

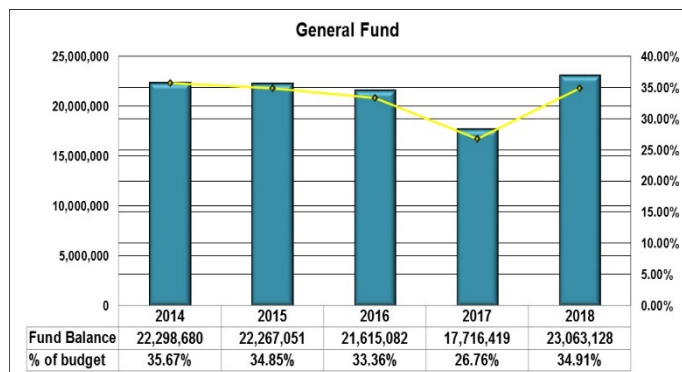
# RESERVE STATUS

## Town of Palm Beach Reserves

The Town Council has adopted eighteen financial policies, fifteen of which address reserves. The reserve policies serve to safeguard the Town's financial resources and ensure fiscal stability. The size of a municipality's fund balance can affect its ability to withstand financial emergencies. Reserves can also be used to accumulate funds for capital purchases or capital projects without having to borrow.

### *Unassigned Fund Balance - General Fund*

Pursuant to adopted policy, the unassigned fund balance for the General Fund is to be maintained at a minimum level of 25% of current year General Fund budgeted expenditures. This minimum level is to be maintained to protect the Town against economic downturns, temporary revenue shortfalls, unpredicted one-time expenditures, and for tax rate stabilization purposes. Twenty-five percent of the FY19 General Fund operating budget (General Fund budget less CIP, coastal and extraordinary retirement transfer) is \$16,514,274. The FY18 ending fund balance was \$23,063,128. The unassigned fund balance exceeds the minimum requirement by \$6,548,855.

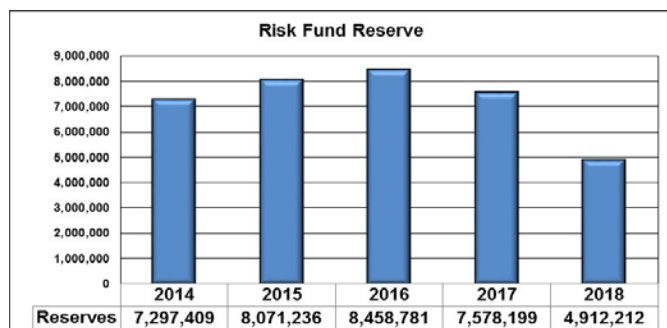


The General Fund Undesignated Fund Balance has consistently exceeded the required minimum level of 25%. The chart details the General Fund Undesignated Fund Balance and the percent of budgeted expenditures the balance represents.

The FY19 budget includes a transfer of \$560,000 to fund the contingency reserve. The fund balance amount of \$23,063,128 is net of this transfer.

### *Reserves - Risk Fund*

The total reserve balance for the Risk Fund was \$4,783,248 as of September 30, 2018. Out of this reserve balance, the Town funds the Reserve for Catastrophic Exposures/Emergencies - Risk Fund in the amount of \$2,500,000 and the Contingency Reserve for \$500,000. The trend for the Risk Fund Reserve is shown in the table on the next page. In 2014, the Town Council approved a transfer of \$2,000,000 from the reserves of the Risk Fund to the Coastal Protection Fund. The fund balance declined in FY18 due to a transfer of \$2,300,000 to the Recreation Enterprise Fund to partially fund the Town's portion of the new Recreation Center. The minimum recommended reserve balance is \$4,000,000, which represents



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the amount of the Reserve for Catastrophic Exposures/Emergencies and the Contingency Reserve plus an equity amount of \$1 million to safeguard the Town's budget from an adverse event recommended by the actuary. The excess reserve for this fund is \$783,248.

