



Financial Management Policies

City of Panama City Beach

Policy Statement

The City of Panama City Beach is committed to the highest standards of financial management. The City Council, City Manager, and staff will work together to ensure that all financial matters of the City are addressed with care and integrity and with the best interests of the City in mind.

The City Council and staff shall comply with the guidelines set forth herein. Any recommended deviation from these policies shall be clearly identified in appropriate written documentation (e.g. staff report, resolution, or budget presentation). The City has a responsibility to its citizens to carefully account for public funds, to manage municipal finance wisely, and to provide adequate funding of services desired by the public and as required by laws, rules or regulations, including the provision and maintenance of public facilities and improvements. Sound financial policies are necessary to carry out this responsibility. These policies are intended to be applied in conjunction with requirements set forth in state law, the City Municipal Code, the City Charter, and Generally Accepted Accounting Principles (GAAP).

The rules and procedures contained in this section are designed to:

- Protect the assets of the City.
- Ensure the maintenance of open and accurate records which reflect the City's financial activities.
- Preserve the quality of life by providing and maintaining adequate financial resources and capital assets necessary to sustain the desired level of municipal services and meet both short-term and long-term needs.
- Provide a framework of operating standards and behavioral expectations regarding fiscal matters.
- Promote cooperation and coordination within the City in the delivery of services to the public.
- Respond to changes in the economy, the priorities of governmental and non-governmental organizations and other changes that may affect the City's financial condition in a timely manner.
- Ensure fiscal compliance with federal, state and local legal and reporting requirements.
- Enhance consistency in financial decisions.
- Establish parameters for administration to use in directing the day-to-day financial affairs of the City.
- Provide a means for the City Council to update and monitor these policies with the assistance and cooperation of the City Manager's office and the Finance Department.

Lines of Authority

City Council – has the authority to execute such policies as it deems to be in the best interests of the City within the parameters of federal, state and local law.

City Manager – has the authority to oversee the development of the budget, make spending decisions within the parameters of the approved budget, enter into contractual agreements, make capital asset purchase decisions, and make decisions regarding the allocation of expenses within designated parameters. Unless otherwise specified in this document, the City Manager is responsible for complying with the directives listed herein.

Finance Department – has the authority to develop the budget, review the organization’s financial activity, determine the allocation of investment deposits, assure that adequate internal controls are in place, and to administer the financial policies and procedures of the City.

Department Directors – have the authority to expend City funds within approved budget authority and in accordance with procedures prescribed by the City Manager, and to recommend spending requests, within the parameters of the approved budget process, to the City Manager.

The City maintains a comprehensive set of internal controls to protect the City’s assets and sustain the integrity of its financial systems. Department Directors at all levels are responsible for implementing the City’s Financial Policies, sound internal controls, and for the regular monitoring and measuring of their effectiveness.

Accounting Records and Reports

Basis of Accounting

The City’s annual financial statements on its financial activity shall be presented in accordance with Generally Accepted Accounting Principles (GAAP) as defined by the Governmental Accounting Standards Board (GASB).

- The City will establish and maintain a high standard of internal control and accounting practices.
- The accounting system will maintain records on a basis consistent with accepted standards for local government accounting.

Basis of Budget

- The City budget is presented on the cash basis of accounting.

Fund Accounting

The City’s accounting and budgetary systems use fund accounting consistent with guidance provided by the GASB. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes or objectives. Individual funds have been established by the City to account for revenues that are restricted to certain uses or to comply with legal requirements. Funds are established in accordance with GASB standards.

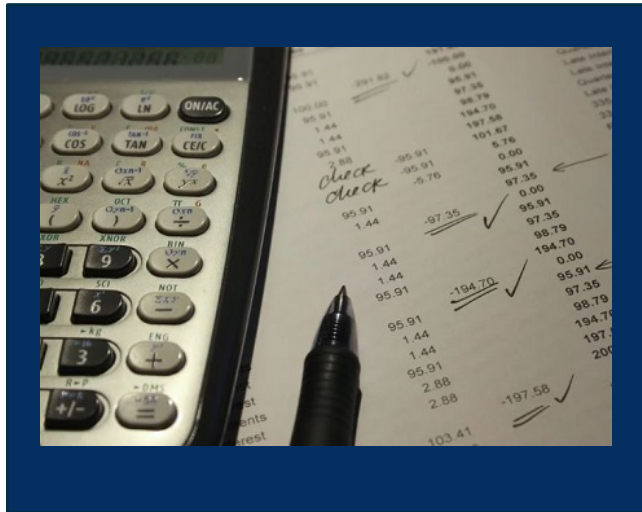
The Finance Department shall assure that the status and transactions of each account and their

relationship to budget authority is clear.

