

FGFOA School of Governmental Finance

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What Is in Your Financial Policy Development Toolbox?

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Local Government Financial Planning and Policies



Solid Foundation Based on Best Management Practices



Financial Management Policies, Including Financial Targets



Effective, Ongoing Communication Program



Solid Foundation Based on Best Management Practices

The Local Government's Credit Rating Is a Reflection of Management (*)

- **Assessment of Financial Risk**
 - Management Has Limited Control Over Some Elements of Financial Risk (e.g., One Large Customer Accounts for 50% of Revenues)
- **Best Management Practices on Controllable Factors Help to Reduce Implied Financial Risk, and Can Lead to Lower Taxes/Rates Over the Long Term**
 - Higher Credit Ratings, Lower Interest Rates, and Lower Issuance Costs When Debt Financing



(*) Management Includes Governing Body

Standard & Poor's: Top 10 Management Characteristics of Highly Rated U.S. Public Finance Issuers

- ✓ **Focus on Structural Balance**
- ✓ **Strong Liquidity Management**
- ✓ **Regular Economic and Revenue Updates to Identify Shortfalls Early**
- ✓ **An Established Rainy Day / Budget Stabilization Reserve**
- ✓ **Prioritized Spending Plans and Established Contingency Plans for Operating Budgets**
- ✓ **Strong Long-Term and Contingent Liability Management**

Standard & Poor's: Top 10 Management Characteristics of Highly Rated U.S. Public Finance Issuers (cont.)

- ✓ **Multi-Year Financial Plan in Place That Considers the Affordability of Actions or Plans Before They Are Part of the Annual Budget**
- ✓ **Formal Debt Management Policy in Place to Evaluate Future Debt Profile**
- ✓ **A Pay-As-You-Go Financing Strategy as Part of the Operating and Capital Budget**
- ✓ **A Well-Defined and Coordinated Economic Development Strategy**

FINANCIAL PROFILE

- ✓ **Long-Term Integrated Financial Forecasting That Considers Future Demand, Expected Rate Increases, Regulations, and Infrastructure Renovation and Renewal Needs**



FINANCIAL PROFILE

- ✓ **Policies to Ensure Appropriate Financial Margins, Including Debt Service Coverage and Operating Liquidity Levels**
- ✓ **Regular Financial Reporting and Monitoring Systems That Enable Policymakers Access to Timely Information on Financial Performance Relative to the Budget**



$$\text{Debt Service Coverage} = \frac{\text{Gross Revenues} - \text{Operating Expenses Less Non-Cash Items Such as Depreciation}}{\text{Annual Debt Service}}$$

FINANCIAL PROFILE (cont.)

- ✓ **Collection Policies That Regularly Track the Rate of Timely Payment Receipts and Enforce Penalties Against Late Payers or Terminate Service for Nonpayment**
- ✓ **Willingness of Political Leaders to Adjust Rates When Necessary**
- ✓ **Compliance With Industry Accounting Practices and Establishment of Internal Controls**
- ✓ **Limited Operating Exposure to Growth-Sensitive Revenues Such as Impact Fees**

Impact Fees

- **Support Policy of “Growth Paying for Growth”**
- **Dual Rational Nexus Requirements Established Through Case Law**
 - Fee Must Be Proportionate to Benefit Received
- **Can Legally Be Used to Pay for Growth-Related Projects or Growth-Related Debt Service**
 - Should Maintain Expansion Factor for Debt – Percent or Amount of Debt Eligible to Be Paid For With Impact Fees



Impact Fees (cont.)

- **Florida Impact Fee Act – Section 163.31801, Florida Statutes**
 - **Calculation of Impact Fees Must Be Based on Most Recent and Localized Data Available Within 4 Years of the Current Impact Fee Update**
 - **Impact Fee Collections and Expenditures Must Be Accounted for in a Separate Accounting Fund**
 - **Administrative Charges for Collection of Impact Fees Must Be Based on Actual Costs**
 - **Notice Must Be Provided No Less Than 90 Days Before Effective Date of Ordinance Imposing a Higher Impact Fee**
 - **No 90-Day Notice Required for Impact Fee Decreases**

Impact Fees (cont.)

- **If Impact Fees Challenged, Government Has Burden of Proving By Preponderance of Evidence That Fees Meet Requirements of Impact Fee Act and State Legal Precedent**
 - **Does Not Apply to Water and Sewer Connection Fees (Not All Attorneys Agree That Water and Sewer Impact Fees Are Exempt Based on This Language)**
- **Additions to Florida Impact Fee Act in 2021**
- **Increase in Impact Fee Rate of Not More Than 25% Must Be Implemented in Two Equal Annual Increments**
 - **Increase in Impact Fee Greater Than 25% But Not More Than 50% Must Be Implemented in Four Equal Installments**

Impact Fees (cont.)

■ Additions to Florida Impact Fee Act in 2021 (cont.)

