

Management's Discussion and Analysis

This *Management's Discussion and Analysis* report provides the reader with a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2015. *Management's Discussion and Analysis (MD&A)* should be read in conjunction with the City's *Transmittal Letter*, which begins on page v of this report.

Financial Highlights

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of fiscal year 2015 by \$877.4 million (*net position*). Of this amount, \$285.2 million (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$21.4 million, or 2.4%, from the prior year's net position, as restated. Net position for governmental activities decreased by \$30.1 million, or 6.4%, while the business-type net position increased by \$8.6 million, or 2.0%.
- Significant factors contributing to the \$30.1 million decrease in governmental net position included an increase of net program expense of \$47.8 million from fiscal 2014 (before prior period adjustments) as a result of an increase of \$49.0 million in governmental program expenses, primarily in the public safety, transportation and culture and recreation programs, offset by a net increase in program revenues of \$1.2 million. This increase in expenses was primarily due to \$48.5 million of current year increase in pension expense per the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The increase in pension expense is primarily due to pension plan investment performance and the resulting impact on the net pension asset/liability and deferred inflows and outflows of the pension plans. General revenues for governmental activities and extraordinary items increased by \$10.5 million, or 12.5%, primarily due to a \$6.5 million settlement received from BP Oil for the Deepwater Horizon oil spill, a \$2.3 million increase in property taxes, a \$1.1 million increase in sales taxes and an increase of \$682 thousand in investment earnings. Transfers in from business-type activities decreased \$4.1 million.
- The \$8.6 million increase in business-type net position included a decrease in net program revenues of \$15.0 million (before prior period adjustments) as a result of an increase in charges for services of \$5.0 million offset by a decrease in operating grants and contributions totaling \$90 thousand and a decrease in capital grants and contributions of \$8.9 million, coupled with an increase in program expenses of \$10.9 million. \$4.8 million of the increase in charges for services is attributable to the Water & Sewer Utility and the Parking System. The Water & Sewer Utility also posted a decrease of \$8.0 million in capital grants and contributions, due to decreased funding from the Southwest Florida Water Management District as a result of completed capital projects. General revenues increased \$679 thousand due to an increase in investment earnings, and transfers out to governmental activities decreased \$4.1 million, primarily due to the closure of the Harborview Center Enterprise Fund and the transfer of its capital assets to governmental activities, which occurred in fiscal 2014.
- At September 30, 2015, the City's governmental funds reported combined ending fund balances of \$114.7 million, an increase of \$14.5 million, or 14.5%, in comparison with the prior year (as restated). Of this amount, \$29.0 million (or 25.27%) is *available for spending* at the government's discretion (*unassigned fund balance*).
- At September 30, 2015, unrestricted fund balance (the total of the *committed*, *assigned* and *unassigned* components of *fund balance*) for the general fund was \$32.0 million, or 28.1% of total fiscal 2015 general fund expenditures.
- Total outstanding long-term liabilities increased \$49.2 million from the prior year (as restated) primarily due to principal payments on bonds payable in the amount of \$8.2 million, an increase in the net pension liability of \$51.1 million due to negative investment returns per the implementation of GASB Statement No. 68, a net increase in lease purchase contracts of \$4.8 million, an increase in the liability for compensated absences of \$445 thousand, an increase in the liability for other postemployment benefits of \$1.8 million, and a decrease in claims payable of \$703 thousand.

Overview of the Financial Statements

This discussion and analysis (MD&A) is intended to serve as an introduction to the City of Clearwater's *basic financial statements*. The City's basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the financial statements*. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are the *statement of net position* and the *statement of activities*. These statements report information about the City as a whole using accounting methods similar to those used by private-sector businesses. Emphasis is placed on the net position of *governmental activities* and *business-type activities*, and the *change in net position*. Governmental activities are principally supported by taxes and intergovernmental revenues. Governmental activities include most of the City's basic services, including police, fire, public works, parks and recreation, and general administration. Business-type activities are intended to recover all or a significant portion of their costs through user fees and charges. The City's water and sewer system, stormwater system, gas system, solid waste and recycling, marine, aviation, Clearwater Harbor Marina, and parking system operations are reported as business-type activities.

- The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the City is improving or deteriorating. Net position is reported in three major categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted.
- The *statement of activities* presents information showing how the City's net position changed as a result of the year's activities. All changes in net position are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the City's various programs net of related revenues, as well as a separate presentation of revenues available for general purposes.

The government-wide financial statements include not only the City of Clearwater itself but also the Clearwater Redevelopment Agency (CRA). The CRA, though legally separate, is reported as part of the *primary government* as a *blended* component unit because the City Council serves as the CRA's governing board and City management has operational responsibility for the CRA.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about the City's major funds – not the City as a whole. *Fund accounting* helps to ensure and demonstrate *compliance* with finance-related legal requirements. Based on restrictions on the use of monies, the City has established many funds that account for the multitude of services provided to residents. These fund financial statements focus on the City's most significant funds: *governmental*, *proprietary*, and *fiduciary*.

Governmental funds. *Governmental funds* are used to report most of the City's basic services. These funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The funds focus on the *inflows and outflows of current resources* and the *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains ten individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General, Special Development, and Capital Improvement funds, which are considered to be major funds. Data from the other seven governmental funds are combined into a single aggregated columnar presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* in the supplementary information section of this report.

Annual appropriated budgets are adopted for the General Fund, the Special Development Special Revenue Fund, and the Community Redevelopment Agency Special Revenue Fund. Budgetary comparison statements and/or schedules have been provided for these funds to demonstrate budgetary compliance.

The basic governmental fund financial statements can be found on pages 22-27 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for the fiscal activities related to water and sewer, gas, solid waste & recycling and stormwater utilities, along with marine, aviation, parking system, and Clearwater Harbor Marina downtown boat slip operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the City's building maintenance, custodial services, self-insurance program, risk management program, employee group insurance, vehicle acquisition and maintenance, and various support activities including data processing, legal, telecommunications, and postal services. All of the City's internal service funds predominantly benefit governmental activities and consequently have been aggregated and included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Utility, Gas Utility, Solid Waste & Recycling Utility, and Stormwater Utility enterprise funds, which are considered to be *major* funds of the City. The remaining four *non-major* enterprise funds are combined into a single aggregated presentation in the proprietary fund financial statements. Similarly, governmental activity *internal service* funds are aggregated into a single presentation. Individual fund data for the non-major enterprise funds and the internal service funds is provided in the form of *combining statements* in the supplementary information section of this report.

