

CITY OF MADEIRA BEACH FUND BALANCE POLICY

ADOPTED BY BOARD OF COMMISSIONERS SEPTEMBER 8, 2015

I. POLICY STATEMENT

The City of Madeira Beach (the “City”) was incorporated in 1947 with a Council-Manager form of government. As a political subdivision of the State of Florida, the City is governed by a five-member elected Board of Commissioners (the “BOC”). The BOC is responsible for the establishment and adoption of policy for the City. The execution of such policy is the responsibility of the City Manager. The BOC directs the City Manager or the Manager’s designee to implement all policy.

This Fund Balance Policy (the “Policy”) has been crafted in recognition of the City’s unique position upon a barrier island between the Gulf of Mexico and Boca Ciega Bay and the inherent risk associated with tropical storms. For the purposes of this Policy, the City Manager’s designee is presumed to be the Assistant City Manager/Finance Director who functions as the fiduciary entrusted to protect and enhance the City’s financial condition.

The City’s permanent resident population totals approximately citizens; a number that nearly triples during peak season to greater than 15,000 residents. To the benefit of its residents, Madeira Beach provides a full range of municipal services including: fire protection and emergency medical services; marina, parks and recreation services; operation and maintenance of streets and related infrastructure such as stormwater and sanitation collection services; and other zoning and administrative functions necessary for the efficient management of the City and welfare of its citizens. The City contracts with the Pinellas County Sheriff’s Office for law enforcement.

The Government Finance Officers Association (“GFOA”) – whose mission is to enhance and promote the professional management of governmental financial resources by identifying, developing, and advancing fiscal strategies, policies, and practices for the public benefit – recommends that all state and local governments adopt comprehensive written financial management policies, including a formal policy on the level of fund balance maintained in the general fund. It is the intention of the BOC that this Policy be informed by recognized best practices and advisories developed by the GFOA. Importantly, this Policy shall also reflect other prevailing and prudent practices, and – most critically – the stated objectives and tolerances of the City.

It is further understood that the GFOA amends and modifies its guidance over time. The Assistant City Manager/Finance Director is to periodically review the GFOA Best Practices and Advisories in addition to other prevailing and prudent practices in order to recommend conforming modifications to this Policy as warranted.

The guidelines within this Policy address the appropriate level of fund balance in order to mitigate identified material risks which could negatively affect the City’s ability to achieve its objectives. Foremost, the Policy is intended to enhance the overall quality of the City’s risk management, namely its financial planning and budgetary decisions. Pursuant to this Policy, the BOC shall oversee processes by which the City shall consider risks attendant to: extreme tropical storms; economic growth / weakening; revenue and expenditure stability / volatility; operating and capital programs; financial and investment market risk; and anticipated City commitments. This Policy should be read in its entirety and in conjunction with other fiscal policies of the City.

Terms used within this Policy, unless specifically defined herein, have the meanings assigned to them in the Glossary of Municipal Securities Terms, published by the Municipal Securities Rulemaking Board.

II. POLICY PURPOSE AND SCOPE

The guidelines within this Policy address the appropriate level of fund balance in order to mitigate identified material risks which could negatively affect the City's ability to achieve its objectives. Foremost, the Policy is intended to enhance the quality of the City's financial planning and budgetary decisions. The guidelines contained in this Policy are intended to comply with the Florida Constitution and applicable state statutes and the requirements of the Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, reflect the *Best Practices and Advisories* of the GFOA, and the City's prevailing practices.

In accordance with General Accepted Accounting Principles, the term *fund balance* refers to the difference between assets and liabilities under the modified accrual basis of accounting for governmental funds. In other words, fund balance is intended to serve as a measure of the financial resources available in a governmental fund.

Unrestricted fund balance refers to the categories of fund balance that include only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself. Unrestricted fund balance is a measure of economic stability, and adequate levels of unrestricted fund balance shall assure liquidity and mitigate the risks associated with revenue fluctuations and unanticipated expenditures. The adequacy of the general fund balance is a key credit consideration for the rating agencies.

