

ATTACHMENT E

RESOLUTION NO. 2006-26341

A RESOLUTION OF THE MAYOR AND CITY COMMISSION OF THE CITY OF MIAMI BEACH, FLORIDA, ADOPTING CITY OF MIAMI BEACH FINANCIAL POLICIES RELATING TO STABILIZATION FUNDS; FUND BALANCE; CONTINGENCY PLANNING AND CASH RESERVES; USE OF NON-RECURRING REVENUES; CAPITAL ASSET ACQUISITION, MAINTENANCE, REPLACEMENT AND RETIREMENT; AND GUIDING THE DESIGN OF PROGRAMS AND SERVICES

WHEREAS, the City's Budget Advisory Committee (BAC), with support from the City Administration, has begun analyzing the City's existing financial policies, and recommended an initial set of additional financial policies for consideration by the City Commission; and

WHEREAS, the City has several existing formal financial policies that provide the framework for budget development and adoption and for financial management which are governed by Florida State Statute, the City Charter; and by prior adopted policies of the Mayor and City Commission; and

WHEREAS, the City also has several informal policies subject to implementation by the City administration; and

WHEREAS, the National Advisory Council on State and Local Budgeting and the Government Finance Officers Association recommends that jurisdictions establish and adopt policies to help frame resource allocation decisions, and to help guide service provision and capital asset acquisition, maintenance, replacement, and retirement.

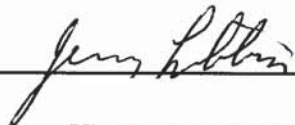
NOW, THEREFORE, BE IT DULY RESOLVED BY THE MAYOR AND CITY COMMISSION OF THE CITY OF MIAMI BEACH, FLORIDA, hereby adopts the financial policies contained in Exhibit A: City of Miami Beach Financial Policies Relating to Stabilization Funds; Fund Balance; Contingency Planning and Cash Reserves; Use of Non-Recurring Revenues; Capital Asset Acquisition, Maintenance, Replacement and Retirement; and Guiding the Design of Programs and Services.

PASSED AND ADOPTED THIS 21st DAY OF September 2006.

Attest:

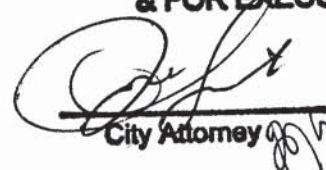


CITY CLERK
Robert Parcher



Vice-Mayor Jerry Libbin

**AS TO
FORM & LANGUAGE
& FOR EXECUTION**



City Attorney

9/16/06

Date

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EXHIBIT A

CITY OF MIAMI BEACH FINANCIAL POLICIES RELATING TO STABILIZATION FUNDS; FUND BALANCE; CONTINGENCY PLANNING AND CASH RESERVES; USE OF NON-RECURRING REVENUES; CAPITAL ASSET ACQUISITION, MAINTENANCE, REPLACEMENT AND RETIREMENT; AND GUIDING THE DESIGN OF PROGRAMS AND SERVICES

Stabilization Funds & Fund Balance/Contingency Planning and Cash Reserves

1. The City of Miami Beach shall maintain the Emergency Reserve at eleven percent (11%) of the General Fund Operating Budget of the ensuing year (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 (6%) of the General Fund Operating Budget that, in combination with the 11% Emergency Reserve, represents two (2) 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 percent (6%) of the then existing General Fund Operating Budget.
4. If the General Fund Reserve for Contingencies level falls below the six percent (6%) level, a plan of action will be required to increase the reserves over three (3) to seven (7) years to at least six percent (6%) and a percentage of any additional undesignated fund balance shall be earmarked toward attainment of the six percent (6%) 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 of insurance claims incurred but not reported.

Use of Non-Recurring Revenues

The City of Miami Beach will use one time, non-recurring revenue for capital expenditures or one time expenditures and not to subsidize recurring personnel, operations and maintenance cost.

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Capital Asset Acquisition, Maintenance, Replacement and Retirement

1. The City shall maintain a dedicated portion of the operating millage for General Fund Capital Renewal and Replacement as defined in Resolution 2005-25832.
2. The City shall have a goal to fund for the following capital needs as a permanent part of the budget in an amount not less than five percent (5%) of the annual fiscal operating budget of the General Fund of the City:
 - **Capital Renewal and Replacement** - to ensure adequate funding for the renewal and replacement of the City's General Fund facilities to extend the useful life or replace equipment whose useful life has expired.
 - **Capital Reserve Fund** - to help ensure adequate funding related to previously approved capital projects for expenditures due to bids that are over-budget, change orders, or other unforeseen items for General Fund projects.
 - **Pay-As-You-Go Capital Fund** - to ensure adequate on-going reinvestment in capital plant and equipment, to avoid deferring capital needs until there is a major bond issue.
 - **Capital Investment Upkeep Fund** - to help ensure adequate funding for General Fund non-facility related upkeep.
 - **Information & Communications Technology Fund** - to help ensure adequate funding for the procurement of new or enhanced information and technology needs of the City.
3. The City shall strive to achieve as a goal that annual General Fund revenues in excess of expenditures shall be transferred to the Capital Reserve Fund.
4. The City shall have a goal to develop and maintain appropriate levels of capital reserves in the Enterprise Funds as in the General Fund.