The basic proprietary fund financial statements can be found on pages 28-39 of this report.

Fiduciary funds. *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of the fiduciary funds are not available to support the City's own programs. The accounting used for fiduciary funds is similar to proprietary funds.

The City of Clearwater maintains two different types of fiduciary funds. *Pension trust funds* are used to report resources held in trust for retirees and beneficiaries covered by the city's pension plans. An *agency fund* is used to report resources held by the city in a custodial capacity for individuals, private organizations and other governments, such as the Clearwater Downtown Development Board.

The fiduciary fund statements can be found on pages 40-41 of this report.

Notes to the Financial Statements

The *notes to the financial statements* provide additional information that is essential for a full understanding of the information provided in the government-wide and fund financial statements, including the City's progress in funding its obligations to provide pension benefits and other post-employment benefits to its employees.

The notes to the financial statements can be found on pages 42-97 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligations to provide pension benefits and other post-employment benefits to its employees.

Required supplementary information can be found on pages 98-104 of this report.

The *combining statements* referred to earlier in connection with non-major governmental funds, non-major enterprise funds, and internal service funds, are presented immediately following the required supplementary information.

Combining and individual fund statements can be found on pages 108-130 of this report.

Government-Wide Financial Analysis

The total net position of the City decreased in fiscal 2015, primarily due to negative investment returns in fiscal 2015, which increased the City's net pension liability per the implementation of GASB Statement No. 68. As noted earlier, *net position* may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$877.4 million at the close of the fiscal year ended September 30, 2015. This represents a decrease of \$21.4 million from the September 30, 2014 total net position of \$898.8 million (as restated). The City reports positive balances in all three categories of net position, both for the government as a whole as well as for its separate governmental and business-type activities, for both the current year and the prior year, as indicated in the following table:

City of Clearwater, Florida - Net Position

	Governmental Activities		Business-type Activities		Total	
	(restated)		(restated)		(restated)	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	\$ 182,948,098	\$ 195,255,937	\$ 225,852,250	\$ 221,178,827	\$ 408,800,348	\$ 416,434,764
Capital assets	285,364,260	280,198,958	428,854,296	424,517,765	714,218,556	704,716,723
Total assets	468,312,358	475,454,895	654,706,546	645,696,592	1,123,018,904	1,121,151,487
Deferred Outflows of						
Resources						
	39,089,379	48,861,725	17,061,340	19,555,216	56,150,719	68,416,941
Liabilities						
Current and other liabilities	9,409,238	6,057,255	19,708,126	16,481,273	29,117,364	22,538,528
Long-term debt outstanding:						
Due within one year	11,446,139	10,253,728	10,079,913	9,531,752	21,526,052	19,785,480
Due in more than one year	43,203,283	34,041,732	205,110,911	210,824,224	248,314,194	244,865,956
Total liabilities	64,058,660	50,352,715	234,898,950	236,837,249	298,957,610	287,189,964
Deferred Intflows of						
Resources						
	2,137,165	2,699,577	659,768	833,392	2,796,933	3,532,969
Net position						
Net investment in capital assets	262,934,280	261,886,142	226,570,671	214,175,302	489,504,951	476,061,444
Restricted	57,239,231	68,427,455	45,502,940	49,530,227	102,742,171	117,957,682
Unrestricted	121,032,401	140,950,731	164,135,557	163,875,638	285,167,958	304,826,369
Total net position	\$ 441,205,912	\$ 471,264,328	\$ 436,209,168	\$ 427,581,167	\$ 877,415,080	\$ 898,845,495

A large portion of the City's net position (55.8%) represents its net investment in capital assets (e.g., land, infrastructure, land improvements, buildings, and equipment, less any related outstanding debt used to acquire those assets). The City uses these capital assets to provide services to citizens, and consequently these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves will not be used to liquidate these liabilities.

There was a \$1.0 million, or .4%, increase in *net investment in capital assets* for *governmental activities* versus the previous year. The increase was due to a decrease in related revenue bond debt due to \$635 thousand in scheduled bond principal payments and a net increase of \$4.8 million in capital lease purchase contracts, plus a net increase of \$5.2 million in governmental capital assets for the current fiscal year. The increase in governmental capital assets resulted from capital asset additions of \$22.7 million and net transfers from business-type activities of \$8 thousand, offset by depreciation expense of \$17.4 million and net capital asset retirements totaling approximately \$105 thousand.

Net investment in capital assets for business-type activities increased by \$12.4 million, or 5.8%, due to \$24.4 million of capital asset additions, offset by \$20.1 million in current year depreciation expense, \$8 thousand in net transfers to governmental activities, and a decrease of \$8.1 million in related debt, net of unspent bond proceeds.

An additional portion of the City's net position (11.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$285.2 million or 32.5%) may be used to meet the government's ongoing obligations to citizens and creditors.

Changes in Net Position

The following table reflects the changes in net position for the years ended September 30, 2015, and September 30, 2014:

City of Clearwater, Florida - Changes in Net Position						
	Governmental Activities		Business-type Activities		Totals	
	restated		restated		restated	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Charges for services	\$ 41,996,636	\$ 41,357,619	\$ 163,328,727	\$ 158,352,056	\$ 205,325,363	\$ 199,709,675
Operating grants and contributions	6,892,564	6,304,872	50,000	139,930	6,942,564	6,444,802
Capital grants and contributions	2,326,185	2,390,527	4,661,948	13,589,852	6,988,133	15,980,379
General revenues:						
Property taxes	40,925,422	38,573,745	-	-	40,925,422	38,573,745
Sales taxes	16,833,401	15,722,125	-	-	16,833,401	15,722,125
Utility taxes	14,094,447	14,309,064	-	-	14,094,447	14,309,064
Other taxes	12,887,736	12,785,814	-	-	12,887,736	12,785,814
Other	3,304,102	2,624,462	4,086,503	3,407,016	7,390,605	6,031,478
Total revenues	139,260,493	134,068,228	172,127,178	175,488,854	311,387,671	309,557,082
Expenses						
General Government	16,818,382	2,396,035	-	-	16,818,382	2,396,035
Public Safety	99,055,781	20,662,065	-	-	99,055,781	20,662,065
Physical Environment	3,272,641	3,416,173	-	-	3,272,641	3,416,173
Transportation	19,366,262	6,959,967	-	-	19,366,262	6,959,967
Economic Environment	4,895,166	14,362,526	-	-	4,895,166	14,362,526
Human Services	248,666	93,638	-	-	248,666	93,638
Culture and Recreation	40,782,817	23,081,132	-	-	40,782,817	23,081,132
Interest on Long-term Debt	689,625	726,819	-	-	689,625	726,819
Water and Sewer Utility	-	-	69,550,196	55,988,322	69,550,196	55,988,322
Gas Utility	-	-	33,352,144	27,117,616	33,352,144	27,117,616
Solid Waste Utility	-	-	22,485,705	12,674,156	22,485,705	12,674,156
Stormwater Utility	-	-	16,109,960	13,939,372	16,109,960	13,939,372
Recycling Utility	-	-	2,455,229	2,121,459	2,455,229	2,121,459
Harborview Center	-	-	-	522,057	-	522,057
Other	-	-	10,215,864	7,620,002	10,215,864	7,620,002
Total expenses	185,129,340	71,698,355	154,169,098	119,982,984	339,298,438	191,681,339
Increase in net position before transfers	(45,868,847)	62,369,873	17,958,080	55,505,870	(27,910,767)	117,875,743
Transfers	9,330,079	13,409,931	(9,330,079)	(13,409,931)	-	-
Increase in net position before extraordinary item	(36,538,768)	75,779,804	8,628,001	42,095,939	(27,910,767)	117,875,743
Extraordinary Item - BP Settlement	6,480,352	-	-	-	6,480,352	-
Increase in net position	(30,058,416)	75,779,804	8,628,001	42,095,939	(21,430,415)	117,875,743
Net position - beginning (restated)	471,264,328	395,484,524	427,581,167	385,485,228	898,845,495	780,969,752
Net position - ending	\$ 441,205,912	\$ 471,264,328	\$ 436,209,168	\$ 427,581,167	\$ 877,415,080	\$ 898,845,495

Governmental Activities

Net position of governmental activities decreased by \$30.1 million from \$471.3 million as of September 30, 2014 (as restated), to \$441.2 million as of September 30, 2015. This represents a 6.4% decrease in net position for governmental activities.

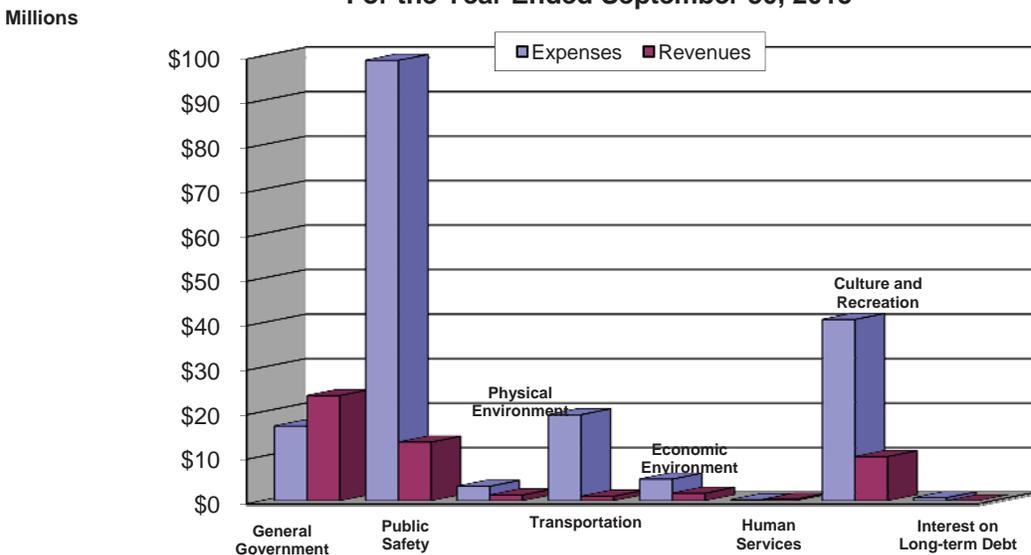
Total expenses for governmental activities increased by \$113.4 million, or 158.2%, versus the prior year (as restated). The majority of this increase is due to the recognition of pension expense due to the increase in net pension liability, deferred inflows of resources and deferred outflows of resources per the implementation of GASB Statement No. 68, which affected governmental activities in the amount of \$48.5 million. Other increases were most significant in the Public Safety (\$28.9 million), Transportation (\$8.2 million) and Culture and Recreation (\$7.7 million) programs.

Total program revenues for governmental activities increased by \$1.2 million, or 2.3%, versus the prior year. This increase was primarily due to a \$639 thousand increase in charges for services, and a \$523 thousand net increase in operating and capital grants and contributions. Operating grants and contributions increased \$587 thousand, while capital grants and contributions decreased \$64 thousand.

