

## 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.

Below is a table showing the projected fund balance through September 30, 2021, based on the ending fund balance at September 30, 2020 plus FY21 budgeted revenues less expenditures for all funds.

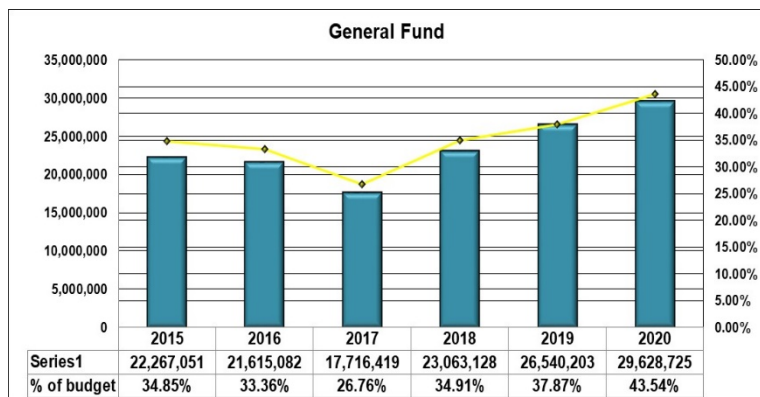
## Fund Balance Projections

Fiscal Year 2021 Annual Budget

Fund	Projected Fund Balance at 9/30/20	Estimated FY2021 Revenues	Estimated FY2021 Expenditures	Projected Fund Balance at 9/30/21
General Fund	\$ 28,040,203	\$ 80,915,573	\$ 80,915,573	\$ 28,040,203
Townwide Underground Utilities Fund	\$ 57,418,765	\$ 5,865,000	\$ 56,715,145	\$ 6,568,620
2013 and 2016A Bonds Debt Service Fund	\$ 1,719,576	\$ 6,399,142	\$ 6,582,397	\$ 1,536,321
2016B Worth Avenue Bond Debt Service Fund	\$ 174,738	\$ 725,413	\$ 725,413	\$ 174,738
Capital Improvement Fund	\$ 13,704,101	\$ 4,269,600	\$ 10,400,297	\$ 7,573,404
Coastal Management Fund	\$ 29,118,989	\$ 21,587,188	\$ 27,347,808	\$ 23,358,369
Worth Avenue Assessment District Fund	\$ 349,090	\$ 271,918	\$ 336,918	\$ 284,090
Marina Enterprise Fund	\$ 31,420,573	\$ 3,150,000	\$ 29,688,823	\$ 4,881,750
Par 3 Golf Course Enterprise Fund	\$ 10,092,072	\$ 2,542,500	\$ 2,435,687	\$ 10,198,885
Building Fund	\$ -	\$ 6,262,005	\$ 6,194,774	\$ 67,231
Risk Insurance Fund	\$ 5,002,310	\$ 2,210,439	\$ 5,644,682	\$ 1,568,067
Health Insurance Fund	\$ 7,510,950	\$ 4,714,570	\$ 5,367,532	\$ 6,857,988
Equipment Replacement Fund	\$ 29,547,312	\$ 2,503,424	\$ 2,833,096	\$ 29,217,640
Employee's Retirement Fund	\$ 236,529,932	\$ 36,414,992	\$ 22,220,227	\$ 250,724,697
OPEB Trust Fund	\$ 32,812,874	\$ 3,629,858	\$ 3,099,484	\$ 33,343,248
<b>Totals</b>	<b>\$ 483,441,485</b>	<b>\$ 181,461,622</b>	<b>\$ 260,507,856</b>	<b>\$ 404,395,251</b>

## 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 FY21 General Fund operating budget (General Fund budget less CIP, coastal and extraordinary retirement transfer) is \$17,014,143. The FY20 ending fund balance was \$29,628,725. The unassigned fund balance exceeded the minimum



requirement by \$12,614,582. The General Fund Undesignated Fund Balance has consistently exceeded the required minimum level of 25%. The chart shows the trend for the General Fund Undesignated Fund Balance and the percent of budgeted expenditures the balance represents. The Town Council approved the use of a portion of the excess fund balance for the Lake Drive Park project. A preliminary amount of \$1,123,108 has been approved to transfer to the Capital Improvement Fund. The entire amount may not be necessary and once all costs are known any excess will remain in the General Fund reserve.

