

WORKSHOP ITEM SUMMARY SHEET
VILLAGE COUNCIL MEETING
November 28, 2018

Agenda Item:

Ordinance 2019-01 Reserve Policy

Description:

Ordinance 2019-01 is being proposed as a means of institutionalizing the Village's fiscally conservative budgeting practices, which have led to the creation of the region's largest operating reserve (both in terms of per capita funds and months of operating costs in reserve). As you know, such practices have enabled the Village to proceed with a significant land purchase, as well as a series of substantial road infrastructure improvements, without impact to our Operating Reserve. This policy stipulates the creation and maintenance of three reserves, designed to instill a legacy of fiscal conservatism for years to come.

Financial Impact:

Adoption of Ordinance 2019-01 is not expected to cost the Village substantial funds, beyond advertising costs. It is expected to stabilize, and cement, the Village's fiscally conservative governing practices.

Attachments:

1. Ordinance 2019-01 Reserve Policy
2. Attachment A to Ordinance 2019-01 Reserve Policy
3. Staff Report

ATTACHMENT 1

VILLAGE OF ESTERO, FLORIDA

ORDINANCE NO. 2019 – 01

**AN ORDINANCE OF THE VILLAGE COUNCIL OF THE
VILLAGE OF ESTERO, FLORIDA, ADOPTING A
RESERVE POLICY; AND PROVIDING AN EFFECTIVE
DATE.**

WHEREAS, it is essential for the Village of Estero to maintain sufficient levels of reserve funds to mitigate current and future risks such as revenue shortfalls, natural disasters, unanticipated expenditures, and to ensure stable tax rates; and

WHEREAS, the adoption of a Reserve Policy by the Village of Estero will assist in ensuring the fiscal well-being of the Village by establishing a minimum level at which reserves are to be maintained, as well as the mechanisms by which the policy may be amended, which are critical to the continued operation of services.

NOW, THEREFORE, be it ordained by the Village Council of the Village of Estero, Florida:

Section 1. The Reserve Policy is hereby adopted as outlined on Attachment A, which attachment shall only be amended by supermajority approval of a duly noticed Ordinance amendment.

Section 2. This Ordinance and attached policy may only be repealed or amended by an ordinance approved by a supermajority vote of the entire Village Council.

Section 3. This Ordinance shall be effective immediately upon adoption.

PASSED on first reading this _____ day of _____, 2019.

PASSED AND ADOPTED BY THE VILLAGE COUNCIL of the Village of Estero, Florida this ___ day of _____, 2019.

Attest:

VILLAGE OF ESTERO, FLORIDA

By: _____
Kathy Hall, MMC, Village Clerk

By: _____
James R. Boesch, Mayor

Reviewed for legal sufficiency:

By: _____

46	Burt Saunders, Esq., Village Attorney		
47			
48	Vote:	AYE	NAY
49	Mayor Boesch	_____	_____
50	Vice Mayor Ribble	_____	_____
51	Councilmember Batos	_____	_____
52	Councilmember Errington	_____	_____
53	Councilmember Levitan	_____	_____
54	Councilmember McLain	_____	_____
55	Councilmember Wilson	_____	_____

ATTACHMENT 2

ATTACHMENT A TO ORDINANCE 2019-01 VILLAGE OF ESTERO RESERVE POLICY

The Village hereby establishes and shall maintain a Reserve Policy.

The adoption of a Reserve Policy by the Village of Estero will assist in ensuring the fiscal well-being of the Village by establishing a minimum level at which reserves are to be maintained or increased, as well as the mechanisms by which the policy may be amended, which are critical to the continued delivery of services to citizens of and the visitors to the Village.

The Village desires to maintain prudent levels of financial resources to guard its stakeholders against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted expenses. In addition, this policy is intended to document the appropriate reserve levels to protect the Village's credit worthiness.

This policy establishes the amounts the Village will maintain in, or contribute to, its various reserve accounts, how the reserves will be funded, the conditions under which the reserves may be used and the replenishment requirements.

The specifically adopted reserve accounts are as follows:

- Operating Reserve
- Litigation Defense Reserve
- Major Road Maintenance Reserve

The reserve allocation amounts can be used only for the specific purposes determined by this Attachment A to Ordinance 2019-01.

The reserve policy may be changed or lifted only by the Council taking the same formal action that imposed the constraint originally, which in this case, is an ordinance approved by a supermajority vote of the entire Village Council. This must include publicly noticing and advertising the proposed change consistent with Florida Statutes 116.041 (3)(a).

Any Ordinance approved, which calls for a reduction in the reserve level, must include a detailed plan for how the reserve will be replenished.