- **Impact Fee Increase May Not Exceed 50% of Current Fee**
- **Impact Fee May Not Be Increased More Than Once Every 4 Years**
- **Local Government Can Increase Impact Fees Beyond the Phase-In Limitations If:**
 - **A Demonstrated Needs Study Has Been Completed Within Past 12 Months That Expressly Demonstrates Extraordinary Circumstances Necessitating Need to Exceed Phase-In Limitations**
 - **Local Government Holds Two Publicly Noticed Workshops Dedicated to the Extraordinary Circumstances**
 - **Impact Fee Increase Is Approved By At Least Two-Thirds Vote of Governing Body**

Impact Fees (cont.)

- **Additions to Florida Impact Fee Act in 2024 (This Year)**
 - **The New Study Must Be Adopted By the Local Government Within 12 Months of the Initiation of the New Impact Fee Study If the Local Government Increases the Impact Fee**

Local Governments Should Obtain Guidance from Their Attorney to Ensure That Implementation of Any Impact Fee Increases Is in Compliance With Florida Law!

Impact Fees (cont.)

- **Spend Fees in Timely Manner**
 - **May Have to Be Refunded If Not Spent Within Certain Period of Time**
- **Maintain Paper Trail of Growth-Related Projects or Growth-Related Debt Service Funded With User Rates or Other Funding Source Due to Insufficiency of Impact Fee Collections at the Time**
 - **May Be Able to Reimburse User Rate / Operating Funds at a Later Date When Impact Fee Cash Balances Are Available**
- **Develop Formal Procedure for Applicants to Submit Alternative Impact Fee Calculation If They Believe Their Impact Would Be Less Than Under Current Methodology**

FINANCIAL PROFILE (cont.)

- ✓ **Rate Affordability Guidelines That Consider Absolute Levels of Rates and Their Affordability Relative to Income Levels**

- ✓ **Limited Exposure to Financial Operations of the General Government So That System Revenues Can Be Relied on for Use to Operate or Improve the Enterprise**
 - **For Transfers to the General Fund, Policies That Specifically Limit Their Scope and Growth Are Favorable**

Transfers to General Fund from Enterprise Fund

- **Best Management Practice Per Rating Agencies: Limit Non-Enterprise-Related Transfers to General Fund**
 - **Substantial Amount of Capital (Often Secured Through Debt Financing) Is Required to Provide Service**



- **Should Reinvest in System**

Transfers from General Fund to Enterprise Fund (cont.)

■ Rates and Charges Must Be Just and Equitable

- **Counties: Florida Statute 153.11(1)(c) Water Service Charges and Sewer Service Charges; Revenues**

"Such rates, fees and charges shall be just and equitable..."

- **Municipalities: Florida Statute 180.13(2) Administration of Utility; Rate Fixing and Collection of Charges**

"The ...legislative body of the municipality...may establish just and equitable rates or charges..."

Transfers from General Fund to Enterprise Fund (cont.)

- **Rosalind Holding Company, Etc., Appellant, v. The Orlando Utilities Commission, et al., Appellee. District Court of Appeal of Florida, Fifth District. July 22, 1981.**
 - *"Absent a controlling statute, a municipal utility, like any other utility, is entitled to earn a reasonable rate of return on its capital and its rates may be set so that it earns a rate of return on its equity comparable to other similar businesses."*
 - *"The parties all agree that basing rates on cost of capital is the most universally adopted and reasonable method in the industry."*



What Is a Defensible Level of Transfers to General Fund from Enterprise Fund? (cont.)

■ Defensible Transfers to General Fund from Enterprise Fund:

- Allocable Costs – Direct or Indirect
- Reasonable Rate of Return



■ Potential Approaches for Determining Reasonable Rate of Return

- Estimating Allowable Return on Investment If Enterprise Were Private and Regulated By Florida Public Service Commission (Cost of Capital Analysis)
 - Consistent With Industry Norms
- ## ■ Should Monitor Future Bills By Florida Legislature
- Historical Efforts By Representatives to Limit Non-Utility-Related Transfers to General Fund

Useful Free Online Resources for Financial Planning: United States Department of Labor

■ Website Links:

<https://www.dol.gov/sites/dolgov/files/OASAM/legacy/files/DCD-2-CFR-Guide.pdf>

■ Guide to Indirect Cost Rate Determination

- Suggested Allocation Bases / Defensible Methodologies
- Guidance Also Available on Other Federal Government Websites

"The allocation base selected...must be (1) reasonable and consistently applied to direct costs or indirect costs, (2) supported by accurate and current data, (3) appropriate to the cost being distributed, and (4) one which results in an accurate measure of the benefits provided to each activity of the organization."

- Should Ensure That Any Indirect Cost Allocation Is Reasonably Cost-Based and Could Withstand a Challenge

DEBT PROFILE

- ✓ **Prioritized Capital Improvement Plans That Cover at Least Five Years and Consider Capacity, Supply, Regulatory, and Replacement / Renewal Needs**
- ✓ **Debt Issuance Policies, Including Types, Terms, and Suitability Under Specific Conditions, As Well As the Total Amount of Variable-Rate Debt Deemed Appropriate**
- ✓ **Development of Comprehensive Policies on the Use of Hedge Agreements and Their Disclosure Prior to Entering Into Any Such Agreements**

OPERATING PROFILE

- ✓ **Key Management Industry Experience and Active Participation in Organizations to Keep Pace With Sector Issues, Regulatory Mandates, and Technological Advances**
- ✓ **Use of Professional Engineers, Either Internal or Third-Party, to Prepare Objective Reviews of System Performance and Needs on a Regular Basis and Provide Periodic Revisions of Construction Cost Estimates**



OPERATING PROFILE (cont.)