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

The 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 and sick time and the related payroll tax liability. The balance in the reserve as of September 30, 2020, was \$2,703,693. The FY21 appropriation for the pay-out of eligible accrued vacation, sick and compensatory time from this reserve is \$490,705.

### Townwide Underground Utilities Fund

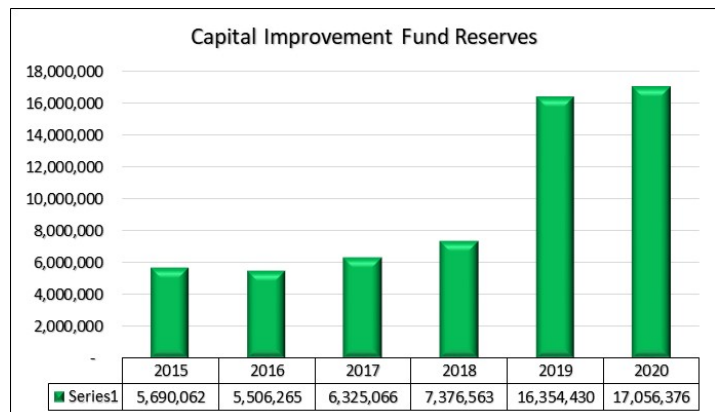
The Town issued General Obligation Bonds in FY19 for the Townwide Underground Utilities Project. Phase 1 North was completed in FY19 and Phase 1 South, Phase 2 North were completed in FY20 and Phase 3 North, Phase 3 South, should be completed in FY20, Phase 3 South construction will start fall of 2020, and Phase 4 North are being constructed in 2021. Engineering and design is underway for Phases 5, 6, 7 and 8 of the project. The completion of these projects will reduce the net assets in this fund during FY21. Current project estimates show a deficit of over \$12 million for the project. This deficit may be funded from other Town reserves and/or a transfer from excess profits from the new Town Marina.

### Debt Service Funds

The debt service fund for the 2016A and 2019 bonds has excess reserves of \$1,659,221 that had accrued since the issuance of the 2013 bonds. These excess funds are being used to lower the annual transfer from the General Fund to the debt service fund.

### Capital Improvement Fund

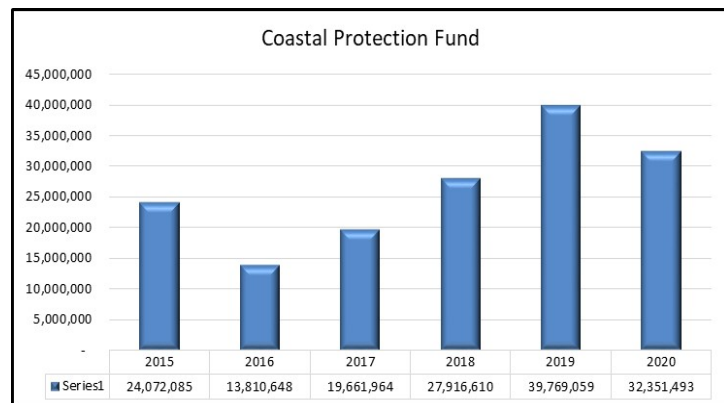
For many years, the Town funded all of the capital infrastructure improvements through pay-as-you-go financing. In 2010, the Town issued the first of two bonds for capital improvements to accelerate many large scale capital improvement projects identified in the 20 year plan. For FY21, the transfer to Capital Improvement Fund from the General Fund increased to \$2,662,000 to build up the reserves for future projects. Now that the bond proceeds from the Accelerated Capital Improvement Projects, the Town will return to pay-as-you-go financing for future capital projects and the reserves of this fund will be used for funding. The increase in reserves to the FY19 balance is due to the transfer of the Mandel Recreation Center



project to this fund from the Recreation Enterprise Fund and contributions from the Mandel foundation and the Friends of Recreation. Reserves of \$7,051,303 have been encumbered for current projects. The balance of \$10,005,073 is reserved for future projects.

