

Discussion of Fund Balance Guidelines

1. Key questions for Financial Advisory Board
2. Review background information
3. Compare reserve levels for Highland Beach neighbors
4. Case Studies – Hurricane Michael Oct 2018
 - Panama City
 - Panama City Beach
5. Take a look at the numbers and discuss next steps

Key Questions for Financial Advisory Board

1. What amount of the unassigned fund balance should be used towards the establishment of the Highland Beach Fire and Rescue Department?
 - Authorized to expend up to \$10 million
 - Unassigned fund balance is \$6 million
2. Should the Fund Balance Policy be amended?
 - Current policy states the assigned fund balance is 25% of General Fund Expenditures, \$3 million
 - Remaining unassigned fund balance is 50% of General Fund Expenditures, \$6 million

Background – Definitions and Fund Balance Amounts

Fund Balance: difference between assets and liabilities

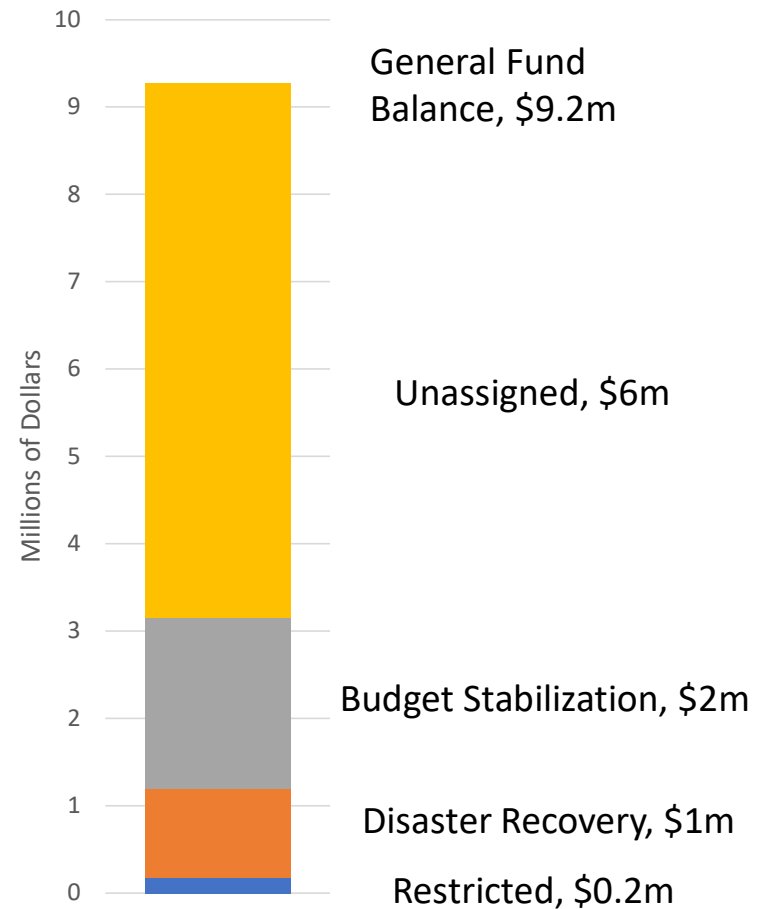
CATEGORIES

Restricted and Committed: amounts that can be spent only for a specific purpose

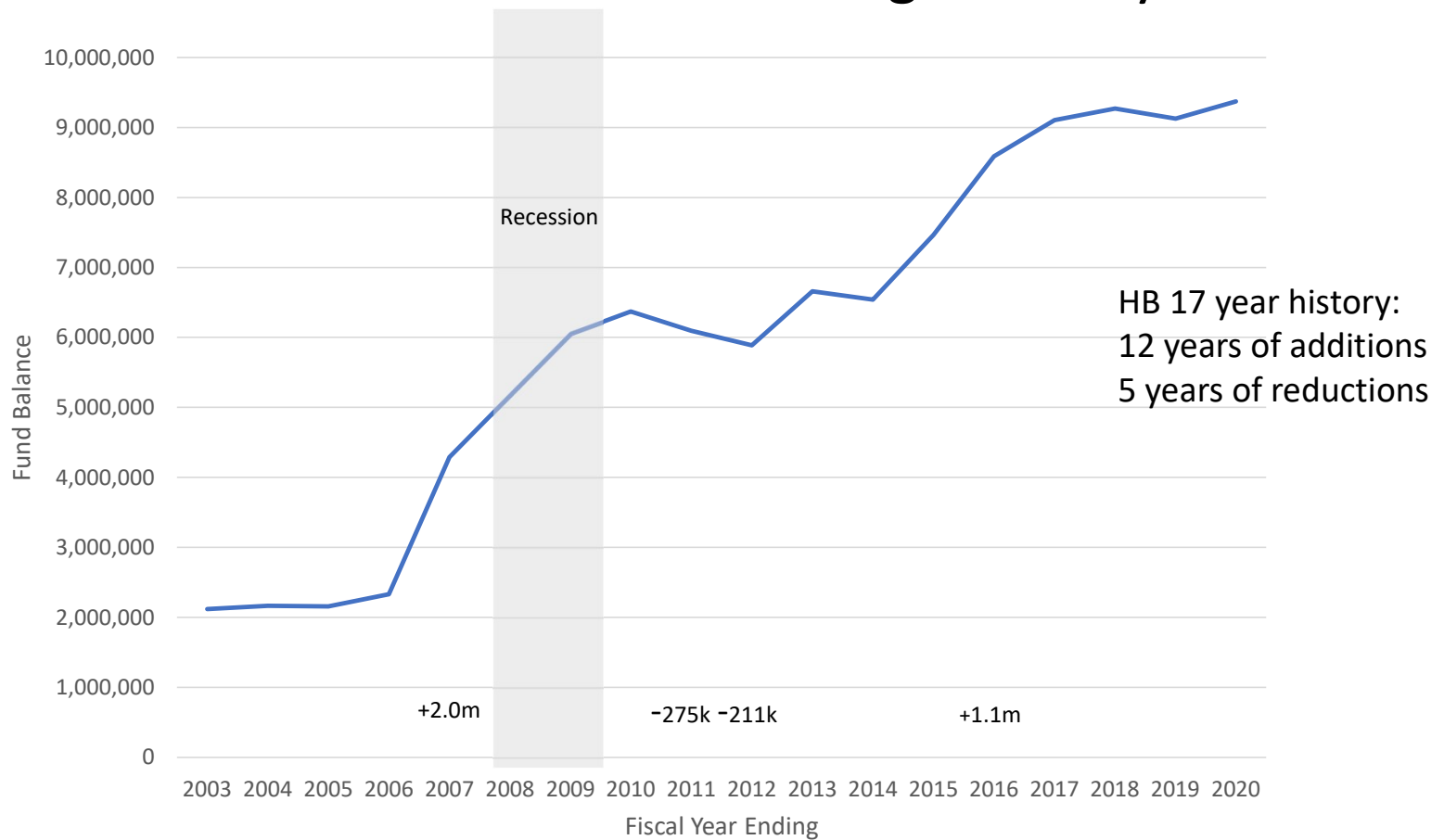
Assigned Fund Balance: amounts that the town intends to use for a specific purpose

