TO: Honorable Mayor and City Council Members

THRU: Ed Lavallee, ICMA-CM, MPA, City Manager

FROM: Linda Senne, CPA, Finance Director

DATE: September 5, 2017

MEETING DATE: September 7, 2017

SUBJECT: Fire Protection Fee Special Assessment

Background

At the Fire Protection Fee Special Assessment Public Hearing on August 21, 2017, the City Council directed City staff to draft a memo explaining the budgetary effects of specific assessment recovery/millage reduction scenarios below the latest proposed level (50% cost recovery and a .5000 millage reduction). Toward this end, this memo includes the following items:

- The Current Proposed Budget
- The Condominium Issue
- The Proposed Use of Fire Fee Assessment Revenues
- The Budgetary Effect at Reduced Fire Fee Assessment Recovery Levels
- Budgetary Best Practices

The Current Proposed Budget

The current proposed FY18 budget (the Proposed Budget) consists of the following:

1. The City Manager's budget presented to the City Council (Council) at the commencement of the 2018 Budget Workshops on June 19, 2017
2. Changes made by Council during the budget workshops from June 19 to June 21, 2017, as summarized in the agenda packet for the June 29, 2017 Special Meeting – Budget for FY18
3. The change approved by Council at the June 29, 2017 meeting to reduce the operating millage from 3.3500 to 3.1000

The Proposed Budget has an excess of revenues over expenditures of $828,481 in the General Fund (an addition to General Fund fund balance), and an excess of revenues over expenditures of $848,625 (after adding back $1,489,000 in encumbrances rolled forward from FY17 to FY18) in the One Cent Voted Sales Tax Fund.

However, the Proposed Budget for the General Fund includes $396,383 in Extraordinary Mitigation Fees (EMF's) that Council has required be assigned to a contingency reserve. Adjusting for EMF revenues, the proposed increase in *unassigned* fund balance is $432,098.

In the One Cent Voted Sales Tax Fund, the Proposed Budget also allocates $1,000,000 for a Building Replacement Reserve, potentially starting the funding for rebuilding Fire Station 1.

This Proposed Budget includes a new fire special assessment at the "50% recovery level" which was initially expected to generate $4.21 million in FY18 and a .5000 ad valorem tax "millage reduction" from 3.6000 to 3.1000 that is expected to reduce property taxes by $1.81 million. The net effect would have resulted in increased revenues of $2.4 million (See Exhibit A, Scenario A).

The Condominium Issue

The Fire Assessment Study prepared by the City's consultants (Stantec) uses the "availability method" and a "two tier" rate structure. Tier 1 is a readiness charge on every parcel, as defined by a unique parcel number in the Sarasota County Property Appraiser's (SCPA) database. This database is the same database that the SCPA uses for County and City of Venice ad valorem property taxes.

Tier 2 is an Equivalent Building Unit (EBU) charge on the value of the parcel's structures in the same database (land value is excluded). The City has 6,891 condominium/co-op parcels and 263 commercial condominium units for which the database land value is $0. In mid-August, the consultants determined that the individual unit "Tier 2 structure values" included common area land, and that an amount representing the common areas should be backed out of the Tier 2 calculations for all condominiums.

On September 1, 2017, the consultants provided a final addendum to their FY 2018 Fire Protection Study recommending a revision to their methodology as it relates to condominiums. They recommend that each condominium unit's structure value be reduced by 24.87% before applying the Tier 2 rates. At the 50% recovery level in the Proposed Budget, this represents a loss of net revenues to the City of $415,000.

Revised figures are therefore as follows (See Exhibit A, Scenario B):

- Fire Assessment gross revenues – 50% recovery: $3.795 million (down from $4.21 million)
- Fire fee assessment/millage reduction net revenues: $1.982 million (down from $2.4 million)
- General Fund revenues over expenditures: $413,481 (down from $828,481)
- **Increase in General Fund unassigned fund balance: $17,098 (down from $432,098)**

As stated above, a fire fee assessment at the 50% recovery level with a 3.1000 operating millage would generate net revenues of $1.982 million. That is equivalent to a 26% fire fee assessment recovery level combined with a 3.6000 operating millage rate (See Exhibit A, Scenario C).

