

# MIAMIBEACH

City of Miami Beach, 1700 Convention Center Drive, Miami Beach, Florida 33139, [www.miamibeachfl.gov](http://www.miamibeachfl.gov)

## COMMITTEE MEMORANDUM

TO: Members of the Finance and Economic Resiliency Committee

FROM: Jimmy L. Morales, City Manager

DATE: June 16, 2020

SUBJECT: PRELIMINARY FISCAL YEAR 2021 GENERAL FUND BUDGET UPDATE AND PROPOSED MILLAGE RATE

The preliminary budget represents the cost of providing the same level of services as in the prior year and serves as the baseline of funding for the budget development process. The General Fund is the primary source of funding for the majority of City services. Revenues are derived from ad valorem property taxes, franchise and utility taxes, business license and permit fees, revenue sharing from various statewide taxes, user fees for services, fines, rents and concession fees, and interest income. Additionally, intergovernmental revenues from Miami-Dade County and Resort Tax contribute funding for tourist-related services provided by General Fund departments.

### **FINANCIAL IMPACT OF COVID-19**

On March 1, 2020, the Governor issued an Executive Order directing the Surgeon General of the State of Florida to issue a public health emergency, and in response to the pandemic outbreak of COVID-19, the Governor declared a State of Emergency on March 9, 2020. In direct response to the first confirmed case of COVID-19 in Miami-Dade County on March 11, 2020, the Miami-Dade County Mayor declared a State of Emergency for Miami-Dade County. The City Manager declared a State of Emergency in the City of Miami Beach on March 12, 2020. Subsequently, both the County and the City issued various Emergency Orders temporarily closing public and private facilities, including the temporary closure of all non-essential retail and commercial establishments and identifying essential retail and commercial businesses which may remain open. These actions have greatly limited the amount of economic activity taking place in the City of Miami Beach and continue to result in significant impacts to the City's finances.

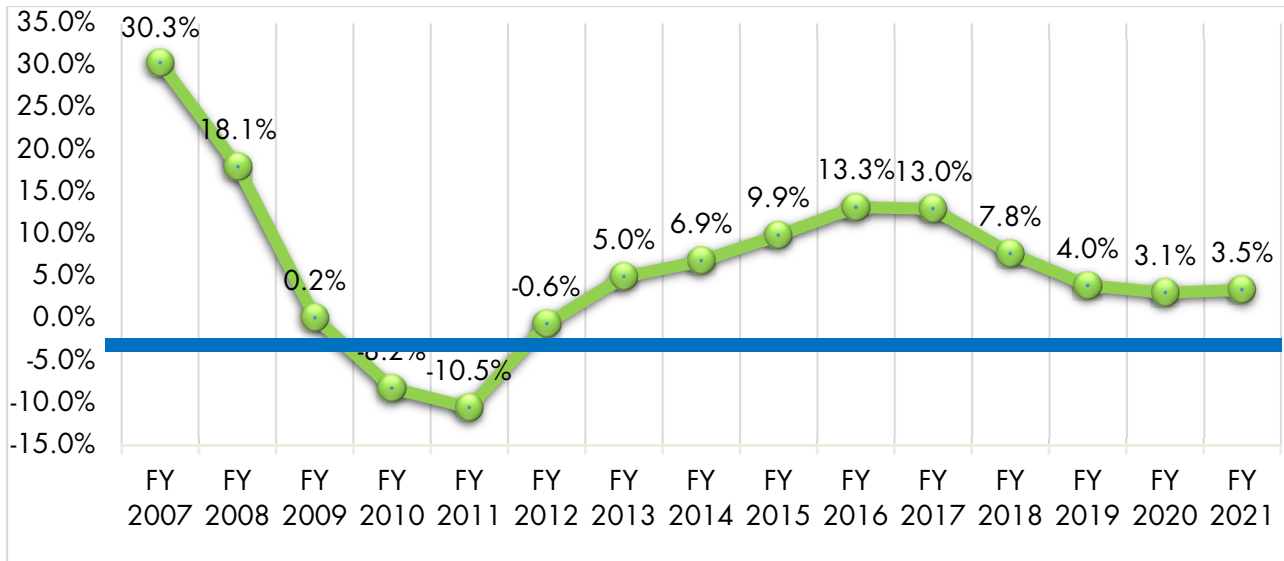
In response to the projected revenue losses through the end of the fiscal year (FY), the Administration presented the City's budget-balancing plan to the Finance and Economic Resiliency Committee (FERC) on April 17, 2020. These plans emphasized cost reductions as much as possible, including a reduction in capital expenditures, and judiciously using reserves to make up the difference.

