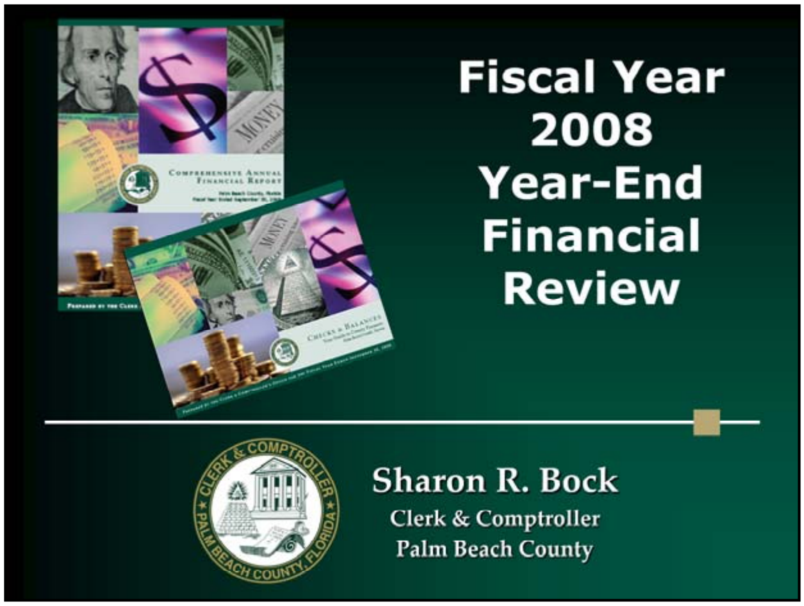

Good morning. Thank you for your time. Last month, you received a copy of the *Palm Beach County Comprehensive Annual Financial Report* or **CAFR**. This report is a detailed, audited, financial statement of all county operations including the constitutional offices and county enterprises. This mandatory report is sent to many entities in the state including the auditor general, department of financial services & State Board of Administration. It is also sent to other agencies in compliance with federal regulations.

Today, we introduce our simplified report based on the CAFR, called ***Checks & Balances: Your Guide to County Finances***. This is an easy-to-read, user-friendly annual report intended to help educate citizens on how their tax dollars are managed. I encourage all of you here today, and watching on channel 20 to read this guide as it's full of important information about the impact of tax reform, the effects of the sluggish economy, how your tax dollars are spent, and so much more.

Because of extreme market volatility, we have also prepared for you and provided to you an ***Annual Investment Guide***. ALL of the financial publications used for today's presentation are available on our Web site at www.mypalmbeachclerk.com.

Today's discussion will focus on highlights contained in the CAFR. As you know, the budget, which is prepared by the County's OFMB staff, is a <u>prospective plan</u> for county spending. The CAFR, in contrast, is a report on the past year's <u>actual spending</u>. The CAFR is, in sum, the most comprehensive financial picture of our county from which we can draw conclusions about our fiscal health.

As the Clerk & Comptroller, it is our fiduciary duty to not only prepare these reports, but to also analyze them and advise you of financial factors that may impact your current and future policy decisions.

Over the next 12 minutes, we will highlight important fiscal issues by focusing on four key areas of the county's finances. (next slide)

They are:

•"Net Asset Review" by Shannon Ramsey-Chessman

• "Debt Review" by Jim Beard

•"Investment Review" by Felicia Landerman

•"Fund Balance Review" by Peter Jannis

We chose these areas of discussion because they are considered by the Government Accounting Standards Board and the Government Finance Officers Association, as the primary indicators of the fiscal health of a county. These key financial indicators could also be incorporated into budget discussions this year.

We will then wrap-up with our "Observations & Recommendations" & answer any questions you may have.

We will begin our review with net assets.

I'd like to introduce our Chief Operating Officer of Finance, Shannon Ramsey-Chessman.

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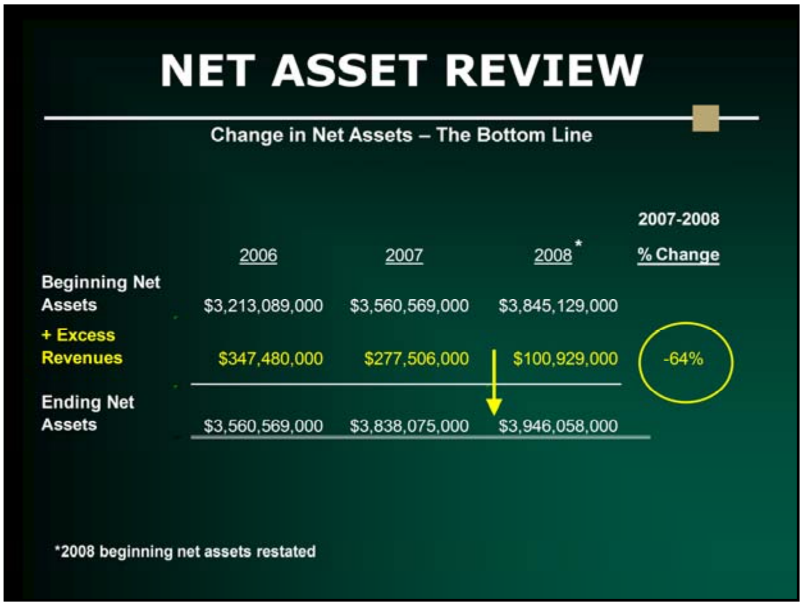

Thank you Clerk Bock.

Net assets represent the total assets owned by the County less any outstanding obligations. Basically, net assets provide a snapshot of the County's net worth or financial health.

This first chart provides a recap of beginning net assets, increases to net assets, and ending net assets for the past three fiscal years.

If you look at the 2008 column, you will see that net assets grew by $100.9M. While any increase is a good thing, especially during these economic times, net asset growth has slowed considerably.

