



City of Miami Beach, 1700 Convention Center Drive, Miami Beach, Florida 33139, www.miamibeachfl.gov

COMMITTEE MEMORANDUM

TO: Members of the Finance & Citywide Projects Committee

FROM: Jimmy L. Morales, City Manager

DATE: July 26, 2019

SUBJECT: DISCUSSION REGARDING PROPOSED REVISION TO GENERAL FUND RESERVE POLICY

Background

On January 16, 2019, the City Commission accepted the recommendation of the Finance and Citywide Projects Committee to revise the City's Resort Tax Reserve Policy, which addressed the concerns of the Mayor's Blue-Ribbon Emergency Response and Budget Advisory Committees.

At the May 21, 2019 Commission Budget Workshop, the Administration recommended a revision of the City's General Fund Reserve Policy, to help maintain or improve the City's credit rating and financial position.

Analysis

The Government Finance Officers Association (GFOA) recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.

The adequacy of unrestricted fund balance in the general fund should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance.

GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than 2 months of the general fund budget.

Miami Beach's current reserve policy is consistent with GFOA's minimum general fund reserve recommendation. The City's current reserve policy establishes an 11% reserve of the General Fund Operating Budget for emergencies. In addition, the City has a goal to maintain a General Fund Reserve for Contingencies equal to 6% of the General Fund Operating Budget. In combination, the total of 17% represents 2 months of the General Fund Operating Budget expenditures.

In light of the City's vulnerability to storm events and dependence on volatile Resort Tax revenues, the objective of the proposed changes to the General Fund Reserve Policy is to:

- Increase the required reserve for emergencies from 11% to 17%
- Increase the goal for reserve for contingencies from 6% to 8%
- Increase the total reserve target from 17% to 25% or from 2 months to 3 months of operating revenues.

The current General Fund reserve is estimated to be 20.2% or \$67 million. This amount meets the proposed required 17% emergency reserve and 3.2% of the proposed 8% goal for reserve for contingencies.

Budget Advisory Committee Endorsement

On July 17, 2019, the Budget Advisory Committee reviewed the proposed revision to the General Fund Reserve Policy. Although there were not enough members present to form a quorum to approve a motion to recommend this proposed revision, the members in attendance endorsed the proposed change to the City's General Fund Reserve Policy.

General Fund Reserve Policy (Blackline Version)

1. *The City of Miami Beach shall maintain the Emergency Reserve at seventeen ~~eleven~~ percent ~~11~~ 17 %) of the General Fund Operating Budget of the ensuing year (17 ~~11~~ % Emergency Reserve) for use as defined in resolution 98- 22661.*
2. *The City of Miami Beach shall have a goal to also maintain a General Fund Reserve for Contingencies equal to at least ~~six~~ eight (~~6~~ 8%) of the General Fund Operating Budget that, in combination with the 17 ~~11~~ % Emergency Reserve, represents ~~two~~ three (2 ~~3~~) months of the General Fund Operating Budget expenditures.*
3. *Said reserve shall be increased or decreased annually but shall be maintained at a minimum of ~~six~~ eight percent (~~6~~ 8%) of the then existing General Fund Operating Budget.*
4. *Once the General Fund Reserve for Contingencies goal of eight percent (8%) is initially achieved, if the amount falls below the ~~six~~ eight percent (~~6~~ 8%) level, a plan of action will be required to increase the reserves over three (3) to seven (7) years to at least ~~six~~ eight percent (~~6~~ 8%) and a percentage of any additional undesignated fund balance shall be earmarked toward attainment of the ~~six~~ eight percent (~~6~~ 8%) level.*
5. *The City of Miami Beach shall have a goal to develop and maintain appropriate levels of reserves in the Enterprise Funds as in the General Fund.*
6. *The City of Miami Beach shall have a goal of maintaining a reserve of one hundred percent (100%) of pending claims in the Risk Management Fund, and shall strive to fund two-thirds (2/3) of the estimated value.*

Conclusion

Staff is seeking direction from the Finance & Citywide Projects Committee regarding the recommended changes to the City's General Fund Reserve Policy. The proposed changes to the reserve policy address the City's exposure to weather events and dependence on volatile Resort Tax revenues. The policy update would help ensure continuity of operations during emergencies and maintain or improve the City's credit ratings.

JLM/JW/TOS