### **PROPERTY VALUES**

On June 1, 2020, the City received the 2020 Estimated Taxable Values from the Miami-Dade County Property Appraiser indicating that the overall taxable value for the City of Miami Beach

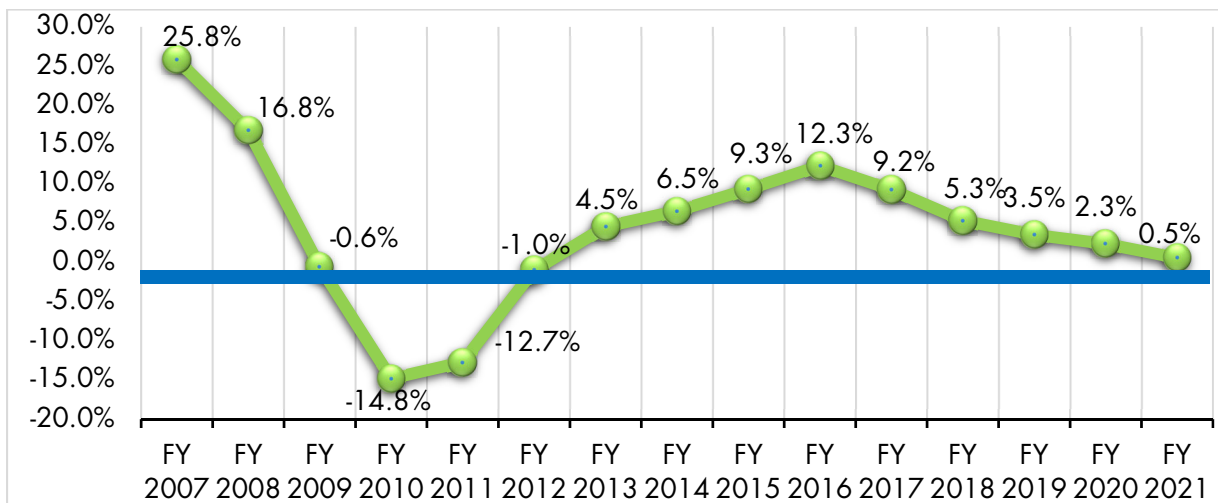
was \$41.5 billion, including \$1.2 billion in new construction. Overall, this represented a 3.5 percent increase in values from the 2019 Certification of Taxable Value provided by the Miami-Dade County Property Appraiser on July 1, 2019.