### Coastal Protection Fund

The Coastal Protection Fund reserves are in place 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 FY21 transfer is \$4,777,000. As of September 30, 2020, the reserve balance in this fund is \$32,351,495. In FY20 portion of this reserve, (\$3,562,492), was approved to be used for the replacement of the bulkhead at the new Town marina. The Mid-Town beach renourishment project occurred in FY20 which lowered the balance of these reserves. Sufficient funds will be available for future projects with Federal, State and County grant funds expected to offset a significant amount of the cost. The coastal fund also has accumulated \$2 million in reserves and has budgeted \$1 million per year in the 10 year plan for bulkhead rehabilitation or replacement. These funds are planned as part of the resiliency efforts and may be transferred out to a separate fund once decisions are made on the Town's future resiliency plan.

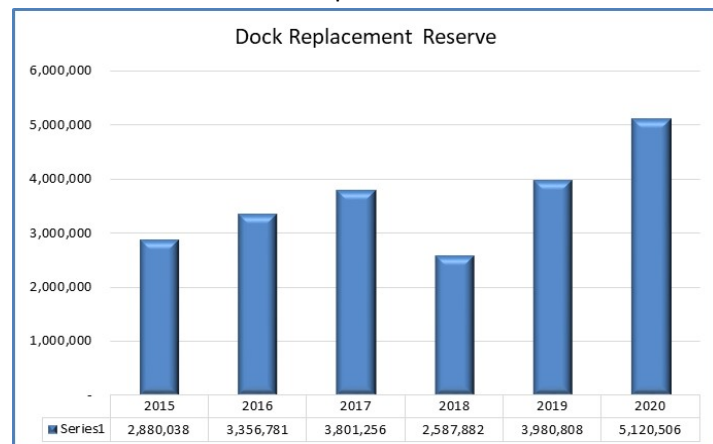


### Worth Avenue Assessment District

The Worth Avenue Assessment District is used to account for the maintenance of the improvements on Worth Avenue. The maintenance and debt service is fully paid through assessments on the property owners in this district. The reserves in this fund have accumulated since the initial capital project was completed. The reserves in FY21 are being used to offset increased maintenance costs and for valet service during the season.

### Marina Enterprise Fund Reserves

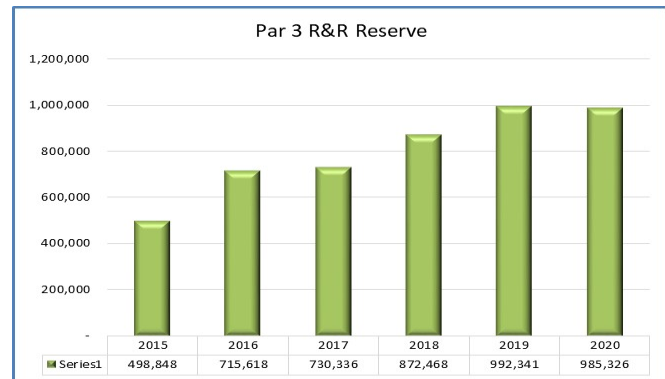
At the end of FY20, \$5,120,506 had been set aside in the Dock Replacement Reserve. The Dock Replacement reserve was created to partially fund the replacement cost of the construction of the Town's docks when they are replaced. In FY18, the Town used a portion of these reserves to fund the engineering and permitting costs associated with the dock replacement project. The Marina was closed at the end of the season to begin construction of the new Marina. A loan was secured for \$31,000,000 to finance a portion of the construction. Construction is expected to



be finished in the fall of 2021. The Marina Enterprise Fund net assets are expected to decline in FY21 due to the closure of the marina. Due to funding from the Florida Inland Navigation District, the dock replacement reserve will not need to be used for the Marina Project. The Town Council approved an allocation from these reserves to be used to fund a portion (\$1,133,500) of the Lake Drive Park project that is related to the Marina.

