

Fiscal and Budgetary Policy

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Contents

I. PURPOSE.....	2
II. FUND STRUCTURE AND BASIS OF BUDGETING	2
III. OPERATING BUDGET	3
IV. REVENUE MANAGEMENT	6
V. EXPENDITURE MANAGEMENT.....	9
VI. STAFFING AND COMPENSATION.....	13
VII. FUND BALANCE POLICIES.....	14
VIII. LONG-TERM LIABILITY RESERVES	15
IX. BUDGET CONTINGENCY PLAN	15
X. CAPITAL IMPROVEMENT PROGRAM (CIP) BUDGET	16
XI. CAPITAL MAINTENANCE AND REPLACEMENT.....	17
XII. ACCOUNTING, AUDITING AND FINANCIAL REPORTING.....	19
XIII. ASSET MANAGEMENT	20
XIV. DEBT MANAGEMENT	22
XV. OTHER FUNDING ALTERNATIVES	25
XVI. FINANCIAL CONDITIONS, RESERVES, AND STABILITY RATIOS.....	26
XVII. INTERNAL CONTROLS	29

I. PURPOSE

The City of Georgetown 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 and its related component units, including the Georgetown Transportation Enhancement Corporation (GTEC) and the Georgetown Economic Development Corporation (GEDCO), 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, operational and capital budgeting, revenue and expenditure management, financial reporting, internal controls, investment and asset management, debt management and forecasting. This is done in order to:

- A. Demonstrate to the citizens of Georgetown, 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 principles (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.

II. FUND STRUCTURE AND BASIS OF BUDGETING

The budgeted funds for the City of Georgetown 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 Street Maintenance, Planning and Development, Police, Fire, Parks, as well as Solid Waste Management.

Special Revenue Funds (SRF) account for specific revenues that are legally restricted for specified purposes. The City currently budgets 26 SRF Funds and includes Tourism, Parkland Dedication, Library Donations, Animal Services Donations, and Street Maintenance Sales Tax.

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

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

Proprietary Funds: **Internal Service Funds** account for goods or services provided by one internal department to another. The City uses this system to recognize cost for fleet replacement and maintenance, facility maintenance, computer replacement and maintenance and employee health insurance costs.

Enterprise Funds include the City’s “business like” activities including all the utility funds and the airport.

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 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.

III. 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. **Form of Government** – The Charter (Section 1.03) established a “Council-Manager Government” wherein the City vests power in the City Council to “enact legislation, adopt budgets, determine policies, and appoint the City Manager who shall execute the laws and administer the government of the City.”
- B. **Comprehensive Plan** – The Charter (Section 1.08) requires that the City Council “establish comprehensive planning as a continuous and ongoing governmental function in order to promote and strengthen the existing

role, processes and powers of the City of Georgetown.” The current comprehensive plan is the 2030 Plan adopted in 2006.

C. **Preparation** – The *Charter (Section 6.02)* requires “a proposed budget prepared by the City Manager and submitted to the City Council at least thirty days prior to the end of the fiscal year. The budget shall be adopted not later than the twenty-seventh day of the last month of the fiscal year. No budget will be adopted or appropriations made unless the total estimated revenues, income and funds available shall be equal to or in excess of such budget or appropriations, except otherwise provided.”

1. **Proposed Budget** – A proposed budget shall be prepared by the City Manager with participation of all of the City’s Directors within the provision of the *Charter* and the 2030 Plan.

a. The budget shall include four basic segments for review and evaluation:

- Revenue
- Personnel Costs
- Operations and Maintenance Costs
- Capital and other non-project Costs

b. The budget review process will include City Council participation in the development of each segment and allow for resident participation in the process, and will allow for sufficient time to address policy and fiscal issues by the City Council.

c. A copy of the proposed and approved budgets will be filed with the City Secretary when it is submitted to the City Council and will be available on the City’s website.

2. **Adoption** – Upon finalization of the budget appropriations, the City Council will hold a public hearing, and subsequently adopt by Ordinance the final budget as amended. The budget will be effective for the fiscal year beginning October 1st.

The Annual Budget document will be submitted annually to the Government Finance Officers Association (GFOA) for evaluation and consideration for the Distinguished Budget Presentation Award.