**Overall Property Value Trend**

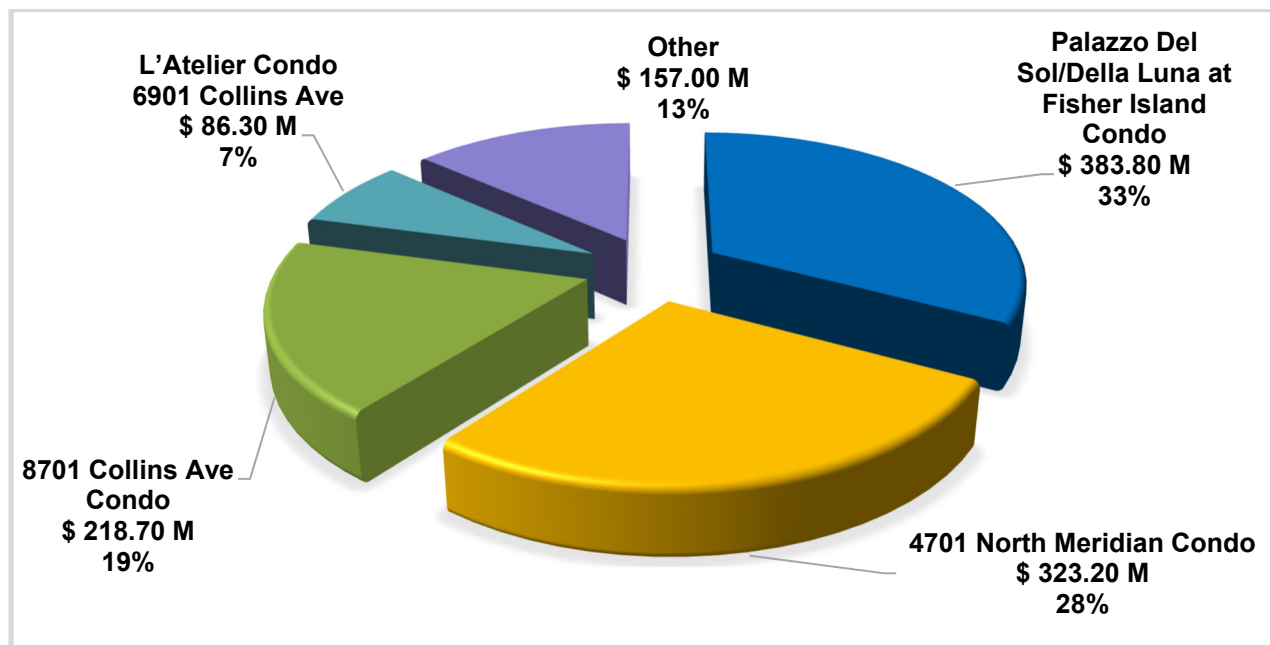


It is important to note that while the City's overall values increased by 3.5 percent, existing property values increased by 0.5 percent. Additionally, of the \$1.2 billion in new construction values, 87 percent was generated by four properties.

**Existing Property Value Trend**



### FY 2020 New Construction Values



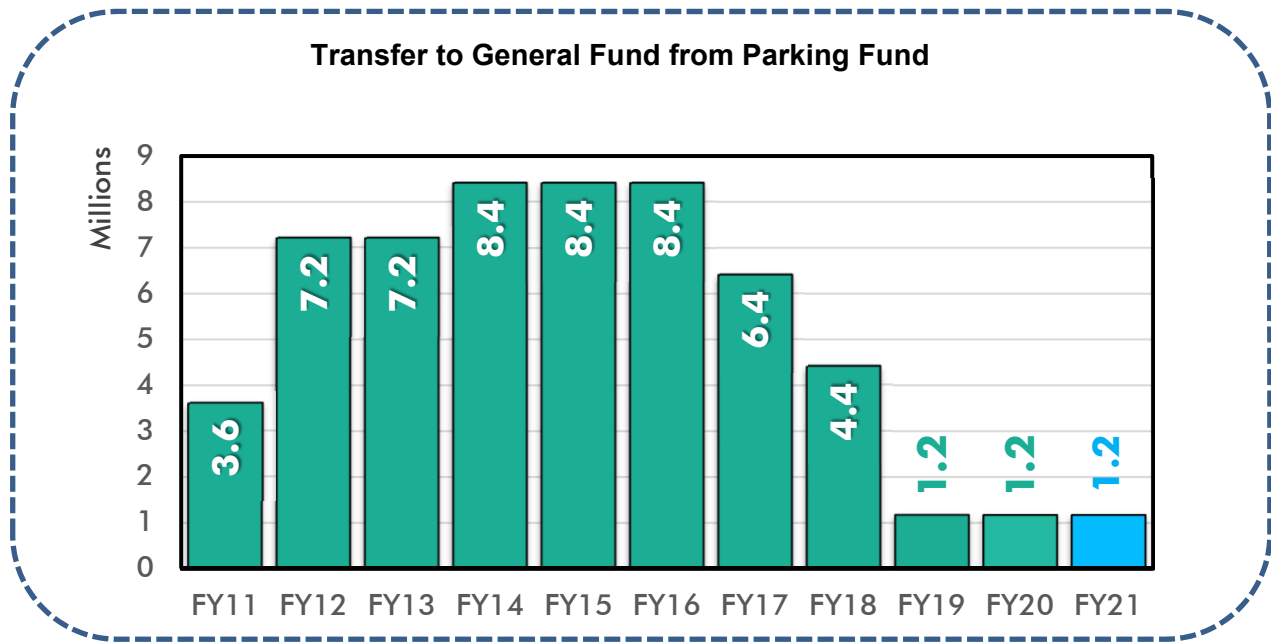
### PRELIMINARY GENERAL FUND BUDGET UPDATE

