

CITY COUNCIL POLICY

Budget and Finance

- A. **Balanced Budget.** It is a policy of the City Council to adopt a balanced budget for all funds. The City will avoid budget and accounting practices that balance the budget at the expense of future budgets. The City will also avoid budgeting any unrealized investment gains due to the City's practice of holding investments until maturity.

- B. **Maintenance of Capital Plant and Equipment.** It is a policy of the City Council that the City's budget will provide adequate funding for maintenance of capital plant and equipment and the funding for their orderly replacement.

- C. **Budget Review Process.** It is a policy of the City Council to be provided with a quarterly budget report comparing actual versus budgeted revenue and expense activity.

- D. **Budgetary Position Control.** It is a policy of the City Council that the total number of permanent full-time and part-time positions (full-time equivalents) approved in the annual operating budget may not be exceeded without prior approval of the City Council.

- E. **General Fund Unappropriated Retained Earnings.** It is a policy of the City Council to maintain a minimum General Fund reserve equal to 8% of the subsequent year's budgeted expenditures as a contingency fund to meet unanticipated financial needs. Should funds in excess of 8% be available in any fiscal year, these funds shall be identified as available, and may be appropriated by the City Council for specific Capital Improvement Projects or other one-time needs.

In addition, the City Council will maintain an additional General Fund reserve equal to ½% of the subsequent year's budgeted expenditures to fund unanticipated retirements of General Fund long-term employees during the given fiscal year. Any appropriations approved by the City Manager during the year, for this purpose, will be noted in the City Manager's quarterly budget report.

- F. **Capital Improvement Budget and Capital Improvement Plan.** It is a policy of the City Council to adopt a six-year Capital Improvement Plan and Budget which summarizes the project scope, estimated cost estimates by project, method of financing, and anticipated operating costs of each project.

- G. **Road Millage.** In order to maintain the City's sidewalks and streets (including curbs and bridges), a road millage will be designated as a part of the annual budget process. Priorities will be determined first on functional and safety considerations. Road Millage may be used for aesthetic repairs.

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- H. **Enterprise Funds.** It is a policy of the City Council that all Enterprise Fund operations shall be self-supporting, and shall pay administrative and other appropriate service charges to General Fund Operations for support at a level determined by the City Council.
- I. **Enterprise Fund Transfer Payment.** It is a policy of the City Council that the specific enterprise operations designated by the City Council shall annually transfer to the General Fund an amount determined appropriate to be considered reimbursement in lieu of taxes. The current rate is 5.5% of prior year gross revenues.

April 1989 policy adopted by the City Council established this rate at 4.5% of prior-year gross revenues. This proportionate rate was adopted to accommodate growth, and replaced prior years' policy of a prescribed dollar contribution. Other than the exceptions noted below, the rate of 4.5% remained in effect until the City Council adopted the amended rate of 5.5% in September 2005.

Upon adoption of the Gas Strategic Plan and Gas Rate Case in fiscal year 1995/96, the Council agreed to replace the Gas Support contribution with a franchise fee from natural gas customer accounts payable to the General Fund. This, in combination with the Gas dividend, offered the General Fund the same or greater level of support as fiscal year 1995/96. The Gas System Dividend will be a minimum of \$1,700,000 plus a PILOT (Payment in Lieu of Taxes) fee of at least \$508,720. Such PILOT fee will be paid by the Gas Franchise Fees to offset such PILOT payment. When the Gas System Net Income less Bond Interest Earnings exceeds \$3.4 million for any fiscal year, the Gas Dividend payment for the next fiscal year will be one half of that amount.

In September 2000, with the adoption of the 2001/02 Annual Operating Budget, the City Council expanded this policy, which had previously been imposed only on the utility enterprises, to include an annual payment in lieu of taxes from the Marine and Aviation Fund. In FY 2009, the Parking Fund began paying the PILOT.

- J. **Interfund Administrative Charge.** It is a policy of the City Council that an allocation shall be made annually distributing the costs for administrative support departments among all operating departments. This distribution shall be proportionately based on the operating department's annual budget, and shall not be charged to General Fund departments.

Upon adoption of the Gas Strategic Plan in fiscal year 1995/96, the City Council agreed to maintain the same charge for administrative support from the Gas Fund for fiscal year 1995/96 which will be increased annually by the estimated cost of salary increase index (fiscal year 2001/02 – 5%).