III. FUND BALANCE CONSIDERATIONS UNDER GASB NO. 54

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Statement sets forth fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to honor constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 guidelines classify fund balance in the following categories, based on the relative severity of the spending constraints: *non-spendable fund balance*; *restricted fund balance*; *committed fund balance*; *assigned fund balance* and *unassigned fund balance*. The final three categories (*committed*; *assigned*; and *unassigned*) are considered *unrestricted* categories and these fund amounts are subject to the prerogative of the governmental entity.

A. NON-SPENDABLE FUND BALANCES

The non-spendable fund balance classification represents amounts that are inherently non-spendable. The amounts may be in a non-spendable form (such as inventory, pre-paid rent, long term portion of notes receivable) or the amounts may be required by legal or contractual provisions to be maintained intact (such as the corpus of an endowment fund).

B. RESTRICTED FUND BALANCES

The restricted fund balance classification includes amounts available to be spent that are otherwise constrained to specific purposes. The constraints may be externally imposed (for example by creditors, grantors, bondholders) or imposed by law. Examples of restricted fund balance for the City include grants, bond funds restricted for capital improvement projects, and funds restricted for debt service.

C. UNRESTRICTED FUND BALANCE

- (i) The *committed* fund balance classification is comprised of amounts that are constrained by formal action of the BOC for a specific purpose. This classification may also include certain contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying such contractual requirements. Those funds committed by formal action of the BOC cannot be released from committed status or used for another purpose without a subsequent action by the BOC. An example of a committed fund balance for the City is the funds reserved for the purpose of an emergency storm response.
- (ii) The *assigned* fund balance classification is comprised of amounts that are intended for a specific purpose as evidenced by the City's current adopted budget. The City Manager or the Manager's designee has the authority to modify assigned fund balance. Examples include amounts set aside to fund accrued annual leave expenditures upon separation from employment.
- (iii) The *unassigned* fund balance classification is comprised of residual net resources, in excess of the amounts in the foregoing categories. These amounts are available for any purpose, and are reported only in the general fund. Unassigned fund balance is not appropriated and the expenditure of any unassigned funds requires an action by the BOC.

GASB Statement No. 54 further classifies rainy day funds or contingency funds as "stabilization arrangements" and places specific restrictions on what qualifies for such designation. The formal action of a governing body that imposes the parameters for these arrangements must identify and describe the specific circumstances under which a need for funding would arise. Those circumstances should be such that they would not be expected to occur routinely. The intended purpose must be sufficiently detailed and reported as either restricted or committed, depending on the source of the constraint. The City establishes such contingency funds through the criteria and authorization required for establishing such fund balances as described in the preceding paragraphs. In addition to restricted and committed fund balances, the City may also set-aside unassigned fund balance as stabilization arrangements.

IV. CITY FUND SUMMARY

The following describes the City's major governmental funds:

General Fund. The *General Fund* is the City's primary operating fund, and is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. The majority of current operating expenditures of the City other than proprietary fund activities are financed through revenues received by the General Fund.

Local Option Sales Tax Fund. The *Local Option Sales Tax Fund* is a special revenue fund used to account for the proceeds and expenditures of the City's share of Pinellas County's local option sales tax, known as Penny for Pinellas. State statutes require that local discretionary sales surtaxes may only be used for infrastructure improvements.

Archibald Fund. The *Archibald Fund* is a special revenue fund used to account for revenues collected and expenditures incurred at Archibald Memorial Beach Park. The National Park Service requires all funds generated on the property to be expended only for parks and recreation related purposes.

Building Fund. The *Building Fund* is a special revenue fund reporting all proceeds generated by the City's administration of the Florida Building Code: building plan reviews, building inspection fees, and building permit processing. Per Florida Statutes, such proceeds may only be used for the direct and reasonable indirect costs related to enforcing the building code.