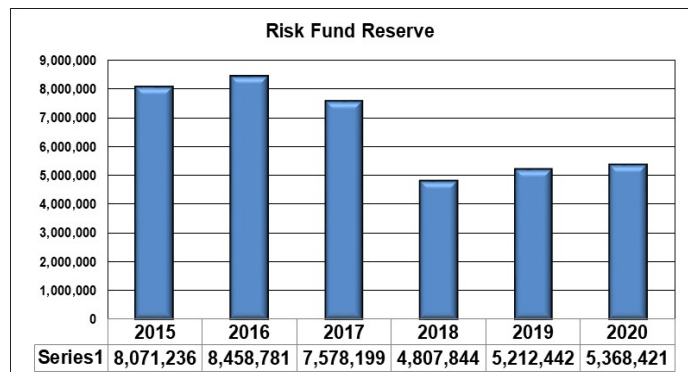
### Par 3 Enterprise Fund Reserves

The Par 3 Golf course repair and replacement reserve is funded with a transfer equal to  $\frac{1}{2}$  of the annual depreciation on the clubhouse and golf course. The balance in this reserve as of September 30, 2020 is \$985,326. The Par 3 Enterprise Fund also has an Equipment Replacement Fund with a reserve balance at the end of FY20 of \$624,869.



### Risk Fund Reserves

The total reserve balance for the Risk Fund was \$5,368,421 as of September 30, 2020. 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. The fund balance declined in FY18 due to a transfer of \$2,300,000 of excess reserves 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 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 at the end of FY20 is \$1,368,421. The \$3,000,000 appropriated each year for contingency and the Reserve for Catastrophic Exposures/Emergencies is not expected to be spent unless there is an emergency event such as a hurricane that would require the use of these reserves.



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

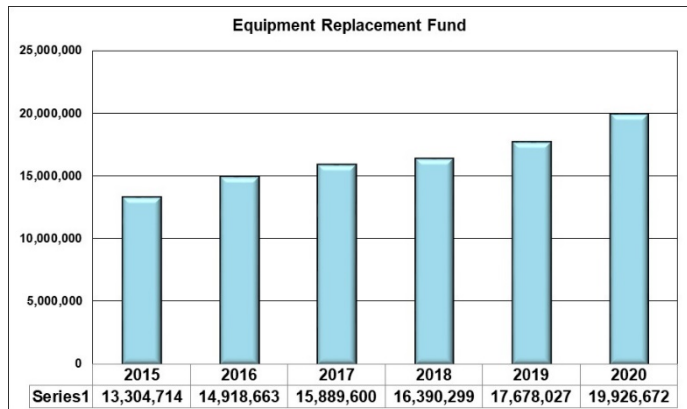
The Reserve for Catastrophic Exposures/Emergencies for the Risk Fund is funded at a minimum of \$2,500,000. This reserve was established to set aside emergency funds to protect the Town against the potential financial impacts of large judgments in excess of insurance coverage and the financial impacts 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.

