

Memorandum

TO: Town Commission
FROM: Tom Harmer, Town Manager
REPORT DATE: June 13, 2022
MEETING DATE: June 20, 2022
SUBJECT: FY 23 Preliminary Budget

Recommended Action

Provide direction to Town Manager.

Background

In accordance with Town Charter Article V, Section 3 and Section 6, the Town Manager shall submit to the Town Commission, on or before the fifteenth day of June of each year, a Preliminary Budget and capital program for the ensuing fiscal year. A final Recommended Budget and an accompanying message shall be submitted on or before the first day of August of each year. This memo provides the Preliminary General Fund Operating Budget, the Preliminary Capital Improvement Plan, and all operating fund budgets. Any changes made since the May 16, 2022, Special Workshop (Budget) have been highlighted.

Preliminary Budget

My Budget guidelines for FY23 were as follows:

- Maintain publicly visible service levels
- Maintain current reserve policies
- Maintain current staffing levels
- Maintain flat operating budgets where possible
- Decrease in operating millage rate likely
- Departments asked to update Capital Improvement Plan descriptions and costs
- Carefully consider new projects and initiative impacts, with a priority on existing infrastructure
- Maintain support for the 5-year Capital Improvement Plan for scheduled vehicle replacement and infrastructure improvements
- Maximize grants, earmarks, and stimulus funds
- Incorporate fixed costs and inflationary costs for technology, insurances, fuel, utilities and pension
- Incorporate performance-based wage increases and compensation study adjustments
- Continue to seek more efficient methods of accomplishing the mission

Budget Highlights

Each year crafting the Budget seems to have a new set of challenges. The current state of inflation with rising gas prices and cost of consumer goods, in combination with rising interest rates, is a recipe for a future recession. However, the very active housing market with increasing home values should cushion the blow somewhat. Longboat Key, along with the rest of Southwest Florida, has property values increasing in double digits, due to the influx of new people moving to Florida, lack of inventory and new construction. Demand for new housing will likely continue but perhaps at a slower growth rate, due to rising mortgage rates. Longboat Key is a bit unique in Florida in that our tax base adjustments are more associated with value changes than growth.

The County Property Appraiser's June 1 preliminary property values increased 13.5% (13.92% Manatee County and 13.31% Sarasota County). At our current mill rate of 2.1144, the increase in property values would have produced additional revenue of \$1,767,976. Due to our reduction in pension contribution costs

and the pre-funding of capital requests through FY25, our expenditures are decreasing \$24,200, creating essentially a flat Budget.

In deciding upon a recommended mill rate we looked at various scenarios and potential impacts looking forward to FY24 and FY25. Those scenarios included the possibility of a recession with flat property values or slower growth in FY24 and FY25, moderate increases in non-ad valorem revenues, and modest increases in operational costs. Based on this analysis, I am recommending a mill rate of 1.9500, which will provide an estimated surplus of \$504,092. This additional surplus will be used to balance the Budget in the following year (FY24) with a goal to keep the mill rate as flat as possible for the next two to three years. A mill rate of 1.9500 is a 7.8% decrease from the current mill rate of 2.1144. While the average property value increase is 13.5%, homestead properties will be limited to a property value increase of 3%, the cap allowed by the Save Our Homes legislation.

The Preliminary Budget includes costs for external budget impacts, negotiated and anticipated wage increases for Fire and Police, and merit-based compensation and market-based pay plan adjustments for General Employees. A compensation study for non-bargaining unit employees is currently in progress and will be folded into the department budgets after the performance reviews are completed by the end of August. We are also still waiting for health insurance renewals, Property and Liability coverage renewals, State revenue estimates expected in mid-July, and we will recalculate Building and Utility indirect cost transfers. New revenue is also pending the Commission's approval and adoption of a new Vacation Rental Registry Program being discussed at the June 20, 2022 Regular Workshop. We have included a \$150,000 revenue placeholder in the FY23 estimates.