Financial Reporting and Auditing

The annual financial statements shall conform to GAAP which is promulgated by the Governmental Accounting Standards Board (GASB). The preparation of financial statements in accordance with GAAP is intended to establish greater accountability and transparency between the City and its citizens, legislative and oversight bodies, investors and creditors.

The City shall commission an annual audit of the City's financial reports and related records to be conducted by an independent certified public accountant as required by Chapter 10.550 of the Rules of the Auditor General of the State of Florida. At the conclusion of the audit, the auditor shall conduct exit conferences with the City Council, City Manager, Finance Director and Audit Committee. The exit conference is intended to be a high-level review of the City's financial position, results of operations, cash flows and compliance with legal and contractual obligations. An important aspect of the annual financial statements is the management letter which provides findings and recommendations for improvements to the City's finance practices including internal control matters.



The selection of the City's external auditor is governed by Florida Statutes (FS) 218.391. FS 218.391(2) requires that the audit committee be comprised of each of the City's elected officials or their designee. City Resolution 20-42 further dictates the composition of the audit committee and states that "The audit committee for the City shall consist of one member of the City Council, who shall serve as chair of the committee, and four qualified persons selected and appointed by the City Council". The primary purpose of the audit committee is to assist the governing body in selecting an auditor to conduct the annual financial audit required in FS 218.39. The committee may serve in other oversight capacities as determined by the City Council.

The finance department will provide monthly reports to the City Manager and City Council which include charts and graphs of the City's major revenue sources collected to date and comparing such collections to both actual results in prior years as well as to the current year budget. Expenditures will be compared to the budget on a monthly basis as well to demonstrate adherence to the approved budget. These reports are currently prepared for the City's General and Pier Funds and it is staff's intention to expand this reporting to other City funds as well.

The City's audited annual financial statements are made available to the public on the City's website at www.pcbgov.com.

Capital Asset Accounting

In order to appropriately safeguard the City's investment in capital assets, it is important to establish an effective capital asset accounting system. Additional details are available in the City's capitalization policies document maintained by the finance department. Important aspects of the policy are outlined below.

- The City will maintain a schedule of individual capital assets with historical cost in excess of \$5,000 and an estimated useful life of more than one year. All items with an original cost of less than \$5,000, or with an estimated useful life of less than one year, will be recorded as operating expenditures in the year of acquisition.
- A fixed asset system will be maintained to identify all City assets meeting the above scope. Such system will identify the fund and department owning the asset, a description of the asset, its acquisition date, historical cost and funding source if other than unrestricted reserves. Ancillary costs necessary to place the asset in service which are directly related to its acquisition are included in the asset's cost and include charges such as freight, installation costs, site preparation costs and professional fees related to the acquisition of the asset.
- The City's IT department shall maintain a listing, outside of the capital asset system, of all computers and shall conduct periodic physical inventories of those computers.
- Other non-infrastructure capital assets of the City shall be inventoried periodically.
- Transfers of capital assets from one department to another shall be reported to the Finance Department immediately upon transfer.
- All surplus of capital assets shall be approved of by the City Council on a quarterly basis and appropriately disposed of thereafter. Surplus requests should be timely submitted to the City Clerk for inclusion on the agenda of a regularly scheduled Council meeting.

Reserve Fund Balance Policies

Adequate reserve levels are a necessary component of the City's overall financial management strategy and a key indicator of the City's financial health. Fund balance reserve policies are necessary to establish reserves for:

- Large unforeseen one-time expenditures/expenses of an emergent nature, such as a catastrophic event, a natural/manmade disaster (e.g. hurricane, windstorm, flood, terrorist attack, pandemic), or excessive liability judgements.
- Economic downturns or other unanticipated events affecting revenue growth.
- Changes in significant, volatile revenue sources, such as business tax receipts, which are subject to rapid swings in consumer and visitor spending.
- Maintenance of favorable credit ratings.

Adequate reserves are important to the long-term financial stability of the City and shall be maintained as required by law, ordinance and/or bond covenants.

