 9/30/2006



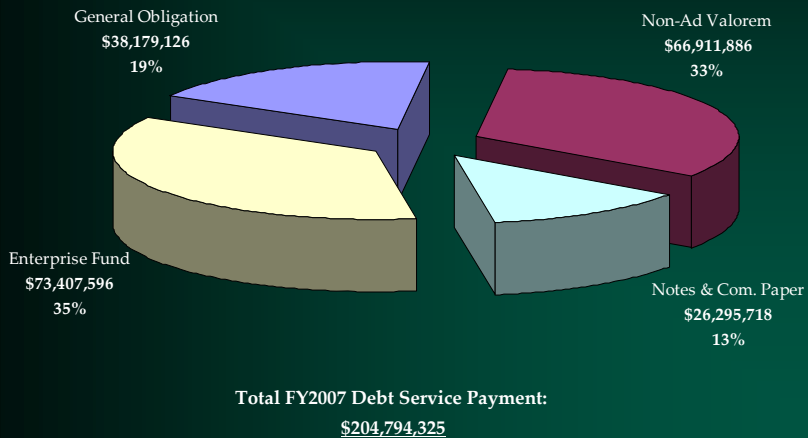
Major changes in the debt composition between fiscal year 2005 and fiscal year 2006 include an 18% increase in General obligation debt, a 6% decrease in Non-ad Valorem debt, a 30% increase in notes and commercial paper and a 26% increase in Enterprise Fund Bonds.

While some issues were defeased or paid off during the fiscal year, the County also added NEW debt by closing on several debt issues in 2006. These include \$22 million in Library Improvement District Bonds, \$50 million in Waterfront Access Bonds and a taxable \$155 million refunding of the Agricultural Reserve bonds. These were all General Obligation issues.

The County also entered into \$33 million worth of sunshine state governmental financing commission loans for the old courthouse renovations and the construction of the South County Regional Golf Course. Two of the county's three major enterprises also took on new debt during the year with a \$69 million bond offering for the Airport and a \$125 million Water Utility Department bond issue.

# DEBT REVIEW

FY2007 Debt Service on County Issued Debt Outstanding  
as of September 30, 2006



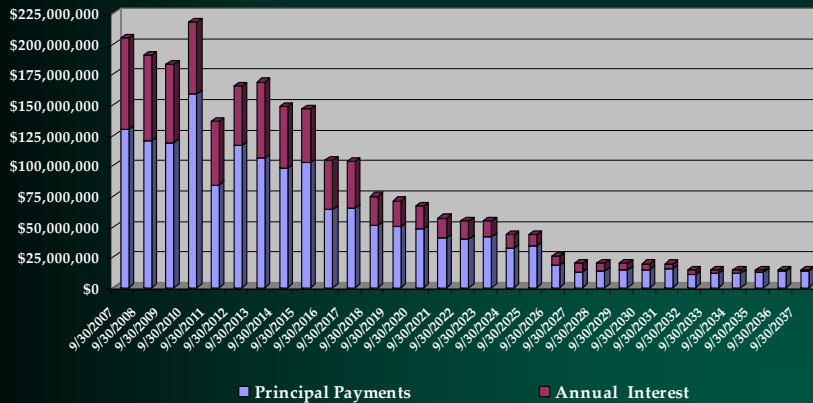
These new bond issues as well the balance of the debt outstanding require annual Debt Service Payments. In 2006 Debt Service Payments – or the principal and interest payments - totaled \$182 million.

In 2007 we have projected that the total debt service payments on the outstanding debt will be in the vicinity of \$204 million or 12% higher than in 2006.

While the short term debt of the County can be refinanced or rolled over during the fiscal year, the non-callable structure of much of the other debt issues precludes the refunding or refinancing of that debt.