- Budget stabilization (in case of cash flow shortfall): 16.7% of gen fund exp, \$2M
- Disaster recovery: 8.3% of gen fund exp, \$1m

Unassigned Fund Balance: the residual classification of the general fund balance, is not obligated or specifically designated, and is available for general purposes



Background - Fund Balance Has Grown Significantly Since 2006



Background - Cost of Financing

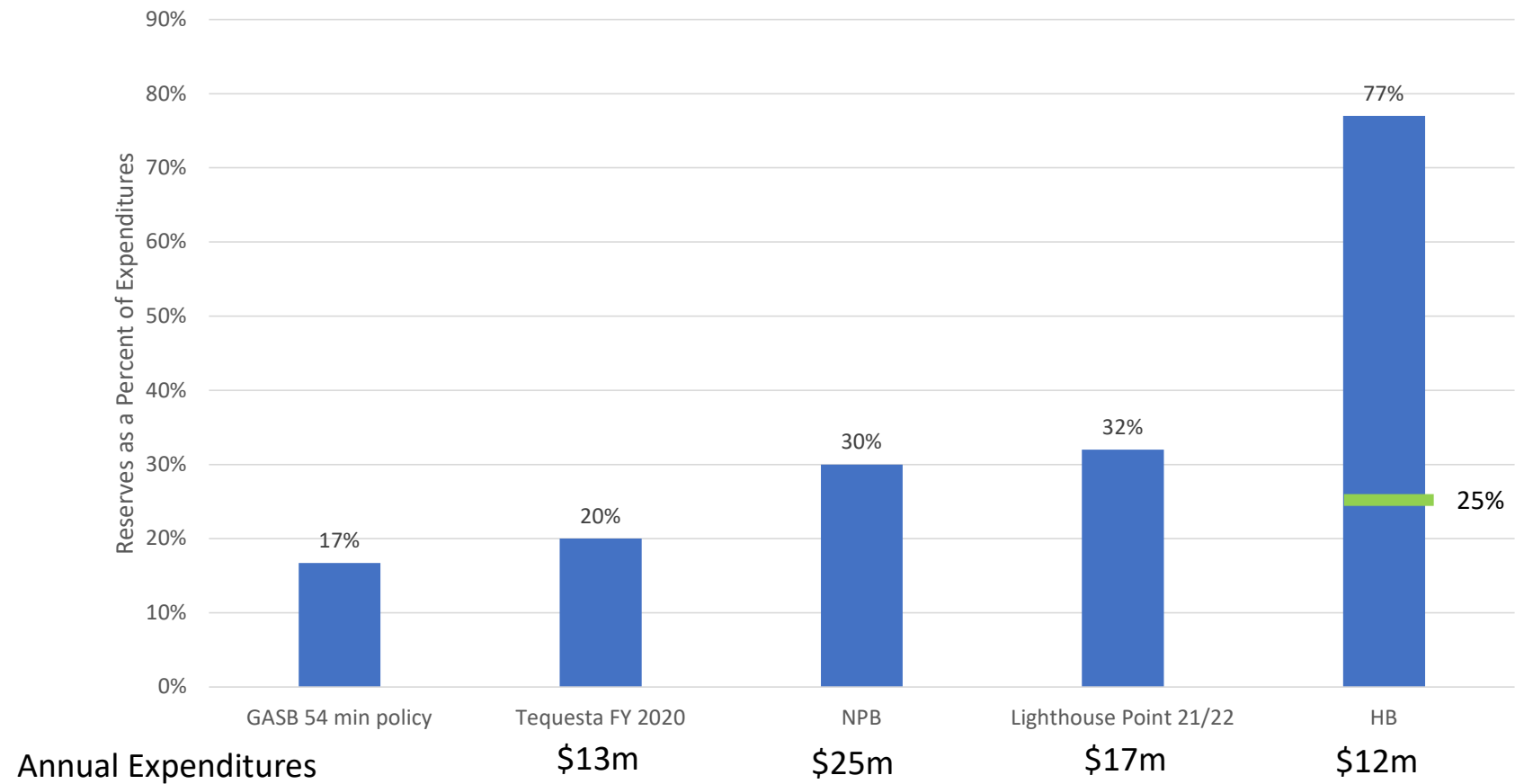
Time Horizon	Loan amount	Loan Amount plus Expenses	Total Cost of Financing	Cost of Financing per Year
10	4,250,000	4,608,344	358,344	35,834
10	5,250,000	5,692,780	442,780	44,278
10	6,250,000	6,777,111	527,111	52,711
15	4,250,000	4,961,278	711,278	47,419
15	5,250,000	6,128,719	878,719	58,581
15	6,250,000	7,295,930	1,045,930	69,729
20	4,475,000	5,633,680	1,158,680	57,934
20	5,475,000	6,891,868	1,416,868	70,843
20	6,475,000	8,150,907	1,675,907	83,795

