TOWN OF SURFSIDE
FINANCE

FIVE YEAR FINANCIAL FORECAST

2023-2027

Surfside, Florida
Five Year Financial Forecast
Fiscal Years 2023-2027

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May 2022

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Exhibits

Town of Surfside FY 2023-2027 Five-Year Financial Forecast

Introduction

The Town of Surfside Fiscal Year 2023-2027 Five Year Financial Forecast is a long-range fiscal planning guide that serves as an integral part of planning the Town's future financial strategy and is a key tool in ensuring long-term fiscal sustainability. A Five-Year Financial Forecast allows the Town to look into the future to navigate our financial challenges by developing long-term solutions rather than short-term fixes. It provides an outlook of Surfside's financial future over the next five-year period, October 1, 2022 through September 30, 2027, as forecasted.

The purpose of the forecast is to evaluate current and future fiscal conditions to guide policy and program decisions. A financial forecast is a fiscal management tool that presents estimated information based on current and projected financial conditions to identify future revenue and expenditure trends that may have an immediate or long-term influence on Town policies, goals or community services. The forecast assists in the formation of decisions that exercise fiscal discipline and deliver essential community services as an integral part of the annual budgeting process. All information is presented on a budgetary basis.

Financial Forecast vs. Budget

The long-term financial forecast should be distinguished from the annual budget, as the forecast projects expected revenues and expenditures for the current year and five years into the future, while the budget sets the maximum amount of spending for one year.

Forecasting Methodology

The estimates included in the forecast are formulated through the use of both quantitative and qualitative methods. Quantitatively, historical revenues and expenditures were analyzed primarily through trend analysis and percentage growth patterns. Items related to fund trending, fund balances, and rates were reviewed for each fund individually to provide information that is more indicative of future scenarios. Certain assumptions about forthcoming and continuing external trends is included. In addition, national, state, and local economic conditions were evaluated to determine what impact they may have on the Town's ability to generate specific types of revenue. Qualitatively, the forecast draws upon the experience and knowledge of finance staff, along with input from the Town's administration, to outline the most likely results.

Financial forecasts are performed based on the most recently available variables. For the financial forecast, these variables include economic data through December 2021, probable events, and the interpretation of the impacts of certain developments within the Town. Financial variables are constantly changing. The Town's forecast is subject to unforeseen and uncontrollable national, state, and local events, in addition to the timing of large capital projects and operational decisions that may make the forecast less accurate. This projection serves as a baseline forecast against which the effects of certain policy and/or funding decisions may be compared. All information is presented on a budgetary basis.

Brief History

In February of 2011, the Town of Surfside, Florida conducted its first Five Year Financial Forecast for Fiscal Years 2012 through 2016. It projected that without the benefits associated with quality, balanced infill developments the Town's tax base would remain static. The Town presented updated forecasts in September 2013 for Fiscal Years 2014 through 2018, and in October 2017 for Fiscal Years 2018 through 2022. The advance warning of potential undesirable outcomes from those reports helped direct Town Commission policy decisions which diversified the tax base and dramatically improved the financial position of the Town. Aiding in these long-term strategic decisions is one of the fundamental advantages brought by this type of analysis.

The Town of Surfside 2023-2027 Five Year Financial Forecast provides an opportunity to look beyond annual revenues and expenditures and recommends policies promoting the sustainability of Town services and rate structures. This projection seeks to answer the important question: Will current policies be financially sustainable over the next five years?

Dynamic process not addressed

This document serves as a backdrop for the further consideration of policies during the annual budget process but, is not itself inclusive. The Town Commission considers a variety of quality of life improvement projects in the form of capital improvement projects and program modifications. Similarly, through the planning and zoning process the Town Commission has the periodic opportunity to examine potential redevelopment projects and business district improvements. A full integration of each of these potential projects is beyond the scope of this analysis, but this document serves as a model for incorporation of these projects as they arise.

Long-range Forecasting

To achieve and maintain a resilient financial position, long-range financial planning is critical as is institutionalizing financial policies related to: debt, reserves, ad valorem tax revenue goals, residential/commercial property tax distribution and diversification of alternative revenue sources.

By providing a forecast of revenues and expenditures over a five-year period (FY2023-2027), the Five-Year Financial Forecast will assist the Town Commission in meeting the following key goals:

- Ensuring a financially sustainable future
- Preservation of the Town's core services
- Commitment to funding capital needs for infrastructure, facilities, and fleet
- Addressing service priorities
- Establishing a reserve policy

Long-range financial planning can be used as a tool to identify potential financial challenges, stimulate long-term and strategic thinking, give a consensus on long-term financial direction, and is useful for communications with internal and external stakeholders. Given the potential for changes in elected and appointed officials, policy direction, intergovernmental relationships, and a variety of other influences, it is more important to value this process. It should be noted that long-term financial planning is a Government Financial Officers Association (GFOA) Best Practice, and the more successful and sustainable local governments utilize long-range financial planning.

The Five-Year Financial Forecast is designed to focus on the Town's General Government and Enterprise Funds. These are core to the Town's ability to provide essential services and capital improvements. As time goes on, this forecast will be monitored, as economic and business conditions will likely be different from preliminary estimates. Any significant changes in assumptions will require future modifications to the forecast.

General Projections and Assumptions

A variety of assumptions have been made regarding each of the nine funds analyzed in this report and additional detail of fund specific projections and assumptions may be found under the fund sections. Some assumptions, however, apply to multiple funds and are articulated here:

1. Personnel salaries are assumed to increase: Historically, aggregate personnel salaries (particularly in the General Fund which pays most police officers and staff) have increased approximately 2.5% annually. It should be noted, that the annual rate does not apply specifically to anyone's salary as across-the-board pay adjustments have not occurred with this frequency. Rather, the aggregate increase in a fund may result from individual adjustments or position changes/additions. The personnel salaries, taxes and benefits cost line items are indexed at 5% in FY 2023, and 3% thereafter.

2. Position count: There are no new positions anticipated or included in the five-year forecasts.

3. Operating expenditures are indexed at 5% in FY 2023, and 3% thereafter, unless otherwise noted in each fund section below.

4. Existing programs are assumed to continue at current service levels. If service levels increase as a result of new residential and commercial developments, the impact on expenditure growth would need to be matched with additional revenue.

5. Impacts from potential actions and other information not known at the time of the preparation of this forecast, such as state and federal stimulus funds, new ballot initiatives, pension cost increases due to updated actuarial assumptions, and changes to current labor agreements are not included in projections.

General Findings:

The Town of Surfside maintains a financial structure consisting of four categories of funds: 1) General Governmental, 2) Special Revenue, 3) Enterprise, and 4) Fiduciary funds.

General Governmental Funds:

- **General Operating Fund**: Over the period considered, this fund is projected to be healthy. Continued monitoring for substantial variation from forecast is recommended.

- **Capital Projects Fund:** Future projects are programmed on a year-to-year basis for one-time expenditures and, therefore, transfers to the fund are considered one-time in nature. Transfers are made from available funds in the General Fund or other funds during the annual budget process. No forecast is provided for this fund as revenues (transfers) equal expenditures for capital projects.

Special Revenue Governmental Funds:

- **Tourist Resort Fund:** Funding available for Tourism related activities of the Tourist Bureau and the cost of operating and maintaining the Community Center and Tennis Center, and other resort tax eligible activities will be enhanced as a result of projected new in-fill development. This funding source is limited by Ordinance and Florida State Chapter 67-930 to services and programs which promote tourism.

- **Police Forfeiture Fund:** This restricted fund's revenues are unpredictable as there is no calculation method or apparent trend leading to a reliable result. Continuing the practice of expending only unencumbered restricted realized revenues is recommended.

- **Municipal Transportation Fund:** The Town of Surfside will utilize the fund's accumulated reserves for the Downtown Walkability and 91st Street improvement projects beginning in FY 2023. On its current course, with moderate modification to expenditures and/or revenue increases, this fund will remain self-sufficient through FY 2027. These funds are limited for expenditures which promote community transportation and the development, construction, or maintenance of roadways, bridges, or mass transit systems.

- **Building Fund:** Revenues in this fund are generated from fees for building permits and inspections related to construction, building, renovation and development activity. The fees are used solely for carrying out the Town's responsibilities in enforcing the Florida Building Code. It is important to note as the FY 2022 Adopted Budget points out that the revenues associated with this fund are volatile and fluctuate with construction cycles. Building fees are paid up front, and prior year revenues are maintained in fund reserves for inspections services and building department activity throughout project life cycles. Depending upon how long the current construction cycle lasts, this fund will need to draw upon its reserves in the future to meet its expenditures. However, this fund is projected to be very healthy for the next five years.

Enterprise Funds:

- **Water / Sewer Fund:** Refinements to the existing water and sewer rates, to better align with the Town's goal of revenue stability to generate enough revenues to support projected costs going forward should be studied. Modest rate increases are not projected in the model. A 5% annual growth rate in the Town's costs for water purchases and sewage disposal is based on five-year and ten-year averages of those costs. Implementation of a consistent rate increase over time should be considered to stabilize existing restricted revenues, generate enough revenues to support costs, and reduce the deficit in unrestricted net position.

- **Municipal Parking Fund:** Assuming no transfers, unrestricted net position is projected to increase gradually and will continue to exceed operating expenses. This could be used to support downtown improvements that are carefully selected to maintain our small Town feeling yet generate opportunities for existing and new businesses while increasing parking availability.

- **Solid Waste Fund:** At current rates the fund's expenses are projected to exceed revenues over the forecasted five years. Deficits are largely tied to projected user fees remaining unchanged and annual operating costs gradually increasing. A process for implementing consistent rate increases over time to align revenues with the cost of services and to establish a healthy reserve is recommended.

- **Stormwater Fund:** This fund continues to be in good shape. At the current rates, revenues are projected to exceed expenses over the forecasted five years. A major capital improvement project is expected in FY 2023. Funding for that project is mainly secured from grants and other governmental aid. Available net position is expected to be utilized for the balance of the project's cost.

Recommended Actions:

1. **Creation of Fund Balance Policy for the General Fund**
    a. **Working Capital or Operations & Maintenance (O&M) Reserve:** For general use to maintain essential services during periods of intense capital and budgetary needs.
        i. Recommended at 25% Town's annual operating expenditures of the General Fund.
    b. **Millage rate (Budget) Stabilization Reserve:** With increasing expenditures and fairly static incomes, such a reserve would allow for the "smoothing" of anticipated future year incomes. These funds will be increasingly important when the next slow-down in development and/or recession occurs.
        i. Recommended at 10% Town's annual operating expenditures of the General Fund.
    c. **Capital Project Reserve:** Such a reserve helps to split the costs of infrastructure projects between current and future residents by reducing the amount of future borrowing for major projects.
        i. Recommended at 5% Town's annual operating expenditures of the General Fund.
    d. **Increase in Hurricane/Natural Disaster Reserve:** With increasing replacement costs for existing facilities and increasing assaults against local governments nationally, the current assigned reserves should be buttressed. These reserves may be utilized to address impacts from hurricanes and/or other potential risks associated with our environment (sea-level rise, etc.).
        i. Recommended at 20% Town's annual operating expenditures of the General Fund
2. **Creation of Fund Balance Policy for the Tourist Resort Fund**
    a. **Working Capital or Operations & Maintenance (O&M) Reserve:** For general use to maintain essential services during periods of intense capital and budgetary needs.
        i. Recommended at 10% Town's annual operating expenditures of the Tourist Resort Fund.
    b. **Budget Stabilization Reserve:** The reserve would allow for the "smoothing" of anticipated future year incomes. These funds will be increasingly important when the next recession occurs.

        i. Recommended at 10% Town's annual operating expenditures of the Tourist Resort Fund.

    c. **Capital Project Reserve:** Such a reserve should be used for needed capital expenditures in a fiscal year in which current net revenues are insufficient to cover the project's costs.
        i. Recommended at 10% Town's annual operating expenditures of the Tourist Resort Fund.
    d. **Increase in Hurricane/Natural Disaster Reserve:** With increasing replacement costs for existing facilities and increasing assaults against local governments nationally, the current assigned reserves should be buttressed. These reserves may be utilized to address impacts from hurricanes and/or other potential risks associated with our environment (sea-level rise, etc.).
        i. Recommended at 10% Town's annual operating expenditures of the Tourist Resort Fund

3. **Review and setting rate increase in Water & Sewer and Solid Waste Funds**
    a. At current rates the funds' expenses are projected to exceed revenues over the forecasted five years. Deficits are largely tied to projected user fees remaining unchanged and annual operating costs gradually increasing. A process for implementing consistent rate increases over time to align revenues with the cost of services and to establish a healthy reserve is recommended.