As you can see in the chart, net asset growth declined from $347.5M in 2006 to $277.5M in 2007 to $100.9M in 2008. Since 2006 net asset growth has declined 71%.

As a matter of fact, since we made this presentation for the FY 2007 CAFR last year, net asset growth has declined 64%.

So what is causing the County's once robust net asset growth to decline so dramatically?

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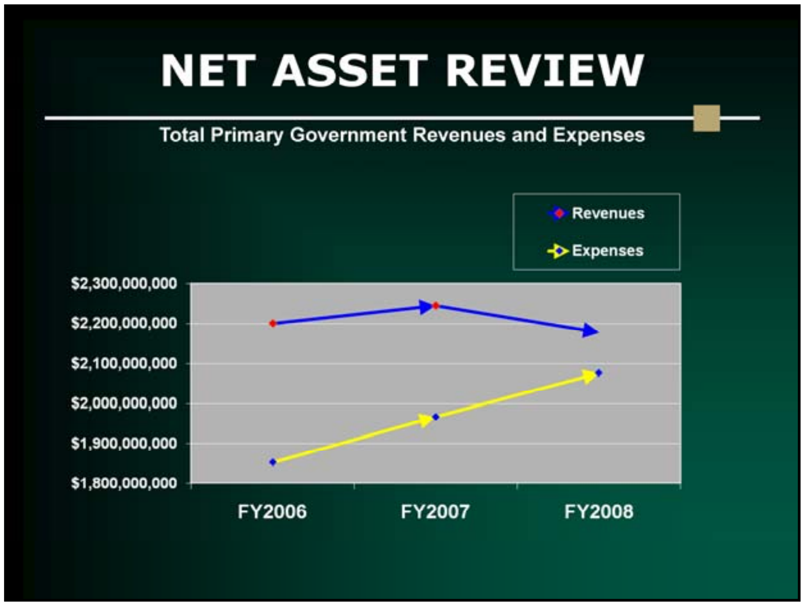

This next chart provides a recap of revenues and expenses for the past three fiscal years. The blue line represents revenues while the yellow line represents expenditures. As you can see from this chart, revenues are declining, while expenses are increases. During 2008, revenues declined by 3%, while expenses grew by 6%. The most significant factor contributing to the decline in revenue is the decrease in property values, which, compounded by state mandated property tax rollback requirements, resulted in less ad valorem tax revenue for the year.

Additionally, economic factors hurt other revenues including impact fees, state shared revenue, grants, and investment income. All categories of revenue remain under pressure.

If we look now to the trend in expenses, there was a 6% increase in expenses from the prior fiscal year. Projects such as Scripps, increases in Sheriff & Fire Rescue operating expenses, and rising transportation costs largely contributed to this increase.

If revenues are declining, while expenses are increasing, what factors are contributing to the growth in net assets?

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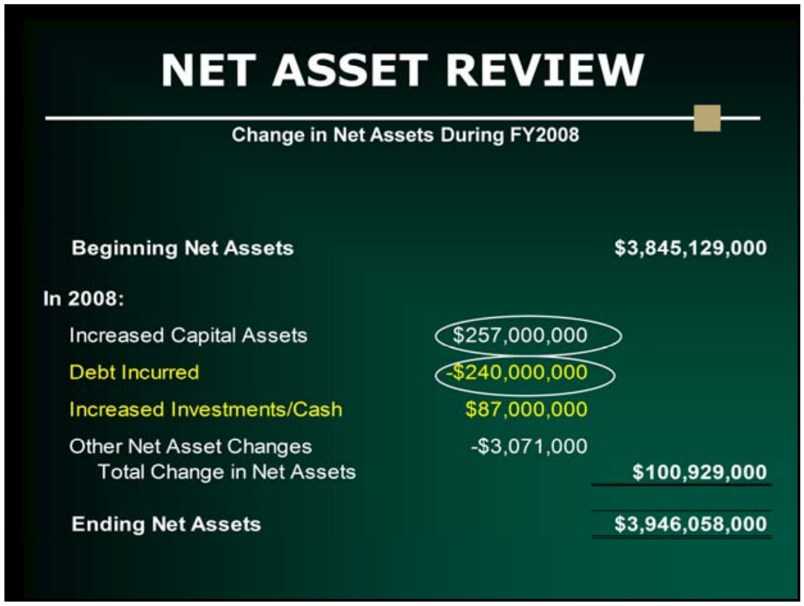

As you can see in this chart, most of this growth was a result of an increase in capital assets, most of which were financed by debt. Only those capital projects partially or fully completed by September 30, 2008 are included in the capital assets total. For example: the following projects were completed during the last fiscal year and are; therefore, included in the category of net assets:

Lake Region Water Treatment Plant - $58M

Judicial Center Garage Expansion - $14.3M

Head Start Center - $6.9M

Various Airport projects including the Long Term Parking Garage - $49.6M

Various Solid Waste Authority projects - $85.3

The completion of these projects alone increased capital assets by $214.1M.

While the County now owns more assets, capital assets such as buildings and land are not liquid assets like cash and are not readily available for future spending. Plus, our ability to support the long-term commitments that accompany these assets, future operating and debt service costs, is declining. Basically, we have been building today using tomorrow's revenue, which is not sustainable given future revenue projections.

Jim Beard will now provide a review of the County's debt.