Guiding the Design of Programs and Services

1. The City shall create a strategic plan that identifies multi-year strategic priorities (Key Intended Outcomes) with corresponding result measures for each priority.
2. Annually, the City shall use a strategic planning process to develop initiatives that support the strategic plan priorities.
3. The budget process and format shall be performance-based and focused on Key Intended Outcomes and performance measures.
4. Any new initiative not core to the City's core mission or Key Intended Outcomes identified in the strategic plan that is greater than half of a percent (0.5%) of operating budget for the fund impacted per year, or cumulatively, shall be first considered as part of the City's annual strategic planning process to develop initiatives.

Condensed Title:

Resolution Adopting Financial Policies for the City of Miami Beach Relating to Stabilization Funds & Fund Balance/Contingency Planning and Cash Reserves; Use of Non-Recurring Revenues; Capital Asset Acquisition, Maintenance, Replacement and Retirement; and Guiding the Design of Programs and Services.

Key Intended Outcome Supported:

Ensure expenditure trends are sustainable over the long term
 Improve the City's overall financial Health and maintain overall bond rating

Issue:

Should the Commission adopt the proposed City of Miami Beach Financial Policies, as recommended by the Budget Advisory Committee?

Item Summary/Recommendation:

The City of Miami Beach's Strategic Plan includes Key Intended Outcomes to ensure the long-term sustainability of City government: Ensure expenditure trends are sustainable over the long term; and Improve overall financial health and maintain overall bond rating. A number of policies and structural changes have been implemented towards achieving these outcomes. One of the Citywide Initiatives adopted with the FY 2005/06 budget is the review and further enhancement of the City's financial policies.

Beginning in January 2006, the Budget Advisory Committee (BAC), with support from City administration, began the task of analyzing the City's existing policies, identifying best practices as recommended by the Government Finance Officer Association (GFOA), and reviewing policies of other highly-regarded municipalities. City staff also provided insight regarding rating agency considerations for improving the financial outlook for the City. For their initial set of recommendations, the BAC focused on the following policies: Stabilization Funds & Fund Balance/Contingency Planning and Cash Reserves; Use of Non-Recurring Revenues; Capital Asset Acquisition, Maintenance, Replacement and Retirement; and Guiding the Design of Programs and Services. Additional policies may be considered in subsequent reviews.

These proposed policies were reviewed and approved by the Finance and Citywide Projects Committee at the July 6, 2006 Committee meeting and the City administration was directed to prepare a resolution for Commission consideration adopting policies similar to the recommendations of the Budget Advisory Committee.

The attached resolution adopts the policies recommended by the BAC with the minor revision clarifying the funding for General Fund renewal and replacement as a separate dedicated source of funding.

Advisory Board Recommendation:

Adopt the policies.

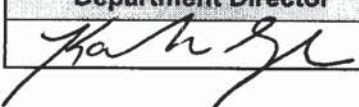
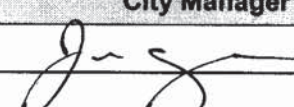
Financial Information:

Source of Funds:		Amount	Account	Approved
	1			
N/A	2			
OBPI	Total			

Financial Impact Summary:

City Clerk's Office Legislative Tracking:

Sign-Offs:

Department Director	Assistant City Manager	City Manager
		



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MIAMI BEACH

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

COMMISSION MEMORANDUM

TO: Mayor David Dermer and Members of the City Commission
FROM: Jorge M. Gonzalez, City Manager
DATE: September 21, 2006

SUBJECT: **A RESOLUTION OF THE MAYOR AND CITY COMMISSION OF THE CITY OF MIAMI BEACH, FLORIDA ADOPTING CITY OF MIAMI BEACH FINANCIAL POLICIES RELATING TO STABILIZATION FUNDS, FUND BALANCE, CONTINGENCY PLANNING AND CASH RESERVES; USE OF NON-RECURRING REVENUES; CAPITAL ASSET ACQUISITION, MAINTENANCE, REPLACEMENT AND RETIREMENT; AND GUIDING THE DESIGN OF PROGRAMS AND SERVICES**

ADMINISTRATION RECOMMENDATION

Adopt the resolution.

BACKGROUND

The City of Miami Beach's Strategic Plan includes Key Intended Outcomes to ensure the long-term sustainability of City government: Ensure expenditure trends are sustainable over the long term; and Improve overall financial health and maintain overall bond rating. A number of policies and structural changes have been implemented towards achieving these outcomes. One of the Citywide Initiatives adopted with the FY 2005/06 budget is the review and further enhancement of the City's financial policies.

Beginning in January 2006, the Budget Advisory Committee (BAC), with support from City administration, began the task of analyzing the City's existing policies, identifying best practices as recommended by the Government Finance Officer Association (GFOA), and reviewing policies of other highly-regarded municipalities. City staff also provided insight regarding rating agency considerations for improving their perspective on the financial outlook for the City.