General Fund

The General Fund (or General Governmental Operating Fund) is the primary fund that supports governmental operations and services. The primary revenue supporting these services is property (ad valorem) taxes. Property taxes play a vital role in financing essential public services. Property tax revenues are primarily used to fund Town-wide services in the General Fund. This reliable revenue source has no attached mandates as many other State and Federal revenues often do.

Property Taxes

Property tax is the Town's largest revenue source, representing 80 percent of the General Fund FY 2022 Adopted Budget revenues. The primary component of property taxes is generated from the 4.2000 mill levy on the assessed taxable value of all real property within the Town's limits. Property taxes are projected to increase to 84 percent of General Fund revenues over FY 2024 through 2027.

As shown in **Figure 1** below, the Town's revenues for the General Fund will continue to rely heavily upon property tax collections to support general governmental operations. Taken on its own, this suggests that property taxes on existing properties and the associated millage rate will be increased. Further analysis shows otherwise. Annually, only 1% of the increase in property taxes is associated with existing property. Those increases are based on improvements and property value increases, not millage rate increases.

Figure 2 illustrates the distribution of property values. Growth in the percentage of condominium property values is largely attributable to significant increases in assessed value associated from new residential in-fill development and re-development projected to be completed in FY 2024 through 2027.

Figure 1: Percentage of Total General Fund Revenue from Property Taxes

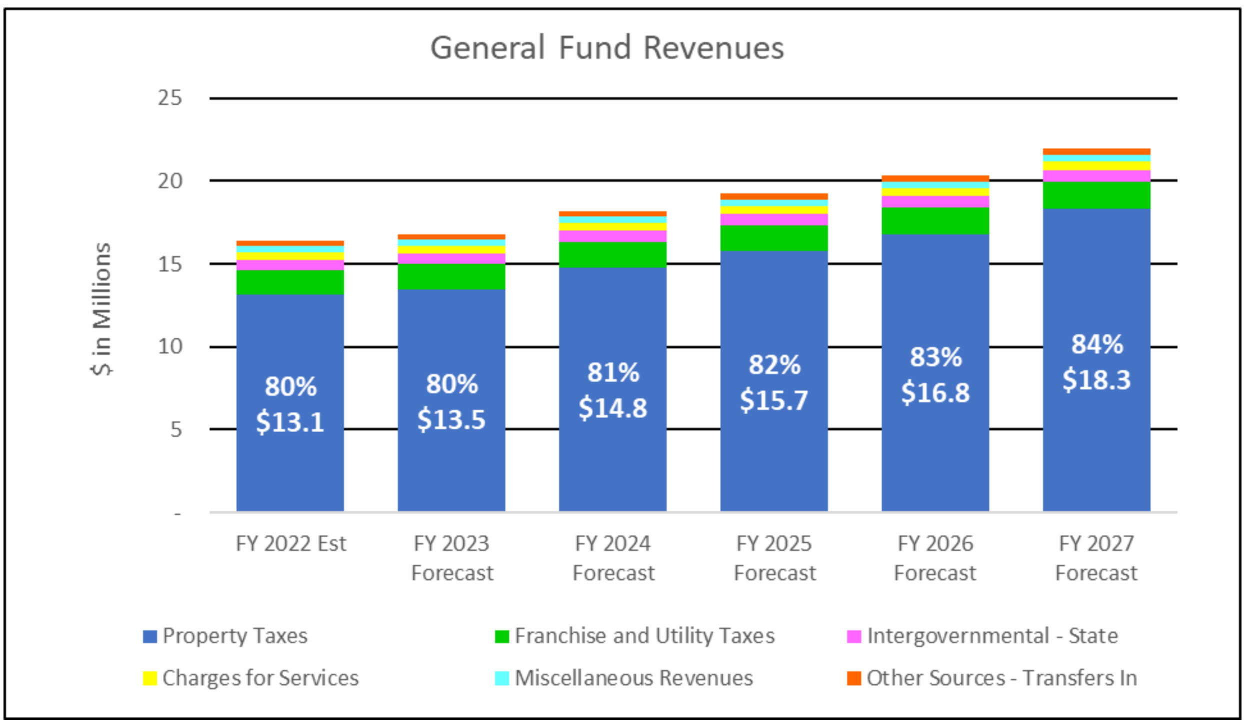
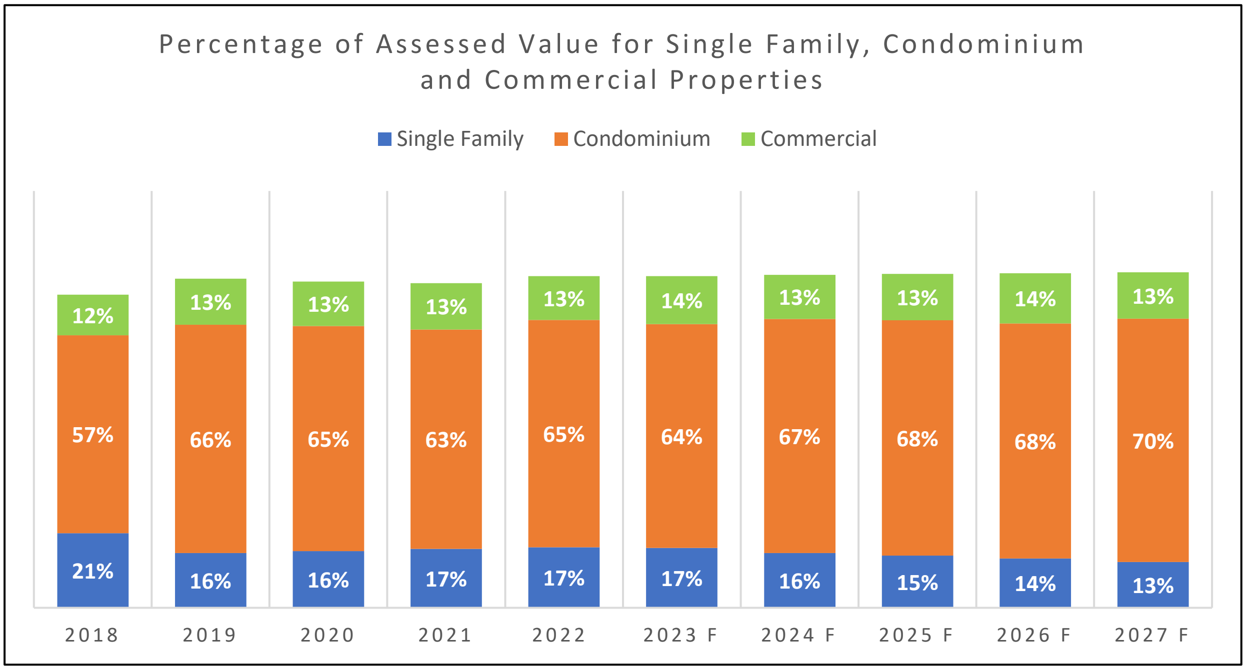


Figure 2: Assessed Value Distribution by Property Type



Percentage of Total Property Taxes by Property Type

While the percentage of all General Fund revenues from property taxes is increasing, the percentage of property taxes paid by existing single-family residential and commercial property owners will diminish through FY 2027. At that point, anticipated new property developments will be completed and assessable. The effect of in-fill development and re-development is that over the next five years, the growth from oceanfront development shifts the percentage of assessed property values derived from condominium properties upward 5 percent to represent 70 percent of the Town's assessed value as shown in Figure 2. This strengthens property tax revenues which support the Town's general governmental operations and improvements.

Fund Trends

Revenue growth in recent budgets largely stems from changes in real property assessed value and not from increases in the millage rate. Those increases are derived from existing property improvements and allowed annual assessment increases to non-homestead (limited to 10 percent) and homestead (limited to 3 percent or the CPI, whichever is lower) properties. However, significant property tax revenue growth associated with in-fill development (construction on vacant land) and re-development (reconstruction on currently developed land) is projected for FY 2024 through FY 2027. Future anticipated development stems from residential, hotel, and commercial projects mainly on beachfront properties.

The following project site plans have been approved and the related date of inclusion in the tax roll is projected:

- Surf Club Apartments and Seaway Villas 9133-9149 Collins Avenue
  - FY 2024 ad valorem

- Surf Club Parking Garage and Retail Space NW Building 9100 Collins Avenue
  - FY 2025 ad valorem
- Eden Surfside 9300-9380 Collins Avenue hotel development
  - FY 2026 ad valorem and resort taxes
- Surf House Ocean Views 8995 Collins Avenue
  - FY 2027 ad valorem

Other projects in various stages of development and the related date of inclusion in the tax roll is projected as follows:

- Surf Club Hillcrest by the Sea 9165 Collins Avenue
  - FY 2025 ad valorem
- Regent Palace re-development 9309-9317 Collins Avenue
  - FY 2026 ad valorem
- Champlain Towers South replacement 8777 Collins Avenue
  - FY 2027 ad valorem

The chart in **Figure 3** illustrates the forecasted property tax revenue increases from FY 2023 through FY 2027 compared to the five prior years. As Figure 3 illustrates, increases to General Fund revenues are anticipated while maintaining the same millage rate (4.2000 mills) proposed in the FY 2022 Adopted Budget and are primarily based on existing properties and the allowable increases in property value expected to be "on the rolls" in FY 2023. The projections further outline increases to revenue beginning in FY 2024, largely due to the value of new construction projects slated for completion through FY 2027 and added to the tax rolls. The chart in **Figure 4** illustrates the growth effect to value assessments as new construction projects are added.