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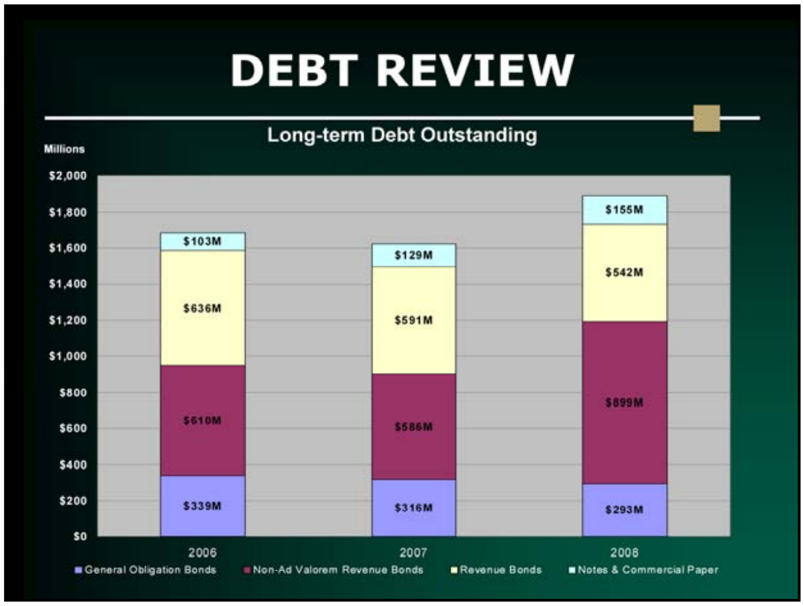

The County maintained its triple-A bond rating from all of the major rating agencies throughout the fiscal year.

As you can see in this graph, the total debt – which for the purposes of this presentation include bonded debt, notes, commercial paper and loans as presented in the CAFR– had a net increase of 14%, up to a total of $1.89 billion.

As the chart indicates, the County did significant borrowing during fiscal year 2008 with the bulk of the borrowing centered on five major projects as well as the refunding of other outstanding debts.

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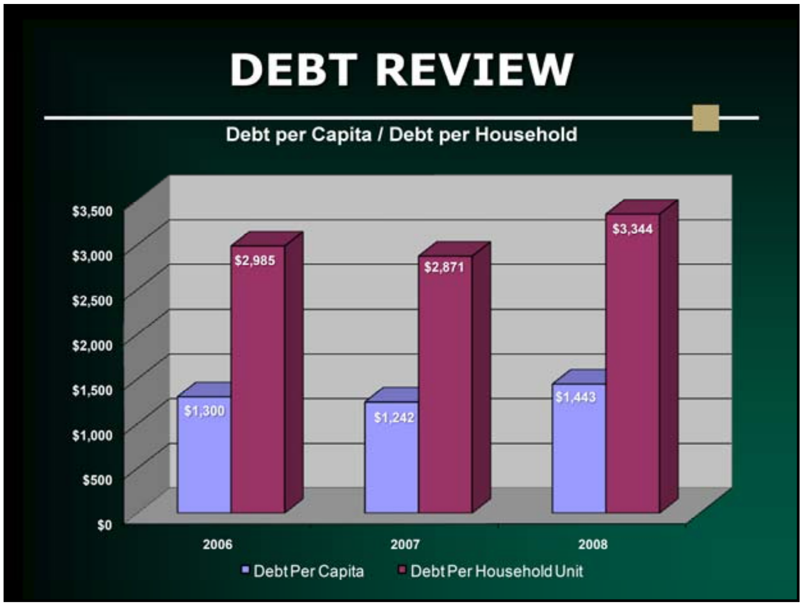

In addition, the total debt per capita increased from $1,242 per capita in 2007 to a total countywide debt of $1,443 for every man, woman and child that resides in Palm Beach County.

The taller bar displays the debt level per household. Meaning that for every single family home, multi-family unit, condo, co-op, and retirement home there is $3,344 in county-wide debt.

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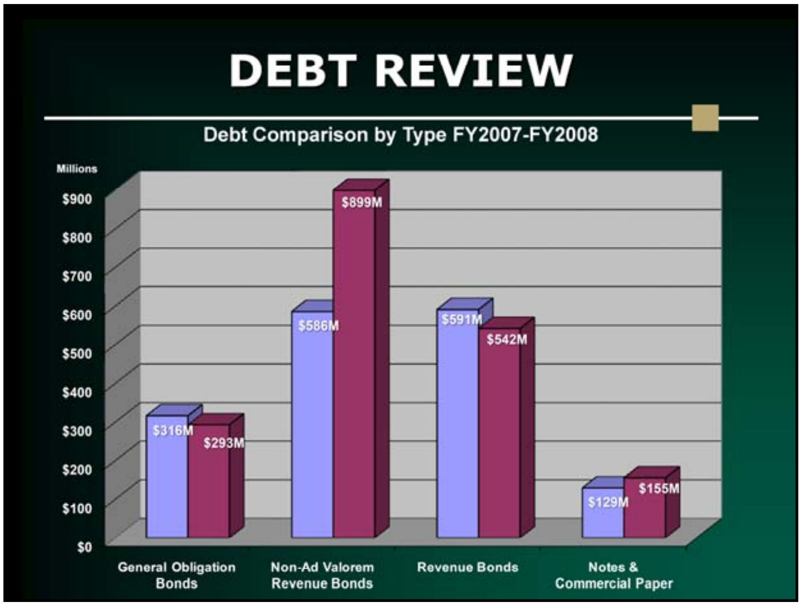

This chart depicts the changes in the debt composition between fiscal year 2007 and fiscal year 2008.

The first set of bars represent the General Obligation debt was reduced by $23 million to $293 million due to regularly scheduled principal and interest payments. No new GO bonds were issued during the fiscal year.

The tallest bar represents the $899 million in Non-Ad Valorem Revenue Bonds. currently outstanding. This is a net increase of $313 million for projects such as:

Scripps facilities at Florida Atlantic University @ $98.1m
Sheriff Technology and mobile data system improvements @ $35.1m
Expansion/upgrades for the Jail and County buildings @ $176.5m
None of these projects required voter approval.

