

City of Lago Vista Fiscal and Budgetary Policy

I. PURPOSE

The City of Lago Vista is committed to financial management through integrity, prudent stewardship, planning, accountability, full disclosure and communication. The broad purpose of the Fiscal and Budgetary Policies is to enable the City to achieve and maintain a long-term stable and positive financial condition, and provide guidelines for the day-to-day planning and operations of the City's financial affairs.

Policy scope generally spans areas of accounting and financial reporting, internal controls, both operating and capital budgeting, revenue management, investment and asset management, debt management and forecasting. This is done in order to:

- A. Demonstrate to the citizens of Lago Vista, the investment community, and the bond rating agencies that the City is committed to a strong fiscal operation;
- B. Provide precedents for future policy-makers and financial managers on common financial goals and strategies;
- C. Fairly present and fully disclose the financial position of the City in conformity to generally accepted accounting principals (GAAP); and
- D. Demonstrate compliance with finance-related legal and contractual issues in accordance with the Texas Local Government Code and other legal mandates.

These policies will be reviewed and updated annually as part of the budget preparation process.

The budgeted funds for the City of Lago Vista include:

Governmental Funds: General Fund which accounts for all financial resources except those required to be accounted for in another fund, and include basic governmental services, such as Police, Public Works and Parks functions among others.

Special Revenue Funds (SRF): Account for specific revenues that are legally restricted for specified purposes. The City currently budgets two SRF Funds: Tourism and Parkland Dedication.

Debt Service Fund: Is used to account for the payment of general long-term debt principal and interest.

Capital Project Funds: Used to account for the acquisition or construction of major capital facilities other than those financed by enterprise activities.

Enterprise Funds: Include the City's "business like" activities including all the utility funds.

Basis of Accounting and Basis of Budgeting

The City accounts and budgets for all Governmental Funds using the modified accrual basis of accounting. This basis means that revenue is recognized in the accounting period in which it becomes available and measurable, while expenditures are recognized in the accounting period in which they are incurred. Because the appropriated budget is used as the basis for control and comparison of budgeted and actual amounts, the basis for preparing the budget is the same as the basis of accounting. Exceptions to the modified accrual basis of accounting include:

- Encumbrances, which are treated as expenditures in the year they are encumbered, not when expended.
- Grants, which are considered revenue when awarded, not received.
- Principal and interest on long-term debt, which are recognized when paid.

General government funds include the general fund, special revenue funds, debt service fund and general capital project funds.

Proprietary Funds, which include the enterprise and internal service funds are accounted for and budgeted using the full-accrual basis of accounting. Under this method, revenues are recognized when they are earned and measurable, while expenses are recognized when they are incurred regardless of timing or related cash flows. The basis for preparing the budget is the same as the basis of accounting except for principal payments on long-term debt and capital outlay which are treated as budgeted expenses. Exceptions include:

- Depreciation which is not budgeted
- Non-budgeted accruals such as compensated absences

II. OPERATING BUDGET

Budgeting is an essential element of the financial planning, control and evaluation process of municipal government. The "operating budget" is the City's annual financial operating plan. The annual budget includes all of the operating departments of the general fund, proprietary funds, debt service funds, special revenue funds, and capital improvement funds of the City.

A. Comprehensive Plan – The Lago Vista Master Plan is the City's comprehensive plan to preserve, promote and protect public health and general welfare, prevent overcrowding, ensure adequate transportation, availability of necessary utilities and services, and conserve and protect the City's natural resources. The City's budget is the Annual Operating Plan element of the Comprehensive Master Plan.

The Comprehensive Master Plan is founded on strategic objectives or "policy areas" that are reviewed annually, and updated at least every five years. Funding of City programs should be based upon the objectives set forth in the Master Plan.

The City Charter and the Comprehensive Master Plan describe the budget process as an integral planning tool, suggesting the City plan for both five and one year time horizons. They recommend the budget be focused on these areas and significantly in consonance with the goals and objectives outlined in the comprehensive plan.

B. Preparation – The Charter (Section 8.02) requires “The City Manager, prior to August first of each year, shall submit to the Council a proposed budget for the ensuing fiscal year and an accompanying budget message.” The budget shall provide "a complete financial plan for all City funds and activities for the ensuing fiscal year. It shall contain all items and contents required by State law. The total of proposed expenditures shall not exceed the total of estimated income plus any accumulated surplus." The City Council shall, after holding public hearings as required by State law, adopt the budget by ordinance no later than the 30th day of September. If it fails to adopt the budget by September 30th, the budget as proposed by the City Manager shall go into effect until such time as the Council adopts a budget.