The Budget includes continued funding for a Federal lobbyist, grant assistance and the Annual Citizen Survey. It continues to fund \$250,000 for general contingency plus \$50,000 of contingency funding for Red Tide cleanup.

On the capital side of the Budget, we are preparing to close out the Utilities Undergrounding Project next year. A significant amount of work will be involved in the close out of the Utilities Undergrounding Project including completing connections, the audit of costs, turning over assets to FPL, recalculation of assessments, and communications with property owners including a new opportunity to pre-pay assessments.

We expect to close the North Fire Station project by the end of this year. A small balance is being carried over until the vendors complete work and are paid.

The Budget includes funding for an Electric Vehicle (EV) Pilot Program, beginning with two EV's for Building Inspectors and one for the Fire Marshal. Electric charging stations would be installed at Town Hall and the Public Safety Facility to accommodate the new vehicles. There is very limited availability of EV vehicles for purchase this year. Town staff is evaluating a hybrid option that may be more cost effective for the initial pilot and not require chargers. The Town's green initiatives also include funding for an energy audit of Town public facilities. The Town has many projects in progress, such as the GMD Corridor Plan, Broadway Roundabout, Town Center Phase 2 and the establishment of a Canal Assessment Program, among others, that are included in the Budget.

The Town received a Federal grant award in FY21 to replace the Town Hall's generator, windows and roof for which the Town received no bids. FEMA has granted an extension and the work will be re-bid and completed during FY23. We are concerned about inflationary costs at this time which could possibly delay the project further or cause us to seek additional funding for the project.

FY23 includes year two of a multi-year rate increase for the Water and Wastewater System, in order to fund critical capital needs which includes the Asbestos Cement Pipe and the replacement of Subaqueous Force Main in FY24-FY25. The long-term plan assumes financing of \$27.1 million with the remainder being funded with cash reserves and user rate collections. The Utility Fund also includes continued funding for the DEP Consent Order. The Utility Budget includes the \$1.25 million original award and \$800,000 subsequent award for the Subaqueous Pipeline Project. Additional Federal Appropriation Requests are pending for Subaqueous (\$3M) and Asbestos Pipe Replacement (\$12.75M).

Though it is separate from the FY23 Budget development, we will also be presenting information regarding the bids for the Town Center Phase 2 project. During the recent bid process, both the site work and the stage bids came in over budget. The staff was not surprised as the bidding environment is tough right now due to inflationary impacts associated with cost of materials, a tightened labor market, and some supply chain challenges. We will be presenting options for Commission feedback at the June 20, 2022 Special Workshop as this may impact the FY22 and FY23 Budgets. Similarly, we have also received bids that exceed our budget for the Tennis Center fence replacement project. Staff is currently reviewing those bids as well.

General Fund Budget

The preliminary General Fund operating expenditure budget (without capital) for FY23 is \$17,808,546. The increase to the operating and personnel expenses from the current fiscal year is 2.9%. There are no required capital transfers to Miscellaneous Capital Projects or any other Capital Funds for FY23, due to a mid-year prefunding Miscellaneous Capital Projects through FY25 using unassigned surplus funds. Revenues currently exceed expenses by \$504,092. The Preliminary Budget of \$17,808,546 represents a \$24,200 decrease (0.1)% in spending from the current fiscal year's Adopted Budget of \$17,832,746.

Below is a summary of Revenues and Expenditures in the Preliminary Budget using a proposed millage rate of 1.9500.