The next pair of bars represents the $542 million in revenue debt of the county, which includes the debts of the Water Utilities Department, the Airport Department as well as the Solid Waste Authority.
This category of debt has a net decrease of $49 million with a new issues being a $6.4million Water Utility Department refunding, which offsets $55 million in Principal and Interest Payments.

The final set of bars represents $155 million in notes, commercial paper and other short-term instruments.

The county generally uses short term debt to fund the initial stages of major projects.

During the fiscal year the county paid-down or refinanced $65 million in existing notes. Including the conversion of $29.4 million into a Non-Ad Valorem revenue bond.

This was offset by the issuance to $80 million for the Solid Waste Authority and $11.7million for the purchase of environmentally sensitive lands.

As in previous years, much of this debt will most likely need to be refunded with longer-term debt in the future. At that time the County will have to bear the additional cost of issuance for the longer-term debt.

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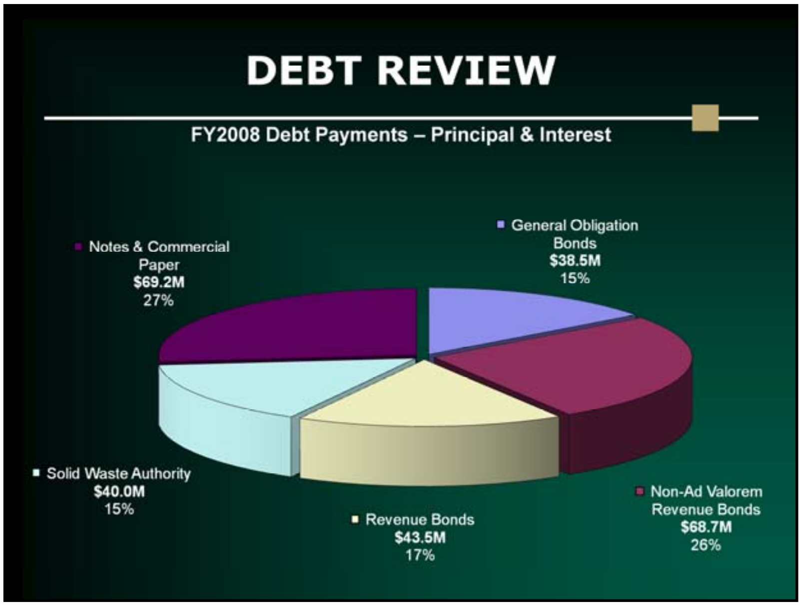

The debt outstanding requires annual debt service payments. Last year the County made principal payments of $184 million and interest payments of $75 million bringing the total Annual Debt Service Payments to just under $260 million with SWA accounting for about $40 million of this total.

While much of the notes, commercial paper and loans 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 despite the possibility of lower cost financing and the county's superior credit rating.

Looking ahead, if the County issues NO new debt during the fiscal year, it is projected that Debt Service Payments for FY 2009 will be $212 million. Roughly $50 million less than 2008's total Debt Service Payments.

While this reduction in debt service payments could represent a positive trend. History indicates that the County will issue debt in the 2009 fiscal year.

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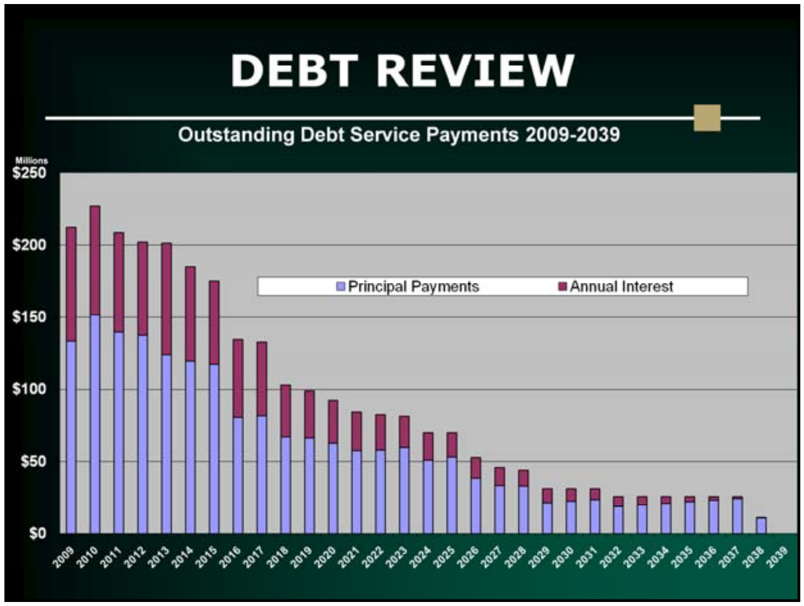

While this reduction in debt service payments represents a positive in the short term picture, it is clearly not the turning point.

This graph shows the projected Debt Service Payments due on County debt over the next 30 years.

It indicates that, due to the payment structure of the outstanding debt, debt service payments are projected to peak in FY 2010 at $226.95 million dollars.

The reason for this is that the debt payments were structured in ways that require the bulk of the payments to be made fairly early in the loan….Approximately 71.5% or $1.971 billion of the County's current outstanding principal and interest payments comes due between 2009 - 2020.

Going forward, there may be an opportunity to structure county debt in a way that provides greater overall budget flexibility by viewing the county-wide debt as a portfolio as opposed to a series of individual bond issues.