C. Proposed Budget – A proposed budget shall be prepared by the City Manager with the participation of all the City’s Department Heads which is within the provisions of the Charter and in consonance with the guidance contained in the Comprehensive Master Plan.

a) The budget shall include the following basic segments for review and evaluation:

- Budget Message
- General Fund
- Utility Fund
- Capital Improvement Fund
 - Hotel Occupancy Fund
 - Debt Service Fund & Investments

b) The budget review process will include provisions for City Council participation, including sufficient time to address policy and fiscal issues, and citizen input through the use of public hearings.

c) A copy of the proposed budget will be filed with the City Secretary at the time it is submitted to the City Council. A copy will also be available at City Hall and the Public Library for citizen review.

D. Adoption –Prior to finalization of the budget appropriations, the City Council will hold at least one public hearing, and subsequently adopt the final budget as amended by Ordinance. The budget will be effective for the fiscal year beginning October 1st.

At the City Manager's discretion, the Annual Operating Plan document may be submitted to the Government Finance Officers Association (GFOA) for evaluation and consideration for the Distinguished Budget Presentation Award.

E. Balanced Budget – The goal of the City is to balance the operating budget with current revenues, whereby, current revenues would match and fund on-going expenditures/expenses. Excess balances in the operating funds from previous years could be used for non-recurring expenditures/expenses or as capital funds based upon the recommendation of the City Manager and determination by the Council.

F. Planning – The budget process will be coordinated so that major policy issues are identified prior to the budget approval date. This will allow City Council adequate time for consideration of appropriate decisions and analysis of financial impacts.

G. Reporting – Summary financial reports will be presented to the City Council on a monthly basis. These reports will be in a format appropriate to enable the City Council to understand the overall budget and financial status. Quarterly reports will also be provided as needed which contain updates on the status of projects and related financial goals set forth in the budget and if determined necessary, may also include appropriate budget amendment recommendations.

H. Control and Accountability – Each Department Head, appointed by the City Manager, should be responsible for the administration of his/her departmental budget. This includes accomplishing the Goals and Objectives adopted as part of the budget and monitoring of their portion of the budget for compliance with spending limitations. The City Manager may transfer any unencumbered funds within a departmental budget category (personnel costs, operations and maintenance or capital) and shall report such transfers to the Council in writing in a timely manner. All other transfers of appropriation or budget amendments require City Council approval as outlined in Section IV.

I. Budget Amendments – The Charter (Section 8.06) provides a method for budget amendments and emergency appropriations. The City Council may authorize with a majority vote, an emergency expenditure as an amendment to the original budget. This may be done in cases of grave public necessity or to meet an unusual and unforeseen condition that was not known at the time the budget was adopted. In practice, this has been interpreted to include revenue-related expenses within the enterprise funds and timing differences on capital improvement projects. The following criteria will be used in evaluation of budget amendments:

- Is the request necessary?
- Why was the item not budgeted in the normal budget process?
- Why can't a transfer be done within the budget to remedy the condition?

The City Manager must certify availability of revenues or funding sources prior to adoption. The City will amend the budget at year end, if needed, for revenue based expenditures that exceeded budgeted amounts due to increased revenue and recognize any grant funded expenditures for grants received after the budget was adopted or last

amended. The City Council may also amend the budget if necessary as part of the Mid-Year Review process for any capital project timing adjustments from prior year, as well as, any other known adjustments needed and approved at that time.

J. Contingency Appropriations – The budget may include contingency appropriations within designated operating department budgets. These funds are used to offset expenditures for unexpected maintenance or other unanticipated expenses that might occur during the year.

K. Manager's Contingency Account – The budget may also include a set amount of contingency appropriations within the Administration Budget to be spent at the discretion of the City Manager. These funds may be used to offset expenditures for unexpected purchases and other unanticipated expenses that might occur during the year. The specific amount of contingency funds included in the budget shall be set by the City Council through the adoption of the annual budget.

