

Fiscal Year 2025
Budget Guidance & Assumptions
City of Marco Island
May 20, 2024

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FY 2025 General Budget Planning

This overview and general budget planning document consist of three (3) Sections which are Discussion on Budget Assumptions, Budget Planning and Historical Review, and a Section on current Financial Policies and Practices.

1. Discussion FY 2025 Budget Assumptions

The 2024 State Ad Valorem Estimating Conference Report, issued by the State Office of Economic and Demographic Research (EDR), has been released for the 2024 tax year, fiscal year 2025. Provided in this report are the changes in value for the following:

ESTIMATED HOMESTEAD VALUE CHANGE: 3.6%

ESTIMATED NON-HOMESTEAD RESIDENTIAL VALUE CHANGE: 3.4%

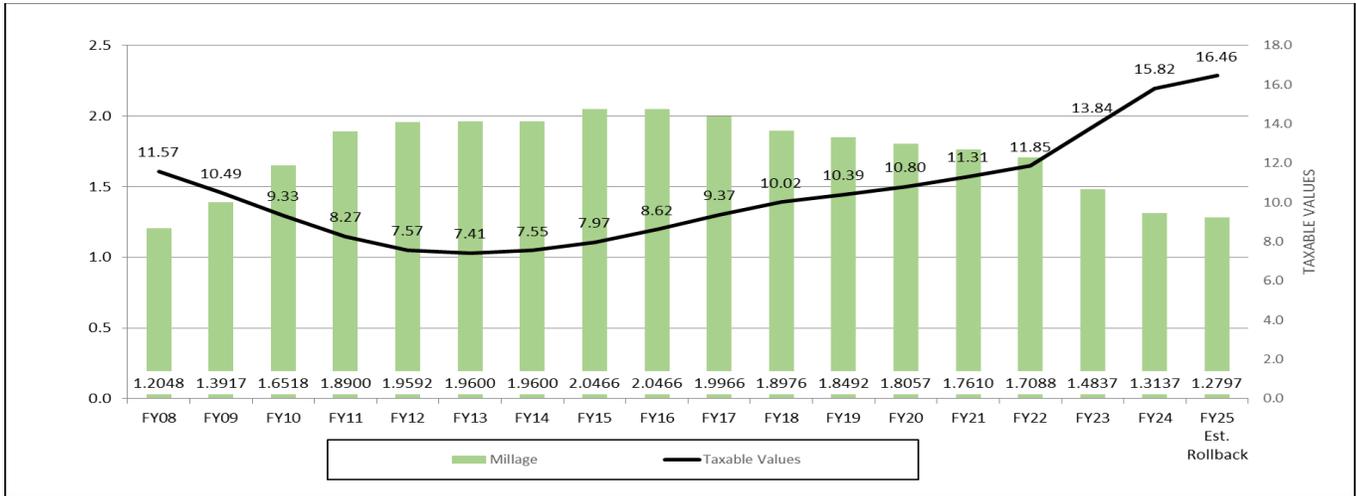
ESTIMATED NON-HOMESTEAD NON-RESIDENTIAL VALUE CHANGE: 2.4%

The report projects that Collier County certified taxable values on July 1, 2024 will increase by an overall 3.13%.

The following table provides a history of Citywide taxable values from tax year 2008 to 2024, as well as the budget estimates for tax year 2024, or fiscal year 2025 at an estimated 3.13% increase, the average of the three percentage increases delineated above. We recognize that taxable values lag current market conditions and assume that the upward trend in property values will continue to rise in the short to midterm.

Tax Year	New Const. Values	New Const. % inc. (-dec)	Gross Taxable Values	Gross Taxable % inc. (dec)
2008 (FY09)	\$ 70,019,776	-73.8%	\$ 10,486,293,910	-9.4%
2009 (FY10)	\$ 44,076,455	-37.1%	\$ 9,326,970,565	-11.1%
2010 (FY11)	\$ 58,592,551	32.9%	\$ 8,271,255,049	-11.3%
2011 (FY12)	\$ 22,180,879	-62.1%	\$ 7,567,995,115	-8.5%
2012 (FY13)	\$ 34,438,100	55.3%	\$ 7,411,207,873	-2.1%
2013 (FY14)	\$ 32,134,788	-6.7%	\$ 7,548,486,093	1.9%
2014 (FY15)	\$ 45,616,082	42.0%	\$ 7,970,552,473	5.6%
2015 (FY16)	\$ 76,803,634	68.4%	\$ 8,619,964,889	8.1%
2016 (FY17)	\$ 101,901,170	32.7%	\$ 9,365,873,073	8.7%
2017 (FY18)	\$ 155,510,205	52.6%	\$ 10,016,071,149	6.9%
2018 (FY19)	\$ 114,321,227	-26.5%	\$ 10,392,204,781	3.8%
2019 (FY20)	\$ 190,156,180	66.3%	\$ 10,799,221,384	3.9%
2020 (FY21)	\$ 99,720,820	-47.6%	\$ 11,313,580,784	4.8%
2021 (FY22)	\$ 159,693,318	60.1%	\$ 11,848,619,361	4.8%
2022 (FY23)	\$ 191,432,139	19.9%	\$ 13,841,831,718	16.8%
2023 (FY24)	\$ 210,744,905	10.09%	\$ 15,818,313,320	14.28%
2024 (FY25)	\$ 217,341,221	3.13%	\$ 16,313,426,527	3.13%

Budget planning around a 3.13% taxable value increase is conservative and reasonable. Any positive difference in taxable value can be used to strengthen the City’s General Fund reserves and/or be applied to recurring/new programs, services, and initiatives as directed by Council.