Description	Amount
Total Revenue	\$18,312,638
Total Operating Expenditures	<u>(17,808,546)</u>
Net income before capital outlay	504,092
Total Capital Expenditures	<u>0</u>
Increase to Fund Balance	\$504,092

The 5-Year Capital Improvement Plan was reviewed during the May 16, 2022 Special Workshop. The prefunded schedule of Miscellaneous Capital Expenditures (excluding FY22 Capital Carryovers) are follows

Project Name	Amount
Facilities – Floor covering	\$25,000
Facilities – Portable Generator (Public Works)	75,000
Tennis - Court resurfacing	18,000
Parks/Recreation - Mowing Trailer	7,500
Police – Records Management Upgrades	5,000
Police – Chief's vehicle	<u>50,000</u>
Total General Fund Capital	<u>\$180,500</u>

The FY22 General Fund Amended Budget includes a revenue transfer of American Rescue Plan Act (ARPA) funds in the amount of \$3,654,228. The second payment is expected in September 2022 at which time the revenue will be moved to the General Fund and re-appropriated to Flood Mitigation efforts by Resolution. The Special Revenue (ARPA) Fund will also be closed at that time in FY22.

Revenues

Based on the latest information from the Property Appraisers, Manatee County values increased 13.92%, and Sarasota County values increased 13.31% with a combined increase of 13.50%. The increase provides \$1,767,976 of additional ad valorem revenues using the same mill rate (2.1144) as FY22. We originally estimated a 13.0% increase in property values at the May 16, 2022 Special Workshop. I am recommending a mill rate of 1.9500, reducing the additional revenue to \$608,917, which is a 4.6% tax increase from the prior year.

Non-ad valorem revenues were increased \$283,343 based on latest projections for FY22 and the addition of a \$150,000 placeholder for a new Vacation Rental Registry Program to be discussed at the June 20, 2022 Regular Workshop Meeting at 1 pm. Although we have a rising interest rate environment, we are using 50 bps as a preliminary rate knowing that the Town will continue to record unrealized losses on current holdings until the investments mature.

We will continue to monitor revenue projections now through September and adjust State Revenue Sharing estimates when they become available mid to late July.

Expenditures

The Police contractual increase is 3.5% (Year 3 of 3), and the Fire contractual increase is 2.6% (Year 2 of 3). A merit-based increase of 3.5% is budgeted for General Employees in addition to a 5% placeholder for compensation plan adjustments (compensation study in progress). We learned that our health insurance rates will not exceed a 6% increase and budgeted accordingly. Despite some inflationary pressures on the Budget, department operating budgets are generally remaining flat, except for some notable items shown below:

- Town Attorney CPI 5%
- Audit increase 5%
- Fuel and other Utilities \$22,755
- ClearGov Budget Book Software \$7,400
- Software support increases
- Facility Energy Audit \$10,000 placeholder
- Fire - Medical Director up 3% and physicals up 6%
- Fire - EMS Medicare Audit (Mandatory) \$10,000
- Fire – Medical Supplies up 5%
- Fire – New App for iPhones to handle 800 mghz radios \$1,500
- Fire – Repairs/Maintenance Vehicles \$15,000
- Fire – Annual Maintenance Equipment \$8,150
- Australian Pine Removal Program \$60,000 plus \$10,000 for Town owned property

Fund Balance.

The FY22 Budget was originally passed with a use of Fund Balance Reserves of \$412,368. Several factors are likely to contribute to some positive variances for the year.

- Planning & Zoning staff review fees in excess of \$160,000 have been collected due to St. Regis billed work.
- Manatee County has agreed to reimburse 50% of the Broadway Roundabout design up to \$150,000, eliminating the need to transfer that money from the General Fund.
- The Town received a commitment for a donation of \$80,000 for the design of the Town Center stage, eliminating the need to transfer that money from the General Fund.
- Contingency funds of \$300,000, including Red Tide Contingency, remain unspent.
- We expect various departmental budgets to produce operating surpluses.
- Proceeds of \$2.7 million FPL Innovation Agreement

The projected ending Fund Balance for September 30, 2022, prior to any positive variances noted above, for the General Fund is \$10,043,011, which includes the anticipated pay out of the second ARPA payment for flood mitigation. We will continue to monitor this projection and make changes now through the September public hearings for any updates.

