

City of Lake Worth Beach, Florida

Financial Policy Guidelines

Revised as of September 12, 2021

General Fund -- Fund Balance Reserve Policy

The purpose of establishing a fund balance reserve policy is to promote short and long-term fiscal stability through economic cycles and emergencies, such as storm-related events, as well as to provide the resources necessary to allow for continuous operation without resorting to external sources of liquidity. The City of Lake Worth Beach ("City") fund balance reserve policy has four key components: 1) Rainy Day Reserve, 2) Budget Stabilization Reserve, 3) Capital Reserve, and 4) Unassigned Fund Balance. These components and their funding requirements are further delineated below.

Total Fund Balance Reserve

The total amount of the fund balance reserve shall equal a minimum of 25% of General Fund Expenditures for the most recently concluded Fiscal Year. The amount of the reserve shall be calculated annually as of September 30 and compliance with this overall Fund Balance Reserve Policy, including its key components, shall be reported to the City Commission upon completion of the prior year audit.

Key Component #1 -- Rainy Day Reserve

The City's Rainy-Day Reserve is the most critical component of the Fund Balance Reserve Policy and is designed to be a permanent safeguard to respond to severe budget dislocations caused by external factors. The amount of the Rainy-Day Reserve shall be equal to 10% of General Fund Expenditures for the most recently concluded Fiscal Year. The Rainy-Day Reserve will be categorized as part of Assigned Fund Balance in the General Fund.

Use of the Rainy-Day Reserve to balance the City's budget or to provide for emergency spending is prohibited unless a supermajority (majority plus one) of sitting City Commissioners votes to approve the use of Rainy-Day Reserve funds upon the recommendation of the City Manager and Finance Director. Any proposed use of the Rainy-Day Reserve shall be accompanied by a fiscal recovery plan that outlines how the Rainy-Day Reserve will be restored to the required amount within the ensuing three fiscal years following the fiscal year in which usage is approved.

Key Component #2 -- Budget Stabilization Reserve

The City shall maintain a Budget Stabilization Reserve ("BSR") that is intended to be the "first line of defense" in a difficult budget year. The BSR represents accumulated resources that are available, over and above the Rainy-Day Reserve, to help balance a budget or address an immediate need. However, the BSR is not meant to be a recurring source of funding for the operating budget and balances utilized should be replenished as quickly as possible.

The BSR shall be maintained in amount equal to 3%-5% of prior year General Fund Expenditures. Beginning in Fiscal Year 2022, based on Fiscal Year 2021 ending unassigned fund balance, the BSR will be initially funded to 3% of General Fund Expenditures by shifting the required amount from unassigned fund balance to Assigned fund balance and labeling such amount as "Assigned for Budget Stabilization Reserve" in the audited financial statements of the City.

It is the policy of the City to deposit 50% of any future fiscal year operating surplus into the BSR until it reaches a maximum of 5% of General Fund Expenditures. If the BSR reaches the 5% level, the portion of operating surplus normally allocated to the BSR will be allowed to fall to Unassigned Fund Balance and may be appropriated by the City Commission for any one-time expenditure as long as the Total Fund Balance Reserve level of 25% of General Fund Expenditures has been met.

Use of the balances in the BSR may be approved by simple majority vote of the City Commission.

Key Component #3 – Capital Reserve

The City recognizes that continued, periodic reinvestment and maintenance of capital infrastructure is critical to maintaining the quality of life for residents and businesses and minimizing the additional costs associated with deferred maintenance. Furthermore, the City recognizes that funding capital maintenance and improvements should have an annual, ongoing funding mechanism in addition to the use of one-time monies and prudent use of long-term borrowing.

As such, the City shall maintain a Capital Reserve (“CR”). The City’s target balance for the CR will be an amount equal to 8% of prior year General Fund Expenditures. Beginning in Fiscal Year 2022, based on Fiscal Year 2021 ending unassigned fund balance, the CR will be initially funded to 5% of General Fund Expenditures by shifting the required amount from unassigned fund balance to Assigned fund balance and labeling such amount as “Assigned for Capital Reserve” in the audited financial statements of the City.

It is the policy of the City to deposit 50% of any future fiscal year operating surplus into the CR until it reaches a maximum of 8% of General Fund Expenditures. If the CR reaches the 8% level, the portion of operating surplus normally allocated to the CR will be allowed to fall to Unassigned Fund Balance and may be appropriated by the City Commission for any one-time expenditure as long as the Total Fund Balance Reserve level of 25% of General Fund Expenditures has been met.

Use of the balances in the CR may be approved by simple majority vote of the City Commission.

In addition, recognizing that the CR may be utilized more frequently than the BSR given its purpose to fund ongoing capital spending, the City may identify additional recurring or one-time revenues to dedicate to the CR to maintain a balance close to the 8% target balance over time.