D. **Balanced Budget** – The goal of the City is to adopt and maintain a balanced operating budget using sustainable funding sources that are expected to continue to be available in subsequent fiscal years. Excess balances in operating funds from previous fiscal years shall remain in the fund in which they were appropriated until either such excess balances are proposed and adopted pursuant to *Section III. C. Preparation* of this policy; until they are used to reduce outstanding debt obligations of the City; or both.

The *Charter (Section 6.04)* requires that an operating deficit created in any fiscal year shall be paid off and discharged during the following year. In practice, deficit has been interpreted to mean City funds as a whole. The City Council may choose from time to time to allow individual funds to have a negative balance as long as Operating Reserve requirements for the City as a whole are maintained.

E. **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.

- F. **Reporting** – Summary financial reports will be presented to the City Council quarterly. These reports will be in a format appropriate to enable the City Council to understand the overall budget and financial status.
- G. **Control and Accountability** – Each Director, appointed by the City Manager, will 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 each department budget for compliance with spending limitations. Directors may transfer funds up to \$20,000 within the operations and maintenance or capital line items within a departmental budget category without additional approval. All transfers from or to the Personnel line items require approval of the Finance Director and City Manager. All other transfers of appropriation or budget amendments require either City Council or City Manager approval as outlined in *Section III.H Budget Amendments* and *Section V.C.4 Use of Excess Salary Savings*.
- H. **Budget Amendments** – The *Charter (Section 6.04)* provides a method to amend for budget amendments and emergency appropriations. The City Council may authorize with a majority plus one vote, an emergency expenditure as an amendment to the original budget. This may be done in cases of grave public necessity 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 Division to remedy the condition?

The Finance Director 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 will also amend the budget if necessary for any capital project timing adjustments from prior year, as well as, any other known adjustments needed and approved at that time.

- I. **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. Currently, the City maintains contingency appropriations for insurance deductibles, unexpected legal expenses and equipment repairs.
- J. **Use of Unanticipated and Unappropriated General Fund Balances** – Within 90 days after fiscal year end, staff will report the projected General Fund balance to Council. In the event that unexpected, unbudgeted amounts are determined to be available in the General Fund after year end, these funds may be used for any of the following purposes, as approved by the City Council:
1. to fund capital projects;
 2. to fund equipment purchases in lieu of issuing debt;

3. to reduce outstanding City debt, including bonded indebtedness and unfunded pension liabilities;
4. to fund contingent liabilities such as the benefit payout reserve, cemetery trust fund, and similar obligations of the City;
5. to take other steps to reduce property tax rates or mitigate any future increases;
6. to hold those funds in reserve for future commitments or contingencies that may be pending, and/or;
7. to fund an Economic Uncertainty Reserve of annual General Fund operating expenditures according to *Section XVI, A, 2, b, Economic Uncertainty Reserve*.

IV. 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 shall 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.
 - a. The City will make every effort to recognize the benefit that City tax payers contribute to City programs and services.
 - b. The annual Parks and Recreation residential membership rates are established at 75% of non-residential rates plus or minus 10% at the discretion of the Parks and Recreation Director in keeping with the targeted market cost recovery.
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.

Overall Operational Cost Recovery for Parks and Recreation for the Recreation and Tennis Centers is targeted to be between 50 – 60%, with some variance in individual programs.

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 will 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.
3. Sustainable Revenues – “Sustainable” means revenue that is consistently available year after year, and includes revenues realized subsequent to adopted projections.
4. 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 Williamson Central 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 proposed property tax rate using the effective maintenance & operations (M&O) rate plus the interest & sinking (I&S) rate needed to fund tax supported debt service. Increases to the M&O rate will be deliberated and determined by the City Council.

5. 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.
6. 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 two 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.
7. 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. Utility rates will be reviewed annually as part of the budget process. A rate study will be conducted every 3 years to review rate methodology and ensure revenues will meet future needs. All utility rates will be based on standardized “cost of service” methodologies.
 - **Water Rates** will recognize at least 75% of the “fixed” cost of service, including debt payments and ROI costs, within the monthly “base charge” determined by meter size. “Volumetric charge” will recognize the balance of fixed costs not included in the base rate, plus all variable costs associated with procuring and treating water.

- **Wastewater Rates** are “flat and equal” for all residential customers based on the cost of providing services. Commercial customer rates are varied depending on size and specifications of each commercial customer.
- **Electric Rates** include 100% of fixed costs within the base rate, with all variable costs included in the kWh rate.
- **Stormwater Drainage Fees** are based on a mathematical calculation using impervious cover and applied in compliance with State Law.