# DEBT REVIEW

## Summary of Total Outstanding Scheduled Debt Service Payments as of September 30, 2006

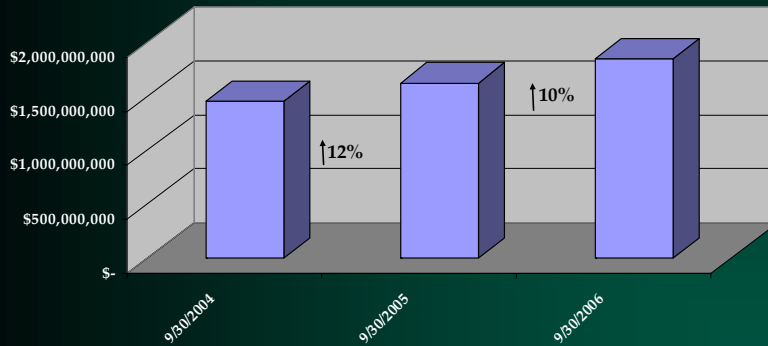


\*Enterprise Activity Short Term Loans and Notes Excluded.

This graph shows the projected Debt Service Payments due on the current outstanding debt over the next 30 years. It indicates that, due to the structure of most of the debt, debt service payments are projected to peak in FY 2010 at \$218 million dollars. In other words, because the loan payments were structured in ways that require the bulk of the payments to be made fairly early in the loan....Approximately 70% of the County's current outstanding debt comes due in the next ten fiscal years. These facts may indicate the need for a discussion on the merits of comprehensive debt policy.

# INVESTMENT REVIEW

Fiscal Year-end Portfolio Balances

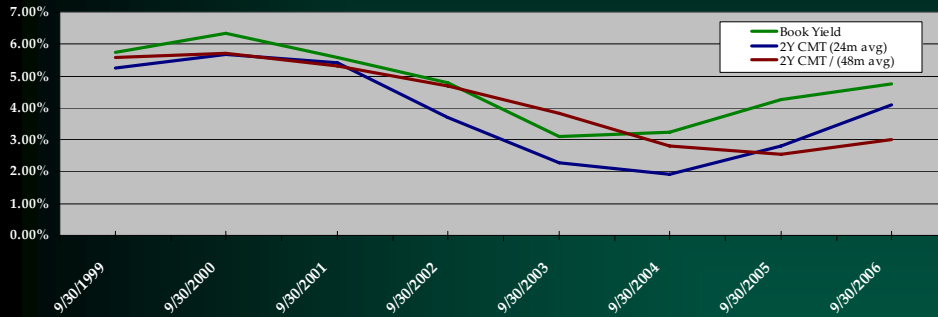


The debt picture is only part of the story. My duties for the Clerk and Comptroller also extend to the management of the County's Investment Portfolio. I am pleased to report that all of the operations and investments of the portfolio were in full compliance with the County's comprehensive investment policy.

As of the end of the 2006 fiscal year, the portfolio balance was \$2.065 billion – a 10% increase over 2005. This \$226 million growth in the size of the portfolio can be attributed in part to an increase in ad valorem tax receipts, unspent bond proceeds as well as cash received from other sources.

# INVESTMENT REVIEW

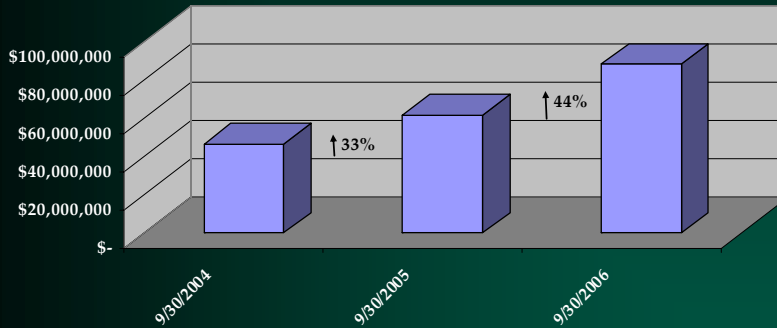
Book Yield versus Benchmark  
Fiscal Year End 9/30/1999 to 9/30/2006



As of September 30, 2006, the portfolio yield was 4.76% which is higher than our county designated benchmark. This is higher than our benchmark which was at 3%. As a point of clarification, the BCC changed our benchmark to better represent the characteristics of the county's portfolio. It is this new benchmark which is represented in the graph as just over 4% and we exceeded both benchmarks during the year. Over the past few years we have been doing informal surveys of our peers in Florida and we have found that our yields have consistently been at the top.

