



Some Observations and Thoughts on the City's Fiscal Year 2019 Budget

At their recent July 9 meeting, the Sanibel City Council began the annual budgeting process. The complexity of the budget and the budget process merits comments on some key items covered at the meeting.



Our Sanibel City Council

Recreation Center Deficit:

Several years ago, Council established the principle that the City's General Fund subsidy to cover Recreation Center operations should not exceed \$1.4 million. In ensuing years, this budgetary ceiling has resulted in a continuing shortfall for the Center. The deficit for 2019 is projected at approximately \$150,000. The City's FY2019 draft budget - required to be in balance - proposed covering the deficit by assuming cutbacks in programs, closing on Sundays, and increasing membership fees across the board.

During July's discussion, Council tentatively decided to resolve the \$150,000 deficit, not with fee increases and service cutbacks, but with two different actions:

- (a) Applying a cost-of-living adjustment to the \$1.4 million subsidy, thereby increasing the subsidy by approximately \$75,000 (including two years of COLA "catch up").
- (b) Deferring the annual contribution to the Center sinking fund reserve for future equipment upgrades by approximately \$75,000, with the understanding

that the fund would be replenished with monies expected from FEMA for hurricane damage incurred at the Center.

Critics may say that these actions are merely a band-aid, but better short-term solutions have not surfaced. Annual fee increases are becoming less effective. The increases imposed last year were expected to increase revenue by approximately \$191,000; instead, FY2018 revenue, compared to that for FY2017, will likely be flat. Similarly, cutting hours and programs could reduce revenue by diminishing the benefits of Recreation Center membership.

On a more long-term basis, Mayor Kevin Ruane proposed that, during the coming year, City staff study all aspects of Recreation Center and Center 4 Life (Senior Center) operations, in an effort to resolve the issue of continuing financial deficits. He commented that prior studies of the two facilities were done in isolation from one another and that new approaches should be holistic. Adding that existing data were dated, he proposed conducting new surveys covering both facilities.

The Mayor makes valid points. Under current rate scales, to participate in a Center 4 Life aerobics class, a non-resident visitor pays \$4 per session (after a \$20 annual membership fee). To participate in virtually the same class at the Recreation Center, the cost is \$22 per day or \$91 per week. Such programs, offered concurrently by these City facilities, should be aligned.

Reserves:

In FY2017, the City's financial reserves included \$4.5 million for disasters. When the FY2018 budget was finalized, just after Hurricane Irma, the disaster reserve was reduced to \$3.7 million because some recovery amounts had already been spent. Even more amounts have been spent since that time. Consequently, the proposed FY2019 budget sets the disaster reserve at only \$1 million.

Under claims filed with FEMA, the City expects a reimbursement of \$3.8 million, most of which will replenish the disaster reserve. Until that reimbursement is received, Council has authorized the establishment of a line of credit with SunTrust Bank. The credit line, allowing for drawdown of up to \$5 million, ensures that the City will be protected.

Under the circumstances, these actions are prudent.

Sanibel Sewer Issues:

Capital spending for the City Sewer System is budgeted at \$6.9 million to include funding for improvements to the Donax Plant and for system Phase IV expansion. The State of Florida has already granted over \$2 million toward this project and the City may request even more State support. The City will also have the option of issuing additional sewer system debt to alleviate any shortfall in funds.

The sewer budget also reflects a 4 percent increase in sewer rates, as suggested by last year's rate sufficiency study. Council expects an update to that study at its August meeting.

Mayor Ruane proposes that this ongoing sewer study be modified to include:

- Cost estimates for expanding the system to cover all remaining island properties, thereby eliminating all island septic systems.
- Cost estimates for expanding the system to include Captiva properties so if that issue ever arises, Sanibel would be prepared to negotiate cost-recovery charges for Captiva admission.

The August Council meeting will yield more information concerning these proposals

Personnel Costs:

The draft budget reflects an overall 3.5 percent increase in personnel costs, owing largely to wage increases negotiated between the City and its three unions.

The budget also includes a 2.8 percent increase for matching contributions to the City employees 401(a) defined contribution plan. This increase occurs as non-participating employees retire, with their replacements automatically becoming participants in the defined contribution plan.

The budget also reflects an estimated 6 percent increase for employee health insurance subsidies.

Support of Island Non-Profit Organizations:

The draft budget includes support for various island non-profit organizations per contractual agreements; these amounts include:

- \$358,000 for Community Housing and Resources (CHR)-a 4.6 percent increase over the 2018 (amended) budget.
- \$160,272 for the Historical Museum and Village-a 14.3 percent increase over the 2018 budget.
- \$27,410 for BIG Arts - a 17.2 percent increase over the 2018 (amended) budget.

What's Next?

Budget discussions will continue at the August 8 City Council meeting and at two formal budget hearings in September. As required by law, City Council has already adopted a preliminary General Fund operating millage rate of 1.9139, matching the 2018 rate. Because overall Sanibel property assessment valuations have increased by approximately 3 percent, this rate would result in a corresponding 3 percent tax increase for City operations.

Sanibel property taxes also cover debt service on the three voted debts still outstanding. The millage rates applicable to those debts have decreased compared to 2018, and that decrease tends to offset the effect of the assessed value increase.

In fact, if Council retains last year's operating millage rate of 1.9139, the total tax increase for the average Sanibel residential property (using the 2017 average of \$601,266) would be less than \$5.

Historically, Council's budget process ordinarily includes finding savings or revenue that allows a reduction in operating millage rate from the preliminary rate set at the first budget meeting.

But 2019 is a different kind of year. The anticipated, but unbudgeted, FEMA reimbursement is the "elephant in the room." Once the reimbursement is received, disaster reserves can be replenished, and the City will return to its solid, pre-Irma, financial footing. If the FEMA reimbursement is either not received or delayed for many years, the finances could become more challenging.

For this reason, keeping the preliminary millage rate of 1.9139 mills may make the most sense. Should the FEMA payment arrive, the City will be well positioned to

handle future exigencies, including renovating police department facilities, implementing solutions to enforce ordinances limiting short-term rentals, and accomplishing a multitude of pending technology projects. And, until the FEMA payment is in hand, the fiscal situation will remain stable, and high priority needs can still be addressed.

As always, we welcome your input on these topics. You can email us at coti@coti.org.

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