The Town has the following Reserves of Fund Balance in accordance with the new Fund Balance Policy based on \$47,426 cost per day for FY22:

Unassigned	\$2,846,000
Economic Uncertainty / Revenue Stabilization	\$2,846,000
Extreme Events / Natural Disasters	\$2,846,000

An additional Reserve of \$750,000 for Future Capital remains in addition to a balance of \$720,712 of Unassigned above the 60-day requirement. Use of the additional Reserve should be for one-time purchases or projects.

All Other Fund Budgets

The Town maintains twenty-nine (29) other funds in addition to the General Fund. These funds were legally established for a specific purpose. Each fund has a self-balancing set of accounts and often have relationships to each other. The table contained in this memo summarizes the Preliminary Budget totals by fund type, revenue classification, and functional category of expenditures. These budgets include preliminary estimates of carryover amounts for encumbrances and multi-year project balances previously authorized in prior fiscal years. This carryover amount will be updated prior to the September public hearings.

Special Revenue Funds

There are twelve (12) special revenue funds that are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed for specific purpose other than debt and capital projects. Some of the major funds include Sarasota and Manatee Infrastructure Surtaxes, Tourist Development Taxes, the Tennis Center operations, Miscellaneous Grant Fund, Road and Bridge Fund, and the Undergrounding Assessment Funds. Total revenues are estimated at \$6,670,487 and total expenditures are \$5,724,385. The projected ending Fund Balance for September 30, 2023, for all special revenue funds is \$7,279,354.

Capital Project Funds

The Town has nine (9) Capital Project Funds, which are multi-year project budgets used to account for the construction of major infrastructure improvements or for the purchase of other capital assets greater than \$5,000 having a useful life of three or more years. Capital Project Funds may include bond proceeds or other financing sources used to fund the project such as the Undergrounding Projects and Fire Stations. Some of the major fund projects include GMD and Neighborhood Undergrounding, Beach Nourishment, Canal Dredging, and Land Acquisition. Total revenues in FY23 are estimated at \$1,998,718 and total expenditures are \$28,187,725. The projected ending Fund Balance for September 30, 2023, for all Capital Project Funds is \$11,688,705.

Debt Service Funds

The Town's five (5) Debt Service Funds account for financial resources, such as ad valorem taxes or assessment revenues, that are levied to pay for scheduled principal and interest payments on borrowed money. The Town debt payments for FY23 is \$5,927,089. Using the June assessed values the calculated mill rate for Facilities (Fire Stations) Debt is 0.0497, Beach Nourishment Gulf Side District Debt Millage is 0.7169, and for Bay Side District Debt 0.1792.

Enterprise Funds

The Town has two (2) Enterprise funds, the Water and Wastewater Utility Fund and the Building Fund. The Utility fund uses two (2) funds for accounting purposes, one for operations and one for capital, which are combined for financial reporting purposes. Enterprise Funds are business-type activities generally used for services for which the Town charges a fee. Total combined revenues for the two Enterprise Funds are estimated at \$16,145,983 and total expenditures are \$26,739,385.

Financial Policies.

One of the Finance Department's goals is to prepare a Budget document that meets the program criteria deserving of a Distinguished Budget Presentation Award by FY24. One of the required elements of the Budget document is to provide the Town's Financial Policies, which may be formal or informal. The Finance Director has prepared a summary of six policies shown below and included as an attachment to this memo. These policies will be incorporated into a section of the Recommended and Adopted Budget books. Other policies may be added over time. Three of the Policies, Fund Balance, Debt Management and Investment Policies have been formally adopted by the Town Commission by Resolution. The remaining three policies provide a written record of current practices in place.

- Budget and Budgetary Control
- Capital Budget and Long-Term Financial Planning
- Accounting and Financial Reporting
- Fund Balance and Reserve Policies
- Debt Management Policy
- Investment Policy

Capital Improvement Plan.

Since the May Special Workshop Meeting, all Carryover Balances were updated measured as of May 25, including any budget amendments made in FY22. No other changes were made to the Capital Plan.