The Operating Reserve, Litigation Defense Reserve, and Major Road Maintenance Reserve, once fully funded, are to be maintained at final intended levels and may be spent as provided herein. The fund levels may be increased above this required threshold at any time by the Village Council, without supermajority approval of an Ordinance amendment.

If the use of any of the reserve accounts is deemed to be completed or no longer necessary, and is approved by supermajority Council approval of an Ordinance amendment stipulating such, then the reserve account shall be closed.

1. Operating Reserve:

A. Accumulation of funds:

The following accumulation will be calculated and allocated during the budget process:

- Fiscal Year 2018-2019: Reserves equal to, or greater than, ten (10) months of budgeted operating expenses as calculated at time of budget adoption;
- Fiscal Year 2019-2020: Reserves equal to, or greater than, twelve (12) months of budgeted operating expenses as calculated at time of budget adoption;

Reserves equal to or greater than twelve (12) months of budgeted operating expenses is the intended final level for this reserve, and it is intended that the reserve, as provided herein, shall be maintained at this level, or higher, unless directed otherwise by a supermajority Council approval of an Ordinance amendment which orders a change in this policy.

B. Use of funds:

The Operating Reserve funds are only to be used for the following:

- *Disaster Response.*
A Disaster Response is defined as a State of Emergency as declared by the Village of Estero, State of Florida or Lee County. Under these conditions, the funds may be used for the preservation of life and property within the Village.
- *Revenue interruption.*
Revenue interruption may occur when the State, County or Village can no longer operate to provide revenue to the Village of Estero.
- *Debt reserve.*
Debt Reserves are defined as an amount of reserves that may be required as part of debt or loan agreement.
- *Budgeted to expend to provide funding in the event of an economic downturn.*
For application of the Reserve Policy, a qualifying economic downturn is a drop in budgeted general fund revenue of 10% or higher from the prior year budget.

Use of the Operating Reserve funds will be determined by the Village Manager.

C. Replenishment of funds:

In the event that funds are expended from the Operating Reserve, the fund will be replenished in the following fiscal year during the budget process, in accordance with an adopted plan, until funds are fully restored to twelve (12) months of budgeted operating expenses.

D. Budget Process and Presentation:

Funds will be allocated to the Operating Reserve during the budget process and if not expended will be presented as projected ending fund balance. If funds are budgeted to be expended during the fiscal year, replenishment of the funds will be completed in the following fiscal year during the budget process.

2. Litigation Defense Reserve:

A. Accumulation of funds:

The Litigation Defense Reserve was established at \$670,000 for fiscal year 2018-2019. This is the intended final minimum level for this reserve, and the reserve shall be maintained at or above this level, unless directed otherwise by supermajority Council approval of an Ordinance amendment which orders a change in this policy.

B. Use of funds:

Funds may be expended from the Litigation Defense Reserve when the Village is a named party in an active lawsuit after having utilized its annual insurance contribution for such defense(s), if available. In addition, funds may be used for threatened litigation or to develop a settlement strategy designed to prevent extended litigation.

These funds may be expended in the legal defense of the Village, and not for the legal defense of any individual official, staff member, or otherwise affiliated individual, as determined by the Village Manager.

Use of the Litigation Defense Reserve funds will be determined by the Village Manager.

C. Replenishment of funds:

In the event that funds are expended from the Litigation Defense Reserve, this fund will be replenished in the following fiscal year during the budget process, in accordance with an adopted plan, until funds are fully restored to the initial \$670,000 level.

D. Budget Process and Presentation:

Funds will be allocated to the Litigation Defense Reserve during the budget process and if not expended will be presented as projected ending fund balance. If funds are budgeted to be expended during the fiscal year, replenishment of the funds will be completed in the following fiscal year during the budget process.

3. Major Road Maintenance Reserve:

A. Accumulation of funds:

The Major Road Maintenance Reserve annual contribution will be \$300,000 for fiscal year 2019-2020, with 3% annual growth adjustments, unless directed otherwise by supermajority Council approval of an Ordinance amendment which orders a change in this policy.

B. Use of funds:

Each fiscal year, the Village Staff may identify specific roads, experiencing road surface deterioration, and initiate road resurfacing and/or mill and overlay projects to address the identified issues. In addition, funds may be expended in the event that resurfacing is recommended during a planned road improvement project.

Use of the Major Road Maintenance Reserve funds will be determined by the Village Manager.

C. Replenishment of funds:

The Major Road Maintenance Reserve fund will be funded each fiscal year with an annual contribution of \$300,000, which contribution shall be increased by 3% each year. In the event that funds are expended, the reserve will receive the next annual contribution in the following fiscal year during the budget process.

D. Budget Process and Presentation:

Annual contributions will be allocated to the Major Road Maintenance Reserve during the budget process and if not expended will be presented as projected ending fund balance as an addition to any reserve balance carried forward from the prior year. If all of the Major Maintenance Reserve funds are budgeted to be expended during the fiscal year, funding of the annual contribution will be completed in the following fiscal year during the budget process.