### 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.

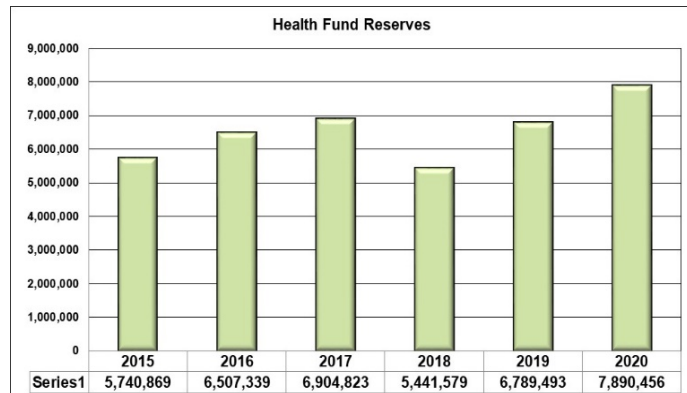
The Unassigned balance in the Equipment Replacement Fund Reserve for year-end FY20 is \$19,926,672. In FY13, the Town Council approved the use of funds from this reserve for internal financing for small neighborhood underground utility projects financed by special assessments. To date, there is a balance of \$1,701,946 remaining from this allocation. Currently the total amount in the fund for equipment replacement is \$15,962,016 leaving an excess of \$3,964,656.

For FY21, income including the depreciation transfer will total \$2,503,424 and expenditures for capital equipment are budgeted at \$2,333,096 which will cause the net assets of this fund to increase.



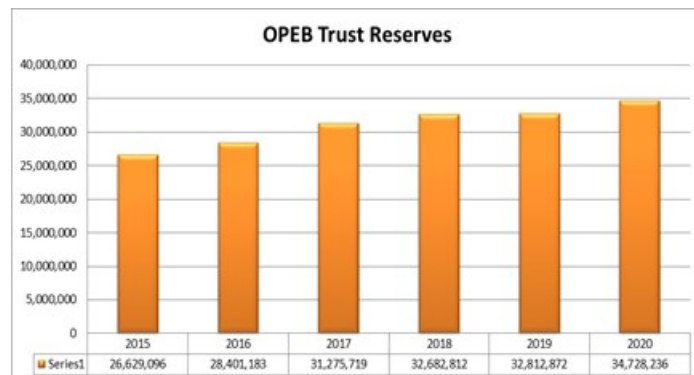
### Health Insurance Reserve

The balance of the reserve in the Health Fund at the end FY20 is \$7,890,456. 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 maintained level funding of health insurance benefits due to the wellness program and good claims experience which enabled a reduction in funding for FY19 and FY20 and allowed for maintained level funding in FY21. The reserves of this fund have provided a cushion in case claims unexpectedly increase. In FY18, a transfer of \$2,300,000 from excess reserves 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 at the end of FY20 totalled \$1,986,960, leaving a surplus reserve amount of \$5,903,496. For FY21, the contingency balance is not expected to be spent and the projected fund balance is expected to be stable.



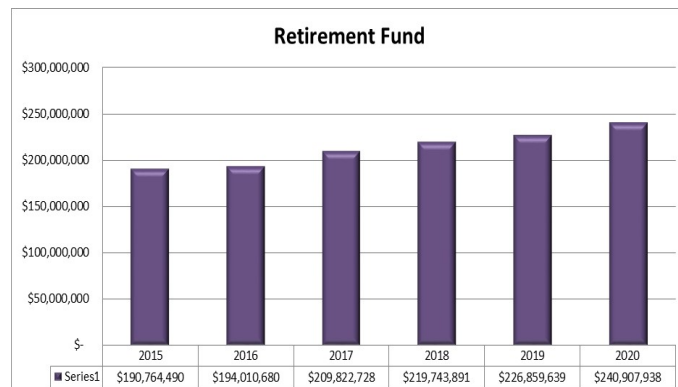
### OPEB (Other Post Employment Benefits) Trust

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 \$34,728,236 as of September 30, 2020. The total OPEB liability is calculated to be \$24,931,118, resulting in a Net OPEB asset of \$8,797,117, and a funded ratio of 133.9% using a 5% return assumption. The actuarially determined transfer from the General Fund for the OPEB liability for FY21 is \$429,858. The Town is exceptionally well funded and continues to be well ahead of other government agencies.