The following table depicts taxable values and levies at the rolled-back rate planning scenario. Under a rolled-back tax rate policy the General Fund Ad Valorem Revenue is estimated to be an additional \$165,008 at the 3.13% estimated taxable value increase.

	FY24 Taxable Value	Revenue @ 96.5%/96% Collection Rate	Rolled-back Estimate	Estimated +Inc/(dec) over FY 2024
FY2024 Actual	\$ 15,818,313,320	\$ 20,053,200		
FY2025 @ 3.13%* <i>*EDR/City Estimate</i>	\$ 16,313,426,527	\$ 20,218,208	1.2910	\$ 165,008

At the rolled-back rate if non-homesteaded taxable values fall below the 3.13% planning scenario the budget will be reduced accordingly. Conversely if values exceed the planning benchmark, additional ad valorem dollars can be used to increase reserves and/or applied to programs, projects, and services as directed by Council. Council may also adjust the millage rate further down.

An increasing taxable value base provides the City with those important additional ad valorem dollars necessary to maintain our assets, invest in our personnel, and provide services to those who live and visit Marco Island.

The tables below provide additional emphasis on significant revenue and expense estimates for fiscal year 2025.

FY 2025 Significant Revenue Figures & Assumptions:

	+ Increase / (Decrease) in revenue		
	General Fund	Bldg Svcs	Water Sewer
Revenue Estimates			
<u>Ad Valorem Tax Revenue</u>	165,008	-	-
<ul style="list-style-type: none"> • At rollback; estimating 3.13% increase in total taxable values, with additional revenues primarily driven by new construction. 			
<u>Activity Based Tax Revenue</u>	400,000	-	-
<ul style="list-style-type: none"> • Increase from activities based taxes, i.e. half-cent sales tax, fuel tax, state shared revenues. 			
<u>Interest Revenue</u>	600,000	-	-
<ul style="list-style-type: none"> • From increase in the fed funds rate. 			
<u>Total Estimated Revenues</u>	<u>1,165,008</u>	<u>-</u>	<u>-</u>

FY 2025 Significant Expenditure Figures & Assumptions:

	+ Increase / (Decrease) in expense		
	General Fund	Bldg Svcs	Water Sewer
Expenditure Estimates			
<u>Wages</u>	859,025	114,868	313,004
<ul style="list-style-type: none"> • \$366,004 increase for Police at 10%, \$252,414 for Fire at 5%, and \$240,607 for General Fund Non-Bargaining Employees at 3%. Building and W&W are also at 3%. 			
<u>Retirement</u>	282,560	5,084	20,444
<ul style="list-style-type: none"> • \$161,963 increase for Police at 10% wage increase and 5.8% contribution rate increase, \$106,201 for Fire at 5% wage increase, and \$14,396 for General Fund Non-Bargaining Employees at 3% wage increase. Building and W&W are also at 3%. 			
<u>Health, Life, Dental Insurance</u>	462,779	77,837	210,869
<ul style="list-style-type: none"> • Anticipating an 19.2% increase in medical premiums due to our current loss claims ratios. We will know more in July. 			
<u>Fuel Costs</u>	28,845	1,327	21,879
<ul style="list-style-type: none"> • Estimating a 10% rise in fuel costs resulting in a \$52k increase for the City. 			
<u>Property & Liability Insurance</u>	130,983	9,342	243,253
<ul style="list-style-type: none"> • Anticipating a 20% increase in renewals due the losses experienced by carriers nationwide as well as an increase to the value of the City's facilities and infrastructure. 			
<u>Debt Obligations for operating funds</u>	-	-	-
<u>Total Estimated Expenditures</u>	<u>1,764,191</u>	<u>208,458</u>	<u>809,449</u>

FY 2025 Significant Topics of Focus:

- City staff compensation (3%) & Bargaining Unit Union negotiations (10% for Police and 5% for Fire)
- Continual monitoring of Health Insurance claims ratios as they affect the City's rates.
 - At our first meeting on April 10th with the Gehring Group to go over historical claims and projections we received the good news that we should expect a rate increase of less than 19.2% based on our most recent claims ratios.
- Property and Liability insurance will be put out to bid this year as we had a 45% increase last year and expect a 20% increase this year.