A restricted **Power Contract Credit Reserve** has been established to provide financial assurances to the City’s wholesale power contract providers as fiscal surety against any potential risk on the City’s behalf and will be maintained as “restricted” fund balance on the City’s financial statements.

A **Rate Stabilization Reserve (RSR) Account** has been established in the Electric Fund to offset and mitigate potential impacts to customer rates due to increased fuel costs or other external factors that may negatively impact Electric Rates. The Rate Stabilization Reserve (RSR) may provide funding for:

- Deferring or minimizing the rate impact of future cost increases
- Costs associated with providing additional power supply
- Filling contractual obligations
- Balancing of annual power costs

RSR funds will be monitored monthly to ensure the electric rate is being managed per the Policy. Increases to RSR are made through the Power Cost Adjustment rate as determined by the fund, at the recommendation of the General Manager for Utilities.

8. Internal Cost Recovery Fees – Additionally, enterprise activity rates will include transfers to and receive credits from other funds as follows:
 - a. **General and Administrative Charges** – 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 and reviewed annually by the City’s external auditors.
 - 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. For all utilities except for Electric:
 - *In-Lieu-of-Franchise-Fee*. This transfer, currently 3% of operating revenues generated inside the City, 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 for In-City utility customers is currently calculated at 7% of operating revenues for all utilities. ROI for water and sewer

customers outside the City is 10% of operating revenues. There is no ROI calculated on solid waste revenues.

The Franchise and Return on Investment for the Electric Utility is derived from the base rate and kWh sold. The base rate revenue is multiplied by 7% for all customers. For customers inside the City, a \$0.0102 charge per kWh, equivalent to the 3% and 7% paid by other utility customers, will be included in the cost per kWh. For customers outside the City, a \$0.007253 charge per kWh, equivalent to the 7% ROI paid by utilities, will be included in the cost.

9. Intergovernmental Revenues – All potential grants will be examined for matching requirements and must be approved by the City Council prior to making application of 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.
10. Revenue Monitoring – Received revenues will be regularly compared to budgeted revenues and variances will be investigated, and any abnormalities will be included in the quarterly report to the City Council.

V. EXPENDITURE MANAGEMENT

- A. Appropriations – The point of budget control is at the department level budget for all funds. The *Charter (Section 6.03)* 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 among departments, within the same operational division and fund. The City Manager may also authorize transfer of salary adjustment monies between funds that are budgeted in a citywide account.
- B. Expenditure Monitoring – Expenditures and encumbrances will be regularly compared to budget, variances will be investigated, and any abnormalities will be included in the quarterly report to the City Council. Projected year-end expenditures will be reported in the annual budget.
- C. Personnel Costs – Costs related to salaries and benefits are budgeted at 100% total costs, assuming open positions are filled throughout the fiscal year. New positions that are added during the budget process may have staggered hire dates with appropriate costs reflected in the budget.
 1. Vacancy Factor – Funds with Personnel Budgets greater than \$4 million will include a vacancy factor of at least 1% of total fund salaries and related benefits (retirement, FICA, Medicare) to offset salary savings within the budget. The vacancy factor will be budgeted as a negative expense within the fund. This factor will be reduced throughout the year as vacant positions are recognized within the department budget.

Compliance Status – General Fund and Joint Services Fund FY2018 in compliance.

2. Benefit Payout Reserve – The City will establish a benefit payout reserve equal to 15% of the accrued benefit liability for employees in the General and Joint Services Funds who are currently eligible to retire. Only terminating employee benefit expenses may be paid from this reserve. This reserve shall be funded as an offset to the vacancy factor.

Compliance Status – Benefit payout reserve FY2018 in compliance.

