NEW BUSINESS 21

MIAMIBEACH

COMMITTEE MEMORANDUM

TO: Finance and Economic Resiliency Committee Members

FROM: Eric Carpenter, City Manager

DATE: December 20, 2024

TITLE: COMPREHENSIVE ANALYSIS OF IMPACT OF ROLLED-BACK PROPERTY TAX RATE ON THE ADOPTED FY 2025 BUDGET

RECOMMENDATION

City staff will be present to discuss the analysis that was prepared of the potential impact if a “rolled-back” property tax rate had been adopted for the FY 2025 and how it would impact the City’s budget planning for the future as we commence the FY 2026 budget development process in the coming months.

BACKGROUND/HISTORY

At the November 20, 2024 City Commission meeting, at the request of Commissioner Alex Fernandez, the City Commission approved a referral (Item C4 G) to the Finance and Economic Resiliency Committee (FERC) directing the Administration to prepare a comprehensive analysis of the FY 2025 budget that was adopted by the City Commission on September 25, 2024 to assess the potential impact if a “rolled-back” millage rate had been adopted.

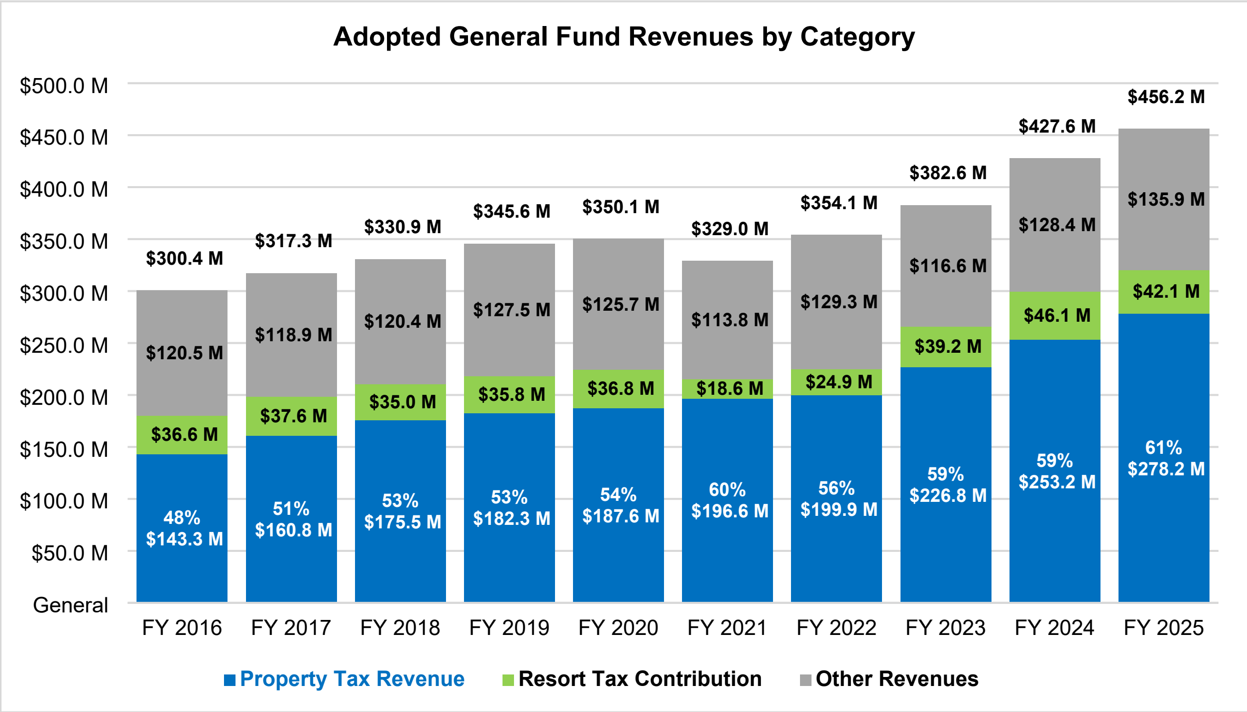
To better understand the financial implications of potentially adopting a “rolled-back” property tax rate, specifically its effects on the City’s operations, prioritization of funding, and long-term financial sustainability, the Administration has prepared the following analysis. This analysis will provide further insight into the impact of potentially adopting a “rolled-back” property tax rate on revenue expectations and the corresponding adjustments that would be required to address funding gaps, as well as a comparison of the estimated property tax impact for median and average homesteaded property values in the City. In addition, as we commence the FY 2026 budget development process in the coming months, it will provide a clearer picture of how potentially adopting a “rolled-back” rate would impact the City’s budget planning for the future.