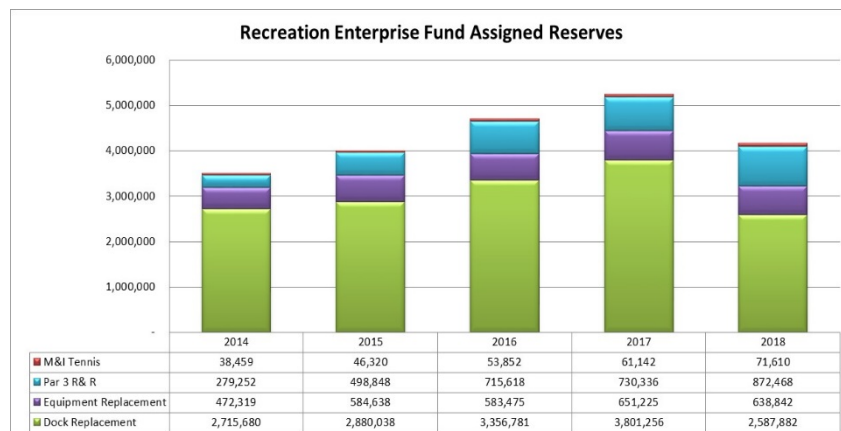
### *Reserve for Catastrophic Exposures/Emergencies - Risk Fund*

The Reserve for Catastrophic Exposures/Emergencies for the Risk Fund is funded at a minimum of \$2,500,000. This reserve was established to set aside emergency funds to protect the Town against the potential financial impacts of large judgments in excess of insurance coverage and the financial impacts of response to and recovery from a man-made or natural emergency situation. In addition, the reserve can be used in response to increases in premium rates and/or loss fund increases. This reserve is funded with a budget appropriation from the Net Asset reserves of the Risk Fund.

### *Recreation Enterprise Fund Reserves*

The Recreation Enterprise Fund has been separated in FY19. The Marina and Par 3 Golf Course will have separate enterprise funds. The Recreation Activities have been transferred to the General Fund. The ending FY18 reserves will be divided between the Marina and the Par 3 Golf course and any reserves related to the Recreation activities and Tennis will be transferred to the General Fund.

The Town's Recreation Enterprise fund included the operations of the Town Docks, the Par 3 Golf Course, tennis activities and youth and adult recreation programs.



At the end of FY18, the net asset balance for the Recreation Enterprise Fund (REF) was \$12,731,660. This amount includes \$4,600,000 that was transferred from the Risk and Health Insurance Funds for the Recreation Center Project. Separate reserves were set aside from this amount for the dock replacement, Par 3 Improvements, tennis improvements and equipment replacement.

At the end of FY18, \$2,587,882 had been set aside in the Dock Replacement Reserve. The Dock Replacement reserve was created to fund the replacement cost of the construction of the Town's docks whenever it is determined they must be replaced. The replacement reserve is to be maintained at 100% of accumulated depreciation plus accumulated interest earned on the reserve. In FY16, the Town committed to lowering the transfer to the General Fund each year by \$100,000 and add these funds each year to the Dock Replacement Reserve. In FY18, the Town used a portion of these reserves to fund the engineering and permitting costs associated with the dock replacement project.

At the end of FY18, the Par 3 Golf Course maintenance and improvement reserve and the Par 3 Clubhouse reserve were combined into the Par 3 Golf course repair and replacement reserve. This

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reserve is funded with the proceeds from the Maintenance and Improvement fee and a transfer equal to ½ of the annual depreciation on the clubhouse and golf course. The balance in this reserve as of September 30, 2018 is \$872,468.

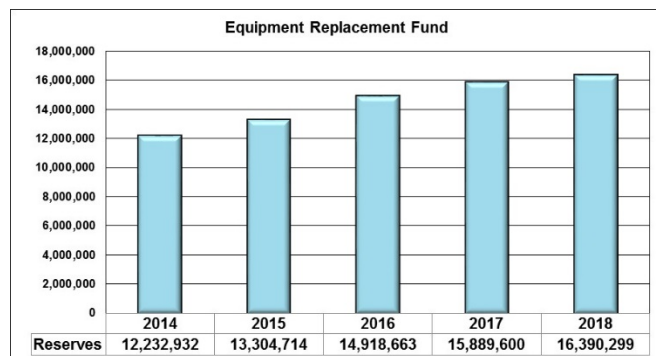
In FY10, a maintenance and improvement fee was implemented for the Tennis program. This reserve at the end of FY18 is \$71,610 and has been set aside for improvements to the tennis centers.