EXISTING CITY POLICIES

The City has several existing formal and informal financial policies that provide the framework for budget development and adoption and for financial management. Many of these are formal policies governed by State Statute, City Charter, and by City of Miami Beach Commission resolution. Existing policies are summarized on the following page:

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Resolution Adopting City of Miami Beach Financial Policies
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- The City's budget process, quarterly reporting requirements and requirement for a balanced budget are governed by Florida State Statute and by the City Charter
- Resolution 94-21258 adopted on July 27, 1994 requires review and reporting to the Miami Beach City Commission of adjustments and amendments to the City of Miami Beach annual budget for the purposes of conforming actual expenditures to the adopted budget at least once every quarter
- The City's power to borrow money, contract loans and issue bonds, notes and other obligations or evidences of indebtedness is provided by the Charter in accordance with Florida law and by the City Code
- Resolution 95-21726 on September 27, 1995 adopted an investment policy for the City of Miami Beach
- Resolution 95-21726 was amended by Resolution 97-22315 on March 5, 1997 to increase the number of authorized investment options and define the percentage of City funds which may be invested in said additional categories
- Resolution 2004-25456 adopted on January 14, 2004 authorized the administration to contract with MBIA Municipal Investors Service Corp for provision of Investment Advisory services to the City of Miami Beach to manage and direct the investment of excess funds in accordance with the City's investment objects set forth in the City of Miami Beach Investment Policy
- Resolution 96-2214 adopted on June 5, 1996 established a reserve fund to be maintained at a minimum of 11% of the General Fund Operating Budget of the ensuing year and established procedures for its use and replacement
- Resolution 96-2214 was amended by Resolution 98-22661 on February 18, 1998 to further safeguard and clarify the use of the emergency reserve funds
- Resolution 2002-24764 adopted on February 20, 2002 established a Capital Projects Reserve in the General Fund, and specified that when there exists an excess of General Fund revenues over expenditures ("earnings") that 50% of funds remaining, after funding the increase in the 11% Emergency Reserve for the ensuing year, be deposited in the Capital Reserve Fund
- Resolution 2004-25697 on September 4, 2004 established a capital renewal and replacement fund to provide a dedicated source of funding for City capital renewal and replacement projects that extend the useful life of General Fund assets, established a procedure for annual appropriation of funds, and established a procedure for their use
- Resolution 2004-25697 was amended by Resolution 2005-25832 on February 23, 2005 to establish more stringent criteria for the use of the General Fund Renewal and Replacement Fund

However, in addition to these formal policies, there are several informal policies subject to implementation by the City administration. The existing policies include:

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- Balanced Budget Development and Adoption
- General Fund 11% Emergency Reserve
- Setting Fees & Charges
- Use of One-Time Revenues
- Contingency Planning and Budgeting
- Debt Policy
- Use of Plans Guiding the Design of Programs and Services (City's Excellence Model)
- Capital Asset Acquisition, Maintenance, Replacement, & Retirement

GFOA RECOMMENDED POLICIES

GFOA is the professional association of state/provincial and local finance officers in the United States and Canada, and has served the public finance profession since 1906. Approximately 16,500 GFOA members are dedicated to the sound management of government financial resources. In 1993, the Government Finance Officers Association (GFOA) Executive Board directed the Association's staff to work with the GFOA Standing Committees to develop a body of recommended practices in the functional areas of public finance to give GFOA members and other state and local governments more guidance on sound financial management practices. As part of this effort, in 1995, GFOA and seven other state and local government associations created the National Advisory Council on State and Local Budgeting (NACSLB) and charged it with developing a set of recommended budget practices in the area of state and local budgeting. In 1997 the NACSLB adopted a budgeting framework and recommended budget practices that were subsequently endorsed by GFOA.

The work of the NACSLB provides a framework for describing the overall budget process. The framework is organized around the four principles of the budget process:

- Principal 1: Establish Broad Goals to Guide Government Decision Making
 - Assess Community Needs, Priorities, Challenges and Opportunities
 - Identify Opportunities and Challenges for Government Services, Capital Assets, and Management
 - Develop and Disseminate Broad Goals
- Principle 2: Develop Approaches to Achieve Goals
 - Adopt Financial Policies
 - Develop Programmatic, Operating and Capital Policies and Plans
 - Develop Programs and Services That are Consistent with Policies and Plans
 - Develop Management Strategies
- Principle 3: Develop a Budget Consistent with Approaches to Achieve Goals
 - Develop a Process for Preparing and Adopting a Budget
 - Develop and Evaluate Financial Options
 - Make Choices Necessary to Adopt a Budget
- Principle 4: Evaluate Performance and Make Adjustments
 - Monitor, Measure, and Evaluate Performance
 - Make Adjustments as Needed

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Each of these principles has additional elements that provide guidance for an effective budget process. Elements #4 and #5, of Principle 2, "Adopt Financial Policies" and "Develop Programmatic, Operating and Capital Policies and Plans" , addresses the need for jurisdictions to establish policies to help frame resource allocation decisions and to help guide service provision and capital asset acquisition, maintenance, replacement, and retirement. GFOA recommends that policies in the following areas be developed by professional staff and formally adopted by the jurisdiction's governing board: Fees & Charges; Debt Issuance & Mgmt; Debt Level & Capacity; Use of One-time Revenues; Use of Unpredictable Revenues; Balancing the Operating Budget; Revenue Diversification; Contingency Planning; Plans to Guide the Design of Programs & Services; and Capital Asset Acquisition, Maintenance, Replacement, and Retirement.