- ✓ **Regular Consultation With Regional and Local Growth Planners, Community Development Officials, and Demographers to Predict and, If Possible, Limit Infrastructure Needs Related to Population and Business Growth**



Key Takeaways from Review of Best Management Practices

- ✓ **Adopted Financial Management Policies**
- ✓ **Proactive Financial Planning**
- ✓ **Affordability**
- ✓ **Willingness to Raise Taxes/Rates When Necessary**

Financial Management Policies

Financial Management Policies Should Be Adopted By Governing Body

- **Help Guide Future Financial and Tax/Rate Decisions**
- **Demonstrate to a Variety of Stakeholders That Local Government Is Being Transparent, Is Following Sound Financial Practices, and Has (Or Is Working Toward) Financial Stability / Conformity With Best Management Practices**
 - **Show Rate Payers That Government Is Looking Ahead at Rate Demands and Has a Plan to Use Revenues to Accomplish Mission While Keeping Rates Affordable**
 - **Often Published on Local Government's Website**

Financial Management Policies Should Be Adopted By Governing Body (cont.)

■ Stakeholders (cont.)

- **Demonstrate Fiscal Responsibility by Policy Makers / Members of the Governing Body and Help Them Defend Financial Decisions**
- **Provide Financial Clarity and Credibility to Lenders and Credit Rating Agencies, Leading to Higher Credit Ratings and Lower Interest Rates and Issuance Costs When Debt Financing**
 - Lower Implied Financial Risk
 - Credit Rating Agencies May Give Government a Lower Financial Management Score If No Financial Management Policies Have Been Adopted

Financial Management Policies Should Be Adopted By Governing Body (cont.)

■ Stakeholders (cont.)

- Provide Government Staff With Clear Direction on Financial Objectives
- Show Regulatory Agencies Offering Low-Cost Loans or Grants That Government Is Positioned to Respond to Regulatory Fluctuations for Compliance and Would Potentially Benefit from Financing Programs



Financial Management Policies Should Be Adopted By Governing Body (cont.)

- **Best Management Practices: Willingness of Political Leaders to Adjust Taxes / Rates When Necessary**
 - **Adopted Financial Management Policies Can Help Demonstrate Willingness or Commitment to Increase Taxes / Rates**



Financial Management Policies Should Be Adopted By Governing Body (cont.)

- **Local Government Credit Ratings Have Sometimes Been Upgraded Shortly After Adoption of Financial Management Policies Document By Governing Body**
- **Some Financial Management Policies Documents Are More Comprehensive Than Others**
 - Local Government Can Decide Which Elements to Address in Financial Management Policies Document
 - Could Cover All Funds or Only Certain Funds



Financial Management Policies Should Be Adopted By Governing Body (cont.)

- **Should Consider Existing Financial Position, Dependence on Debt, and Ability to Meet Financial Targets**
- **Could Consider Specifying Incremental Steps in Financial Management Policies Document**
 - Example: 150% All-In Debt Service Coverage Financial Target in Fiscal Years 2024 and 2025; 175% in Fiscal Years 2026 and 2027; and 200% in Fiscal Year 2028 and Beyond
- **If Financial Targets Are Not Met in Given Year, Should Ideally Specify Timeframe for Improving Financial Position to Meet the Targets**



Financial Management Policies Should Be Adopted By Governing Body (cont.)

- **No Need to Start from Scratch – Build from the Work of Other Local Governments!**
 - Many Financial Management Policies Documents Are Available Online
 - Can Incorporate Best Elements from Other Documents



Financial Management Policies Should Be Adopted By Governing Body (cont.)

■ Possible Financial Management Policies:

- Bond Rating
- Cash Reserves
- Debt Service Coverage
- Debt Capacity
- Debt Refunding
- Project Funding
- Capital Reinvestment
- Automatic Rate Increases
- Budget
- Investment
- Rate Review
- Fixed Charge Recovery
- Impact Fees
- Transfers to General Fund
- Closed Fund
- Policy Updates



Financial Planning

Financial Planning Should Ideally Accomplish Multiple Objectives

■ Fund Revenue Requirements That Are “Right-Sized”



■ Meet or Set Course to Eventually Meet Established Financial Targets

- Debt Service Coverage If Applicable
- Working Capital Fund Cash Balance
- Capital Replacement Fund Cash Balance

Financial Planning Should Ideally Accomplish Multiple Objectives (cont.)