Beginning in fiscal year 2001, the City Council approved an adjustment to the Gas Fund charge increasing the charge by \$325,000 over the computed amount to bring the Gas Fund more in line with the proportionate amount calculated in the same manner as the Other Enterprise Funds.

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K. **Interfund Other Service Charges.** It is a policy of the City Council that the cost of services provided to Enterprise Fund Departments by General Fund Departments shall be charged to, and paid by the Enterprise Fund.

L. **CRA Contribution to General Fund.** It is the City's policy that services provided for administrative support to the Community Redevelopment Agency (CRA) by City employees shall be reimbursed to the General Fund. Such reimbursement shall be approximate actual costs incurred by the department, together with any associated costs.

M. **Special Event Fees.** The Special Events Committee will review applications for use of City beaches, sidewalks, outdoor recreation open spaces and rights-of-way. Sponsoring organizations will be responsible for the costs of all City services needed in conjunction with the events unless they are City sponsored or co-sponsored events.

The City Council may waive all or a portion of fees and related charges for City sponsored or co-sponsored events, including, but not limited to Fun 'N Sun, Jazz Holiday, July 4th, Turkey Trot, World Triathlon Corp. and Martin Luther King Parade. There shall be an annual review of City sponsored/co-sponsored events during the budget process. An agenda item confirming co-sponsorship and waiver of fees for those to be submitted in the budget will be brought for City Council acceptance in March of each calendar year. All items accepted by the Council are then to be included in the appropriate department's budget. Only after the item is passed as part of the approved budget is the item considered to be funded.

In the event additional monies are requested beyond what is included in the approved budget, City Council approval will be needed before said additional funds are appropriated.

N. **Accounting Procedures.** It is a policy of the City Council to establish and maintain a standard of accounting practices on a basis consistent with Generally Accepted Accounting Procedures (GAAP), and the Governmental Accounting Standards Board (GASB), and the standard practices of the Government Finance Officers Association of the United States and Canada (GFOA).

The City will also comply with the rules of the Auditor General and the Uniform Accounting System as required by the State of Florida.

O. **Review of Rate Schedules.** It is a policy of the City Council to review rate schedules of the City of Clearwater enterprise funds at a minimum of every 5 years. The purpose of the review will be to assure rates are set in a manner to be fair and equitable while covering the City's cost to provide the service.

Unrestricted fund balances (working capital reserves) should be maintained pursuant to the most recent rate review or at a level equivalent to at least three months' operation

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and maintenance expense, whichever is greater, for all enterprise and internal service funds.

P. **Review of Annual Audit.** It is a policy of the City Council to have a Certified Public Accounting firm perform an annual audit on all of the City's funds. A work session will be held each year within 60 days of the release of the annual financial audit of the City. At that time, the overall financial condition of the City and its enterprise funds will be reviewed.

Q. **Investment Policy.**

(1) Scope

This statement of investment policy and guidelines applies to all investments of the City's pooled cash, which includes cash and investment balances of the following funds:

- General
- Special Revenue
- Debt Service
- Capital Projects
- Enterprise
- Internal Service Funds
- Fiduciary Funds

The policies set forth do not apply to the non-pooled cash investments of the Pension and Deferred Compensation Funds of the City of Clearwater, deposits for defeased debt, or assets under Bond Trust Indenture Agreements.

(2) Investment Objectives

A. Safety of principal is regarded as the highest priority in the handling of investments for the City. All other investment objectives are secondary to the safety of capital. Each investment transaction shall seek to first ensure that capital losses are avoided.

B. The City's investment strategy will provide sufficient liquidity to meet the City's operating, payroll and capital requirements. To accomplish this, the portfolio will be "laddered" with monthly maturities except for those months in which significant Ad Valorem taxes are received. To the extent possible, the City will match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than 15 years from the date of purchase. Also, unless specifically matched against a debt or obligation not more than 15% of the portfolio will have a maturity greater than 10 years.

C. The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

(3) Performance Measurement

The benchmark yield for the operating portfolio will be the weighted average yield determined by using the following maturity distribution and the related U.S. Treasury yields. Treasury yields are considered the benchmark for riskless investment transactions and, therefore, comprise a minimum standard for the operating portfolio's rate of return.