Based on the 2020 Estimated Taxable Property Values as of June 1, 2020, the overall increase in values to General Fund property tax revenues would result in a preliminary increase of approximately \$5.9 million in property tax revenue citywide. The Preliminary FY 2021 General Fund budget includes the following:

1. \$1.2M reduction in transfer in from Parking Fund
2. \$4.4M use of RDA funds
3. \$3.3M reduction in Pension Debt expenditure
4. \$3.7M reduction (10%) in transfer in from Resort Tax Fund
5. The transfer of Building & Inspector General (OIG) to stand-alone funds
6. Does not include any enhancements or reductions

### PARKING & RDA FUND TRANSFERS TO THE GENERAL FUND

Is it important to note that the Administration's long-term objective has been to reduce the subsidy from the Parking Enterprise Fund to the General Fund in order to reduce the burden on the Parking Enterprise Fund. Consistent with this strategy, and due to the significant reduction in revenues being experienced by the Parking Fund resulting from COVID-19, the Administration recommends the elimination of this \$1.2 million transfer to the General Fund in FY 2021.



Similarly, the Administration’s objective has been to reduce the General Fund’s reliance on the transfer from the City Center Redevelopment Agency (RDA) Fund, which became available through approval of the Fourth Amendment to the Interlocal Agreement between the City of Miami Beach, the Miami Beach Redevelopment Agency, and Miami Dade County. Like the Parking Enterprise Fund, the City’s long-term objective is to reduce the General Fund’s reliance on this one-time source of funding from the RDA, which ends in FY 2024.

**Original Planned use of RDA Funds**

Expenditure	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Replace Parking Fund Transfer to General Fund	\$ 4,414,000	\$ 3,400,000	\$ 2,400,000	\$ 1,400,000	\$0
Replace General Fund Fleet with Cash	1,067,000	2,276,000	3,491,000	4,713,000	\$0
<b>Total</b>	<b>\$5,481,000</b>	<b>\$ 5,676,000</b>	<b>\$ 5,891,000</b>	<b>\$ 6,113,000</b>	<b>\$0</b>