Key Component #4 – Unassigned Fund Balance Reserve

Unassigned fund balance represents the accumulation of resources over and above the amounts required to be reserved in Key Components #1 through #3. In order to maintain a strong financial posture, the City shall budget in such a manner that recurring revenues match recurring expenditures, without regular reliance on the use of Unassigned fund balance to balance the operating budget.

The target for Unassigned Fund Balance is defined as the amount necessary to make the Total Fund Balance Reserve equal to a minimum of 25% of prior year General Fund Expenditures, taking into account balances on hand at September 30 of each year in the Rainy-Day Reserve, the Budget Stabilization Reserve, and the Capital Reserve. There is no prohibition on carrying Unassigned fund balance in an amount that would cause the Total Fund Balance Reserve to exceed the 25% policy floor.

Use of Unassigned fund balance should be reserved, whenever possible, to one-time expenses, not recurring operating costs.

Use of Unassigned fund balance may be approved by simple majority vote of the City Commission.

Fund Balance Policy- Other Governmental and Internal Service Fund Policy

The City's governmental and internal service funds shall maintain fund balance policies in line with general fund criteria.

Debt Management Policy

Tax Supported Debt-to-Assessed Value Guideline

Florida law and the City Charter permit the City to have outstanding debt of up to 25% of the taxable assessed value of property. The City expressly identifies this authority as overly permissive in that if the City were to borrow to this level, it would not be able to afford the debt service payments.

Therefore, the City adopts a more restrictive guideline of 5% of taxable assessed value of property for tax-supported debt. Tax-Supported Debt includes voted general obligation debt, non-ad valorem debt, and capital leases paid from General Fund or other tax-supported funds. Debt of the City's enterprise funds is excluded from the 4% limitation to the extent such enterprise funds are fully self-supporting.

Tax Supported Debt Service-to-Expenditures Guideline

Debt-to-Assessed Value measures the City's practical borrowing capacity. The City desires to measure the affordability of the long-term debt it issues and therefore adopts a Debt Service-to-Expenditure Guideline of 12% of selected General Government Expenditures, as defined herein. Revenues to support Tax Supported debt service may be accounted for in the General Fund or in other major or non-major Governmental Funds within the City's audit and accounting system. Therefore, when calculating the Debt Service to Expenditures policy, the City shall use as the denominator of the ratio expenditures in the following funds so long as debt remains outstanding in support of these funds: General Fund, Beach Fund, Discretionary Sales Tax, and, Government Obligation Bond 2018 (note: this fund accounts for revenues used to pay the City's referendum approved 2018 and 2019 General Obligation Road Bonds).

Pension Funding Bond Policy

The City should evaluate the issuance of Pension Obligation Bonds, POB, when market conditions are conducive and provide an appropriate Net Present Value, NPV, cost savings. The evaluation shall include a Pension Plan analysis prepared by an actuarial firm having requisite experience. Additionally, the evaluation shall include a POB analysis prepared by a Financial Advisor having requisite experience, while also being a fiduciary of the City. The evaluation shall identify potential risks, and provide fiscal impacts relative to those risks.

Enterprise Fund Financial Policies

Rate Study

The City shall complete a multi-year rate study at least bi-annually and report the results to the City Commission. The rate study will provide at least a 5-year projection of recommended revenue levels to support projected operating, maintenance, capital, and debt service expenses. Recommended adjustments to user rates and charges will also be identified in the rate study.

Cash / Working Capital Reserves

It is the intent of the Utility Enterprise Fund to have adequate cash reserves to provide for 180 days of operating expenses as measured at the end of a fiscal year. Current unrestricted cash and cash equivalent balances plus current investments will be at a target of at least 180 days of operations and maintenance expenses net of depreciation. Unrestricted cash & investments shall include available balances in the: 1) Revenue Fund; 2) Operating & Maintenance Reserve; 3) Renewal & Replacement Reserve; 4) Utility Reserve Fund, and 5) Insurance Reserves. If the current unrestricted cash and investments balance fall below the target level, the utility system will have 24 months to bring the balance back in line with the target level.

Debt Service Coverage

It is the intent of the City to maintain net revenues available for debt service of at least 1.50 times the annual debt service requirement of long-term Utility Enterprise Debt Service on all debt (i.e. senior and subordinate). Net Revenues shall be defined in the Master Resolution as operating revenues plus non-operating revenues allowable per the Master Resolution less operating expenses, net of depreciation.

Inter-Fund Transfers

The annual transfer from the Utility Enterprise Funds to the general fund (known as the “Franchise Fee”) shall equal 8% of Operating Revenues with a goal to reduce the level of the transfer relative to operating revenues over time. However, any percentage exceeding 8% must have a supermajority approval, and the amount cannot exceed 10% based on existing bond covenants and master resolutions. All funds shall be responsible for their share of indirect and direct costs. Reimbursements shall be effectuated by means of a budgetary appropriation and shall be based on the percentage of budget, or other appropriate cost allocation basis.