3. Position Control – The annual budget includes a set number of positions within departments when approved and adopted by City Council. Additional positions cannot be added without approval of the City Council. The City Manager may approve the transfer of authorized positions between departments if funds are available within the department.
 4. Use of Excess Salary Savings – Departmental savings generated due to open positions or other salary line item savings cannot be spent by the department unless previously approved by the City Manager and validated by Finance as “excess funds.”
- D. **Special Purpose Funding** – In order to support community assistance programs, the City designates specific funding for special purposes, including Social Services, Children’s Programs, and Public Art. The City reserves the ability to cap this special purpose funding when necessitated by budget contingency or compliance issues, such as revenue shortfalls, or other reasons as determined by City Council.
1. Strategic Partnerships for Community Services – The City of Georgetown values partnerships with organizations that are committed to addressing our communities’ greatest public challenges and has identified key priorities in the following areas:
 - Public Safety
 - Transportation
 - Housing
 - Parks & Recreation
 - Veteran Services
 - Safety Net

The City has targeted funding for these programs to be \$5.00 per capita, which may be adjusted to offset the effects of general inflation based upon Consumer Price Index. If previous funding levels are higher than the targeted amount, and to avoid significant reductions in levels of funding, the City Council shall seek to attain this target chiefly through population growth. These funds will be allocated and paid according to the City Council’s guidelines for such programs.

Compliance Status – FY2018 in compliance.

2. Public Art Funding – The City will annually allocate funding for Public Art on a year to year basis depending on the availability of funds in an amount to be determined at the discretion of the City Manager. Funding priority will be given to projects that include a matching donation, including contributions from local organizations and sponsors. Any unspent funds will accumulate and be reallocated in the following budget year. Disbursement of these funds will be determined by the City Council at the recommendation of the City’s Arts & Culture Advisory Board.

Every effort will be made to include public art funding in future City facilities whose primary purpose is for public use. These projects will include a reasonable allowance for public art that fits the scope and purpose of the building so long that it does not negatively impact the project cost beyond the original budget. In the event there is cost savings in the construction of City Facilities, the City Council may consider utilizing that savings on the purchase of public art for the facility.

- E. **Purchasing** – The City will maintain and regularly review a written Purchasing Policy. All City purchases of goods or services will be made in accordance with the City’s Charter, current Purchasing Policy and with State law.

The following table shows a summary of requirements for purchases of goods and services.

Dollar Limits:	Procurements:	Requirements:
Under \$3,000	Under the small purchase limit	No competitive bids and City credit cards may be used.
\$3,000 up to \$49,999	Within informal bid limit	A minimum of three informal competitive bids required unless exempted; Historically Underutilized Business (HUB) requirements apply in accordance with state law.
\$50,000 and above	In excess of the informal bid limit	Formal solicitations, which includes public notices, required unless exempted. Advisory board review and recommendation <i>may</i> be required. Council approval required.

Common exemptions to the formal solicitation process include the procurement of professional services, the purchase of goods or services from a sole source provider, and purchases for public health emergencies.

In addition to the above, all purchases must be approved according to preapproved limits within each department as directed and approved by the City Manager.

- F. **Contracts and Change Orders** – Contracts and related change orders must follow the City Purchasing Policies and State Law. In accordance with State Law, change orders are limited to 25% of the total contract amount. Change orders greater than \$50,000 require the same advisory board review and Council approvals as the original contracts.
- G. **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.
- H. **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.
- I. **Retirement Benefits** – Proposals to revise benefits administered and provided by the Texas Municipal Retirement System shall include a written description, and, detailed and summary numerical assessments of the changes that would result from the proposed benefit revision.

1. The numerical assessments shall include the following:

- a. The estimated change to the TMRS contribution rate that would result from the proposed change in benefits, expressed as a percentage of employee pay and as an annual dollar amount to the General Fund and to each City fund.
 - b. The estimated change to the City's unfunded pension liability, expressed as a dollar amount.
 - c. The estimated change to the City's actuarial funding ratio.
2. The description and numerical assessments must be provided to the City Council at least 72 hours prior to consideration and approval, and must be read aloud to the Council prior to Council consideration.
 3. The estimated changes to the City's contribution rate and the unfunded pension liability presented pursuant to the section must be based on information provided by the TMRS actuary or by a professional actuary authorized by the TMRS to provide such information.
 4. Proposals to revise TMRS benefits must be voted on individually as part of the City Council's legislative agenda.
 5. The City will amortize any unfunded actuarial liability (UAAL) over a period not to exceed the amortization period used by the TMRS actuary. The City may amortize its UAAL more quickly by making contributions to TMRS in excess of the rate specified by TMRS.
 6. The City may elect to pay a higher contribution rate than required by the TMRS, to reduce the City's unfunded pension liability. Such payment will be approved and authorized by the City Council as part of the City's annual budget process.

