

Financial Policies: The Nuts and Bolts

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Today's Objectives



REVIEW SELECT WESTON
FINANCIAL POLICIES



DISCUSS IMPLEMENTATION
OF NEW POLICIES



EVALUATE AND MANAGE
EXISTING POLICIES

Select Weston Financial Policies



RESERVES



REVENUE



DEBT



INVESTMENT



PROCUREMENT

Reserves Policy

Separation of Restricted Funds

- Reserves and fund balances for restricted revenues will be maintained in separate funds where possible to maintain compliance and transparency

Disaster Funds (\$58M in FY 2024, 30% of total fund balance “tfb”)

- Maintained solely for responding to declared states of emergency with an emphasis on obtaining reimbursement from FDEM/FEMA
- Reserve was created in 2006 - set at 2x the City’s cost of responding to Hurricane Wilma in 2005, adjusted by inflation to today’s dollars
- Committed funds are budgeted and maintained in a separate Fund; however, are reported as part of the City’s General Fund in the ACFR

Reserves Policy

Infrastructure Funds (\$4M in FY 2024, 2% of tfb)

- Accrual for planned infrastructure maintenance (HVAC, re-roof, re-paint, etc.)
- Annual accrual for each planned project will not exceed \$150,000
 - Ex: Roof replacement in 2026 = \$50,000
Est roof replacement in 2036 \approx \$79,200
 $\$50,000 \times 158.4\%$ (10yr cumulative commercial construction costs calculated by the St. Louis Federal Reserve)
Est annual accrual = \$7,920 beginning in 2027
 $\$79,200 / 10\text{yrs}$
- Review project estimates and accruals every 3-5 years
- Fund any difference between accrual and actual costs in final year
- Committed funds eligible for reallocation by the Commission

Reserves Policy

Continuing Operations Reserve (\$8M in FY 2024, 4% of tfb)

- Provide for continuity of core operations (police and fire rescue) post-crisis with reduced property tax revenues
- Set at 25% of ad valorem taxes
- Researched property value impacts of Hurricane Ian in 2022 to Collier, Lee and Charlotte Counties and incorporated cities
- Acknowledged no negative property value impacts related to COVID-19
- Taxable value impact of the Great Financial Crisis in 2008 was a 26% cumulative decrease by Jan 1, 2010

Reserves Policy

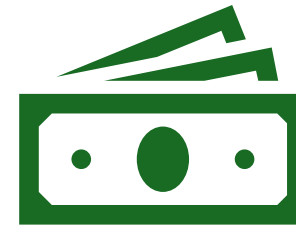


Credit Rating Reserve (\$12M in FY 2024, 6% of tfb)

Maintain the City's AAA/Aaa/AAA ratings and obtain the most favorable borrowing rates

Set at 20% of General Fund annual appropriations, exclusive of any capital projects

Based on research of best practices and conversations with ratings analysts



Unassigned Fund Balance (Millage Stabilization/One-time Use)

Set at GFOA recommended minimum 2 months (17%) of General Fund operating expenditures

Used to offset one-time expenditures which impact the millage rate or pay down debt to free up General Fund revenues pledged to debt repayment

Reserves Policy – Wrap Up

Non-Spendable	Funds that cannot be or have already been spent
Restricted	Funds that can only be used for specific purposes determined by outside agency
Committed	Funds that can only be used for a specific purpose determined by formal action
Assigned	Funds where there is intent to use for a specific purpose, but no formal action is required
Unassigned	All other balances not included in above

Reserves Policy – Wrap Up



Reserve levels are a function of risk. The greater the risk, the larger the reserves.



Where are your risks?

Are you a coastal community with greater risks from hurricanes, storm surge, or flooding?

Are you self-insured or have high deductibles?

Are your revenue streams more volatile or stable?

Are you overly reliant on property taxes and assessments?

Is there volatility with your cash flows?

Are your revenues subject to interruptions due to natural disasters?



How much? There is no right answer!

Reserves Policy – Wrap Up

Weston reserve policies are 20+ years in the making

Start slow and small – every dollar adds up!

