

Fiscal Year 2026
Current Financial Policies
City of Marco Island
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FY 2026 Current Financial Policies

1. 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

State Statutes require that the budget be balanced for all funds. Total anticipated revenues and use of fund balance must equal total estimated expenditures for each fund per Section 166.241 of the Florida Statutes. 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. Commencing with fiscal year 2025 City Council adopted a policy requiring that General Fund current year expenditures not exceed current year revenues.

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 the 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.