- **Balanced Debt Risk – Debt Financing Vs. Pay-As-You-Go**
 - Outstanding Debt to Net Assets \leq 50%
 - Debt Per Customer and Per Capita
 - Debt Service Coverage Above Minimum Required
- **Affordable Rates**
- **Competitive Rates**
 - Rate / Bill Comparison
- **Minimize “Rate Shock”**
- **Meet Statutory, Case Law, and Debt Instrument (e.g., Bond Ordinance / Resolution) Requirements**

Typical Capital Program Funding Sources

■ Issuance of Debt



■ Revenues

- Taxes / Charges for Service / Rates
- Cash Reserves

■ Impact Fees, Assessments, and Other Charges Collected from Growth

■ Contributed Capital or Funding from External Sources (e.g., Grants, Legislative Budget Appropriation), Facilities, and Property

Useful Free Online Resources for Financial Planning: Interest Rates for Debt Financing

- **Advisable to Assume Interest Rate Risk in Financial Planning**
- **For Municipal Bonds of Different Term Lengths, FMS Bonds and Raymond James Weekly Interest Rate Monitor**

<https://www.fmsbonds.com/market-yields>

https://www.raymondjames.com/-/media/rj/dotcom/files/wealth-management/market-commentary-and-insights/bond-market-commentary/weekly_rate_monitor.pdf

Useful Free Online Resources for Financial Planning: Interest Rates for Debt Financing (cont.)

- **For State Revolving Fund (SRF) Loans, Interest Rate Fact Sheet Published By Florida Department of Environmental Protection (FDEP)**
 - **Drinking Water Program and Clean Water Program Have Different Funding Sources and Different Interest Rate Methodologies**
 - **Projects Must Meet “Build America Buy America” Standards**

<https://floridadep.gov/wra/srf/documents/srf-interest-rate-fact-sheet>



Useful Free Online Resources for Financial Planning: Florida Statutes and Legislative Activity

■ Website Links:

<http://www.leg.state.fl.us/statutes>

<https://www.flsenate.gov/Session>

■ Source of Information for:

- Florida Law
- Developments in New Legislation
- Bill Analysis / Interpretation and Fiscal Impact Statement



Useful Free Online Resources for Financial Planning: United States Census Bureau ([census.gov](https://www.census.gov))

- **Source of Information for Median Household Income (MHI)**
 - **If MHI Is Lower Than Florida State Average, More Likely to Qualify for Grants**
 - Grants Also Awarded Based on Project Priority
 - Should Manage Expectations
 - **Loan Forgiveness Through State Revolving Fund (SRF) Loan Program for Water, Wastewater, and Stormwater Infrastructure Projects Is Only Possible If MHI Is Lower Than State Average**
 - Income Index Numbers Used to Determine Amount of Loan Forgiveness

United States
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TOPICS
Population, Economy

GEOGRAPHY
Maps, Products

You are here: [Census.gov](https://www.census.gov) > [U.S. Census Bureau Economic Indicators](https://www.census.gov/economic-indicators)

Economic Indicators

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Useful Free Online Resources for Financial Planning: United States Census Bureau ([census.gov](https://www.census.gov)) (cont.)

■ Source of Information for Median Household Income (MHI) (cont.)

- MHI Is Most Common Affordability Metric
 - Rating Agencies: Affordable = Monthly Utility Bill for Combined Water and Wastewater Service \leq 2% of Median Household Income (MHI) of Service Area or \leq 1% If Only One Service (Water or Wastewater)
 - EPA: Affordable = Monthly Utility Bill for Combined Water and Wastewater Service \leq 4.5% of MHI of Service Area

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You are here: [Census.gov](https://www.census.gov) > [U.S. Census Bureau Economic Indicators](https://www.census.gov/economic-indicators)

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Useful Free Online Resources for Financial Planning: United States Census Bureau ([census.gov](https://www.census.gov)) (cont.)

- **Source of Information for Persons Per Household**
 - **Per Capita Standards Can Be Applied to Persons Per Household to Derive Level of Service Per Residential Household Used for Capacity Planning**
- **Source of Information for Percent of Persons Below Poverty Level**
 - **Persons Who Cannot Afford Financial Plan Regardless**

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Useful Free Online Resources for Financial Planning: Florida Office of Economic and Demographic Research

■ Website Link:

<http://edr.state.fl.us/content/population-demographics/data/index-floridaproducts.cfm>

■ Source of Information for:

- Historical Municipality and County Population Growth
- Projected County Population Growth
 - No Projections for Municipalities at This Time



Useful Free Online Resources for Financial Planning: Electronic Municipal Market Access (emma.msrb.org)

■ Source of Information for:

- **Historical Bond Issues**

- Can Uses of Funds / Project Descriptions in Original Issue to Derive Allocations and Calculate Expansion Percentage for Impact Fees (e.g., Percentage of Debt Service That Can Be Paid for With Impact Fees)

- **Current Interest Rates Per Recent Bond Issues of Other Local Governments**

Useful Free Online Resources for Financial Planning: Congressional Budget Office (cbo.gov)

■ Source of Information for:

- **Defensible "Official" Economic Projections**
 - Consumer Price Index
 - Gross Domestic Product (GDP)
 - Unemployment Rate
 - Effective Federal Funds Interest Rate
- **"Budget and Economic Outlook" Reports Typically Published Twice Per Year (Mid-Year Update)**



Congressional Budget Office

Nonpartisan Analysis for the U.S. Congress

Useful Free Online Resources for Financial Planning: Bureau of Labor Statistics ([bls.gov](https://www.bls.gov))

■ Source of Information for:

- **Historical National, Regional, and Local Cost Increases**

- Consumer Price Index
- Electricity
- Gasoline
- Fuel Oil
- Medical Care
- Water, Sewer, and Trash Collection Services
- Industrial Chemicals
- Other

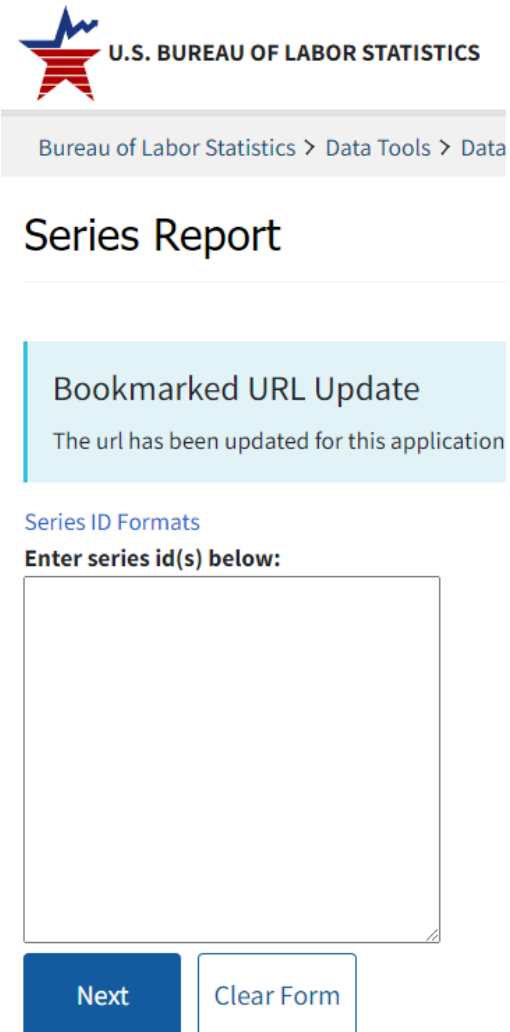
- **Can Review Short-Term and Long-Term Trends in Indexes for Specific Costs**



U.S. BUREAU OF LABOR STATISTICS

Useful Free Online Resources for Financial Planning: Bureau of Labor Statistics (bls.gov) (cont.)

- **Indexes Published By BLS Often Used for Automatic Indexing of Rates, Fees, and Charges**
 - <https://data.bls.gov/cgi-bin/srgate>
Can Be Used to Look Up Any Index – Just Need Series ID
 - Sample Series ID:
CUUR0000SA0 for CPI – U.S. City Average, All Urban Consumers
 - For Benefit of Staff in Future, Can Be Helpful to Specify Above Link and Series ID in Automatic Indexing Language



U.S. BUREAU OF LABOR STATISTICS

Bureau of Labor Statistics > Data Tools > Data

Series Report

Bookmarked URL Update
The url has been updated for this application

Series ID Formats
Enter series id(s) below:

Next Clear Form

Many Local Governments Do Not Annually Increase Their Rates for Inflationary Effects on the Cost of Operations

- **Important for Governing Bodies to Recognize That Inflation Represents Permanent Increase in Costs**
 - To the Extent That Local Governments Do Not Increase Their Rates to Recover Regular Permanent Cost Increases, Operating Deficiencies Will Progressively Increase and Larger Rate Increases Will Be Required to Fix the Problem
- **Many Cost Increases Are Beyond the Local Government's Control**
 - Examples: Costs of Fuel and Construction Materials That Are Driven By Global Market Forces



Several Local Governments Have Now Made Annual Rates, Fees, and Charges Increases Automatic

- **"Automatic" Means That Increases Are Implemented Without the Need for a Formal Hearing Unless Specific Action Is Taken By Governing Body**
 - Fines Are Generally Not Recommended for Indexing, and There May Be Statutory Limitations on the Amounts
- **Considered a Best Management Practice and Favored By Credit Rating Agencies**
 - From Financial Risk Standpoint, Provides More Assurance That Rates Will Keep Up With Inflation
 - If Financial Projections Are Submitted as Part of Securing Debt Financing, Credit Rating Agencies and Lenders Will Want to Know If All Rate Adjustments Needed to Support the Debt Have Been Adopted



Selection of the Index or Automatic Rate Increase Provision

- **Indexes Commonly Used for Automatically Increasing Rates**
 - National, Regional, or Local CPI as Published By Bureau of Labor Statistics (www.bls.gov)
 - Municipal Price Index as Published By *American City and County* (www.americancityandcounty.com)
 - Annual Increase Allowed for Utilities Regulated By the Public Service Commission
 - ENR Construction Cost Index as Published By *Engineering News-Record* (www.enr.com)
- **When Selecting Index, Should Review Historical Changes in Index Options Vs. Historical Changes in Costs**

Selection of the Index or Automatic Rate Increase Provision (cont.)