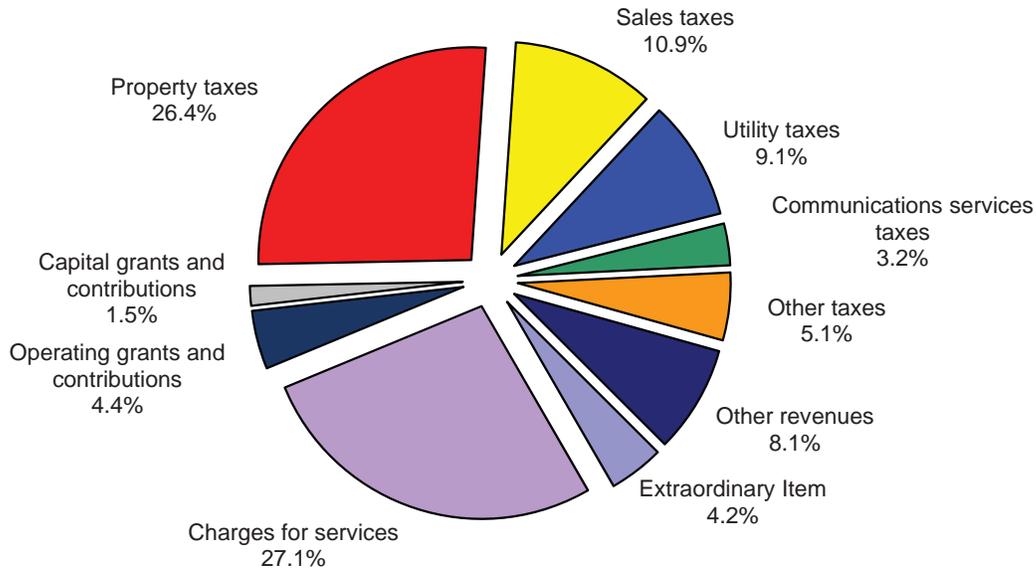
Total general revenues for governmental activities increased by \$4.0 million, or 4.8%, primarily due to a \$2.4 million increase in property taxes, a \$1.1 million increase in sales taxes and an increase of \$682 thousand in investment earnings. Transfers in from business-type activities decreased \$4.1 million, or 30.4%, primarily due to the closure of the Harborview Center Enterprise Fund and the transfer of its capital assets to governmental activities, which occurred in fiscal 2014. In addition, a \$6.5 million settlement received from BP Oil for the Deepwater Horizon Oil spill was recorded as an extraordinary item (See Note .

The cost of all governmental activities this year was \$185.1 million. This reflects an increase of \$113.4 million, or 158.2% from the fiscal 2014 total of \$71.7 million, as restated. Prior period adjustments reduced the fiscal 2014 expenses in the amount of \$76.8 million to establish a net pension asset, deferred inflows and deferred outflows associated with the implementation of GASB Statement No. 68; and increased the fiscal 2014 expenses in the amount of \$12.4 million to establish an allowance for uncollectable accounts for mortgage loans receivable. However, as shown on the *Statement of Activities*, the amount that the City’s taxpayers ultimately financed for fiscal 2015 activities totaled \$133.9 million, because some of the cost was paid for by those who directly benefited from the programs (\$42.0 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$9.2 million). This total of \$133.9 million is \$47.8 million, or 55.6%, greater than the fiscal 2014 amount financed from general revenues, before prior period adjustments.

**Expenses and Program Revenues - Governmental Activities
For the Year Ended September 30, 2015**



**Revenues by Sources - Governmental Activities
For the Year Ended September 30, 2015**



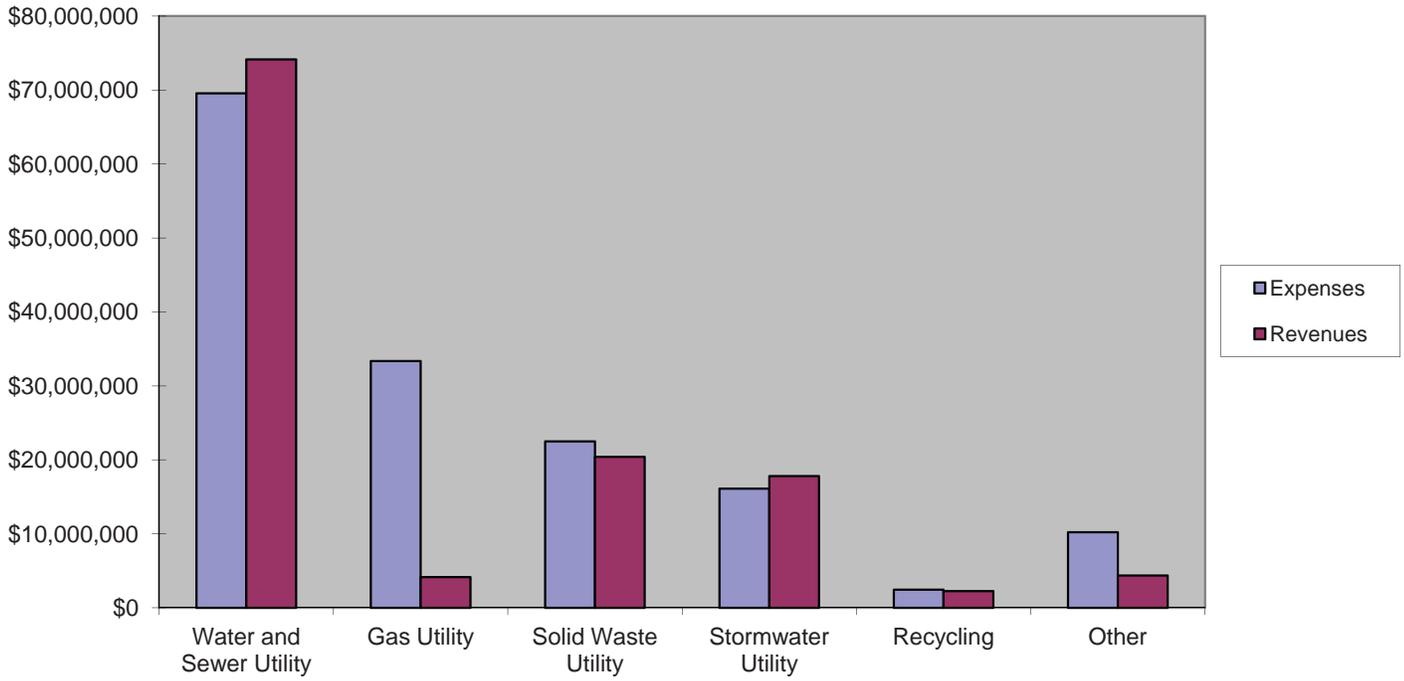
Business-type Activities

Net position for business-type activities increased by \$8.6 million from \$427.6 million as of September 30, 2014 (as restated), to \$436.2 million as of September 30, 2015. This represents a 2.0% increase net position for business-type activities. Net revenue from business-type activities, before investment earnings and transfers, decreased from \$28.8 million for the prior year to \$13.9 million for fiscal 2015. This \$15.0, or 51.9%, decrease was primarily the result of a \$5.0 million increase in charges for services offset by a \$8.9 million decrease in capital grants and contributions and a \$90.0 thousand decrease in operating grants and contributions coupled with a \$10.9 million increase in operating expenses. The decrease in net revenues was due primarily to the Water & Sewer Fund (\$9.1 million) and the Solid Waste and Recycling Utility (\$4.0 million).