I will now turn it over to Felicia Landerman for a review of county investment

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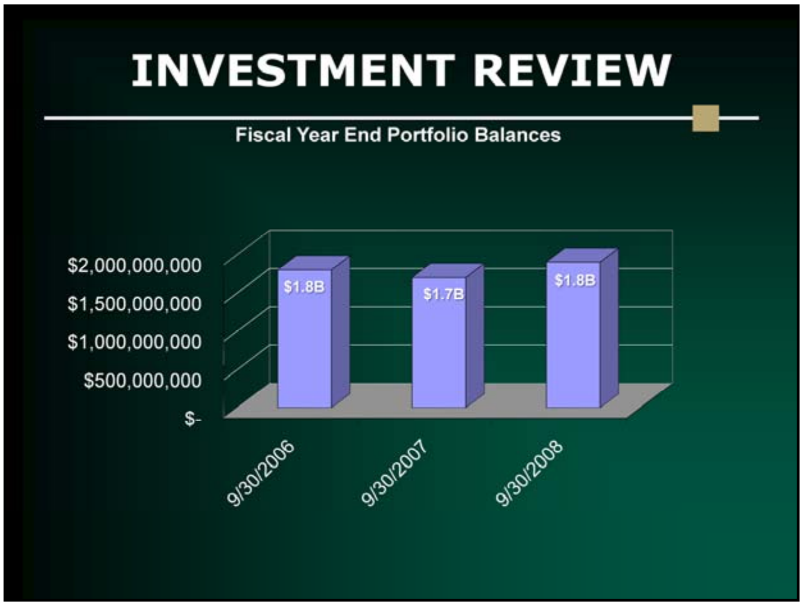

Thank you Jim.

So far, we have talked about the fiscal impact of County controlled functions. Now, we will talk about the Clerk & Comptroller's role as Chief Financial Officer, Treasurer and investor of county funds.

As you can see in this chart, the portfolio balance increased from the prior fiscal year, ending 2008 at $1.8 billion. During the year, all investment operations and portfolio holdings were in compliance with the County's comprehensive investment policy.

There is nothing more important than the safety of taxpayers' funds. Recognizing the critical importance of protecting the public's money during unprecedented financial times, during the year the Clerk's Office took several measures to address this top priority.

As you all know, early in this fiscal year we suspected that there may have been problems with the state run investment pool. We were among the first to realize the potential risk and we withdrew all funds invested in the pool before the state froze the fund in November, 2007.

In addition, signifying a commitment to responsible stewardship of the public's money, in January of 2008, the Clerk's office became the first government agency in the country to have its entire investment staff earn the esteemed Accredited Investment Fiduciary certification.

Following that initiative, in September, 2008 the Clerk's Office requested from Standard & Poor's an independent review of the County's investment portfolio. The portfolio received the best possible credit and volatility ratings indicating extremely strong protection against credit losses and low sensitivity to changing market conditions. This independent review and top rating from a reputable third party ensures that the Clerk's office is professionally managing the portfolio and protecting public funds.

To view the results of a recently completed audit of the investment function by another independent party, please refer to the audit section of the Clerk's website.

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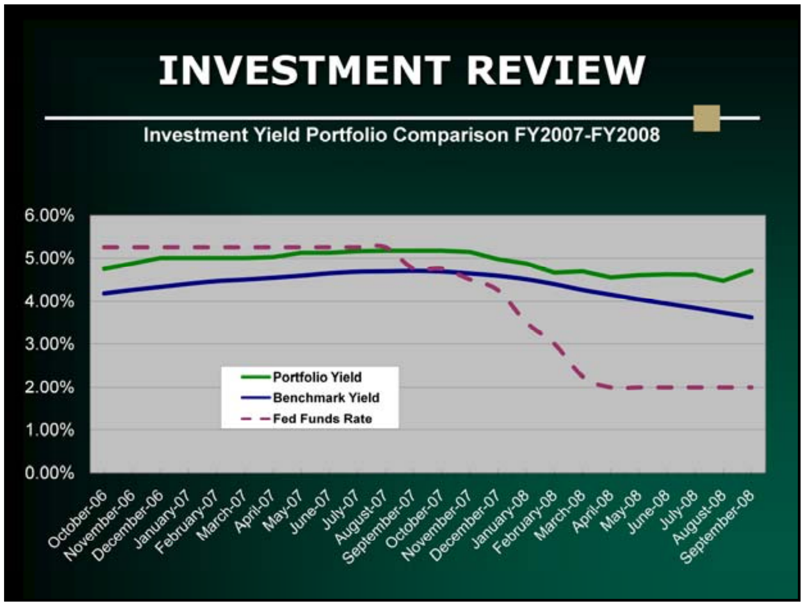

This next graph shows the county's yield on investments versus the county designated benchmark over the past two of fiscal years. The County's yield is indicated by the green line and the benchmark is shown in blue. The benchmark selected by the Board of County Commissioners is the 24-month moving average of the 2 year Constant Maturity Treasury note. At the end of the year, the portfolio yield was 4.70% which was higher than the benchmark which stood at 3.62%.

The red line represents the Fed funds rate, which is the overnight lending rate that bank's charge one another. This rate is significant because of its broad impact on other market interest rates. As you can see, the Fed Funds rate fell dramatically during the fiscal year. Likewise, you can see that the county's portfolio yield and the benchmark began to decrease as new investments were made into lower yielding securities. However, in anticipation of the drop in rates, we took proactive measures to help keep our yield up, such as strategically extending the portfolio maturity and restructuring in order to preserve future income and maintain a positive spread to the benchmark.