# INVESTMENT REVIEW

Fiscal Year-end Interest Income



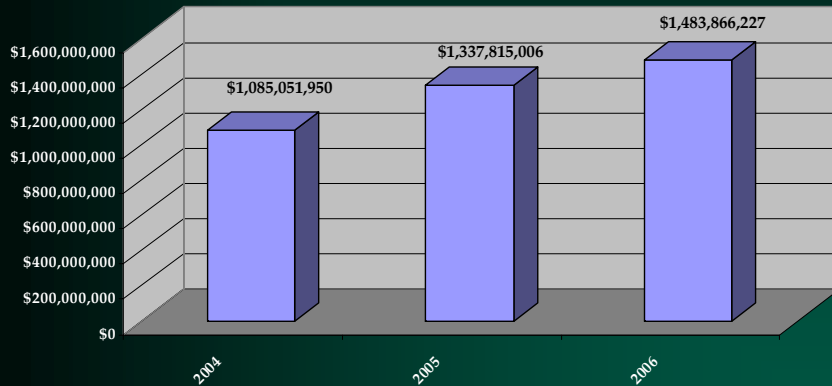
We strive to earn interest income for the County – which ultimately saves taxpayer’s money. Interest income on the consolidated investment portfolio increased from \$62M in FY 2005 to \$88M in FY 2006 – a 42% increase.

Based on the current state of our portfolio – we’re projecting interest income to be \$100 million for fiscal year 2007.

Now that the CAFR is complete, the Treasury Department is compiling detail sub-reports on both the investments and debt of the County. We expect completion of these reports within the next 30 days. But debt and investments are only part of the County financial picture. For a fund balance review I’ll turn it over to Richard Iavarone.....

# FUND BALANCE REVIEW

Year-end Governmental Fund Balance



Thank you Jim...

Fund balance – What is it? For the most part, Fund balance represents county funds that were not spent as of the end of the fiscal year.

We are talking about this today because this is an accounting concept which needs to be fully understood. Many people see this as dollars that can be cut out of the budget. However, most of these funds are earmarked for specific purposes.

Governmental funds include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds.

There was a \$398.8 million increase in governmental fund balance between FY 2004 and FY 2006.

Most of this increase is attributable to ad valorem tax, sales tax, federal grants, bond proceeds, impact fees and gas taxes.

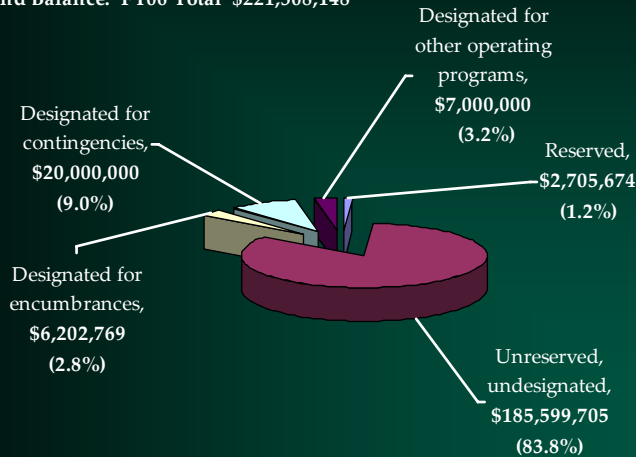
As revenues are impacted by proposed legislative changes and economic factors, this could have a potential adverse impact on the fund balance.

Let's take a look at the components of the fund balance of the general fund...

# FUND BALANCE REVIEW

## General Fund

Fund Balance: FY06 Total \$221,508,148



This is a snapshot of fund balance of the General Fund at the end of FY 2006 as reported in the CAFR.

As you may recall, there was a lot of discussion regarding the County's unreserved fund balance, in particular from the Tax Watch report.

One recommendation was for County staff to discuss with the Clerk & Comptroller's office identifying designations of fund balance.

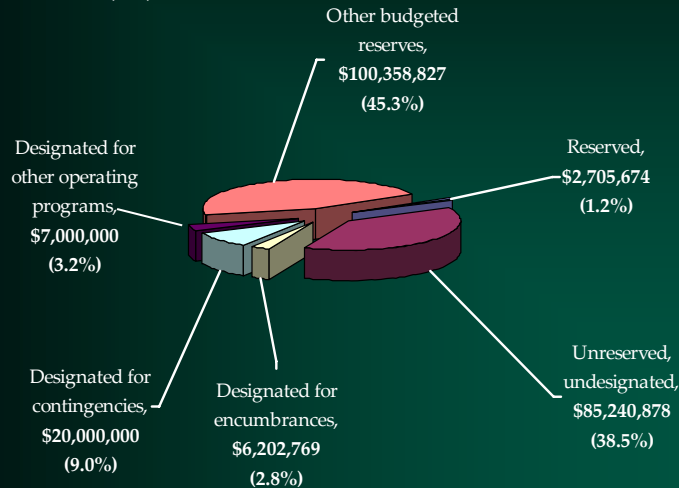
As a result FY 2006 was the first year that fund balance designations were reported in the CAFR as part of the notes.