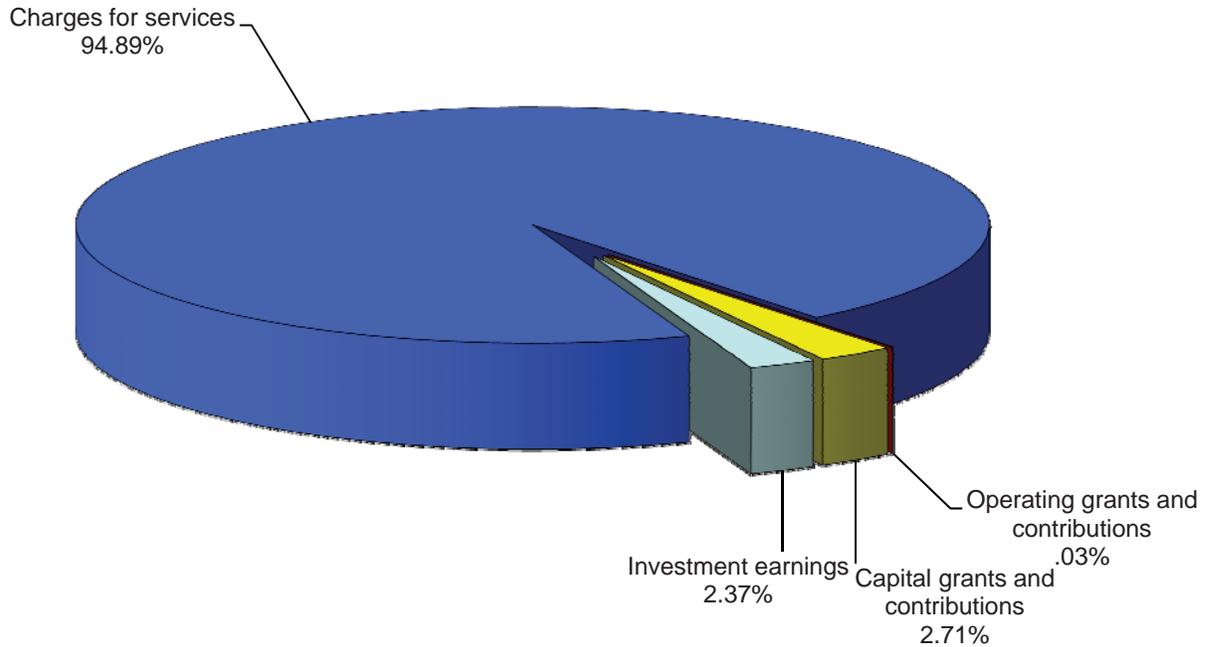
Total program revenues for business-type activities decreased by \$4.0 million, or 2.3%, to \$168.0 million versus the prior year total of \$172.0 million, primarily in the Water & Sewer Utility, where charges for services increased \$3.7 million (5.5%) as a result of a 4.5% rate increase effective October 1, 2014, and capital grants and contributions decreased \$8.0 million (70.9%) as a result of reduced funding from the Southwest Florida Water Management District due to completion of capital projects.

Total expenses for business-type activities increased by \$34.2 million, or 28.5%, from \$120.0 million in fiscal 2014 (as restated) to \$154.2 million for fiscal 2015. Part of this increase is due to the recognition of pension expense associated the increase in the net pension liability, deferred inflows of resources and deferred outflows of resources per the implementation of GASB Statement No. 68, which affected business-type activities in the amount of \$14.9 million. Expenses in the Water & Sewer Utility increased \$4.7 million (7.3%) primarily as a result of the recognition of pension expense due to the implementation of GASB Statement No. 68 as well as increased personnel costs and supplies needed to operate the new RO Plant, offset by decreased purchases of water from Pinellas County, which is also a result of the new RO Plant. There was also a decrease in professional fees due to reduced project activity. Solid Waste & Recycling Utility expenses increased \$4.3 million (20.7%) primarily due to increased personnel costs due to the recognition of pension expense as a result of the implementation of GASB Statement No. 68. Expenses in the Gas Utility increased \$1.7 million (5.4%) primarily due to the decreased cost of natural gas and liquid propane purchased for resale, offset by increased personnel costs as a result of 4 additional employees as well as recognition of pension expense due to the implementation of GASB Statement No. 68. Finally, transfers for business-type activities decreased \$4.1 million, or 30.4%, primarily due to the closure of the Harborview Center Enterprise Fund and the transfer of its capital assets to governmental activities, which occurred in fiscal 2014.

**Expenses and Program Revenue - Business-type Activities
For the Year Ended September 30, 2015**



**Revenues by Source - Business-type Activities
For the Year Ended September 30, 2015**



Financial Analysis of the City's Funds

As noted earlier, the City uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The City reports the General Fund, Special Development Fund, and Capital Improvement Fund as *major* governmental funds.

The City's governmental funds for the year ended September 30, 2015, reflect a combined *fund balance* of \$114,695,226 versus \$110,173,890 (as restated) for the prior year, an increase of \$14,521,336. A total of \$29.0 million, or 25.27%, represents *unassigned fund balance* available for spending at the government's discretion. The remainder of the fund balance is classified as *assigned* (\$8.3 million or 7.20%) to indicate that it is intended to be used for specific purposes supported by management's intent; *committed* (\$20.2 million or 17.58%) to indicate that it can be used only for the specific purposes determined by a formal vote of the City Council; *restricted* (\$57.2 million or 49.91%) to indicate that it can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation; or *nonspendable* (\$41 thousand or 0.04%) to indicate that it cannot be spent or is legally or contractually required to remain intact.

The General Fund is the chief operating fund of the City. At September 30, 2015, unassigned fund balance of the General Fund totaled \$31.5 million, with the remaining \$487 thousand in fund balance classified as nonspendable or assigned. As a measure of the general fund's liquidity it is useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 27.7% of total general fund expenditures (GAAP basis before transfers) for the current fiscal year.

The fund balance of the Special Development Fund increased from \$5.9 million to \$8.2 million, an increase of \$2.3 million or 39.0%, during the current fiscal year versus a decrease of \$130 thousand for fiscal 2014. Intergovernmental revenue increased by \$1.3 million, impact fees increased by \$860 thousand and total taxes increased by \$879 thousand.

