FINANCE COMMISSION MEETING
Monday, February 8, 2016 - 2:00 p.m.
City Hall, Council Chambers, Vero Beach, Florida

AGENDA

1. CALL TO ORDER

2. ELECTION OF OFFICERS

- **A) Chairman**
- **B) Vice Chairman**

3. APPROVAL OF MINUTES

- **A) November 12, 2015**

4. PUBLIC COMMENT

5. FINANCE DIRECTOR'S MATTERS

- **A) Discussion Regarding Potential Elimination of Electric Utility Impact Fees**
- **B) Recommendation of Bid Award – Series 2016 Capital Improvement Revenue Bond (backup to be sent at a later date)**
- **C) Continue Discussion of Draft General Fund "Fund Balance" Policy (From 11/21/15)**
- **D) Discussion Regarding Customer Service Technology Upgrades**
- **E) Quarterly Financial Report & Variance Analysis – 1st Quarter FY 15-16 (backup to be sent at a later date)**
- **F) Update on Electric Utility**

6. NEW BUSINESS

- **A) Annual Report**

7. OLD BUSINESS

8. CHAIRMAN'S MATTERS

9. MEMBER'S MATTERS

10. ADJOURNMENT

This is a Public Meeting. Should any interested party seek to appeal any decision made by the Commission with respect to any matter considered at such meeting or hearing, he will need a record of the proceedings and that, for such purpose he may need to ensure that a record of the proceedings is made, which record includes the testimony and evidence upon which the appeal is to be based. Anyone who needs a special accommodation for this meeting may contact the City's Americans with Disabilities Act (ADA) Coordinator at 978-4920 at least 48 hours in advance of the meeting.

FINANCE COMMISSION MINUTES
Thursday, November 12, 2015 – 2:00 p.m.
City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Chairman, Peter Gorry; Vice Chairman, Glen Brovont; Member: Noah Powers, and Alternate Member #1, Daniel Stump **Also Present:** City Manager, James O'Connor; Finance Director, Cindy Lawson and Deputy City Clerk, Sherri Philo

Excused Absence: Kathryn Barton
Unexcused Absence: Victor Demattia

1. CALL TO ORDER

Today's meeting was called to order at 2:00 p.m.

2. APPROVAL OF MINUTES

A) August 10, 2015 – Regular Meeting
B) October 5, 2015 – Joint Utilities Commission/Finance Commission Meeting
C) October 12, 2015 – Joint Utilities Commission/Finance Commission Meeting
D) October 16, 2015 – Joint Utilities Commission/Finance Commission Meeting

Mr. Gorry made a motion to approve the minutes of the August 10, 2015 Regular meeting, the October 5th, 2015 Joint Utilities/Finance Commission meeting, the October 12, 2015 Joint Utilities/Finance Commission meeting and the October 16, 2015 Joint Utilities/Finance Commission meeting. Mr. Brovont seconded the motion and it passed unanimously.

3. PUBLIC COMMENT

None

4. CHAIRMAN'S MATTERS

Mr. Gorry noted that Councilmember Randy Old was present today to introduce his appointee to the Finance Commission.

Mr. Old introduced Mr. Nathan Polackwich to the Commission members. He noted that Mr. Polackwich has not been sworn in and was present today to observe.

Mr. Polackwich briefly went over his background with the Commission members.

5. NEW BUSINESS

None

6. OLD BUSINESS

None

7. FINANCE DIRECTOR'S MATTERS

*Please note that item 7-D) was moved up on today's agenda and heard first under Finance Director's matters.

A) FY 14-15 Budget Amendment

Ms. Cindy Lawson, Finance Director, briefly went over the FY 14-15 Budget amendment with the Commission members (attached to the original minutes). She asked for a recommendation from the Finance Commission that the City Council adopt the budget amendment.

Mr. Powers made a motion that the Commission recommends to the City Council that they adopt the Budget amendment. Mr. Brovont seconded the motion and it passed unanimously.

B) Draft General Fund "Fund Balance" Policy

Mr. Gorry suggested that the Commission members listen to Ms. Lawson's presentation, absorb the information, and then they would bring it back at a later date for more discussion and possibly a vote.

The Commission members agreed.

Ms. Lawson said this is a difficult topic. There are some really good best practices and some very large potential pitfalls that she has seen where a path was followed that led them into problems with regard to spending fund balance. She offered to send the Commission members a link that has more extensive resources that would help them understand the topic. She then went over the Analysis and Recommendations - City General Fund "Fund Balance" Policy with the Commission members (attached to the original minutes).

Mr. Stump referred to the principle not to use a non-recurring revenue source to support a recurring expenditure. He said at the City Council Budget Workshop, they slightly deviated from that and dipped into it to come up with the increase in the budget expenditures.

Ms. Lawson said the City Council decided not to dip into the fund balance. They increased the mileage to cover operating expenditures and took the $500,000 dollars that they were going to spend on capital and removed it from the budget. She said the adopted budget did not deplete the fund balance at all.

Mr. Gorry said the direction they had from the City Council was to reduce taxes without reducing services.

Mr. Stump asked if they did dip into the fund, how would that have affected the current financial situation of the current budget.

Ms. Lawson explained that the General Fund is made up of recurring expenditures. It is 70% payroll, pension, health insurance, etc. She said they budget for a certain amount of expenditures and budget for recurring revenue to cover those expenditures. She said if they spend less or take in a little more, their fund balance increases at the end of the year. What she is proposing is that anytime they have an increase in the fund balance, once they have established a minimum that they want to hold onto, they can take that money and use it for a one-time project, such as a road, bridge, building, etc. She said they would not be adopting a budget in any year where their operating revenues are not sufficient to cover their operating expenditures because what happens then is the following year they would automatically be in the hole.

Ms. Lawson said Attachment A (attached to the original minutes) is what she is suggesting be adopted by the City Council. She explained that it would be the actual adopted policy that would be attached to an Ordinance or Resolution.

Mr. Powers felt that having 45% of the City's budget set aside for reserves seemed like a lot of money.

Ms. Lawson said if they could agree that the policy as written with regard to not spending fund balance on recurring expenditures, etc., then they could focus their discussion on the percentages. She wanted to make sure that they proceed very careful when they start dipping into the fund. She said the real discussion is what percentage they think is appropriate to recommend.

Mr. Brovont said that he went over this very carefully. He did not feel the reserves were too large, but that they were right on. He felt that they needed the capital expenditures defined more clearly.

Mr. Brovont referred *Attachment A, Section 5.0 – Determination of Excess Fund Balance Amounts* of Attachment A). He said that is the total funds that are left after subtracting the three fund balance categories *(Emergency (Disaster) Reserves; Budget Stabilization Reserve; Working Capital)*. He said to him, this implies that it could be used for any operating costs.

Ms. Lawson said that is just the determination of the amount. She explained that Section 6 is the allowable uses of the excess fund balances.

Mr. Brovont said that he was having difficulty with some of the language and suggested that Ms. Lawson clean it up a little bit.

After a brief discussion, Ms. Lawson said that she would look at the verbiage again. She said that it might be just switching the order of Sections 5.0 through 8.0.

Mr. Powers said when he looks at budget stabilization and at working capital; he has a difficult time separating them because in reality it is a hedge against revenue ups and downs. He felt that the two items could be combined into the fund balance.

Ms. Lawson said for clarity purposes, it makes sense to her to categorize why they have the fund balance they have.

Mr. Brovont felt it was very important to have the working capital differentiated. He said the public will understand it with it broken down.

Ms. Lawson said this is a big topic. She said if they agree, in principle, on the idea of not using non-recurring revenue for recurring expenses and it is appropriate to have an emergency expenditure set aside, as well as the other categories, then they could discuss the numbers when they discuss this policy again.

Mr. Brovont did not think they should go three or four years rebuilding the emergency disaster fund. It should come out of their budget stabilization.

Mr. Gorry said his recommendation is that they discuss this further at their next meeting.

Mr. Brovont agreed. He said that he would like to go through the information again and think about it.

Mr. Powers asked is there a timeline for this to be brought before the City Council.

Ms. Lawson said that she told the City Council that they would have this in place before they start next year's budget process. They also have some pressure on infrastructure spending, particular with stormwater, which would be coming to the forefront in the next few months. She felt it would be helpful if it was clear that the Finance Commission agreed on the principles of this by January or February.

Ms. Lawson referred to a case study that was done in Colorado Springs. She said that she would send a link to the City Clerk's office to be forwarded to the Commission members.

Mr. Randy Old, Councilmember, commended the Commission members on a really good discussion today. He wondered if having a line of credit instead of cash might be an alternative. He said that he was not suggesting they do this, but thought it was something that should be discussed.

Ms. Lawson said they don't have any debt to support their cash. Therefore, the question is would they rather have a line of credit than having cash available.

Mr. Brovont said that he would not be opposed to borrowing money for capital assets, but borrowing money for operating expenses would worry him.

Ms. Lawson said if they had a catastrophic event, such as a category 5 hurricane, $2 million dollars in emergency expenditures would not even get them started. That would be a case where they might have a line of credit as a backstop.

Mr. Stump excused himself from today's meeting at 4:44 p.m.

Mr. Brovont said the City received an offer from Florida Power and Light (FPL) for the sale of Indian River Shores and the counter offer was never brought before the Finance Commission for their input. He said the Finance Commission was dismissed as if they were Boy Scouts.

Another thing is the City Council approved the TIP Program for Downtown without the Finance Commission seeing the information. He said that he has no idea how this affects the City.

Ms. Lawson asked Mr. Brovont if he was discussing the Economic Development Sales Tax.

Mr. Brovont answered yes. He asked what is the impact of this.

Ms. Lawson said that Ordinance was put in place about three (3) years ago. She said that she did an analysis on this and would be happy to share it with them.

Mr. Brovont said it sometimes feels like the Commission is being used to help give cover to some of their Elected Officials and then when they don't want the Commission's input they just move it forward.