REVIEW OF POLICIES FROM OTHER JURISDICTIONS

Governing Magazine, a periodical that focuses on governmental entities regularly rates select counties and municipalities for their financial management. This list was used to identify and select jurisdictions rated as "A" by Governing Magazine: Austin, Texas; Fairfax County, Virginia; City of Long Beach, California; Maricopa County, Arizona; Minneapolis, Minnesota; Orlando, Florida; Phoenix, Arizona; State of Utah; and Virginia Beach, Virginia. Municipalities such as El Paso, Texas and Village of Palos Park, Illinois were also reviewed as they were cited in examples from GFOA materials. Additionally, available policies from neighboring communities in Florida were obtained to provide additional insight: City of Coral Springs, Ft. Lauderdale, Miami-Dade County, and Hillsborough County.

BUDGET ADVISORY COMMITTEE PRELIMINARY RECOMMENDATIONS

For their initial set of recommendations, the BAC focused on the following polices: Stabilization Funds & Fund Balance/Contingency Planning and Cash Reserves; Use of Non-Recurring Revenues; Capital Asset Acquisition, Maintenance, Replacement and Retirement; and Guiding the Design of Programs and Services (See Attachment). Additional policies may be considered in subsequent reviews.

BAC Recommendation: Stabilization Funds & Fund Balance/Contingency Planning and Cash Reserves

General Fund

The City of Miami Beach shall maintain the Emergency Reserve at 11% of the General Fund Operating Budget of the ensuing year (11% Emergency Reserve).

In addition, the City of Miami Beach shall have a goal to maintain a General Fund Reserve for Contingencies equal to 6% of the General Fund Operating Budget. In combination with the 11% of Emergency Reserve, this represents 2 months of the General Fund Operating Budget expenditures. If the Reserve for Contingencies level falls below the 6% level a plan of action will be required to increase the reserves over three to seven years (to at least 6%) and a percentage of any additional undesignated fund balance shall be earmarked toward attainment of the 6% level.

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Enterprise Funds

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.

Risk Management Fund

The City of Miami Beach shall have a goal of maintaining a reserve of 100% of pending claims in the Risk Management Fund, and shall strive to fund 2/3 of the estimated value of insurance claims incurred but not reported.

BAC Recommendation: Use of Non-Recurring Revenues

The City of Miami Beach will use one time, non-recurring revenue for capital expenditures or one time expenditures and not to subsidize recurring personnel, operations and maintenance cost.

BAC Recommendation: Capital Asset Acquisition, Maintenance, Replacement and Retirement

The City shall have a goal to fund at least 5% of the General Fund to fund the following capital needs as a permanent part of the budget:

- **Capital Renewal and Replacement** - to ensure adequate funding for the renewal and replacement of the City's General Fund facilities to extend the useful life or replace equipment whose useful life has expired.
- **Capital Reserve Fund** - to help ensure adequate funding related to previously approved capital projects for expenditures due to bids that are over-budget, change orders, or other unforeseen items for General Fund projects.
- **Pay-As-You-Go Capital Fund** - to ensure adequate on-going reinvestment in capital plant and equipment, to avoid deferring capital needs until there is a major bond issue.
- **Capital Investment Upkeep Fund** - to help ensure adequate funding for General Fund non-facility related upkeep.
- **Information & Communications Technology Fund** - to help ensure adequate funding for the procurement of new or enhanced information and technology needs of the City.

The City shall strive to achieve as a goal that annual General Fund revenues in excess of expenditures shall be transferred to the Capital Reserve Fund.

The City shall have a goal to develop and maintain appropriate levels of capital reserves in the Enterprise Funds as in the General Fund.

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BAC Recommendation: Guiding the Design of Programs and Services

- The City shall create a strategic plan that identifies multi-year strategic priorities (Key Intended Outcomes) with corresponding result measures for each priority.
- Annually, the City shall use a strategic planning process to develop initiatives that support the strategic plan priorities.
- The budget process and format shall be performance-based and focused on Key Intended Outcomes and performance measures.
- Any new initiative not core to the City's core mission or Key Intended Outcomes identified in the strategic plan that is greater than 0.5% of budget for the fund impacted per year, or cumulatively, shall be first considered as part of the City's annual strategic planning process to develop initiatives.

CONCLUSION

These policies align with the City's key intended outcomes to ensure expenditure trends that are sustainable over the long term; improve the City's overall financial health; and maintain the City's overall bond rating.

These proposed policies were reviewed and approved by the Finance and Citywide Projects Committee at the July 6, 2006 Committee meeting and the City administration was directed to prepare a resolution for Commission consideration adopting policies similar to the recommendations of the Budget Advisory Committee.