2. General Budget Planning & History

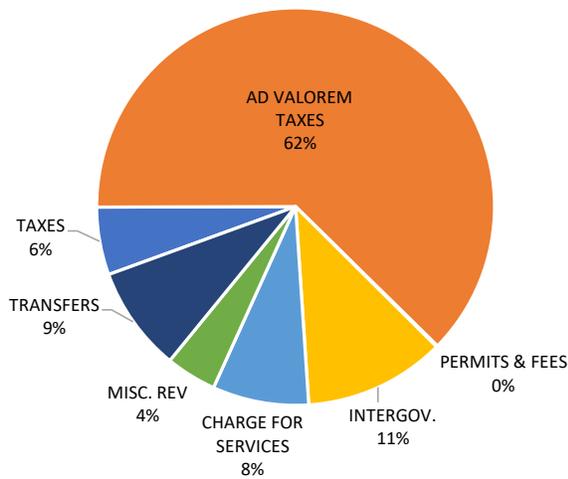
The FY 2025 budget plan will allocate funding for recurring operational expenses albeit limited and continue funding for replacement and maintenance of capital infrastructure. Capital and operational funding for new initiatives continue to compete for limited resources which always is a pressure point as appropriation decisions are made for the General Fund (001). That said, the budget document is to remain flexible to allow policy setters to prioritize funding from the planning phases, through the adoption of the budget, and the final re-appropriation. A key component of the budget management process and widely recognized by financial rating agencies.

The budget as a flexible financial planning document will be subject to many changes with several financial variables yet to be determined for FY25, including;

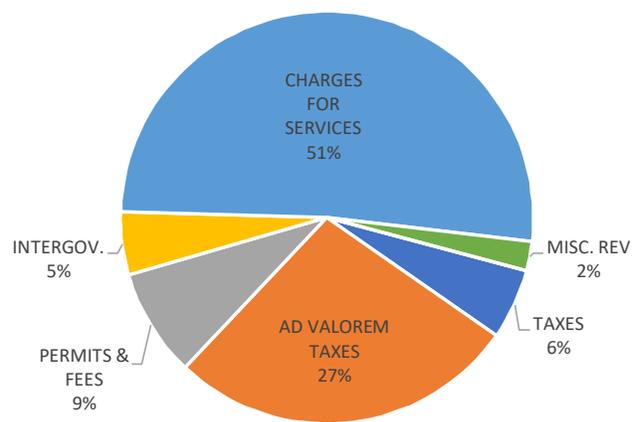
- Operating and Capital initiatives.
- Council's goals and objectives.
- Economic impacts from high inflation
- Changes in Federal and State policy and regulations.

Each fiscal year based upon fiscally conservative budgetary guidance, limited resources are allocated to competing services, programs, and capital initiatives. Within the pyramid of service and program delivery, significant resources have and will continue to be devoted to public safety, public health, debt management and replacement of critical infrastructure and equipment. Property (ad valorem) taxes will once again be the primary funding source to the City's budgetary revenue mix which for FY 2024 comprise about 62% of total General Fund recurring annual operating revenue. Approximately 68% of General Fund revenue is comprised of tax revenues including but not limited to property taxes, fuel tax, communication service tax, sales and business taxes. Charges for Services, Intergovernmental Revenues, Fines and Other Sources make up the remaining 32%.

FY 2024 General Fund Revenue Sources



FY 2024 City Wide Operating Revenue Sources



Significant attention is paid to ad valorem taxes and those factors that influence millage rate and tax levy decisions. The decision to develop the FY 2025 budget around the rolled-back rate, millage neutral rate, or other rate is a key decision made by City Council and this decision will determine the level and extent of operational and capital funding.

Revenue Centric Budgets

It is generally recognized that all budgets and expense disbursements regardless of fund or activity are revenue and cash dependent. This concept establishes that enterprise funds, internal service funds, and certain special revenue funds which rely solely on fee for service income with zero reliance upon ad valorem revenue should be allowed to establish budgets and conduct operations within revenue centric guidelines dictated by cash on hand and anticipated receipts. For FY 2025, the following budget priorities must be satisfied for enterprise and special revenue operations;