Figure 3: Property Tax Projections

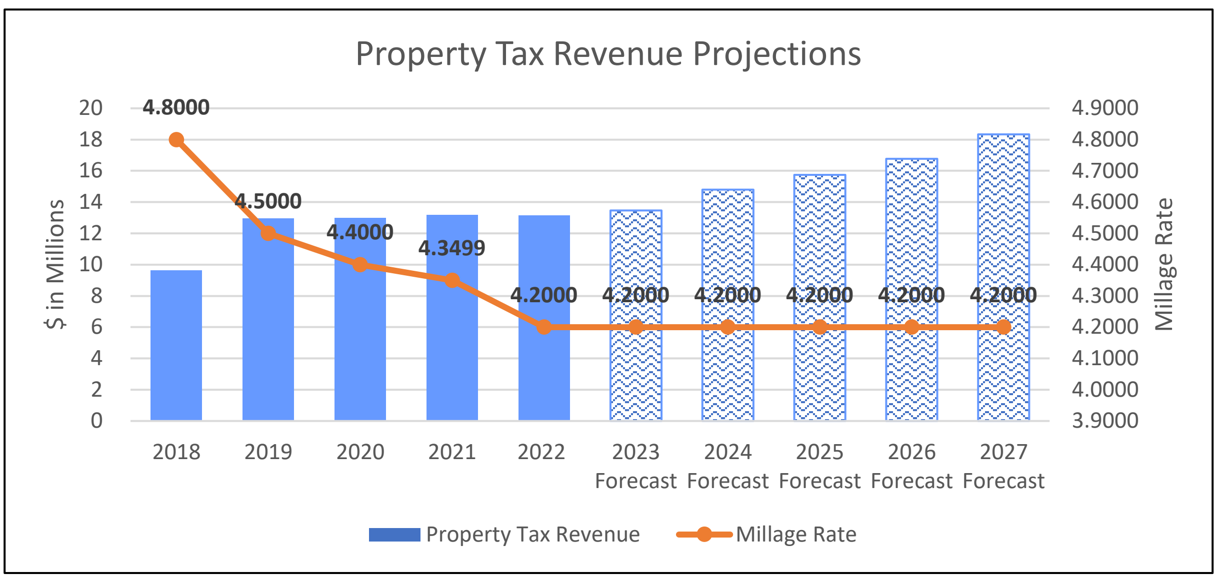
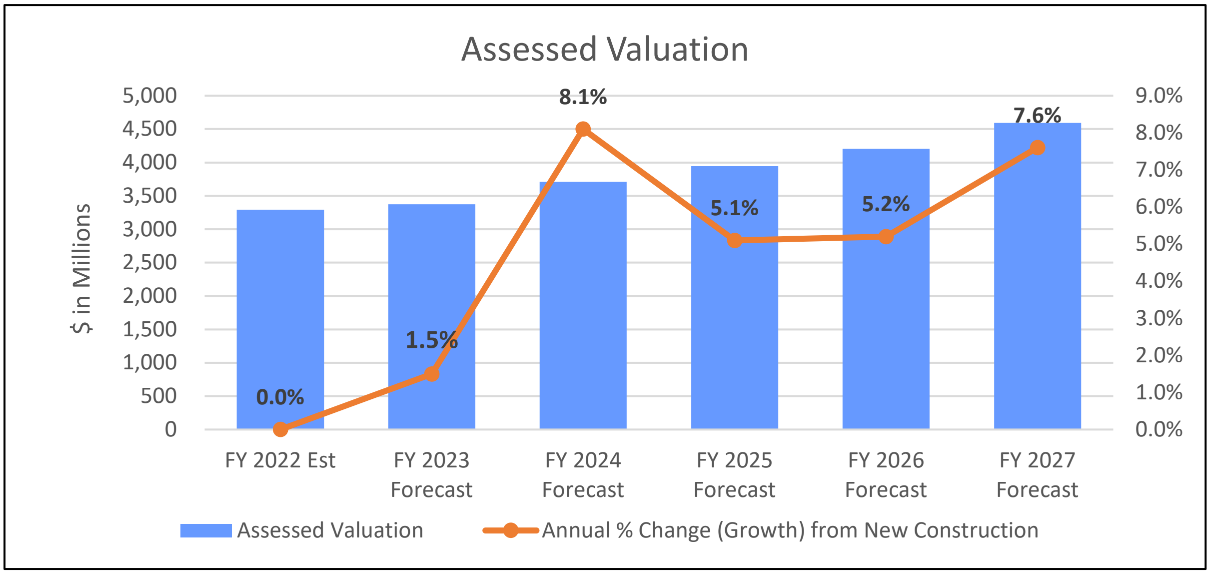


Figure 4: Growth Effect to Value Assessments



Projections and Assumptions

The property tax rate will remain at 4.2000 mills through 2027. Increases or decreases in property tax revenues will result from estimated changes in assessed valuations and not changes to the millage levy rate.

Real and personal property tax revenue from renovations: Value assessments will continue to increase (1% is assumed) as properties are improved and added to the tax base. The 1% growth is captured as new property tax revenue from improvements to property (largely residential) and is exclusive of new, commercial and residential (in-fill) development. Given current market conditions, this is a conservative estimate. The sale of the Marriott in December 2021 is largely responsible for the significant FY 2023 value growth.

Real and personal property tax revenue from development: Value assessments will increase for properties for which there are developer agreements. Increases to valuation resulting from new development (or redevelopment) of properties are captured as new property tax revenues.

Real and personal property tax revenue from market force increases to valuation is not captured as revenue: No increases to the tax levy are included in the analysis for valuation increases based on market forces. A 1% assumption of growth from building improvements has the effect of increasing the value of a mill and reducing the millage rate needed to generate similar property tax revenues. Additional revenues are accommodated on a conservative time frame for known in-fill development.

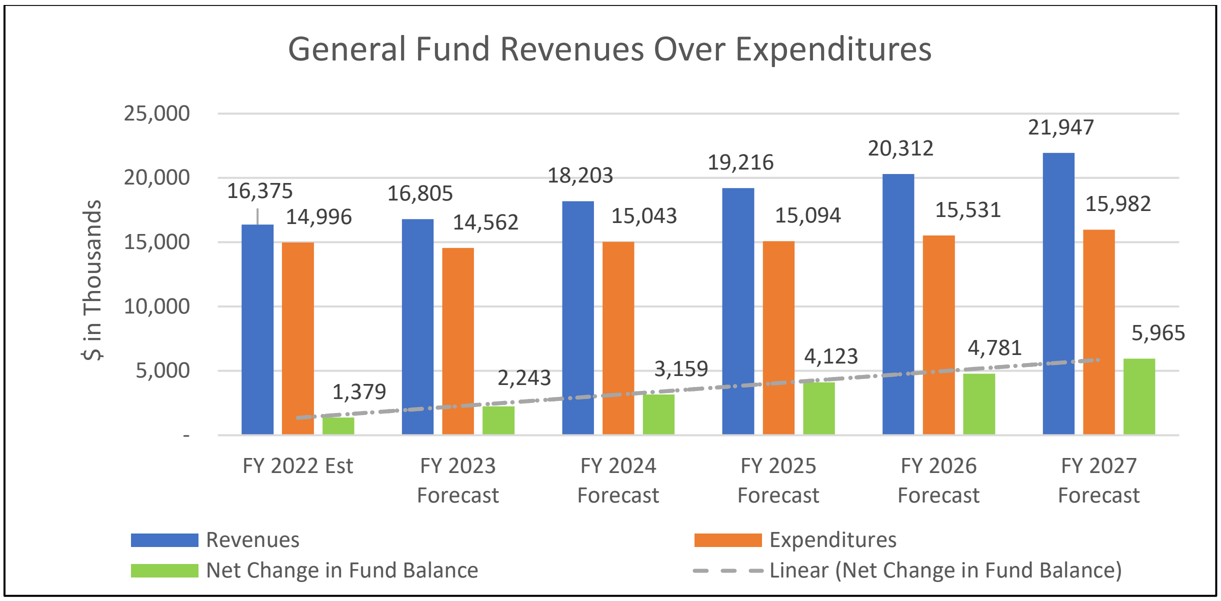
New commercial and residential in-fill development: Value assessment increases arising from new construction of in-fill development projects projected to be completed and online within the next five years based on the conservatively estimated time schedule included in the forecast. The actual timing of project completion and inclusion on the tax rolls may negatively affect value assessments and ad valorem assessment forecasts.

Annual growth rate of other revenues: 3.1% in FY 2023, 2% during the FY 2024-2027 period.

Operating Revenues and Expenditures

Based on a 1% increase in property valuations for improvements, and a 5% increase in expenditures in FY 2023 and an annual 3% increase thereafter (FY 2024 through FY 2027), what does the forecastable future look like regarding operating revenues and operating expenditures? From this base analysis, decisions regarding restricted reserves and millage rate reductions may be better informed. Revenues are expected to exceed expenditures by $1.379 million (FY 2022) prior to reserve development to as much as $5.965 million (FY 2027) assuming no substantial change to the total levy for pre-existing properties. The following chart (Figure 5) illustrates the forecasted increases to General Fund revenues, expenditures and fund balance.

Figure 5: General Fund Revenues, Expenditures and Net Change in Fund Balance



Funding Requirements on Current Course

Present analysis and assumptions indicate that funding challenges should be minimal for this fund over the next five years. Once those years have passed, revenues are projected to remain stable as no major in-fill projects are expected and the likelihood of large-scale properties available for development in Surfside is limited. Expenditures are projected to continue to increase in future outer years at approximately 3% – 5% annually based only on operating items (excluding capital outlay and capital improvements). **For this reason, the establishment of a "Budget Reserve for Millage Rate Stabilization" is recommended.**

Fund Balance Table and Explanation

The unassigned and unrestricted fund balance is currently very healthy at 126% of annual expenditures (Table 1) and the Assigned Hurricane/Disaster Reserve has a balance of $2.0 million. **Exhibit A** to this document provides a policy recommendation for each of the following types of reserves that Town

Town of Surfside FY 2023-2027 Five-Year Financial Forecast

Administration would like to establish:

- Maintain an unassigned reserve of 25% of annual General Fund expenditures (O&M reserve)
- Increase the Hurricane/Disaster Reserve to 20% of annual General Fund expenditures
- Establish a Budget Stabilization Reserve of 10% of annual General Fund expenditures
- Establish a Capital Reserve equivalent to 5% of annual General Fund Expenditures

Annual reserve targets are identified in **Table 2** below. The targets change each year as forecasted General Fund expenditures change. **Table 3** identifies a funding strategy based on forecasted surpluses to meet the recommended targets by the end of FY 2027. The starting numbers are based on FY 2022 Estimated information. The reserves are not re-distributed. Portions of the unrestricted fund balance are utilized to increase the Hurricane/Natural Disaster reserve and help start the two new reserves for Budget Stabilization and Capital.

Table 1: Projected Effects to General Fund Balance

Fund Balance - General Fund						
	FY 2022 Est	**FY 2023 Forecast**	**FY 2024 Forecast**	**FY 2025 Forecast**	**FY 2026 Forecast**	**FY 2027 Forecast**
Beginning	**$20,920,841**	**$22,299,508**	**$24,542,609**	**$27,701,813**	**$31,824,559**	**$36,605,726**
Ending	**$22,299,508**	**$24,542,609**	**$27,701,813**	**$31,824,559**	**$36,605,726**	**$42,570,513**
Net Change	$1,378,667	$2,243,100	$3,159,205	$4,122,746	$4,781,167	$5,964,787

Table 2: Recommended Reserve Policy

General Fund Recommended Reserve Policy							
	% of Operating	**FY 2022 Estimated**	**FY 2023 Forecast**	**FY 2024 Forecast**	**FY 2025 Forecast**	**FY 2026 Forecast**	**FY 2027 Forecast**
O&M Reserve	25%	$3,228,953	$3,390,401	$3,542,113	$3,648,376	$3,757,828	$3,870,562
Hurricane/ Natural Disaster Reserve	20%	2,583,163	2,712,321	2,833,690	2,918,701	3,006,262	3,096,450
Budget Stabilization Reserve	10%	1,291,581	1,356,160	1,416,845	1,459,351	1,503,131	1,548,225
Capital Reserve	5%	645,791	678,080	708,423	729,675	751,566	774,112
Total Recommended		$7,749,488	$8,136,962	$8,501,071	$8,756,103	$9,018,786	$9,289,350
Other Fund Balance		14,550,020	16,405,647	19,200,742	23,068,456	27,586,940	33,281,163
Total Fund Balance		**$22,299,508**	**$24,542,609**	**$27,701,813**	**$31,824,559**	**$36,605,726**	**$42,570,513**

Table 3: Funding to Meet Reserve Targets

General Fund Proposed Funding to Meet Reserve Targets							
	% of Operating	FY 2022 Estimated	FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast
O&M Reserve	25%	$3,228,953	$161,448	$151,712	$106,263	$109,451	$112,735
Hurricane /Natural Disaster Reserve	20%	583,163	129,158	121,370	85,011	87,561	90,188
Budget Stabilization Reserve	10%	1,291,581	64,579	60,685	42,505	43,781	45,094
Capital Reserve	5%	645,791	32,290	30,342	21,253	21,890	22,547
Total to Meet Reserve Targets		**$5,749,488**	**$387,474**	**$364,109**	**$255,032**	**$262,683**	**$270,564**

Tourist Resort Fund

The Tourist Resort Fund is a special revenue fund which accounts for special revenues generated through and restricted by Florida Statute. The special revenues are generated from a municipal resort tax of 4% on the rent of any room in any hotel, motel, or apartment house (bed tax) and 2% on certain food and beverage sales at service establishments. The funds are intended for the enhancement of tourism, and the operation and maintenance of community centers, and their use is articulated in and governed by the Town of Surfside Town Charter, Town of Surfside Ordinance and State law.