Background - Considerations from GASB No. 54 and GFAO

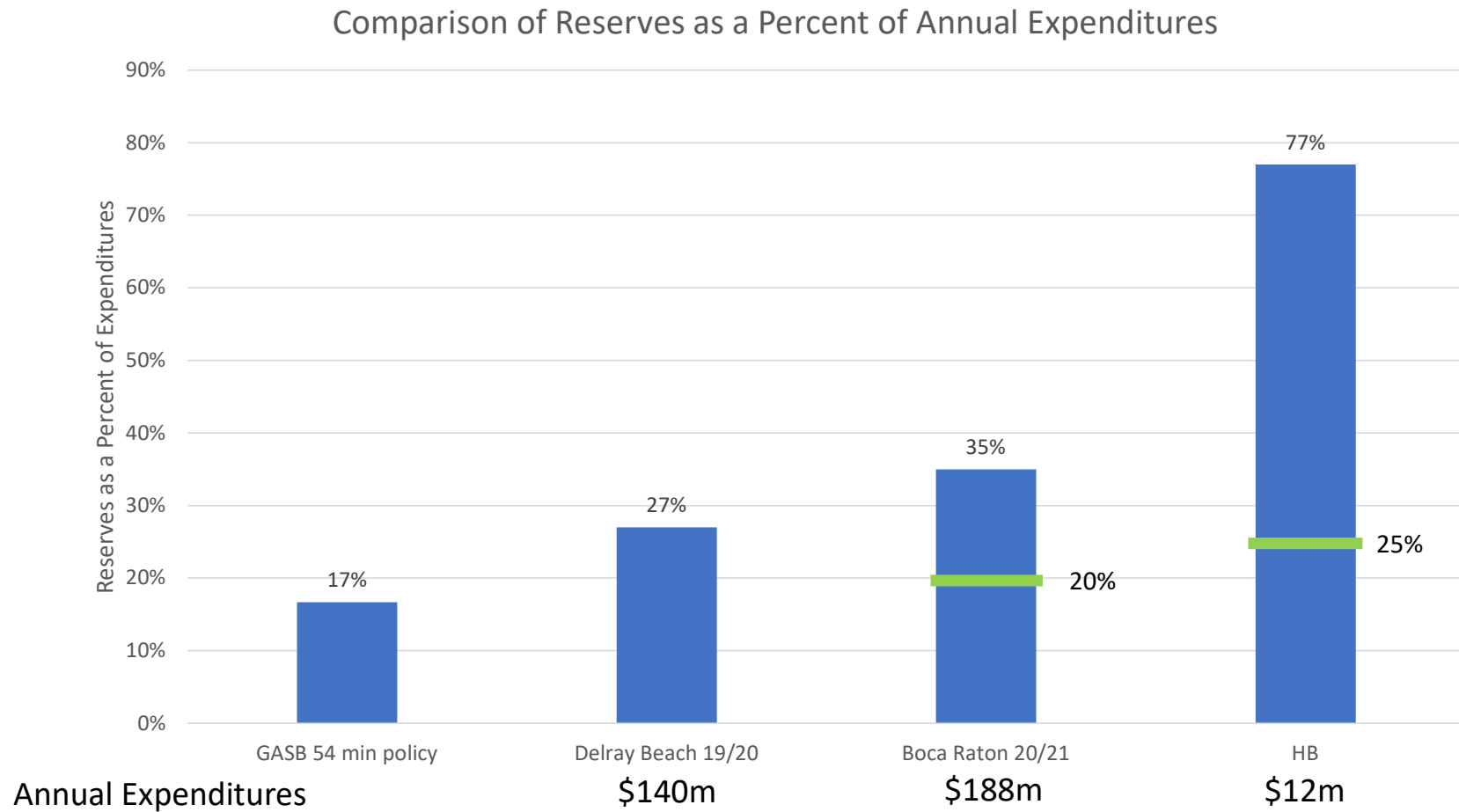
Consideration	Highland Beach
GASB No. 54 and GFAO recommend 16.7% of expenditures as the minimum for fund balance reserves	Highland Beach current policy is 25% of expenditures
Predictability of revenues and volatility of expenditures	Highland Beach revenues are predictable since most revenues come from residential property tax
Dependence on volatile revenue source	Low risk because most revenues come from residential property (as opposed other municipalities that derive a high share of revenues from commercial business)
Subject to cuts in state aid or federal grants	Highland Beach revenues are not dependent on state aid or federal grants
Exposure to one-time outlays - vulnerable to natural disasters	High risk for Highland Beach, however, risk is somewhat mitigated by insurance policies.

