

City Commission Policy #224

Financing the Government

DEPARTMENT: Administration and Professional Services

DATE ADOPTED: October 2, 1985

DATE OF LAST REVISION: February 10, 2021

224.1 AUTHORITY

Adopted by the City Commission on October 2, 1985 and October 23, 1985. Amended by the City Commission on February 11, 1987; March 15, 1989; May 16, 1990; February 13, 1991; February 27, 1991; March 13, 1991; August 28, 1991; January 15, 1992; November 10, 1992; February 24, 1993; March 10, 1993; March 23, 1994; May 19, 1993; July 1, 1993; November 19, 1993; March 23, 1994; April 13, 1994; April 27, 1994; February 14, 1995; February 22, 2006; March 12, 2008; September 10, 2010; July 10, 2012; December 6, 2017; February 20, 2019; February 10, 2021

224.2 SCOPE AND APPLICABILITY

This policy applies to operating revenues and expenditures within the following funds:

- Aviation
- Electric
- Gas
- General
- Golf Course
- Cemetery
- Fire Services
- Sewer
- Solid Waste
- Stormwater
- StarMetro
- Water
- Building Inspections

224.3 POLICY STATEMENT

The purpose of this regulation is to establish policy standards for the planning, management, and financing of general government and enterprise operations.

224.4 DEFINITIONS

1. Capital Program – refers to the combined total of unspent appropriations to existing capital projects, encumbrances and funding reserved for the ensuing fiscal year’s projects in the general government and enterprise operations.
2. Capital Project Construction Funds—refer to funds use to support major capital infrastructure construction. Funding sources include bonds proceeds; system charges; repair, replacement and improvement (RR&I) funds; grants; special assessments impact fees; etc.
3. Full Recovery of Cost – applies to all operating and maintenance expenses inclusive of debt service, indirect costs, allocated costs, reserves, transfers, depreciation, amortization, etc., except as modified by the City Commission.
4. General Government – those aggregate revenues and/or expenditures of the general fund including debt service and the capital project account and operating deficits of the StarMetro, golf course, and fire services funds.

5. Internal Service Funds – refer to funds to support departments and programs within the government whose scope of services requires they provide centralized services to other departments.
6. Operating Budget Work Orders – refer to an accounting mechanism that allows for segregation of certain operating funds to accomplish a given project or task.
7. Reserve – funds maintained in special accounts, including accumulated interest earnings, in excess of amounts projected to be required during the ensuing fiscal period as protection against unforeseen financial risk or as a means of reducing the future cost of services or projects.
8. Senior Citizen – refers to people of age 65 years and greater with the exception of patrons of Dial-A-Ride, where the age of eligibility is 60 years pursuant to past city commission action.
9. Transfers – funds available for use for all lawful purposes after all other legal requirements within that fund are met.
10. Youth – refers to young people of age less than 18 years.

224.5

ACTIONS

I. Income and Transfers

- A. Aviation Fund – the airport system shall operate on a full recovery of cost basis.
- B. Cemetery Fund – the cemetery fund shall operate on a full recovery of cost basis.
- C. Electric Fund – the electric fund, effective October 1, 2012, will transfer from the electric operating revenues to the general fund an amount of \$23.9 million that will increase annually by the Consumer Price Index (CPI).
- D. Fire Services Fund – the fire services fund shall operate on a full recovery of cost basis.
- E. Gas Fund – the gas fund, effective October 1, 2016, will transfer from gas operating revenues to the general fund an amount of \$2.8 million that will increase annually by Consumer Price Index (CPI).
- F. General Fund – the general fund shall have expenditures that are balanced against revenues, including those transferred in from the electric, gas, water, sewer, and solid waste funds in accordance with tenets outlined in this section. The general fund also will subsidize operational deficits in the golf course and StarMetro funds, when necessary.
- G. Golf Course Fund – the golf course fund shall have expenditures that are balanced against revenues, including a transfer in from the general fund to support golf course fund operational deficits, when necessary.
- H. Sewer Fund – the sewer system shall operate on a full recovery of cost basis and effective October 2016 will transfer from sewer operating revenues to the general fund an amount of \$4.6 million that will increase annually by Consumer Price Index (CPI). In addition, revenue projected from surcharge in the subsequent fiscal year also is transferred to the general fund to support parks and recreation services per the interlocal agreement with Leon County.
- I. Solid Waste Fund – the solid waste fund shall operate on a full recovery of cost basis and effective October 1, 2016 will transfer from solid waste operating revenues to the general Fund an amount of \$1.8 million that will increase annually by Consumer Price Index (CPI). This will be attained by adjusting commercial customer rates to obtain full recovery of costs.