The revised Five-Year Capital Improvement Plan is \$93,131,723 with \$41,008,723 to be funded in FY23 shown below:

FY23-FY27 Capital Plan

<i>Description</i>	<i>FY22 Carryforward</i>	<i>New Spending</i>	<i>FY23 Budget</i>	<i>FY24</i>	<i>FY25</i>	<i>FY26</i>	<i>FY27</i>	<i>Total</i>
General Fund Ad Valorem Tax	\$1,285,459	\$180,500	\$1,465,959	\$240,000	\$64,000	\$643,000	\$85,000	\$2,497,959
Road & Bridge Fund	75,000	50,000	125,000	155,000	45,000	-	164,000	\$489,000
Sarasota Infrastructure Fund	461,225	620,000	1,081,225	191,000	880,000	491,000	419,500	\$3,062,725
Misc. Grant Fund	87,718	5,000	92,718	40,000	-	155,000	81,000	\$368,718
Manatee Infrastructure Fund	128,801	290,200	419,001	320,200	50,000	326,800	512,000	\$1,628,001
Facilities (Fire station) Capital Fund	84,826	-	84,826	-	-	-	-	\$84,826
Streets Capital Fund	851,015	260,000	1,111,015	1,260,000	260,000	250,000	300,000	\$3,181,015
Land Acquisition Fund	1,039,868	420,000	1,459,868	-	-	-	-	\$1,459,868
Beach Capital Fund	3,826,372	710,000	4,536,372	2,090,000	945,000	845,000	5,285,000	\$13,701,372
Canal Fund	369,732	50,000	419,732	1,130,000	3,280,000	1,130,000	1,130,000	\$7,089,732
Parks & Recreation Capital Fund	50,487	-	50,487	-	-	-	15,000	\$65,487
Building Fund	32,000	160,000	192,000	-	-	27,000	35,000	\$254,000
Utility Capital Fund	7,498,103	3,626,500	11,124,603	3,523,500	22,455,000	1,605,000	1,695,000	\$40,403,103
GMD Undergrounding	11,057,326	-	11,057,326	-	-	-	-	\$11,057,326
Neighborhood Undergrounding	7,788,591	-	7,788,591	-	-	-	-	\$7,788,591
Total	\$34,636,523	\$6,372,200	\$41,008,723	\$8,949,700	\$27,979,000	\$5,472,800	\$9,721,500	\$93,131,723

The following provides a summary of all Funds government-wide:

FY 23 Budget - All Funds

FY23 Estimated Revenues

ESTIMATED REVENUES	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECT FUNDS	ENTERPRISE FUNDS	TOTAL ALL FUNDS
Ad Valorem Tax	13,747,968		3,750,182			17,498,150
Other Taxes	145,000	2,444,484				2,589,484
Franchise Fees	752,973		304,027			1,057,000
Licenses and Permits	173,200				1,389,050	1,562,250
Special Assessments		2,580,940				2,580,940
Intergovernmental Revenues	1,464,095	85,600				1,549,695
Charges for Services	386,300	785,502		50,000	9,175,900	10,397,702
Grants		736,549		1,117,980	2,050,000	3,904,529
Fines & Forfeitures	46,750	1,750			30,000	78,500
Investment Earnings	86,500	27,162	9,057	130,738	64,533	317,990
Miscellaneous	96,300	8,500			36,500	141,300
Transfers In	1,413,552		1,692,630	700,000	3,400,000	7,206,182
TOTAL ESTIMATED REVENUES	18,312,638	6,670,487	5,755,896	1,998,718	16,145,983	48,883,722