Reserve Levels in Highland Beach Compared to Neighbors with Similar Size Budgets

Comparison of Reserves as a Percent of Annual Expenditures

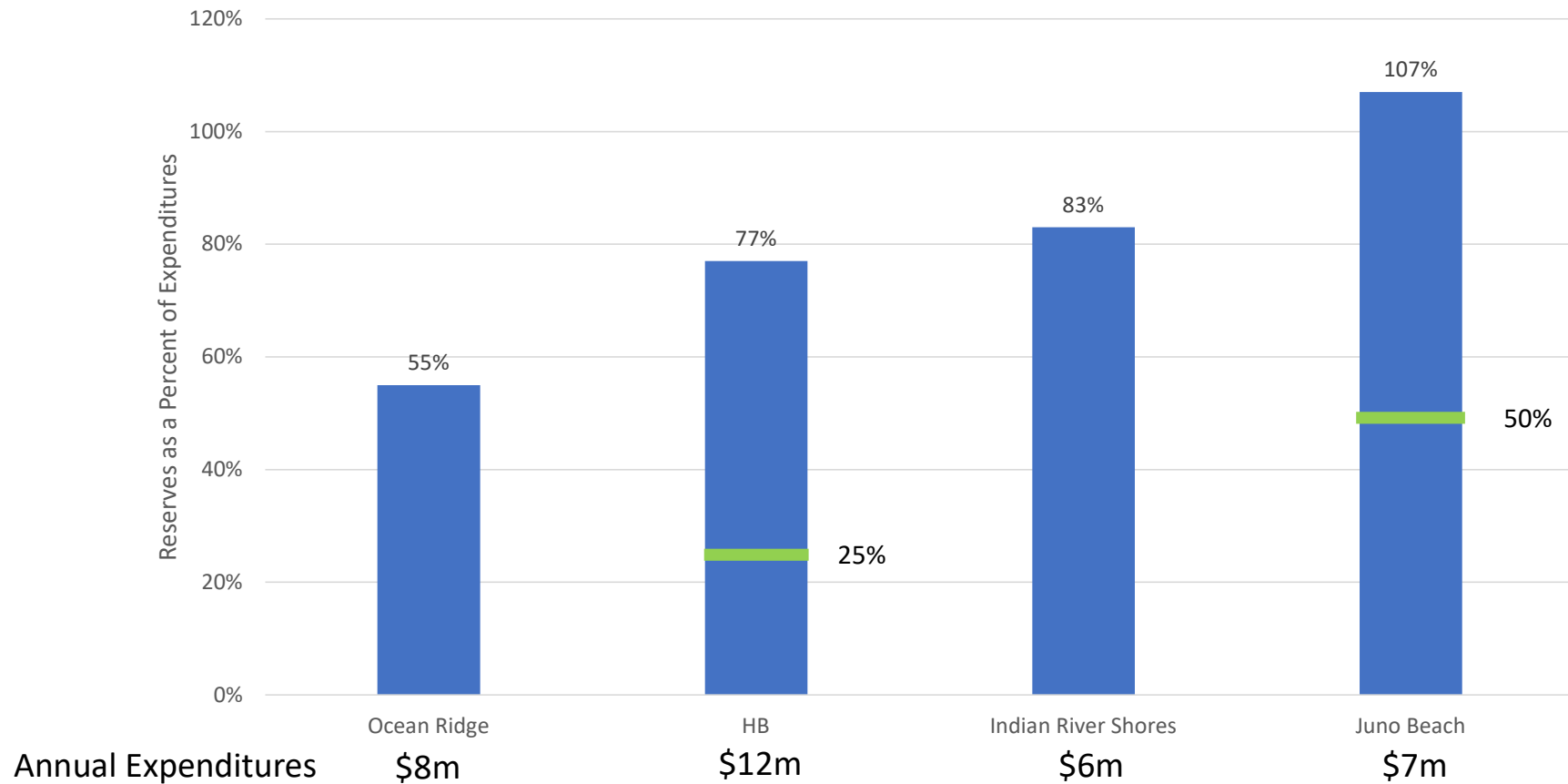


Reserve Levels in Highland Beach Compared to Neighbors with Larger Budgets



Reserve Levels in Highland Beach Compared to Neighbors With Smaller Budgets

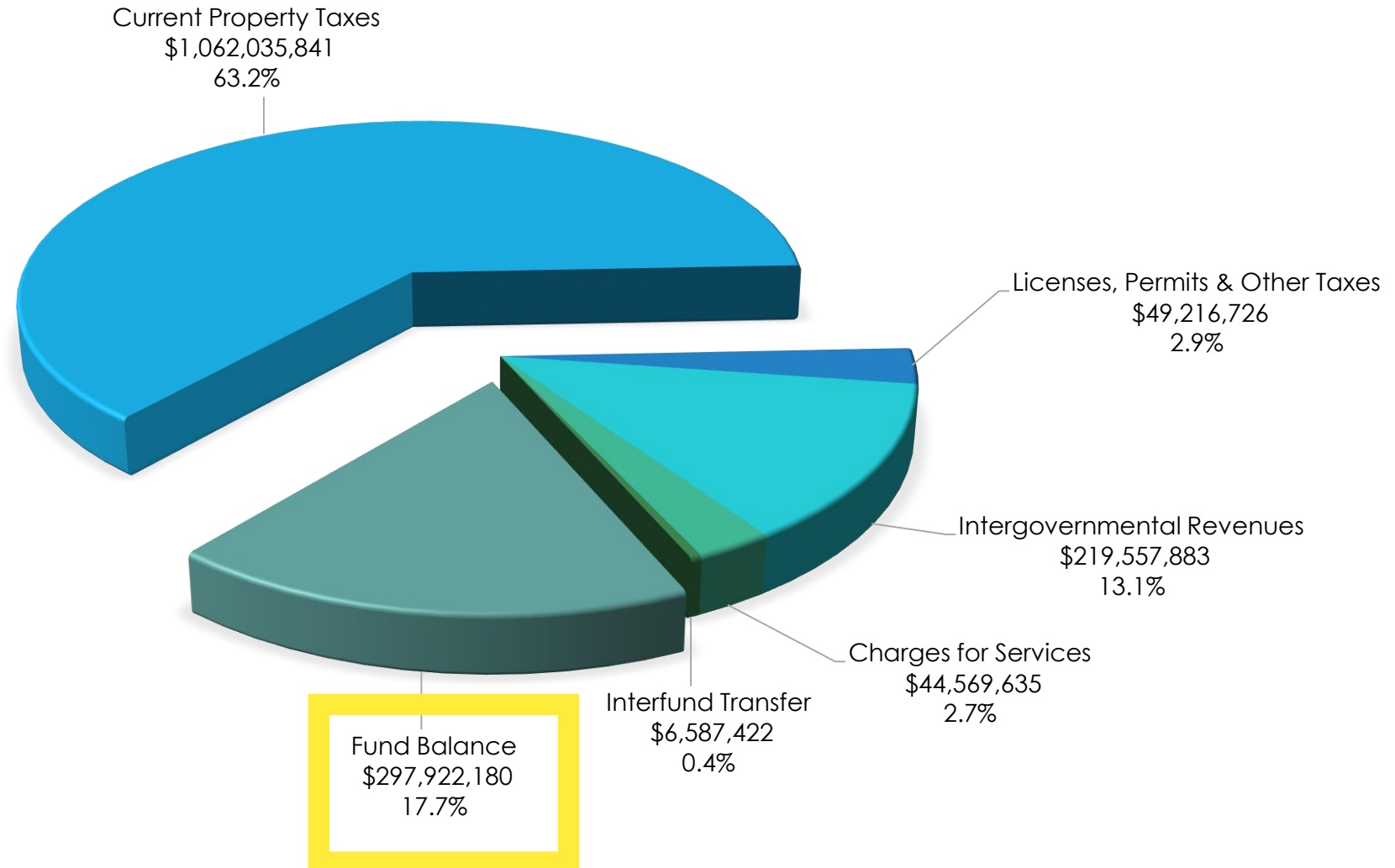
Comparison of Reserves as a Percent of Annual Expenditures