III. REVENUE MANAGEMENT

A. Characteristics – The City will strive for the following optimum characteristics in its revenue system:

1. Simplicity – The City, where possible and without sacrificing accuracy, will strive to keep the revenue system simple in order to reduce compliance costs for the taxpayer or service recipient.
2. Certainty – A knowledge and understanding of revenue sources increases the reliability of the revenue system. The City will understand its revenue sources and enact consistent collection policies to provide assurances that the revenue base will materialize according to budget.
3. Equity – The City will make every effort to maintain equity in its revenue system; i.e., the City should seek to minimize or eliminate all forms of subsidization between entities, funds, services, utilities, and customer classes, and ensure an on-going return on investment for the City.
4. Revenue Adequacy – The City should require there be a balance in the revenue system; i.e., the revenue base will have the characteristics of fairness and neutrality as it applies to cost of service, willingness to pay, and ability to pay.
5. Realistic and Conservative Estimates - Revenues will be estimated realistically, and conservatively, taking into account the volatile nature of various revenue streams.
6. Administration – The benefits of a revenue source should exceed the cost of levying and collecting that revenue.

7. Diversification and Stability – A diversified revenue system with a stable source of income shall be maintained. This will help avoid instabilities in two particular revenue sources due to factors such as fluctuations in the economy and variations in the weather.

B. Other Considerations – The following considerations and issues should guide the City in its revenue policies concerning specific sources of funds:

1. Cost/Benefit of Incentives for Economic Development – The City will use due caution in the analysis of any incentives that are used to encourage development. A cost/benefit (fiscal impact) analysis will be performed as part of the evaluation.
2. Non-Recurring Revenues – One-time or non-recurring revenues should not be used to finance current ongoing operations. Non-recurring revenues should be used only for non-recurring expenditures and not for budget balancing purposes.
3. Property Tax Revenues – All real and business personal property located within the City will be valued at 100% of the fair market value for any given year based on the current appraisal supplied by the Travis County Appraisal District. Conservative budgeted revenue estimates result in a projected ninety-eight percent (98%) budgeted collection rate for current ad valorem taxes. Two percent (2%) of the current ad valorem taxes will be projected as the budget for delinquent ad valorem tax collection. For budgeting purposes, the City will forecast the current year's effective tax rate at the current collection rate of 98%, unless directed otherwise.
4. Interest Income – Interest earned from investments will be distributed to the funds in accordance with the equity balance of the fund from which the monies were provided to be invested unless otherwise required by statute or determined by the City Council.
5. User-Based Fees and Service Charges – For services associated with a user fee or charge, the direct or indirect costs of that service will be offset by a fee where possible. The City will review fees and charges no less than once every three years to ensure that fees provide adequate coverage for the cost of services. The City Council will determine how much of the cost of a service should be recovered by fees and charges.
6. Enterprise Fund Rates – The City will review and adopt utility rates as needed to generate revenues required to fully cover operating expenses, meet the legal requirements of all applicable bond covenants, and provide for an adequate level of working capital. Additionally, enterprise activity rates will include transfers to and receive credits from other funds as follows:
 - a) General and Administrative Charges – As staff becomes available to do so, administrative costs should be charged to all funds for services of general overhead, such as administration, finance, customer billing, legal and other costs as appropriate. These charges will be determined through an indirect cost allocation following accepted practices and procedures.

b) Payment for Return on Investment – The intent of this transfer is to provide a benefit to the citizens for the ownership of the various utility operations they own.

- In-Lieu-of-Franchise-Fee. This transfer, currently between 2% and 4% of operating revenues, is consistent with the franchise rates charged to investor owned utilities franchised to operate within the City.

- Return on Investment. The return on investment (ROI) transfer is currently calculated at 8% of operating revenues.

7. Intergovernmental Revenues – All potential grants will be examined for matching requirements and must be approved by the City Council prior to making application for the grant. It must be clearly understood that operational requirements (on-going costs) set up as a result of a grant program could be discontinued once the term and conditions of the program have been completed.

8. Revenue Monitoring – Revenues as they are received will be regularly compared to budgeted revenues and variances should be investigated. Any abnormalities will be included in the quarterly reports to the City Council.

IV. EXPENDITURE POLICIES

A. Appropriations – The point of budget control is at the department level budget for all funds. The Charter (Section 8.06) provides that any transfer of appropriation between funds must be approved by the City Council and that the City Manager, without City Council approval is authorized to transfer appropriations within departments.

C. Purchasing – All purchases of goods or services by the City will be made in accordance with the City’s current Purchasing Policy and with State law. All purchasing decisions shall be made in accordance with the Annual Budget or Capital Budget as approved by the City Council. The purchase of items not included in the Annual or Capital Budget less than \$25,000 shall require approval from the City Manager. The purchase of items not included in the Annual or Capital Budgets in excess of \$25,000 shall require the approval of the City Council. All contracts greater than \$25,000 shall be approved by the City Council. Emergency purchases in excess of \$25,000 will be limited to incidents which threaten public health, safety or damage to persons or property or in those situations in which inaction shall present a substantial financial loss to the City. All emergency purchases shall be submitted to the City Council for ratification. The following shows a summary of approval requirements for purchases.

