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COMMITTEE MEMORANDUM

TO: Finance and Economic Resiliency Committee Members

FROM: Rickelle Williams, Interim City Manager

DATE: June 21, 2024

SUBJECT: Fiscal Year 2025 Preliminary Operating Budget and Millage Rate Update

The preliminary budget for the City of Miami Beach represents the cost of providing the same level of services as in the prior year and serves as the baseline of funding for the annual budget development process.

The General Fund is the primary source of funding for many City services that are provided such as Police and Fire, as well as Parks and Recreation, Public Works, Code Compliance, among other services. Revenues that fund the various City services in the General Fund are comprised of ad valorem property taxes, franchise and utility taxes, business license and permit fees, revenue sharing from various statewide taxes, intergovernmental revenues from Miami-Dade County, user fees for services, fines, rents and concession fees, and interest income. Additionally, the City's 2% Resort Tax Fund contributes funding annually for tourism-related services provided by General Fund departments.

PROPERTY VALUES

On May 31, 2024, the City received the 2024 Estimated Taxable Values from the Miami-Dade County Property Appraiser indicating that the overall taxable values for the City of Miami Beach increased approximately $4.5 billion, or 8.8%, from the 2023 Certified Taxable Value of $51.6 billion to the 2024 Estimated Taxable Value of $56.1 billion.

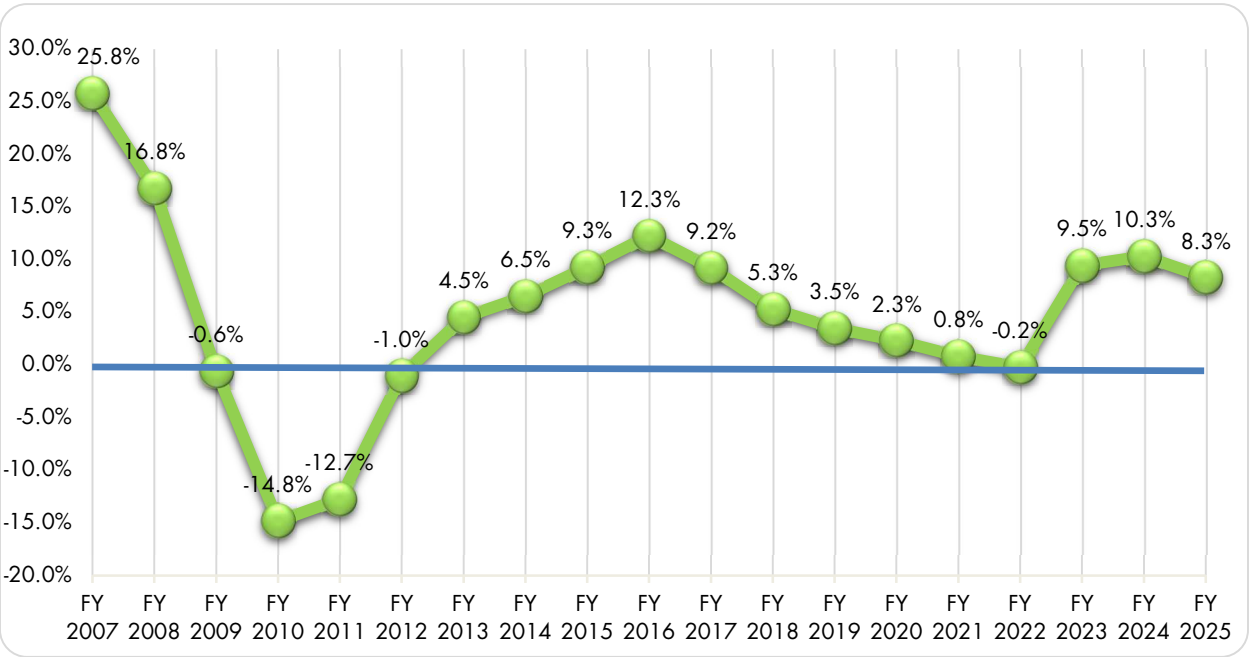
Note, while the City's overall preliminary taxable values did increase by $4.5 billion, of 8.8%, compared to the prior year, overall taxable property values within the City since FY 2023 have been increasing at a diminishing rate, as depicted in the property value trend chart below.

Overall Property Value Trend



The estimated overall increase in values of $4.5 billion, or 8.8%, is comprised of a $4.3 billion, or 8.3%, increase in existing property values and a $0.2 billion increase in new construction values.

Existing Property Value Trend



New Construction Value Trend



PRELIMINARY GENERAL FUND BUDGET

At the Fiscal Year (FY) 2025 Commission Budget Retreat on May 20, 2024, the Mayor and City Commission were briefed regarding the Preliminary FY 2025 General Fund budget.