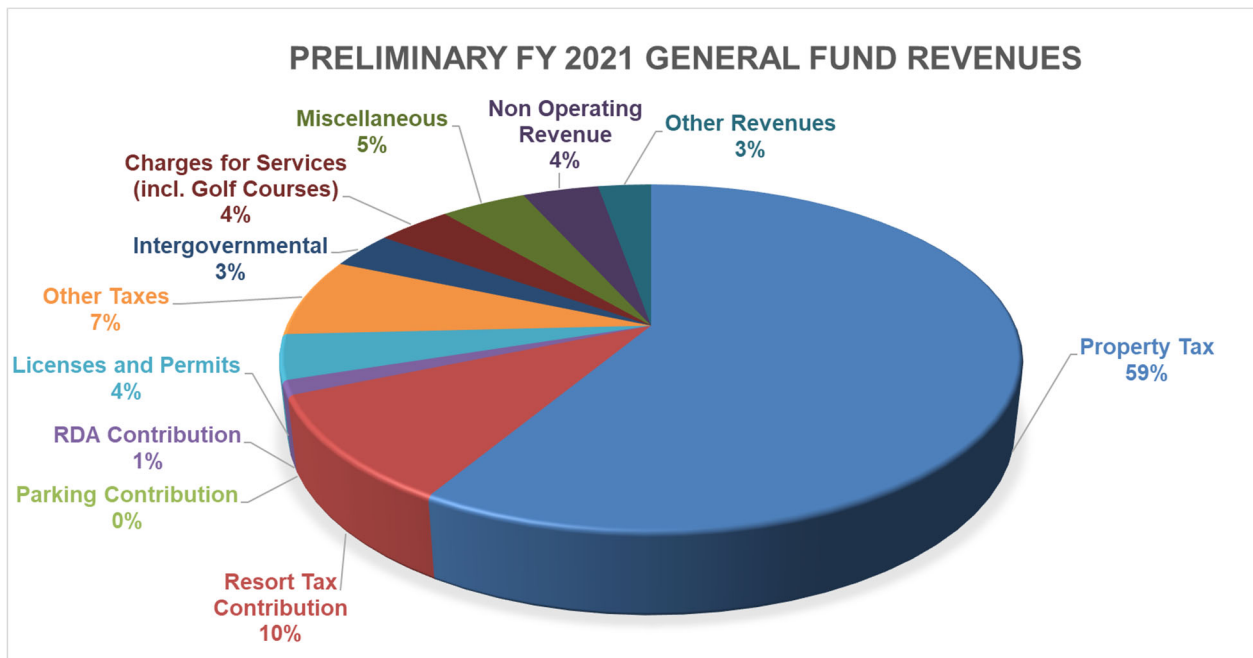
As noted above, the Preliminary FY 2021 General Fund budget includes a \$3.3 million decrease in Pension Debt expenditures, which resulted from the planned retirement of the City’s Pension Debt in FY 2021. Additionally, FY 2022’s budget will recognize an additional \$1.2 million savings,

as there will be no further Pension Debt expenditures. This represents \$4.5 million of recurring savings in the Operating Budget.

In an effort to eliminate the City's reliance on the RDA one-time funds, the Administration recommends offsetting the savings from the Pension Debt against the reduction in transfer from the RDA. This would release the RDA funds for one-time purposes in the budget through FY 2023.

### **GENERAL FUND REVENUES**

Based on the 2020 Estimated Taxable Values as of June 1, 2020 provided by the Miami-Dade County Property Appraiser's Office, the City's overall property values increased 3.5 percent over the 2019 Certified Taxable Values, which resulted in an increase of approximately \$5.9 million in General Fund property tax revenues. For FY 2021, preliminary property tax revenues comprise approximately 59 percent of total General Fund revenues and are a key driver of preliminary revenues as reflected below.