APPROVAL REQUIREMENTS FOR PURCHASES:

The City Manager shall determine the purchasing authority limits of all Department Heads and other employees on a case by case basis; however, under no circumstances shall that authority exceed \$25,000.

Department Heads shall determine the purchasing authority of subordinate employees on a case by case basis; however, under no circumstances shall that authority exceed \$5,000.

All purchases in excess of \$25,000 will require Council approval except for those routine and recurring items contained in the City budget such as for services such as electricity, withholding taxes, health insurance payments, etc. and payments relating to contracts previously approved by the Council.

D. Prompt Payment – All invoices approved for payment by the proper City authorities shall be paid within thirty (30) calendar days of receipt of goods or services or invoice date, whichever is later in accordance with State law. The City will take advantage of all purchase discounts, when possible.

E. Risk Management – The City will pursue every opportunity to provide for the public's and City employees' safety and to manage its risks. The goal shall be to minimize the risk of loss of resources through liability claims with an emphasis on safety programs.

V. BUDGET CONTINGENCY PLAN

This policy is designed to establish general guidelines for managing revenue shortfalls resulting from local and national economic downturns that adversely affect the City's revenue streams.

A. Immediate Action - Once a budgetary shortfall is projected, the City Manager will take the necessary actions to offset any revenue shortfall with a reduction in current expenses. The City Manager may:

- Freeze all new hire and vacant positions except those deemed to be a necessity by the City Manager. .
- Review all planned capital expenditures.
- Delay all "non-essential" spending or equipment replacement purchases.

B. Further Action - If the above actions are insufficient to offset the revenue deficit and the shortfall continues to increase, the City Manager will further reduce operating expenses to balance the variance. Any resulting service level reductions, including workforce reductions, will be determined by the City Council.

VI. CAPITAL IMPROVEMENT PROGRAM (CIP) BUDGET

The City's goal is to maintain City facilities and infrastructure in order to provide excellent services to the customers within the community, meet growth related needs, and comply with all state and federal regulations.

A. Preparation – The City annually updates and adopts a five-year Capital Improvement

Program (CIP) schedule as part of the operating budget adoption process. The plan is reviewed and adjusted annually as needed, and year one is adopted as the current year capital budget. The capital budget will include all capital projects, capital resources, and estimated operational impacts;

- Needed capital improvements should be identified through system models, repair and maintenance records and growth demands.
- Economic development projects that have capital infrastructure needs, should be reviewed and approved for funding by the City no later than January 1 to be included in the annual CIP process. Any economic development project approved for funding after March 1 will be included in the next year's CIP process.
- A team approach will be used to prioritize CIP projects, whereby City staff from all operational areas provide input and ideas relating to each project and its effect on operations.
- Citizen involvement and participation will be solicited in formulating the capital budget through public hearings and other forums.

B. Control – All capital project expenditures must be appropriated in the capital budget. Availability of resources must be identified before any CIP contract is presented to the City Council for approval.

C. Financing Programs – Where applicable, assessments, impact fees, pro rata charges, or other fees should be used to fund capital projects which have a primary benefit to specific identifiable property owners.

Recognizing that long-term debt is usually a more expensive financing method, alternative-financing sources will be explored before debt is issued. When debt is issued, it will be used to acquire major assets with expected lives equal to or greater than the final maturity of the debt issue.

- Short-term financing including Capital Leasing and other tax-supported obligations can be used to fund vehicles, computers and other operating equipment provided the impact to the tax rate is minimal.
- Caution should be used in replacing assets with short-term, tax-supported obligations due to the repetitive nature of the replacements. The total amount of the I & S (interest and sinking) portion of the tax rate dedicated to fund short-term debt for equipment replacement will not exceed \$0.04.

VII. CAPITAL MAINTENANCE AND REPLACEMENT

The City recognizes that deferred maintenance increases future capital costs. Therefore, a portion of all individual funds with infrastructure should be budgeted each year to maintain the quality within each system.