The Recreation Enterprise Fund's equipment replacement reserve allows for the purchase of capital equipment and is funded with accumulated replacement cost depreciation from Recreation Net Assets. The balance in the REF Equipment Replacement Fund for FY18 is \$638,842.

### *Equipment Replacement Fund*

The Town-wide Equipment Replacement Fund is intended to fund the replacement cost of existing equipment, vehicles and computers when they reach the end of their useful life. This reserve significantly reduces the budgetary fluctuations due to purchases of large pieces of equipment and ensures compliance with the fixed asset inventory and depreciation schedule required by GASB34.

The balance in the Equipment Replacement Fund Reserve for year-end FY18 is \$16,390,299. In FY13, the Town Council approved the use of funds from this reserve for internal financing for small underground utility projects financed by special assessments. To date, a balance of \$2,509,451 has been used for these projects. Currently the total amount in the fund available for equipment replacement is \$14,990,313. There are excess reserves in this fund of \$1,399,986.



For FY19, income including the depreciation transfer will total \$2,493,173 and expenditures for capital equipment are budgeted at \$2,462,990.

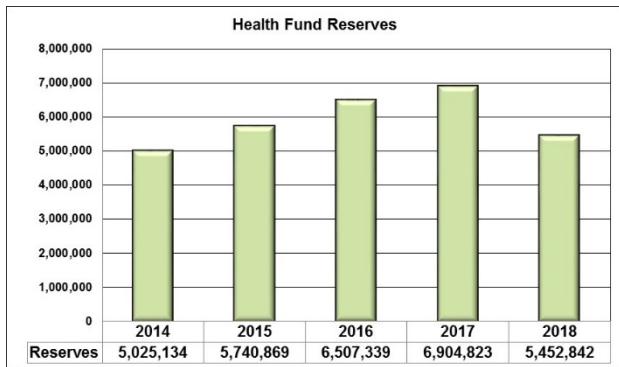
### *Designation of General Fund Balance for Payment of Liability Related to Compensated Absences Leave Balances*

A Reserve for Compensated Absences reduces the budgetary fluctuations due to the payout of accrued leave time to employees when they leave Town service. This reserve is funded at a rate of 100% of the fiscal year end accrued leave balances. Funds are appropriated annually from this reserve based upon estimates of pay-outs of eligible accrued vacation, sick and compensatory time and the related payroll tax liability. The balance in the reserve as of September 30, 2018, was \$3,129,714. The FY18 appropriation for the pay-out of eligible accrued vacation, sick and compensatory time from this reserve is \$810,789.

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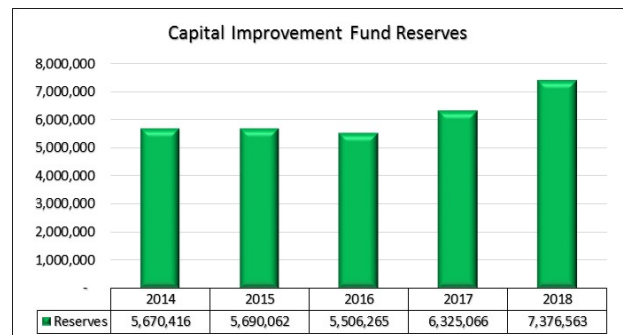
### *Health Insurance Reserve*

The balance of the reserve in the Health Fund at the end FY18 is \$5,464,579. These reserves guard against any deficiencies in the Town's self-insurance health fund for active employees' insurance expenditures. The trend in the reserve balance is shown in the chart. Since FY13, the Town has maintained level funding of health insurance benefits due to good claims experience and the wellness program. These reserves have also provided cushion in case claims unexpectedly increase. In FY18, a transfer of \$2,300,000 to the Recreation Enterprise Fund was made to fund the Town's portion of the new Recreation Center. The actuary recommends a minimum reserve of 6 months of estimated claims as well as the incurred but not Recorded (IBNR) claims. These amounts total \$1,777,795, leaving a excess reserve amount of \$3,686,784.