### 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 FY20 were \$240,907,938. The increase was a result of good investment performance during the year and the extraordinary retirement contribution. The funded ratio improved to 72.7% compared to 70.3% last year.



### Contingency Reserves

Contingency reserves were established for the General Fund, Capital Fund, Equipment Replacement Fund, Marina and Par 3 Enterprise Funds, Building Permit 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 FY20 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 the contingency are appropriated for expenditures through an affirmative vote of the Town Council.

The table on the following page identifies the contingency budgets and actual expenditures for the fiscal years 2016 through FY2021 budget.



**Contingency Balances  
2016-2021**

Contingency	2016	2017	2018	2019	2020	2021
General Fund Budget	\$ 944,686	\$ 960,300	\$ 655,877	\$560,000	\$610,000	\$600,000
General Fund Actual	\$ 764,145	\$ 759,644	\$ 12,000	\$ 79,864	\$160,280	\$ -
CIP Budget	\$ 208,000	\$ 348,600	\$ 284,500	\$603,750	\$693,500	\$352,000
CIP Actual	\$ 208,000	\$ -	\$ -	\$ 95,796	\$ -	\$ -
ERF Budget	\$ 500,000	\$ 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	\$500,000
Risk Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Health Budget	\$ 500,000	\$ 500,000	\$ 500,000	\$500,000	\$500,000	\$500,000
Health Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Par 3 Golf Course Budget	\$ -	\$ -	\$ -	\$ 89,630	\$ 85,298	\$ 93,223
Par 3 Golf Course Actual	\$ -	\$ -	\$ -	\$ 55,882	\$ 69,000	\$ -
Marina Budget	\$ -	\$ -	\$ -	\$ 55,679	\$ 54,209	\$ 39,686
Marina Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Building Permit Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$138,035
Building Permit Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Recreation Enterprise Budget	\$ 285,300	\$ 321,200	\$ 168,303	\$ -	\$ -	\$ -
Recreation Enterprise Actual	\$ 135,030	\$ -	\$ 37,750	\$ -	\$ -	\$ -

### 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 Town's 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 following page summarize the trend of the unassigned net position, compensated absence, and replacement reserve balances for fiscal year ending 2015 through fiscal year end 2020. Total reserves equal \$458,623,388. Reserves less Pension and Retiree Health Trust total \$182,987,214. Total Town reserves have grown over 34.2% since 2015. Total reserves less the Pension Fund and Retiree Health OPEB Trust have grown by 47.8% or \$59,174,772 over the same period. The Pension and Retiree Health Funds have grown by \$58,242,588 or 26.8% since 2015. Funding for future capital, coastal and Townwide underground utility projects held in reserves totals \$108,127,402.