Mr. O'Connor did not think there was any effort for the Commission to cover anyone. He thought there was a timing issue with Indian River Shores where they didn't have the time to go through all the processes in order to get a response back to Indian River Shores.

Mr. Brovont said that he understood, but if the City is going to have Commissions he did not think it was helpful to use them when they need them and not use them when they don't want them. If it takes 30 days longer, then it is going to take 30 days longer. He said that he was not sure if the counter offer had been brought before this Commission that it would have gone out the same way.

Mr. Old thought this was covered at the Joint Finance/Utilities Commission meeting.

Mr. O'Connor thought it was explained to the Commissions after the fact.

Mr. Old said there was no way they were trying to go around the Commission by any means.

Mr. Gorry asked for a motion to schedule at a future date another session on the follow up.

Mr. Brovont made a motion to continue discussion on the draft General Fund "Fund Balance" Policy at a future meeting. Mr. Powers seconded the motion and it passed unanimously (3-0 with Mr. Stump no longer in attendance).

C) Discussion Regarding Customer Service Technology Upgrades

Mr. Gorry said this item was discussed for over an hour by the Utilities Commission and it is currently 4:55 p.m. He asked Ms. Lawson how she would like to proceed.

Ms. Lawson suggested that the Commission members read the backup information and if they have any questions they could call her. She said that she will put this item on their next meeting agenda for discussion.

The Commission members agreed.

D) **Cost Analysis of Savings Resulting From Closure of City Electric Power Plant**

*Please note that item 7-D) was moved up and heard prior to items 7-A) and 7-B) on today's agenda.

Ms. Lawson briefly went over the cost analysis of the Electric Utility operating cost savings in closing the Power Plant with the Commission members (attached to the original minutes).

Mr. Ted Fletcher, Utilities Director, gave a Power Point presentation on the three (3) phases after shutting down the generating units to the Commission members (attached to the original minutes).

Ms. Lawson noted that Phase 1 is the easiest version of shutdown.

Mr. Stump said Phase 2 could interfere with long term plans for the site.

Mr. Gorry said it is almost a fork in the road as to if they want to do Phase 2 or Phase 3.

Mr. O'Connor clarified that when they discuss demolition, they are discussing demolition of materials inside the building. They are not discussing taking up the slab. If they decide that they want to go with Phase 3, then they would have to determine the type of land use they want for the site, which determines the type of cleanup needed. He reported that the consultants who are doing the Optimization Study stated that even if the City went to Phase 3, demolished the building, cleaned up the site and received the highest and best use of the land, they would still be $5 million dollars in the hole.

Mr. Brovont asked is it possible that the building could be used.

Mr. O'Connor answered yes, but the problem with leaving the building there is they would still have the substation attached, which would limit what the building could be used for. He reported that the Recreation Commission and the Marine Commission are holding a public meeting on November 30, 2015 regarding the use of the site. He said the Chamber of Commerce is also looking at potential uses for the site.

Mr. Stump asked how long will it take to complete Phase 1.

Mr. Fletcher said they anticipate July or August, provided they get the RFP out in time.

Mr. Powers said at this point, Phase 1 would not cost the City anything.

Ms. Lawson said that is their hope.

Mr. O'Connor said the fact is that they are going to have to do Phase 1.

Mr. Stump made a motion that the Commission members agree with moving forward with Phase 1 as recommended by staff. Mr. Brovont seconded the motion and it passed unanimously.

Mr. Brovont said some of them pushed hard to get this Orlando Utilities Commission (OUC) situation behind them. He said that he was stunned that the analysis of what it is going to cost to move the Plant wasn't prepared prior to their whole discussion. He said this is going to be a surprise to the ratepayers. He said that if he was doing this, he would look at the $20 million dollar cost of moving the Plant and going with OUC. To him they are related.

Mr. O'Connor said they are not related. They would not have a $20 million dollar exposure unless they are going to take the Plant down.

At this time, the Commission members went to item 7-A) on today's agenda.

8. MEMBER'S MATTERS

None

9. ADJOURNMENT

Today's meeting adjourned at 4:56 p.m.

/sp

MEMORANDUM

TO: Mayor and Council

FROM: James R. O'Connor, City Manager
Cynthia D. Lawson, Finance Director
Ted Fletcher, Electric Utility Operations Director

DATE: December 28, 2015

SUBJECT: Discussion Regarding Potential Elimination of Electric Utility Impact Fees

BACKGROUND:

The City of Vero charges electric utility impact fees for new development, in addition to various other new account fees. The attached approved PSC rate sheet shows the current electric impact fees for residential and commercial development. According to the City's electric utility rate consultants, PRMG, impact fees are allowable under the City's home rule authority but are not a common electric utility industry practice; the City appears to be the only municipal electric utility in the State which currently charges impact fees for new development.

Staff and the City's rate consultant intended to present elimination of impact fees for consideration during adoption of the final rate study, currently planned for completion by October 2016. Increased development due to the improving economy has, however, made it advisable to bring this issue forward for consideration now.

For FY 15-16 the City has budgeted for $250,000 in impact fees to support capital projects. The five year history of actual impact fees collected is as follows:

	Five Year Average	FY 14-15	FY 13-14	FY 12-13	FY 11-12	FY 10-11
Total Impact Fees	$159,276	129,110	140,610	62,315	253,720	210,625

This represents only 0.2 % of total annual utility revenues. Eliminating this funding could have a rate impact, but it is likely to be extremely minor and would be addressed as part of the rate study completion.

Staff would like Council direction regarding eliminating impact fees immediately. If Council directs this action, staff will bring back the appropriate document for approval at a subsequent Council meeting.

ANALYSIS:

<u>Strengths:</u> Eliminating impact fees would bring the City into conformance with current electric utility industry practices.

Weaknesses: Elimination of impact fees would reduce annual revenues by approximately $160,000 on average.

Opportunities: Eliminating impact fees would reduce the cost burden on new development, particularly commercial development.

Threats: Elimination of impact fees could affect rates, but any adjustment is anticipated to be extremely minor.

TO: Finance Commission
FROM: Cynthia D. Lawson, Finance Director / James R. O'Connor, City Manager
DATE: November 4, 2015
SUBJECT: Analysis and Recommendations – City General Fund Fund Balance Policy

BACKGROUND

There are many reasons that governmental entities require adequate fund balances. As explained by the Government Finance Officers Association (GFOA):

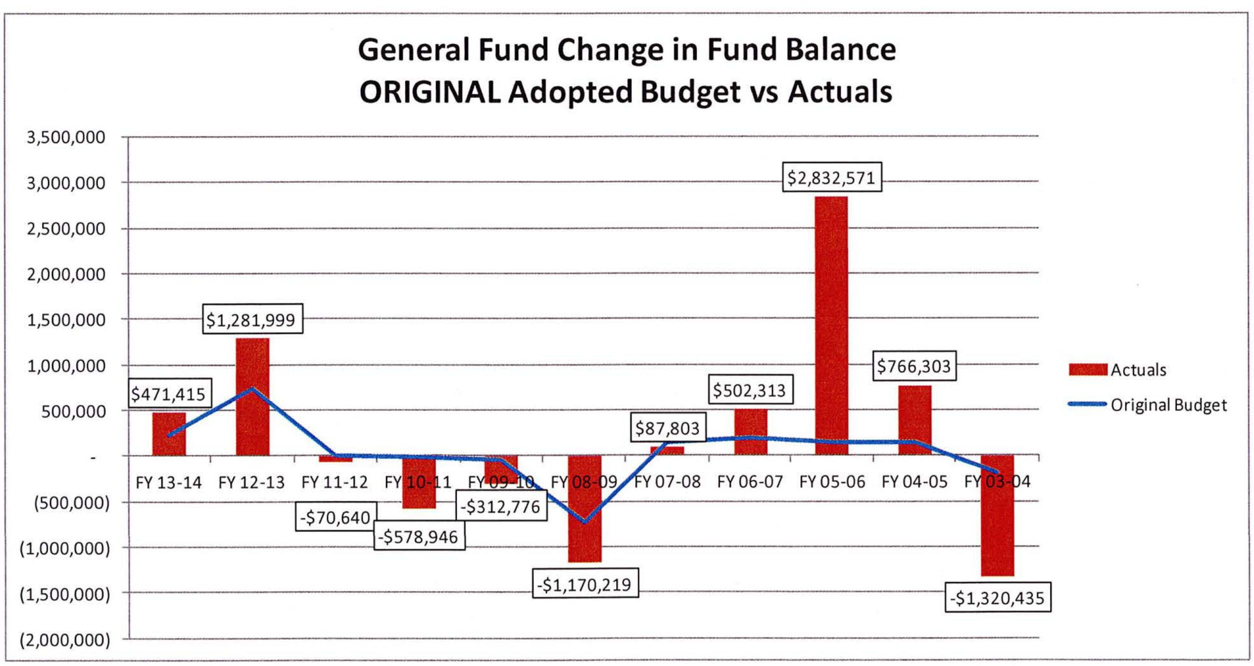
> "It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning"

In response to discussions during the FY 15-16 budget adoption process regarding appropriate fund balance levels, and the potential uses of excess balances, staff has prepared a proposed fund balance policy (Attachment A) for discussion by the Finance Commission. Once finalized, this policy would be forwarded for formal adoption by the City Council by ordinance.

HOW FUND BALANCE IS CREATED:

General Fund reserves are accumulated primarily through budget surpluses and unanticipated revenues. In some years, the fund balance decreases if the City has experienced unexpected expenditures or revenue downturns. Figure 1 provides a historical perspective on the City's rise and fall in fund balance for the past 11 fiscal years. Please note that the City's General Fund fund balance has actually fallen in 5 of the last 11 years, and the net increase in fund balance across this entire time frame has been $2.5 million. This historical data illustrates the fact that fund balance is not a revenue source that grows indefinitely, but rather a reserve that rises and falls as needed to fund the City's operating and emergency expenditure needs.