As a reminder, the Preliminary FY 2025 General Fund budget assumes the following:

1. No change in the General Operating millage rate (excludes voted debt service millage)
2. Does not include any enhancements or reductions unless approved during FY 2024
3. Assumes 10% increase in City premiums for health and life insurance (actives and retirees)
4. Includes 5% step increase for Police and Fire and average 0-3% merit for all others
5. Does not include any cost-of-living adjustments and/or changes in pays/benefits that may result from the ongoing collective bargaining negotiations

General Fund	FY 2025 Budget Retreat
Revenues	$431,243,000
Expenditures	437,783,000
Surplus/(Gap)	**($6,540,000)**

Based on the 2024 Estimated Taxable Property Values received on May 31, 2024, the overall increase in property values would result in a preliminary estimated increase of approximately $21.7 million in General Fund property tax revenues, which is comprised of $21.1 million for operating purposes, $0.4 million for Pay-As-You-Go (PayGo) capital funding, and $0.2 million for Capital Renewal & Replacement (CRR) funding.

It is important to note that the impact of the overall change in the City's property values on General Fund property tax revenues, specifically, will be affected by the changes in property values that occurred within the boundaries of the City's two existing redevelopment areas, which are the City Center Redevelopment Area and the North Beach Community Redevelopment Area, compared to the changes outside of these two areas. As a result, these values may vary from the 8.8% increase in the City's property values overall. The breakdown is still pending since the City does not receive the City Center Redevelopment Area and the North Beach Community Redevelopment Area property values until the certified values are provided by the Miami-Dade County Property Appraiser on July 1, 2024.

General Fund	FY 2025 Budget Retreat	FY 2025 Based on June 1st Values	$ Change
Revenues	$431,243,000	$452,958,000	$21,715,000
Expenditures	437,783,000	438,351,000	568,000
Surplus/(Gap)	**($6,540,000)**	**$14,607,000**	**$21,147,000**

The Preliminary FY 2025 General Fund budget will be updated again following distribution of the 2024 Certified Taxable Values that will be provided by the Miami-Dade County Property Appraiser on July 1, 2024. In addition, recommendations regarding balancing of the General Fund budget for FY 2025, including revenue and/or expenditure refinements, as well as expenditure enhancements and/or efficiencies and reductions, will be discussed at the upcoming Finance and Economic Resiliency Committee (FERC) Budget Briefings currently scheduled on July 12, 2024 and July 19, 2024.

PRELIMINARY RESORT TAX BUDGET

The Resort Tax Fund is a Special Revenue Fund that consists of three main components: (1) a 2% Resort Tax comprised of a 2% Bed Tax and 2% Food & Beverage Tax; (2) a 1% Bed Tax for Quality of Life (QOL) capital projects, transportation initiatives, and arts and culture; and (3) a 1% Bed Tax dedicated to the repayment of outstanding debt service for Resort Tax bonds issued as part of the most recent Convention Center renovation and expansion project, as well as funding for renewal and replacement of Convention Center assets.

At the FY 2025 Commission Budget Retreat on May 20, 2024, the Mayor and City Commission were also briefed regarding the Preliminary FY 2025 2% Resort Tax budget. Based on actual 2% Resort Tax collections as of March 2024, which assume FY 2025 Resort Tax collections to remain flat over FY 2024 projections and the offsetting expenditure adjustments that were presented at the May 20, 2024 Commission Budget Retreat, the Preliminary FY 2025 2% Resort Tax budget is currently balanced.

	FY 2025 2% Resort Tax
2% Revenues	$75,615,000
2% Expenditures	75,615,000
Surplus/(Gap)	**$-**

Revenue and expenditure refinements, as well as expenditure enhancements and/or efficiencies and reductions to be considered and recommended as part of the FY 2025 2% Resort Tax budget will be discussed at the upcoming FERC Budget Briefings currently scheduled on July 12, 2024 and July 19, 2024.

PRELIMINARY MILLAGE RATES

There are two (2) main components to the City's Total Combined millage rate, which are the General Operating millage rate and the voted debt service millage rate. The General Operating millage rate, which is comprised of a General, Capital Renewal and Replacement (CRR), and Capital Pay-As-You-Go (PayGo) millage, funds General Fund operating and capital expenditures, while the voted debt service millage rate funds the annual debt service for outstanding General Obligation (G.O.) bonds.

The General Operating millage rate for FY 2025 of 5.8155 mills provides funding to offset increases in personnel costs, such as the annual required pension contributions, a five (5) percent (%) step increase for all Fraternal Order of Police (FOP) and International Association of Fire Fighters (IAFF) positions, a 0-3% performance-based merit increase for all non-FOP and IAFF positions, an increase in the City's health insurance premiums for active employees and retirees, as well as increases in other General Fund operating expenditures and dedicated funding for General Fund capital projects.

The voted debt service millage rate provides funding for the annual debt service totaling approximately $16.3 million for the first tranche (Series 2019) of the G.O. Bond Program that was approved by the voters on November 6, 2018 and the annual debt service for the first tranche (Series 2023A&B) of the Arts and Culture G.O. Bond that was approved by the voters on November 8, 2022, through the assessment, levy, and collection of ad-valorem tax on all property within the City.

Based on the 2024 Estimated Taxable Property Values, the required FY 2025 debt service payments totaling approximately $16.3 million requires the levy of a voted debt service millage rate of 0.3058 mills. The voted debt service millage rate for FY 2025 is 0.0268 mills less than the adopted FY 2024 voted debt service millage rate of 0.3326 mills.