The “rolled-back” rate refers to the property tax rate that generates the same amount of revenue as the previous year, excluding revenue from new construction, additions, and other adjustments. It is calculated to provide a benchmark that reflects changes in the tax base due to property value fluctuations rather than new growth. More specifically, if property values increase, the rolled-back rate would be lower than the previous year's tax rate to ensure the taxing authority collects the same total revenue. Conversely, if property values decrease, the rolled-back rate would be higher. This rate serves as a comparison tool for taxpayers to see whether a proposed tax rate will increase or decrease their tax burden relative to the prior year based on the annual assessed taxable value of their property.

ANALYSIS

General Fund Budget History

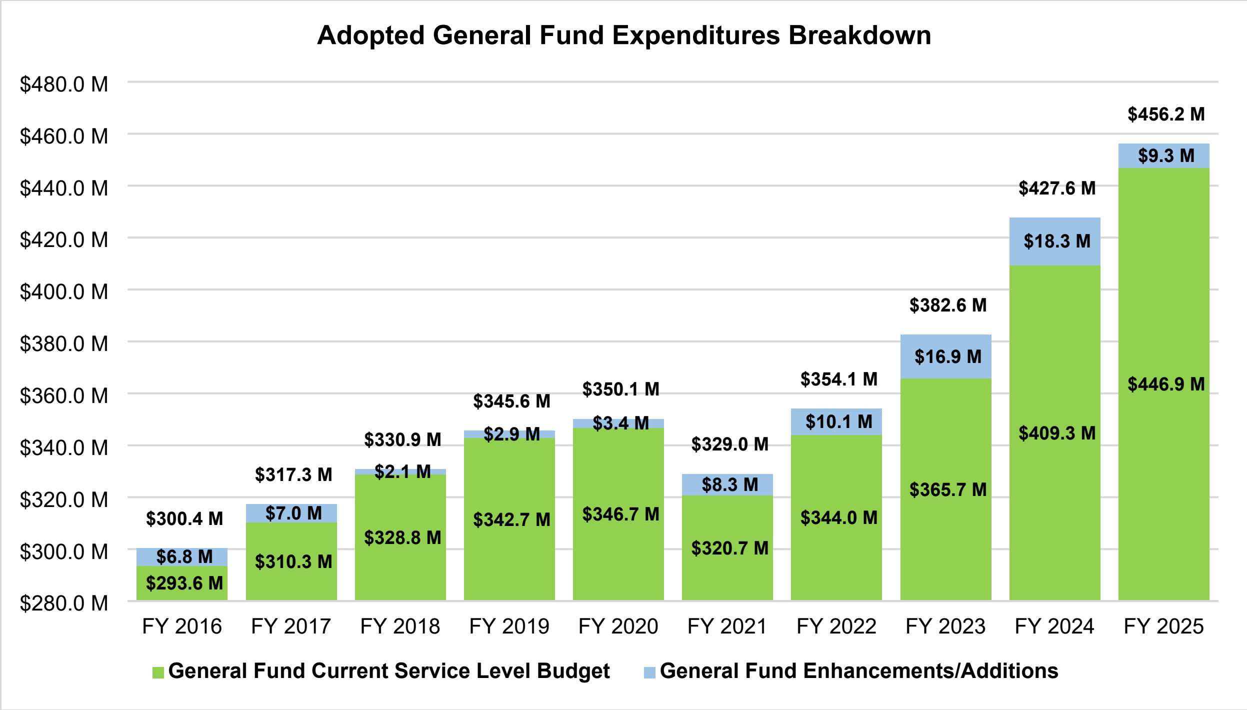
Since FY 2016, property tax revenues have accounted for an increasing proportion of the total General Fund revenues budgeted annually. In FY 2016, property tax revenues accounted for approximately $143.3 million, or 48%, of the total General Fund revenues budgeted, compared to FY 2025 where property tax revenues represent $278.2 million, or 61%, of the total General Fund revenues budgeted.