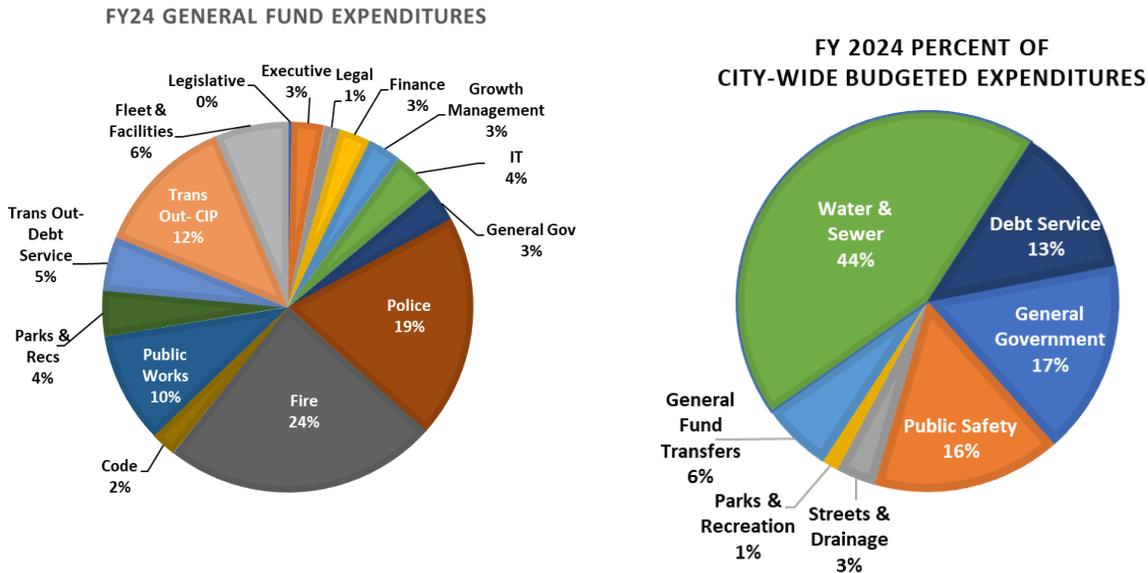
- Working capital guidelines established through policy debt obligations or best practices.
- Capital obligations from the capital improvement element and debt covenants.
- Priority of city-wide initiatives.
- Any statutory mandates or ordinance spending restrictions.

This concept also presumes continual monitoring of cash reserves and receipts and, if necessary, subsequent operational adjustments dictated by cash flow.

Certain cost centers or functions have a net cost to the General Fund (001). In these instances where fee for services offset the ad valorem impact, then the budget reduction guidance should account for this positive impact upon the net cost to the General Fund (001). Under this revenue centric approach, departments will be monitored for service projections and any negative fee variances will be addressed through expenditure cuts, and not subsidized by Ad Valorem Taxes.

General Fund Budget Allocations by Department and Component

All departments work diligently with the City Manager in support of budget policies adopted by the City Council. Equally important is the premise that all departments would share in any budget reductions necessitated by taxable values below the planning thresholds, reductions in property tax revenues, new state tax reform initiatives, reductions in state shared revenue and unfunded mandates.



Expanded Positions

Expanded position requests will be limited to Council approved capital facility openings and/or Council approved service level adjustments with final City Manager recommendations presented in future budget workshops.

For FY 2025 budget, Departments will carefully consider increasing positions since proposed operating expenditure guidance will likely require a significant re-prioritization of current budget. Any requests will be limited to life safety matters and/or Council directed service level adjustments. All budget to budget increases in positions and programs will be reviewed by the City Manager and recommendations will be presented as part of FY 2025 budget workshop discussions on July 22nd.

Personnel Compensation

The philosophy of City of Marco Island government is to provide a market-based compensation program that meets the following goals:

1. Facilitates the hiring and retention of the most knowledgeable, skilled and experienced employees available.
2. Supports continuous training, professional development and enhanced career mobility.
3. Establish equitability in position pay ranges and rates paid to incumbents in those positions

4. Recognize and reward individual and team achievements.

The Consumer Price Index 12-month percent change from March 2023 to March 2024 is 3.5%. This is one of the indices that the City traditionally uses when considering a general wage adjustment, however local/regional cost of living indexes are more heavily relied upon. Another measure used to track changes in wages is the Social Security COLA (Cost of Living Adjustment) which was set at 3.2% for 2024. The annual Florida Relative Price Index, an index comparing the relative cost of living among the State’s 67 counties, is also used as a basis for compensation plan recommendations. The most recently published Florida Relative Price Index lists Collier County is ranked No. 1 as having the highest relative cost of living among the 67 counties in the State. The cost-of-living index for Collier County is about 4% higher than the national average; Marco Island’s cost of living is 58% higher than Collier County and 64% higher than the State average. These are important factors to consider when making decisions regarding recruitment and retention efforts.

In previous years, the City Council has authorized adjustments to the compensation plan as shown within the following table. The Police and Fire Union contracts include a 10% and 5% increase, respectively, for fiscal year 2025.

Component	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25
General Wage Adjustment <i>(based on merit)</i>	3% bonus	3.00%	3.00%	3.00%	5.00%	3.00%	3.00%	5.00%	5.00%	3.00%
Fire Bargaining Unit Wages <i>(based on bargaining agrmnt)</i>	3% bonus	3.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Police Bargaining Unit Wages <i>(based on bargaining agrmnt)</i>	3% bonus	3.00%	5.00%	5.00%	5.00%	5.00%	8.00%	4.00%	6.00%	10.00%
Total	3% Avg	3% Avg	4.33% Avg	4.33% Avg	5% Avg	4.33% Avg	5.33% Avg	4.67% Avg	5.33% Avg	6% Avg

General Governmental Capital Improvements

The City has a multi-year plan for capital improvements which is evaluated and updated annually. The projects listed in the Capital Improvement Plan primarily focus on maintenance of existing infrastructure, with replacement and repair of park facilities, bridges, road surfaces, bike paths and drainage lines. The list also includes replacement of City and public safety vehicles and major machinery and equipment. Whenever possible, grant applications are submitted to reduce the City’s share of funding for applicable projects.