Target high risk/high priority areas (disaster response, infrastructure)

Document, document, document

Obtain buy-in and support from senior management & governing body

Revenue Policy

1

Maintain a diversified and stable revenue system to shelter the City from unforeseeable short-run fluctuations in any one revenue source.

2

Estimate annual revenues by an objective and conservative analytical process.

3

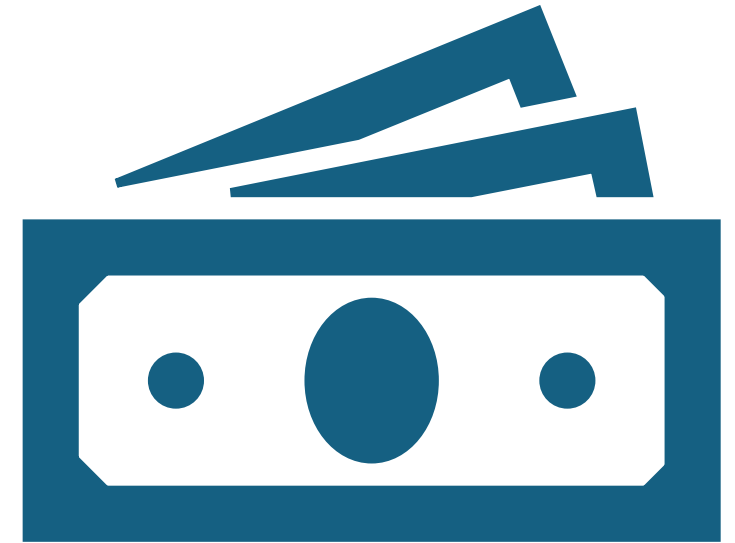
Project revenues for the next year, update projections and re-examine each existing and potential revenue source annually.

4

Recalculate the full costs of activities supported by user fees annually and make appropriate adjustments.