Figure 1. Increases and Decreases in General Fund Fund Balance – 11 Fiscal Years



COMPONENTS OF FUND BALANCE – THE 'LAYERED' APPROACH:

The proposed fund balance policy, in accordance with the GFOA Best Statement Practice – "Replenishing General Fund Balance" (Attachment A), contains three individual components of target fund balances specifying the purposes for which the various portions of fund balances are intended as follows:

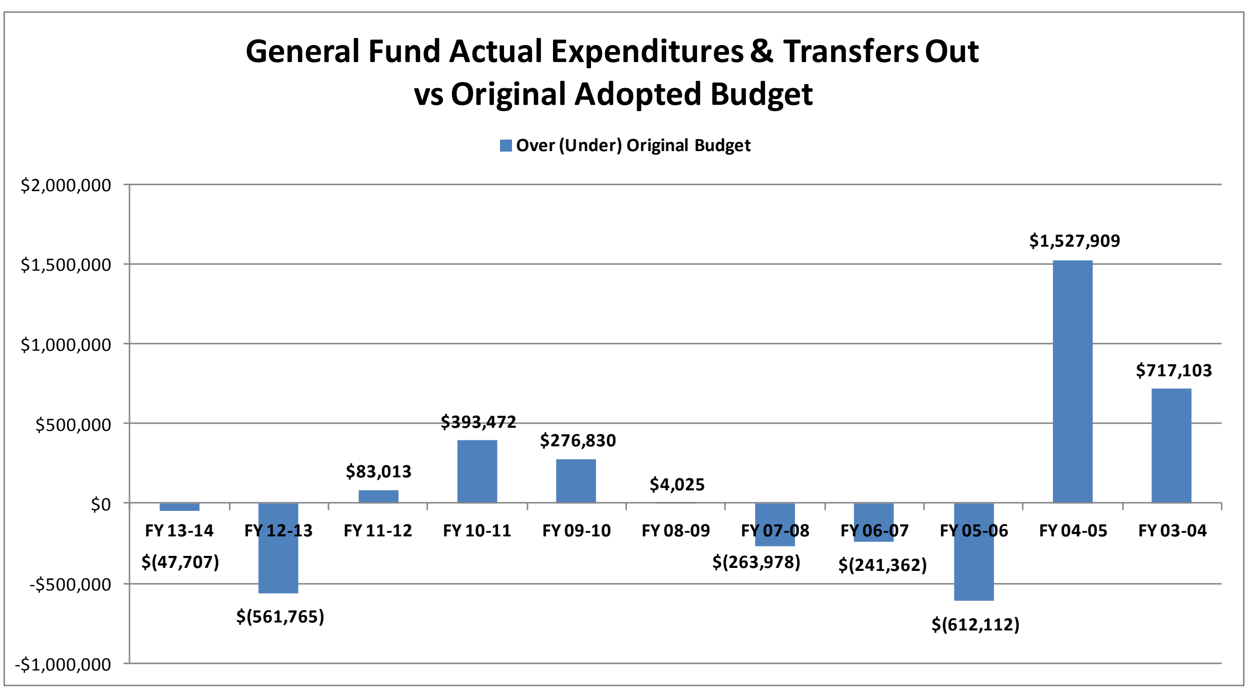
- Emergency Expenditures
- Budget Stabilization
- Working Cash Flow

The **Emergency Expenditures** component of fund balance is intended to provide cash coverage for expenditures needed in the event, primarily, of tropical storms and hurricane events which required extensive clean up or damage to infrastructure. In some cases these events are reimbursed by FEMA coverage. However, this reimbursement from Federal and State is normally 87.5 percent of incurred costs. And in the case of tropical storms or severe weather for which there is no declared emergency (such as a nor'easter which impacts the City's dunes and boardwalks) there may be no reimbursement, leaving the City to fund the entire amount of expenses plus any associated insurance deductibles. This component of fund balance is also designed to cover deductibles and other expenses in the event of an insured loss not related to a storm.

The **Budget Stabilization** component of the fund balance is intended to provide a buffer against the potential volatility of operating revenues and expenditures. The City's budget is prepared in July to cover the period that ends almost 14 months later. Events happen that cannot be predicted and the budget stabilization layer is intended to help the City withstand those normal ups and downs in expenditures due to unforeseen circumstances..

Figure 2. shows that amount that the City's actual expenditures were over/under the original adopted budget for the last 11 years.

Figure 2. General Fund Expenditures Over (Under) Original Budget – 11 Fiscal Years



This time frame includes the hurricanes of September 2004, which caused two years of budget overages in the General Fund totaling approximately $2.2 million.

The **Working Capital** component of the fund balance is intended to support the City's General Fund cash flow needs in the months of October – November, when ad valorem tax revenues and other seasonal revenue sources (such as Recreation revenues) are not yet available, but monthly operating expenditures must be met. In some Cities, this component is covered by the other reserves, but in the case of Vero Beach, the greatest budget volatility and emergency expenditures are likely to occur in the same time frame (Oct-Dec). In my opinion, that makes it prudent to include this as a separate component of fund balance. This will provide a sufficient buffer to meet ongoing operating expenses, even if there is a simultaneous emergency event coupled with the possible downturn of state sharing revenues (for instance a November storm).

APPROPRIATE LEVELS OF FUND BALANCE

There is no 'one size fits all' approach to appropriate fund balance percentages. While best practices provided by GASB, GFOA, and other professional government finance organizations do provide some guidelines, they all conclude that each City's targeted reserves should be based on its individual risks and characteristics.

In addition to percentages, it is important to consider the dollar amount produced by application of those percentages. For instance, if Vero's reserves were at the minimum 17% recommended by GFOA, the dollar amount would be only $3.7 million. In my (admittedly conservative) opinion, this would be a dangerously low dollar amount given the considerations of budget stabilization, emergency expenditures and working cash flow needs outlined above.

The attached policy provides the following recommended percentages as a starting point for our discussion:

Emergency Expenditures = $ 2,000,000 fixed amount as 'committed' fund balance:

This number is consistent with the actual amounts expended in the General Fund during the last major storm as noted in Figure 2 above.

Budget Stabilization at 10%:

As a point of comparison, a 10% stabilization fund would be approximately $ 2 million dollars as a percentage of the FY 15-16 budget. The range of expenditures over (under) budget for the past 11 years (excluding hurricanes) has been $612,000 under to $393,000 over budget.

Working Capital at 25%:

This amount is equal to 3 months expenditures to support negative cash flow in October through December each year.

CALCULATION OF 'EXCESS' FUND BALANCE FOR APPROPRIATION:

The draft policy suggests the following timing for calculation and appropriation of any excess fund balances resulting from the application of the policy:

- In March of each year, the City's Comprehensive Annual Financial Report (CAFR) provides the audited unassigned fund balance for the fiscal year ended the previous September 30th. This unassigned fund balance would be exclusive of the Emergency Expenditures Reserve which would be classified as 'committed' fund balance in accordance with GASB Statement No. 54 *" Fund Balance Reporting and Governmental Fund Type Definitions"*.
- This dollar amount can be compared to the then current year's budgeted operating expenditures (including transfers out) to obtain a percentage.
- This percentage can be compared to the total of 35 % recommended by the fund balance policy for the combination of Budget Stabilization and Working Capital.
- If there is 'excess' fund balance at that point, it can be:
    - Appropriated for expenditure in the current fiscal year through a budget amendment.
    - Left available to be appropriated for expenditures in the coming fiscal year, to be designated by Council during the summer budget cycle.
    - If the fund balance percentage is below the target, then plans can be made to replenish it to acceptable levels as outlined below and in Section 8.0 of the draft policy.

FIGURE 3. Sample Calculation Based on FY 15-16 Adopted Budget

TOTAL FY 15-16 GENERAL FUND OPERATING EXPENDITURES AND TRANSFERS		**$**	**22,040,739**
SEPTEMBER 30, 2015 FUND BALANCE (PROJECTED)		**$**	**9,883,194**
FUND BALANCE COMPONENT			
DESCRIPTION	**%**	**$**	
EMERGENCY EXPENDITURE RESERVE	flat	$	2,000,000
BUDGET STABILIZATION	10%	$	2,204,074
WORKING CAPITAL	25%	$	5,510,185
TOTAL RESERVES	**35%**	**$**	**9,714,259**
EXCESS FUND BALANCE AVAILABLE FOR APPROPRIATION		**$**	**168,935**

APPROPRIATE USES OF EXCESS FUND BALANCE:

This is a central part of the fund balance policy and was discussed extensively during the budget workshops. All of the fund balance policies and best practices that are available do seem to agree on one thing….it is not advisable to use a non-recurring revenue source such as fund balance to support a recurring expenditure. This practice simply puts you further behind in the following year, as the availability of fund balance is finite, while the expenditure will re-appear in subsequent years. In practical terms, using fund balance to pay recurring expenses is akin to using your savings account to pay your mortgage; eventually you will have no savings account but you will still need housing.

The best uses of fund balance, as reflected in the draft policy, are one time expenditures, particularly those that may also reduce future operating expenses.

One time expenditures include capital projects. For instance, the City has deferred maintenance expenditures and is currently facing the need for extensive repairs to recreation facilities. A ‘one time’ use of fund balance to refurbish a recreation facility is not a recurring expense, and may have the added benefit of reducing any ongoing repairs and maintenance paid from operating expenses.

Another potential use of fund balance, as reflected in the draft policy, is a one time infusion of additional cash into the City’s frozen defined benefit pension plan. This would reduce the City’s unfunded liability, and as a consequence may reduce the City’s future annual payments towards that unfunded liability.

During the budget hearing, the option of paying annual debt service with fund balance was discussed. However, annual debt service payments are recurring expenditures in a governmental fund for the life of the loan. The draft policy does includes the use of fund balance to defease debt (i.e. refinance or pay off of a loan) which is a one time expenditure, but not to fund annual debt service expenses.