The attached resolution adopts the policies recommended by the BAC with the minor revision clarifying the funding for General Fund renewal and replacement as a separate dedicated source of funding.

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MIAMIBEACH

BUDGET ADVISORY COMMITTEE

**RECOMMENDED FINANCIAL
POLICIES**

May 2006
Revised

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STABILIZATION FUNDS & FUND BALANCE, CONTINGENCY PLANNING AND CASH RESERVES

GFOA Recommendation

Practice: A government should develop policies to guide the creation, maintenance, and use of resources for financial stabilization purposes.

Rationale: Governments should maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

Outputs: The policies should establish how and when a government builds up stabilization funds and should identify the purposes for which they may be used. Development of a policy on minimum and maximum reserve levels may be advisable. Policies on stabilization funds should be publicly available and summarized in materials used in budget preparation. They also should be identified in other government documents, including planning and management reports.

Notes: Stabilization funds are called by many names including rainy day funds, unreserved, undesignated fund balances, and contingency funds. These funds may be used at a government's discretion to address temporary cash flow shortages, emergencies, unanticipated economic downturns, and one-time opportunities. They provide flexibility to respond to unexpected opportunities that may help a government achieve its goals. Policies on the use of these funds may also be tied to an adverse change in economic indicators (such as declining employment or personal income) to ensure that the funds are not depleted before an emergency arises. The minimum and maximum amounts to be accumulated may be based on the types of revenue, the level of uncertainty associated with revenues, the condition of capital assets, or the government's level of security with its financial position. Stabilization funds may be constrained by state or local laws. Legally required reserves should be distinguished from discretionary reserves.

“How Much Unreserved Fund Balance for the Fund Balance Policy?”

A number of standards for size of unreserved fund balance in the general funds that have been cited over the years. GFOA recommends that general purpose governments, regardless of size, maintain unreserved fund balance in their general fund of no less than 5 to 15 percent of regular general fund operating revenues, or of no less than one to two months of regular general fund operating expenditures.

Bond raters and others often use the rule of thumb standard that calls for an unreserved fund balance in the general fund of 5 percent. Others argue that unreserved fund balance should be equal to no less than one month's operating expenditures (e.g., 8.3 percent). Still others argue for a broader range of one to three months of operating expenditures.

A government's particular situation may require levels of unreserved fund balance in the general significantly in excess of these recommended minimum levels. The most commonly

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cited factor in greater unreserved fund balance size (general fund) is budget size. A government's unreserved fund balance should be inversely proportional to its total budget size. Smaller governments are more susceptible to economic changes and, therefore, require a larger unreserved fund balance.

Other factors cited for concern by GFOA include:

- Volatility of revenue structures (e.g. dependence on general sales tax, etc.)
- Diversification of revenue streams
- Ability to defer purchases
- Frequency of annual surpluses or deficits
- Stability of cash flows
- Economic sensitivity of expenditures

Current Conditions

General Fund Reserves

Pursuant to City Commission Resolution No. 96-22014 adopted June 5, 1996 and amended by Resolution No. 98-22661, the City is required to maintain a reserve at 11% of the General Fund Operating Budget of the ensuing year, and can only be used for defined public emergencies requiring a 5/7 vote rather than a majority of the Commission.

The FY 2005/06 Adopted General Fund Operating Budget is \$207,925,117. The 11% Emergency Reserve level for FY 05/06 \$ 22,547,282. The undesignated fund balance in the General Fund as of September 30, 2005, net of the 11% Emergency Reserve and capital reserve of \$3.7 million, was \$12.3 million or 6% of the Adopted General Fund Operating Budget.

Further, on an annual basis, since 2001, the City appropriates funding for General Fund Operating Contingency and an additional appropriation for unfunded projects at the City Manager's discretion.

Reserves in the Risk Management Fund

The total unpaid claims in the Risk Management Fund as of September 30, 2005, is \$18.3 million, this includes as estimate for claims incurred but not yet reported of \$10.1 million. The City reserves on an "occurrence" basis, reserving for anticipated and known claims when they occur, regardless of the ultimate date of payment or disposition. AS of September 30, 2005, the fund reflected a total net negative assets of \$11.1 million.

The FY 2005/06 budget includes an annual appropriation of \$1 million to reduce the deficit in the Risk Management Fund, with a plan to continue to reduce the deficit over time.

BAC Recommendation:

General Fund

The City of Miami Beach shall maintain the Emergency Reserve at 11% of the General Fund

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Operating Budget of the ensuing year (11% Emergency Reserve), shall maintain the definition of a public emergency for which funds could and require a 5/7 vote for expenditures of such funds.

In addition, the City of Miami Beach shall have a goal to maintain a General Fund Reserve for Contingencies equal to 6% of the General Fund Operating Budget. In combination with the 11% pf Emergency Reserve, this represents 2 months of the General Fund Operating Budget expenditures. If the Reserve for Contingencies level falls below 6% level a plan of action will be required to increase the reserves over three to seven years (to at least 6%) and a percentage of any additional undesignated fund balance shall be earmarked toward attainment of the 6% level.