The following table provides a description of historical budget allocations funded primarily from the General Fund budget to support ongoing asset maintenance, strategic new capital requirements and initiatives.

Original Budgeted Capital Fund Allocation Trends

Funding Year	Info. Tech.	Gen. Gov.	Police Dept.	Fire Dept.	Code Enforce.	Public Works	Park & Recreation	Building Services	Total
FY 2016	144,310	136,200	732,910	986,515	7,300	2,631,640	62,840	-	4,701,715
FY 2017	133,910	3,400	619,210	986,515	7,300	2,631,640	394,440	-	4,776,415
FY 2018	137,950	3,400	619,210	1,727,715	7,300	3,618,190	84,686	-	6,198,451
FY 2019	129,150	3,400	619,210	818,131	7,300	2,558,190	57,890	-	4,193,271
FY 2020	129,440	1,700	406,620	884,041	7,300	2,778,190	98,340	-	4,305,631
FY 2021	124,940	1,700	653,470	812,600	7,300	1,794,430	146,123	52,500	3,593,063
FY 2022	180,940	378,225	623,820	631,708	14,700	5,170,880	93,647	38,900	7,132,820
FY 2023	178,940	64,210	612,320	361,500	289,006	4,318,520	376,690	38,900	6,240,086
FY 2024	274,940	2,073,410	554,820	599,050	19,000	10,655,520	70,290	102,900	14,349,930
Cumulative Capital Funding	1,434,520	2,665,645	5,441,590	7,807,775	366,506	36,157,200	1,384,946	233,200	55,491,382
Current Funds Available	364,373	885,163	1,410,477	1,935,579	220,022	19,219,154	1,689,891	219,551	25,944,210

The following chart provides a summary description of dollars allocated towards specific projects in the five-year capital program since 2016. Fire Station (FS) 50 funds of approximately \$471,000 annually are being used to cover its portion of the 2021 Bonds, with any remaining funds used to maintain FS50 and FS51. Drainage and Streets are already receiving funding from the Local Option One Cent Infrastructure Sales Tax.

	FY 2016 Budget	FY 2017 Budget	FY 2018 Budget	FY 2019 Budget	FY 2020 Budget	FY 2021 Budget	FY 2022 Budget	FY 2023 Budget	FY 2024 Budget
Buildings	150,800	18,000	18,000	18,000	18,000	15,000	668,225	51,400	4,960,600
Fire Station 50	560,000	560,000	300,000	560,000	560,000	560,000	359,208	89,000	89,000
Fire Station 51	-	-	1,010,000	-	-	-	-	-	-
Computer Software & Hardware	179,650	169,250	137,950	164,490	161,540	155,360	210,860	178,940	274,940
Stormwater & Drainage	395,000	395,000	395,000	597,000	697,000	597,000	2,447,000	1,697,000	1,972,000
Bridges	930,000	930,000	930,000	1,067,260	1,067,260	300,000	500,000	500,000	500,000
Roadways & Surfacing	685,640	685,640	1,685,640	609,640	611,840	500,000	1,500,000	1,750,000	2,900,000
Public Sidewalk & Bikepaths	487,340	487,340	487,340	224,080	224,080	314,080	314,080	314,080	2,314,080
Park Improvements	39,900	371,500	47,546	21,500	60,800	126,423	73,947	358,740	52,340
800 MHZ Radios	109,000	109,000	109,000	109,000	43,000	48,400	43,000	58,000	58,000
Fire Equipment	72,150	72,150	72,150	72,150	79,700	74,300	95,800	95,800	346,300
Vehicles	980,725	867,025	867,325	654,041	557,291	762,450	655,900	951,006	744,050
Infrastructure & Other	-	-	42,390	-	130,000	-	88,200	-	-
Police Equipment	111,510	111,510	96,110	96,110	95,120	140,050	176,600	196,120	138,620
Total	4,701,715	4,776,415	6,198,451	4,193,271	4,305,631	3,593,063	7,132,820	6,240,086	14,349,930

Council has the flexibility to allocate these General Fund transfer dollars to mission critical projects or initiatives at the expense of those efforts deemed of lesser priority. This has and will continue to be the Council policy given the demand for general government resources, heavy reliance upon property taxes, and the natural hazards which can impact coastal communities.

Per Ordinance 19-10 Section. 2-390 (a) approval by a super majority vote of city council shall be required for any capital expenditure that exceeds ten percent (10%) of the average of the last four fiscal year's general fund revenue.