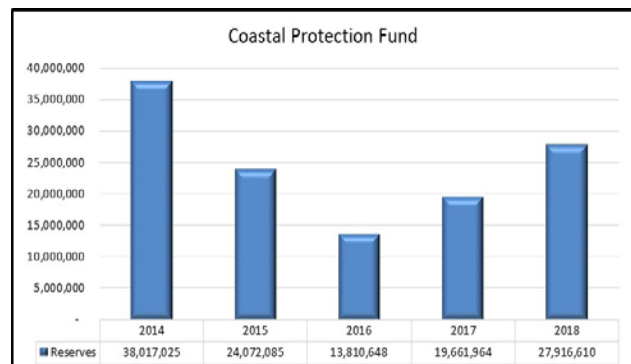
### *Capital Improvement Fund*

For many years, the Town funded all of the capital infrastructure improvements through pay-as-you-go financing. In 2010, the Town issued the first of two bonds for capital improvements to accelerate many large scale capital improvement projects identified in the 20 year plan. In FY17, the transfer to Capital Improvement Fund from the General Fund increased to \$2,290,200 to begin to build up the reserves for projects once the bond proceeds have been spent. Once the bond proceeds have been spent on the remaining projects, it is proposed to return to pay-as-you-go financing. The balance in this reserve is set aside for use for future capital projects.



### *Coastal Protection Fund*

The Coastal Protection Fund reserves are in place to reserve funds for beach renourishment projects. The Coastal Protection financing plan calls for annual transfers from the General Fund to the Coastal Fund to accumulate funds for renourishment projects and the other costs associated with the plan. The FY19 transfer is \$7,349,124. As of September 30, 2018, the reserve balance in this fund is \$27,916,610. Excess reserves from closed out projects total

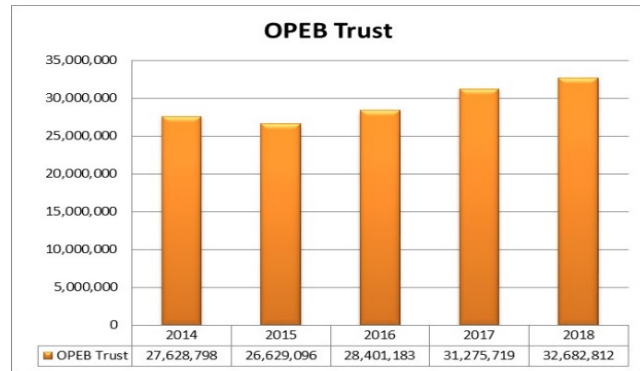


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\$3,400,741. The next planned project is the Mid-Town beach renourishment project in FY21. Sufficient funds will be available for this project.

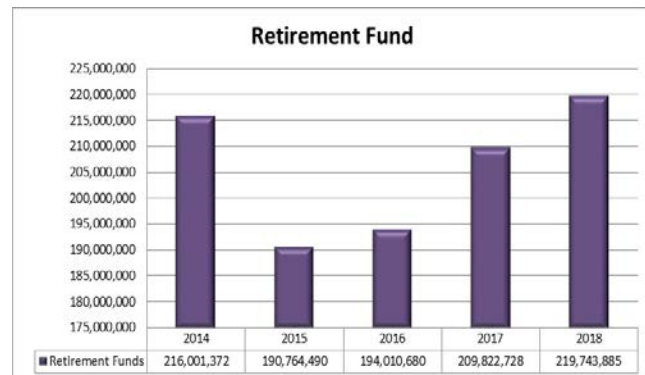
### *OPEB (Other Post Employment Benefits) Trust*

The Town's OPEB Trust Fund was established in 2007 to comply with GASB Statements 43 and 54, which required the establishment of a liability for actuarially determined costs of retiree health benefits. This fund's investments are overseen by the Town's Investment Advisory Committee. The net asset balance in this trust is \$32,682,812 as of September 30, 2018. The total OPEB liability for 2018 is calculated to be \$30,440,000, resulting in a Net OPEB asset of \$2,240,000, resulting in a funded ratio of 107.4% using a 6% return assumption. The actuarially determined transfer from the General Fund for the OPEB liability for FY19 is \$420,000. The Town continues to be well ahead of other government agencies in funding this liability.