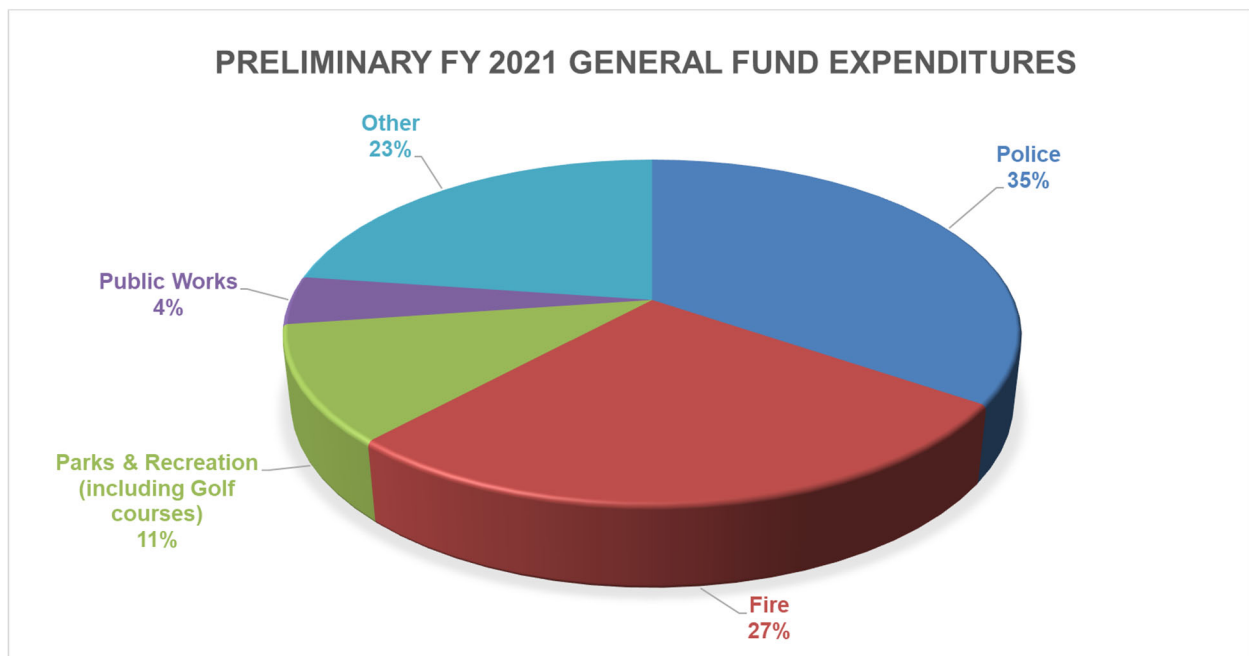


Preliminary FY 2021 revenues are estimated to decrease by \$19.9 million, or 5.7 percent. It is important to note that \$12.7 million, or 64 percent of this reduction is due to the transfer of Building revenues to a stand-alone fund, as recommended by the OIG in FY 2020. The projected revenues also reflect a \$7.9 million reduction in revenues due to COVID-19. The chart below outlines the major variances.

Preliminary FY 2021 General Fund Revenue Variances		\$
Property Tax Revenues (based on 3.5% increase)		5,926,000
One-Time Use of Fund Balance in FY 2020		(2,378,000)
Transfer in from Resort Tax (based on 10% decrease)		(3,676,000)
Transfer in from Parking		(1,166,000)
Administrative Fees (based on 2019 Cost Allocation Study)		444,000
Other Miscellaneous General Fund Revenues		371,000
<b>Sub-Total</b>		<b>(\$479,000)</b>
Transfer of Building to Stand-Alone Fund		(12,673,000)
Insourcing of Flamingo Park Tennis Center		1,104,000
<b>Sub-Total</b>		<b>(\$12,048,000)</b>
COVID-19 Related Revenues		(7,850,000)
<b>Total</b>		<b>(\$19,898,000)</b>

**GENERAL FUND EXPENDITURES**

Preliminary FY 2021 expenditures are estimated to decrease by \$6.1 million, or 1.8 percent. It is important to note that \$15.0 million of this reduction is due to the transfer of Building expenditures and \$704,000 of OIG expenditures to a stand-alone funds. These preliminary expenditure figures do not assume additional savings from potential efficiencies and/or reductions to be considered for FY 2021.



The chart below outlines the major variances.

Preliminary FY 2021 General Fund Expenditure Variances	\$
10% Increase in City's Health Insurance Contribution (Actives & Retirees)	3,320,000
Pension (Police & Fire 58%   MBERP 42%)	1,604,000
5% Step Increase for Police & Fire	1,581,000
Annualized Impacts of Collective Bargaining Agreements	1,527,000
Internal Service Charges	1,073,000
1% COLA for All Groups (except 2% for CWA)	899,000
2% Merit for All Groups Except Police & Fire	718,000
Other Miscellaneous General Fund Expenditures	601,000
<b>Sub-Total</b>	<b>\$11,323,000</b>
Transfer of Building to Stand-Alone Fund	(14,997,000)
One-Time Expenditures in FY 2020	(2,847,000)
Insourcing of Flamingo Park Tennis Center	1,146,000
Transfer of OIG to Stand-Alone Fund	(704,000)
<b>Total</b>	<b>(\$6,079,000)</b>