A. Infrastructure Maintenance - On-going maintenance and major repair costs are included as capital expense within the departmental operating budgets. These costs are generally considered system repairs and are not capitalized for accounting purposes. They include such items as street seal coat, water line repairs and other general system maintenance. The City's administrative policy is to maintain the streets in a "good" condition. Staff will prepare a street maintenance budget that meets this target for Council's consideration during the budget process.

B. Internal Service funds – The City may utilize internal service funds to maintain and replace existing assets. Assessments are to be made to the using funds for the use of equipment currently in use and to be purchased during the year. In this way, suitable funds should be available for the purchase of operational assets without minimum issuance of debt.

1. Fleet Maintenance and Replacement - The City has a major investment in its fleet of cars, trucks, tractors, and other equipment. The City will anticipate replacing existing equipment, as necessary and may establish charges that are assigned to the using departments to account for the cost of that replacement. Vehicle maintenance may also allocated in this manner.

2. Technology – It is the policy of the City to plan and fund the maintenance and replacement of its computer network and other technology systems. The City may rely on a four-year replacement cycle for all desktop computers.

3. Facilities Maintenance – The City may consider the establishment of an on-going maintenance program, which include major repairs, equipment, as well as contracts for maintaining City facilities. The City will anticipate a useful life of such equipment and establish a means of charging those costs to the various departments in order to recognize the City's continuing costs of maintaining its facilities.

VIII. ACCOUNTING, AUDITING AND FINANCIAL REPORTING

A. Accounting – The City is solely responsible for the recording and reporting of its financial affairs, both internally and externally. The City Manager is the City's Chief Financial Officer and is responsible for establishing the structure for the City's Chart of Accounts and for assuring that procedures are in place to properly record financial transactions and report the City's financial position.

B. Audit of Accounts – In accordance with the City Charter, an independent audit of the City's accounts will be performed every year. The auditor may be recommended by the City Manager but is retained by and is accountable directly to the City Council.

C. Internal Reporting – The Finance Department will prepare internal financial reports, sufficient to plan, monitor and control the City's financial affairs.

IX. ASSET MANAGEMENT

A. Cash Management and Investments – The City Council is currently developing and will formally approve a separate Investment Policy for the City of Lago Vista that meets the requirements of the Public Funds Investment Act (PFIA), Section 2256 of the Texas Local Government Code. This policy is to be reviewed annually by the City Council and applies to all financial assets held by the City.

1. Statement of Cash Management Philosophy - The City shall maintain a comprehensive cash management program to include the effective collection of all accounts receivable, the prompt deposit of receipts to the City's depository, the prompt payment of obligations, and the prudent investment of idle funds in accordance with this policy.

2. Objectives – The City's investment program will be conducted as to accomplish the following, listed in priority order:

- Safety of the principal invested
- Liquidity and availability of cash to pay obligations when due
- Receive the highest possible rate of return (yield) consistent with the City's investment policy.

3. Safekeeping and Custody – Investments may only be purchased directly by the City or through brokers/dealers who meet the criteria detailed in the investment policy, which also addresses internal controls related to investments.

4. Standard of Care and Reporting – Investment will be made with judgment and care, always considering the safety of principal to be invested and the probable income to be derived. The City Manager is responsible for the overall management of the City's investment program and ensures all investments are made in compliance with the investment policy. An investment report, providing both summary and detailed information, will be presented to the City Council quarterly.

5. Authorized Investments – The City can currently invest in the following:

- Certificates of Deposit
- U.S. Treasury and Agency securities
- Investment Pools that meet the requirements of the PFIA
- No-load Money Market Mutual Funds
- Fully collateralized Repurchase Agreements
- Other investments as approved by City Council and not prohibited by law

B. Fixed Assets – These assets will be reasonably safeguarded and properly accounted for, and prudently insured when required by law.

1. Capitalization Criteria - For purposes of budgeting and accounting classification assets meeting all of, the following criteria must be capitalized:

- The asset is owned by the City.
- The expected useful life of the asset must be longer than one year, or extend the

life of an identifiable existing asset by more than one year.

- The original cost of the asset must be at least \$5,000.
- The asset must be tangible.
- On-going repairs and general maintenance are not capitalized.

2. New Purchases – All costs associated with bringing the asset into working order will be capitalized as part of the asset cost. This will include start up costs, engineering or consultant type fees as part of the asset cost once the decision or commitment to purchase the asset is made. The cost of land acquired should include all related costs associated with its purchase.

3. Improvements and Replacement – Improvements will be capitalized when they extend the original life of an asset or when they make the asset more valuable than it was originally. The replacement of an asset's components will normally be expensed unless they are a significant nature and meet all the capitalization criteria.