REPLENISHMENT OF FUND BALANCES THAT FALL BELOW TARGET LEVELS

In accordance with GFOA best practices, the draft policy also includes methods for replenishing fund balances if they fall below acceptable target levels. These include:

- Replenishment of emergency reserves through insurance proceeds and Federal/State disaster relief funding.
- Allowing any budget surpluses created in subsequent fiscal years to accumulate until acceptable levels are reached.
- Budgeting for surplus (through enhanced revenues or expenditure reductions) to accumulate until acceptable levels are reached.

The draft policy also includes targeted time frames for replenishment of fund balances.

ADDITIONAL INFORMATION

The following GFOA ‘Best Practice’ publications regarding fund balance have been included as Attachment B:

‘Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund’ (2015)

‘Replenishing General Fund Balance’ (2011)

ATTACHMENT A – DRAFT FUND BALANCE POLICY PROPOSED FOR ADOPTION

CITY OF VERO BEACH
FUND BALANCE POLICY – GENERAL FUND

1.0 PURPOSE:

The City desires to maintain a prudent level of financial resources in its General Fund to guard against service disruption in the event of unexpected temporary revenues shortfalls or unpredicted one-time expenditures. The City also desires to maintain adequate working cash to support operating expenditures in its General Fund during the first quarter of each fiscal year prior to receipt of seasonal revenues.

2.0 SOURCES OF FUND BALANCE

The General Fund fund balances are accumulated primarily through budget surpluses and/or unanticipated non-recurring revenues.

3.0 FUND BALANCE CATEGORIES

The City will maintain three categories of fund balance reserves in the General Fund in accordance with this policy. These are:

- Emergency (Disaster) Reserves – (Committed Fund Balance)
- Budget Stabilization Reserve – (Unassigned Fund Balance)
- Working Capital – (Unassigned Fund Balance)

4.0 FUND BALANCE CATEGORY DESCRIPTIONS AND TARGET LEVELS

The **Emergency (Disaster) Reserves** category of fund balance is intended to provide funding for expenditures needed in the event, primarily, of tropical storms and hurricane events which require extensive clean up or damage to infrastructure. The **Emergency Disaster Reserve** is hereby established at $2,000,000 in the General Fund as a 'committed' fund balance in accordance with the requirements of GASB Statement No. 54 *"Fund Balance Reporting and Governmental Fund Type Definitions"*.

The City's unassigned General Fund fund balance will be divided into both a **Budget Stabilization Reserve** and a **Working Capital** component.

The **Budget Stabilization Reserve** is intended as a buffer for unexpected budgetary impacts to ensure budget stability and provide service continuity. The targeted level of **Budget Stabilization Reserves** is **10%** of annual budgeted operating expenditures (including transfers out) in the most recently adopted General Fund budget.

The **Working Capital** component of fund balance is intended to serve the City's cash flow needs, including the ability to meet payroll and vendor obligations in the first quarter of the City's fiscal year prior to receipt of significant ad valorem taxes and other seasonal revenues. The targeted level of **Working Capital** is **25%** of annual budgeted operating expenditures (including transfers out) in the most recently adopted General Fund budget.

ATTACHMENT A – DRAFT FUND BALANCE POLICY PROPOSED FOR ADOPTION

5.0 DETERMINATION OF EXCESS FUND BALANCE AMOUNTS

After the annual audit and financial statements for each fiscal year ending September 30th have been issued, if the total audited General Fund unassigned fund balance is greater than the sum of the targeted Budget Stabilization and Working Capital reserves (35%) as a percent of the subsequent year's budgeted General Fund operating budget expenditures (including transfers out), the excess may be used for allowable expenditures (as defined in Section 6.0 below) through one or more of the following actions:

1) Appropriated for expenditure in the current fiscal year through a budget amendment.
2) Retained for appropriation in the coming fiscal year as directed during the annual budget adoption process.
3) Left in the General Fund fund balance to earn interest and roll forward for a future use.

6.0 ALLOWABLE USES OF EXCESS FUND BALANCES:

Available fund balances shall not be used for ongoing operating expenditures. Instead, fund balances shall be used for non-recurring items. A non-recurring item is defined as an expenditure that has not occurred in the previous two years and is not expected to occur in the following year. Emphasis shall be placed on one-time uses that achieve future operating cost reductions, fund necessary infrastructure or reduce long term liabilities. Except in unusual circumstances, General Fund fund balance shall be used for general governmental purposes and not transferred in support of enterprise or utility funds.

Unless otherwise prohibited by law, appropriate uses of excess fund balance include one-time capital improvements, funding for capital projects, retirement of General Government debt (not including payment of annual debt service payments which do not meet the definition of a non-recurring item) or funding of pension or OPEB liabilities.

7.0 PROCEDURE FOR USE OF EMERGENCY (DISASTER) RESERVE:

In the event of an emergency, the City Manager may authorize use of the **Emergency (Disaster) Reserve** funds in accordance with the requirements of Section 2-350 of the City's Code of Ordinances.

8.0 MINIMUM RESERVES AND REPLENISHMENT OF FUND BALANCE TARGETS

If the **Emergency Disaster Reserve** is used it shall be replenished to the $2,000,000 level first using any available disaster relief funds or insurance proceeds. If this funding is inadequate to restore the $2,000,000 within one fiscal year, it is the intent of the City Council to restore this committed balance through other funding sources within three fiscal years.

If the City's audited unassigned fund balance drops below 35% but remains above 25% (as calculated in Section 5.0 above) it is the intent of the City Council that the unassigned fund balance will be replenished to the target level of 35% to restore the **Budget Stabilization Reserve** within four fiscal years.

In no circumstances shall the total General Fund unassigned fund balance be budgeted or otherwise appropriated in such as manner to cause it to fall below the targeted 25% balance for **Working Capital**. If the City's audited unassigned fund balance drops below 25% (as calculated in Section 5.0 above) due to unforeseen circumstances in any fiscal year, it is the intent of the City Council that the unassigned fund balance will be replenished to the target level of 25% to restore **Working Capital** within two fiscal years.

Attachment B

- Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund' (2015)

- 'Replenishing General Fund Balance' (2011)

GFOA Best Practice

Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund (CAAFR, Budget) (2015)

Background. In the context of financial reporting, the term *fund balance* is used to describe the net position of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net position of governmental funds calculated on a government's budgetary basis.[1] While in both cases *fund balance* is intended to serve as a measure of the financial resources available in a governmental fund; it is essential that differences between GAAP *fund balance* and budgetary *fund balance* be fully appreciated.

1. GAAP financial statements report up to five separate categories of fund balance based on the type and source of constraints placed on how resources can be spent (presented in descending order from most constraining to least constraining): *nonspendable fund balance*, *restricted fund balance*, *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.[2] The total of the amounts in these last three categories (where the only constraint on spending, if any, is imposed by the government itself) is termed *unrestricted fund balance*. In contrast, budgetary fund balance, while it is subject to the same constraints on spending as GAAP fund balance, typically represents simply the total amount accumulated from prior years at a point in time.

2. The calculation of GAAP fund balance and budgetary fund balance sometimes is complicated by the use of sub-funds within the general fund. In such cases, GAAP fund balance includes amounts from all of the subfunds, whereas budgetary fund balance typically does not.

3. Often the timing of the recognition of revenues and expenditures is different for purposes of GAAP financial reporting and budgeting. For example, encumbrances arising from purchase orders often are recognized as expenditures for budgetary purposes, but never for the preparation of GAAP financial statements.

The effect of these and other differences on the amounts reported as *GAAP fund balance* and *budgetary fund balance* in the general fund should be clarified, understood, and documented.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance in the general fund.

Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unrestricted fund balance for state and local governments.

Those interested primarily in a government's creditworthiness or liquidity(e.g., rating agencies) are likely to favor higher levels of fund balance. Opposing pressures often come from unions, taxpayers and citizens' groups, who may prefer that fund balance in excess of a government's formal policy requirements, be used for other purposes.

Recommendation. GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.[3] Such a guideline should be set by the appropriate policy body and articulate a framework and process for how the government would increase or decrease the level of unrestricted fund balance over a specific time period.[4] In particular, governments should provide broad guidance in the policy for how resources will be directed to replenish fund balance should the balance fall below the level prescribed.

Appropriate Level. The adequacy of unrestricted fund balance in the general fund should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance. Articulating these risks in a fund balance policy makes it easier to explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers and employees from unexpected changes in financial condition. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.[5] The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.[6] Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time. In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

1. The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
2. Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
3. The potential drain upon general fund resources from other funds, as well as, the availability of resources in other funds;

4. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds;

5. Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose). Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance, rather than on unrestricted fund balance.

Use and Replenishment.
The fund balance policy should define conditions warranting its use, and if a fund balance falls below the government's policy level, a solid plan to replenish it. In that context, the fund balance policy should:

1. Define the time period within which and contingencies for which fund balances will be used;
2. Describe how the government's expenditure and/or revenue levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge;
3. Describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished.

Generally, governments should seek to replenish their fund balances within one to three years of use. Specifically, factors influencing the replenishment time horizon include:

1. The budgetary reasons behind the fund balance targets;
2. Recovering from an extreme event;
3. Political continuity;
4. Financial planning time horizons;
5. Long-term forecasts and economic conditions;
6. External financing expectations.

Revenue sources that would typically be looked to for replenishment of a fund balance include nonrecurring revenues, budget surpluses, and excess resources in other funds (if legally permissible and there is a defensible rationale). Year-end surpluses are an appropriate source for replenishing fund balance.

Unrestricted Fund Balance Above Formal Policy Requirement. In some cases, governments can find themselves in a position with an amount of unrestricted fund balance in the general fund over their formal policy reserve requirement even after taking into account potential financial risks in the foreseeable future. Amounts over the formal policy may reflect a structural trend, in which case governments should consider a policy as to how this would be addressed. Additionally, an education or communication strategy, or at a minimum, explanation of large changes in fund balance is encouraged. In all cases, use of those funds should be prohibited as a funding source for ongoing recurring expenditures.