General Fund

The City shall strive to maintain unassigned operating reserves in the General Fund of at least 25% (approximately 90 days) of total budgeted General Fund operating expenditures (exclusive of items funded with restricted revenue sources and non-recurring capital expenditures). When the reserve balance in the General Fund exceeds 25%, the excess may be used for one-time capital needs or may be transferred to a designated fund balance for other purposes as identified by the City Manager and Finance Director. In the event, that unassigned fund balance falls below the 25% target amount, any future expenditures which will further deplete the unassigned fund balance will be expended only upon a supermajority vote of the City Council (i.e. at least 4 Council members must approve such an expenditure). The City is partially self-funded for health insurance purposes and a claims reserve is maintained within the City's General Fund. This reserve is determined by the plan administrator and currently the benchmark is approximately 16% (60 days) plus incurred but not reported (IBNR) of 1.8% of total claims

Utility Fund

The targeted operating reserve in the Utility Fund is an amount equal to at least 50% (approximately 180 days) of annual expenditures of the City's water and wastewater departments including recurring transfers. Reserves required by bond covenants are separately maintained within the Utility Fund as are reserves related to restricted revenue sources such as stormwater assessments. Operating reserves may significantly exceed the minimum working capital requirements in order to provide funding for future capital projects and provide for unforeseen emergency conditions.

Other Funds

Reserves for other funds shall be set through the budget process in an amount consistent with the purpose and nature of each respective fund.

Financial Planning

5 Year Financial Planning Model

The City shall maintain a long-term (five-year) financial planning model. The financial planning model shall be based on the currently adopted budget and documented assumptions realistically expected to occur and will be designed in such a way to permit analysis of alternative strategies. The plan shall be prepared for the General Fund, Utility Fund, and such other funds as deemed necessary.

Budget Development

The fiscal year of the City begins on October 1st and ends on September 30th. The City's annual budget is a comprehensive financial plan which outlines how services will be provided and community improvements will be achieved. Upon adoption by the City Council, the budget becomes the controlling mechanism by which to measure resources received by the City and expenditures made to meet approved objectives. Sound financial practice and the desire to maintain strong credit ratings require that the budgets be balanced, constantly monitored and responsive to changes. The goal of the budget is to align the budget with citizen priorities and provide the best value for each dollar of revenue received by the City.

The budget preparation process encompasses an extended period of planning, review, forecasting and priority setting. The purpose of the budget is to provide the City Council and City Manager with the financial information necessary to properly allocate resources in a manner consistent with the goals and objectives of the City. The City shall prepare a balanced budget that is consistent with industry best practices and the 5 Year Financial Plan. The annual budget links resources with operating programs and projects and funds recurring expenditures with recurring operating revenues.

In order to facilitate and implement the budget process, the City Manager, with input from the Finance Director, will propose an annual budget calendar at the first regular Council meeting in June.

- The budget calendar will be comprehensive in nature and generally provide for a process that resembles the Best Practices as published by the Government Finance Officers Association (GFOA).
- The City's annual budget shall be prepared using the following schedule and process as a general guide:
 - Review stakeholder input from the Citizen's Survey, public forums, and residential and business community feedback.
 - The City Council and City Manager will conduct a budget goal-setting retreat with the Department Directors updating the approved policy guidance.
 - The Director of Finance prepares the budget and meets with Department Directors.
 - Department Directors will provide to the Finance Department budget estimates and requests conforming to the budget instructions.
 - The City Manager submits a proposed balanced preliminary budget to the City Council.
 - The proposed budget should be comprised of funding recommendations for the operating and capital budgets of the City's various departments and funds.
 - The City Council conducts public hearings on the proposed budget in conformance with local and state law.
 - The City Council adopts a budget resolution.
 - The final budget document is published and posted to the City website.

Budget Management

The City will maintain a fair and equitable system to allocate overhead and other shared costs. The amount charged by the City for services provided will include a factor to cover the City's overhead costs when appropriate.

Annual appropriated budgets are adopted at the fund level within available resources (i.e. new revenue

and existing reserves). The City budgets expenditures at the department level. Only the City Council can approve budget amendments that change the total approved budget appropriation of an individual department. Department heads, with the approval of the City Manager and Finance Director, may transfer appropriations within the departmental budget, but cannot change the total appropriation of an individual department without the approval of the City Council. All program appropriations not spent during the fiscal year do not automatically carry-over into the next year and shall lapse at year end.