The overall Preliminary FY 2021 General Fund budget, **without the impact of COVID-19 on revenues reflects a gap of \$6.0 million**. The budget, **inclusive of the COVID-19 impact on revenues reflects a net gap of \$13.8 million**. The Preliminary FY 2021 General Fund budget will be updated again following distribution of the Certified Taxable Values that will be provided by the Miami-Dade County Property Appraiser on July 1, 2020.

Fiscal Year 2021	\$
Total Decrease in Revenues	(\$12,048,000)
Total Decrease in Expenditures	(\$6,079,000)
<b>Surplus / (Gap)</b>	<b>(\$5,969,000)</b>
<b>Decrease in COVID-19 Revenues</b>	<b>(7,850,000)</b>
<b>Revised Surplus / (Gap)</b>	<b>(\$13,819,000)</b>

**RESORT TAX FUND**

The Resort Tax Fund is a Special Revenue Fund that consists of three main components: (1) 2% Resort Tax, (2) 1% Bed Tax for Quality of Life, and (3) 1% dedicated to Resort Tax bond debt service and capital renewal and replacement for the Convention Center. The 2% Resort Tax consists of the 2% Bed Tax and 2% Food & Beverage Tax.

The City of Miami Beach is highly dependent on the tourism and hospitality industry. Due to COVID-19, the City is experiencing dramatic impacts on Resort Tax revenues. We expect these losses to continue over the upcoming months until the COVID-19 emergency is behind us. Since a large portion of the City is a tourist zone or entertainment district, several key programs and services in the General Fund, such as Police and Fire, are funded from a transfer from the Resort Tax Fund which makes up approximately 10% of General Fund revenue.

In order to determine the potential FY 2021 impact to the City’s Resort Tax revenues, the Administration has projected these revenues with Optimistic, Likely, and Conservative scenarios. The value of these projections is that they provide a range of potential impacts that can be used to create plans and inform the development of the FY 2021 budget process. As information improves over time, these projections will continue to be updated. **The Likely scenario projects a revenue loss of \$22.0 million over FY 2019 revenues.** This reduction in revenues would be partially offset by the proposed 10 percent reduction in the transfer to the General Fund.

The chart below summarizes the total gap between the General Fund and Resort Tax Fund Preliminary FY 2021 Budgets. A proposed balanced budget will be presented at the July 17, 2020 FERC meeting.

	NON-COVID-19	COVID-19
General Fund	(\$6.00 million)	(\$13.82 million)
Resort Tax	0	(\$18.30 million)
<b>Total</b>	<b>(\$6.00 million)</b>	<b>(\$32.12 million)</b>

**PROPOSED MILLAGE RATE**

There are two main components to the City’s Total Combined millage rate, which are an Operating millage rate and the Voted Debt Service millage rate. The Operating millage rate, which is comprised of a General, a Renewal and Replacement, and a Pay-As-You-Go (PayGo) component, funds General Fund operating and capital expenditures while the Voted Debt Service millage rate funds debt service for previously issued G.O. bonds.

On November 6, 2018, the City of Miami Beach voters approved the issuance of a \$439 million G.O. Bond to fund a total of 57 capital projects citywide, ranging from vertical construction, roadwork, park constructions and renovations, technology implementation, renewals and repairs,



and underground infrastructure work. The Voted Debt Service millage rate would provide funding for the debt service of the first tranche of the G.O. Bond program through the assessment, levy, and collection of ad-valorem tax on all property with the City and the full faith, credit, and taxing power of the City pledged to the payment of the principal and interest of the bonds issued as part of the G.O. Bond approved by the voters.