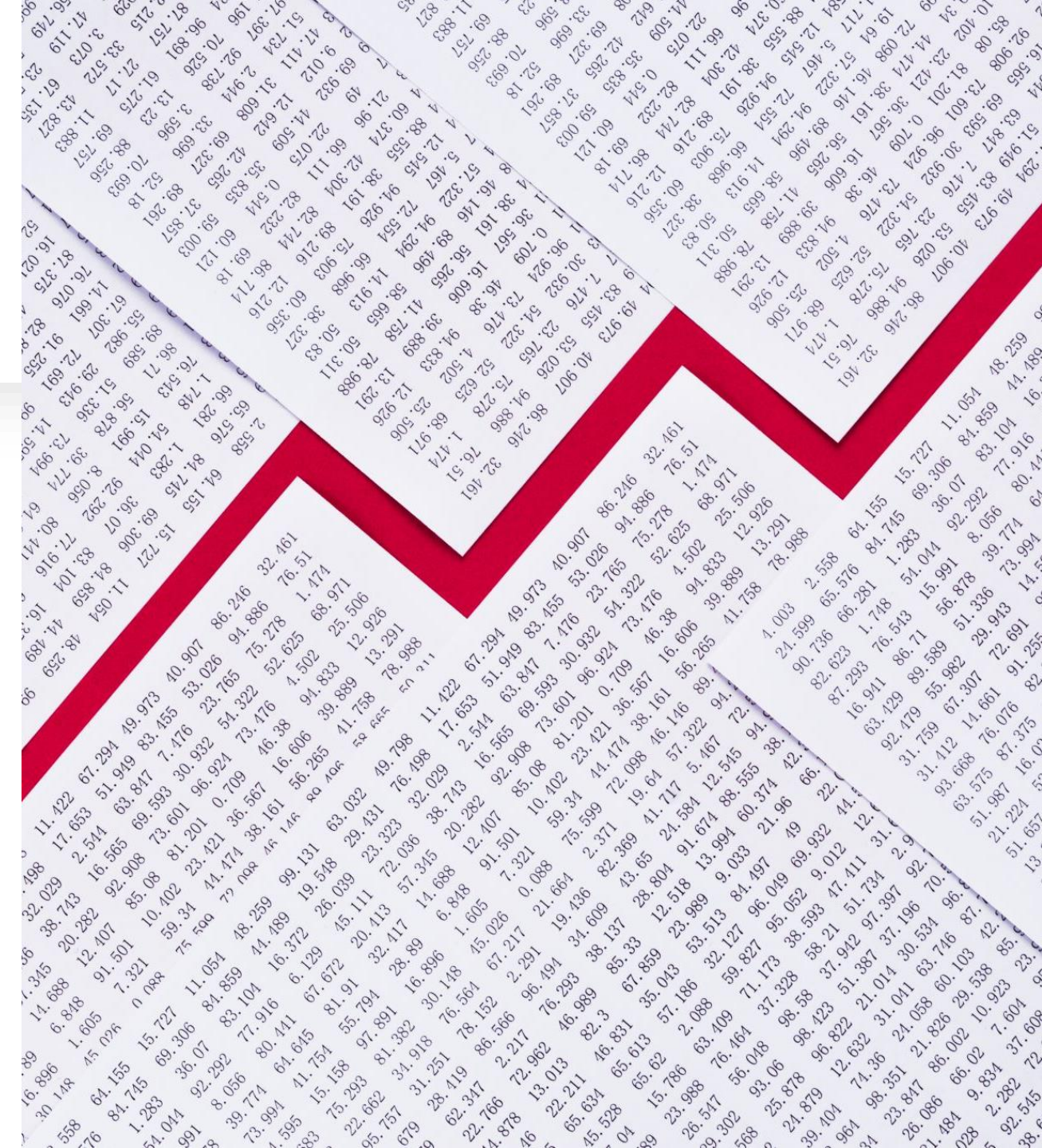
Revenue Policy

- One-time revenues should be used to fund one-time expenditures where possible
 - Some one-time revenues are recurring and not significant (e.g., miscellaneous revenues such as lien search/estoppels) and used as recurring revenue
 - Some one-time revenues, such as insurance reimbursements or litigation settlements typically have spending restrictions or are used to offset related costs
 - Budgeted interest income is uncertain and thus accrued to fund balance and actual recognized income is utilized in future fiscal years
 - Be careful using penalty/fine revenue for recurring expenditures as compliant behavior leads to lower revenues



Debt Policy

- Compliance
 - Total projected debt (including new debt) per capita ratio not exceeding 5% of the most recently published per capita income data calculated by the United States Census
 - Total projected debt (including new debt) less than 2% of the City real property just (market) value as calculated by the Broward County Property Appraiser's Office
 - Total projected annual debt service (including new debt service) less than 12% of total projected recurring operating expenditures (capital expenditures, existing debt service and other nonrecurring expenditures not included)
 - Pledged projected revenue coverage ratio of at least 1.20x projected related annual debt service



Debt Policy

Debt structure limits

- The maximum maturity term shall be the lesser of the economic useful life of the asset as determined by a relevant professional, or 30 years
- Lines of credit drawn upon due to financial distress caused by a disaster event:
 - The Mayor or designee must declare a state of emergency to draw on the line of credit
 - The maximum maturity term shall be 12 months
 - The City's investments shall be the only collateral pledged

Monitoring and Reporting

- Review debt composition and compliance annually in conjunction with ACFR or as needed such as when considering new debt origination

Debt Policy – Wrap Up

- Limit suggestions
 - Issuance/outstanding proceeds as a % of per capita income
 - Issuance/outstanding proceeds as a % of just or taxable value
 - Annual debt services as a % of operating expenditures
 - Pledged revenue coverage of at least 1.20x annual debt service or the highest scheduled debt service
 - Limit issuance maturities not longer than the useful life of the asset not longer than 30 years
 - Fixed interest rates when possible
 - Call provisions only at the option of the issuer

Debt Policy – Wrap Up

- Moody's Ratings Service
 - Obligors rated Aaa are judged to be of the highest quality and subject to the lowest credit default risk.
 - Rating process is a lengthy six step process that involves both quantitative analysis and qualitative factors. Moody's reviews it's ratings on an annual basis.
 - Obligor scorecard is the following weightings assigned:
 - Economy/Tax Base (30% weighting)
 - Finances (30%)
 - Management (20%)
 - Debt/Pensions (20%)

Debt Policy – Wrap Up

Lowest Risk



Highest Risk

Aaa Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.