Outstanding contracts and other commitments for the expenditure of funds at the end of the year are carried forward into the next year's budget by a formal budget appropriation authorized by the City Council. The department heads shall identify to the Finance Director all capital projects which are required to be carried over to ensuing years prior to the adoption of the budget.



Budget amendments shall be presented to the City Council for consideration when the need arises. Council will be apprised if the proposed funding is from a new revenue source (most commonly grant awards) or is from existing reserves, and if so, which reserves are to be impacted by the amendment.

The City Council shall approve the number of permanent City staff positions, their classification and their assignments to specific City funds when it adopts the City's Budget. Any proposed increases to permanent City staff positions after initial approval of the budget must be presented to the City Council for approval conditional upon adequate funds being available either through reductions in other spending, increases in revenues or use of existing reserves.

The City will utilize one-time revenues only for one-time/non-recurring expenditures or to build reserves for the City's capital needs. When both restricted and unrestricted resources are available for use, the City typically uses restricted resources first, but reserves the right to selectively defer the use of restricted resources to future qualifying expenditures in conjunction with the achievement of the goals established in the 5 Year Financial Plan.

The cash out of accrued leave upon separation of service from the City will be included in the appropriate operating budget if quantifiable at the time of budget development. In cases where the current budget cannot absorb an unforeseen cash out, the Finance Director shall request a supplemental appropriation for Council approval. The City maintains designated reserves in both the General Fund and Utility Fund for accrued compensated absences which are developed based upon current participants in the City's Deferred Retirement Option Plan (DROP) as well as department head inputs as to upcoming planned retirements. In general, the City maintains reserves in an amount equal to anticipated cash outs in the upcoming five years.

Revenues

Revenue estimates shall be based on forecasting methods utilized by the Finance Director and shall assess the full spectrum of resources available to finance City programs and services. The City shall consider the diversification of revenue and assets as a strategy when developing its financial plans.

The City will strive to maintain a diversified and stable revenue system as permitted by law, accounting standards and circumstances. Because revenues, especially those of the General Fund, are sensitive to both local and regional economic activities, revenue estimates provided to the City Council shall be conservative. Should an economic downturn develop that results in potential revenue shortfalls or fewer available resources, the City will make appropriate adjustments to its budget.

The major source of revenue for the General Fund is business tax receipts which comprise approximately thirty-seven percent (37%) of total General Fund revenue. Since these business tax receipts are a direct function of business cycles and inflation, it is important to make every effort to improve diversity, stability and growth of the City's other revenue sources to reduce dependency on the business tax receipts and protect the City from unanticipated economic downturns particularly those affecting the tourism industry.

Non-Recurring and Volatile Revenues

Non-recurring revenues can introduce significant instabilities in City services, especially if they are used to fund ongoing programs. The City will not use one-time revenues to support ongoing expenditures. Examples: (grants, sales of assets, and legal settlements). Acceptable uses of one-time revenue include paying down debt, building fund reserves and undertaking special projects that reduce long-term operating costs. One-time or special purpose revenues will be used to finance capital projects or for expenditures required by the revenue, and not to subsidize recurring personnel costs or other operating costs.

Grants

City staff shall seek out, apply for, and effectively administer federal, state, local and other grants that address the City's priorities and policy objectives and provide positive benefits to the City. Before any grant is pursued, staff shall provide a detailed pro-forma to the City Manager that addresses the immediate and long-term costs and benefits to the City. A pro-forma must be submitted to the City manager for all grants prior to accepting grant awards.

Policy on Fees and Charges

The City shall review all fees for licenses, permits, fines, rates and other miscellaneous charges at least every two years as part of the budget process. A schedule will be established to review approximately half of the divisional fees each budget year. User charges and fees shall be established based on a percentage of the full cost of providing the service unless otherwise provided by statute, ordinance or regulation.

Proposed rate adjustments and changes to user charges and fees shall be presented to the City Council for approval each year in the preliminary budget process and incorporated into the upcoming budget to the extent the impact of such changes can be quantified during the budget preparation process.

Utility Rates and Capital Fees

Utility rates should be adequate to ensure reliable, competitively priced services for our customers. Net reserves in excess of both legal requirements and minimum working cash balances should be used to minimize future rate increases by funding approved capital projects, retiring high cost debt and augmenting fund reserves established to reduce ratepayer risk.