Based on the 2020 Estimated Taxable Property Values as of June 1, 2020 provided by the Miami-Dade Property Appraiser’s Office, the total required debt service payment is projected to be \$12.8 million, which requires the levy of a Voted Debt Service millage rate of 0.3247 mills. The FY 2021 Voted Debt Service millage rate is 0.0314 mills more than the FY 2020 Voted Debt Service millage rate of 0.2933. The required \$12.8 million payment for FY 2021 is comprised of remaining debt service required for the City’s 2011 G.O. Bonds of \$2.3 million, plus \$10.5 million attributed to the new G.O. Bond Program that was approved by the voters on November 6, 2018. This millage rate calculation will be updated following the distribution of the Certified Taxable Values provided by the Miami-Dade County Property Appraiser on July 1, 2020.

Millage Rate	FY 2020 Adopted	FY 2021 Preliminary	Increase/(Dec)
General	5.6298	5.6298	0.0000
Capital Renewal & Replacement	0.0235	0.0235	0.0000
Pay-As-You-Go (PayGO)	0.0755	0.0755	0.0000
<b>Total General Operating Millage</b>	<b>5.7288</b>	<b>5.7288</b>	<b>0.0000</b>
Debt Service	0.2933	0.3247	0.0314
<b>Total Combined Millage</b>	<b>6.0221</b>	<b>0.0535</b>	<b>0.0314</b>

At the July 29, 2020 Commission meeting, the Mayor and City Commission will set the proposed millage rate for the FY 2021 budget process in accordance with the State of Florida’s Truth-in-Millage (TRIM) requirements.

By August 4, 2020 the City Manager will certify the proposed millage rate to the Miami-Dade County Property Appraiser. The proposed millage rate will be included in the TRIM notices that will be mailed by the Property Appraiser by August 24, 2020. The purpose of the TRIM notice is to notify property owners of how much their property taxes could potentially increase or decrease and which governmental entity is responsible for the taxes levied.

As such, the proposed millage rate effectively sets the “ceiling” for the millage rate during the budget process because it cannot be increased without sending out a new TRIM notice to all property owners in Miami Beach. However, the millage rate can remain the same or be decreased throughout the remainder of the budget process until the final millage rates are adopted by the

Mayor and City Commission at the second public hearing to be held on September 29, 2020 at 5:01 p.m.

### **CONCLUSION**

The Preliminary FY 2021 General Fund budget based on the 2020 Estimated Taxable Values as of June 1, 2020 provided by the Miami-Dade County Property Appraiser's Office reflects a revenue decrease of \$19.9 million, or 5.7 percent, and expenditure decrease of \$6.1 million, or 1.8 percent.

The overall Preliminary FY 2021 General Fund budget, without the impact of COVID-19 on revenues reflects a gap of \$6.0 million. The budget, inclusive of the COVID-19 impact on revenues reflects a net gap of \$13.8 million. The Resort Tax Fund budget reflects a \$22.0 million decrease in revenues (offset by a \$3.7 million reduction in transfer to the General Fund), for a combined total gap of \$32.12 million.

The Preliminary FY 2021 General Fund budget will be updated following distribution of the Certified Taxable Values provided by the Miami-Dade County Property Appraiser on July 1, 2020. Recommendations regarding balancing of the Preliminary FY 2021 General Fund budget, including revenue and expenditure refinements and reductions/efficiencies, will be discussed at the upcoming July 17, 2020 and July 24, 2020 FERC budget briefings.

At the July 29, 2020 Commission meeting, the Mayor and City Commission will set the proposed millage rate for the FY 2021 budget process in accordance with the State of Florida's Truth-in-Millage (TRIM) requirements.

In September, two public hearings will be held per the State of Florida's TRIM requirements. The first public hearing scheduled on September 16, 2020 will be to adopt the tentative millage rates and budgets for FY 2021. The second public hearing scheduled on September 29, 2020 will be to adopt the final millage rates and budgets for FY 2021. Both public hearings, which will begin at 5:01 p.m., will be held in the City's Commission Chambers at 1700 Convention Drive, 3<sup>rd</sup> Floor, Miami Beach, Florida 33139.

JLM/JW/TOS