The property tax revenues that have been collected based on the City's assessed taxable values and the property tax rates that have been adopted by the City Commission over the past ten years have provided funding for new and enhanced levels of services across various City operations. Many of these enhanced services have been funded based on feedback from residents, businesses, and stakeholders.

More specifically, in the General Fund, property tax revenues have provided funding for enhanced public safety services in the Police and Fire Departments, including additional sworn and non-sworn positions. Funding has also provided for the expansion of the Park Ranger program, including additional full-time positions to enhance public safety throughout the City's parks and public areas, enhanced homeless and cleanliness services, and additional funding for critical capital projects with funding gaps, among many other things.

The chart below reflects the levels of enhancements and additions that have been funded annually through the budget process. Since FY 2016, enhancements and additions that have been funded have ranged from $2.1 million to $18.3 million per year. On average, this represents approximately $8.5 million in enhancements and additions that have been funded annually since FY 2016 in-part as a result of the property taxes levied and collected annually.



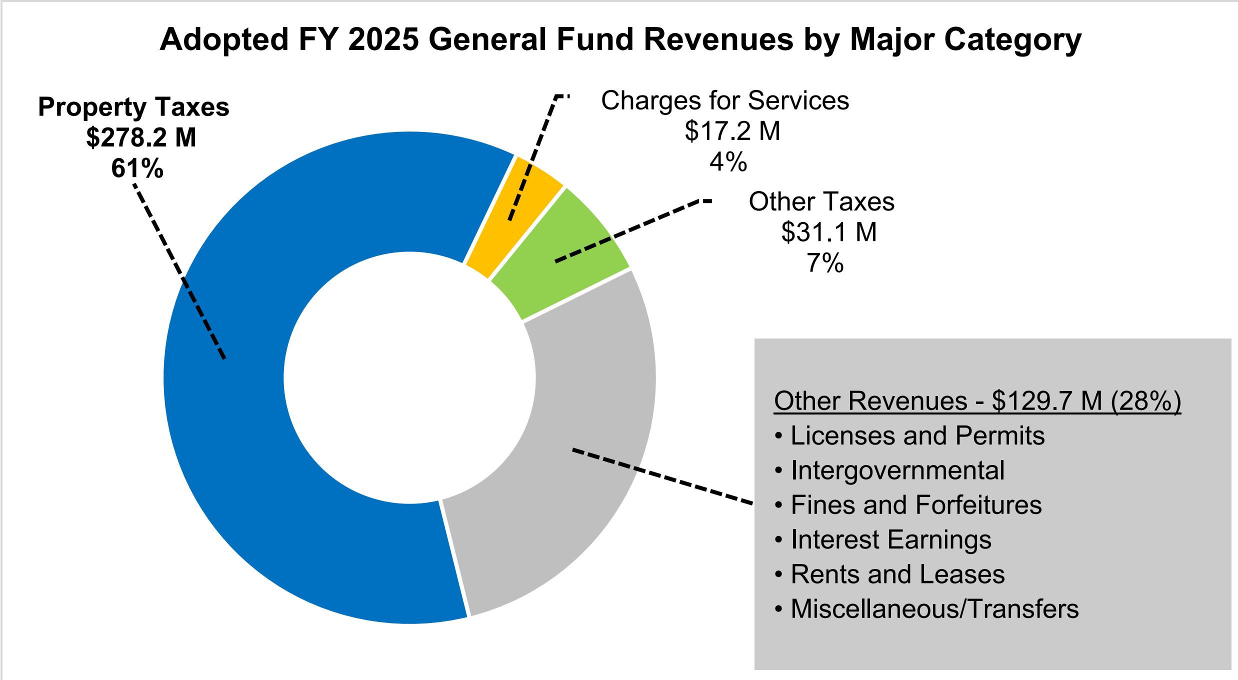
Adopted FY 2025 Operating Budget

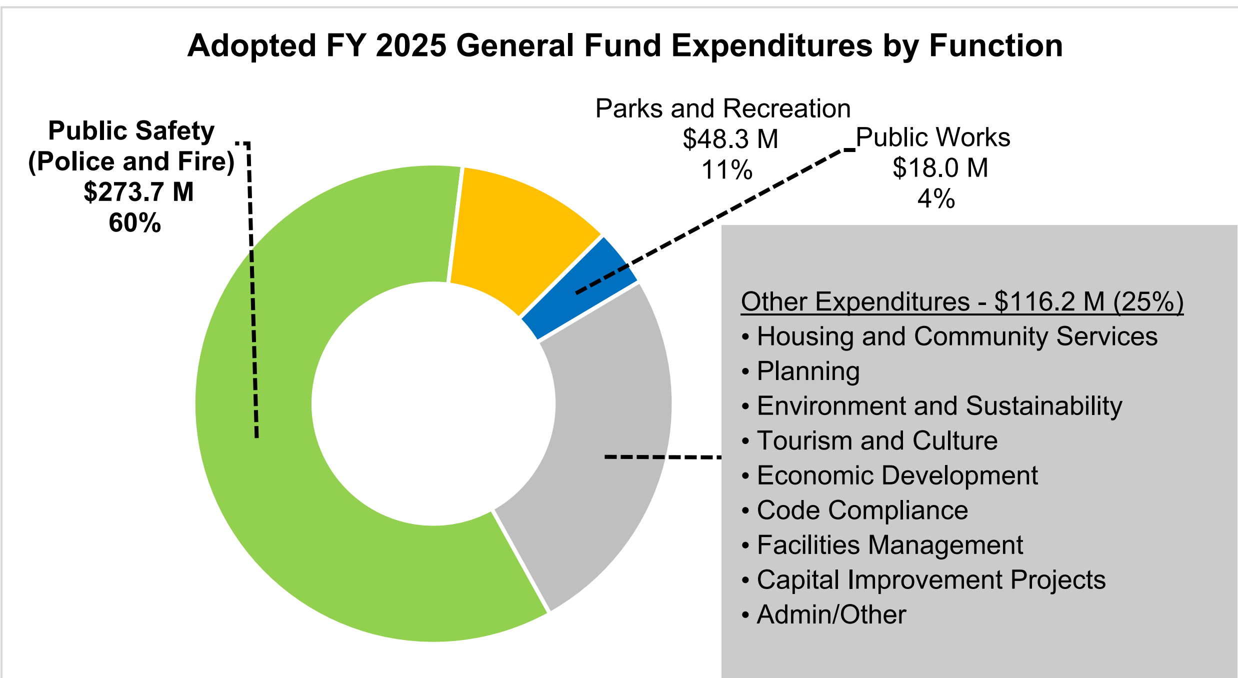
The City generates revenues through a variety of sources, including property taxes, franchise and utility fees, licenses and permits, sales and gas taxes, emergency medical service fees, golf fees, traffic fines, code violation fees, resort taxes, water and sewer fees, storm water fees, sanitation fees, and parking fees, among many other sources, for the numerous services it provides.

Property taxes that are levied and collected annually based on assessed taxable property values in the City and the millage rates that are adopted by the City Commission, represent the largest component of revenues collected by the City. In the General Fund, property taxes fund many City services including, but not limited to Police, Fire, Code Compliance, Parks and Recreation, and Public Works Streets/Street Lighting and Greenspace, as well as general administrative functions such as the Office of the Mayor and Commission, the City Manager's Office, City Attorney's Office, the Office of Management and Budget (OMB), Finance, Procurement, and Human Resources, among others.

It is important to note that property taxes that are levied and collected annually by the City are comprised of different taxes that are levied based on different tax rates. These tax rates are more commonly referred to as millage rates. The general millage rate, which is levied citywide and will be the focus of this analysis relative to the City's General Fund operating budget also funds operations in the City Center RDA and the North Beach CRA. The voted debt service millage rate, which is also levied citywide, funds the annual required debt service required for outstanding General Obligation (G.O.) bonds. Lastly, there is an additional millage that is levied solely within the Normandy Shores Dependent Taxing District in North Beach to provide the homeowners within this District with enhanced security services.

The charts below reflect the City's total budgeted revenues by major category and expenditures by function/department in the General Fund for FY 2025.