Financing New and Replacement Capital Infrastructure Policies

The issuance of debt for capital improvements is generally considered as an alternative to the five year “pay as you go” plan. This philosophy holds that future taxpayers will also enjoy the capital improvements and should participate in funding capital projects rather than that burden falling solely to existing taxpayers.

Pursuant to the City’s Debt Management Policy, several guiding principles have been identified that provide the framework within which the issuance, management, continuing evaluation of and reporting on all debt obligations issued by the City takes place.

Asset Life: The City will consider long-term financing for the acquisition, maintenance, replacement, or expansion of physical assets (including land) only if they have a useful life of at least five (5) years. Debt will be used only to finance capital projects and equipment, except in case of emergency. City debt will generally not be issued for periods exceeding the useful life or average useful lives of the project or projects financed.

Capital Financing: Debt of longer amortization periods will be issued for capital projects when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries. Debt shall not, in general, be used for projects solely because insufficient funds are budgeted at the time of acquisition or construction.

A decision to issue some component of short or long-term debt is based upon level of service standards, the timing of any capital improvement, ability to execute, the credit market environment, and cost of capital.

The advantage of long-term debt especially in a low interest rate environment is that budget certainty for the cost of credit is achieved. Generally, a project should be ready for construction and proceeds must reasonably be expected to be spent within a three-year window from debt issuance or adverse tax consequences may occur. Long term debt can be issued normally within a 90-120-day window. The City’s current general governmental long-term debt portfolio is comprised primarily of special obligation revenue bond debt. It is anticipated that this type of long-term debt would be used under future new credit scenarios.

General Governmental, Enterprise Fund, and Other Fund Reserves

General Fund: Reserve is a budget/policy term referring to resources set aside to provide a financial barrier against risk. Likewise, reserves may also be referred to as a portion of fund balance. Reserves are the cornerstone of financial flexibility and provide government with options for responding to unexpected issues and a buffer against shocks and other forms of risk. One such un-planned risk may for example include the potential for a grant award to be rescinded after work on the activity begins. Grant revenues are appropriated at the time of award with the expectation of future cash inflows from the grantor agency. Until reimbursements are received, the General Fund provides the cashflow for general governmental grant funded activities and is responsible for financing grant related activities in full, should the City default on any grant provisions or a grantor agency cancels, revokes, or de-obligates an award.

It is essential for governments to maintain adequate levels of reserves/fund balance to mitigate current and future risks such as revenue shortfalls, natural disasters and unanticipated expenditures. As such, budgeted

reserves serve to protect beginning cash position in a fund and are an essential component of Marco Island’s overall financial management strategy and a key factor in external agency measurement of the City’s financial strength.

Various bond rating agencies recognize that the best reserve policies provide both specificity and flexibility accomplishing one or more of at least the following three criteria:

- establishing a target level of reserves or a reserve floor
- specifying the appropriate circumstances for drawing down reserves
- directing the replenishment of reserves

In general, rating agencies view positively on higher reserve levels, although local governments can maintain high credit ratings with lower reserve levels if other indicators of financial flexibility such as revenue raising ability, stable diverse revenue structure, expenditure flexibility and conservative budgeting practices are strong.

The following is a history of restricted and un-restricted reserves within the General Fund since FY 2008.

Fiscal Year	General Fund Reserves	% of General Fund Expenditures	Un-Restricted Reserves	% of General Fund Total Reserves
2024 (EST)	\$14,200,000	44.19%	\$7,546,773	53.15%
2023	\$14,101,236	47.28%	\$7,905,511	56.06%
2022	\$13,466,207	47.64%	\$7,738,206	57.46%
2021	\$12,128,048	46.14%	\$6,490,877	53.52%
2020	\$13,191,541	62.40%	\$9,011,526	68.30%
2019	\$13,403,182	66.20%	\$6,677,535	49.80%
2018	\$10,773,399	54.70%	\$1,969,651	18.30%
2017	\$9,159,511	43.20%	\$6,257,632	68.30%
2016	\$9,326,477	47.40%	\$7,397,900	79.30%
2015	\$8,350,832	42.50%	\$4,966,637	59.50%
2014	\$8,493,844	47.80%	\$5,341,851	62.90%
2013	\$9,847,099	55.40%	\$8,653,648	87.90%
2012	\$7,992,249	49.70%	\$7,003,460	87.60%
2011	\$7,109,628	44.70%	\$6,363,876	89.50%
2010	\$12,309,004	73.60%	\$10,847,424	88.10%
2009	\$13,225,690	81.50%	\$10,815,926	81.80%
2008	\$12,289,176	86.60%	\$9,636,801	78.40%

At the end of fiscal year 2023, the general fund’s total fund balance is \$14.1 million. The City has a long history of planning for contingencies and has a financial reserve policy which sets aside a 25% reserve of the prior year’s budget, currently \$6.7 million, or approximately four months of normal general fund operating expenditures to cover emergencies and other contingencies that may occur.

