



THE CITY OF KEY WEST

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EXECUTIVE SUMMARY

TO: Key West Bight Management District Board
FROM: Doug Bradshaw, Director Port & Marine Services
DATE: August 2, 2017
SUBJECT: Key West Bight Excess Funds Policy

ACTION STATEMENT

Approval of the Key West Bight (KWB) Excess Funds Policy

BACKGROUND

The City of Key West purchased the KWB through the issuance of bonds in January 1993 for approximately \$18.5 million. In December 2017, the City will complete repayment of the bonds. Over the past 24 years the KWB has become very successful financially and is one of the most visited areas of Key West with numerous successful businesses including restaurants, watersports, and shops.

With the financial success of the KWB and the retirement of the bonds, the City beginning with the 2018-2019 budget will be able to meet a requirement of Key West City Ordinance Section. 2-553(a) which calls for the payment of excess KWB funds into the City's general revenue fund. In order to determine the amount of excess funds, the City had Arcadis (the City's rate model consultant) analyze the financial needs of the KWB both operationally and capital wise over the next 10 years. The following assumptions were utilized in the model and will be the basis for the policy:

- On average, the KWB includes \$2.0 million in new capital per year
- Increases to revenue would be based on 2%
- Increases to operational expenses would be 2.5%
- Emergency operational reserve target would be equal to 90 days of operational expenses. The initial operational reserve requirement would be approximately \$1.25 million.
- Emergency capital reserve target would be equal to approximately 15% of the replacement value of the \$35 million assets. The initial capital reserve requirement would be approximately \$5.25 million with 3% increases each year.

With these assumptions it is estimated that the excess funds from the KWB available to the City's general fund beginning in 2018-2019 will be approximately \$2.0-\$2.5 million

Key to the Caribbean – Average yearly temperature 77°

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each year. Staff believes that even though the KWB is very successful financially these excess funds are not 100% guaranteed each year. Anything from a recession in the economy to a major hurricane could significantly reduce the excess funds. Because of this staff is recommending that the funds be put toward the City's capital project and capital project maintenance budgets each year as opposed to the City's general operating budget.

The policy will state the following:

“The Key West Bight will transfer excess funds to the City of Key West's General Fund at the beginning of each budget year. The funds will be utilized specifically for capital projects and capital project maintenance. Excess funds will be those funds above the required minimum emergency reserve funds which include both operational (90 days) and capital (15% replacement values of assets)”

PURPOSE & JUSTIFICATION

The purpose of this policy is to meet a requirement of Key West City Ordinance Section. 2-553(a) which calls for the payment of excess KWB funds into the City's general revenue fund as well as to define what excess funds are. Additionally staff feels that the policy allows the KWB financially to not only maintain its product but also improve its product.

FINANCIAL IMPACT

The implementation of KWB Excess Funds Policy will allow for approximately \$2.0-\$2.5 million to be transferred to the City's general fund each year beginning with the 2018-2019 budget.

RECOMMENDATION

Staff recommends approval of the Key West Bight Excess Fund Policy.