FISCAL IMPACT STATEMENT

Impact of "Rolled-back" Property Tax Rate on FY 2025 Property Tax Revenues

The City's annual total combined millage rate is comprised of two main components, which are the total general millage rate and the voted debt service millage rate. The total general millage rate, which is comprised of an operating, a capital renewal and replacement, and a pay-as-you-go (PayGo) millage, funds General Fund operating and capital expenditures, while the voted debt service millage rate funds the annual debt service required for the City's outstanding G.O. bonds.

As reflected below, the total general millage rate that was adopted by the City Commission for FY

2025 was 5.8522 mills. However, the "rolled-back" millage rate established in accordance with the State of Florida's Truth-in-Millage (TRIM) requirements for FY 2025 was 5.3395 mills, which is 0.5127 mills less than the total general millage rate that was adopted for FY 2025.

	FY 2025 Adopted	FY 2025 "Rolled-Back"	Difference
Operating Millage	**5.6636**	**5.1509**	**(0.5127)**
Dedicated CRR Capital Millage	0.0866	0.0866	-
Dedicated PayGo Capital Millage	0.1020	0.1020	-
Total General Millage	**5.8522**	**5.3395**	**(0.5127)**
Voted Debt Service Millage	0.2959	0.2959	-
Total Combined Millage	**6.1481**	**5.6354**	**(0.5127)**

The value of one mill of taxation is generally defined as $1.00 of ad valorem tax collected for every $1,000 of assessed taxable property value. The general millage rate that was adopted by the City Commission for FY 2025 of 5.8522 mills, based on the certified taxable values that were provided by the Miami-Dade County Property Appraiser on July 1, 2024, is estimated to generate approximately $278.2 million in property tax revenues for the General Fund, as well as $33.9 million for the City Center RDA and $1.4 million for the North Beach CRA, which totals $313.5 million overall.

If the "rolled-back" rate determined by the State of Florida's TRIM requirements had been adopted for FY 2025, property tax revenues estimated to be collected in FY 2025 would have been approximately $253.8 million for the General Fund, $30.8 million for the City Center RDA, and $1.3 million for the North Beach CRA, which totals $285.9 million overall.

The overall impact on property tax revenues budgeted in FY 2025 of $27.6 million if the "rolled-back" rate had been adopted would have been $24.4 million for the General Fund, $3.1 million for the City Center RDA, and $0.1 million for the North Beach CRA.

	FY 2025 Adopted	FY 2025 "Rolled-Back"	$ Impact
General Fund Operating Budget:			
Property Taxes	**$278,239,000**	**$253,863,000**	**($24,376,000)**
Other Revenues	177,925,000	177,925,000	-
Sub-Total	**$456,164,000**	**$431,788,000**	**($24,376,000)**
City Center Redevelopment Agency Operating Budget:			
Property Tax Increment – City	**$33,909,000**	**$30,784,000**	**($3,125,000)**
Other Revenues	33,033,000	33,033,000	-
Sub-Total	**$66,942,000**	**$63,817,000**	**($3,125,000)**
North Beach Community Redevelopment Agency Operating Budget:			
Property Tax Increment – City	**$1,396,000**	**$1,266,000**	**($130,000)**
Other Revenues	1,110,000	1,110,000	-
Sub-Total	**$2,506,000**	**$2,376,000**	**($130,000)**
Property Taxes/Tax Increment – City	**$313,544,000**	**$285,913,000**	**($27,631,000)**
Other Revenues	212,068,000	212,068,000	-
Total Revenues	**$525,612,000**	**$497,981,000**	**($27,631,000)**

The decrease in General Fund property tax revenues in FY 2025 of $24.4 million had the "rolled-back" millage rate been adopted would have had adverse effects on the following or any combination thereof:

- $14.5 million of reductions in existing City services such as public safety, parks, public works, and homeless, among others, as well as administrative functions, funding allocated annually for ongoing capital project needs, and the estimated first year fiscal impact of the City's collective bargaining agreements

- Inability to fund the $9.3 million of one-time and recurring enhancements that were approved for funding as part of the adopted FY 2025 General Fund budget, which included numerous public safety, education, homeless, and cleanliness enhancements, among others

- Inability to fund the $0.7 million of mid-year enhancements and additions that were approved by the City Commission during FY 2024 for various programs and initiatives

For the City Center RDA and North Beach CRA, the decrease in property tax revenues in FY 2025 of $3.1 million and $0.1 million, respectively, would have impacted funding that is allocated for enhanced public safety and capital maintenance services provided annually and a delay in the "sunsetting" of the City Center RDA, while programs and projects that were approved as part of the North Beach CRA would have been adversely impacted as well.