Aa Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.

Baa Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

Ba Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.

B Obligations rated B are considered speculative and are subject to high credit risk.

Caa Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.

Ca Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Additionally, a "(hyb)" indicator is appended to all ratings of hybrid securities issued by banks, insurers, finance companies, and securities firms.*

Debt Policy – Wrap Up

- *Debt ratio (%) = Debt / Revenue
- **Implied debt service ratio (%) = Implied debt service / Revenue

	2024 Weston	2024 Moody's Aaa Median City
Leverage		
Revenue (\$000)	\$189,203	\$108,194
Leverage		
Debt (\$000)	\$16,004	\$72,678
Debt ratio (%)*	8.5%	67.2%
Fixed costs		
Implied debt service (\$000)	\$1,455	\$4,949
Implied debt service ratio (%)**	0.8%	4.6%



Procurement Policy

- Administers the acquisition of real and non-real property, goods and services, and the disposition of real and non-real property
- Determines methods of acquisition
- Defines procurement authority limits
- Outlines the change order procedure/process
- Delineates when formal contracts are required
- Creates procurement protest process/procedures
- Explains how change orders are handled

Procurement Policy

(Cont'd)

- Directs how terminations, extensions, renewals, and suspensions are handled
- Outlines cones of silence
- Provides for extraordinary circumstances under which exceptions to the procurement policy are permitted
- Governed by:
 - City Code of Ordinances
 - Possibly County Code
 - Florida Statutes including:
 - Chapter 287.055, F.S. (The Florida CCNA)
 - Chapter 218.391, F.S. (The Auditor Selection process)
 - Federal Law including:
 - 2 CFR 200



Procurement Policy

- Primary Method of Acquisition:
 - Sealed competitive bids (best for quantitative purchases)
 - Used where price, responsiveness, and responsibility are the sole determining factors
 - Lowest price is selected among those goods/services meeting the minimum qualifications
 - Good for unique goods/services with few equal value substitutes (US dollars, gas, water, #2 pencils)
 - Works for standard services (construction) when the proposers are pre-approved through a qualitative review process
 - Not great for qualitative purchases (legal services, consultants, performing artists) or standard goods/services with many equal value substitutes (software, computers, chairs, benches)
 - **Cannot be used for the acquisition of professional architectural, engineering, landscape architectural, or surveying and mapping services! (287.055, F.S.) – Consultants' Competitive Negotiations Act (CCNA)**

Procurement Policy

- Primary Method of Acquisition (continued):
 - Requests for proposals, requests for qualifications, requests for letters of interest (best for qualitative purchases)
 - Used where price, responsiveness, and responsibility are NOT sole determining factors
 - Can be many factors (price, years of services, quality of references, past work of similar scope, warrantee terms, product quality)
 - Factors can be weighted equally or unequally
 - Used for CCNA – price cannot be a factor! Price negotiated after the most qualified professional is selected (287.055, F.S.)
 - Used for Auditor Selection process; price cannot be predominant factor! (218.391, F.S.)



Procurement Policy

- Cone of Silence:
 - When City utilizes a sealed competitive method, there shall be no communication related to the sealed competitive method solicitation, bids, proposals, or responses between:
 - Any (including any lobbyist or any other person on that person's behalf) that seeks a contract, contract renewal, award, recommendation, or approval, and
 - Any member of the City Commission, selection committee, or protest committee
 - Protects the procurement process and the participants from unfair or unethical acts
 - Violations may be cause for disqualification
 - Violation determined by City Manager and approved/rejected by City Commission

Procurement Policy

- Protest Procedures:
 - Parties that are not actual bidders, proposers, or responders, including, but not limited to, subcontractors, material and labor suppliers, manufacturers and their representatives, shall not have standing.
 - Any actual bidder, proposer, or responder who is aggrieved may file a protest with the City Clerk by the close of business on the X day after the day of posting of a Notice of Intent to Award an Agreement.
 - Require a protest bond
 - Bond is returned if successful; forfeited if not
 - Must be set by policy and/or within the solicitation
 - Create a Protest Committee
 - Can be comprised of administrative staff, City Commission, or a combination
 - Grievance is heard and judgement is made to uphold or reverse the award