The fund balance for the Capital Improvement Fund increased from \$43.2 million to \$47.0 million during the current fiscal year. This increase of \$3.8 million is primarily the result of current year capital project funding received from other funds (\$21.8 million) in excess of current year capital project expenditures (\$17.6 million). This is typical volatility for the Capital Improvement Fund due to timing differences between project funding and project spending.

The fund balances for Other (non-major) Governmental Funds posted an increase of \$782 thousand (from \$26.6 million, as restated, to \$27.4 million) during the current fiscal year.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The City reports the Water and Sewer Utility Fund, the Gas Utility Fund, the Solid Waste & Recycling Utility Fund, and the Stormwater Utility Fund as major funds.

The Water and Sewer Utility Fund realized an \$3.0 million increase in net position versus an \$11.7 million increase for the prior year (before prior period adjustments). Operating revenues increased by \$3.5 million, or 5.3%, while operating expenses increased \$3.7 million, or 6.5%. This resulted in a net decrease in operating income of \$186 thousand, from \$9.2 million in fiscal 2014 to \$9.0 million in 2015. Additionally, capital grants and contributions decreased by \$8.0 million, or 70.9% and investment earnings increased by \$1.0 million. The increase in operating revenues was the result of a 4.5% rate increase effective October 1, 2014. The increase in operating expenses was primarily due to the recognition of pension expense per GASB Statement No. 68 in the amount of \$5.6 million, as well as increased personnel costs and supplies needed to operate the new RO Plant, offset by decreased purchases of water from Pinellas County, which is also the result of the new RO Plant. There was also a decrease in professional fees due to reduced project activity. The decrease in capital grants and contributions was primarily the result of decreased grant revenues from the Southwest Florida Water Management District due to the completion of the Reverse Osmosis Plant #2 Expansion project, as well as decreased contributions from developers, sewer taps and water impact fees.

The Gas Utility Fund realized a \$6.0 million increase in net position versus a \$7.9 million increase for the prior year. Operating revenues decreased by \$392 thousand, or .95%, from the prior year, while operating expenses increased by \$1.4 million (4.6%), before prior period adjustments. The increase in operating expenses was primarily due to the decreased cost of natural gas and liquid propane purchased for resale, offset by increased personnel costs as a result of 4 additional employees as well as the recognition of pension expense in the amount of \$2.9 million in accordance with GASB Statement No. 68. This resulted in a \$1.8 million, or 18.2%, decrease in operating income from the prior year. Additionally, other nonoperating revenues increased \$503 thousand primarily due to increased investment earnings of \$201 thousand, decreased interest expense of \$113 thousand and an increase of \$189 thousand in other nonoperating revenue as a result of contributions from property owners for main line extensions. Transfers out to other funds increased by \$1.2 million, or 46.8% primarily due to the increased dividend to the General Fund computed on the fiscal 2014 increase in net position.

The Solid Waste & Recycling Utility Fund is the combination of two funds that were reported separately prior to fiscal 2015. The combined fund realized a \$2.0 million decrease in net position versus a \$1.4 increase for the two funds in the prior year, before prior period adjustments. Operating revenues increased by \$226 thousand, or 1.0%, while operating expenses also increased by \$3.8 million, resulting in a decrease of \$3.6 million in operating income from \$1.5 million in fiscal 2014 (before prior period adjustments) to an operating loss of \$2.1 million in fiscal 2015. The increase in operating revenues was very slight, as there were no rate increases approved for fiscal 2015. The increase in operating expenses was primarily the result of increased personnel costs due to the recognition of pension expense in the amount of \$3.8 million per GASB Statement No. 68. Nonoperating revenues increased \$197 thousand primarily due to an increase of \$180 thousand in investment earnings.

The Stormwater Utility Fund realized an increase in net position of \$2.2 million versus a prior year increase of \$2.0 million (before prior period adjustments). Operating revenues increased by \$685 thousand, or 4.1%, primarily due to scheduled rate increases of 2.75% effective October 1, 2014. Additionally, fiscal 2015 realized a \$759 thousand, or 5.0% decrease in operating expenses, despite the recognition of pension expense in the amount of \$1.6 million per GASB Statement No. 68. There was also a significant decrease in capital grants and contributions of \$1.4 million (68.4%) due to the completion of stormwater projects that were funded by the Southwest Florida Water Management District.

Unrestricted net position and changes in net position of the proprietary funds for fiscal years 2015 and 2014:

Fund	Unrestricted Net Position		Change in Net Position	
	2015	(restated) 2014	2015	(restated) 2014
Water and Sewer Utility	\$ 42,816,009	\$ 42,823,660	\$ 2,968,847	\$ 20,477,599
Gas Utility	41,626,186	40,608,768	5,960,947	12,463,252
Solid Waste & Recycling Utility	34,218,753	36,216,046	(2,017,645)	7,239,631
Stormwater Utility	31,318,341	29,516,750	2,206,753	4,550,482
Other funds	13,689,535	12,187,243	1,565,537	(2,486,082)
Totals	<u>\$ 163,668,824</u>	<u>\$ 161,352,467</u>	<u>\$ 10,684,439</u>	<u>\$ 42,244,882</u>

General Fund Budgetary Highlights

The final amended budget for General Fund expenditures reflected a net increase of \$3.0 million, or 2.6%, from the original budget. Key elements of this increase were as follows:

- First Quarter Budget Amendments included an increase of \$618,890 to fund the \$1,500 base pay merit increase for each General Fund CWA employee; an increase of \$10,388 for the City Manager and City Attorney merit increases; an increase of \$350,950 to fund the City Manager approved merit increase for each General Fund SAMP employee; a decrease in the City Manager's flex funds to provide funding for a transfer to the Special Programs Fund for United Way campaign activities; an increase of \$50,000 in Economic Development and Housing to provide additional funding to the Homeless Emergency Project; an increase of \$70,870 in Finance to fund retirement

payouts for two long-term employees; an increase in Police operating expenditures of \$976 and an increase of \$8,018 in Police overtime; and an increase of \$25,000 to fund a legal settlement.