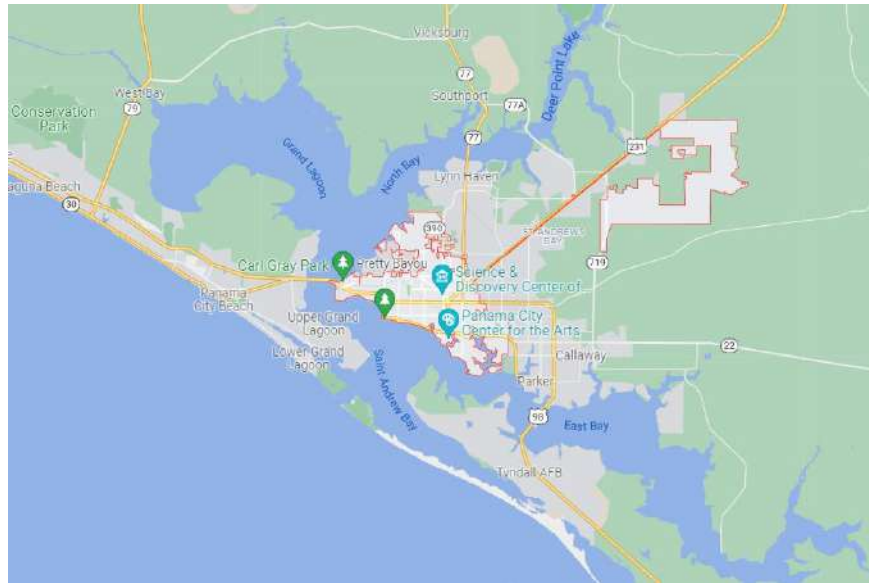
FY 2022 General Fund Revenues by Category

Total General Fund Budget - \$1,679,889,687

Includes Sheriff Revenues
of \$87.7 million



City of Panama City



- Incorporated: 1926
- Area: 34 square miles
- Population: 35,000
- Services: fire rescue, police, water/sewer, waste, marina
- Total Revenue 2020: \$105. 7 million

2020



City of Panama City, Florida

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2020**

The Panama City Community Redevelopment Agency (CRA) and the Panama City Florida Hurricane Disaster Relief Fund are included as blended component units in the City's financial statements.

Relevant Financial Policies

Due to the City's coastal location, which is subject to hurricane activity, the City Commission adopted a fund balance policy that authorized a committed fund balance with a target balance of 30% of annual budgeted operating expenditures and the City targeted a balance of 10% as unassigned fund balance to meet general operating expenditures. For Enterprise Funds, the City authorized a target unrestricted net position balance of 30% of annual budgeted operating expenditures. The fiscal year ended September 30, 2020 balances adequately meet the targets adopted in the policy.

Economic Condition and Outlook

Since Hurricane Michael, housing within the City remains a top priority. After losing a high percentage of available housing, City officials and staff have found innovative ways to bring housing back stronger and more affordable. Some of the positive solutions are micro-housing and modular construction. The City's Community Development department is committed to rehouse those affected by Hurricane Michael and COVID-19 and to stabilize vulnerable populations.

The Community Development department is diligently working to turn renting citizens into home owners. Currently, the national ratio is 30% renters to 70% owners while in the City the ratio is 70% renters to 30% owners. The Community Development department hopes to reverse this trend and create resident stability and resiliency through homeownership.

Therefore, the Community Development department updated its Local Housing Assistance Plan (LHAP) and increased income thresholds for applicant qualifications. This allows an estimated 40% of the City and Bay County residents to qualify for some type of needed housing assistance such as purchase assistance (up to \$45,000 down payment assistance and \$5,000 in closing costs). Under the prior LHAP, only an estimated 10% of residents would have qualified for assistance.

CARES Act funds were administered by the City's Community Development Department for Bay County and the City of Panama City. These funds assisted citizens with foreclosure prevention as well as rental and utility assistance.

The CRA continues a grant program which allows for commercial and residential improvement incentives. In addition, a paint voucher program was created as well as a job creation incentive credit program. These programs were created to attract investment and reverse blight and have been responsible for creating new jobs.

New housing developments continue to succeed and provide needed new housing for the City's citizens. SweetBay, located at the old Panama City Airport, has sold out Phase I and is completing Phase II for a total of 487 homes. 360 apartments are currently under construction with another 350 single family and multi-family lots being developed. The housing development, Liberty, planned for Panama City North, will provide 1,900 single family homes when fully developed.

The retail development, Bay City Point, continues its growth with eight new stores which continues to attract interest in developers to the area. The project is expected to provide a total of 800 jobs to the area.

The Panama City Mall is looking to reconfigure its retail development and begin rebuilding their property in the near future.

The City anticipates continued improvements in the local economy due to rebuilding and revitalizing

CITY OF PANAMA CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 14 – MERCHANT LICENSE TAX ABATEMENT

The City considers economic incentives to encourage retail businesses to build or expand within the city limits of Panama City. City Commission uses both qualitative and quantitative economic factors in approving abatements. To incentivize the development of a retail center located in Panama City, the City entered into an agreement with a real estate developer to refund a portion of the City's operating merchant license tax attributable to the merchants' operations on the retail center site. The agreement refunds 90% of the operating merchant license tax collected on the property, with a maximum reinvestment amount by the City of \$15,142,467 over a period of up to 15 years. As conditions for payments by the City, the developer must certify that 50% or more of the business units are new business units which are open to the public. The City's promise to pay is evidenced and secured by an annual covenant to budget and appropriate from lawfully available, non-ad valorem revenues containing a disclaimer of the City maintaining any particular revenue source, all in a form traditionally used in municipal borrowings and often validated under Florida Statutes Chapter 75. For the fiscal year ended September 30, 2020, the City abated merchant license taxes totaling \$189,629, all of which were to this business.