- **In Lieu of Automatic Increases Based on Index Changes, Could Consider Fixed Percentages for Increasing Rates**
 - Fixed Percentage Does Not Have the Fluctuations in Rate Adjustments Under Indexing Approach
 - May Be Appropriate If Utility Would Like to Annually Increase Rates at Higher Percentage Than What Is Typically Recognized Through Indexing
 - Due to Regulatory Environment, Utility Costs Often Increase at a Higher Rate Than CPI
 - Alternative: Add Percentage to Index Measurement (e.g., CPI plus 1%)

Measurement Basis

- **If a Government Uses Indexing Approach, the Earlier the Month Selected, the Sooner the Government Will Know During the Budget Process What the Following Year's Rate Increases Will Be**



- **Governments Should Consider:**
 - How Soon Following Year's Rate Increase Should Ideally Be Known for Planning and Budgeting Purposes
 - When the Index Data Will Be Available
 - For Example, April Data May Not Be Published Until Middle or End of May
 - Months in Which the Index Is Published
 - Some Inflationary Indexes Are Published Every Two Months, and So Some Months May Not Be Available as a Measurement Basis

Fee Rounding

- **User Rates Can Usually Be Indexed and Rounded to Nearest Cent**
- **For Certain Other Charges, It May Make Sense to Round or Round Up to Nearest Dollar or Nearest Five-Dollar Increment**
 - For Example, Charging \$49.73 for a Service Call May Seem Silly – A Rate of \$50 May Be More Practical and "Cleaner"
 - Customer Deposits Could Possibly Be Rounded Up to Nearest Five-Dollar Increment
- **Rounding Up Instead of Rounding May Be Needed for Rates Under a Certain Threshold**
 - For Example, If Annual Adjustment Is 2% and Existing Rate Is \$24, $\$24 * (1+2\%) = \24.48 , Which Would Round to \$24 (the Existing Rate) – Should Round Up to \$25

Not Limited to Annual Increases

- **Per Florida Statutes, Local Governments Can Increase Local Business Tax Receipts By Up to 5% Every Other Year**
- **Local Governments Can Be Creative in Developing Customized Provisions Appropriate for a Specific Fee**
 - Per Florida Statutes, Local Governments Can Increase
 - Example: Every Three (3) Years, Fee Automatically Increased By Cumulative Increase in Index
 - Example: Every Two (2) Years, Fee Automatically Increased By \$1
 - From Franchise Agreement:



"[The Utility] may not compound indexing for more than any two year period. Stated otherwise, if Utility fails to index in year one, it may index in year two for years one and two, but if it fails to do so, it may not, for example, in year three index for more than years two and three."

Development of Automatic Rate Increase Language in Resolution, Ordinance, or Tariff

■ May Not Want Rates to Decrease If Index Change is Negative

- A Floor on the Rate Adjustments Can Be Established By Only Referencing Increases in the Language

In the absence of a formal study recommendation or action by the [insert governing body name], the rates, fees, and charges in [insert applicable sections] shall be automatically increased for inflationary effects on the costs of operations – without a public hearing – effective [insert effective month and day] of each fiscal year. The percentage increase shall be the percentage increase, if any, in the [insert index name, index publisher, and any other information] from [insert month] of the preceding calendar year to [insert month] of the current calendar year. The first increases under these provisions, if any, shall become effective on [insert effective date].

Annual Increase References

- **Some Local Governments Have Added an "Annual Increase Reference" Column to Their Rate Schedules to Specify Automatic Rate Increase Provisions**
 - Provides an Easy Way to Manage and Update Different Increase Provisions for Each Rate, Fee, or Charge
 - Various References Can Be Defined at Bottom of Rate Schedule

Sample Rate Schedule

Description	Amount	Annual Adjustment (References shown are defined at the end of this table)
Fee 1	\$100.00	[A]
Fee 2	\$50.00	[B]

Annual Adjustment Reference Definitions:

[A]

[B]

Communication to Governing Bodies

- **With Proper Communication, Governing Bodies (and the Public) Are Often Accepting of Smaller, Inflationary Adjustments That Are Implemented Automatically**



Key Communication Points for Getting Automatic Rate Increase Provisions Adopted

■ Common Among Local Governments

- Helpful to Present List of Local Governments That Have Automatic Rate Increases

■ Emphasize "Permanent Increase in Costs" Concept

- Many Costs Beyond the Local Government's Control
- Automatic Rate Increases and Proactive Financial Planning Can Help Prevent Future "Catch Up" Rate Increases and "Rate Shock"