Gas Tax Fund. The *Gas Tax Fund* reports the municipal fuel tax portion of State Revenue Sharing revenue, as well as the City's share of Pinellas County's local option gas tax. Proceeds must be spent on transportation-related services.

Debt Service Fund. The *Debt Service Fund* is a special revenue fund accumulating reserves for the purpose of retiring outstanding debt.

V. POLICY DIRECTIVES

The GFOA recommends, at a minimum, that general purpose governments maintain aggregate unrestricted fund balances in their general fund of no less than two months (16.67%) of regular general fund operating revenues or expenditures, whichever is most predictable. All measures should be applied within the context of long-term forecasting, so as to avoid the risk of placing too much emphasis on the level of unrestricted fund balance in the general fund at any one time. GFOA recognizes that entities with a range of designated reserves may have sufficient liquidity to meet this defined standard through inclusion of funds formally designated for other purposes, yet available for re-designation should circumstances warrant. In accordance with best practices, and legal and accounting guidelines, the City hereby adopts the following fund balance policies:

A. Periodically, and in no event less than once every five years, the City shall affirm the funding of the committed fund balance for the explicit and singular purpose of an emergency storm response. In determining the level of such committed fund balance, the City shall consider the perceived exposure to significant one-time outlays, liquidity pressures, and anticipated commitments should a catastrophic tropical storm hit the City. Historically, the City has maintained a balance for an emergency storm response equal to 33% of General Fund operating expenditures (meaning, excluding capital outlays). Accordingly, it shall be the policy of the City to seek to maintain year-over-year a committed fund balance for the explicit and singular purpose of an emergency storm response fund that is no less than 33% of General Fund operating expenditures *unless* such fund balance was in fact drawn upon in an emergency storm response. In such event, depending upon the amount drawn down, the severity of the storm, and the anticipated recovery, the City shall seek to restore the funds committed for such purpose as soon as is practicable and in no event later than five years.

B. The City shall make a determination as to its target unassigned fund balance level. In determining this level of fund balance, the City shall give consideration to economic growth / weakening; revenue and expenditure stability / volatility; operating and capital programs; financial and investment market risk; anticipated City commitments; and the then-current five-year financial projection. In order to ensure for an appropriate unassigned fund balance, the BOC's stated expectation is a current five-year projection shall be incorporated into the City's budget processes which shall clearly articulate all material underlying assumptions. Moreover, significant one-time revenues / outlays shall also be considered. As a general policy, material one-time revenues shall not be used to fund on-going expenses. Notwithstanding other requirements and fund balance designations as described herein, it shall be the policy of the City to seek to maintain an unassigned General Fund fund balance equal to 16.67% of annual General Fund operating expenditures.

C. The City shall establish reserve funds as required by the documents governing outstanding debt and other long-term obligations, taking into account market exigencies and exercising prudence in funding contingencies for specific risks. These reserve funds may be restricted, assigned or committed, depending on the cause for the reserve (e.g. bond covenants), source of funds (e.g. bond proceeds), and purpose (e.g. capital projects).

D. The City policy is to utilize restricted fund balances first, then unrestricted resources, as they are needed. The City may choose to release a committed or assigned classification, if unassigned funds are used to satisfy the funding obligation. The City shall utilize funds in the following spending order: restricted; committed; assigned; unassigned.

E. The City may choose to balance its annual budget by assigning a portion of existing unassigned fund balance, or by reassigning funds in an amount no greater than the projected excess of expected expenditures over expected revenues.

VI. POLICY REVIEW AND REVISION

This Policy in its entirety shall be re-evaluated no less than once every five years by the Assistant City Manager/Finance Director and may be amended by the BOC as conditions warrant. This Fund Balance Policy was initially presented to the BOC on July 28, 2015, and approved by the BOC on September 8, 2015 and replaces any prior fund balance and/or reserve policies of the City.