Enterprise Funds

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.

Risk Management Fund

The City of Miami Beach shall have a goal of maintaining a reserve of 100% of pending claims in the Risk Management Fund, and shall strive to fund 2/3 of the estimated value of insurance claims incurred but not reported.

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USE OF NON-RECURRING/ONE-TIME REVENUES

GFOA Recommendation

Practice: A government should adopt a policy limiting the use of one-time revenues for ongoing expenditures.

Rationale: By definition, one-time revenues cannot be relied on in future budget periods. A policy on the use of one-time revenues provides guidance to minimize disruptive effects on services due to non-recurrence of these sources.

Outputs: One-time revenues and allowable uses for those revenues should be explicitly defined. The policy should be publicly discussed before adoption and should be readily available to stakeholders during the budget process. The policy, and compliance with it, should be reviewed periodically.

Notes: Examples of one-time revenues include: infrequent sales of government assets, bond refunding savings, infrequent revenues from development, and grants. These revenues may be available for more than one year (e.g., a three-year grant), but are expected to be non-recurring. Examples of expenditures for which a government may wish to use one-time revenues include startup costs, stabilization (e.g., to cover expenditures that temporarily exceed revenues), early debt retirement, and capital purchases. Uses that add to the ongoing expenditure base should be carefully reviewed and minimized, e.g., capital expenditures that significantly increase ongoing operating expenses without a sustainable and offsetting long-term revenue plan. Certain variable components of major revenue sources are similar to one-time revenue sources. While they may be addressed in a one-time revenue policy, they also may be considered separately.

An important subset of revenue diversification and stabilization policies is a use-of-one-time-revenue policy. The premise behind this type of policy is simple; the government should not use one-time revenues to fund ongoing expenditures. To do so might mean that the government would be unable to make up the gap created by the expiration of the one-time revenue in the next budget period, a situation that could lead to service cuts. The one-time revenue policy of the Village of Palos Park, Illinois, also states that use of one-time revenues will be limited to the purpose for which they were intended, or for a capital expenditure.”

Current Conditions

The City of Miami Beach does not have a formal policy regarding use of non-recurring/one-time revenues, however, it has been an informal practice that these revenues shall be for capital or other one-time expenditures.

BAC Recommendation:

The City of Miami Beach will use one time, non-recurring revenue for capital expenditures or one time expenditures and not to subsidize recurring personnel, operations and maintenance cost.

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CAPITAL ASSET ACQUISITION, MAINTENANCE, REPLACEMENT AND RETIREMENT

GFOA Recommendation:

Practice: A government should adopt policies and plans for capital asset acquisition, maintenance, replacement, and retirement.

Rationale: Policies and plans for acquisition, maintenance, replacement, and retirement of capital assets help ensure that needed capital assets or improvements receive appropriate consideration in the budget process and that older capital assets are considered for retirement or replacement. These policies and plans are necessary to help plan for large expenditures and to minimize deferred maintenance.

Outputs: Policies may address inventorying capital assets and evaluating their condition, criteria for acceptable condition, criteria for continued maintenance versus replacement or retirement of an existing asset, and identification of funding for adequate maintenance and scheduled replacement of capital assets. Plans should be developed to establish ongoing, multi-year replacement and renewal schedules, and should recognize the linkage of capital expenditures with the annual operating budget. Plans for addressing deferred maintenance may also be an output of this practice. Stakeholders should have an opportunity to provide input as capital asset policies and plans are formulated. Once adopted, the policies and plans should be made publicly available, particularly as set forth in budget, management, and planning documents. Policies and plans should be incorporated into decision making in the budget process.

Notes: Capital asset acquisition, maintenance, replacement, and retirement policies provide a basis for formulating long-range plans to address capital needs. These policies should be realistic if they are to be used in decision making. Information gathered through processes described in the practice entitled *Assess Capital Assets, and Identify Issues, Opportunities, and Challenges* can be helpful in formulating the policies and plans. When developing capital plans, maintenance of existing facilities, including deferred maintenance, should be considered along with new projects.

Current Conditions

Capital Renewal and Replacement – 0.182 mills (\$2,529,563) for the purpose of maintaining a restricted account for the renewal and replacement of the City's General Fund facilities to extend the useful life or replace equipment whose useful life has expired. The City of Miami Beach adopted Resolution No. 2004-25697 on September 28, 2004 to establish a restricted renewal and replacement account funded by dedicating a portion of the millage to projects in the City's General Fund facilities that extend the useful life or replace equipment whose life has expired. The dedicated millage and project specific appropriations from the fund are reviewed and approved each year by the City Commission as part of the budget process. Unused funds stay in the account until projects are completed or can be used for other projects subject to Commission approval. On February 23, 2005, the City Commission adopted Resolution No. 2005-25832 to establish more stringent criteria for the use of these funds by summarizing the criteria into three critical areas; include a preamble/whereas

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clause pertaining to emergency use of funds; and provide a provision for emergency use of the funds.