4. Contributed Capital - Infrastructure assets received from developers or as a result of annexation will be recorded as equity contributions when they are received.

5. Distributions Systems - All costs associated with public domain assets, such as streets and utility distribution lines will be capitalized in accordance with the capitalization policy. Costs should include engineering, construction and other related costs including right of way acquisition.

6. Reporting and Inventory – The Finance Clerk will maintain the permanent records of the City's fixed assets, including description, cost, department of responsibility, date of acquisition, depreciation and expected useful life. Periodically, random sampling at the department level will be performed to inventory fixed assets assigned to that department. Responsibility for safeguarding the City's fixed assets lies with the department supervisor or manager whose department has been assigned the asset.

X. DEBT MANAGEMENT

The City of Lago Vista recognizes that the primary purpose of capital facilities is to provide services to the community. Using debt financing to meet the capital needs of the community must be evaluated according to efficiency and equity. Efficiency must be evaluated to determine the highest rate of return for a given investment of resources. Equity is resolved by determining who should pay for the cost of capital improvements. In meeting demand for additional services, the City will strive to balance the needs between debt financing and "pay as you go" methods. The City realizes that failure to meet the demands of growth may inhibit its continued economic viability, but also realizes that too much debt may have detrimental effects on the City's long-range financial condition.

The City will issue debt only for the purpose of acquiring or constructing capital assets for the general benefit of its citizens and to allow it to fulfill its various purposes as a city.

A. Usage of Debt - Long-term debt financing will be considered for non-continuous capital improvements of which future citizens will be benefited. Alternatives for financing will be explored prior to debt issuance and include, but are not limited to:

- Grants
- Use of Reserve Funds
- Use of Current Revenues
- Contributions from developers and others
- Leases
- Impact Fees

When the City utilizes long-term financing, it will ensure that the debt is soundly financed by conservatively projecting revenue sources that will be used to pay the debt. It will not finance the improvement over a period greater than the useful life of the improvement and it will determine that the cost benefit of the improvement, including interest costs, is positive to the community.

The City may utilize the benefits of short-term debt financing to purchasing operating equipment provided the debt doesn't extend past the useful life of the asset, and the potential impact to the tax rate is within policy guidelines. The I & S (interest and sinking) portion of the tax rate can not exceed \$0.04 for short-term debt (3-7 years).

B. Types of Debt –

1. General Obligation Bonds (GO's) – General obligation bonds must be authorized by a vote of the citizens of Lago Vista. They are used only to fund capital assets of the general government and are not to be used to fund operating needs of the City. The full faith and credit of the City as well as the City's ad valorem taxing authority back general obligation bonds. Conditions for issuance of general obligation debt include:

- When the project will have a significant impact on the tax rate;
- When the project may be controversial even through it is routine in nature; or
- When the project falls outside the normal bounds of projects the City has typically done.

2. Revenue Bonds – Revenue bonds may be issued to provide for the capital needs of any activities where the capital requirements are necessary for the continuation or expansion of a service. The improved activity shall produce a revenue stream to fund the debt service requirements of the necessary improvement to provide service expansion. The final maturity of the obligation should not exceed the useful life of the asset(s) to be funded by the bond issue and will generally be limited to no more than twenty (20) years.

3. Certificates of Obligation, Contract Obligations (CO's) – Certificates of obligation or contract obligations may be used to fund capital requirements that are not otherwise covered either by general obligation or revenue bonds. Debt service for CO's may be paid either from general revenues (tax-supported) or supported by a specific revenue stream(s) or a combination of both provided, however, that the I & S tax provides alternate security for the repayment of COs as required by State law. Typically, the City may issue CO's when the following conditions are met:

- When the proposed debt will have minimal impact on future effective property tax rates;
- When the projects to be funded are within the normal bounds of city capital requirements, such as for roads, parks, various infrastructure and City facilities; and
- When the average life of the obligation does not exceed the useful life of the asset(s) to be funded by the issue.

Certificates of obligation will be used with prudent care and judgment by the City Council. Efforts will be made to ensure public participation in decisions relating to debt financing.

4. Self-supporting General Obligation Debt – Refers to general obligation debt issued for a specific purpose and repaid through dedicated revenues other than ad valorem taxes; however, the I & S tax is still pledged by law. The annual debt requirements are not included in the property tax calculation.