Rate adjustments may be needed to accommodate increases associated with other government actions, such as county landfill tipping fees, state recycling requirements, etc.

- J.** Stormwater Fund - the stormwater fund shall operate on a full recovery of cost basis. Pursuant to city commission action on February 9, 2005, the monthly rate to be charged for each equivalent residential unit shall be set at:

\$6.59 for all bills rendered on and after October 1, 2005, and
\$6.93 for all bills rendered on and after October 1, 2006, and
\$7.27 for all bills rendered on and after October 1, 2007, and
\$7.61 for all bills rendered on and after October 1, 2008, and
\$7.95 for all bills rendered on and after October 1, 2009, and

Thereafter shall be adjusted annually by the percentage change in the Consumer Price Index (CPI) for all urban consumers, U.S. city average, all items for the preceding calendar year as initially reported by the U.S. Department of Labor, Bureau of Labor Statistics beginning on October 1, 2010.

- K.** StarMetro Fund – the StarMetro fund shall have expenditures that are balanced against revenues, including a transfer in from the general fund to support StarMetro fund operational deficits, when necessary.
- L.** Water Fund – the water system shall operate on a full recovery of cost basis and effective October 1, 2016 will transfer from water operating revenues to the general fund an amount of \$3.4 million that will increase annually by Consumer Price Index (CPI). In addition, revenue projected from surcharge in the subsequent fiscal year also is transferred to the general fund to support parks and recreation services per the interlocal agreement with Leon County.
- M.** Building Inspections Fund – the building inspections fund shall operate on a full recovery of cost basis.

II. Surpluses

- A.** Aviation Fund – all year-end surpluses, to the extent available, will be retained within the fund and allocated in accordance with the airline use agreement.
- B.** Cemetery Fund – all year-end surpluses, to the extent available and appropriable, will be retained within the fund and made available for operating expenses and capital projects within the fund.
- C.** Electric Fund – all electric fund surpluses (defined as operating fund balances in excess of the targeted transfer less bond reserve requirements) shall be used to fully fund the operating reserve, with any differential surplus being retained in the fund and made available for any lawful capital project within that fund after meeting identified reserve requirements.
- D.** Fire Fund – all year end surpluses, to the extent available and appropriable, will be retained within the fund and made available for operating expenses and capital projects within the fund.
- E.** Gas, Water, and Sewer Funds – all year-end surpluses, to the extent available and appropriable, shall be used to fully fund the operating reserve of each respective fund, with any differential surplus being retained within the fund and made available for any lawful capital project within that fund, after meeting identified reserve requirements.
- F.** General Fund – all year-end surpluses, to the extent available and appropriable, will first be used to fund the Deficiencies Reserve until its target level is achieved. Surpluses above this level may be allocated to support the subsequent year's operating budget, up to a maximum of five percent of general government expenditures and to buy down debt-financed capital improvement projects.