Further, the City currently has no written policy but does fund the following in FY 2005/2006:

- Capital Reserve Fund – The Capital Reserve Fund has been established to provide funding related to previously approved capital projects for expenditures due to bids that are over-budget, change orders, or other unforeseen items. Since FY 2005/06, this has been funded through an annual appropriation. Further, General Fund revenues in excess of expenditures at year-end were transferred to the Capital Reserve Fund at the end of FY 2004/05 and are anticipated to be transferred at the end of FY 2005/06. In addition to the \$3.7 million appropriated for the Capital Reserve Fund based on revenues in excess of expenditures at the end of FY 2004/05, in FY 2005/06 the City of Miami Beach appropriated \$2.5 million towards the Capital Reserve Fund contingency. The total in the Capital Reserve Fund is projected to be \$6.2 million by the end of FY 2005/06 less any needs that may occur throughout the year.
- Pay-As-You-Go Capital Fund - The City Commission approved the establishment of a Pay-As-You-Go Capital Fund that designates a certain portion of the operating budget to be re-invested in capital. This helps ensure adequate, on-going re-investment in capital plant and equipment, often called “Pay-As-You-Go” capital funding. Without a Pay-As-You-Go in a city’s capital budget, new General Fund projects that are needed from time-to-time often have to be deferred until the City goes out for a major bond issue. The Pay-As-You-Go Capital Fund is funded by the General Fund and, as such, excludes Enterprise Fund projects supported by revenue bonds (water, sewer, stormwater, etc.) \$5,000,000 was appropriated with project specific appropriations designated for the Miami Beach Golf Course Cart Barn, Technology Enhancements for the Normandy Park and Pool, Sidewalk and Street Restoration Citywide, FF&E for Fire Stations 2 & 4, Normandy Isle Neighborhoods Project, Flamingo Park Pool Deck Lighting, and Scott Rakow Youth Center Phase 2 project.
- Capital Investment Upkeep Fund - In FY 2005/06, the City Commission approved the establishment of a Capital Investment Upkeep Account that provides for the purpose of for the purpose of establishing and maintaining funding for General Fund non-facility related upkeep including landscaping, uplighting, pavers, etc. \$1,500,000 was appropriated and has been used to restore landscaping by the Julia Tuttle Interchange, 41 Street, Pinetree Park, etc.
- Information & Communications Technology Fund - In FY 2005/06 the City Commission has approved the establishment of a Information & Communications Technology Fund that provides for the purpose of for the purpose of establishing and maintaining funding for the procurement of new or enhanced information and technology needs of the City. \$1,000,000 was appropriated for funding projects such as the City’s WiFi project, a new Storage Area Network, Voice-Over Internet Protocol enhancements, Data Center Uninterrupted Power Supply, new staffing software for the Fire Department, Performance Management Software, and Code Compliance software.

The City’s total General Fund Operating Budget for FY 2005/06 is \$207.9 million. Excluding non-direct operating expenses for the Homeowners Dividend Fund (\$3.3 million) and the transfers to the General Fund Emergency Reserve (\$3.9 million), General Fund Capital Reserve (\$2.5 million), and General Fund Annual Operating Contingency (\$1 million), the total is \$197.2 million.

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BAC Recommendation:

The City shall have a goal to fund at least 5% of the General Fund to fund the following capital needs as a permanent part of the budget:

- **Capital Renewal and Replacement** - to ensure adequate funding for the renewal and replacement of the City's General Fund facilities to extend the useful life or replace equipment whose useful life has expired.
- **Capital Reserve Fund** - to help ensure adequate funding related to previously approved capital projects for expenditures due to bids that are overbudget, change orders, or other unforeseen items for General Fund projects.
- **Pay-As-You-Go Capital Fund** - to ensure adequate on-going reinvestment in capital plant, and equipment, to avoid deferring capital needs until there is a major bond issue, and to address:
 - unfunded new projects recommended or approved in concept by the Commission;
 - new or additional scope for previously funded projects;
 - additional funding needs for previously approved capital projects, i.e. cost increases associated with approved Basis of Design Reports (BODR's) that are identified prior to going out for bid, many of which are due to increased cost of construction (e.g., due to increases in the cost of concrete, high demand for construction services in the local area, etc.)
 - The Pay-As-You-Go Capital Fund is funded by the General Fund and, as such, shall exclude Enterprise Fund projects supported by revenue bonds (water, sewer, stormwater, etc.)
- **Capital Investment Upkeep Fund** - to help ensure adequate funding for General Fund non-facility related upkeep.
- **Information & Communications Technology Fund** - to help ensure adequate funding for the procurement of new or enhanced information and technology needs of the City

The City shall strive to achieve as a goal that annual General Fund revenues in excess of expenditures shall be transferred to the Capital Reserve Fund.

The City shall have a goal to develop and maintain appropriate levels of capital reserves in the Enterprise Funds as in the General Fund.

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Guiding the Design of Programs and Services

GFOA Recommendations

Practice: A government should develop and adopt policies and plans to guide the design of specific programs and services.