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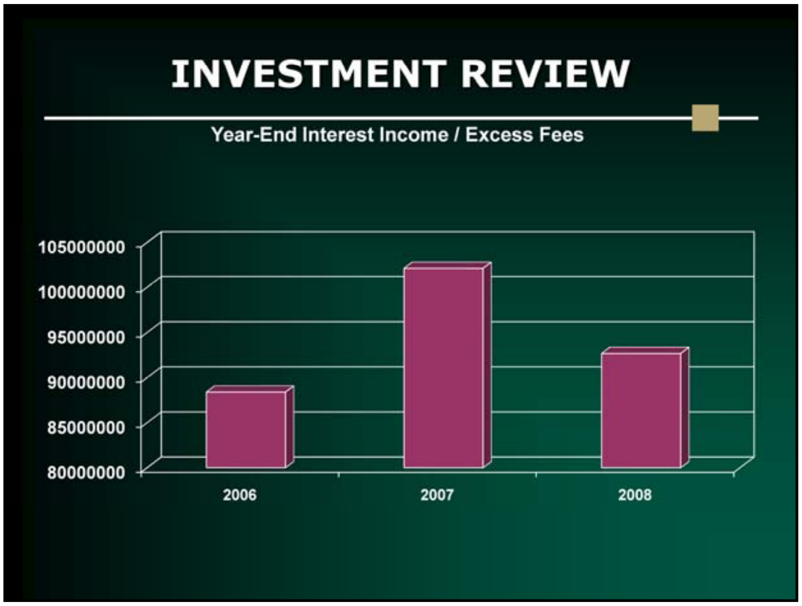
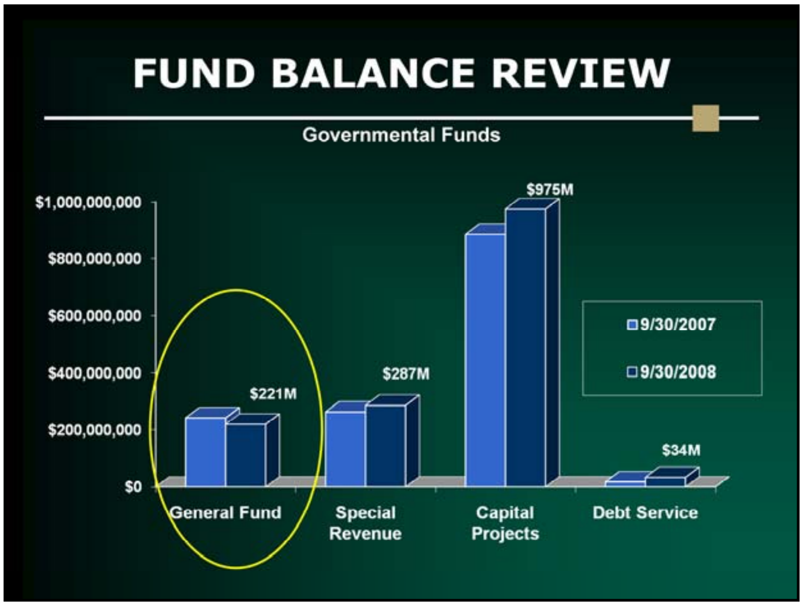


After meeting our primary objectives of safety of principal and liquidity of funds, we strive to earn a competitive market rate of return to benefit the citizens of Palm Beach County. Each year the Clerk's office returns 100 % of interest income to the county in the form of excess fees. Interest income on the portfolio decreased from $102 million in fiscal year 2007 to $93 million in fiscal year 2008. Interest income earnings represent a household tax savings of $195 per year.

The decline in interest income is a function of both lower market interest rates as well as lower portfolio balances throughout the year. Although on an earlier chart you saw that the portfolio balance at year-end was higher than the prior year-end, balances throughout he year were down 4% on average. Falling revenues and increasing expenditures have resulted in a drawdown of reserves, used for general operating expenses as well as increased capital projects. If this trend continues, interest income will likely keep falling.

For a more in depth review of County investments, please refer to the Annual Investment Guide that you each received today.

I will now turn it over to Peter Jannis for more on the county's financial picture.



Thank you Felicia…..

Governmental accounting rules require the County to use fund accounting for its revenues and expenditures. As you can see in this chart, governmental funds include the general fund, special revenue, capital projects and debt service funds. For detailed definitions of these fund types, please reference pages 14 and 15 in our user-friendly checks & balances guide that the Clerk mentioned earlier.

While the fund balances available in all of the County's funds are important, today, we are focusing on the General Fund Balance because it is the County's Checkbook. The General Fund, is the fund used to run the everyday operations of the County, most affects the taxpayers and is the fund you, the Commissioners, have the most policy control over.

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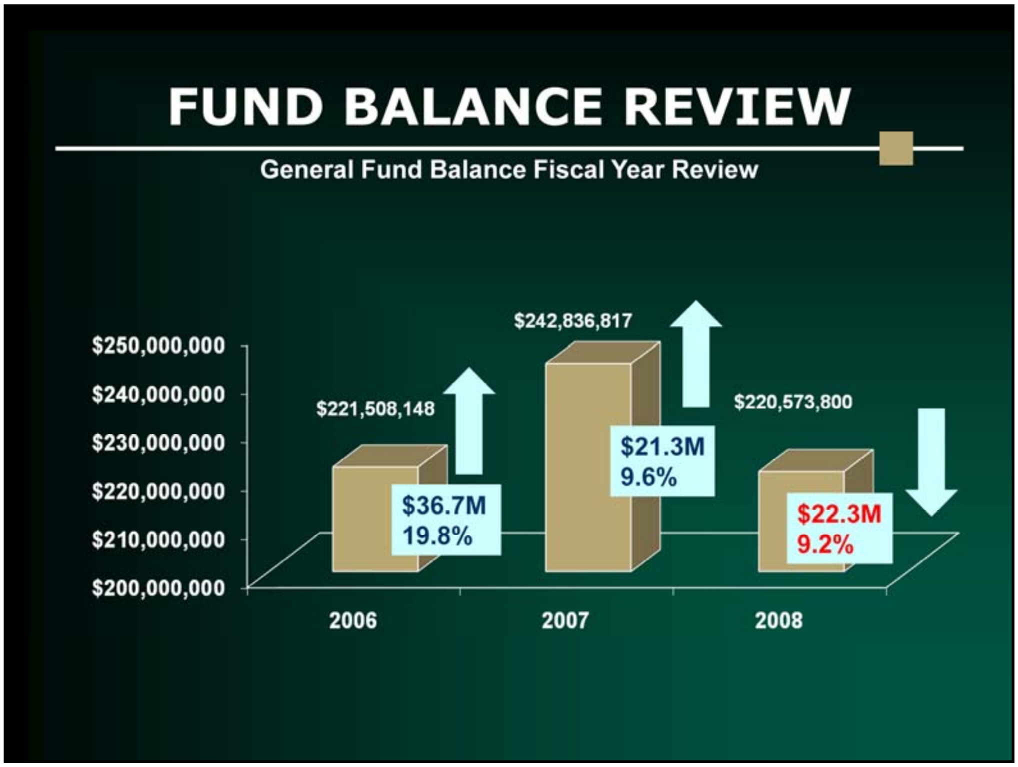