Impact of "Rolled-back" Property Tax Rate on <u>Homesteaded</u> Property Tax Bill

Florida voters in the early 90's approved an amendment to the Florida Constitution known as Amendment 10, which is also commonly referred to as Save Our Homes (SOH). SOH established an assessment limitation, or "cap," on annual increases in the assessed taxable value of a homesteaded property to 3%, or the annual percent change in the Consumer Price Index (CPI), whichever is less, that goes into effect beginning the year after a homestead exemption is granted.

For an existing homesteaded property in the City that was not sold and/or did not have any improvements or additions completed in the last year, the difference in the property taxes levied based on the millage rate adopted by the City Commission for FY 2025 and the "rolled-back" millage rate if it had been adopted is approximately <u>$140 for the median homesteaded property value and $399 for the average homesteaded property value in the City.</u>

	FY 2025 Adopted		FY 2025 "Rolled-Back"	
	Median	**Average**	**Median**	**Average**
Taxable Value	**$273,563**	**$778,877**	**$273,563**	**$778,877**
City of Miami Beach:				
General	$1,601	$4,558	$1,461	$4,159
Voted Debt	81	230	81	230
Total Miami Beach	**$1,682**	**$4,788**	**$1,542**	**$4,389**
$ Difference in Taxes:				
General			**($140)**	**($399)**
Voted Debt			-	-
Total $ Difference in Taxes			**($140)**	**($399)**

Impact of "Rolled-back" Property Tax Rate on Future Budget

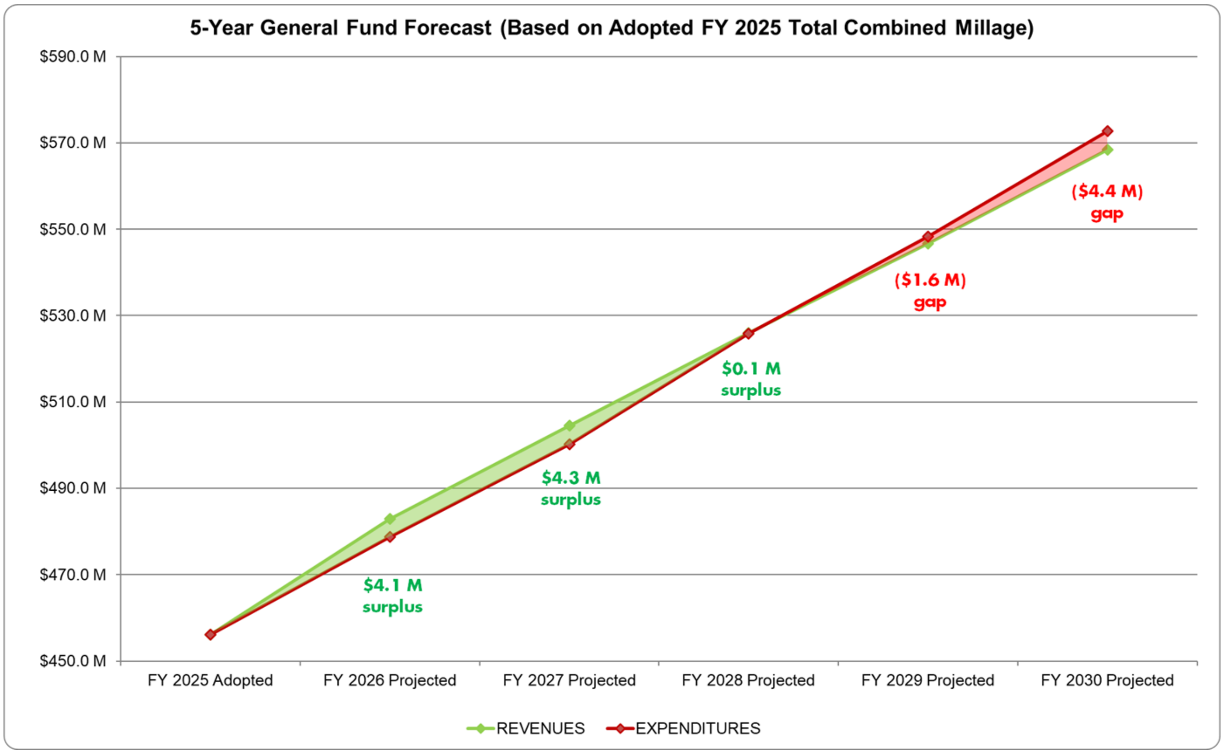
Annually, as part of the budget development process, the City prepares a five-year forecast based on several factors such as economic data, prior year revenue and expenditure trends, and anticipated changes known by the City that are combined with general assumptions used. This five-year forecast, which is generally prepared based on three different scenarios – conservative, likely, and optimistic – provides insight into the City's long-term financial sustainability and areas that may be of concern for the future.