This special revenue fund is required to utilize its funds to comply with certain allocation requirements. Revenues are allocated 34% for tourism related activities of the Tourist Bureau, and the remaining 66% are allocated for the cost of operating and maintaining the Community Center, Public Works Tourist Area resort tax eligible activities. Maintenance of a fund balance is not required but as new infill developments are completed, a fund balance policy should be established for the 66% related to the Community Center/Public Works Tourist Area.

Fund Trends

Each year for the past eight years, except for FY 2020, resort tax revenue has steadily increased due to the growth in hotel and dining demand and new restaurants in Surfside. Resort tax collections were adversely impacted during FY 2020 due to the effect of the Covid-19 pandemic on tourism. This has gradually reversed, and this upward trend will likely continue in the foreseeable future. For this reason, a conservative rebound in revenues is projected. As the economy improves, resort tax revenues are estimated to generally increase throughout the years of the forecast. The singular in-fill development projected that affects this fund is the completion of the Eden Surfside 9300-9380 Collins Avenue hotel project.

Projections and Assumptions

New commercial in-fill development in the forecast is anticipated from completion of the Eden Surfside 9300-9380 Collins Avenue hotel development in FY 2025. The forecast reflects a partial year tax remittance for 180 days in FY 2025 for that hotel's initial operating period rentals. FY 2026 reflects full year remittance from any Eden Surfside rentals.

<u>Growth in Resort Tax revenues</u> is projected at 3% annually to capture conservative growth in bed tax mainly from a return to good occupancy rates, an increase in average daily rates and revenue per available room, and an overall increase in business activity (food and beverage tax) from tourism and new developments.

<u>Resort taxes will continue to be directed</u> 34% for the enhancement of tourism, and 66% for operating and maintaining the Community Center and Public Works Tourist Area resort tax eligible activities.

Operating Revenues and Expenditures

Based on annual 3% increase and projected new revenue from new hotel development (FY 2025), what does the forecastable future look like regarding operating revenues and operating expenditures? Revenues are expected to exceed expenditures by $964 thousand (FY 2022) prior to reserve development to as much as $1,416 thousand (FY 2027) assuming no substantial change to current conditions. The chart in **Figure 6** illustrates the total forecasted increases to Resort Tax Fund revenues, expenditures and fund balance.

Forecast Chart and Explanation

As **Figure 6** illustrates, the combined operating revenues are expected to meet or exceed expenditures in the Tourist Resort Fund for each of the five years. Further analysis of fund revenues directed to each allocated category - 34% to enhance tourism (Resort Tax Board-Tourist Bureau) and 66% to operate and maintain the Community Center and Public Works Tourist Area resort tax eligible activities is illustrated in **Figures 7 and 8**.

Figure 6: Tourist Resort Fund – All Revenues, Expenditures and Net Change in Fund Balance

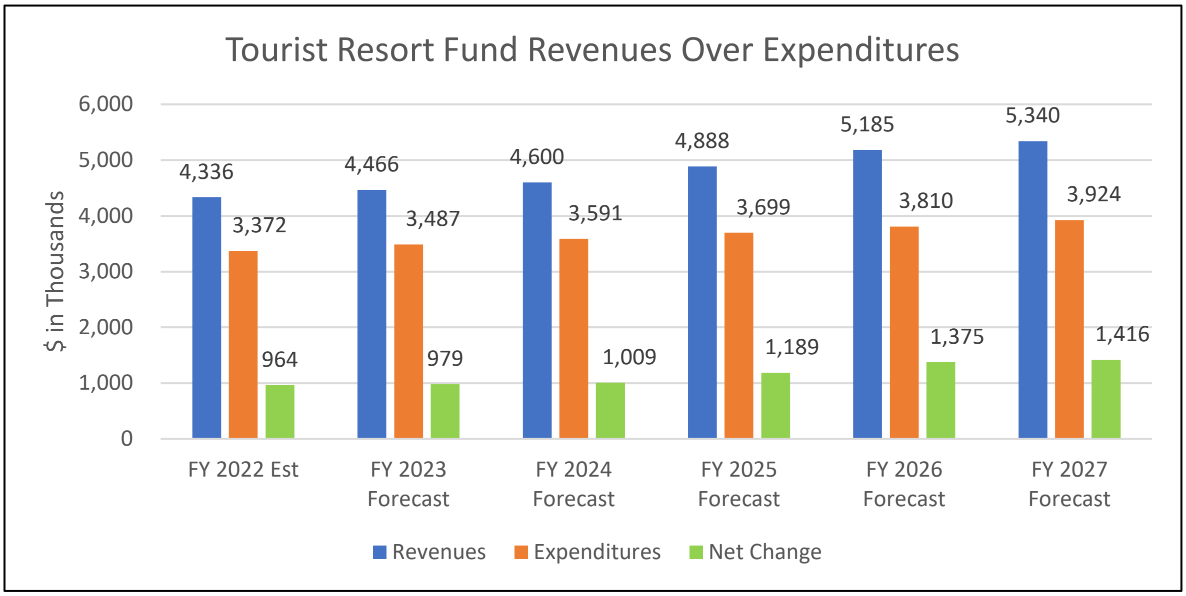


Figure 7: Resort Tax Board-Tourist Bureau (34%) – Revenues, Expenditures and Net Change in Fund Balance

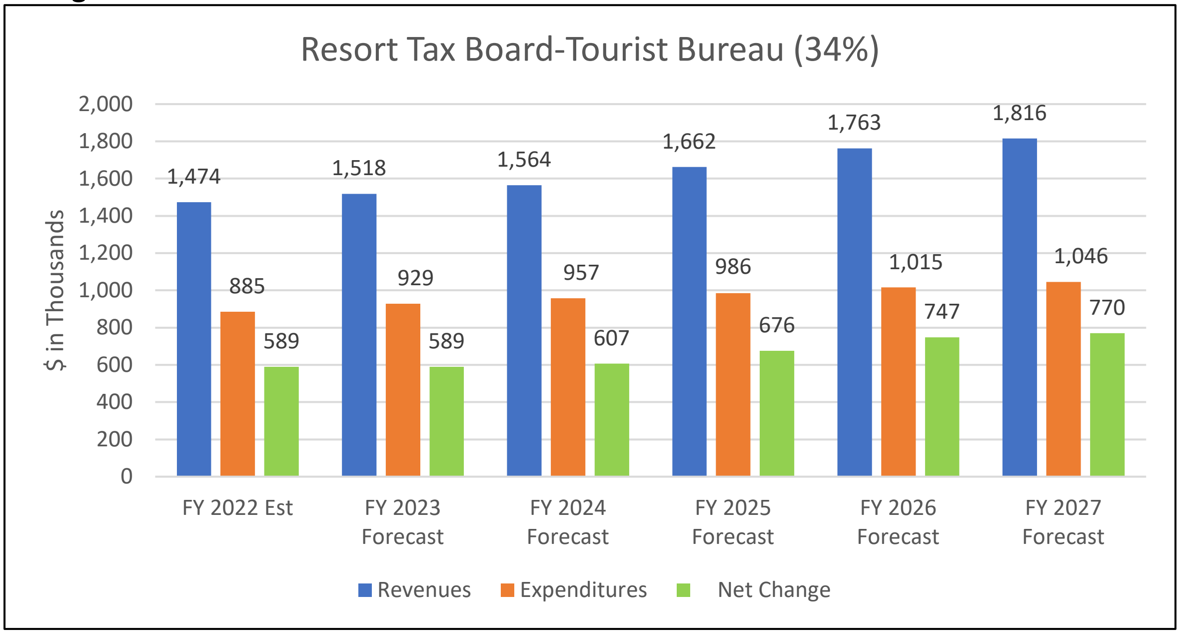
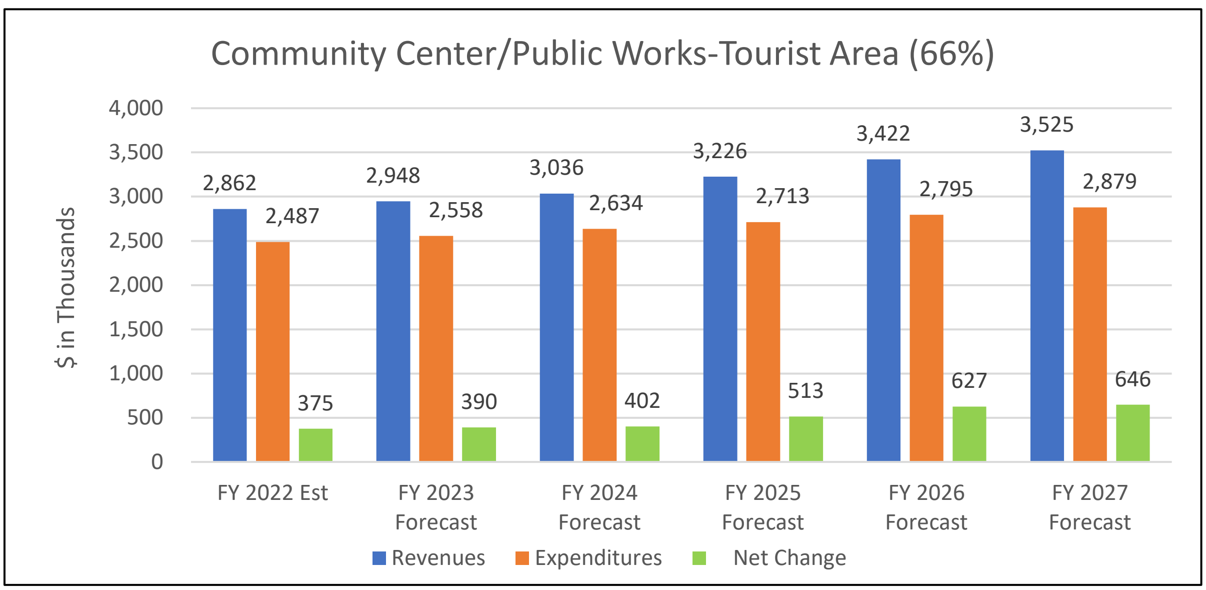


Figure 8: Community Center/Public Works Tourist Area (66%) – Revenues, Expenditures, and Net Change in Fund Balance



Funding Requirements on Current Course

On the current course, no funding beyond the restricted revenues for this fund are anticipated for the duration of this forecast. Beyond the forecast period, revenues are anticipated to stabilize and a further review of performance to forecast expenditures in the next several years is anticipated to identify and adjust for any new initiatives. Expenditures in this forecast are projected to continue to increase in future outer years at approximately 3% – 5% annually based only on operating items (excluding capital outlay and capital improvements). With the revenue allocation of 34% and 66%, the fund balance remains healthy and is expected to increase. **For this reason, the establishment of a fund balance policy for the Community Center/Public Works Tourist Area (66%) portion is recommended.**

Fund Balance Tables and Explanation

The fund balance breakdown with the revenue allocation of 34% Resort Tax Board-Tourist Bureau and 66% Community Center/Public Works Tourist Area is presented in **Tables 4 and 5**. The restricted fund balance for the Resort Tax Board-Tourist Bureau is currently very healthy at 321% of expenditures (Table 4). The restricted fund balance for the Community Center/Public Works Tourist Area is currently very healthy at 96% of expenditures (Table 5).

Exhibit A to this document provides a policy recommendation for the Community Center/Public Works Tourist Area 66% allocation for each of the following types of reserves that Town Administration would like to:

- Maintain a reserve of 10% of annual expenditures (O&M reserve)
- Establish a Hurricane/Disaster Reserve of 10% of annual expenditures
- Establish a Budget Stabilization Reserve of 10% of annual expenditures
- Establish a Capital Reserve equivalent to 10% of annual expenditures

Annual reserve targets are identified in **Table 6** below. The targets change each year as forecasted expenditures for allocated (66%) Tourist Resort Fund Community Center/Public Works Tourist Area eligible activities change. Table 7 identifies a funding strategy based on forecasted surpluses to meet the recommended targets by the end of FY 2027. The starting numbers are based on FY 2022 Estimated information. The reserves are not re-distributed. Portions of the restricted fund balance are utilized to help start the four new reserves.