As you can see, the designations clarify the intended use of fund balance.

Let's look at what would happen if all the budgeted reserves were reported as designated.

# FUND BALANCE REVIEW

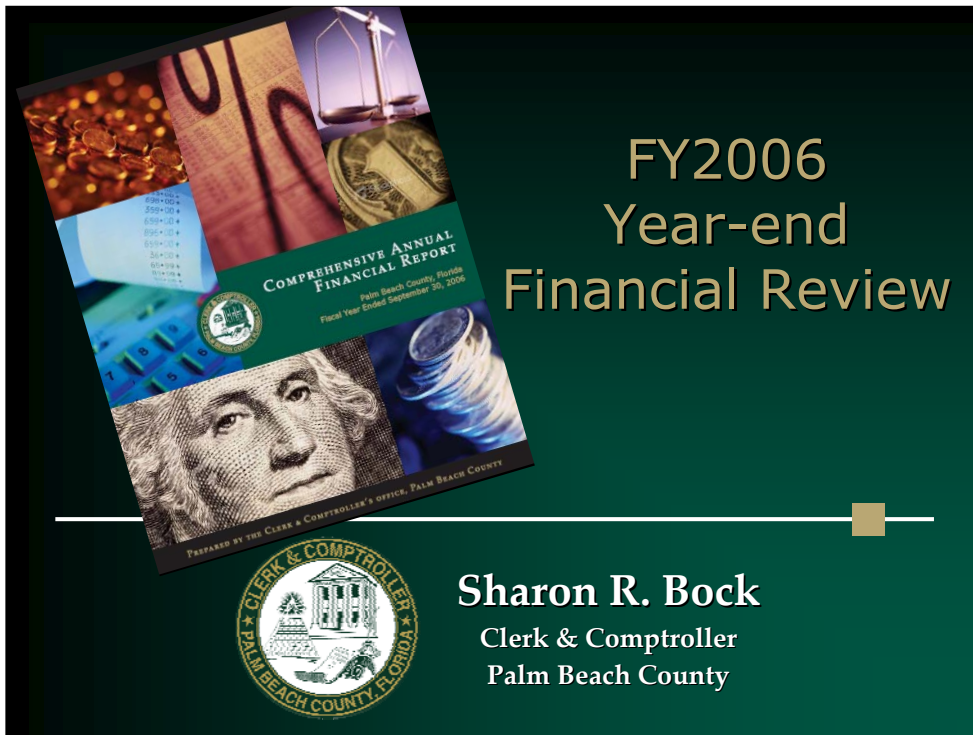
General Fund  
Fund Balance Showing Budgeted Reserves  
FY06 Total \$221,508,148



You'll notice that the undesignated/unreserved portion of the fund balance changed from \$185,599,705 (\$185.6M) to \$85,240,878 (\$85.2M).

Although we were able to report some designations this year, our biggest hurdle is that the auditors could find no authority for us to report budgeted reserves as designations of fund balance. A formal reserve policy would provide that authority.

Now let's turn this back to Carter Hammer for a recap....



In summary, we would like to end with several Key Observations:

- Excess funds and growth of Net Assets have contributed to the financial strength of Palm Beach County in 2006.
  - The County's investment portfolio increased by \$221 million dollars, contributing to favorable investment revenues.
  - Supplemental appropriations of \$737 million dollars, or 19% of original budget, may have adverse implications in future years
  - Debt has increased over \$200 million dollars – with over half of debt payments due in the next seven years.
  - Fund balances or unspent funds grew by \$146 million dollars in 2006. The General Fund ending balance was over \$221 million dollars.
  - 84% of this balance has been reflected as “Unreserved/Undesignated”.
- This lack of detailed designation is confusing to the public and should be changed.

Thank you for your time...