5. Internal borrowing between City funds – The City can authorize use of existing long-term reserves as “loans” between funds. The borrowing fund will repay the loan at a rate consistent with current market conditions. The loan will be repaid within ten (10) years. The loan will be considered an investment of working capital reserves by the lending fund.

6. Short-term borrowing - The City Council may authorize the issuance of Public Property Finance Contractual Obligations (PPFCO) which are short-term obligations for the acquisition of personal public property, such as equipment. PPFCOs are payable from either ad valorem taxes or another dedicated revenue stream. Each issuance will be assessed to ensure cost effectiveness and the repayment schedule will not exceed the useful life of the asset. Multiple equipment acquisitions can be grouped in a single PPFCO issue in order to develop economies of scale.

7. Tax Notes - In accordance with Chapter 1431 of the Texas Local Government Code the City may authorize the issuance of Tax Notes for construction of public works, the acquisition of land, buildings, equipment, machinery, and related professional services and operating expenses. The maximum term of such notes shall be 7 years except for operating expense which shall have a maximum term of 1 year.

C. Method of Sale – The City will use a competitive bidding process in the sale of bonds unless conditions in the bond market or the nature of the issue warrant a negotiated sale.

In such situations, the City will publicly present the reasons for the negotiated sale. The City will rely on the recommendation of the financial advisor in the selection of the underwriter or direct purchaser.

D. Disclosure – Full disclosure of operating costs along with capital costs will be made to the bond rating agencies and other users of financial information. The City staff, with assistance of the financial advisor and bond counsel, will prepare the necessary materials for presentation to the rating agencies and will aid in the production of the Preliminary Official Statements. The City will take responsibility for the accuracy of all financial information released.

E. Federal Requirements – The City will maintain procedures to comply with arbitrage rebate and other Federal requirements.

F. Debt Structuring – The City will issue bonds with an average life of twenty (20) years or less with the final maturity not to exceed the useful life of the asset acquired. The structure should approximate level debt service unless operational matters dictate otherwise. Market factors, such as the effects of tax-exempt designations, the cost of early redemption options and the like, will be given consideration during the structuring of long term debt instruments.

H. Reimbursement Resolutions – The City may utilize reimbursement resolutions as a tool to manage its debt issues, due to arbitrage requirements and project timing. In so doing, the City uses its capital reserve "cash" to delay bond, note and CO issues until such time when issuance is favorable and beneficial to the City.

The City Council may authorize a reimbursement resolution for General Capital projects that have a direct impact on the City's ad valorem tax rate when the bonds, notes and COs will be issued within the term of the existing City Council.

XI. OTHER FUNDING ALTERNATIVES:

When at all possible, the City will research alternative funding opportunities prior to issuing debt or increasing user-related fees.

A. Grants - All potential grants will be examined for any matching requirements and the source of those requirements identified. A grant funding worksheet, reviewed by the City Manager that clearly identifies funding sources, outcomes and other relevant information will be presented and approved by the City Council prior to any grant application being submitted. It must be clearly understood that any resulting operation requirements of the grant could be discontinued once the term and conditions of the project have been terminated. The City Council must authorize acceptance of any grant funding.

B. Use of Reserve Funds - The City may authorize the use of reserve funds to

potentially delay or eliminate a proposed bond issue. This may occur due to higher than anticipated fund balances in prior years, thus eliminating or reducing the need for debt proceeds, or postpone a bond issue until market conditions are more beneficial or timing of the related capital improvements does not correspond with the planned bond issue. Reserve funds used in this manner are replenished upon issuance of the proposed debt provided a reimbursement resolution is promptly adopted.

C. Developer Contributions - The City will require developers who negatively impact the City's utility capital plans to offset those impacts. These policies are further defined within the City's utility line extension policy and other development regulations.

D. Leases - The City may authorize the use of lease financing for certain operating equipment when it is determined that the cost benefit of such an arrangement is advantageous to the City.

E. Impact Fees - The City will impose impact fees as allowable under state law for both water and wastewater services. These fees will be calculated in accordance with statute and reviewed at least every five years. All fees collected will fund projects identified within the Fee study and as required by state laws.

XII. FINANCIAL CONDITIONS, RESERVES, AND STABILITY RATIOS

The City of Lago Vista will maintain budgeted minimum reserves in the ending working capital/fund balances to provide a secure, healthy financial base for the City in the event of a natural disaster or other emergency, allow stability of City operations should revenues fall short of budgeted projections and provide available resources to implement budgeted expenditures without regard to actual timing of cash flows into the City.