- G. Golf Course Fund – all year-end surpluses, to the extent available and appropriable, will be retained within the fund and made available for operating expenses and capital projects within the fund.
- H. Internal Service Funds – all actual expenditures and obligations in the respective internal service funds, with the exception of the information systems services fund, will be balanced against revenues, assets and all designated balances of the funds, which shall result in zero undesignated balances. Surpluses in the Information Systems Services fund will be made available for any lawful capital project within that fund. The accounting services division is responsible for accomplishing this true-up during the annual budgetary closeout process.
- I. Solid Waste Fund – all year-end surpluses, to the extent available and appropriable, will be retained within the fund in a reserve for the purpose of stabilization of future rate increases.
- J. Stormwater Fund – all year-end surpluses, to the extent available and appropriable, will be retained within the fund and made available for any lawful capital project within that fund.
- K. StarMetro Fund – all year-end surpluses, to the extent available and appropriable, will be retained within the fund and made available for operating expenses and capital projects within that fund.
- L. Building Inspections Fund – all year-end surpluses, to the extent available and appropriable, will be retained within the fund and made available for operating expenses and capital projects within the fund.

III. General Government Revenues and Fees

Recovery of Cost – for those programs and services that are not under recurring review by external rate consultants, in which the City presently charges for service, with the exception of recreation fees for youth and mass transit (StarMetro), the City will fully recover costs, including indirect costs, taking into consideration similar charges/fees being levied by other comparable organizations. Notwithstanding the policy statement, the recovery of cost policy element incorporates the following:

The parks and recreation department will seek to recover costs for its activities and programs through implementation of the following rate structure. Beginning in fiscal year 2007 and extending through fiscal year 2013, parks and recreation will increase fees and charges to increase overall revenue generation (over actual collections in fiscal year 2006) utilizing the following formula:

FY 2007 = CPI increase plus 2.0%
 FY 2008 = CPI increase plus 2.0%
 FY 2009 = CPI increase plus 1.5%
 FY 2010 = CPI increase plus 1.5%
 FY 2011 = CPI increase plus 1.0%
 FY 2012 = CPI increase plus 1.0%
 FY 2013 = CPI increase plus 1.0%

The percentage change in the Consumer Price Index (CPI) for all urban consumers, U.S. city average, all items for the preceding calendar year as initially reported by the U.S. Department of Labor, Bureau of Labor Statistics will be utilized for the above calculation. It will be up to the discretion of the parks and recreation department to select the fees and level of increase necessary to accomplish the goal of increasing revenue collections by the above mentioned formulas.

In addition, based upon criteria developed by the parks and recreation department, fees may be waived or reduced for youth who are unable to participate in recreational activities due to their inability to pay or other demonstrated financial need. Based upon criteria

developed by City golf courses, youth who are unable to participate in recreational activities and show a demonstrated financial need may receive up to a thirty percent (30%) subsidy.

- Based upon criteria developed by the parks and recreation department and City golf courses, senior citizens may receive up to a twenty percent (20%) subsidy for certain recreational and non-recreational activities.
- A subsidy level of twenty percent (20%) relating to certain services or charges involving social services, institutional services, or charitable services. This results in a recovery of cost rate of eighty percent (80%). This category refers to any agency or activity which is nonprofit in nature and provides goods or services primarily to the economically disadvantaged at rates of cost or lower, as is currently the case in certain contractual arrangements. The item affected by this category includes rental of buildings.

For general government non-recreation charges and fees, the following management practices will be undertaken in conjunction with implementation of the policy. These practices are intended to serve as a base line for management decision, recognizing that the city manager has the discretion for exceptions on an individualized basis as long as the overall intent of the policy is not jeopardized.

1. Rate increases emanating from recovery of cost policies would be limited to a maximum of 20% per year.
2. Indirect costs would be recovered at rates determined in conjunction with annual studies by the accounting services division and office of budget and policy, pursuant to federal government standards and practices.
3. Imposition of new fees or charges for service(s) at less than 100% would not be precluded.
4. The application of rates and discounts will occur, using discretion for rounding purposes and to keep rates manageable.
5. Whenever the city may have contractual agreements that are not consistent with this policy, the agreements at the time of their expiration or any open bargaining period, will be brought into compliance over a period not greater than five (5) years.
6. Any group rates, block rates, or seasonal rates established will be consistent with established policies.
7. The Department of ~~Administrative and Professional Services Management and Administration~~, in conjunction with the impacted departments, will review the full costs of activities supported by user fees and charges as part of the budget process to identify the impact of inflation and other cost increases. The ~~Resource Management Office of Budget and Policy~~ will automatically increase non-recreation fees and charges up to a maximum of 20%, if they are not covering their costs, or reduce them to the costs of service provision if they generate excess revenue that, in turn, cross-subsidized other city services.