### *Retirement Fund*

The Town provides pension benefits for General Employees, Lifeguards, Police Officers, and Firefighters. The funds were separately managed by three pension boards until the consolidation on April 1, 2012, into the Employee's Retirement Fund. The Retirement Board oversees all of the Town's pension assets and retirement programs. The net assets of the consolidated retirement fund at the end of FY18 were \$219,743,885. The increase is a result of good investment performance during the year and the extraordinary retirement contribution. The decline from FY14 to FY15 was due to investment losses.



### *Contingency Reserves*

Contingency reserves were established for the General Fund, Capital Fund, Equipment Replacement Fund, Recreation Enterprise Fund, Risk Insurance Fund and Health Insurance Fund to provide for unanticipated unbudgeted expenditures of a nonrecurring nature. The amount of the General Fund Contingency has been funded at 1% of the FY19 operating budget. The Capital Fund Contingency is appropriated at 10% of the capital budget, while the Equipment Replacement Fund, Risk, and Health Contingency Reserves are appropriated at \$500,000 each. The Enterprise Funds maintain a Contingency Reserve at 5% of the operating expenses. All of the contingency reserves are annually appropriated in the budget process from the net asset reserves of each of the funds. Amounts from

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the contingency are appropriated for expenditures through an affirmative vote of the Town Council.

The table below identifies the contingency budgets and actual expenditures for the fiscal years 2015 through fiscal YTD 2019.

### Contingency Reserves FY2015 – FYTD2019

Contingency	2015	2016	2017	2018	2019 YTD
General Fund Budget	\$ 909,000	\$ 944,686	\$ 960,300	\$ 655,877	\$560,000
General Fund Actual	\$ 246,361	\$ 764,145	\$ 759,644	\$ 12,000	\$ 40,000
CIP Budget	\$ 205,000	\$ 208,000	\$ 348,600	\$ 284,500	\$603,750
CIP Actual	\$ 205,000	\$ 208,000	\$ -	\$ -	\$ 95,796
ERF Budget	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$500,000
ERF Actual	\$ -	\$ 29,111	\$ 10,391	\$ 105,252	\$ -
Risk Budget	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$500,000
Risk Actual	\$ -	\$ -	\$ -	\$ -	\$ -
Health Budget	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$500,000
Health Actual	\$ -	\$ -	\$ -	\$ -	\$ -
Recreation Budget	\$ 272,100	\$ 285,300	\$ 321,200	\$ 168,303	\$ -
Recreation Actual	\$ 39,000	\$ 135,030	\$ -	\$ 37,750	\$ -
Town Docks	\$ -	\$ -	\$ -	\$ -	\$ 55,679
Town Docks Actual	\$ -	\$ -	\$ -	\$ -	\$ -
Par 3	\$ -	\$ -	\$ -	\$ -	\$ 89,630
Par 3 Actual	\$ -	\$ -	\$ -	\$ -	\$ -

### *Unassigned Net Position*

All reserves are at or over the policy established minimum. The financial strength of the Town can be measured by the health of its reserves. Bond rating agencies look closely at the reserve levels and the financial policies in place when rating a municipality. The rating agencies reviewed the Town's credit ratings in preparation for the issuance of the 2010, 2013, 2016 and 2018 Bonds. They cited the Town's healthy reserves, solid fiscal policies, and conservative management practices as some of the reasons for our exceptional bond ratings. Moody's Investors Service gave the Town an Aa1 for the Revenue Bonds and provided the Town with a General Obligation Bond rating of Aaa. Standard and Poor's has recently upgraded the credit rating on the Revenue bonds to AAA and provided the Town's General Obligation Bond a rating of AAA. These Revenue Bond ratings and issuer credit ratings are the highest ratings these two services issue and represent the highest quality investment grade debt.