■ Best Management Practice

- Favored By Credit Rating Agencies
- Benefits of Higher Credit Rating

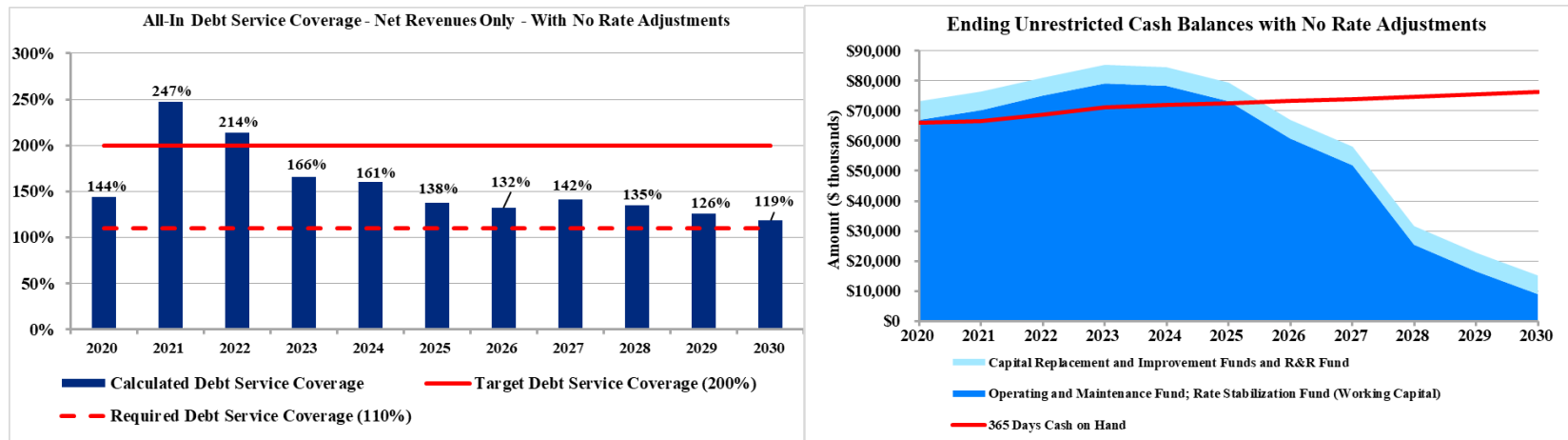
■ Always Have Option to Take Action to Not Implement Automatic Rate Increases in a Given Year

- Could Also Increase Rates By a Lower Percentage




Key Communication Points for Getting Automatic Rate Increase Provisions Adopted (cont.)

- **Showing (Perhaps Graphically) What Might Happen If the Automatic Rate Adjustments Were NOT Implemented**
 - Possible Debt Service Coverage Problems, Inability to Fund All Operating and Capital Needs, Etc.



Considerations When Developing Comprehensive Schedule of Rates and Charges

- 
- **Opportunities to Shift Cost Recovery from More Politically-Charged Fees Such as Taxes or User Rates (i.e., Revenue Enhancement)**
 - Fees Which Do This Are Usually Easier to Get Approved

 - **Services to Be Specifically Charged for Versus Services Provided as "Cost of Doing Business"**
 - Management Policy Decision
 - May Not Want to "Nickel and Dime" Customers
 - Consider Utilization of Staff and Time Spent Away from "Normal" Jobs to Perform Requested Services

Considerations When Developing Comprehensive Schedule of Rates and Charges (cont.)

■ Established Fee Amount Vs. General "Actual Cost"

ACTUAL

**ACTUAL
RATE**

**ACTUAL
COST**

- **Set Fee May Be More Customer-Friendly**
 - Customers Know Amount to Pay in Advance By Looking at Schedule Rather Than Securing Cost Estimate from Staff
- **Actual Cost (as Defined) Can Adjust Over Time Without Need to Adopt New Rate**
 - Government Staff May Not Like Spending Effort or Going Into Field to Provide Estimates of "Actual Cost"

Considerations When Developing Comprehensive Schedule of Rates and Charges (cont.)

- **Need to Educate Staff on Adopted Fees and How / When to Charge Them**
 - **Staff May Be Unaware That Some Fees Exist or That Fees Must Be Charged Under Certain Conditions**
 - **Staff Input Is Very Important When Developing and Making Decisions on Rate Schedule and Potential New Fees**



Useful Free Online Resources for Financial Planning: Federal Emergency Management Agency

- **Website Link:**
<https://www.fema.gov/assistance/public/tools-resources/schedule-equipment-rates>
- **Source of Information for Defensible Charges for Vehicles and Equipment When Developing Specific Rates and Charges**



Useful Free Online Resources for Financial Planning: Florida Department of Revenue

■ Website Link:

<https://floridarevenue.com/DataPortal/Pages/TaxResearch.aspx>

■ Source of Information for Tax Practices of Other Local Governments (e.g., Municipal Public Service Tax Rates)

- Several Databases That Can Be Downloaded in Excel Format



Water and Sewer Financial Policy Consideration: Outside-Municipality Surcharges

■ Outside-Municipality Surcharges

- Florida Statute 180.191 Limitation on Rates Charged Consumer Outside City Limits
- Should Monitor Future Legislation – Historical Attempts to Limit Outside-Municipality Surcharges

"[A municipality] may charge rates, fees, and charges that are just and equitable and which are based on the same factors used in fixing the rates, fees, and charges for consumers inside the municipal boundaries. In addition thereto, the municipality may add a surcharge not to exceed 25 percent of such rates, fees, and charges for said services to consumers outside the boundaries. However, the total of all such rates, fees, and charges for the services to consumers outside the boundaries shall not be more than 50 percent in excess of the total amount the municipality charges consumers served within the municipality for corresponding service."