Table 4: Projected Effects to Resort Tax Board-Tourist Bureau (34%) Fund Balance

Fund Balance - Resort Tax Board-Tourist Bureau (34%)						
	FY 2022 Est	FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast
Beginning	**$2,256,057**	**$2,845,249**	**$3,434,416**	**$4,041,258**	**$4,717,305**	**$5,464,633**
Ending	**$2,845,249**	**$3,434,416**	**$4,041,258**	**$4,717,305**	**$5,464,633**	**$6,234,381**
Net Change	$589,192	$589,167	$606,842	$676,047	$747,328	$769,748

Town of Surfside FY 2023-2027 Five-Year Financial Forecast

Table 5: Projected Effects to Community Center/Public Works Tourist Area (66%) Fund Balance

Fund Balance - Community Center/Public Works-Tourist Area (66%)						
	FY 2022 Est	**FY 2023 Forecast**	**FY 2024 Forecast**	**FY 2025 Forecast**	**FY 2026 Forecast**	**FY 2027 Forecast**
Beginning	**$2,008,400**	**$2,383,158**	**$2,773,221**	**$3,174,985**	**$3,687,803**	**$4,315,005**
Ending	**$2,383,158**	**$2,773,221**	**$3,174,985**	**$3,687,803**	**$4,315,005**	**$4,961,023**
Net Change	$374,758	$390,063	$401,765	$512,818	$627,202	$646,018

Table 6: Recommended Reserve Policy Community Center/Public Works Tourist Area (66%)

Recommended Reserve Policy Community Center/Public Works Tourist Area (66%)							
	% of Operating	**FY 2022 Est**	**FY 2023 Forecast**	**FY 2024 Forecast**	**FY 2025 Forecast**	**FY 2026 Forecast**	**FY 2027 Forecast**
O&M Reserve	10%	$240,095	$252,100	$259,663	$267,453	$275,477	$283,741
Hurricane /Natural Disaster Reserve	10%	240,095	252,100	259,663	267,453	275,477	283,741
Budget Stabilization Reserve	10%	240,095	252,100	259,663	267,453	275,477	283,741
Capital Reserve	10%	240,095	252,100	259,663	267,453	275,477	283,741
Total Recommended		$960,381	$1,008,400	$1,038,652	$1,069,812	$1,101,906	$1,134,963
Other Fund Balance		1,422,777	1,764,820	2,136,333	2,617,991	3,213,099	3,826,060
Total Fund Balance		**$2,383,158**	**$2,773,221**	**$3,174,985**	**$3,687,803**	**$4,315,005**	**$4,961,023**

Table 7: Funding to Meet Reserve Targets – Community Center/Public Works Tourist Area (66%)

Proposed Fiscal Year Funding to Meet Reserve Targets Community Center/Pubic Works Tourist Area (66%)							
	% of Operating	**FY 2022 Est**	**FY 2023 Forecast**	**FY 2024 Forecast**	**FY 2025 Forecast**	**FY 2026 Forecast**	**FY 2027 Forecast**
O&M Reserve	10%	$240,095	$12,005	$7,563	$7,790	$8,024	$8,264
Hurricane /Natural Disaster Reserve	10%	240,095	12,005	7,563	7,790	8,024	8,264
Budget Stabilization Reserve	10%	240,095	12,005	7,563	7,790	8,024	8,264
Capital Reserve	10%	240,095	12,005	7,563	7,790	8,024	8,264
Total to Meet Reserve Targets		**$960,381**	**$48,019**	**$30,252**	**$31,160**	**$32,094**	**$33,057**

Police Forfeiture Fund

The Police Forfeiture Fund is a general governmental fund which accounts for special revenues generated through (and restricted by) Florida Statue. Once a forfeiture occurs at the task force level, funds are used to pay for expenses of the task force. The remainder is distributed based upon the number of officers each municipality has assigned to the Task Force. Other funds may come from the Surfside Police Department conducting its own investigations that may result in seizures. Funds may also come from Surfside's participation is a joint investigation with a Federal agency that results in asset forfeiture. The primary limitation on the expenditures is that they provide for a new/non-operational program and/or project aimed at reducing crime, drug awareness programs and/or supporting new or expanded police initiatives.

Fund Trends

The Town of Surfside has utilized the accumulated reserves in the past several years. Historically, revenues are very sporadic.

Projections and Assumptions

Revenue collections will continue to be sporadic.

An Officer who participates in the Task Force will continue to be funded through the General Fund.

Funds will only be budgeted and expended after received.

Funds will be used to maintain existing recurring programs were permissible.

Funding Requirements on Current Course

No modification is needed to maintain this fund provided the restricted fund balance is not exceeded.

Fund Forecast Chart Explanation

No forecast is provided for this revenue as it would represent a balanced budget of radically unpredictable funding forecasts. In short, it is too unpredictable for the chart to be truly predictive or meaningful.

Municipal Transportation Fund

The Municipal Transportation Fund is a special revenue fund which results from restricted revenues from the Citizen's Initiative Transportation Trust (CITT) program. As with other special revenues funds, revenues are only received if they are spent on particular types of qualified projects. These projects generally include projects which will improve traffic safety or benefit or encourage the use of mass transit services. Some elements of downtown pedestrian improvements and local transportation projects are likely qualified expenditures. The Town historically utilizes a large portion of the funds on the Town circulator bus.

A Maintenance of Effort (MOE) is also required from the Town to continue to qualify for funding. The MOE is a level of expenditure which the Town must dedicate to transportation purposes from other funding sources. To receive the approximately $242,000 for transportation projects from the pro-rata share of a half-penny sales surtax, the Town spends over $190,183 (MOE) from other funds.

Fund Trends

The revenues for this fund result from the distribution of a half-penny tax on eligible sales transactions in Miami-Dade County. The trend is for moderate revenue increases as more gasoline in consumed. After several years of fund balance growth, a number of qualified projects have been identified to be funded with CITT funds in the FY 2022 Five-year Municipal Transportation Improvement Program: the Downtown Walkability improvement in FY 2022/FY 2023 and the 91st Street Improvement project in FY 2023/FY 2024.

Funding these recommended projects, in addition to recurring allowable expenditures, represents a change to the fund trend by appropriating and utilizing restricted funding. Rather than a concern over accumulating reserves, the larger concern in the next few years may be over-expending in this fund.

Projections and Assumptions

<u>Revenue growth of 3% annually</u>.

<u>Return to a basic level of operating expenditures</u> as projects are finishing and reserves are on-track to be exhausted soon.

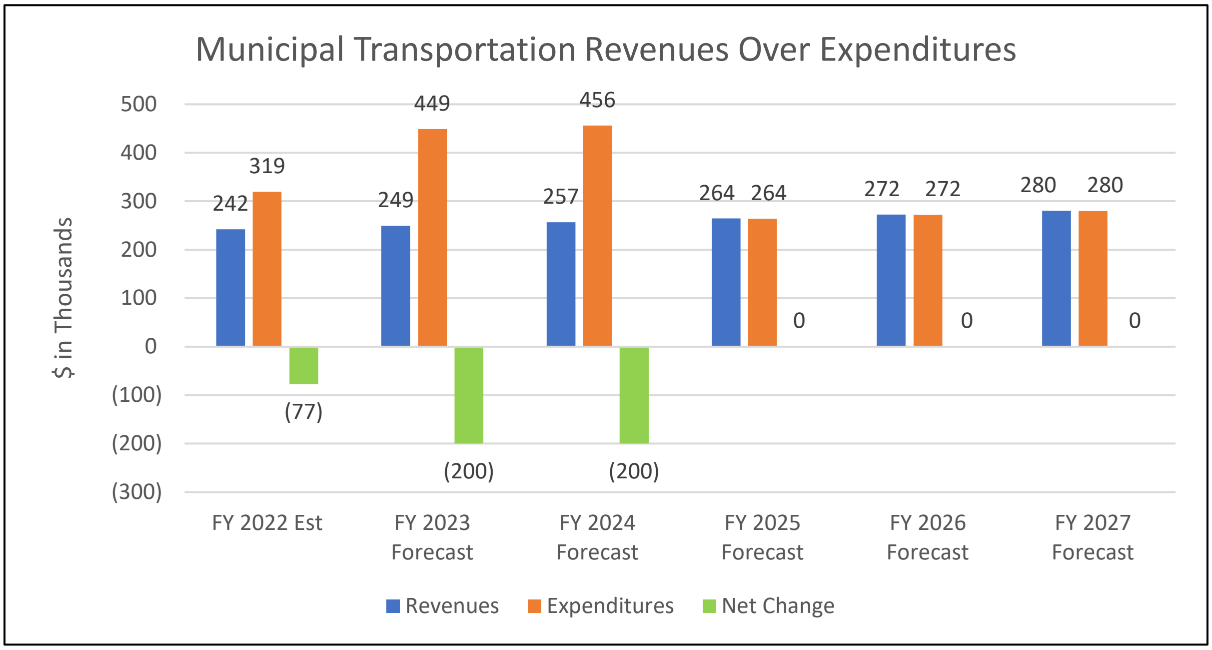
Funding Requirements on Current Course

Projections indicate that adequate funding will be available to address recurring operating expenditures without revision to revenues or expenditures. With these assumptions of basic recurring revenues and operating expenditures over the next five years, the fund balance is projected to remain constant in FY 2025 through FY 2027 after the identified major improvement projects have been funded.

Forecast Chart and Explanation

As **Figure 9** illustrates, FY 2023 through FY 2024 is balanced through the utilization of accumulated restricted fund reserves, mainly for identified improvement projects noted above. Revenues are expected to be sufficient for operating expenditures in the Municipal Transportation Fund for each of the three years after FY 2024.

Figure 9: Municipal Transportation Fund Revenues, Expenditures and Net Change in Fund Balance



Fund Balance Table and Explanation

Table 8 (below) identifies the annual projected Restricted Fund Balance with the utilization of accumulated reserves for qualified projects in FY 2023 and FY 2024. Recurring revenues and expenditures will be balanced throughout the forecast and projected reserves will remain constant in FY 2025 through FY 2027. Changes to service or new projects would modify this forecast.

Table 8: Projected Effects to Municipal Transportation Fund Balance

Fund Balance - Municipal Transportation Fund						
	FY 2022 Est	**FY 2023 Forecast**	**FY 2024 Forecast**	**FY 2025 Forecast**	**FY 2026 Forecast**	**FY 2027 Forecast**
Beginning	**$547,674**	**$470,447**	**$270,918**	**$71,402**	**$71,902**	**$72,416**
Ending	**$470,447**	**$270,918**	**$71,402**	**$71,902**	**$72,416**	**$72,946**
Net Change	($77,227)	($199,529)	($199,515)	$499	$514	$530

Building Fund

The Building Fund captures revenues and expenditures associated with fees charged to carry out the Town's responsibilities in enforcing the Florida Building Code. Revenue sources are generated from fees for services performed by the municipality for the issuance of building permits and inspections related to construction, building, renovation, alteration, repair or other activity requiring a permit by the Code of Ordinances or the Florida Building Code. The fees fund building department operations. Over time, the fees charged for these services cannot exceed a municipality's actual costs for providing and maintaining this service pursuant to the Florida Building Code. This fund helps with longer-term tracking for compliance purposes.

It is important to note that building permit revenue is volatile and fluctuates with construction cycles. The fees are triggered by a property owner's decision to improve and/or modify their existing property. Building permit fees are paid up front, and prior year revenues are maintained in fund reserves to fund inspection services throughout project life cycles. Charges for services related to the above items are limited. In years beyond the scope of this forecast, revenues are projected to be fairly flat.