The table and the chart on the next page summarize the trend of the unassigned net position, compensated absence, and replacement reserve balances for fiscal year ending FY14 through FY18.



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## Reserve Balances Fiscal Years 2014 – 2018

Fund	2014	2015	2016	2017	2018
General Fund	\$ 22,298,680	\$ 22,267,051	\$ 21,615,082	\$ 17,716,419	\$ 23,063,128
Compensated Absence (GF)	3,456,532	3,168,789	3,061,180	3,210,518	3,129,714
Equipment Replacement Fund	12,232,932	13,304,714	14,918,663	15,889,600	16,390,299
Recreation Enterprise Fund	1,025,665	179,645	169,291	777,250	0
Recreation ERF	472,319	584,638	583,475	651,225	638,842
Dock Replacement	2,715,680	2,880,038	3,356,781	3,801,256	2,587,882
Par 3 M&I Reserve	279,252	351,246	388,132	442,910	0
Tennis M&I reserve	38,459	46,320	53,852	61,142	71,610
Par 3 Clubhouse M&I	0	147,602	327,485	287,426	872,468
Donation Fund	611,943	564,368	1,180,331	3,018,697	1,666,199
Debt Service	1,745,086	1,567,384	955,441	1,569,976	1,566,248
Capital Improvement	5,670,416	5,898,531	5,506,265	6,325,066	7,376,553
Coastal Protection Fund	38,017,024	24,072,085	13,810,648	19,661,966	27,916,610
2013 ACIP Fund	43,347,077	34,967,926	20,196,064	12,095,772	7,286,574
Health Fund	5,025,134	5,740,869	6,507,339	6,904,823	5,464,579
Risk Fund	7,297,409	8,071,236	8,458,781	7,578,199	4,783,248
Health - OPEB Trust	27,628,798	26,629,096	28,401,183	31,275,719	32,682,812
Pension Funds	<u>216,001,372</u>	<u>190,764,490</u>	<u>194,010,680</u>	<u>209,822,728</u>	<u>219,743,885</u>
<b>Total</b>	<b>\$ 387,863,778</b>	<b>\$ 341,206,028</b>	<b>\$ 323,500,673</b>	<b>\$ 341,090,692</b>	<b>\$ 355,240,651</b>



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## Excess Reserves

Many of the Town's reserves must be maintained at a minimum level set by policy or based on recommendations of the Town's actuarial firms. The various capital fund reserves represent funds that have been accrued for future projects, or in the case of the 2013 ACIP funds, the remaining bond funds available for projects. The chart below shows the FY18 ending balance, minimum reserve amount and excess reserve balances.

Fund	2018 Estimated Reserve Balance	Minimum Required Balance	Excess Reserves
General Fund	\$ 23,063,128	\$ 16,514,274	\$ 6,548,855
Compensated Absence (GF)	\$ 3,129,714	3,129,714	0
Equipment Replacement Fund	\$ 16,390,299	14,990,313	1,399,986
Recreation ERF	\$ 638,842	638,842	0
Dock Replacement	\$ 2,587,882	2,587,882	0
Tennis M&I reserve	\$ 71,610	71,610	0
Par 3 R&R Reserve	\$ 872,468	872,468	0
Donation Fund	\$ 1,666,199	1,666,199	0
Debt Service	\$ 1,566,248	405,000	1,161,248
Capital Improvement	\$ 7,376,553	7,376,553	0
Coastal Protection Fund	\$ 27,916,610	24,515,869	3,400,741
2013 ACIP Fund	\$ 7,286,574	7,286,574	0
Health Fund	\$ 5,464,579	1,777,795	3,686,784
Risk Fund	\$ 4,783,248	4,000,000	783,248
Health - OPEB Trust	\$ 32,682,812	32,682,812	0
Pension Funds	\$ 219,743,885	219,743,885	0
<b>Total</b>	<b>\$ 355,240,650</b>	<b>\$ 338,259,789</b>	<b>\$ 16,980,861</b>