Committee: Budget

Notes:

1 For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.

2 These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

3 Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.

4 See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).

5 In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.

6 In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unrestricted fund balance to either revenues and/or expenditures, that decision should be followed consistently from period to period.

GFOA Best Practice

Replenishing General Fund Balance

Background. It is essential that governments maintain adequate levels of fund balance to mitigate risks and provide a back-up for revenue shortfalls.

The adequacy of unrestricted fund balance[1] in the general fund should be assessed based upon a government's specific circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, incorporate in its financial policies that unrestricted fund balance in their general fund be no less than two months of regular general fund operating revenues or regular general fund operating expenditures.

If fund balance falls below a government's policy level, then it is important to have a solid plan to replenish fund balance levels. Rating agencies consider the government's fund balance policy, history of use of fund balance, and policy and practice of replenishment of fund balance when assigning ratings. Thus, a well developed and transparent strategy to replenish fund balance may reduce the cost of borrowing. However, it can be challenging to build fund balances back up to the recommended levels because of other financial needs and various political considerations.

Recommendation. GFOA recommends that governments adopt a formal fund balance policy that defines the appropriate level of fund balance target levels. Also, management should consider specifying the purposes for which various portions of the fund balances are intended. For example, one portion of the fund balance may be for working capital, one for budgetary stabilization, and one for responding to extreme events. This additional transparency helps decision makers understand the reason for maintaining the target levels described in the fund balance policy.

Governments should also consider providing broad guidance in their financial policies for how resources will be directed to fund balance replenishment. For example, a policy may define the revenue sources that would typically be looked to for replenishment of fund balance. This might include non-recurring revenues, budget surpluses, and excess resources in other funds (if legally permissible and if there is defensible rationale). Year-end surpluses are an especially appropriate source for replenishing fund balance.

Finally, a government should consider including in its financial policy a statement that establishes the broad strategic intent of replenishing fund balances as soon as economic conditions allow. This emphasizes fund balance replenishment as a financial management priority.

Governments are subject to a number of factors that could require the use of fund balances. It is therefore incumbent on jurisdictions to minimize the use of fund balance, except in very specific circumstances. Replenishment should take place in a prompt fashion with amounts that have been used to ensure that the jurisdiction is properly prepared for contingencies. With the foundation of a financial policy in place, governments should use their long-term financial planning and budget processes to develop a more detailed strategy for using and replenishing fund balance. With these criteria in mind, the government should develop a replenishment strategy and timeline for replenishing fund balances as soon as possible, and that is still appropriate to prevailing budgetary and economic conditions and that considers the following:

1. The policy should define the time period within which and contingencies for which fund balances will be used. This gives the public a sense for how fund balance is being used as a "bridge" to ensure stable cash flow and provide service continuity.
2. The policy should describe how the government's expenditure levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge.
3. The policy should describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished. Frequently, a key part of the replenishment plan will be to control operating expenditures and use budget surpluses to replenish fund balance. The replenishment plan might also specify any particular revenue source that will aid in the replenishment of fund balances. For example, if the government has a volatile sales tax yield, it might specify that yields that are significantly above average would be used to replenish fund balances.

Generally, governments should seek to replenish their fund balances within one to three years of use. However, when developing the specifics of the replenishment plan, governments should consider a number of factors that influence the rate and time period over which fund balances will be replenished. Factors influencing the replenishment time horizon include:

1. The budgetary reasons behind the fund balance targets. The government should consider special conditions that may have caused it to set its fund balance target levels higher than the GFOA-recommended minimum level. For example, if targets are higher because the community has very volatile cash flows, then the government would want to build the fund balances back up more quickly compared to governments with more stable cash flows.
2. Recovering from an extreme event. An extreme event, such as a natural disaster, that has required the government to use a portion of its fund balance, may make

it infeasible to replenish the fund balance as quickly as normal, depending upon the severity of the event.

3. Political continuity. Replenishing fund balance takes political will, and that will is often strengthened by the memory of the financial challenge that caused the use of fund balances in the first place. If the governing board and/or management are already committed to a particular financial policy, the replenishment strategy should be as consistent as possible with that policy in order to maximize political support.
4. Financial planning time horizons. Fund balances should typically be replenished within the time horizon covered by the organization's long-term financial plan. This puts the entire replenishment plan in context and shows the public and decision makers the expected positive outcome of the replenishment strategy.
5. Long-term forecasts and economic conditions. Expectations for poor economic conditions may delay the point at which fund balances can be replenished. However, in its replenishment plan the government should be sure to set a benchmark (e.g., after fund balances have dropped to a certain point below desired target levels) for when use of fund balance is no longer acceptable as a source of funds.
6. Milestones for gradual replenishment. A replenishment plan will likely be more successful if it establishes replenishment milestones at various time intervals. This is especially important if replenishment is expected to take place over multiple years (e.g., if you are starting from 75% of your target, set a goal to reach 80 percent of target in one year, 90 percent in two years, and 100 percent in three years).
7. External financing expectations. A replenishment plan that is not consistent with credit rating agency expectations may increase the government's cost of borrowing. It is important that the logic used by the government to develop the replenishment plan be communicated in an effective fashion to external lenders.

Notes:

1 Unrestricted fund balance comprises the committed, assigned, and unassigned fund balance categories.

References.

GFOA Best Practice, "Appropriate Level of Unrestricted Fund Balance in the General Fund," 2009.

For a fuller explanation of the concept of "bridging" in financial distress, please visit GFOA's financial recovery website at www.gfoa.org/financialrecovery.

Approved by the GFOA's Executive Board, February, 2011.

TO: Finance Commission /Utility Commission

FROM: James R. O'Connor, City Manager

Cynthia D. Lawson, Finance Director

DATE: November 5, 2015

SUBJECT: Utility Customer Service Technology Upgrades / Process Improvements

On October 19, 2015 the City Council requested an update on the progress and future timeline for improvements to the City's Utility Customer Service customer service technology and other proposed process improvements. The purpose of this memo is to outline the City's current payment options, report on our progress towards more efficient technology based Customer Service, and provide a timeline for future improvements.

Background:

The Finance Department has proposed various process improvements and technology upgrades to improve the efficiency and cost effective operation of the Utility Customer Service function, which is part of the Finance Department. These proposed improvements were first discussed with the Finance Commission in February 2014, and were further discussed in June 2015 as part of the overall staff analysis of potential rate reductions. The relevant section of the minutes from the February 2014 meeting and a copy of the staff analysis from the June 2015 meeting have been provided in Attachment A as background to this memo.

Current Utility Payment Options:

The City currently offers online credit card payments through a third party provider, Collector Solutions. I have included some screenshots from the City's website to clarify the current options for our utility customer payments (Attachment B) as follows:

- Figure 1 – shows the location of the 'online utility payment' option on the City's website home page.
- Figure 2 – shows the first two steps on the Collector Solutions web portal which opens when you click on the 'online utility payment' option on the City's home page.
- Figure 3 – shows the Customer Service 'dropdown' menu which will take you to the web page that outlines the various bill payment options.
- Figure 4 – is the Customer Service webpage that shows the various bill payment options, including credit card payments by phone or online (the Collector Solutions link on this page will take you to the same portal shown in Figure 2).

In addition to credit card payments online or by phone, customers may pay in person at the City's Customer Service lobby (walk in or drive through) from 8:30 to 5:00 Mon - Fri, by automatic monthly debit (EFT), or by mail.

Attachment C provides data on average monthly transaction volume for each payment type received for 2013 and 2014, along with the proposed process improvement.

Phased Approach - Customer Service Upgrades and Process Improvements:

As previously discussed, the proposed Customer Service upgrades and process improvements are being implemented in a 'phased' approach. The current status and timeline for each phase is as follows:

Phase I – Update Utility Billing Software

This effort has been completed; the 'go live' date for the updated Cayenta billing software was September 25, 2015. This update of software (which was 10 years and 10 versions out of date) was successfully accomplished with minimal disruption to the City's customers. Completion of this upgrade provides a stable software platform for completion of the next phase.

Phase II - Upgrade Banking Services (Ebox and Lockbox)

The next upgrade is to implement additional banking services, specifically Ebox and wholesale Lockbox.

Ebox provides electronic 'bank to bank' capture for those bills that are paid by customers through their own online bill payment services at their respective banks. Currently, those payments from outside banks produce paper checks which are mailed to the City and must be hand keyed by cashiers; about 95% of the hand key payments shown in Attachment C are these paper checks from online bill payments, which would be eliminated by Ebox.

Lockbox services would create a virtual P.O. Box and our banking services provider, Wells Fargo, would receive and process all of the City's utility payments which are mailed in by customers. The City would receive an electronic transmittal of each day's receipts to post to customer accounts, and would be able to view transactions and clear exceptions through an online portal. Implementation of the Lockbox services would eliminate processing of the remaining 5% of the hand key mail and all of the scannable mail shown in Attachment C. This would provide for improved efficiency in the cashiering function, as well as several other departments that are currently impacted by the mail volume such as Purchasing (mail delivery attendant) and Customer Service and IT (who assist with processing and preparation of mailed payments). This would also enhance continuity of service, as the Finance Department has experienced substantial turnover of cashier employees in the last several years.