Utility rates and capital fees shall be reviewed annually, and necessary adjustments shall be made annually to reflect inflation, the funding of major construction projects and the avoidance of major rate increases in any one year. Utility rate studies shall be conducted at least every five years to update assumptions and to ensure the long-term solvency and viability of the City's utilities. System development charges shall be established at levels to ensure that all customers seeking to connect to the City's utility systems shall bear their fair and equitable share of the cost of both the existing system and the future systems.

Expenditures

- Department directors shall ensure compliance with the legally adopted budget. Additional purchases and expenditures must comply with legal requirements for approval. Priority shall be given to expenditures that will improve productivity or public safety.
- Expenditures will be accounted for in the appropriate funds and accounts.

The department directors shall submit approved vendor claims to the finance department timely and efficiently. All payment of vendor claims shall be adequately documented and approved.

Capital Project Plan

The purpose of the Capital Project Plan is to systematically identify, plan, schedule, finance, track and monitor capital projects to ensure cost-effectiveness as well as conformance to established policies.

The plan shall include the General Fund, Community Redevelopment Fund (CRA), Utility Fund, Pier Fund, and Aquatic Center Fund.



The purposes of this plan are: 1)

to identify major policy issues for City Council consideration prior to the preparation of the annual budget, 2) to establish capital project priorities and make advance preparation for the funding of such projects within the five year horizon, 3) to make conservative financial projections for all major funds to

provide assurance that adequate funding exists for proposed projects and services, and 4) to communicate the City's plans to the public and provide an opportunity for the public to offer input.

The City Manager will annually submit a financially balanced, five-year comprehensive capital project plan for review by the City Council pursuant to the timeline established in the annual budget preparation schedule. The comprehensive plan will incorporate a methodology to determine a general sense of project priority according to developed criteria.

The Capital Project Plan shall provide:

- A statement of the objectives of the Capital Project Plan and the relationship with the City's Strategic Comprehensive Plan and department master plans, necessary service levels and expected facility needs.
- An implementation program for each of the capital improvements that provides for the coordination and timing of project construction among various City departments.
- An estimate of each project's costs, anticipated sources of revenue for financing the project and an estimate of the impact of each project on City revenues and operating budgets. No capital project shall be funded unless operating impacts have been assessed and the necessary funds can be reasonably anticipated to be available when needed.
- For the systematic improvement, maintenance and replacement of the City's capital infrastructure as needed.
- A schedule of proposed debt requirements.

All proposed capital improvement projects shall include a recommended or likely source of funding.

The performance and continued use of capital infrastructure is essential to delivering public services. Deferring essential maintenance and/or asset replacement can negatively impact the condition of assets and infrastructure as well as the ability to appropriately plan for required major maintenance and replacement needs. Efforts will be made to allocate funds in a renewal and replacement reserve to fund the multi-year maintenance, repair and replacement of critical infrastructure assets.

The City's objective is to incorporate "Pay-As-You-Go" funding (using available cash resources) in the annual Capital Project Plan. This will supplement funding from other sources such as bonds, grants and developer contributions.

Private development (including residential, commercial and industrial projects) shall pay its fair share of the capital investments that are necessary to serve the development in the form of system development charges, mitigation fees and proportionate share payments.



When current revenues or resources are available for capital improvement projects, consideration will be given first to those capital assets with the shortest useful life and/or to those capital assets whose nature makes them comparatively more difficult to finance with bonds or lease financing. Using bonds for projects with long useful lives allows them to be paid over several generations which are utilizing the project through debt service payments.

The first year of the adopted Capital Project Plan will be the capital budget for that fiscal year.

Staff will monitor projects in progress to ensure their timely completion or to recommend appropriate adjustment to the Capital Project Plan, as approved by Council, if a project is delayed or deferred.

Periodic status reports will be presented to the City Council to share project progress and identify significant issues associated with a project.

The City will determine the least costly financing method for all new projects.

Cash Management and Investment

The City will invest public funds in a manner consistent with the requirements enumerated in Florida Statutes and will attempt to achieve the highest return consistent with the appropriate degree of risk tolerance.

All money collected by any officer or employee is to be promptly transferred to the Finance Department for deposit. The internal controls established by the Finance Department include segregation of duties, daily processing, timely deposit and reconciliation of subsidiary ledgers, physical security procedures to appropriately safeguard assets and the use of automated system resources when possible.