Marco Island lies within a coastal zone highly susceptible to hurricane and storm damage water and wastewater treatment facilities, transmission lines and distribution/collection mains. Many of the buried water and wastewater lines sit in sandy soil that is prone to shifting during heavy rain events. Uncertainty in economic markets with regards to cost of construction materials, interest rates, personnel and health

costs add to the risk factors facing the utility. In the Marco Island Water & Wastewater Utility (MIWWU), user fee revenue is used to support the operating budget as well as the capital repair and rehabilitation program for the horizontal (in-ground) and vertical (above ground) assets.

Reserves can be classified as either “restricted” or “unrestricted”:

- Restricted Reserves - are those established for specific purposes only, such as debt reserves required by bond covenants, and/or reserves for growth in the impact fee funds which can be utilized only for growth projects.
- Unrestricted Reserves – are available to ensure continuity of services as identified above.

Unrestricted reserves in the MIWWU include general contingencies reserves (i.e. “rainy day” significant unforeseen events), cash flow reserves in the event of revenue disruptions, or capital reserves for necessary but unforeseen repair and rehabilitation projects.

- Adopted Reserve Policy for the MIWSU: Per bond covenants, the restricted reserves should be budgeted at a minimum range of 12.5% of budgeted revenues.

Building Services Fund (101): Fund 101, referred to as the Building Services Fund collects revenues primarily related to building permit activities, including building permits, structural, electrical, plumbing, and mechanical inspections, plans reviews, and the licensing and oversight of building contractors.

- Building Service Fund (101) Adopted Reserve: Targeted reserves for this fund shall be 18 months of the total budgeted expenses of the current fiscal year.

3. Current Financial Policies

The following financial policy statements are the basis of the daily operations of the City of Marco Island. The financial policy statements define objectives, establish rules with parameters and express guidelines for stewardship and fiscal conduct by the City of Marco Island in connection with the operating budget and capital improvement program.

OPERATING BUDGET POLICIES

The Basic Financial Statements present the status of the City’s finances on a basis consistent with General Accepted Accounting Principles (GAAP) (i.e., the governmental funds use the modified accrual basis of accounting). In order to provide a meaningful comparison of actual results with the budget, the Basic Financial Statement presents the City’s operations on a GAAP basis and also shows fund expenditures and revenues on a budget basis for the General Fund. All funds are presented in accordance with GASB 34 Reporting requirements. The budget will provide adequate funding for maintenance and replacement of facilities and equipment.

The City Council will be provided with interim budget reports comparing actual versus budgeted revenue and expense activity. The City will establish and maintain a standard of accounting practices.

The City will pay for all current expenditures with current revenues. The City will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' expenses, such as postponing

expenditures or accruing future year's revenues. The City will maintain a continuing budgetary control system to ensure that it adheres to the budget.

Balanced Budget Definition

The budget must be balanced for all funds. Total anticipated revenues and use of fund balance must equal total estimated expenditures for each fund (Section 166.241 of Florida Statutes requires that all budgets be balanced.) A balanced budget requires each operating fund to have revenues fully cover expenditures. Fund balance, if used as a source of revenue, may only be used in accordance with the City's fund balance policy.

CAPITAL IMPROVEMENT POLICIES

The City will develop a 5 year "pay-as-you-go" plan for capital improvements and update it annually. The City will enact an annual capital budget based on the multi-year Capital Improvement Plan with realistic and dedicated revenue sources to fund the capital plan. The City will coordinate development of the capital improvement budget with development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.

The City will use intergovernmental assistance to finance only those capital improvements that are consistent with the Capital Improvement Plan and City's priorities, and whose operating and maintenance costs have been included in operating budget forecasts.

The City will maintain all its assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.

The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to the City Council for approval.

The City will determine the least costly financing method for all new projects.

DEBT MANAGEMENT POLICIES

Market Review

When applicable, the City will review its outstanding debt for the purpose of determining if the financial marketplace will afford the City the opportunity to refund an issue and lessen its debt service costs. In order to consider the possible refunding of an issue a Present Value savings of three percent over the life of the respective issue, at a minimum, must be attainable.

Debt Issuance

The City will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues. When the City finances capital projects by issuing bonds, it will pay back the bonds within a period not to exceed the estimated useful life of the project.

The City will strive to have the final maturity of general obligation bonds at, or below, thirty (30) years.

Whenever possible, the City will use special assessment, revenue, or other self-supporting bonds instead of general obligation bonds, so those benefiting from the improvements will bear all or part of the cost of the project financed. The City will not use long-term debt for current operations.

The City will maintain good communications with bond rating agencies regarding its financial condition. The City will follow a policy of full disclosure on every financial report and borrowing prospectus.

REVENUE POLICIES

Pursuant to the desires of the taxpayers, the City of Marco Island has adopted a unique revenue policy. Instead of a diversified revenue stream, the City has knowingly adopted the use of Ad Valorem (property taxes) as its primary revenue source for the General Fund. The City will estimate its annual revenues by an objective, analytical process, wherever practical. The City will project revenues for the next year and will update this projection annually. Each existing and potential revenue source will be re-examined annually. For Enterprise Funds, the City will annually recalculate the full costs of activities supported by user fees to identify the impact of inflation and other cost increases. The City will automatically revise user fees, subject to review by the City Council, to adjust for the effects of inflation.