**Town Reserve Balance History  
2015 - 2020**

Fund	2015	2016	2017	2018	2019	2020
General Fund	\$ 22,267,051	\$ 21,615,082	\$ 17,716,419	\$ 23,063,128	\$ 26,540,203	\$ 29,628,725
Compensated Absence (GF)	\$ 3,168,789	\$ 3,061,180	\$ 3,210,518	\$ 3,129,714	\$ 3,094,888	\$ 2,703,693
Equipment Replacement Fund	\$ 13,304,714	\$ 14,918,663	\$ 15,889,600	\$ 16,390,299	\$ 17,678,027	\$ 19,926,672
Recreation Enterprise Fund	\$ 179,645	\$ 169,291	\$ 777,250	\$ -	\$ -	\$ -
Recreation ERF	\$ 584,638	\$ 583,475	\$ 651,225	\$ -	\$ -	\$ -
Dock Replacement	\$ 2,880,038	\$ 3,356,781	\$ 3,801,256	\$ 2,587,882	\$ 3,980,807	\$ 5,141,712
Par 3 M&I Reserve	\$ 351,246	\$ 388,132	\$ 442,910	\$ -	\$ -	\$ -
Tennis M&I reserve	\$ 46,320	\$ 53,852	\$ 61,142	\$ 71,610	\$ -	\$ -
Par 3 M&I	\$ 147,602	\$ 327,485	\$ 287,426	\$ 872,468	\$ 992,341	\$ 985,326
Par 3 Equipment Replacement				\$	\$ 524,641	\$ 524,869
Donation Fund	\$ 564,368	\$ 1,180,331	\$ 3,018,697	\$ 1,666,199	\$ 1,490,547	\$ 1,011,637
Debt Service	\$ 1,567,384	\$ 955,441	\$ 1,569,976	\$ 1,566,248	\$ 1,381,353	\$ 1,659,221
Capital Improvement	\$ 5,898,531	\$ 5,506,265	\$ 6,639,003	\$ 7,376,553	\$ 16,354,430	\$ 17,056,376
Coastal Protection Fund	\$ 24,072,085	\$ 13,810,648	\$ 19,661,966	\$ 27,916,610	\$ 39,769,059	\$ 32,351,493
Townwide Underground Fund			\$ (1,172,618)	\$ 6,672,736	\$ 63,944,516	\$ 57,855,306
2013 ACIP Fund	\$ 34,967,926	\$ 20,196,064	\$ 12,095,772	\$ 7,286,574	\$ 1,601,603	\$ 864,227
Health Fund	\$ 5,740,869	\$ 6,507,339	\$ 6,904,823	\$ 5,441,578	\$ 6,789,493	\$ 7,890,456
Risk Fund	\$ 8,071,236	\$ 8,458,781	\$ 7,578,199	\$ 4,807,846	\$ 5,212,442	\$ 5,387,501
Health - OPEB Trust	\$ 26,629,096	\$ 28,401,183	\$ 31,275,719	\$ 32,682,812	\$ 32,812,872	\$ 34,728,236
Pension Funds	\$ 190,764,490	\$ 194,010,680	\$ 209,822,728	\$ 219,743,891	\$ 226,859,639	\$ 240,907,938
<b>Total</b>	<b>\$ 341,206,028</b>	<b>\$ 323,500,673</b>	<b>\$ 340,232,011</b>	<b>\$ 361,276,148</b>	<b>\$ 449,026,861</b>	<b>\$ 458,623,388</b>





### Excess Reserves

Many of the Town's reserves must be maintained at a minimum level set by policy or based on recommendations of the actuarial firms used by the Town. The various capital fund reserves represent funds that have been accrued for future projects. The chart below shows the FY20 ending balance, minimum reserve amount and excess reserve balances. Total excess reserves are \$28,247,248. Of this amount, the Town Council in FY21 has allocated \$1,133,500 from the Marina Reserve and \$1,123,108 from the General Fund Reserve for the Lake Park Project.

Fund	2020 Reserve Balance	Minimum Required Balance	Excess Reserves
General Fund	\$ 29,628,725	\$ 17,014,143	\$ 12,614,582
Compensated Absence (GF)	\$ 2,703,693	\$ 2,703,693	\$ -
Equipment Replacement Fund	\$ 19,926,672	\$ 15,962,016	\$ 3,964,656
Dock Replacement	\$ 5,141,712	\$ 2,423,920	\$ 2,717,792
Debt Service	\$ 1,659,221	\$ -	\$ 1,659,221
Capital Improvement	\$ 16,354,430	\$ 16,354,430	\$ -
Coastal Protection Fund	\$ 32,351,493	\$ 32,351,493	\$ -
Health Fund	\$ 7,890,456	\$ 1,986,960	\$ 5,903,496
Risk Fund	\$ 5,387,501	\$ 4,000,000	\$ 1,387,501
Health - OPEB Trust	\$ 34,728,236	\$ 34,728,236	\$ -
Pension Funds	\$ 240,907,938	\$ 240,907,938	\$ -
<b>Total</b>	<b>\$ 399,201,909</b>	<b>\$ 370,954,661</b>	<b>\$ 28,247,248</b>