Personnel Compensation

Because personnel costs comprise the City's largest expenditure, the City Council and the City Manager have found it helpful to adopt a broad policy on public employees' compensation.

The Human Resources Department shall maintain attractive position compensation classifications to ensure the recruitment and retention of quality employees and the provision of competitive compensation packages in comparison to other public sector employees. Periodic pay plan studies will be conducted by independent third parties to ensure an unbiased review of City pay policies in comparison to other public sector employers with similar demographics or with whom the City competes for employees. Staffing shall not exceed the levels authorized by the City Council.

The City Council strives to provide excellent service to the community at all times by promoting sound financial stewardship and ethics to achieve the City's standards. The City must attract and retain highly qualified employees who exemplify the City's organizational values. The City's compensation philosophy is based on internal and external considerations including the City's fiscal health and the City Council's priorities. Salary adjustments (both COLA and merit) are in general, approved by the City Council in the budget process; however, the City Manager has certain discretion within the provisions of the pay plan to

adjust salaries throughout the year for promotions and performance subject to adequate funds being available in the budget and after consideration of the long-term impact of such adjustments.

The City Council must explicitly authorize all new positions before they are filled. The Human Resources Department shall seek City Council approval for reclassifications before they become effective.

Overtime pay must be pre-authorized by department management before it is incurred. Overtime payments shall not exceed budgeted amounts without prior approval from the City Manager. Such approval shall not be granted until the department demonstrates the ability to cover such overtime from other budgeted line items without compromising the City's overall budgetary objectives.

Capital Financing and Debt Management

Policy on Debt Issuance and Management

The City shall work to maintain strong ratings on its debt including maintaining open communications with bond rating agencies concerning financial condition.

Long-term Borrowing

Long-term borrowing shall be confined to capital investments or similar projects with an extended life when it is not practical for such projects to be financed from current revenues. The City shall not use long-term debt to finance current operations.

Term of Debt

Debt payments shall not extend beyond the estimated useful life of the project being financed. To the maximum extent possible, the City will fund its capital needs on a pay-as-you-go basis.

Interim Financing

With Council approval, interim financing of capital projects may be secured from the debt financing marketplace or from other City funds through interfund loans as appropriate in the circumstances.

Utility Improvements

Financing of utility improvements will be consistent with the Council's rate policies and other factors in order to balance the effect of major improvements on utility rates. System development charges, grants and low interest rate loans to fund capital projects shall be used when possible. The City shall strive to maintain debt service "coverage" in accordance with bond covenants.

Debt Issue

The City shall attempt to use special assessment, revenue or other self-supporting bonds in lieu of general obligation bonds whenever possible. Long-term general obligation debt shall be utilized only when necessary to acquire land or capital assets based upon a review of the ability of the City to meet future debt service requirements. The project to be financed also should be integrated with the City's long-term financial plan and Capital Project Plan.



The City shall evaluate the best method of sale for each proposed bond issue. When a negotiated sale is used, the City may use an independent financial advisor to advise the City's participants in matters such as structure, pricing and fees. If it is deemed appropriate, separate or additional financial advisors may be retained when there is a need for their specific expertise related to a transaction or project. The utilization of a financial advisor will be at the discretion of the City Council as recommended by the City Manager and Finance Director and be determined on a case-by-case basis. For each City bond sale, the financial advisor will provide the City with information on pricing and underwriting compensation for comparable sales by other issuers.

Debt Issuance Team

In order to effectively plan and fund the City's capital investment projects, a team will be established for each debt issuance. The staff team members shall consist of the City Manager, City Attorney, Finance Director and applicable department management representatives(s) (related to the projects to be financed). External team members shall consist of bond counsel, disclosure counsel, and a financial advisor and/or underwriter with demonstrated experience in Florida debt issuance when appropriate. By state law, Council is required to authorize a debt issuance.

Bond Proceeds

The City shall comply with IRS regulations concerning use of and reinvestment of bond proceeds. The City shall monitor and comply with IRS regulations with regard to potential arbitrage earnings. If arbitrage earnings are believed to be above amounts provided by IRS regulations, the City will set aside such earnings in order to pay the appropriate amount to the federal government as required by IRS regulation.

Disclosure

The City is committed to full and complete financial disclosure and to cooperating fully with rating agencies, underwriters of its securities, institutional and individual investors, other levels of government and the general public to share clear, comprehensive and accurate financial information. The City is committed to meeting secondary disclosure requirements on a timely basis.