- Mid-Year Budget Amendments included an increase of \$32,500 in Marine & Aviation to reflect inventory purchases of \$25,300, operating supplies of \$4,000 and full-time salaries of \$3,200 ; and an increase of \$3,516 in Police overtime.
- Third Quarter Budget Amendments included an increase in the City Manager's Office of \$17,960 to fund the current year cost of an ICMA Management Intern to be shared with the City of Largo and the City of Oldsmar; an increase of \$1,150,830 in the Fire Department for the General Fund's contribution to the Fire Supplemental Pension Plan; an increase of \$23,770 in Library personal services to fund retirement payouts; an increase of \$10,000 in Official Records and Legislative Services to fund advertising costs; a decrease of \$198,000 in Parks and Recreation to fund a transfer to the Capital Improvement Fund for the Jack Russell Demolition & Refurbishment project; a decrease of \$25,000 in Parks and Recreation to fund a transfer to the Capital Improvement Fund for the Joe DiMaggio Multi-Purpose Field Renovations project; a decrease of \$50,000 in Planning and Development to fund a transfer to the Capital Improvement Fund for the U.S. 19 Wayfinding project; a decrease of \$50,000 in Public Communications to fund a transfer to the Special Programs Fund for the Strategic Direction Action Plan to fund the branding consultant contract; an increase in Police operating expenditures of \$760; and an increase of \$915,419 in the Police Department for the General Fund's contribution to the Police Supplemental Pension Plan.

Final budgeted revenues reflect a net increase of \$9.5 million, or 8.8%, from the original budget primarily due to the following:

- First Quarter Budget Amendments included an increase of \$8,994 in intergovernmental revenue to reflect an increase in reimbursements from the Department of Treasury supporting the FBI and Secret Service.
- Mid-Year Budget Amendments included an increase of \$3,516 in intergovernmental revenue to reflect an increase in reimbursements from the Department of Treasury supporting the IRS and Joint Terrorism Task Force; and an increase of \$32,500 in charges for services to reflect an increase to Pier 60 concession souvenirs revenue.
- Third Quarter Budget Amendments included an increase of \$164,730 in ad valorem taxes to reflect actual collections for the year; a decrease of \$550,000 to reflect telecommunications tax revenue that was less than expected; an increase of \$660,000 in other permits and fees revenue to reflect increased building permit revenue due to increased development in the City; an increase of \$2.3 million in intergovernmental revenue to reflect an increase of \$760 for reimbursements received for Homeland Security Investigations, an increase of \$32,250 to Fire Tax and \$233,530 to EMS Tax to bring the budget in line with actual receipts, an increase of \$11,980 to recognize revenue from the City of Largo for their portion of costs for the ICMA Management Intern, and an increase of \$2,066,249 to record state monies received for Police and Fire supplemental pension plans; an increase of \$113,000 in charges for services to bring the budget in line with anticipated receipts for fire inspection fees, various Parks and Recreation revenues and Pier 60 concession souvenirs; a decrease of \$50 thousand in court fine revenue from Pinellas County to bring the budget in line with anticipated annual receipts; and an increase of \$6.8 million in miscellaneous revenues to recognize an increase of \$270 thousand to beach and rental revenues to bring the budget in line with anticipated receipts; and an increase of \$6,480,352 representing the settlement from BP Oil for the Deepwater Horizon oil spill.

Final budgeted "transfers in" from other funds reflect a \$2.1 million, or 23.9%, increase from the original budget primarily due to:

- A transfer of \$2,138,538 from the Gas Fund representing an increase in the computed annual gas dividend payment for fiscal year 2013/14;
- The return of General Fund revenues in the amount of \$32,029 from the Capital Improvement Fund for the following capital projects which were closed out upon completion: Ladder Truck Equipment, Rescue Squad Replacement and Training Facility Concrete Pad Repairs.

Final budgeted “transfers out” reflect a \$4.6 million, or 104.3%, increase from the original budget primarily due to:

- A transfer of \$1,500 to the Special Programs Fund to provide funding for the United Way campaign activities;
- A transfer of \$776,214 to the Capital Improvement Fund for the Bright House Field Repairs project;
- A transfer of \$275,000 to the Special Programs Fund to provide funding for Special Events;
- A transfer of \$500,000 to the Special Programs Fund to provide funding for ULI Report Implementation;
- A transfer of \$100,000 to the Capital Improvement Fund for the Joe DiMaggio Sports Complex project;
- A transfer of \$810,000 to the Capital Improvement Fund for the Pinellas New Mains & Service Lines project;
- A transfer of \$40,000 to the Gas Fund to offset the cost of the fireworks display;
- A transfer of \$237,870 to reimburse the Stormwater Fund for surplus land at Prospect Lake;
- A transfer of \$650,000 to the Capital Improvement Fund for the Centennial Monument project;
- A transfer of \$25,000 to the Capital Improvement Fund for the Countryside Renovation project;
- A transfer of \$198,000 to the Capital Improvement Fund for the Jack Russell Demolition & Refurbishment project;
- A transfer of \$25,000 to the Capital Improvement Fund for the Joe DiMaggio Multi-Purpose Field Renovations project;
- A transfer of \$50,000 to the Capital Improvement Fund for the U.S. 19 Wayfinding project;
- A transfer of \$50,000 to the Special Programs Fund for the Strategic Direction Action Plan to fund the branding consultant contract;
- A transfer of \$250,000 to the Capital Improvement Fund for the Crest Lake Park Veterans War Memorial project;
- A transfer of \$335,000 to the Capital Improvement Fund for the Pier 60 and Beach Walk Repairs and Improvements project;
- A transfer of \$190,000 to the Capital Improvement Fund for the Missouri Avenue Median Beautification project;
- A transfer of \$75,000 to the Capital Improvement Fund for the Sailing Center Upgrades and Improvements project; and
- A transfer of \$28,250 to the Special Programs Fund for the Nagano Sister City program to fund the cost of the Nagano trip.

Total actual revenues for the General Fund for fiscal 2015 were \$1.4 million, or 1.3%, greater than final budgeted revenues. Contributing to this surplus of actual revenues versus final budgeted revenues are a surplus of \$755,358 (53.8%) in Miscellaneous Revenue, a surplus of \$542,490 (4.4%) in Intergovernmental Revenue received from the State, and a surplus of \$243,072 (24.7%) in Fines and Forfeitures.