Water and Sewer Financial Policy Consideration: Inactive Account Policy

- **Potential Policy: Property Owners Responsible for Payment of Monthly Charges for Service Where Service Is Available, Regardless of Whether Property Is Considered Active Account**
 - **Utility Has Built Supply, Treatment, Transmission, and Distribution / Collection Infrastructure to Provide Service and Utility Continues to Incur Fixed Costs to Maintain “Ready-to-Serve” Condition**
 - **Billing Inactive or “Vacant” Accounts Reduces Overall Costs to Year-Round Customers and Helps Keep User Rates Lower**

VACANT

Water and Sewer Financial Policy Consideration: **Mandatory Connection Policy**

- **Potential Policy: Property Owners Must Connect and Pay Applicable Impact Fees / Connection Fees Within Certain Timeframe After Service Becomes Available**



- **Can Help Ensure Reasonable Payback Period**
- **Can Be Unpopular Among Unconnected Residents**
- **Often Incorporated as Covenant Within Bond Resolutions / Ordinances**

Late Fees

- **Late Fee Charged By State of Florida for Several Types of Taxes: 10% of Unpaid Tax Per Month, Not to Exceed 50%**
 - **May Be Reasonable Not-to-Exceed Late Fee for Local Governments**
- **Appropriate to Have Minimum Charge to Recover Correspondence Costs (e.g., Stamps, Printing of Delinquency Notices)**



Useful Free Online Resources for Financial Planning: Municode and American Legal Publishing

■ Website Link:

<https://library.municode.com/fl>

<https://codelibrary.amlegal.com/regions/fl>

■ Searchable Codes for Local Governments

- Can Reference Code Language of Governments That Already Have Well-Developed Policies
- Code Sections Can Be Downloaded Into Word or .pdf Format
- Can Perform a Lot of Research in a Short Period of Time!

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Useful Free Online Resources for Financial Planning: Websites of Other Local Governments

- **Searchable Agendas and Minutes**
 - **Resolution and Ordinance Examples**
 - **Reports and Other Useful Information in Agenda Backup Materials**

- **Current Rates**

- **Financial Policies, Budgets, and Reports**

- **Study Reports, Planning Documents, Etc.**

- **Websites Can Promote Transparency in Government Operations!**

Useful Free Online Resources for Financial Planning: Property Appraiser Websites

- **Some Have More Information Than Others**
 - **Downloadable Databases – Any Microsoft Access Files Can Be Easily Converted Into Excel Files for Analysis**
 - **Some Utilities Use These Databases to Derive Impervious Area / Equivalent Residential Unit Counts for Stormwater Service**
 - **Need to Determine Whether to Offer Mitigation Credits If Customers Have Onsite Facilities to Manage Runoff (Can Review Policies in Codes of Other Local Governments)**



Useful Free Online Resources for Financial Planning: State Board of Administration

- **Website Link:**
<https://prime.sbafla.com>
- **Click on “LGIP/Florida Prime Rates” to View Current and Historical Participant Yields and 30-Day Average Yields**



SOME FINAL THOUGHTS:

- **There Are Many Helpful Free Online Resources for Developing Financial Policies and Plans**
- **Strong Financial Management Policies Adopted By the Local Governing Body Can Help Guide Financial and Rate Decisions as Well as Improve Credit Ratings**
- **There Are Many Considerations When Developing a Financial Management Policies Document, and Such Policies Should Be Reviewed Periodically**
 - **No "One Size Fits All"**
 - **Can Build Upon Policy Documents Developed By Others**



SOME FINAL THOUGHTS (cont.):

- **Automatic Rate Increases Are a Recommended Policy Consistent With Best Management Practices**
 - **Different Rates, Fees, and Charges Can Have Different Increase Provisions**
- **Should Ideally Build / Establish Long-Term History of Following Financial Plan and Meeting Financial Targets**



SOME FINAL THOUGHTS (cont.):

■ For the Long-Term Interests of Residents or Customers, Financial and Rate Planning Should Be Proactive, Not Reactive

- **Keep Up With Inflation or Permanent Increases in Costs**
- **Lower User Rates Over the Long-Term**
- **Balanced Debt Risk**
- **Higher Credit Rating and Lower Interest Rates When Debt Financing**



SOME FINAL THOUGHTS (cont.):

- **With Substantial Price Inflation Over Past Few Years, It Is More Difficult to Get Tax and Rate Increases Passed**
 - **More Residents / Customers Are Showing Up at Public Meetings to Complain About the Increases**
 - **Several Members of Governing Bodies Have Called for More Transparency in Communicating Where Money Is Being Spent and What Has Been Accomplished (e.g., Dashboard on Government Website)**
 - **Proactively Improving Transparency Could Facilitate Support for Financial Plan**



SOME FINAL THOUGHTS (cont.):

- **Use Lots of Pictures to Help Communicate What Government Is Trying to Accomplish Through Financial Plan**
 - **Extremely Effective at Communicating Need**



SOME FINAL THOUGHTS (cont.):

- **When Comparing Taxes / Rates to Those of Other Local Governments, Emphasize That Comparison Is Not a “Report Card” on How Well Government Is Performing**
 - **Many Reasons Why Taxes / Rates Differ Among Local Governments**
 - **Each Local Government Is Unique and Has Its Own Set of Challenges**



THANK YOU

**If You Have Questions
Regarding This
Presentation or Would
Like Additional
Information, Please
Contact Us!**

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QUESTIONS AND DISCUSSION