Unfunded Capital Needs

The City's Preliminary FY 2025-2029 Capital Improvement Plan (CIP) reflects approximately $1.2 billion of unfunded capital project needs over the next five (5) years. Based on the current dedicated CRR millage rate of 0.0499 mills and 2024 Estimated Taxable Property Values, which is estimated to generate approximately $2.4 million in FY 2025, **the unfunded FY 2025 CRR projects total approximately $5.3 million**. In addition, based on the current dedicated PayGo

millage rate of 0.1020 mills and 2024 Estimated Taxable Property Values, which is estimated to generate approximately $4.8 million in FY 2025, **the unfunded FY 2025 PayGo projects total approximately $22.1 million**.

As a result, and in an effort to meet the City Commission's goal of funding 5% of the annual General Fund operating budget for capital needs in accordance with Resolution No. 2006-26341, the Administration recommends the following as part of the FY 2025 General Fund budget:

1. Dedicated CRR Millage Adjustment
   Realign the required voted debt service millage rate reduction in FY 2025 of 0.0268 mills to the dedicated CRR millage rate. This would result in an estimated additional increase in dedicated CRR funding of approximately $1.3 million in FY 2025.

2. General Fund Interest Income for Capital Projects
   Allocate 25%, or approximately $2.0 million, of the total projected FY 2025 interest income in the General Fund for one-time capital expenditures. Using General Fund interest income for one-time expenditures is a prudent financial strategy for local governments, particularly given the volatility of interest rates. Interest rates can fluctuate significantly due to economic conditions, monetary policy, and market forces. Relying on interest income for recurring expenditures is risky, as a decline in rates could lead to a shortfall in expected revenues and cause an unexpected deficit. By using interest income for one-time expenditures, the City would avoid creating budget gaps, if interest income decreases.

If these recommendations are approved, the Total Combined millage rate for FY 2025 would remain flat at 6.1481 mills, as summarized in the table below.

In addition, this would move the budget closer to the City Commission's goal of funding 5% of the annual General Fund operating budget for capital needs, **from approximately $11.3 million, or 2.6%, to $14.6 million, or 3.3%,** of the Preliminary FY 2025 General Fund budget. With these additional capital dollars, the Administration would recommend funding the most critical unfunded capital projects to extend the useful life of City facilities.

The recommended millage rates summarized below will be updated again following the distribution of the Certified Taxable Values that will be provided by the Miami-Dade County Property Appraiser on July 1, 2024.

	FY 2024 Adopted	FY 2025 Preliminary	Inc / (Dec)
General	5.6636	5.6636	0.0000
Capital Renewal & Replacement (CRR)	0.0499	0.0767	0.0268
Capital Pay-As-You-Go (PayGo)	0.1020	0.1020	0.0000
Total General Operating Millage	**5.8155**	**5.8423**	**0.0268**
Voted Debt Service	0.3326	0.3058	(0.0268)
Total Combined Millage	**6.1481**	**6.1481**	**0.0000**

TRUTH-IN-MILLAGE PROCESS

At the July 24, 2024 City Commission meeting, the Mayor and City Commission will set the proposed millage rates for the FY 2025 budget process in accordance with the State of Florida's Truth-in-Millage (TRIM) requirements.

By August 4, 2024, taxing authorities are required to certify the proposed millage rates to the Miami-Dade County Property Appraiser. The proposed millage rates will be included in the TRIM notices that will be mailed by the Property Appraiser by August 24, 2024. 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.

The proposed millage rates effectively set the "ceiling" for the millage rates during the budget process because they cannot be increased without sending out a new TRIM notice to all property owners in Miami Beach. However, the millage rates can remain the same or be decreased throughout the remainder of the FY 2025 budget process until the final millage rates are adopted by the Mayor and City Commission at the second public hearing currently scheduled to be held on September 25, 2024, at 5:01 p.m.

CONCLUSION

The Preliminary FY 2025 General Fund budget will be updated again following the distribution of the Certified Taxable Values that will be provided by the Miami-Dade County Property Appraiser on July 1, 2024. Recommendations regarding balancing of the FY 2025 budgets, including revenue and expenditure refinements, as well as expenditure enhancements and/or efficiencies and reductions, will be discussed at the upcoming FERC Budget Briefings currently scheduled on July 12, 2024 and July 19, 2024.

At the July 24, 2024 City Commission meeting, the Mayor and City Commission will set the proposed millage rates for the FY 2025 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 currently scheduled on September 16, 2024 will be to adopt the tentative millage rates and budgets for FY 2025. The second public hearing currently scheduled on September 25, 2024 will be to adopt the final millage rates and budgets for FY 2025, including the final budgets for the City Center Redevelopment Area and North Beach Redevelopment Area. Both public hearings, which will begin at 5:01 p.m., will be held in the City's Commission Chambers at 1700 Convention Drive, 3rd Floor, Miami Beach, Florida 33139.

RW/JDG/TOS/RA