Fund Trends

The construction of new buildings, and renovations/remodeling projects are expected to generate fund revenue in FY 2022 through FY 2025. In FY 2024, 2026, and 2027, $498,300, $988,777 and $812,440, respectively, of fund reserves are projected to balance the budget. In years beyond the scope of this forecast, revenues are projected to be fairly flat. In years of strong development and a healthy economy, this fund will continue to do well. In less prosperous times, expenditures may well exceed minimally required expenditures.

Projections and Assumptions

<u>Growth in permit fee revenues</u> is projected at 5% in FY 2023, and 3% during the FY 2024-2027 period to capture increases in renovations/remodeling projects of existing properties.

<u>New commercial and residential in-fill development will continue to move forward.</u> Building permit fees arising from new construction of in-fill development projects projected to commence within the next five years is based on the conservatively estimated time schedule included in the forecast. The actual timing of project commencement may negatively affect permit revenue forecasts.

<u>Expenditures increases over the forecasted five years</u> from the cost of inspection services over new in-fill project life cycles. In years beyond the scope of this forecast, expenditure decreases are projected from a diminishing call for service as in-fill opportunities are exhausted. Some level of adjustment will then be made to continue matching expenditures with service demands and associated fees.

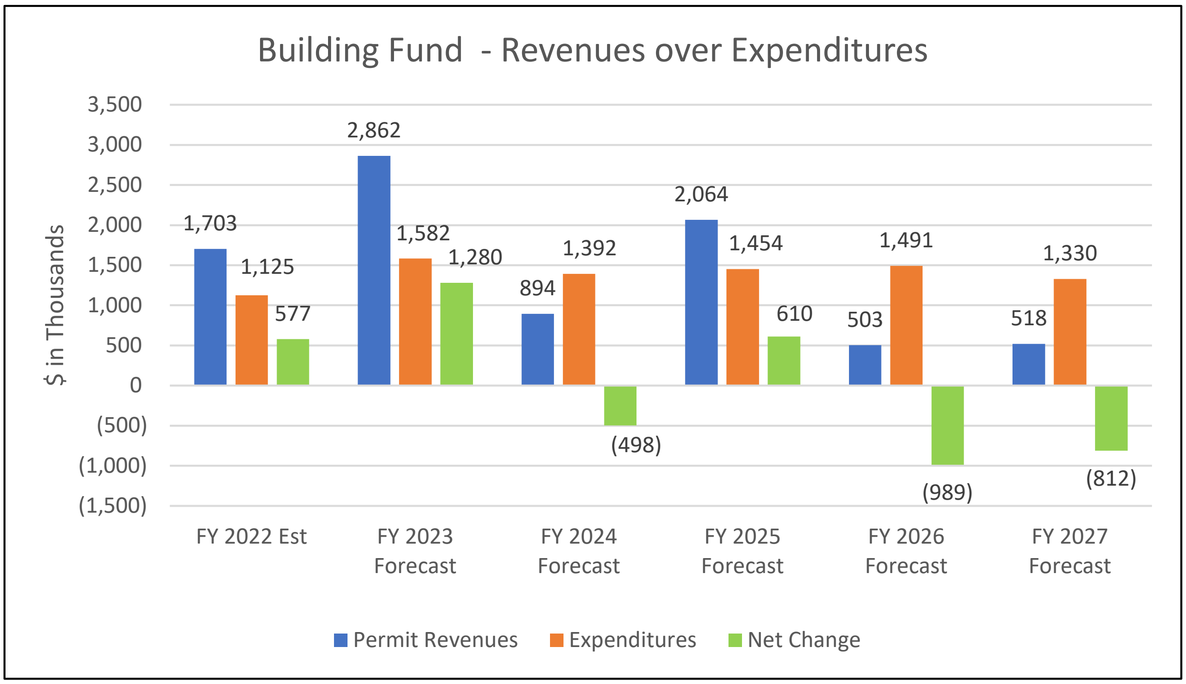
Funding Requirements on Current Course

As indicated by the charts below, the future of this fund looks bright for the next several years and no changes in course are recommended here.

Forecast Chart and Explanation

As **Figure 10** (below) illustrates, during FY 2023 and FY 2025 multiple in-fill development projects are expected to generate substantial revenue from permit fees, and revenues are expected to exceed expenditures in the Building Fund for those years. During FY 2024, FY 2026 and FY 2027, permit fee revenue is not expected to exceed expenditures as the cost of inspection services over remaining new in-fill project life cycles will continue and be funded through reserves. Once in-fill projects are completed, modifications to revenues/expenditures (or both) may be required.

Figure 10: Building Fund Revenues, Expenditures and Net Change in Fund Balance



Fund Balance Table and Explanation

Table 9 (below) illustrates that with a well-established reserve throughout the first few years, the fund should remain self-sustaining well beyond the scope of this forecast.

Table 9: Projected Effects to Building Fund Balance

Fund Balance - Building Fund						
	FY 2022 Est	**FY 2023 Forecast**	**FY 2024 Forecast**	**FY 2025 Forecast**	**FY 2026 Forecast**	**FY 2027 Forecast**
Beginning	**$1,913,914**	**$2,491,356**	**$3,771,593**	**$3,273,293**	**$3,883,732**	**$2,894,955**
Ending	**$2,491,356**	**$3,771,593**	**$3,273,293**	**$3,883,732**	**$2,894,955**	**$2,082,515**
Net Change	$577,442	$1,280,237	($498,300)	$610,439	($988,777)	($812,440)

Water and Sewer Utility Fund

The Water and Sewer Utility Fund is an enterprise fund which relies upon user fees for revenues and borrowing for major capital projects. The fund is established to provide for independent water and sanitary sewer planning, operations, and improvements.

Fund Trends

South Florida water experts have said: "the cheapest potable water in South Florida is the water that isn't used". Clean fresh water sources are becoming scarce in South Florida and are likely to continue to do so. Costs for water supply and waste water treatment have been increasing and are passed on to municipalities that distribute water and collect sewage. As a result of these costs and the implementation of overdue infrastructure repairs, combined with insufficient retained net assets, this fund has an operating debt payment which is included in the projections.

Projections and Assumptions

Water and sewage treatment costs related to Miami Dade County wholesale rates are projected at a 5% annual growth rate in the FY 2023-2027 period. The Town's costs for water purchases and sewage disposal is based on five-year and ten-year historical averages of those costs.

Passthrough of wholesale rate increases to end users is not included the forecast.

Annual growth rate in Water and Sewer revenues is not projected as existing user rates are maintained during the FY 2023-2027 period.

New commercial and residential in-fill development integration of service revenues from potential new customers as construction projects are completed and online is not included in the forecast as this is beyond the scope of this analysis.

Debt payment on the infrastructure loans for the Utility System Revenue Bonds Series 2011 (maturity 2026) and the Clean Water State Revolving Loan Fund (maturity 2033) continues to be paid.

Debt service requirements - Utility System Revenue Bonds Series 2011 debt will mature in FY 2026 with a final debt service principal payment in May 2026. Net Position (fund balance) of $242,000 for the related loan reserve will no longer be restricted.

American Rescue Plan Act of 2021 (ARPA) funding in FY 2022 and FY 2023 of $167,990 and $118,640, respectively, invested for one-time costs for the phased replacement of water meters is reflected in revenues.

Administrative oversight and support costs allocated through a transfer to the General Fund is not projected as this fund currently has a deficit in unrestricted net position.

The Town will need to monitor actual results to ensure utility rates are sufficient to meet annual operating and non-operating expenses. Adjustments or changes should be considered to reduce and eliminate the deficit in unrestricted net position (fund balance). This is important as actual operating results may differ from the projections, and assumptions in this forecast may change and have a material impact on the analysis.

Funding Requirements on Current Course

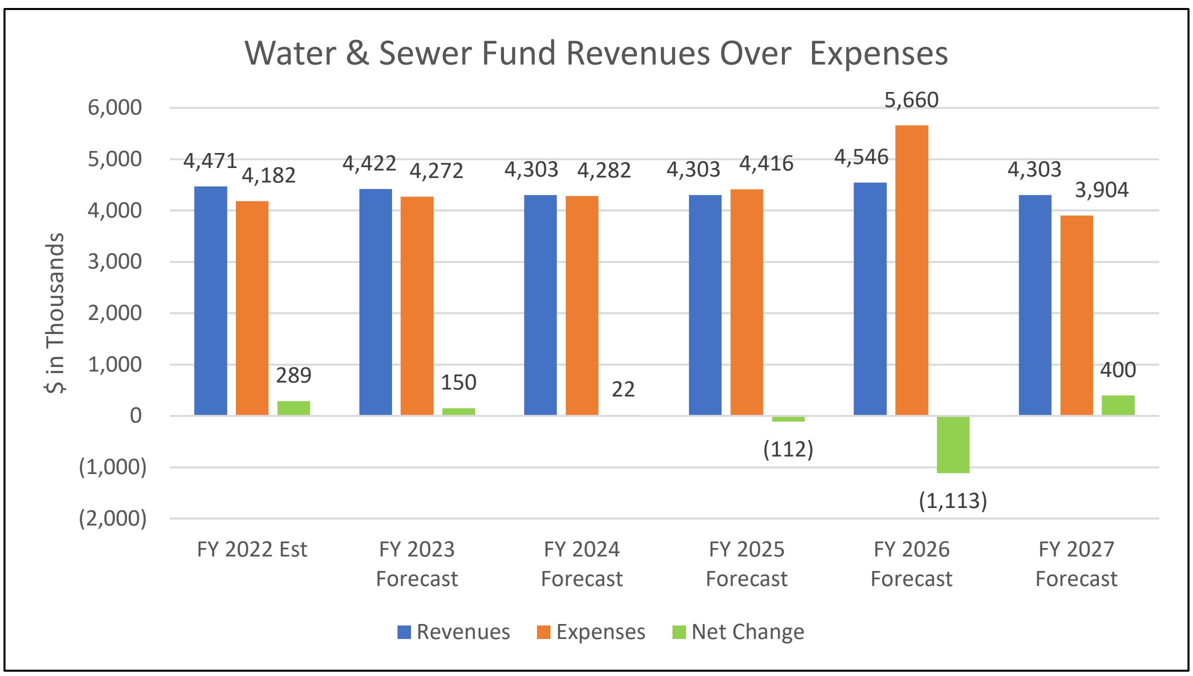
The model presented does not include annual rate increases in the FY 2023-2027 period and the Town would continue to absorb predictable annual wholesale cost increases. Should the annualized increases to the Town expenses occur as projected, consistent moderate rate increases may be utilized to generate sufficient revenue to meet the fiscal requirements of the water and sewer utility and reduce the deficit in unrestricted net position (fund balance) over time.

The Town should identify a strategy to reduce the deficit, ensure future water and sewer utility rates/revenues are sufficient to meet the ongoing costs of annual operating and maintenance, debt service and capital, and begin a course to maintain industry standard financially prudent cash reserves.

Forecast Chart and Explanation

In **Figure 11** (below), revenues are expected to exceed expenses in the Water & Sewer Fund for three of the five years. FY 2026 reflects a final Utility System Revenue Bonds Series 2011 debt service principal payment of $1,902,678 and the release of restricted fund balance of $242,000 for the related loan reserve.

Figure 11: Water and Sewer Fund Revenues, Expenses and Net Change in Net Position



Fund Balance Table and Explanation

Table 10 (below) illustrates that the deficit in unrestricted net position (fund balance available to meet ongoing and future obligations of the utility) would fluctuate over the forecasted period as debt incurred for major system improvements is paid down.

The Town should identify a strategy to reduce the deficit, ensure future water and sewer utility rates/revenues are sufficient to meet the ongoing costs of annual operating and maintenance, debt service, and begin a course to maintain industry standard financially prudent fund reserves.

