

COMMITTEE MEMORANDUM

TO: Members of the Finance & City Wide Projects Committee

FROM: Jimmy L. Morales, City Manager

DATE: October 26, 2018

SUBJECT: DISCUSSION REGARDING RECOMMENDATIONS OF THE BLUE RIBBON
EMERGENCY RESPONSE COMMITTEE – REVISED RESORT TAX RESERVE POLICY

Background

At the May 18, 2018 Finance & Citywide Projects Committee, the recommendations of the Mayor's Blue Ribbon Emergency Response Committee were discussed. This Committee was created to make recommendations to the Mayor and City Commission regarding proactive measures and response plans to address any emergencies in the City and to protect and enhance the Miami Beach brand. Of the five recommendations, two involved the Resort Tax Fund:

- The Committee recommends that sufficient funds from the RDA be released into the resort tax reserve in order to fund the Commission policy of a three-month goal. Currently the resort tax reserve has \$11.2 million, which is equal to two months and seven days. The amount necessary for the three-month goal is \$14.9 million (one month equals \$4.9 million). The additional amount to meet the three month goal is \$3.7 million.
- The Committee recommends that a referral be made to the Finance & Citywide Projects Committee to examine what the triggers to use reserve tax dollars should be set and discuss what else can be done to maximize return of resort tax dollars.

The Finance Committee directed staff to come back to a future meeting with a revised Resort Tax Reserve Policy.

Analysis

Resort Taxes are a relatively volatile funding source as tourism is vulnerable to sudden changes in economic conditions. In addition, the Resort Tax Fund currently transfers \$35.8 million to the General Fund to cover eligible tourism-related expenditures. This increases the risk factor as any significant negative impacts to resort tax revenues will impact programs and services in both the Resort Tax Fund as well as the General Fund. It is prudent and fiscally responsible to maintain a sufficient reserve to insure against fluctuations in cash flow.

The Government Finance Officers Association (GFOA) recommends a minimal reserve policy of two months of operating expenses or two months of total revenues. The GFOA recommends that in establishing a policy governing the appropriate level of reserves, a government should consider a variety of factors including:

EMERGENCY RESPONSE COMMITTEE – REVISED RESORT TAX RESERVE POLICY

Page 2

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of reserves may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile)
- The fund's perceived exposure significant one-time outlays (e.g., disasters, immediate capital needs, etc.)
- The potential drain upon general fund resources from other funds as well as the availability of resources in other funds

The current Resort Tax Reserve Policy was adopted in 2014 and developed through recommendations from the Budget Advisory Committee and Finance & Citywide Projects. The Budget Advisory Committee recently reviewed the existing policy at their September 11, 2018 and October 9, 2018 meetings and made a formal motion via an LTC on October 22, 2018 that recommends changes to the policy as shown below.

The objective of the proposed changes to the policy are to increase the goal of a minimum reserve from three months to six months and create a moving floor where the minimum reserve increases over time until it reaches six months. The amount of reserve in the minimum reserve is subject to an emergency provision and five-sevenths vote by Commission. These changes address the concerns of the Mayor's Blue Ribbon Emergency Response Committee.

REVISED RESORT TAX FUND RESERVE POLICY

1. The City of Miami Beach shall maintain a minimum reserve in the Resort Tax Fund (Fund 160) of two months of total revenue of the 2% resort tax and shall have a goal of maintaining a minimum reserve equal to ~~three~~ six months of total revenue of the 2% resort tax.
2. Said goal of ~~three~~ six months of total revenue of the 2% resort tax shall be established within the timeframe of ten years effective as of October 1, ~~2014~~ 2019.
3. A permanent contingency reserve is hereby established in an amount not less than two months of total revenue of the 2% resort tax in the Resort Tax Fund to be held for use in a public emergency if and when an emergency affecting life, health, property, public safety, or a significant economic impact on resort tax collections, and the expenditure of such funds is authorized by a five-sevenths (5/7) vote of the City Commission.
4. Said contingency reserve shall be increased or decreased annually, but shall be maintained at a minimum amount of two months of total revenue of the 2% resort tax of the then existing Resort Tax Fund Budget.
5. As the reserve level increases over time to meet the six month goal, the minimum required 2% Resort Tax reserve will increase above the initial two months, as a moving floor, beginning an attainment of the remaining target. For example, once the reserve attains the four month target at the end of a fiscal year, the minimum reserve would increase to three months and so on, until the six month minimum reserve is achieved.
6. Prior to any expenditures from this reserve, the Mayor and City Commission must declare an emergency affecting life, health, property, public safety, or a significant economic impact on resort tax collections, and authorize said expenditures by a five-sevenths (5/7) vote. The Administration is directed to restore the reserve to its aforementioned level in an amount of not less than five hundred thousand dollars (\$500,000) annually, by an amendment to the Adopted Resort Tax Fund Budget.

Conclusion

Staff is seeking direction from the Finance & Citywide Projects Committee regarding the recommended changes from the Budget Advisory Committee to the existing Resort Tax Reserve Policy to address concerns from the Mayor's Blue Ribbon Emergency Response Committee. The proposed changes to the reserve policy for the Resort Tax Fund addresses the volatility of this key funding source to minimize potential future negative impacts from unforeseen events. The policy would help ensure continuity of operations in both the Resort Tax Fund and the General Fund and maintain or improve the City's credit ratings.

JLM/JW