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The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein.

Average Treasury Rates	Percentage Distribution
Overnight rate	15%
3 month Treasury Bill rate	15%
6 month Treasury Bill rate	15%
1 year Treasury Bill rate	15%
3 year Treasury Note rate	15%
5 year Treasury Note rate	15%
10 year Treasury Note rate	10%
Total	100%

Weighted average maturity of benchmark 2.46 years

(4) Prudence and Ethical Standards

The standard of prudence to be applied by the investment officer shall be the "Prudent Person" rule, which states: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income derived." The "Prudent Person" rule shall be applied in the context of managing the overall portfolio.

(5) Authorized Investments

The City shall limit investments, as authorized in Florida Statutes to:

- a. Direct Federal Government obligations. Investments in this category would include but not be limited to the following: United States Treasury Bills; Notes and Bonds; and securities issued by the Small Business Administration, Government National Mortgage Association (Ginnie Mae), Veterans Administration, and Federal Housing Administration.
- b. Federal Agencies and instrumentalities. Investments in this category would include but not be limited to the following: obligations of the Federal Home Loan Banks System (FHLB) or its distinct banks, Financing Corporation (FICO), the Federal Farm Credit Bank, Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), Student Loan Marketing Association (Sallie Mae), Financial Assistance Corporation and Federal Agriculture Mortgage Corporation (Farmer Mac).
- c. U.S. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- d. Interest-bearing time deposits or savings accounts, in a qualified Public Depository as defined in s. 280.02 Florida Statutes.
- e. Debt issued by the State of Florida or any political subdivision thereof including pools.

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- f. Securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.
- g. Repurchase Agreements and reverse repurchase agreements collateralized by securities otherwise authorized in this policy.
- h. The Local Government Surplus Funds Trust Fund or any intergovernmental investing pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in s.163.01 Florida Statutes.
- i. Commercial paper of prime quality of the highest letter and numerical rating as provided for by at least one nationally recognized rating service.

(6) Maturity and Liquidity Requirements

A. The City will maintain a forecast of expected cash outflows and inflows by major categories. For months that the outflows exceed inflows the City will have investments maturing that month in excess of the forecasted deficits.

B. The City's intention is to keep the weighted average maturity to three years or less. Due to market conditions and cash needs the average maturity may temporarily be greater than three years but no greater than five years.

(7) Portfolio Composition, Risk and Diversification

Assets held shall be diversified to control risk of loss resulting from over-concentration of assets in a specific maturity, issuer, instrument, or dealer/broker, through which these instruments are bought and sold. The following maximum limits apply to the portfolio:

Maturity date	10%	Specific instrument	8%
Specific issuer	40%	Specific dealer/broker	33%
Commercial paper	25%	CMOs and REMIC	33%

Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the Investment Committee.

(8) Authorized Investment Institutions and Dealers

A. Banks - Certificates of deposit purchased under the authority of this policy will be purchased only from Qualified Public Depositories of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the State Statutes.

B. Broker/Dealer Approvals and Limitations - Time, practicality, and general business constraints limit the number of investment relationships, which can be managed on a

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regular basis. In most cases, normal investment activity will be limited to no more than ten dealer relationships. A broker/dealer list will be established by the Finance Director or designee. This list will be presented to the Investment Committee for approval. This list will be updated as needed and approved by the Investment Committee.

(9) Third-Party Custodial Agreements

All securities shall be held by a third party safekeeping company. All purchases by the City under this policy shall be purchased using the "delivery versus payment" procedure. For all purchases and sales of securities the third party custodial will require the approval of two individuals authorized by the Finance Director.

(10) Master Repurchase Agreement

All approved institutions and dealers transacting repurchase agreements shall be covered by a Master Repurchase Agreement. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.

(11) Bid Requirements

After the Finance Director or designee has determined the appropriate maturity based on cash flow needs and market conditions and has selected one or more optimal types of investment, the security in question shall, when feasible and appropriate, be competitively bid. Competitive bids or offerings shall be received from at least three dealers/brokers on all sales or purchases except in situations where:

- A. The security involved is a "new issue" and can be purchased "at the auction".
- B. The security has a fixed "postal-scale" rate.
- C. The security involved is available through direct issue or private placement.
- D. The security involved is of particular special interest to the City and dealer competition could have an adverse impact with respect to the price and availability to the City.