NOTE 15 – HURRICANE MICHAEL

The City continues its primary focus on recovery and restoration of the City from Hurricane Michael, the catastrophic category 5 hurricane and third strongest storm on record to impact the U.S. mainland, that struck the area on October 10, 2018. Our consultants, FEMA, and the State continue to work with the City to complete damage assessments and restoration costs. The City created a Project Management Office ("PMO") specifically to manage the rebuilding process and all of the various funding sources available to the City in its recovery efforts. Currently, the funding sources available are from FEMA, the State, FEMA 428 programs, insurance, HMGP, CDBG-DR, CDBG-MIT, BRIC, FMA, and State SRF.

There are currently 70 FEMA projects in progress for Hurricane Michael. The total costs of debris removal, repairs, and restoration of the City is expected to be approximately \$400 million and will take about five years to complete. The City received \$36,011,796 from FEMA in FY20, \$14,961,503 in FY19 and expects to receive an additional \$43 million by September 30, 2021. \$29,566,041 of FEMA receivable is reported in the governmental funds as deferred inflows of resources for revenues. These resources have met the eligibility criteria for grant expenditures but not for the timing availability.

NOTE 16 – COVID-19 PANDEMIC

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 outbreak is disrupting supply chains and affecting production and sales

**CITY OF PANAMA CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 16 – COVID-19 PANDEMIC (Continued)

across a range of industries. The extent of the impact of COVID-19 on the City's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, as well as the impact on the City's customers, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the City has experienced reduced revenues from various sources as a result of the COVID-19 shutdowns. However, the extent to which COVID-19 may impact the City's financial condition or results of operations is uncertain.

NOTE 17 - COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

Grant Program. The City participates in various federal and state grants. These programs are subject to audit and adjustment by the funding agency or their representatives. If grant revenues are received for expenditures which are subsequently disallowed, the City may be required to repay the revenues to the funding agency. In the opinion of management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

The U.S. Department of Housing and Urban Development has approved a Community Development Block Grant in the amount of \$375,478 that begins on October 1, 2020.

Triumph Gulf Coast, Inc. approved an infrastructure improvement grant in the amount of \$20,000,000 that began on August 1, 2019.

The U. S. Department of Housing and Urban Development has approved two CARES Act grants in the amounts of \$220,915 which began April 2, 2020 and \$316,049 which began September 11, 2020.

The U. S. Department of the Treasury has approved The American Rescue Plan in the amount of \$10,100,000 that begins on October 1, 2021.

Self-Insurance Programs. The City is self-insured for employee health. See Note 5 for further details.

Marina Project. The City borrowed \$12,999,000 in 2013 of which \$6,826,728 remains unspent. The remaining portion of the project is still in the planning phase.

Line of Credit Issuance. On December 9, 2020 the City issued two new lines of credit: 1) Hurricane Recovery Revenue Note, Series 2020A in the amount of \$70,000,000 and 2) Hurricane Recovery Revenue Note, Series 2020B in the amount of \$10,000,000, both for Hurricane Michael related expenses. As of August 30, 2021, which is the date these financial statements were issued, the City has made \$187,500 in draws on these lines of credit.

Utilities Refunding. On May 13, 2021 the City issued the Water and Sewer Refunding Revenue Note, Series 2021 in the amount of \$25,891,000 for the refinancing of the Water and Sewer Refunding Revenue Note, Series 2015.

CITY OF PANAMA CITY, FLORIDA
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(IN THOUSANDS OF DOLLARS)
UNAUDITED

Fiscal Year	Real Property		Personal Property		Centrally Assessed		Total		Ratio of Total Assessed Value to Total Estimated Actual Value	Total Direct Rate
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value		
2011	\$ 1,873,704	\$ 3,094,310	\$ 282,033	\$ 429,748	\$ 13,794	\$ 14,003	\$ 2,169,531	\$ 3,538,061	61.32%	3.8152
2012	1,847,348	2,994,001	275,999	419,831	13,756	13,953	2,137,103	3,427,785	62.35%	3.8723
2013	1,910,954	2,882,465	300,007	418,383	13,761	14,011	2,224,722	3,314,859	67.11%	3.8723
2014	1,915,492	2,876,959	320,082	440,593	15,372	16,216	2,250,946	3,333,768	67.52%	3.8570
2015	1,925,554	2,837,577	361,462	459,143	15,210	15,503	2,302,226	3,312,223	69.51%	3.9740
2016	1,938,954	2,845,484	337,167	433,798	16,547	17,190	2,292,668	3,296,472	69.55%	3.9740
2017	1,981,248	2,897,689	320,030	417,208	20,272	20,624	2,321,550	3,335,521	69.60%	3.9740
2018	2,051,763	2,964,195	328,829	425,405	15,412	15,795	2,396,004	3,405,395	70.36%	4.3500
2019	2,416,478	2,492,004	402,164	407,563	14,711	14,711	2,833,353	2,914,278	97.22%	5.5469
2020	2,607,743	2,726,502	422,905	428,077	15,597	15,597	3,046,244	3,170,175	96.09%	4.9999

Source: Office of the Property Appraiser, Bay County, Florida

See independent auditor's report.