Table 10: Projected Effects to Water and Sewer Unrestricted Net Position (Fund Balance)

Unrestricted Net Position (Fund Balance) - Water and Sewer Fund						
	FY 2022 Est	FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast
Beginning	**($1,473,818)**	**($1,184,931)**	**($1,035,141)**	**($1,013,539)**	**($1,125,999)**	**($2,239,413)**
Ending	**($1,184,931)**	**($1,035,141)**	**($1,013,539)**	**($1,125,999)**	**($2,239,413)**	**($1,839,804)**
Net Change	**$288,887**	**$149,790**	**$21,602**	**($112,460)**	**($1,113,414)**	**$399,609**

Municipal Parking Fund

The Municipal Parking fund is an enterprise fund which relies upon user fees for parking at surface lots and on-street spaces for revenues. The fund is established to provide for public parking planning, operations, and improvements.

Fund Trends

Parking revenues tend to be correlated with the economy. Revenues from operations have remained strong and have recovered to pre-pandemic levels. The focus is on keeping the surface lots and on-street parking spaces in a state of good repair and providing technological innovations to support mobility. A significant parking rate raise to competitive local rates may be warranted to regulate supply with demand.

Projections and Assumptions

Revenue growth of 3% annually. Surface lots and on-street parking will continue to be occupied at current or increased rates and overall demand is projected to remain strong.

Revenues include annual contributions of $107,400 from developers' site plan agreements.

Expenses are indexed by 5% in FY 2023 and by 3% in the FY 2024-2027 period. Expenses will remain similar to historic levels adjusted by the index percentages and will increase significantly only if additional municipal lots are developed.

Major capital outlay is not anticipated.

Surplus revenues over expenses may serve as a dedicated source for future improvements. New Parking facilities are not within the scope of this document.

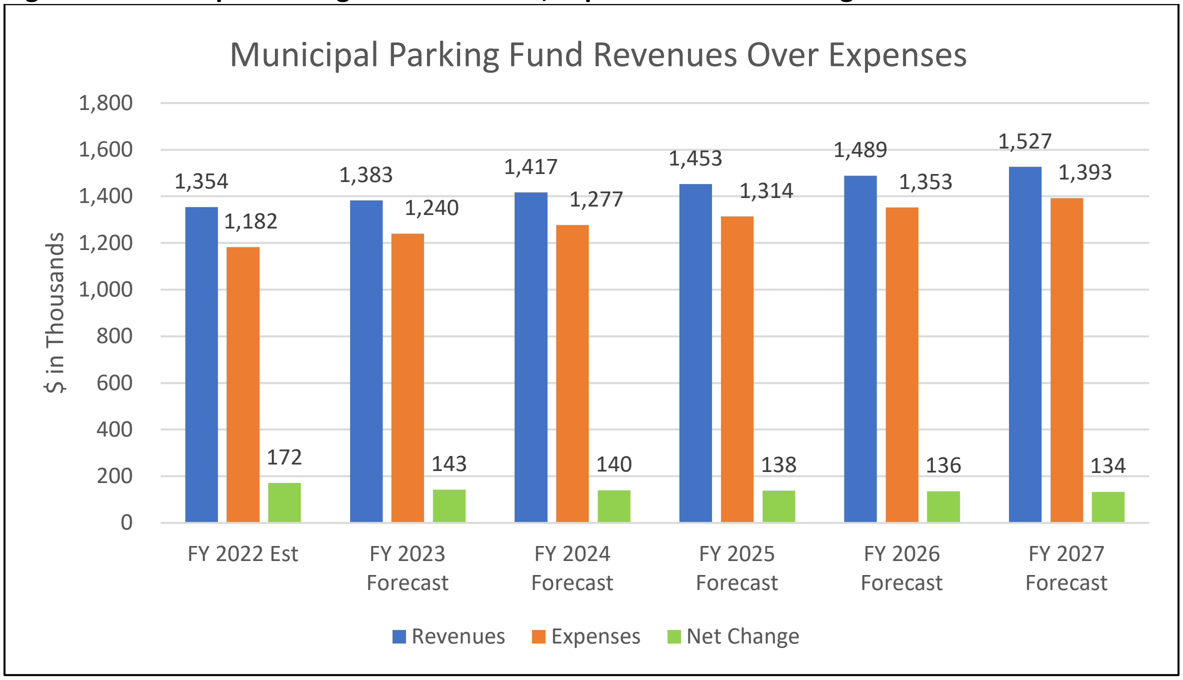
Funding Requirements on Current Course

For the current course of action revenues exceeding the FY 22022 proposed rates is not anticipated. Retaining the current retained earnings (Net Position) for future development of lots is encouraged.

Forecast Chart and Explanation

As **Figure 12** (below) illustrates, revenues are expected to exceed expenses in the Municipal Parking Fund each year. Net surpluses are anticipated each year and may be accumulated for future needs.

Figure 12: Municipal Parking Fund Revenues, Expenses and Net Change in Net Position



Fund Balance Table and Explanation

Table 11 (below) illustrates that unrestricted net position (fund balance available to meet ongoing and future obligations of the enterprise) would increase steadily over the forecasted period. By the end of FY 2027, the unrestricted net position balance hits $2,616,652 (188%) of operating and maintenance expenses) which may be utilized to fund future municipal parking fund improvements or for other purposes.

Table 11: Projected Effects to Municipal Parking Fund Unrestricted Net Position (Fund Balance)

Unrestricted Net Position (Fund Balance) - Municipal Parking Fund						
	FY 2022 Est	**FY 2023 Forecast**	**FY 2024 Forecast**	**FY 2025 Forecast**	**FY 2026 Forecast**	**FY 2027 Forecast**
Beginning	**$1,754,091**	**$1,925,738**	**$2,068,285**	**$2,208,715**	**$2,346,963**	**$2,482,965**
Ending	**$1,925,738**	**$2,068,285**	**$2,208,715**	**$2,346,963**	**$2,482,965**	**$2,616,652**
Net Change	$171,647	$142,547	$140,430	$138,248	$136,002	$133,687

Solid Waste Fund

The Solid Waste fund is an enterprise fund which relies upon user fees for revenues. The fund is established to provide for solid waste planning, operations (collections), disposal at landfill sites, recycling and equipment replacement.

Fund Trends

Reduction in commercial solid waste collection revenues resulted from the coronavirus pandemic induced downturn's effect on local commercial businesses during FY 2020 and FY 2021. This revenue stream experienced significant and irreplaceable losses during that period, and this fund was unable to meet even its operating funding needs as a direct impact. During the FY 2022 base period, the fund relies upon savings generated from the suspension of the annual charges for vehicle replacement and Town administrative oversight functions to meet its operating costs. In the FY 2023-2027 period, the annual charge for vehicle replacement is projected and indexed at the rate of other expenses.

This fund continues to face the challenge of increasing annual direct expenses while no corresponding user fee adjustment is made. As a result, rates, as with most enterprise funds, do not keep pace with cost demands. A strategy to boost reserves to a healthier percentage and annually fund current and future capital needs to provide financial stability to the fund should be planned. If not already under development and consideration, an annual rate structure adjustment and target policy for this fund's unrestricted net position should be developed.

Projections and Assumptions

Annual growth rate in Solid Waste revenues is not projected as existing user rates are maintained during the FY 2023-2027 period.

New commercial and residential in-fill development integration of service revenues from potential new customers as construction projects are completed and online is not included in the forecast as this is beyond the scope of this analysis.

Waste disposal fees and recycling costs to the Town are indexed by 4% annually.

Other expenses are indexed by 5% in FY 2023 and by 3% in the FY 2024-2027 period.

Fleet replacement costs for an annual operating expense to accumulate funds over time for purchases of replacement vehicles (renewal and replacement) is projected in the FY 2023-2027 period.

Administrative oversight and support costs allocated through a transfer to the General Fund is not projected as this fund currently has a deficit in unrestricted net position.

Funding Requirements on Current Course

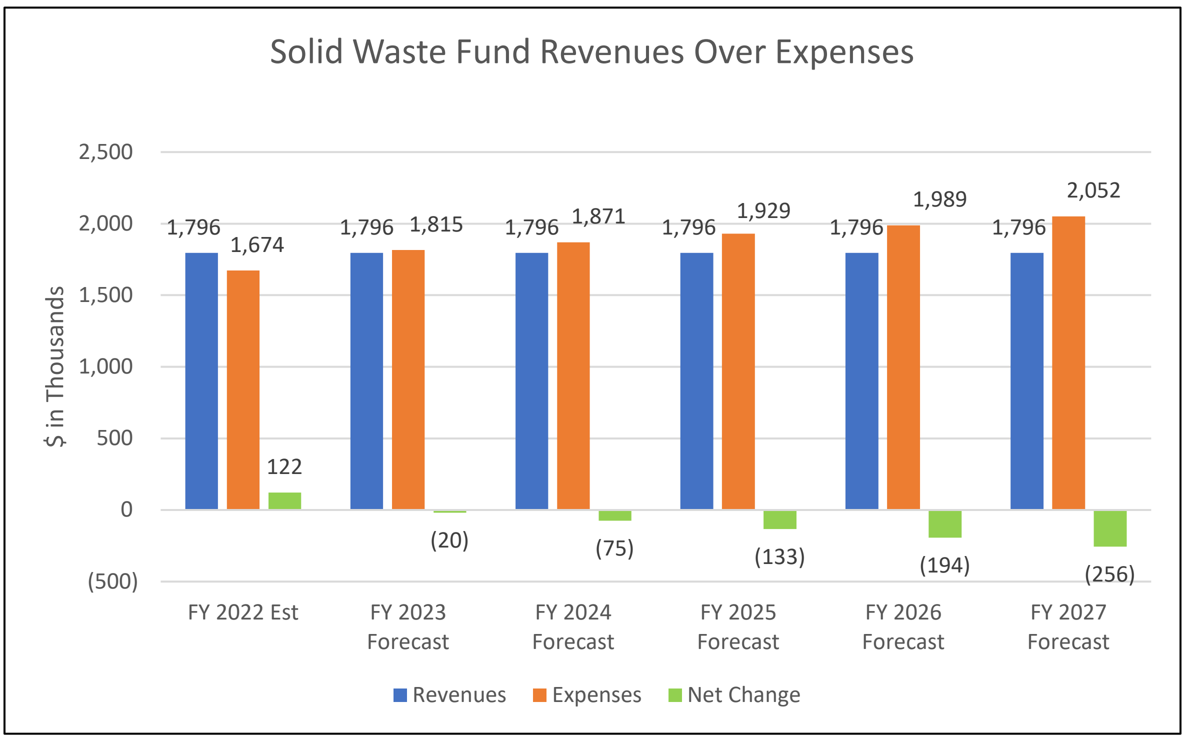
On the current projected course and assumptions, this fund's reserves will substantially diminish to over the FY 2023-2027 period to a deficit of approximately $692 thousand as projected operating disposal and other costs trend higher and revenues remain flat. Deferring a pay-over-time model to accumulate funds for future scheduled replacement of service vehicles and equipment is implemented in the estimated FY 2022 base period to generate cost savings and mitigate losses incurred during the coronavirus pandemic. However, in the FY 2023-2027 period vehicle renewal and replacement is projected to resume.

If the assumptions of this forecast hold true, rates will need to be considered for an increase as reserves have been utilized prior to the FY 2023-2027 period. A moderate, annual rate increase would provide an opportunity to improve reserves and smooth funding for future major capital needs or other solid waste related activity.

Forecast Chart and Explanation

It is important to note that **Figure 13** (below) reflects estimates of operating revenues and expenses without administrative chargeback. Maintaining existing rates does not generate sufficient revenues to support current operations in the FY 2023-2027 forecast period.

Figure 13: Solid Waste Fund Revenues, Expenses and Net Change in Net Position



Fund Balance Table and Explanation

As shown in **Table 12** (below), throughout the FY 2023-2027 period, the unrestricted net position balance grows to a cumulative deficit of approximately $692,000. This is achieved even while suspending annual transfers for administrative oversight and support. Current projections outline deficits in the FY 2023-2027 period as expenses are projected to exceed revenues in each of the five years. Deficits are largely tied to projected user fees remaining unchanged and annual operating costs gradually increasing. The projected scenario shows the need to align user fees with the cost of the service provided.