Fiscal 2015 actual expenditures for the General Fund were \$2.3 million (2.0%) less than final budgeted expenditures, primarily due to budget savings across most City departments for fiscal 2015.

Capital Asset and Debt Administration

Capital Assets

Capital assets include land, buildings and building improvements, improvements other than buildings, machinery and equipment, and infrastructure. The infrastructure asset category includes long-lived capital assets, typically stationary in nature, such as roads, sidewalks, and bridges. At September 30, 2015, the City had investments in capital assets totaling \$714,218,556 (net of accumulated depreciation).

City of Clearwater, Florida - Capital Assets*
(amounts in thousands)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 77,306	\$ 76,787	\$ 29,950	\$ 30,509	\$ 107,256	\$ 107,296
Buildings	105,741	91,486	26,455	6,397	132,196	97,883
Improvements other than buildings	19,251	16,818	353,044	338,756	372,295	355,574
Machinery and equipment	22,246	17,397	9,963	2,491	32,209	19,888
Infrastructure	58,081	62,278	-	-	58,081	62,278
Construction in progress	2,739	15,433	9,442	46,365	12,181	61,798
Total	\$ 285,364	\$ 280,199	\$ 428,854	\$ 424,518	\$ 714,218	\$ 704,717

* Net of accumulated depreciation

Net capital assets for the City's *governmental activities* increased from \$280.2 million to \$285.4 million, reflecting an increase of \$5.2 million for the current fiscal year. Capital asset additions of \$22.7 million were offset by depreciation expense of \$17.4 million and net capital asset retirements totaling approximately \$105 thousand. Major fiscal 2015 completed governmental capital projects included \$9.7 million for the construction of Fire Station #45, \$3.0 million for renovations at the Sid Lickton Complex, \$895 thousand for construction of the Countryside Library and \$626 thousand for Wood Valley Traffic Calming.

Net capital assets for the City's *business-type activities* increased from \$424.5 million to \$428.8 million, reflecting an increase of \$4.3 million for the current fiscal year. Capital asset additions of \$24.4 million were offset by depreciation expense of \$20.1 million. Major fiscal 2015 completed business-type capital projects included \$32.2 million for Reverse Osmosis Plant #2 Expansion, \$2.4 million for various stormwater projects and \$2.3 million for the sanitary sewer extensions.

Additional information on the City's capital assets can be found in Note III (C) on the notes to the financial statements.

Long-term debt

The City's total long-term debt increased from \$220.6 million to \$269.8 million, an increase of \$49.2 million or 22.3%. Long-term debt for governmental activities increased by \$44.0 million, or 19.9%, while long-term debt for business-type activities increased by \$5.2 million or 2.5%. Key factors contributing to these changes included:

- The increase in long-term debt for governmental activities is primarily due to an increase in the net pension liability of \$39.0 million due to negative investment returns during fiscal 2015 per the implementation of GASB Statement No. 68; increased accruals for lease purchase contracts of \$4.8 million; as well as increased accruals for compensated absences and other postemployment benefits, offset by a decrease in claims payable; and principal payment of \$635 thousand on the Spring Training Facility Revenue Bonds.
- The decrease in long-term debt for business-type activities is primarily due to an increase in the net pension liability of \$12.1 million due to negative investment returns during fiscal 2015 per the implementation of GASB Statement No. 68; increased accruals for other post-employment benefits and compensated absences, offset by a decrease in lease purchase contracts; and approximately \$8.2 million of scheduled bond principal payments offset by a \$1.1 million increase in revenue bonds payable due to the issuance of the 2014 Water & Sewer Revenue Refunding Bonds to redeem the 2006 Water & Sewer Revenue Bonds.

The City's bonded debt as of September 30, 2015, consists entirely of revenue bonds (secured solely by specified revenue sources) with no general obligation debt or special assessment debt outstanding. Governmental activities revenue bonds totaled \$8.3 million while business-type activities totaled \$204.7 million.

The City's Charter limits indebtedness to 20% of the assessed valuation of non-exempt real estate. The current debt limitation is approximately \$2.1 billion, which is significantly in excess of the City's applicable indebtedness of approximately \$205 million at September 30, 2015.

Additional information on the City's long-term debt can be found in Note III (F) of the notes to the financial statements.

Economic Factors and Year 2016 Budgets and Rates

Factors considered in preparing the City of Clearwater's budget for fiscal year 2016 included:

- An increase of 6.5% in property values, from \$8.2 billion to \$8.7 billion. This is the third increase in valuations that the City has recognized in seven years. City taxable values are still approximately 22% below peak values of 2007.
- The approved millage rate of 5.1550 mills for fiscal year 2016 is the same millage rate as the City's rate for the last seven fiscal years.
- A net increase of 37.3 full-time equivalent positions City-wide to a total of 1,746.9 FTE's. 19.8 positions were added to the General Fund, 15 positions were added in the utility and enterprise funds, 1.5 positions were added in the internal services funds, and 1 position was added in the Special Programs Fund.
- A decrease of \$2 million in the actuarially required contribution to the Employees' Pension Plan, from \$10.8 million, or 14.53% of covered payroll, for fiscal 2015 to \$8.8 million, or 11.66% of covered payroll, for fiscal 2016. The approved budget plans for a contribution rate of 17%, which will provide for the actuarially required contribution of 11.66% as well as restore approximately \$5 million to the credit balance to prepare us for future economic challenges.
- An increase in employee medical insurance costs of \$2.2 million to a total of \$16.2 million across all City operations. This increase includes a projected 10% increase in claims costs based on preliminary estimates, as well as \$1.4 million to offset the cost of the Employee Health Clinic.
- Budgeted Water and Sewer utility revenues for 2016 reflect a 4.5% rate increase effective October 1, 2015, per a rate study adopted in August 2011. Fiscal 2016 budgeted Stormwater utility revenues reflect a 1.25% rate increase effective October 1, 2015, per a rate study adopted in September 2015. Budgeted revenue for the Solid Waste & Recycling Utility reflect an increase of 3.75% based upon a new rate structure that was approved in August 2015. There are no planned rate increases for the Gas Utility.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances for all those with an interest in our government and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City of Clearwater, Finance Department, 100 South Myrtle Avenue, Clearwater, Florida 33756-5520.