A. Operational Coverage – The City's goal is to maintain operations coverage of 1.00, such that operating revenues will at least equal or exceed current operating expenditures. Deferrals, short-term loans, or one-time sources will be avoided as budget balancing techniques.

B. Operating Reserves – The City will maintain reserves at a minimum of seventy-five (75) days (20.83%) of net budgeted operating expenditures. Net budgeted operating expenditure is defined as total budgeted expenditures less interfund transfers and charges, general debt service (tax supported), direct cost for purchased power and payments from third party grant monies.

1. General Fund – The unobligated fund balance in the General Fund should equal at least sixty (60) days or 16.67% of annual budgeted General Fund operating expenditures.

2. Tourism Fund – A minimum sixty days (60) or 16.67% of operating expenditures will be reserved within the fund balance.

3. **Water and Wastewater Funds** – Working capital reserves in these funds should be 25% or ninety (90) days.

4. **Other Funds** – For all other non-enterprise funds, the fund balance is an indication of the balance of each particular fund at a specific time. The ultimate goal of each such fund is to have expended the fund balance at the conclusion of the activity for which the fund was established.

Reserve requirements will be calculated as part of the annual budget process and any additional required funds to be added to the reserve balances will be appropriated within the budget. Funds in excess of the minimum reserves may be expended for City purposes at the will of the City Council once it has been determined that use of the excess will not endanger reserve requirements in future years.

C. Liabilities and Receivables - Procedures will be followed to maximize discounts and reduce penalties offered by creditors. Current liabilities will be paid within 30 days of receiving the invoice. Accounts Receivable procedures will target collection for a maximum of 30 days of service. Receivables aging past 120 days will be sent to a collection agency. The City Manager is authorized to write-off non-collectible accounts that are delinquent for more than 180 days, provided proper delinquency procedures have been followed, and include this information in the annual report to the City Council.

D. Capital Project Funds – Every effort will be made for all monies within the Capital Project Funds to be expended within thirty-six (36) months of receipt. The fund balance will be invested and income generated will offset increases in construction costs or other costs associated with the project. Capital project funds are intended to be expended totally, with any unexpected excess to be transferred to the Debt Service fund to service project-related debt service.

E. General Debt Service Funds – Revenues within this fund are stable, based on property tax revenues. Balances are maintained to meet contingencies and to make certain that the next year's debt service payments may be met in a timely manner. The fund balance carried over from one fiscal year to the next should not exceed one month or 1/12th annual debt service requirements, in accordance with IRS guidelines.

F. Investment of Reserve Funds – The reserve funds will be invested in accordance with the City's investment policy. Existing non-cash investment would be exempt through retirement of the investment.

G. Ratios/Trend Analysis - Ratios and significant balances will be incorporated into both the quarterly and annual reports to the City Council. This information will provide users with meaningful data to identify major trends of the City's financial condition through analytical procedures. The following ratios/balances will be used as key financial indicators:

- Fund Balance/Equity: Assets - liabilities $FB/E=AL$ (Acceptable level) minimum reserve requirement
- Working Capital: Current assets less current liabilities $CA - CL= AL$ minimum reserve requirement
- Current Ratio: Current assets divided by current liabilities $CA/CL AL > 1.00$
- Quick Ratio: "Liquid" current assets divided by current liabilities
Liquid $CA/CL AL > 1.00$
- Debt/Assessed AV Taxes Debt divided by assessed Ad Valorem value
 $D/AV AL < 6$
- Debt Ratio: Current liabilities plus long-term liabilities divided by total assets
 $CL +LTL/TA AL < 1$
- Enterprise Operating Coverage: Operating revenue divided by operating expense
 $OR/OE AL > 1.25$
- Times Coverage Ratio: Operating revenue less operating expense divided by annual debt service
 $(OR-OE)/DSV AL > 1.5$

The City will develop minimum/maximum levels for the above ratios/balances through analysis of City historical trends and future projections. These ratios will also be compared to other similar or regional municipalities for further analysis.

XIII. INTERNAL CONTROLS

A. Written Procedures – Wherever possible, written procedures will be established and maintained by the City Manager for all functions involving cash handling and/or accounting throughout the City. These procedures will embrace the general concepts of fiscal responsibility set forth in this policy statement.

B. Department Head Responsibility – Each Department Head is responsible for ensuring that good internal controls are followed throughout their department, that all Finance Department directives are implemented and that all independent auditor internal control recommendations are addressed. Departments will develop and periodically update written internal control procedures.