Let's define fund balance. For the most part, fund balance represents county funds that were not spent by the end of the fiscal year. Fund balance is the term used in Public Sector accounting, much like the way "Equity" or "Net Worth" is used in Private Sector accounting.

As of September 30, 2008, fund balance in the General Fund was $221M, a 22.3M or 9.2% decrease from 2007. This reduction in the General Fund Balance marks the first time in recent history that the County's General Fund revenues did not support the General Fund expenses and highlights the seriousness of the current economic situation for the County's financial future.

The primary reason for this reduction in fund balance is declining County revenues. Let's take a look at why these revenue are declining.

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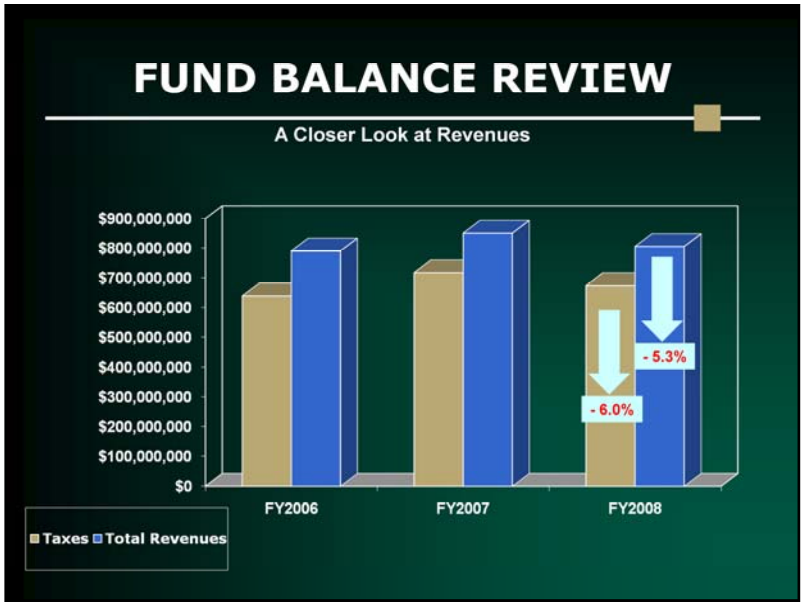

This graph depicts the County's General Fund revenues for the past three fiscal years. Taxes are in beige and total revenues are in blue on this chart. Total revenues include non-tax related revenues such as licenses and permits, state shared revenues, charges for services, and investment income.

As you can see in this graph, taxes, the beige bar, make up most of the revenue in the General Fund. While tax revenue in the general fund peaked in fiscal year 2007 at approximately $718 million, this figure dropped by $43M to approximately $675M in fiscal year 2008. This decrease in taxes was the major contributing factor to the reduction in the General Fund's fund balance.

As you can see, legislative changes and economic conditions like the down turn in the housing market are negatively affecting revenues. This slowing in revenue will continue to affect fund balance in the future.

Now I will turn it back over to Clerk & Comptroller Sharon Bock for a recap…

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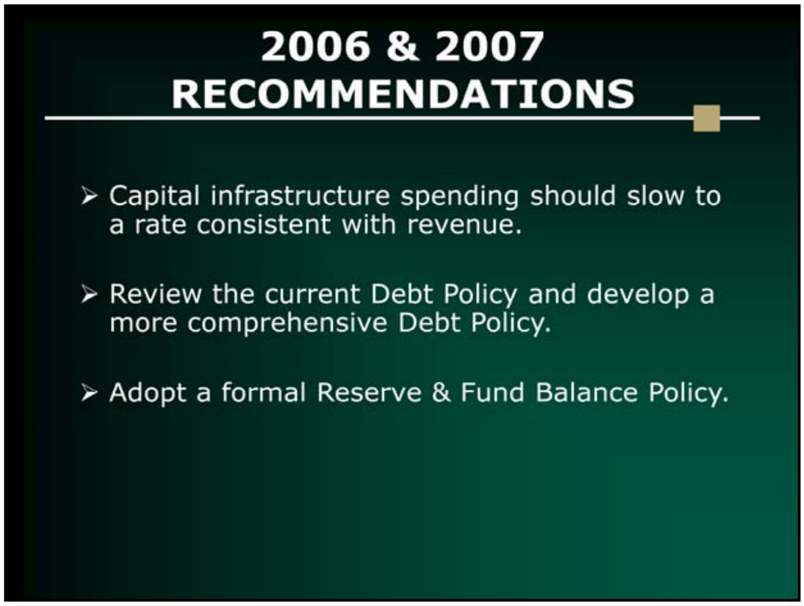


Each year, we offer recommendations at the end of our presentation. Let's review the recommendations offered during the 2006 & 2007 CAFR presentations.