Property taxes represent approximately 61% of the total revenues budgeted in the General Fund in FY 2025. While the City's current economy is strong, the long-term outlook of this economic trend remains uncertain. The property tax revenues generated based on the rise in property values and the millage rates that were adopted by the City Commission for FY 2025 continue to be essential for addressing funding gaps in many of the City's critical capital projects and necessary to fund services and programs that are budgeted annually.

For purposes of this analysis, the "likely" scenario of this forecast, which is considered the mid-point of the spectrum of assumptions, is being used to reflect the impact on the General Fund over the next five years if the "rolled-back" millage rate had been adopted instead of the millage rates that were adopted by the City Commission for FY 2025.

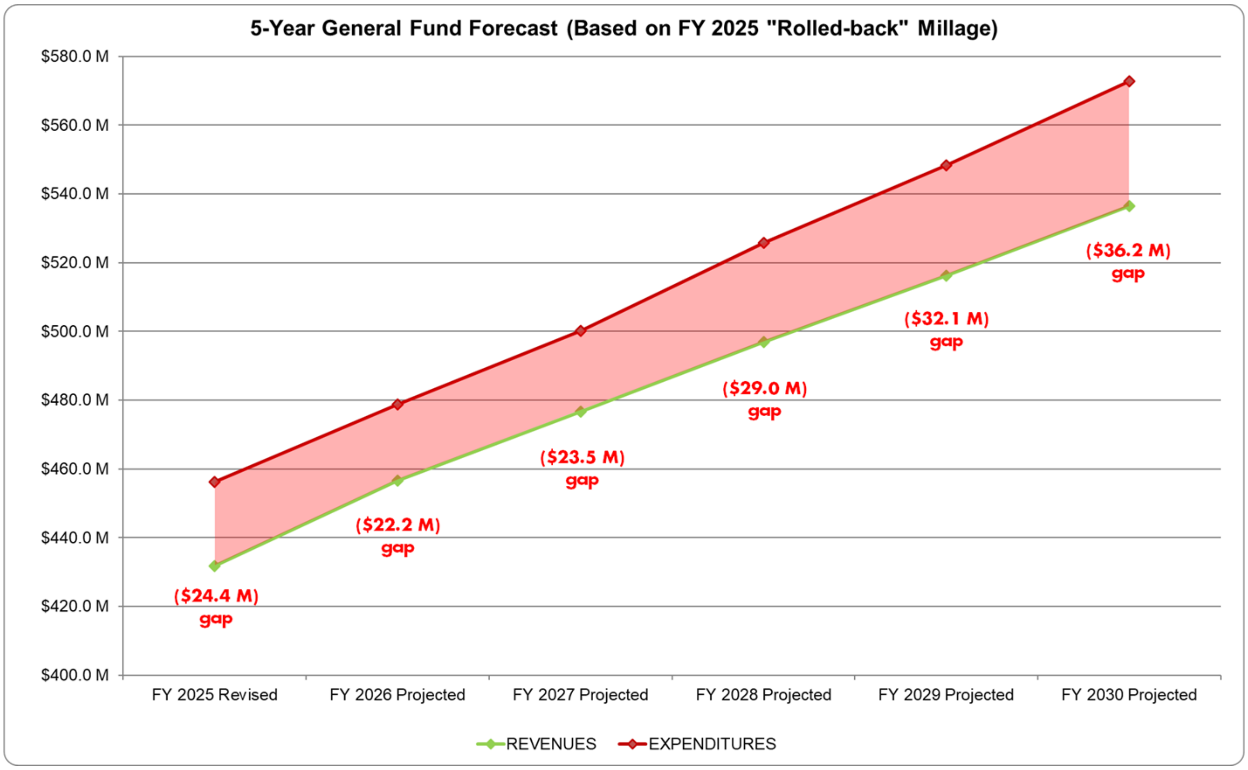
Based on the millage rates that were adopted by the City Commission for FY 2025, the General Fund is balanced in FY 2025 and projected to be structurally balanced for the following three years (FY 2026, FY 2027, and FY 2028) followed by a gap in the fourth year (FY 2029) that increases in the fifth year (FY 2030).