IV. Reserves

- A. Airport Operating Reserve – established to provide for unforeseen emergencies and unanticipated expenditures of a non-recurring basis within the airport operation and in accordance with the bond requirement, this reserve is to be budgeted as follows:
 1. No less than 1/12th of the amount budgeted for operation and maintenance of the airport.
- B. Cemetery Perpetual Care Trust/Reserve – established for the purpose of long-term (perpetual) maintenance for city cemeteries. The method of accumulation is from a one-time gravesite

maintenance fee, interested earnings, and any other specific appropriation approved by the city commission.

- C. Deficiencies Fund – established to provide for unforeseen expenditures in general government operations. The method of accumulation is the annual appropriation of interest amounts in the reserve and any other specific appropriation approved by the City Commission. The reserve will be used sparingly and only with permission of the commission (appropriation). The reserve will continue to accumulate, on an annual basis, to a maximum level of two (2) months regular general government expenditures of the ensuing fiscal year's expected operating budget. General government is defined here as expenditures of the general fund, including the transfer to support operating deficits of the StarMetro, golf course, and fire services funds. Any funds in excess of this accumulation level will be available to address the unfunded liability for accrued leave in the general fund, as well as the post-retirement benefits liability in the general fund as required by Governmental Accounting Standards Board (GASB) 45.
- D. Electric Operating Reserve – provides financial security, liquidity and flexibility that is critical to protect the city from a financial perspective and electric utility customers from a competitive rate perspective. Target funding levels for the operating reserves are dynamic in nature and should be updated periodically based on current budgets and circumstances. Funding levels are developed using the following four sub-components, each of which has independent minimum and optimal levels of funding. Minimum levels are consistent with known financial requirements identified in the 10-year electric utility financial plan. While the four sub-components have been individually identified, the electric operating reserves are operated as a single fund, and not as four separate funds. The four sub-components are more fully described below.
 - 1. Working Capital/Liquidity – the primary purpose of the electric operating reserve is to provide for working capital for the electric fund. The target level for this component, which is adjusted annually based on the appropriated budget, is to have at least 60-90 days of working capital in the reserve. Based on the 2013 approved operating budget of \$284,168,903, the minimum amount, or 60 days, is equivalent to \$47 million. The optimal funding level, or 90 days, is equivalent to \$70 million.
 - 2. Fuel Risk Management – used to provide stability in fuel costs and minimize volatility in fuel fluctuations. This component requires margin funding to participate in commodity trading. In 2002 the electric operating reserve included \$20 million for margin requirements for financial positions beyond 12 months. In 2008 this amount was increased to \$30 million due to price volatility requiring greater margins and to provide more ability to hedge for longer periods.
 - 3. Emergency reserve – this component provides for funding to address emergency situations in the electric utility. These could include generating unit forced outages due to equipment failure, natural disasters such as hurricanes, and substation equipment failures. Minimum funding requirement is set at \$20 million with an optimal level of \$40 million.
 - 4. Rate Stabilization – this component is used to provide stable rates in recognition of swings in revenue requirements. Rate stabilization can be achieved either by (1) direct rate stabilization/reduction, (2) cash funding of future generation needs, and/or (3) debt retirement and defeasance. The minimum funding level for this category is \$15.5 million with an optimal funding level of \$31 million.
- E. Fleet Reserve Fund – established to provide for replacement of rolling stock in a stabilized manner. Funded by replacement charges against user departments' operating budgets and interest earnings. The Department of Management and Administration, in conjunction with the city's Fleet Department, determines charges to user departments. Rates will be adjusted pursuant to a targeted reserve balance equivalent to the cost of the average five-year replacement program. Resource allocations for equipment replacement are provided for through the annual capital budget appropriation.
- F. Gas, Water, and Sewer Operating Reserves – established to provide financial protection to the

government by enhancing the respective utility's ability to meet their transfer requirement to the general government in the event of operational insufficiencies, resulting in less bottom line. These reserves are funded from utilization of the respective utility systems' year-end surplus and interest earnings from the reserve balance. Each respective utility's reserve is funded at a level of twenty five percent (25%) of the previous year's transfer.