**CITY OF PANAMA CITY, FLORIDA
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
UNAUDITED**

Overlapping Rates												
Fiscal Year	City of Panama City			Bay County			Bay District Schools			Panama City Downtown Improvement Board	Northwest Florida Water Management District	Total Direct and Overlapping Rates
	Operating Millage	Debt Service Millage	Total City Millage	Operating Millage	Debt Service Millage	Total County Millage	Operating Millage	Debt Service Millage	Total School Millage			
2011	3.8152		3.8152	4.8025		4.8025	7.1180		7.1180	2.7180	0.0400	18.4937
2012	3.8723		3.8723	4.8025		4.8025	6.8580		6.8580	2.7578	0.0400	18.3306
2013	3.8723		3.8723	3.6500		3.6500	6.7610		6.7610	2.8918	0.0400	17.2151
2014	3.8570		3.8570	4.6500		4.6500	6.8890		6.8890	2.8918	0.0039	18.2917
2015	3.9740		3.9740	4.6500		4.6500	6.9070		6.9070	3.0000	0.0378	18.5688
2016	3.9740		3.9740	4.6500		4.6500	6.4750		6.4750	3.0000	0.0366	18.1356
2017	3.9740		3.9740	4.4362		4.4362	6.3410		6.3410	3.0000	0.0353	17.7865
2018	4.3500		4.3500	4.4362		4.4362	6.1220		6.1220	3.0000	0.0338	17.9420
2019	5.5469		5.5469	4.4362		4.4362	5.9476		5.9476	3.0000	0.0327	18.9634
2020	4.9999		4.9999	4.4362		4.4362	5.9680		5.9680	3.0000	0.0311	18.4352

Source: Office of the Property Appraiser, Bay County, Florida

See independent auditor's report.

CITY OF PANAMA CITY, FLORIDA
PROPERTY TAX LEVIES AND COLLECTIONS (1)
LAST TEN FISCAL YEARS
UNAUDITED

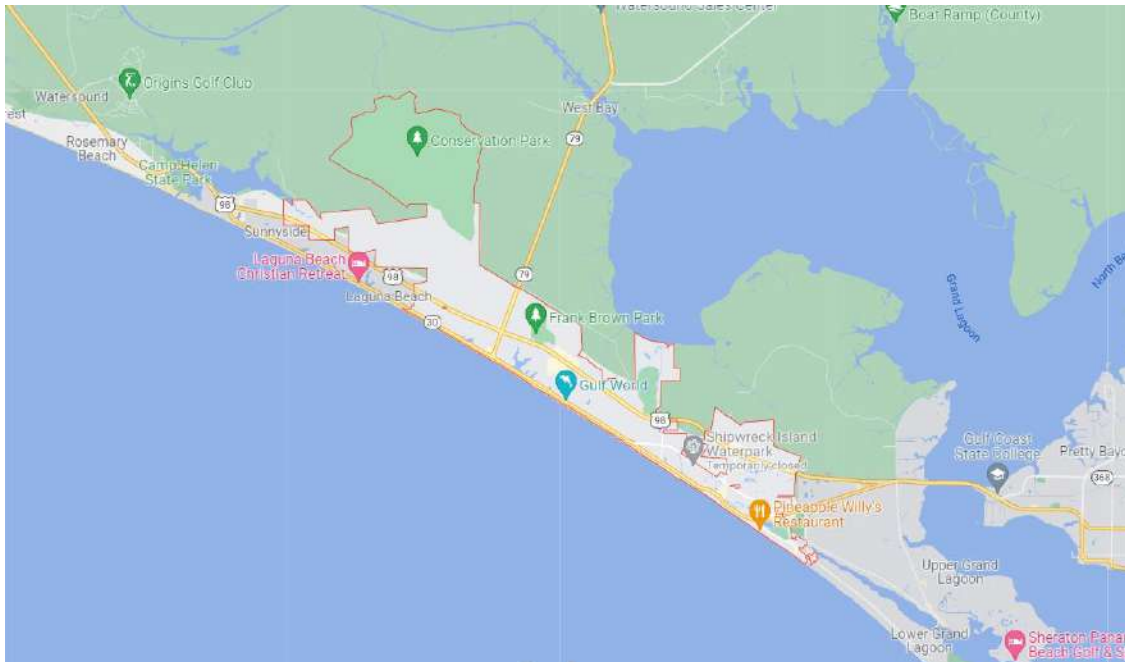
Fiscal Year	Total Tax Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2011	\$ 8,506,412	\$ 8,188,062	96.26%	\$ 68,765	\$ 8,256,827	97.07%
2012	8,274,835	7,985,216	96.50%	41,374	8,026,590	97.00%
2013	8,614,083	7,903,674	91.75%	27,445	7,931,119	92.07%
2014	8,680,847	8,310,016	95.73%	28,856	8,338,872	96.06%
2015	9,148,158	8,458,119	92.46%	53,346	8,511,465	93.04%
2016	9,110,571	8,813,050	96.73%	48,454	8,861,504	97.27%
2017	9,225,232	8,868,185	96.13%	29,502	8,897,687	96.45%
2018	9,227,409	8,905,109	96.51%	24,809	8,929,918	96.78%
2019	10,419,785	9,730,839	93.39%	368,700	10,099,539	96.93%
2020	10,297,103	10,577,937	102.73%	471,874	11,049,811	107.31%

- (1) By May 31, during each year for which taxes are levied, all taxes have been collected and remitted to the City or the delinquent taxes are raised by public auction of tax certificates and the proceeds are remitted to the City by the County Tax Collector. Therefore, there are no material unremitted tax revenues for each fiscal year on September 30.