The first was a recommendation that capital infrastructure spending should slow at a rate consistent with revenue.

As Shannon demonstrated, for the second year in a row, expenses are growing at a rate faster than revenues can cover. In fact, for the first time in recent history, revenues actually declined in FY2008. Despite our FY2007 recommendation to reduce capital spending consistent with revenue trends, $257 million of additional capital projects were completed in the 2008 fiscal year.

Although this increased our net assets, the County may be unable to sustain this growth due to the long-term operating and debt service commitments associated with these assets, particularly as revenues decline.

A second recommendation was to review and develop a comprehensive debt policy consistent with GFOA best practices.

As Jim discussed previously, a comprehensive policy, while taken under advisement, has not been completed to date.

In January, as a result of the most recent discovery of commissioner abuse of the debt issuance process, our office prepared and released a Debt Issuance Process Review in April 2009. This review provides specific recommendations regarding the bond selection process and transparency and accountability in the issuance process.

A comprehensive debt policy is a critical component to ensuring long-term financial stability and restoring the public's trust in the debt issuance practices of Palm Beach.

The third was a recommendation to complete a formal reserve and fund balance policy. Again, while these policies were taken under advisement, they have not been completed to date.

These policies, in addition to being a GFOA best practice, will help the County balance current and future financial priorities and will also allow us to comply with mandatory GASB reporting requirements.

Our recommendations for Fiscal Year 2009, based on the 2008 indicators from the CAFR report are:

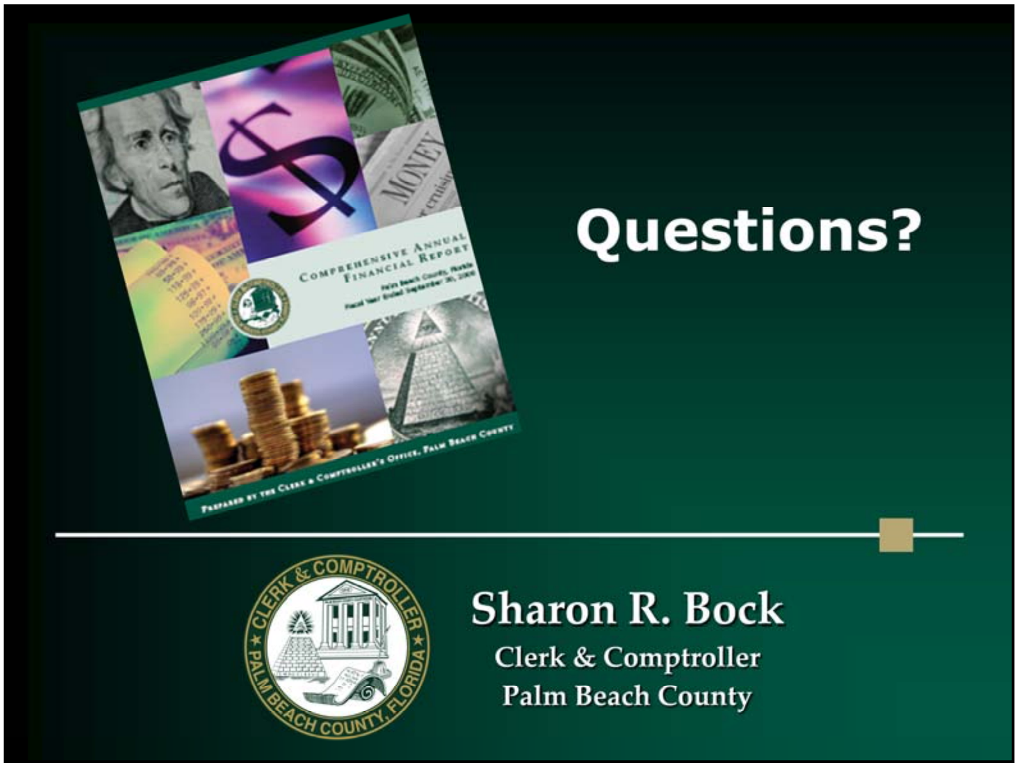
Prioritize "debt financed" capital improvements to limit our reliance on borrowing to pay for infrastructure projects. All financial indicators show that we will continue to have declining revenues over the next several business cycles. By increasing long-term debt service and operating commitments there is an increase in the tax burden on Palm Beach County taxpayers.

Review the current Debt Policy and develop a more comprehensive Debt Policy, including debt issuance provisions, to ensure accountability and transparency and to take maximum advantage of the County's 'AAA' rating.

Review our debt structure using a portfolio based approach vs. an issue by issue approach. As we saw in earlier slides, 71% of the county's total debt outstanding is due over the next 10 years. This front-end loading of our debt payments comes at a time when our revenue sources are decreasing.

Lastly, adopt comprehensive reserve and fund balance policies. Because of the reduction in our revenue sources, whether market driven or politically driven, we will need to look to our reserves and fund balances to pay for the county's needs as we transition over the next few years. These depleting resources will need to be carefully managed and prioritized to ensure for the long term, the sustainability of vital county services.

As your Chief Financial Officer, our professional staff is ready to work with you to help develop the processes needed
at this time.



All of our recommendations are simple, straightforward and structural in nature. They are designed to create systems that would allow you to quickly gauge and evaluate, throughout the year, the fiscal soundness of your policy decisions and the direction they will take you. If these recommendations are implemented, they will give you the tools necessary to explain your decisions. Whether they have a long-term or short-term fiscal effect on the county and what that fiscal impact is will be clear to everyone. It will not make the complaints go away, but it will provide a transparent route to your decision making. While this method of governance has been met with strong resistance from many areas, in this period of reduced revenues, your need to prioritize is growing greater. By putting systems in place now, you will create public trust.

We thank you for your time and attention and will now answer any questions you may have.