Procurement Policy

- Other Methods of Acquisition:
 - Written quotes – best for medium value purchases
 - Obtain three or more quotes from individual sources (when practicable)
 - Provide consistent scope of services, including contingencies
 - Direct purchase – best for small purchases
 - Just pick something
 - Specialty goods/services
 - Emergencies
 - Utilization of other government contracts (“piggybacking”)
 - Utilization of cooperative agreements
 - Sole source
 - City standard
 - Utilities

Procurement Policy

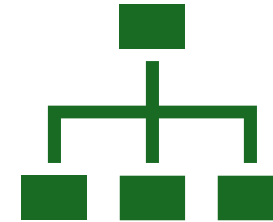


Authority Limits:

Set dollar values that direct purchases, written quotes or bids can/must be made

Limits too low create too much bureaucracy; too high reduces oversight

Could be annual dollar limits or total contract dollar limits



Change Orders:

When can they be made, and what authority is required?

Can be tied to authority limits (Example, \$1M contract approved by Commission; \$10 change order staff authority? or \$10M?)

Can be set by percentage of contract dollar value instead of by exact dollar limit

Procurement Policy

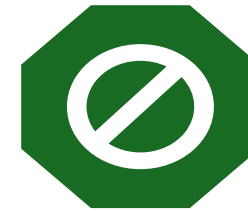


Formal Contracts Required:

Set requirement at certain dollar value limit

Formal contracts allow you to include your standard terms and conditions (Florida Prompt Payment Act, electronic payments only, insurance requirements); additionally required statutory language (public records, scrutinized companies, E-Verify for employment).

- Some vendors don't do contracts (i.e., Publix).
- Some vendors have their own standard contracts (i.e., banks)



Termination, Extension, Renewals and Suspension:

How/when can contracts be terminated, extended, renewed, or suspended?

- Recommend same action taken to approve is the same action needed to perform above

Place limits on the number of extensions/renewals available to administration

Procurement Policy



Disposal of Non-Real Property:

Set dollar value limits for transactions that require City Commission approval and which don't

Or set certain asset types (vehicles vs office furniture) that require City Commission approval

What property can be declared as junk, and when?

Liability risk in donating items; have "as is, where is" and "buyer beware" provisions



Real Property Acquisition and Conveyance:

Acquisition and conveyance should ALWAYS require City Commission approval.

When possible, obtain an environmental study from conveyor before accepting real property.

May desire two public hearings for the conveyance of certain "highly visible" real properties (public parks, open space, City Hall, police or fire stations) to allow public input

Procurement Policy


Exceptions:

Unique, extraordinary circumstances

Should be in the “best interest” of the City; hence “Best Interest Waiver” moniker

Determine when, why, and how exceptions to procurement policy occur.

May require a majority, super majority or unanimous vote of City Commission for exception



It shouldn't be common and shouldn't be easy to except your policies! But if it's truly in the best interest of the City, it shouldn't be cause for concern

Policy Implementation

Create	<p>Create leadership team</p> <ul style="list-style-type: none">•Finance, legal, applicable departments, bright folks from other departments (for non-technical feedback), senior leadership
Research	<p>Research best practices, laws, other similar agencies, etc.</p>
Review	<p>Review your current policies</p> <ul style="list-style-type: none">•Are they in compliance with current laws? Are they too loose or too restrictive? Do they include outdated practices or terminology?
Draft	<p>Draft policy</p>
Recommend	<p>Recommend to senior management (if not already engaged)</p>
Obtain	<p>Obtain approval from governing body</p>

Policy Management



Designate team, department or specific person/people to review policies periodically and recommend changes if warranted

Utilize the steps for policy implementation



Provide periodic training on policies

Critical after policy implementation or revision



Reference policies in documents (e.g., Budget/ACFR/Strategic Plan), meetings and actions to reinforce guidance

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Questions