Rationale: Service and program policies and plans translate broad goals into strategies for achieving goals. These policies and plans provide the basis for designing specific programs and services.

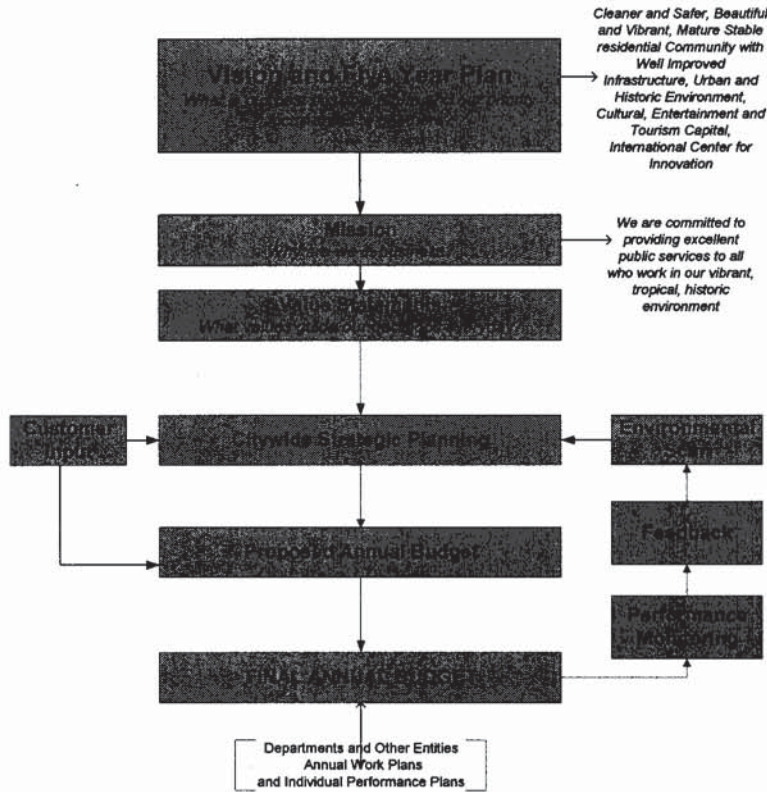
Outputs: Program and service policies and plans may address items such as: groups or populations to be served, service delivery issues, examples of possible programs, standards of performance (including level of service standards or other measures to gauge success), expected costs, time frames for achievement of goals, issues pertaining to organizational structure, and priorities for service provision. Policies and plans should be adopted by the governing body and made publicly available.

Notes: A clear, well-documented statement of policies and plans in broad program and service areas becomes particularly important when goals cross organizational and program lines. For example, a goal to revitalize the downtown or to promote rural development could result in multi-departmental programs addressing job creation, transportation, housing, and health care.

Current Conditions

Effective for the FY 2005/06 budget, the City implemented a new performance-based approach for allocating resources based on the City's Strategic Planning priorities and supporting department work plans in support of the City's Excellence model. The City's excellence model is a strategic measurement-based model for continuous improvement in the City. It is driven by the City's Vision, with priorities established at the strategic level based on customer input and environmental scan information. Broader Key Intended Outcomes are established as multi-year priorities, while more specific Citywide Initiatives are updated annually. Through the annual budget process, resources are allocated in support of these strategic priorities, and performance monitoring is used to track progress and make adjustments for further improvement.

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A significant driver in developing Citywide priorities is the community input received through the community satisfaction surveys with residents, businesses and community organizations and focus groups. These provide an understanding of current satisfaction levels among community groups with the City of Miami Beach government and the services it provides; provide benchmarks to similar jurisdictions, and provide recommendations for improving satisfaction and quality of life, i.e. “key drivers for improving satisfaction”. These results, along with an environmental scan of demographics, socio-economic data and department workload and performance measures; financial trends; and comparatives with other cities result in set of multi-year Key Intended Outcomes (KIOs) linked to the City’s vision, and more specific annual Citywide Initiatives endorsed by the City Commission. Additional KIOs essential to the sustainability of City government are also identified supportive of the City’s vision.

In addition to the identification of KIOs, the strategic planning process identifies measures to determine whether or not the City is successful in achieving the KIOs – “Key Performance Indicators” – as well as annual Citywide initiatives to help achieve each KIO.

The set of Citywide KIOs and Citywide Initiatives (updated annually) are used to guide departments as they analyzed existing services, and prepared their proposed work plans and budgets. Allocation of resources is based on enhancements developed to support each of the Citywide initiatives and Key Intended Outcomes.

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BAC Recommendation:

- The City shall create a strategic plan that identifies multi-year strategic priorities (Key Intended Outcomes) with corresponding result measures for each priority.
- Annually, the City shall use a strategic planning process to develop initiatives that support the strategic plan priorities.
- The budget process and format shall be performance-based and focused on Key Intended Outcomes and performance measures.
- Any new initiative not core to the City's core mission or Key Intended Outcomes identified in the strategic plan that is greater than 0.5% of budget for the fund impacted per year, or cumulatively, shall be first considered as part of the City's annual strategic planning process to develop initiatives.