E. Annual Contribution Calculation:

The annual contribution was determined via calculation of road repair costs for each Village road. Given Florida's weather conditions, it has been determined that road repairs and resurfacing must occur every seventeen years, on every Village road, in order to ensure that the Village road network remains in excellent condition. By providing an annual allocation increase of 3%, the Village will retain sufficient funds in this reserve to maintain Village roads at an excellent level.



MEMORANDUM

TO: Village Council

FROM: Steve Sarkozy, Village Manager

DATE: November 28, 2018

SUBJECT: Reserve Policy

Mayor and Village Councilmembers:

A major impetus for Village incorporation was the ability to control a greater share of our local tax dollars, in order to provide high-quality, fiscally sustainable government. As a Village government, we have accumulated 10 months of operating reserves, while responding to a major storm (Hurricane Irma) and preparing for a large land purchase (Estero on the River). Developing this reserve, while tending to the maintenance and improvement of our Village, has been of utmost concern through these early years. Council's commitment to fiscal conservatism, and budgetary restraint, should be commended. The purpose of the Reserve Policy is to protect this progress by creating dedicated reserves for Operations, Litigation Defense, and Major Road Maintenance.

Operating Reserve

The Village currently carries ten months of operating expenses, with this figure expected to grow to twelve months of operating expenses in fiscal year 2019-2020. This policy will hold the Operating Reserve level constant and restrict expenditure to the following uses:

Disaster Response.

A Disaster Response is defined as a State of Emergency as declared by the Village of Estero, State of Florida or Lee County. Under these conditions, the funds may be used for the preservation of life and property within the Village.

Revenue interruption.

Revenue interruption may occur when the State, County or Village can no longer operate to provide revenue to the Village of Estero.

Debt reserve.

Debt Reserves are defined as an amount of reserves that may be required as part of debt or loan agreement.

Budgeted to expend to provide funding in the event of an economic downturn.

For application of the Reserve Policy, a qualifying economic downturn is a drop in budgeted general fund revenue of 10% or higher from the prior year budget.

Litigation Defense Reserve

The Litigation Defense Reserve will provide funds for when the Village is a named party in an active lawsuit (after having utilized its annual insurance contribution for such defense(s), if available), for threatened litigation, or to develop a settlement strategy designed to prevent extended litigation. In the fiscal year 2018-2019 budget, \$670,000 was budgeted for this reserve, which is the amount that the reserve will be maintained at.

Major Road Maintenance Reserve

The Major Road Maintenance Reserve will provide funds for road maintenance costs to be borne by the Village into the future. By funding needed maintenance in this manner, the Village can accumulate sufficient funds to maintain Village roads at an excellent level, while smoothing costs over time. The initial contribution to this fund will be made in the fiscal year 2019-2020 budget, at \$300,000. Going forward, the annual allocation should grow 3% annually. The total and annual costs of this effort were determined by calculating the cost of resurfacing each Village road, divided by their expected useful life (17 years). These figures are provided below.

Village Road	Replacement Cost	Village Road	Replacement Cost	Village Road	Replacement Cost
Armada Court	\$19,171	Estero Parkway	\$781,391	Riverside Drive	\$46,115
Broadway East	\$112,447	Highlands Avenue	\$48,910	Royal Palm Drive	\$46,460
Broadway West	\$382,157	Lords Way Street	\$15,870	Sandy Lane	\$118,531
Charing Cross Circle	\$166,371	Mederia Lane	\$16,445	See See Street	\$35,777
Coconut Drive	\$27,600	Palmetto Terrace	\$18,285	Spring Creek Road	\$122,360
Coconut Road	\$1,211,893	Park Place	\$41,630	Trailside Drive	\$67,931
Commons Way	\$14,985	Pine Tree Lane	\$99,820	Via Coconut Point	\$1,024,535
Coralee Avenue	\$33,224	Poinciana Avenue	\$15,525	Williams Road	\$455,239
Corkscrew Village Lane	\$23,932	Porthole Court	\$19,930	Total Cost (all roads)	\$5,105,471
County Road	\$35,777	River Ranch Road	\$103,167	Annual Cost (17 year life)	\$300,322

Use of Funds

Funds may only be expended from the reserves for explicitly provided uses. This policy may only be repealed or amended by an ordinance approved by a supermajority vote of the entire Village Council. The process to change or remove the Reserve Policy must satisfy the standard Ordinance advertising requirements, and must also include adoption of a fund replenishment plan.

Replenishment of Funds

Expended funds must be replenished in the following fiscal year during the budget process, in accordance with an adopted plan.