It should be noted however, that at this recovery level (26% and 3.6000 mills), some individual parcel owners will pay more than they would have been paid under the 50% recovery/.5000 millage reduction scenario (in combined fire fee assessments and property taxes). Others will pay less, including most (if not all) condominium owners.

For this and other reasons, the City Council may want to consider a fire fee assessment recovery percentage for FY18 somewhat below 26%.

The Proposed Use of Fire Fee Assessment Revenues

The net revenues generated by a new fire fee assessment *at any recovery level*, would first go to fund specific Fire Department capital items (a total of $1,039,215 was approved for FY18 in the preliminary Capital Improvement Program - CIP). Essentially, this will "free up" One Cent Voted Sales Tax revenues for other purposes (e.g., the Fire Station 1 rebuild, other major maintenance projects or the Building Reserve).

Any net revenues over and above $1,039,215 would be used to fund Fire Department personnel and operating costs in the new Fire Services Fund, which would essentially free up revenues in the General Fund for other purposes.

The Budgetary Effect at Reduced Fire Fee Assessment Recovery Levels

At the Public Hearing on August 21, 2017, the City Council directed staff to provide other scenarios of combined fire assessment cost recovery levels and millage reduction.

Exhibit A, Scenario 1: Fire Fee Assessment at 20% recovery, millage rate at 3.6000:

- Net revenues are estimated at $1,516,000
- Fund Fire Capital of $1,039,215 from Fire Fees
- Fund Fire Department Equipment Depreciation at $289,151 from Fire Fees
- The FY18 Budget for the One Cent Voted Sales Tax Fund will have an addition to fund balance of $848,625, which can be used for Fire Station 1, other Building renovations/major maintenance, or Building Reserves
- The FY18 Budget for the General Fund will have a reduction in fund balance of $52,345.
- **Adjusting for EMF revenues, Council would need to identify $448,728 in expenditure reductions to avoid dipping into General Fund unassigned fund balance.**

Exhibit A, Scenario 2: Fire Fee Assessment at 20% recovery, millage rate at 3.6000, adjust Fire Department equipment depreciation back to partial depreciation:

- Net revenues are estimated at $1,516,000
- Fund Fire Capital of $1,039,215 from Fire Fees
- Fund Fire Department Equipment Depreciation at $57,883 (one engine and one administration vehicle) from Fire Fees
- The FY18 Budget for the One Cent Voted Sales Tax Fund will have an addition to fund balance of $848,625, which can be used for Fire Station 1, other Building renovations/major maintenance, or Building Reserves
- The FY18 Budget for the General Fund will have an addition to fund balance of $178,923.
- **Adjusting for EMF revenues, Council would need to identify $217,460 in expenditure reductions to avoid dipping into General Fund unassigned fund balance.**

Exhibit A, Scenario 3: Fire Fee Assessment at 15% recovery, millage rate at 3.6000, adjust equipment depreciation back to partial depreciation:

- Net revenues are estimated at $1,129,000
- Fund Fire Capital of $1,039,215 from Fire Fees
- Fund Fire Department Equipment Depreciation at $57,883 (one engine and one administration vehicle) from Fire Fees
- The FY18 Budget for the One Cent Voted Sales Tax Fund will have an addition to fund balance of $848,625, which can be used for Fire Station 1, other Building renovations/major maintenance, or Building Reserves
- The FY18 Budget for the General Fund will have a reduction in fund balance of $208,077.
- **Adjusting for EMF revenues, Council would need to identify $604,460 in expenditure reductions to avoid dipping into General Fund unassigned fund balance.**

Exhibit A, Scenario 4: Fire Fee Assessment reduced further, millage rate at 3.6000, adjust equipment depreciation back to partial depreciation:

- At a Fire Fee recovery level of approximately 13.7%, net revenues will be $1,039,215, just enough to fund the Fire Department Capital outlay. The FY18 Budget for the One Cent Voted Sales Tax Fund will have an addition to fund balance of $848,625. The FY18 Budget for the General Fund will have a reduction in fund balance of $297,862. **Adjusting for EMF revenues, Council would need to identify $694,245 in expenditure reductions to avoid dipping into General Fund unassigned fund balance.**

- At a Fire Fee recovery level below 13.7%, every 1% drop reduces net revenues by $76,000 and lowers the excess of revenues and expenditures in the One Cent Voted Sales Tax Fund. Less money is available for Fire Station 1, other building renovations/major maintenance, or Building Reserves.