- G. General Government Contingency – an amount established as part of the operating budget process will be appropriated on an annual basis for unanticipated and unbudgeted expenditures. City manager approval is required for utilization of this account.
- H. Building Inspections Reserve Fund – any surplus of earnings through fees, fines, or investments related to the collection and enforcement of the State's building code at year-end must be carried forward to future years for allowable activities relating to enforcing the code or refunded at the City's discretion.

V. Capital Project Construction Funds

- A. Electric, Gas, Water, Sewer, Solid Waste, and Stormwater Funds – the undesignated balance in the respective repair, replacement and improvement (RR&I) funds will serve as a contingency for all capital funding sources in these operations. The formula for the level of undesignated RR&I fund balance available in each enterprise shall not exceed three percent (3%) of the collective sources of the respective capital. Other capital project funding sources in these respective funds will maintain zero balances. Any undesignated RR&I fund balance above the formula funding mechanism will be used to support the operating and capital budget, and as a cash infusion to support refinancing outstanding debt.

In the electric, gas, water and sewer funds, RR&I will be budgeted at a level equivalent to each fund's depreciation expense as provided in the utility's rate study or statement of revenues, expenses and changes in fund net assets in the city's most recent comprehensive annual financial report, as appropriate.

- B. General Government Capital Projects Account – annual appropriations from operating revenues for general government pay-as-you-go capital projects (GG/CPA) will be established annually as part of the budget process for new infrastructure projects and debt service requirements, if determined by the City Commission to be necessary and/or prudent.
- C. General Government Undesignated Capital Project Construction Funds – the undesignated balance in the capital improvement fund (CIF) will serve as a contingency for all capital funding sources in the general government. The formula for the level of undesignated CIF fund balance available shall not exceed three percent (3%) of the collective sources of the respective capital programs. Other capital project funding sources included in the general government will maintain zero balances. Any undesignated CIF balance above the formula funding level will be in the first position as a funding mechanism to support the operating and capital budget, as well as a cash infusion to support refinancing outstanding debt. The fleet reserve and information systems services undesignated capital fund balance shall be exempted from this policy's application.

VI. Operating Budget Work Orders

Operating budget work orders may be utilized for a period not to exceed two (2) years from the date of opening for any of the following purposes. The exception is operating budget work orders for which funding is appropriated annually in a department's operating budget (e. g., Gemini Building O & M, etc.). Work orders opened for these recurring purposes shall only be open for a period of one fiscal year. They will close effective September 30th in the year of appropriation, in the same manner as recurring and master capital projects.

- A. Segregation of particular expenditures for the purpose of tracking a program or type of activity.
- B. Retention of the appropriation in excess of one fiscal year in order to complete the

program, project or activity.

- C. Contract facilitation where the specifications are yet to be determined.
- D. A mechanism to meet state or federal reporting requirements for grant funding.

The Office of Resource Management, at the two-year expiration date, will automatically close work orders unless a specific exception is granted.

224.6 ADMINISTRATION

The City Manager, together with the City Treasurer-Clerk, will provide appropriate recommendations to update this policy as the need arises. The policy shall be implemented through the regular operating and capital budget process.

224.7 SUNSET REVIEW

In accordance with the City Commission's directive for policy sunset, the policy shall be scheduled for review within five years from this date. Resource Management shall submit the policy to the commission for review at least 90 days prior to the sunset review date. If no action is taken, the policy will automatically extend for another five-year period, or until the City Commission revises or terminates the policy.

224.8 EFFECTIVE DATE

This policy shall become effective immediately upon approval by the City Commission.