Table 12: Projected Effects to Solid Waste Fund Unrestricted Net Position (Fund Balance)

Unrestricted Net Position (Fund Balance) - Solid Waste Fund						
	FY 2022 Est	**FY 2023 Forecast**	**FY 2024 Forecast**	**FY 2025 Forecast**	**FY 2026 Forecast**	**FY 2027 Forecast**
Beginning	**($135,725)**	**($13,963)**	**($33,899)**	**($108,976)**	**($242,454)**	**($436,260)**
Ending	**($13,963)**	**($33,899)**	**($108,976)**	**($242,454)**	**($436,260)**	**($692,388)**
Net Change	$121,762	($19,936)	($75,078)	($133,477)	($193,806)	($256,129)

Stormwater Fund

The Stormwater fund is an enterprise fund which relies upon user fees for revenues. The fund is established to provide for stormwater drainage planning, operations and improvements.

Fund Trends

Revenues of this fund are projected to sufficiently cover operating expense increases for the five-year forecasted period. The Abbott Avenue Drainage Improvement infrastructure project estimated cost of $4.6 million in FY 2023 will be funded with $3 million governmental source aid and $1.6 million from the fund's unrestricted net position. Upon completion of the drainage improvements, significant unrestricted net position remains available for debt repayment or other appropriation.

Projections and Assumptions

Annual growth rate in Water and Sewer revenues is not projected as existing user rates are maintained during the FY 2023-2027 period.

New commercial and residential in-fill development integration of service revenues from potential new customers as construction projects are completed and online is not included in the forecast as this is beyond the scope of this analysis.

Debt payments on the infrastructure loans for the Utility System Revenue Bonds Series 2011 (maturity FY 2026) and the Clean Water State Revolving Loan Fund (maturity FY 2033) continues to be paid.

Debt service requirements - Utility System Revenue Bonds Series 2011 debt will mature in FY 2026 with a final debt service principal payment in May 2026. Net Position (fund balance) of $81,000 for the related loan reserve will no longer be restricted.

Abbott Avenue Drainage Improvement project capital outlay of $4.6 million is included in FY 2023 expenses.

American Rescue Plan Act of 2021 (ARPA) funding in FY 2023 of $1 million invested for onetime costs for the Abbott Avenue Drainage Improvement project is reflected in revenues.

Florida Department of Environmental Protection grant funding under the 2022-23 Statewide Flooding and Sea Level Rise Resilience Plan in FY 2023 and FY 2024 of $2 million ($1 million each year) invested for onetime costs for the Abbott Avenue Drainage Improvement project is reflected in revenues.

Florida Department of Economic Opportunity's (DEO) Rebuild Florida General Planning Support Program grant of $107,500 in FY 2023 invested for onetime costs to develop a drainage improvement plan to benefit the community is reflected in revenues.

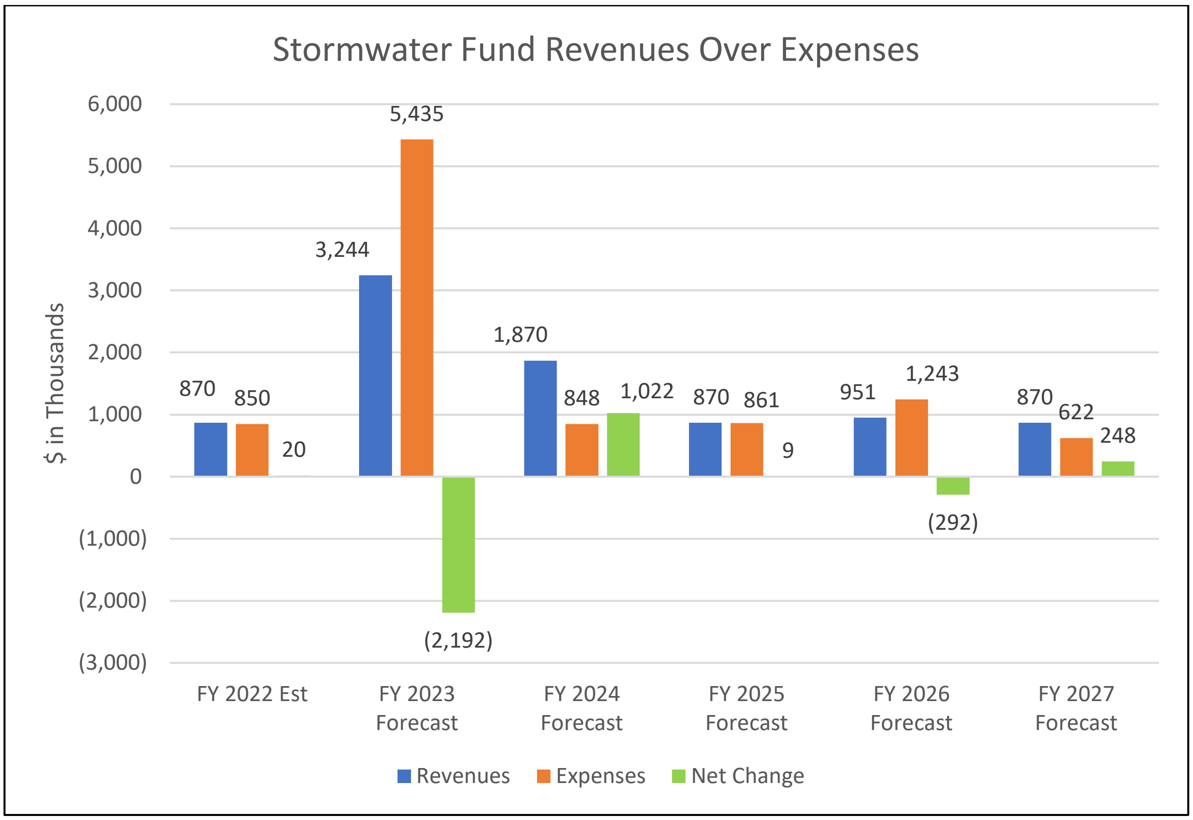
Funding Requirements on Current Course

On the current course, the operating revenue to expense ratio in this fund is forecast to provide reliant reserves. If future capital improvement projects are planned, the fund is projected to have adequate fund balance that could be used in combination with grants and loan proceeds should rates not be adjusted. In future years past this projection, that strategy might be sustainable depending upon the capital projects. Exhaustion of fund balance with an annually increasing revenue to expenses difference will eventually lead to a dramatic rate adjustment.

Forecast Chart and Explanation

As **Figure 14** (below) illustrates, operating revenues are projected to keep pace with expenses. As stated above, the greater expenses in FY 2023 and FY 2026 are related to managed capital improvements and the final payment of debt related to a bond issue, respectively. Figure 14 illustrates the forecast without rate modification or reliance upon net position (fund balance) for operating expenses.

Figure 14: Stormwater Fund Revenues, Expenses and Net Change in Net Position



Fund Balance Table and Explanation

As shown in **Table 13**, available unrestricted net position of $1.6 million will be utilized to fund a needed capital improvement project. Revenues are projected to sustain an increase in non-capital expenses and a rate increase is not anticipated as the major debt matures in FY 2026. The fund balance after five years could provide a source of funding should additional capital improvements be needed.

Table 13: Projected Effects to Stormwater Fund Unrestricted Net Position (Fund Balance)

Unrestricted Net Position (Fund Balance) - Stormwater Fund						
	FY 2022 Est	**FY 2023 Forecast**	**FY 2024 Forecast**	**FY 2025 Forecast**	**FY 2026 Forecast**	**FY 2027 Forecast**
Beginning	**$3,556,012**	**$3,575,943**	**$1,384,299**	**$2,406,281**	**$2,415,145**	**$2,123,585**
Ending	**$3,575,943**	**$1,384,299**	**$2,406,281**	**$2,415,145**	**$2,123,585**	**$2,371,336**
Net Change	$19,931	($2,191,644)	$1,021,981	$8,864	($291,560)	$247,750

Exhibit A - Recommended Policy

FUND BALANCE POLICY

A. OBJECTIVE

To help ensure that the Town of Surfside maintains a positive and healthy fund balance.

B. SCOPE

This policy shall serve as guidance on the Town of Surfside’s Fund Balance/Reserves. The Fund Balance policy establishes an appropriate level of reserves for the Town to target and maintain in the funds primarily the General Fund. The Town’s Fund Balance policy looks beyond annual revenues and expenditures to policies promoting the sustainability of Town services and rate structure, property values and capital needs, with a focus on current policies being financially sustainable over the next five years and beyond.

C. POLICY

General Fund

The Town will strive to budget and fund the target amounts listed below in the General Fund as a percentage of the Town’s annual operating expenditures of the General Fund.

- 25% Operations & Maintenance (O&M) Reserve
- 20% Hurricane/Natural Disaster Reserve
- 10% Budget Stabilization Reserve
- 5% Capital Projects Reserve

Annual operating expenditures are defined as total budgeted personnel services plus operating expenses.

Working Capital or Operations & Maintenance (O&M) Reserve is for general use to maintain essential services during periods of intense capital and budgetary needs.

The Hurricane/Natural Disaster Reserve should be used for related unbudgeted expenses that are expected to be submitted for reimbursement by the Federal Emergency Management Agency (FEMA).

The Budget Stabilization Reserve should be used during periods of assumed temporary decreases to the property values/ad valorem taxes typical during recessions. This would allow for a budget in which taxes would not need to be increased to cover the current level of service.

The Capital Reserve should be used for needed capital expenditures in a fiscal year in which current net revenues are insufficient to cover project costs. Such a reserve helps to split the costs of infrastructure projects between current and future residents by reducing the amount of future borrowing for major projects.

Building Fund

The Building Fund is a special revenue fund to account for the building department activities within the Town. Revenues sources are generated from fees for the issuance of building permits and inspections related to construction, building, renovation, alteration, repair or other activity requiring a permit by the Code of Ordinances or the Florida Building Code. The fees fund building department operations.

Per Section 553.80(7)(a), F.S., a local government may not carry forward an amount exceeding the average of its operating budget for enforcing the Florida Building Code for the previous 4 fiscal years.

Tourist Resort Fund

The Town accounts for 100% of total projected revenues in the Tourist Resort Fund. Thirty-four percent (34%) of total revenues are allocated directly for tourism related activities. The expenditure of these funds is governed by the Tourist Bureau Board of the Town of Surfside. The remaining sixty-six percent (66%) of total revenues are allocated for the cost of operating the Community Center and Tennis Center operations, and other resort tax eligible activities.

The Town will strive to budget and fund the target amounts listed below in the Tourist Resort Fund as a percentage of the Town's non-Tourist Board annual operating expenditures of the Tourist Resort Fund.

- 10% Unrestricted Fund Balance
- 10% Hurricane/Natural Disaster Reserve
- 10% Budget Stabilization Reserve
- 10% Capital Reserve

Annual operating expenditures are defined as total budgeted personnel services plus operating expenses.

Working Capital or Operations & Maintenance (O&M) Reserve is for general use to maintain essential services during periods of intense capital and budgetary needs.

The Hurricane/Natural Disaster Reserve should be used for related unbudgeted expenses that may not be reimbursable by the Federal Emergency Management Agency (FEMA).

The Budget Stabilization Reserve should be used during periods of assumed temporary decreases to the tourist resort taxes typical during recessions.

The Capital Reserve should be used for needed capital expenditures in a fiscal year in which current net revenues are insufficient to cover the project's costs.

Enterprise Funds

Fees charged to customers will cover operating expenses, debt service and required reserves to meet debt service requirements and a reserve for renewal and replacement of capital assets and infrastructure.

The Town should have an appropriate unrestricted fund balance to be used for cash flow purposes for unanticipated expenses or a non-recurring nature or to meet unexpected increases in service delivery costs.

Town of Surfside, Florida

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