It is also realized that in certain very limited cases the City will not be able to get three quotes on a certain security. For those cases the City will obtain current market prices from one of the following to determine if the transaction is in the City's best interest:

- 1. Bloomberg Information Delivery System.
- 2. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing.
- 3. Daily market pricing provided by the City's Custody Agent or their corresponding institution.

(12) Internal Controls

The Finance Director shall establish and monitor internal and procedural controls designed to protect the City's assets and ensure proper accounting and reporting of the transactions related thereto. The internal controls will be designed to prevent losses of funds which might arise from fraud, employee error, misrepresentations by third parties, or imprudent actions by employees of the City. All buy and sell communications with the third party safekeeping company will be signed by two

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individuals authorized to make investment decisions. The internal controls developed under this policy shall be reviewed by the independent auditors as a regular part of their audit of the City.

The Finance Director shall establish an Investment Committee that meets on a regular basis for the purpose of reviewing investment transactions, approving brokers/dealer changes and other investment activities. The Investment Committee members will be the Finance Director, Assistant Finance Director, Cash & Investment Manager and any other City staff members appointed by the Finance Director and confirmed by the City Manager.

(13) Reporting

The Finance Director or designee shall report on at least an annual basis the following information on the City's investments:

- A. Securities by class/type.
- B. Book Value
- C. Market Value
- D. Income Earned

(14) Continuing Education

The members of the Investment Committee will complete no less than 8 hours of continuing educational opportunities on investment practices each fiscal year. The members of the Investment Committee will have sufficient knowledge and education to invest in any and all of the securities listed above.

R. Debt Management Policy.

This policy is to establish criterion and procedures for the issuance of debt financing by the City. This Debt Policy confirms the commitment of the City Council, management, staff, advisors and other decision makers to adhere to sound financial management practices, including full and timely repayment of all borrowings, and achieving the lowest possible cost of capital within prudent risk parameters.

The City shall employ the use of debt to compliment the significant recurring commitments of annual appropriations for capital purposes in a way that is fair, reasonable, and equitable to each generation of taxpayers, ratepayers, users and other beneficiaries.

1. General:

- A. The City shall seek to maintain their high bond ratings so borrowing costs are minimized and access to credit is preserved.
- B. The City may utilize debt obligations to refinance current debt or for acquisition, construction or remodeling of capital Improvement projects that cannot be funded from current revenue sources or in such cases wherein it is more equitable to the users of the project to finance the project over its useful life.
- C. The useful life of the asset or project generally must exceed the payout schedule of any debt the City assumes.

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- D. The City will analyze funding alternatives to minimize the cost impact of debt structures on the taxpayers or ratepayers.
- E. The outstanding debt will be reexamined periodically to determine whether an economical advantage exists for refinancing the outstanding debt given changes in the interest rate and bond market. As a general rule, the present value savings of a particular refunding should exceed 5% while maintaining a similar maturity schedule to the original debt.

2. Types and Structure of Debt:

- A. Any legally allowable debt may be used for financing capital improvements; this includes, but is not limited to, short-term and long-term debt, general obligation and revenue debt, fixed and variable rate debt, lease-backed debt, conduit issues, and taxable debt. The use of zero coupon bonds, capital appreciation bonds, deep discount bonds, and premium bonds may be considered.
- B. The City may consider the use of credit enhancements (letters of credit, bond insurance, surety bonds, etc) when such credit enhancements proves cost-effective.
- C. When fiscally advisable and when consistent with contractual obligations, the City shall lease purchase capital equipment. Generally, equipment will have a monetary value \$25,000 or more and a minimum life expectancy of three years. The debt service on the lease purchase items shall be paid by the user department.

3. Issuance of Obligations

A. Selecting Service Providers:

- 1) The City may retain an independent financial advisor for advice on debt structuring, the rating review process, marketing debt issuances, sale and post-sale services and to prepare and/or review the official statement.
- 2) The City may also retain independent bond counsel and disclosure counsel for legal and procedural advice on all debt issuances.
- 3) As necessary, the City may retain other service advisors, such as trustees, underwriters, and pricing advisors.
- 4) Any process utilized to select professional service providers in connection with the City's debt program shall be in conformance with City purchasing policies, procedures and requirements.