	FY 2025 Adopted	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected	FY 2030 Projected
REVENUES						
SCENARIO #2 Likely	456,164,000	482,920,000	504,495,000	525,970,000	546,742,000	568,361,000
EXPENDITURES						
SCENARIO #2 Likely	456,164,000	478,828,000	500,206,000	525,833,000	548,341,000	572,763,000
ANNUAL SURPLUS / (GAP)	-	4,092,000	4,289,000	137,000	(1,599,000)	(4,402,000)



On the other hand, if the “rolled-back” millage rate had been adopted by the City Commission for FY 2025, the General Fund would have been structurally imbalanced in FY 2025 with a $24.4 million gap and is projected to continue to be structurally imbalanced through the fifth year (FY 2030), at which point the projected gap would be $36.2 million.

	FY 2025 "Rolled-back"	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected	FY 2030 Projected
REVENUES						
SCENARIO #2 Likely	431,788,000	456,594,000	476,721,000	496,808,000	516,268,000	536,516,000
EXPENDITURES						
SCENARIO #2 Likely	456,164,000	478,828,000	500,206,000	525,833,000	548,341,000	572,763,000
ANNUAL SURPLUS / (GAP)	(24,376,000)	(22,234,000)	(23,485,000)	(29,025,000)	(32,073,000)	(36,247,000)



Additional Factors Impacting General Fund Revenues

It is important to note that the following additional factors impacting future General Fund revenues, beginning in FY 2026, have not been incorporated into the five-year forecast presented above.

- Cap on Consumer Price Index (CPI) on Fees
  Following the adoption of the FY 2025 Operating Budget, the City Commission enacted an Ordinance at its November 20, 2024 meeting, establishing a 3% cap on all City fees subject to an annual adjustment based on the CPI. This measure will limit potential revenue growth relative to expenditures in cases where inflation exceeds 3%, further increasing the General Fund's potential structural budget imbalance.

- Amendment 5
  On November 5, 2024, Florida voters approved Amendment 5, which adds a new restriction on the growth of property taxes for homesteaded properties. This amendment ties the annual increase in the homestead exemption value to the rate of inflation, capped at a maximum of 3% per year. Previously, the homestead exemption was fixed, offering limited flexibility to respond to inflation.

  The change aims to provide homeowners with greater protection against significant property tax increases during periods of high inflation, while also limiting potential revenue growth for municipalities. This adjustment is anticipated to further increase the General Fund's potential structural budget imbalance.

Does this Ordinance require a Business Impact Estimate?
(FOR ORDINANCES ONLY)

The Business Impact Estimate (BIE) was published on .
See BIE at: https://www.miamibeachfl.gov/city-hall/city-clerk/meeting-notices/

FINANCIAL INFORMATION

Click or tap here to enter text.

CONCLUSION

Applicable Area

Citywide

Is this a "Residents Right to Know" item, pursuant to City Code Section 2-17?

No

Is this item related to a G.O. Bond Project?

No

Was this Agenda Item initially requested by a lobbyist which, as defined in Code Sec. 2-481, includes a principal engaged in lobbying? No

If so, specify the name of lobbyist(s) and principal(s):

Department

Management and Budget

Sponsor(s)

Commissioner Alex Fernandez

Co-sponsor(s)

Condensed Title

Comprehensive Analysis of Impact of Rolled-back Property Tax Rate on the Adopted FY 2025 Budget