The implementation timeline, estimated set up costs and ongoing monthly fees for each are as follows:

			Estimated Recurring Costs	
	Timeline *	**One Time Implementation Costs**	**Net Monthly Fees**	**Net Annual Fees**
Ebox	4-6 months	Wells Fargo - $2,000	$ 350	$ 4,200
		Cayenta - TBD		
LockBox	4-6 months	Wells Fargo - $500	$ 4,100	49,200
		Cayenta - TBD		
			Total Annual Fees	53,400
	Less: One Part Time Cashier due to Ebox Implementation			(14,000)
	Total Net Annual Costs for Implementation of Both			$ 39,400
*** may be concurrent and/or overlap - expected completion of both by September 30, 2016**				

The implementation of Ebox and Lockbox would substantially reduce the 'back of the house' workload for the City's cashiers. The implementation of Ebox would result in a staffing reduction of one part time cashier, for a net savings of approximately $10 per year. However, as previously discussed, neither Ebox nor Lockbox will decrease the number of customer visits to the lobby and if there is a window open, there has to be a staff person to service it. Therefore the implementation of Lockbox will not automatically result in reduced costs unless we combine this with a reduction in the number of hours during which the cashier lobby and drive through windows are open. Previous proposals to eliminate the drive-through or reduce the lobby hours have not been supported by either Council or the Finance Commission. Staff is recommending that we implement Lockbox solely for the improvements in efficiency and continuity without further staffing reductions or changes in lobby/drive through hours. Once it is implemented we can continue to evaluate its impact for potential future changes, in conjunction with the next phase of improvements.

Phase III –Utility Customer Website Upgrades

Once the functionality of the billing software is improved, and the new electronic banking services have been integrated, the final phase of the Customer Service improvement would be an improved website based customer service portal. Such a website would enable customers to perform many of the activities associated with their accounts on-line without support from customer service representatives. For example, an improved website could allow customers to pay bills and set up recurring auto-payments, start and stop service, view bills and usage data, set up budget billing, get paperless bill delivery and find answers to many frequently asked questions regarding billing and service policies without a visit to the Customer Service lobby or a phone call.

The time frame for implementation of this upgrade would be FY 16-17, predicated on successful completion of Phase II outlined above. The costs of such a website could be substantial; a cost estimate for this project would be obtained for inclusion in the FY 16-17 budget workshops for further discussion and cost benefit analysis.

<u>Other Improvements</u>

The City is in the processing of completing the formal Electric Utility Rate study that was placed on hold pending negotiation of a revised OUC purchased power agreement. As part of that rate study, we will be considering some service fee changes and cutoff times to improve cost effective service delivery.

The Customer Service lobby has been made more 'user friendly' by roping off the cashier waiting line and added an 'as needed' cashier window that can be opened during busy times. In the FY 15-16 budget, further lobby improvements (including a flat screen tv for customer notifications and educational postings) have been budgeted.

ATTACHMENT A - BACKGROUND

- **FEBRUARY 2014 FINANCE COMMISSION MINUTES**
- **JUNE 2015 S.W.O.T ANALYSIS**

A) Quarterly Financial Reports

Ms. Cindy Lawson, Finance Director, said that she added three items to the Quarterly Financial Report that go above and beyond the line item expenditures and revenues that they have had in the past. The first is located on page eight, a report showing pooled cash on investment balance; the second is located on page nine, a quarterly debt summary for all of the City's funds; and the third is located on page 26, a consolidated balance sheet for the Electric Utility Fund (Quarterly Report on file in the City Clerk's office). She briefly went over the report with the Commission members.

Mr. Powers asked what is the unrestricted cash. He asked is it cash on hand, part of the reserve fund, part of the fund balance, etc.

Ms. Lawson said in looking at it from another direction, the restricted cash is equal to customer deposits, as well as the short term loans and notes payable. This also includes the $2 million dollars the City has to hold in reserve for emergencies.

Mr. Stump asked is the 72 days of unrestricted cash on hand the City's average.

Ms. Lawson said the City's target is 90 days. She felt that they would be close to the 90 day mark by the end of the year.

Mr. Stump questioned the Retirement Premium Assistance located on page eight.

Ms. Lawson said that is a cash clearing fund. She explained that is for the City's health insurance premiums.

Mr. Stump said all the funds located on page eight were in the positive with the exception of the Marina and Crestlawn Cemetery.

Ms. Lawson explained that the Marina pays their entire debt service for the year in the first quarter and by the end of the year they would not be in the negative. The debt of the Cemetery has been there for a number of years and it has improved over the last few years. Based on the new rate structure that was recently adopted they should be in the positive in about three years.

Mr. Powers referred to the 72 days of unrestricted cash. He asked if they have legal capabilities of getting a short term note in order to maintain operation if there is a hiccup.

Ms. Lawson answered yes. She said the City's debt service coverage is well above what is required by the City's various bonds.

Mr. Gorry felt that the added information was very helpful.

B) Discussion Regarding Cashier Process Improvements

Ms. Lawson said that she was bringing this before the Commission to get their feedback before she brings a formal report before them to request a recommendation to City Council. Her implementation target for some of these ideas is to start July of this year and to have almost all of them completed by December 31, 2014. She said during the last budget season they discussed eliminating the cashier drive-through. At that time, they decided not to do it, but to come back in six months with a plan to restructure that function with some efficiencies and cost savings. So they had Wells Fargo do a business process review and came back with technology recommendations they felt would improve the City's cashiering function. She noted that currently she has three full time and three part time cashiers, which costs about $122,000 a year, plus benefits and the operating costs. A good portion of that is charged to the Electric Utility and the Water and Sewer Utility. She said it is important to keep in mind that the cashiers are also the accounts receivable location for all the funds that come into the City, such as fines from the Police Department, money from the Planning Department, money for the purchase of Cemetery plots, etc., and therefore the function of the cashier cannot go away even if the City did not have the utilities. She then went over the Average Monthly Volume (2013) number of Transaction with the Commission members (please see attached). She explained that hand-key mail was that when someone does an online bill pay from their bank they think the bank sends the payment electronically. What actually happens is the bank creates a paper check and mails it to the City. She said these checks are worse than regular checks because they don't come with the coupon, they can't be scanned and most of the time they don't have the account number on them. The cashiers actually have to identify the correct account number and hand cue them into the system. The first thing Wells Fargo suggested was to implement the E-Box system, which would replace the hand printed checks with an electronic capture of the on-line bill payments bank to bank. The City would receive a daily file that they could input directly into the City's billing system. The bills that come in envelopes are a huge volume of what they receive every month. Wells Fargo is suggesting a wholesale lockbox, which would be a virtual P.O. Box and all the mailed bills would go to Well Fargo who would process them and send the information to the City in an electronic file. She explained that the CSI Credit has about 1,000 people who pay their bill by credit card through a company that the City pays. They can call on the phone or on-line. Currently the fee if they do this over the phone is 2.95% of their bill, plus $2.50 and on line it is 2.95% of their bill. If they implement the lock box, the City can do away with most of that by changing the bill coupons and placing an area for the customer to write in their credit card information and Wells Fargo will process those credit card payments. At the same time, the City can add a credit card machine at their cashier window. She said there are a small number of customers who pay their bills by automatic draft from their bank (EFT's). She said that she has seen utilities that give incentives to their customers if they use EFT by waiving part of their security deposit. She said staff is looking into seeing if they can't get customers more excited about using EFT. She reported that currently the City's lobby hours are 8:30 a.m. to 5:00 p.m. and the drive-through hours are from 8:30 a.m. to 4:30 p.m. In order to realize cost and staff savings, they are going to have to make adjustments to the hours at the drive-through window and in the lobby.

Mrs. Barton felt like these were excellent changes. She asked could they do away with the drive-through and the lobby and have everything dropped off in a drop box, such as the night deposit box.

Ms. Lawson said they would continue to use the night drop, but they need to have the cashier window for people to open a new account.

Mr. O'Connor said they don't want to eliminate interaction with their customers. He said the cashiers provide a valuable service in listening to customers problems and they try to resolve them.

Mr. Powers asked do they receive a lot of cash through the drive-through.

Ms. Lawson answered yes. She said another thing regarding putting credit card payment boxes in is that they would not be able to take credit card payments through the drive-through. She felt it would make sense to close the drive-through and they could use the night drop.

Mr. Brovont excused himself from today's meeting at 3:32 p.m.

Mr. Powers felt that the reasonable thing to do would be to close the drive-through and if they need to they could add another drop box.

Ms. Lawson said that is the direction they are heading.

8. MEMBER'S MATTERS

None

9. ADJOURNMENT

Today's meeting adjourned at 3:35 p.m.

/sp

Item 4 – Examine Customer Service operations to streamline bill paying, processing, hours of opening, face to face, part timing, on line applications (in progress) and levels of service offered.

Background/Analysis: In September 2013, the City participated in a Business Process Review for its cashiering function with its banking services contractor, Wells Fargo. At the Finance Commission meeting of February 5, 2014, the Finance Director discussed with the Commission some proposed improvements in electronic banking technology, specifically e-box and lock-box services as a result of this review. See the Finance Commission minutes at Attachment C for details of this discussion.

Although the addition of electronic banking services such as e-box and lock-box will improve the reliability and speed of revenue collection, it will not reduce the costs of cashiering unless the City also changes its lobby hours. No matter how much the processing volume is reduced for other forms of payment, if there is a window open there has to be an employee to service it. Currently the City operates two lobby windows from 8:30 AM to 5:00 PM, Monday through Friday and two drive-through windows from 8:30 AM to 4:45 PM, Monday through Friday. The staff is proposing to eliminate the drive-through entirely (the drop box will be available outside) and reduce the lobby hours.

The following is a recap of the current cashier volumes for each form of payment, and the process improvement that is proposed to eliminate or reduce the volume of these transactions handled by the cashiering staff.

	Average Monthly Volume (2013)		
Transaction Type	# of Transactions	% of Total	**Proposed Process Improvement**
Scannable Mail	12,000	35%	Lockbox
Hand-Key Mail	6,500	19%	Ebox (95%) / Lockbox remainder
Walk-In / Lobby	4,300	13%	Reduce hours
Drive Through	3,000	9%	Eliminate
Night Drop	1,700	5%	Maintain
EFT	5,800	17%	Incentives?
CSI Credit	1,000	3%	Add to bill coupon (lockbox), credit card option at Cashier window
Total	34,300		

In addition to improving electronic banking services, the City is proposing to update its utility billing software in FY 14-15. The current software is 10 years and 10 versions out of date. Once the functionality of the billing software is improved, and the new electronic banking services have been integrated, we would like to take the further step of implementing a web based customer service portal. Such a website would enable customers to perform many of the activities associated with their accounts on-line without support from customer service representatives. For example, although FPL does not have any lobby locations, on the FPL website customers can pay bills and set up recurring auto-payments, start and stop service, view bills and usage data, set up budget billing, get paperless bill delivery and find answers to many frequently asked questions regarding billing and service policies.