J. Retirement Cost-of-Living Adjustment

1. Within 60 days of when the TMRS annual funding update becomes available each year, staff will review and prepare a summary of costs and options for potential cost-of-living adjustment (COLA) for City of Georgetown retirees.
2. Consistent with state statutes governing the Texas Municipal Retirement System, the City may provide an automatic COLA for members of the TMRS who are retired from the City of Georgetown and receiving a monthly retirement benefit from the TMRS.
3. The City Council may adjust the COLA provided to city retirees based upon the funding level of the City's pension plan, as calculated by the TMRS, as follows:

When the funding level of the City's pension plan is	The COLA should be
Less than 70.0%	Zero
70.0% to 79.9%	0.3% of CPI
80.0% to 89.9%	0.5% of CPI
90.0% and greater	0.7% of CPI

4. Adjustments made pursuant to subsection b. should reflect the effect of the prospective change in the COLA on the funding level of the City's pension plan.

K. **Deferred Compensation Benefits** – In addition to the retirement benefit administered by the TMRS, the City will sponsor a Deferred Compensation 457 plan, which is a supplementary individual retirement savings plan. The City will encourage employee participation in this plan.

VI. STAFFING AND COMPENSATION

City Council and Management recognize the importance of attracting, hiring, developing, and retaining the best people, and compensating them for the value they create. Our outstanding and innovative City employees work diligently to bring the Vision of Council to life and deliver exceptional services to our customers while exemplifying our Core Values. The following programs are subject to available funding in the annual operating budget.

A. **Adequate Staffing** – Staffing levels will be adequate for the fiscal functions of the City to operate effectively. Workload allocation alternatives will be explored before adding additional staff.

B. **Competitive Compensation** – In order to maintain a competitive pay scale, the City has implemented a ***Competitive Employee Compensation Maintenance Program*** to address competitive market factors and other issues impacting compensation. The program consists of:

1. **Annual Pay Plan Review** – To ensure the City's pay system is accurate and competitive within the market, the City will review its pay plans annually for any potential market adjustments necessary to maintain the City's competitive pay plans.
2. **Pay for Performance** – Each year the City will fund performance based pay adjustments for regular non-public safety personnel. This merit-based program aids in retaining quality employees by rewarding their performance. Pay for Performance adjustments are based on the employee's most recently completed performance evaluation.
3. **Public Safety Steps** – Each year the City will fund anniversary step increases for public safety sworn personnel consistent with public safety pay scale design.

C. **Self-Insurance Program** – The City is committed to providing quality healthcare insurance that offers the most flexibility in health benefits and options to its employees. In order to provide the most cost effective solution, the City has determined that establishing a self-funded health insurance plan offers the greatest opportunity to mitigate future cost increases while offering quality health care services to its employees. The City has established a mechanism to manage the accounts and payments associated with this program. Per GASB Statement No. 66, such funding should be accounted for as an Internal Service Fund (ISF).

1. **Employee Health Insurance ISF** – This fund contains premium contributions from employees and budgeted health insurance contributions included in the City’s annual budget process. To maintain stable revenue to this fund, and to clearly set expenditure expectations for departments, any budgeted appropriations for employee health insurance that are unused at the end of each fiscal year will be transferred back to the self-insurance fund.
2. **Self-Insurance Reserves** – Annually through the budget process, staff and the City’s Health Benefit Consultant firm will evaluate and recommend to Council the appropriate funding levels for both a rate stabilization reserve as well as an incurred but not reported (IBNR) reserve.

Compliance Status – Both reserves FY2018 in compliance.

3. **Employee Premiums** – Annual premiums will be recommended to City Council through a collaborative process between the City’s Employee Benefit Committee and external Health Benefits consulting firm using historical data and other analytic analysis.

VII. FUND BALANCE POLICIES

The City’s Fund Balance is the accumulated difference between assets and liabilities within **governmental funds**, and it allows the City to meet its contractual obligations, fund disaster or emergency costs, provide cash flow for timing purposes and fund non-recurring expenses appropriated by City Council. This policy establishes limitations on the purposes for which Fund Balances can be used in accordance with Governmental Accounting Standards Board (GASB) Statement Number 54.