FINANCIAL RESERVE POLICIES

The city will administer the Council Policy for Emergency Reserves of 25% of the proposed fiscal year General Fund Operating Budget.

FUND BALANCE

The City classifies fund balance in accordance with GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Carry forward (Fund Balance): All multi-year capital funds that are unexpended and unencumbered at the end of the fiscal year will be appropriated as carry forward revenue from use of unassigned fund balance in the following year. Carry forward revenue represents capital reserves that are "carried forward" to fund these same projects in the new year or to fund capital projects in the current or future years.

Definitions

- **Non-spendable fund balances** include amounts that cannot be spent because they are either: (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** amounts that are restricted to specific purposes either by:
(a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation are classified as restricted fund balances.
- **Committed fund balance** amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution are classified as committed fund balances.
- **Assigned fund balance** amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances. Assignments are made by the City Manager based on Council direction through a resolution.
- **Unassigned fund balance** represents fund balances that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund is the only Fund allowed to have a positive unassigned fund balance. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the City's

policy to use committed resources first, then assigned, and then unassigned as they are needed but reserves the right to selectively defer the use of these funds.

SURPLUS POLICIES

It is the intent of the City to use all surpluses generated to accomplish three goals: meeting reserve policies, avoidance of future debt and reduction of outstanding debt.

Any surpluses realized in the General Fund at year-end shall be used first to meet reserve policies as set forth in the Financial Reserve Policy. Excess surplus will then be used for the following purposes:

Capital Reserve

After General Fund reserves have been met, excess reserves may be set aside to provide the cash necessary to implement a capital replacement reserve (e.g., the vehicle replacement, the computer replacement, and the facility maintenance programs). Prior to any funds being transferred, a five-year funding projection shall be made to determine appropriate balance requirements.

Retirement or Refinancing of Existing Debt

Any excess surplus remaining after reserve policies have been met and replacement programs are fully funded over a five-year period may be used to pay principal on existing Revenue Bonds, short-term commercial paper, or other capital loans.

Cash Payments for Capital Improvement Program Projects

Using cash to purchase capital items that are budgeted to be procured with the proceeds from Revenue Bonds or short-term commercial paper will reduce the future debt burden of the City. This strategy may be combined with debt retirement to reduce future debt service after performing a financial analysis to determine the greatest net present value savings. Grant opportunities also arise requiring the use of City cash matching funds to secure the grant.

INVESTMENT POLICIES

The Investment Policy has been codified and included in Chapter 2 Article VI of the City's Code of Ordinances.

CHARTER SPENDING CAP

Annual expenditures of the City of Marco Island are controlled by Section 1.04 of the City Charter – Expenditure Limitation.

On August 18, 2014 the City Council approved Ordinance 14-08 by a vote of 7-0 to replace Resolution No. 03-03 adopted by the City Council on January 13, 2003. The Ordinance establishes the legislative intent and procedures for the calculation of the expenditure limitations. Exhibit A of the Ordinance sets forth the following policies and procedures used to calculate the spending cap limits:

1. The term “operating expenditures” shall be interpreted as “expenditures from the operating budget of the City’s Government Fund.”
2. Expenditures from the operating budget shall include transfers into capital asset funds for future use.
 - a. GASB (Governmental Accounting Standards Board Statements) states that “expenditures represent the use or expected use of current financial resources” and that “expenditures of governmental fund resources” may give rise to general capital assets, which are defined as “capital assets of the government that are not specifically related to activities reported in proprietary or fiduciary funds.”
 - b. GASB Codification Chapter 1600.116 defines “expenditures” as “decreases in net financial

- resources.”
3. The term “prior year’s expenditures” shall be interpreted as the City’s determination of actual expenditures for the current year at the time the spending cap calculation is to be undertaken.
 4. The term “then-current Federal C.O.L.A. (Department of Labor, Bureau of Statistics, Consumer Price Index)” shall be interpreted as the prior year’s COLA released by the Social Security Administration in October. That is starting with Fiscal Year 2015 the COLA used will be the SSA COLA released in October 2013 (effective date January 1, 2014).

Funds budgeted in a prior fiscal year, but unexpended as of the end of that fiscal year, may be brought forward into a subsequent fiscal year and the expenditure of those funds shall not be considered in the calculation of expenditures of that subsequent fiscal year against the Spending Cap.

The electorate of the City of Marco Island approved a charter referendum on September 10, 2002 dealing with the Spending Cap. Voters determined that expenditures financed by grants, gifts, and impact fees were not subject to the Spending Cap and that all expenditures of utilities and other self-supporting Enterprise Fund operations were likewise exempt from the Spending Cap.