Staff is currently working with its banking service provider and billing software consultants to prepare an integrated implementation schedule and associated costs for the suggested upgrades. In addition, the staff is analyzing the potential savings associated with each upgrade, to arrive at a complete cost-benefit analysis. The suggested improvements would also be beneficial to the City's Water & Sewer utility customers, and staff is considering the cost-benefit both before and after an electric utility sale is completed. Staff would like to defer an in-depth discussion of this topic to a future Finance Commission meeting once the cost-benefit analysis is complete, so that the Commission can make specific recommendations on each to the City Council.

Strengths: Modernizing the City's customer service offerings and increasing the ability for customers to handle their day to day account activities on line will bring the City in line with industry best practices and the modern customer demographic.

Weaknesses: The City's utility customers are accustomed to being able to interact with cashiers and customer service reps face to face, from 8:30 AM to 5:00 PM. Reducing lobby hours is likely to initially cause some customer complaints.

Opportunities: After an appropriate period of customer education, we anticipate that the volume of lobby and phone traffic should be reduced, enabling the City to lower Customer Service costs.

Threats: Undertaking major upgrades to billing software, modifying electronic banking processes and creating web based customer interfaces are all projects which must be carefully scheduled and managed in order to prevent any interruption to the collection of customer revenues.

ATTACHMENT B – CURRENT UTILITY CUSTOMER PAYMENT OPTIONS

- **Figure 1. City Website Home Page – Credit Card Payments**
- **Figure 2. Collector Solutions Web Portal**
- **Figure 3. Customer Service 'Dropdown' Menu**
- **Figure 4. City Web Page – Utility Customer Payment Options**

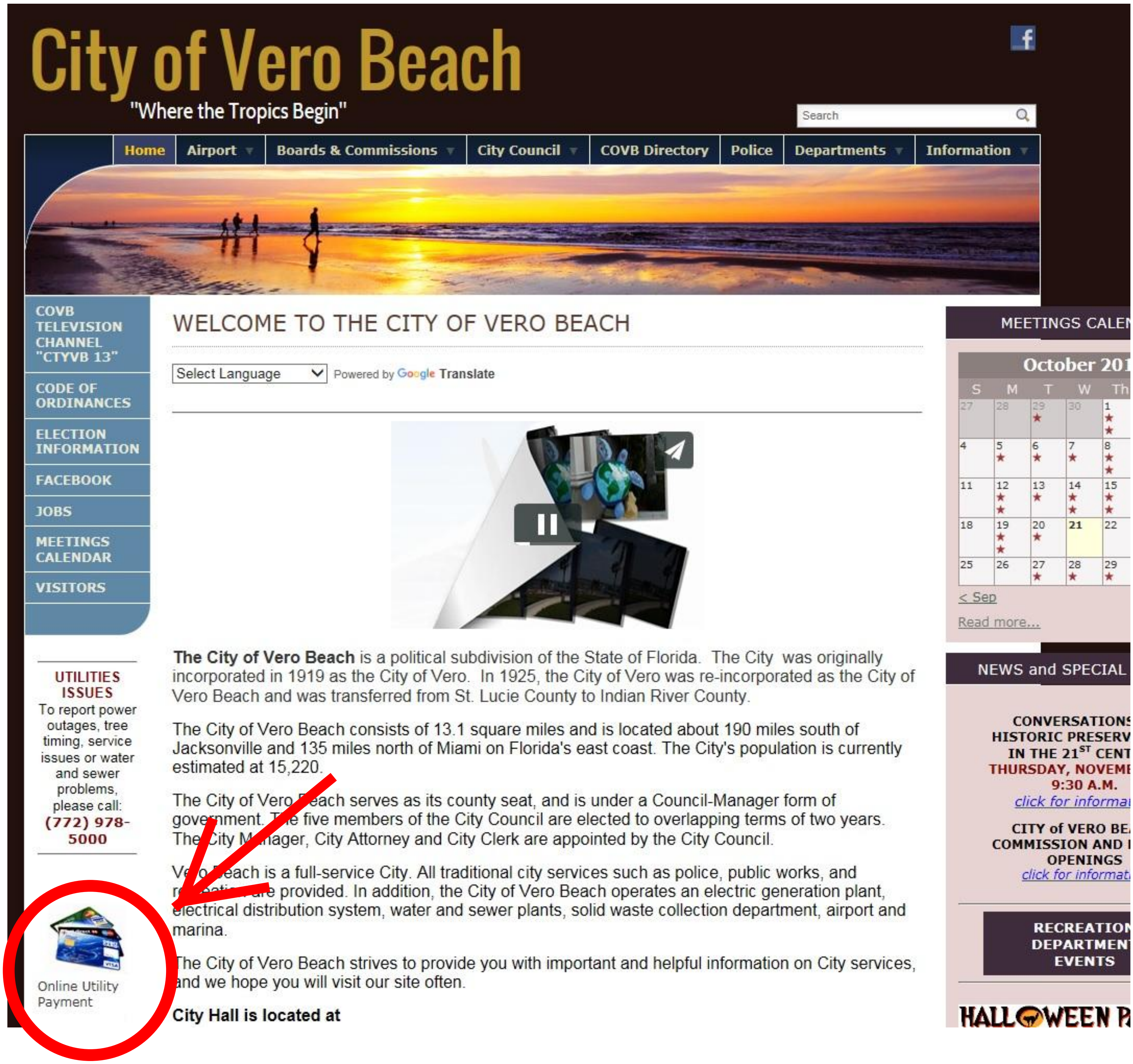
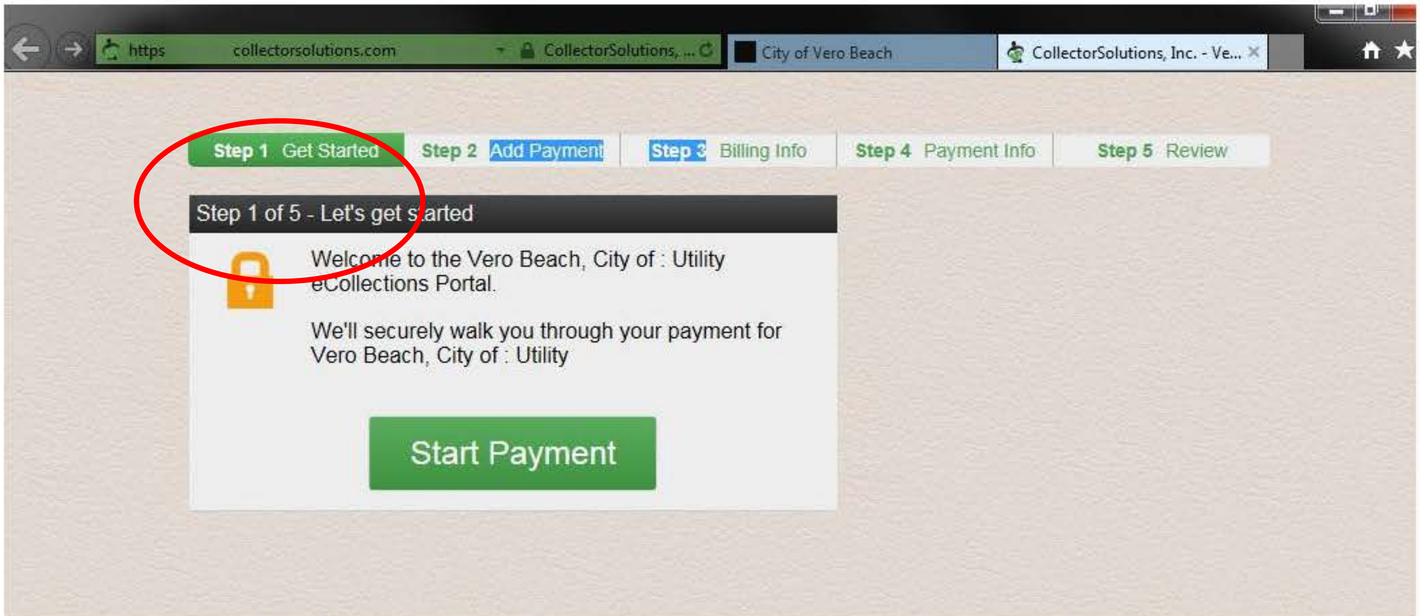