Exhibit A, Scenario 5: Fire Fee Assessment cancelled or deferred for FY18, millage rate at 3.6000, adjust equipment depreciation back to partial depreciation:

- Net revenues are estimated at $0
- Fund Fire Capital of $1,039,215 from the One Cent Voted Sales Tax Fund
- Fund Fire Department Equipment Depreciation at $57,883 (one engine and one administration vehicle) from the General Fund
- The FY18 Budget for the One Cent Voted Sales Tax Fund will have a reduction in fund balance of $190,590, dipping into reserves. Estimated reserve balances will drop to $1,815,283, plus a $1 million Building Reserve.
- The FY18 Budget for the General Fund will have a reduction in fund balance of $297,862.
- **Adjusting for EMF revenues, Council would need to identify $694,245 in expenditure reductions to avoid dipping into General Fund unassigned fund balance.**

Exhibit A, Scenario 6: A scenario consisting of a 20% cost recovery with a .1000 millage reduction (to 3.5000) was also discussed at the public hearing. The results of that scenario would be similar to Scenario 3 above. **Adjusting for EMF revenues, Council would need to identify $580,095 in expenditure reductions to avoid dipping into General Fund unassigned fund balance.**

Budgetary Best Practices

Additions to fund balance vs. dipping into reserves

The City utilizes the following best practices in its annual budget process:

- Use conservative revenue estimates (property taxes are budgeted at 95% versus an average collection rate after discounts of approximately 96.5%, and other revenues assume nominal growth).
- Departmental expenditures cannot exceed appropriations.
- An addition to reserves in the original budget can cover unanticipated expenditures that occur during the year, or for revenue shortfalls.

Use of Reserves

The City utilizes the following best practices in monitoring its fund balance/working capital levels:

- Reserves cannot fall below certain minimum target balances
- Reserve funds should not be used to fund recurring expenditures

Exhibit A - Various Cost Recovery / Millage Rate Scenarios

Fire Protection Special Assessment and Millage Reduction Scenarios

		Fire Assessment Recovery Level	Millage Reduction	Millage Rate	Gross Fire Fee Revenues	Result of Millage Reduction	Net Revenues	General Fund Addition (Reduction)	Increase (Decrease) in Gen. Fund Unassigned Fund Balance	Increase (Decrease) in One Cent Voted Sales Tax Fund * Fund Balance
A	Original Proposed	50%	0.5000	3.1000	$ 4,210,000	$ (1,813,174)	$ 2,396,826	$ 828,481	$ 432,098	$ 848,625
B	After Condo Adjustment	50%	0.5000	3.1000	3,795,000	(1,813,174)	1,981,826	413,481	17,098	848,625
C	Fire Assessment Only	26%	0.0000	3.6000	1,981,826	-	1,981,826	413,481	17,098	848,625
	Scenario 1	20%	0.0000	3.6000	1,516,000	-	1,516,000	(52,345)	(448,728)	848,625
	Scenario 2 (Adjust Depreciation)	20%	0.0000	3.6000	1,516,000	-	1,516,000	178,923	(217,460)	848,625
	Scenario 3 (Adjust Depreciation)	15%	0.0000	3.6000	1,129,000	-	1,129,000	(208,077)	(604,460)	848,625
	Scenario 4 (Adjust Depreciation)	13.7%	0.0000	3.6000	1,039,215	-	1,039,215	(297,862)	(694,245)	848,625
	Scenario 4 - every 1%	-1.0%	0.0000	3.6000	(76,000)		(76,000)	(297,862)	(694,245)	772,625
	Scenario 5 (Adjust Depreciation)	0%	0.0000	3.6000	-	-	-	(297,862)	(694,245)	(190,590)
	Scenario 6 (Adjust Depreciation)	20%	0.1000	3.5000	1,516,000	(362,635)	1,153,365	(183,712)	(580,095)	848,625

Assumption: Fund Fire Department capital first

* Excluding $1,489,000 in FY17 encumbrances