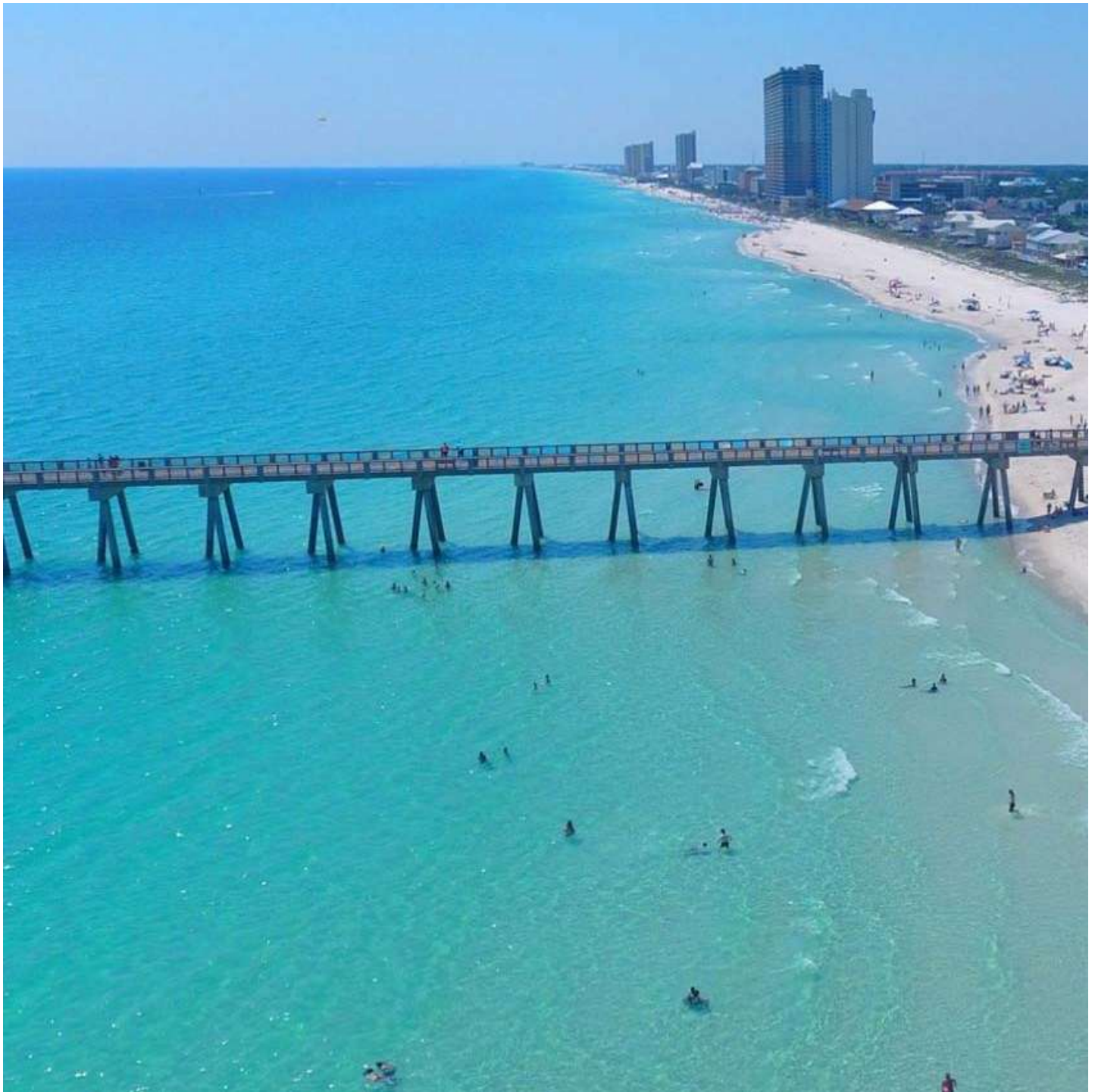
Source: Based on information provided by Office of the Property Appraiser, Bay County, Florida

See independent auditor's report.

City of Panama City Beach



- Incorporated: 1970 (merger of West Panama City Beach, Long Beach Resort, Edgewater Beach Resort and Panama City Beach)
- Area: 20 square miles
- Population: 15,000
- Services: fire rescue, police, water/sewer, public beaches
- Total Revenue 2020: \$90.3 million

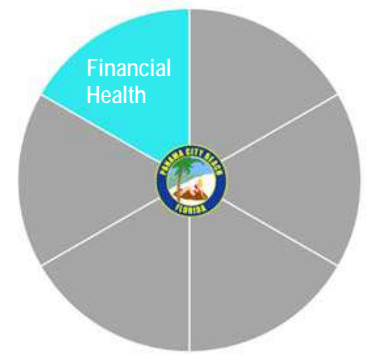


Panama City Beach Strategic Plan

FY 2021-2026



FINANCIAL HEALTH



The City's future vitality and sustainability is inexplicably linked to its financial health and well-being. Panama City Beach is committed to effective stewardship of its finite fiscal resources, financial health and sustainability. Given the City's reliance on tourist-driven revenues, coupled with no ad valorem property tax, the City's financial capacity is one of limits and constraints compared to most communities. The City must adhere to a fiscally prudent course that ensures quality core services and capital improvements while living within its means and weathering the volatility of a fluctuating tourist-based economy. This financial course necessitates a business model that works better, faster, smarter and costs less, and focuses on a "vital few" strategic priorities that will result in the most significant and sustainable success for the City. To that end, we recommend the following initiatives to ensure the City is a wise steward of the public's resources and maintains long-term financial vitality:

Key Intended Outcomes

- The City will continually improve its efficiency and effectiveness in the delivery of services and capital improvements through process improvements and performance measures.
- Prioritize programs and services to ensure delivery of strategic and essential services within a balanced budget.
- Annually prepare a balanced, transparent and user-friendly budget.
- Develop and continually update a 5-year Financial Plan.
- Operate within budgeted fund accounts 100% of the time.
- Project revenues on a conservative basis, given the volatility of the tourist-based economy.
- Maintain a 25% General Fund reserve for valid emergencies and one-time capital expenses.
- Develop more public-private partnerships for services and capital improvements to leverage finite City resources.
- Diversify tax and revenue sources.
- Develop a Financial Trend Monitoring System comprising key financial and economic indicators as an "early warning system," regarding the financial and economic health of the City.
- Enhance and simplify transparency of the Monthly Financial reports.

Highland Beach General Fund Balance and Reserves

Current Policy			
	Amount	Percent of Budget	
General Fund Budget	12,000,000		
General Fund Balance	9,000,000	75.0%	
Budget Stabilization	2,000,000	16.7%	} 25.0%
Disaster Recovery	1,000,000	8.3%	
Unassigned Reserves	6,000,000	50.0%	

Alternative Policy to Consider			
	Amount	Percent of Budget	
General Fund Budget	12,000,000		
General Fund Balance	9,000,000	75.0%	
Budget Stabilization	2,000,000	16.7%	} 33.3%
Disaster Recovery	2,000,000	16.7%	
Use for Fire Rescue	5,000,000	41.7%	

Discuss Financial Advisory Board Recommendations

1. What amount of the unassigned fund balance should be used towards the establishment of the Highland Beach Fire and Rescue Department?
2. Should the Fund Balance Policy be amended?