The objectives of the process will be to:

- a) Promote competition
- b) Be as objective as possible
- c) Incorporate clear and rational selection criteria
- d) Be independent of political influence
- e) Be perceived as fair by the respondents
- f) Result in a cost-effective transaction
- g) Result in the selection of the most qualified firm
- h) Eliminate conflict of interest

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B. Method of Sale

- 1) Competitive Sale - The City will generally seek to issue its bond obligations in a competitive sale. Other methods may be used if it is determined that such a sale method will not produce the best results for the City.
- 2) Negotiated Sale - The City may elect to sell its bond obligations through a negotiated sale. This method will usually be considered when the bond issue is refunding a prior issue or there is a unique or unusual component to the bond issue.
- 3) Private Placement - When determined appropriate, the City may elect to sell its debt obligations through a private placement or limited public offering.

C. Maturity of the debt

- 1) Bonds will generally not have more than a thirty-year duration.
- 2) Lease Purchase debt will generally not have more than a five-year duration.

S. **Central Insurance Fund Reserve.** It is a policy of the City Council to maintain a Central Insurance Fund reserve to guard against unforeseen or uninsured costs or increases in property, workers' compensation, health or liability insurance. The target minimum balance for this reserve is equal to 75% of the actuarially calculated self-insurance reserve liability. If reserves are drawn down below the above target minimum balance, the City will develop a plan to replenish the reserves, generally within five (5) years.

T. **Clearwater Gas System Supply Hedging Policy.** It is a policy of the City Council to limit the financial risk to Clearwater Gas System (CGS) of natural gas purchases by Hedging a portion of its gas supply needs with the intention of reducing price volatility for the residential, commercial, and industrial customers of CGS. Hedging amounts for a specified period of time will NOT exceed the expected average natural gas energy usage over that time period.

The City Representative shall issue a Directive to Florida Gas Utility (FGU) in the event that CGS would like FGU to take any action with respect to a Financial Product on its behalf. The General Manager of FGU shall not be authorized to enter into a Financial Product on a system-wide basis for CGS without a Directive from the City Representative.

Financial Products shall be purchased or otherwise acquired for the purpose of risk management and, to the extent possible, shall be entered into in such a manner as to meet applicable accounting standards as a "hedge" for accounting purposes; provided that the failure to obtain any particular accounting treatment with respect to a Financial Product shall not form a basis for challenging or otherwise calling into question the legality and enforceability of a Financial Product entered into pursuant to a Directive. **CGS shall not engage in any purchase or acquisition of Financial Products for Speculation.**

In the event if any inconsistency between the terms of this Policy and any existing agreement between FGU and CGS, including, without limitation, the All Requirements

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Gas Services Agreement, dated as of February 15, 2002 and as amended from time to time, between FGU and CGS and entered into pursuant to Resolution No. 02-02 the City of Clearwater, Florida, the terms of such agreement shall prevail.

1. City Representative – A representative of the City of Clearwater, Florida, who can authorize a Directive with respect to Financial Products, which term shall include, without limitation, any person designated as a “member representative” or “project participant representative” under an agreement between FGU and the City of Clearwater, Florida.
2. Directive – An instrument, in writing, executed and delivered by a City Representative that gives directions to FGU, or otherwise authorizes actions by FGU, with respect to Financial Products and the related Financial Instruments.
3. Financial Instruments – One or more agreements entered into with respect to Financial Products by and among the parties thereto, which may include FGU, CGS, or both, or any other third party or counterparty thereto, and such term shall expressly include, without limitation, any assignment or termination agreement related to Financial Products by FGU, CGS, or both.
4. Financial Products – Swaps, options, caps, collars, floors, forwards, futures contracts, and any other Hedging transactions, and any combination of the foregoing, whether executed “over-the-counter” pursuant to private agreement or “exchange-traded” on one or more regulated contract markets.
5. Hedge – To minimize or protect against loss by counterbalancing one transaction against another or otherwise mitigating economic risk. The term “Hedging” shall be construed accordingly.
6. Speculation – Using Financial Products in a manner not reasonably expected to reduce the risk associated with CGS business activities.