FY23 Preliminary Expenditures

ESTIMATED EXPENDITURES	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECT FUNDS	ENTERPRISE FUNDS	TOTAL ALL FUNDS
Town Commission	40,400					40,400
Legal Counsel	463,925					463,925
Town Manager	460,877					460,877
Town Clerk	420,064					420,064
Finance	737,306					737,306
Information Technology	899,966					899,966
Support Services	554,541					554,541
Facilities	161,838					161,838
Police	3,235,042	632,777				3,867,819
Fire/Rescue	7,261,982	4,961	350,982			7,617,925
Emergency Management	46,900					46,900
Public Works (Includes Undergrounding)	564,723	81,250	1,997,657			2,643,630
Parks/Recreation (Includes Beach and Canals)	306,648	59,093	3,580,100	627,906		4,573,747
Planning and Zoning	586,156					586,156
Streets	668,299	57,900				726,199
Tennis		712,226				712,226
Water					2,462,010	2,462,010
Wastewater					3,356,511	3,356,511
Building					1,360,108	1,360,108
General Services	690,889	2,604	1,970	5,375	3,180,601	3,881,439
Contingencies	708,990			2,222,241	250,000	3,181,231
Capital Outlay	0	1,780,944		25,332,203	11,316,603	38,429,750
Transfers Out		2,392,630			4,813,552	7,206,182
TOTAL PRELIMINARY EXPENDITURES	17,808,546	5,724,385	5,930,709	28,187,725	26,739,385	84,390,750

FY23 Fund Balance Summary

SUMMARY	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECT FUNDS	ENTERPRISE FUNDS	TOTAL ALL FUNDS
REVENUES	18,312,638	6,670,487	5,755,896	1,998,718	16,145,983	48,883,722
EXPENDITURES	(17,808,546)	(5,724,385)	(5,930,709)	(28,187,725)	(26,739,385)	(84,390,750)
BEGINNING FUND BALANCE	10,043,011	6,333,252	260,048	37,877,712	35,433,722	89,947,745
ENDING FUND BALANCE	10,547,103	7,279,354	85,235	11,688,705	24,840,320	54,440,717

Budget Schedule/Next Steps

- **June 20, 2022** - 2nd Special Workshop Meeting for Budget. At the June 20, 2022 Special Workshop Meeting for Budget discussion, the General Fund Preliminary Budget will be presented and we will review all other Fund Budgets (special revenue, enterprise, and debt service).
- **July 1, 2022** - Certification of final property values. The County Property Appraisers Offices have until July 1, 2022 to certify property values. Your July Regular Meeting falls on July 1, 2022. Upon receipt, the Finance Department will recalculate the FY23 Budget to provide for setting of the maximum millage rate at the July 1, 2022 Regular Meeting.
- **July 1, 2022 at 9:00 AM** - Regular Meeting - Set Maximum Millage.
- **August 1, 2022** - Recommended Budget due per Town Charter.
- **September 12, 2022 at 9:00 AM** – Final Special Workshop Meeting for discussion of FY23 Budget (if needed).
- **September 12, 2022 at 1:00 PM** - Resolutions 2022-11 and 2022-12 will be presented for the Certification of the Annual Assessment Rolls **at the 1:00 PM Regular Meeting** for both the GMD and Neighborhood Utilities Undergrounding Projects (must be passed prior to September 15 each year).
- **September 12, 2022 at 5:01 PM** - First public hearing of Resolution 2022-14, which establishes the millage rate; and Resolution 2022-15 to adopt the FY23 Budget. First reading and public hearing on Ordinance 2022-15 , which provides for the adoption of the FY23 Capital Improvements Element (CIE) concurrent with adoption of the FY23 Budget.
- **September 27, 2022 at 5:01 PM** – Second public hearing, of Resolution 2022-14 , which establishes the millage rate; and Resolution 2022-15 to adopt the FY23 Budget. Second reading and public hearing to adopt Ordinance 2022-15, FY23 Capital Improvements Element (CIE) concurrent with adoption of the FY23 Budget.

Attachments (Available in the Town Clerk's office)

- A. PowerPoint
- B. All Other Fund Budget Summary
- C. Financial Policies

End of Agenda Item