Figure 1. City Website Home Page - Credit Card Payments



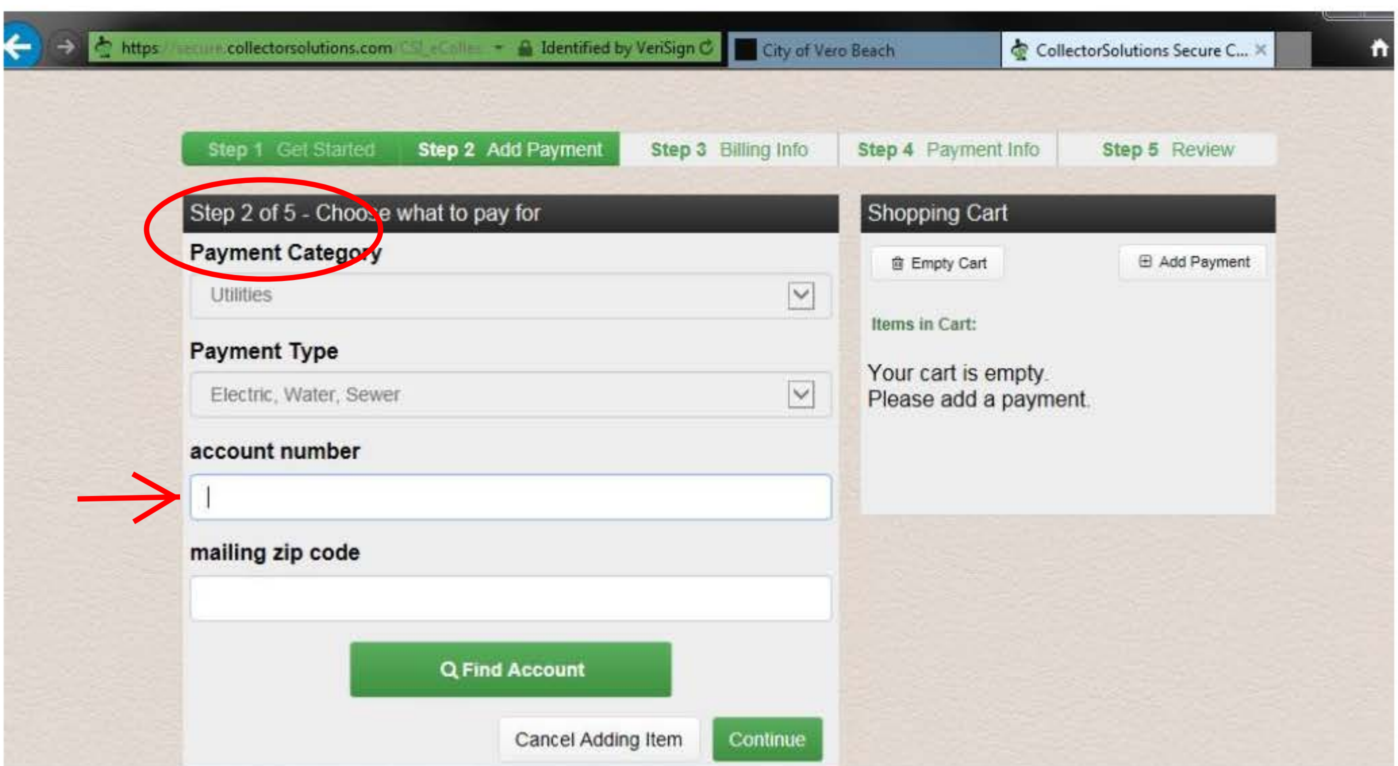
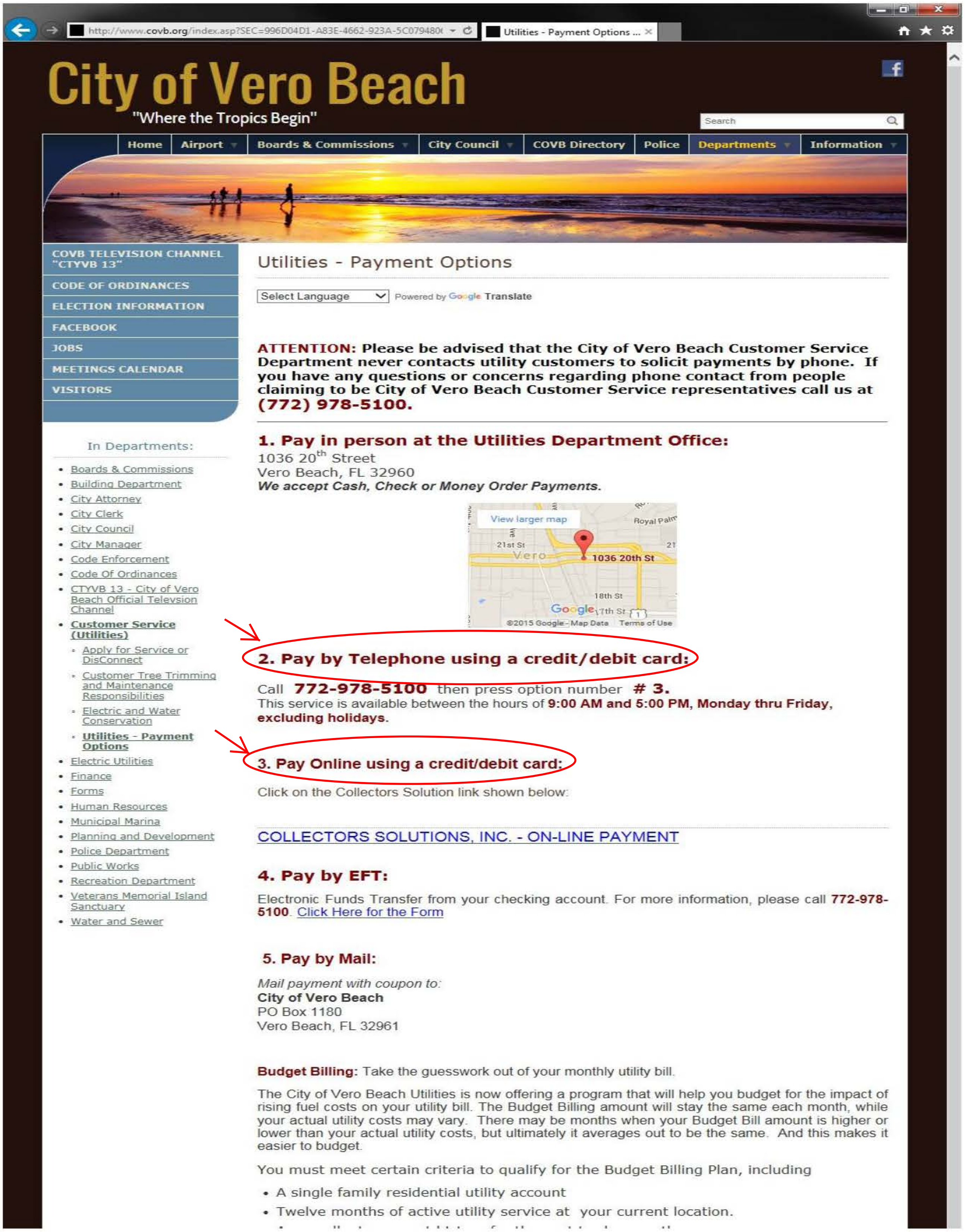


Figure 2. Collector Solutions Web Portal

Figure 3. Customer Service 'Drop Down' Menu



http://www.covb.org/index.asp?SEC=996D04D1-A83E-4662-923A-5C079480(

Utilities - Payment Options ...

City of Vero Beach

"Where the Tropics Begin"

Search

Home | Airport | Boards & Commissions | City Council | COVB Directory | Police | Departments | Information

- COVB TELEVISION CHANNEL "CTYVB 13"
- CODE OF ORDINANCES
- ELECTION INFORMATION
- FACEBOOK
- JOBS
- MEETINGS CALENDAR
- VISITORS

In Departments:

- Boards & Commissions
- Building Department
- City Attorney
- City Clerk
- City Council
- City Manager
- Code Enforcement
- Code Of Ordinances
- CTYVB 13 - City of Vero Beach Official Television Channel
- **Customer Service (Utilities)**
  - Apply for Service or DisConnect
  - Customer Tree Trimming and Maintenance Responsibilities
  - Electric and Water Conservation
  - **Utilities - Payment Options**
- Electric Utilities
- Finance
- Forms
- Human Resources
- Municipal Marina
- Planning and Development
- Police Department
- Public Works
- Recreation Department
- Veterans Memorial Island Sanctuary
- Water and Sewer

Utilities - Payment Options

Select Language | Powered by Google Translate

ATTENTION: Please be advised that the City of Vero Beach Customer Service Department never contacts utility customers to solicit payments by phone. If you have any questions or concerns regarding phone contact from people claiming to be City of Vero Beach Customer Service representatives call us at (772) 978-5100.

1. Pay in person at the Utilities Department Office:

1036 20th Street
Vero Beach, FL 32960
We accept Cash, Check or Money Order Payments.

View larger map | Royal Palm | 21st St | Vero | 1036 20th St | 18th St | 17th St | ©2015 Google - Map Data | Terms of Use

2. Pay by Telephone using a credit/debit card:

Call **772-978-5100** then press option number **# 3.**
This service is available between the hours of **9:00 AM and 5:00 PM, Monday thru Friday, excluding holidays.**

3. Pay Online using a credit/debit card:

Click on the Collectors Solution link shown below:

COLLECTORS SOLUTIONS, INC. - ON-LINE PAYMENT

4. Pay by EFT:

Electronic Funds Transfer from your checking account. For more information, please call **772-978-5100**. Click Here for the Form

5. Pay by Mail:

Mail payment with coupon to:
City of Vero Beach
PO Box 1180
Vero Beach, FL 32961

Budget Billing: Take the guesswork out of your monthly utility bill.

The City of Vero Beach Utilities is now offering a program that will help you budget for the impact of rising fuel costs on your utility bill. The Budget Billing amount will stay the same each month, while your actual utility costs may vary. There may be months when your Budget Bill amount is higher or lower than your actual utility costs, but ultimately it averages out to be the same. And this makes it easier to budget.

You must meet certain criteria to qualify for the Budget Billing Plan, including

- A single family residential utility account
- Twelve months of active utility service at your current location.

Figure 4. City Web Page - Utility Customer Payment Options

ATTACHMENT C – MONTHLY TRANSACTION VOLUMES BY TYPE

Transaction Type	Average Monthly Volume (2013)		Average Monthly Volume (2014)		Proposed Process Improvement
	# of Transactions	% of Total	# of Transactions	% of Total	
Scannable Mail	12,000	35%	11,100	32%	Lockbox
Hand-Key Mail	6,500	19%	6,900	20%	Ebox (95%) / Lockbox remainder
Walk-In / Lobby	4,300	13%	4,300	13%	Reduce hours
Drive Through	3,000	9%	3,000	9%	Eliminate
Night Drop	1,700	5%	1,700	5%	Maintain - may increase if Drive Through eliminated
EFT	5,800	17%	6,200	18%	Incentives?
CSI Credit	1,000	3%	1,300	4%	Add to bill coupon (lockbox), credit card option at Cashier window
Total	34,300		34,500		