The City’s Fund Balance will report up to five components:

- A. **Non-spendable Fund Balance** – includes inherently non-spendable assets that will never convert to cash, as well as assets that will not convert to cash soon enough to affect the current financial period. Assets included in this category are prepaid items, inventory and non-financial assets held for resale.
- B. **Restricted Fund Balance** – represents the portion of fund balance that is subject to legal restrictions, such as grants or hotel/motel tax and bond proceeds.
- C. **Committed Fund Balance** – describes the portion of fund balance that is constrained by limitations that the City Council has imposed upon itself, and remains binding unless the City Council removes the limitation.
- D. **Assigned Fund Balance** – is that portion of fund balance that reflects the City’s *intended* use of the resource and is established in a less formal method by the City for that designated purpose.
- E. **Unassigned Fund Balance** – represents funds that cannot be properly classified in one of the other four categories.

VIII. LONG-TERM LIABILITY RESERVES

The City of Georgetown recognizes certain long-term unfunded commitments and contingencies that will require substantial funding at some point in the future. The City is committed to addressing these commitments in a fiscally prudent method by acknowledging their future financial impacts and developing strategies and designated reserve funds to mitigate those future impacts.

- A. ***The Finance Director will maintain a list of unfunded liabilities.*** The list will be included in the quarterly financial report to Council.

IX. 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.
- Review all planned capital expenditures.
- Delay all "non-essential" spending or equipment replacement purchases.

The City Manager shall report in a timely manner to the City Council the projected shortfall and the actions taken to resolve it.

- B. **Further Action** – If the actions identified in subsection A are insufficient to offset the projected revenue deficit for the current fiscal year, the City Council may approve the following actions, in the order listed:

1. Apply unspent, unobligated surplus funds from prior fiscal years to fund one-time costs in the current fiscal year budget.
2. Authorize the use of the General Fund Economic Uncertainty Reserve pursuant to *Section XVI.A.2.b. Economic Uncertainty Reserve*.
3. Notwithstanding *Section XVI.A.2.a. Base Level Reserve* of this policy, authorize a reduction in the unobligated fund balance in the General Fund, pursuant to *Section XVI.A.2.a. Base Level Reserve* of this policy, from 90 to 75 days.
4. Direct other reductions in services, including workforce reductions.

- C. **Replenish Fund Balance** – As soon as practical, without placing undue strain on City services, the City Council shall increase the unobligated fund balance in the General Fund, up to the 90-day amount required in *Section XVI.A.2.a. Base Level Reserve* of this policy and shall restore the General Fund Economic Uncertainty Reserve as required in *Section XVI.A.2.b* of this policy.

X. 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 are identified through system models, repair and maintenance records and growth demands.
- Economic development projects that have capital infrastructure needs must be reviewed and approved for funding by the City no later than March 1 to be included in the annual CIP process. Any economic development project approved for funding after March 1 will be included in the following year CIP process unless otherwise authorized by City Council.
- 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 neighborhood meetings, public hearings and other forums.
- Capital infrastructure necessary to meet the requirements of the City’s Annexation Plan will be identified separately within the CIP plan, so that funding alternatives can be developed if needed.

Prior to Council adoption, the following Advisory Boards will review the Capital Projects budget:

Georgetown Utility Systems Advisory Board (GUS)	Georgetown Transportation Advisory Board (GTAB)	General Government and Finance Advisory Board (GGAF)	Parks Advisory Board
Electric Water Wastewater	Streets Stormwater Drainage Airport	Facilities Other General Government Capital	Parks and Recreation

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

Prior to presentation to Council, the following Advisory Boards will review:

Georgetown Utility Systems Advisory Board (GUS)	Georgetown Transportation Advisory Board (GTAB)	General Government and Finance Advisory Board (GGAF)
All utility contracts and other utility expenses greater than \$50,000	All Transportation, Stormwater Drainage and Airport expenditures and contracts greater than \$50,000	All General Government non-routine contracts and expenditures greater than \$50,000

- 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 or exceeding the average life 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 I & S (interest and sinking) portion of the tax rate dedicated to fund short-term debt for equipment replacement will not exceed \$0.04.

XI. 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 park and recreation facility repairs, street seal coat, water line repairs and other general system maintenance.
- B. **Modified Approach — Pavement Condition Index (PCI)** — Governmental Accounting Standards Board Statement # 34 provides for an alternative approach to depreciation for measuring the value of infrastructure assets and the related costs incurred to maintain their service life at a locally established minimum standard. The City has elected to implement this modified approach in maintaining its non-enterprise fund infrastructure assets. In order to adopt this alternative method, the City has implemented an asset management system that determines if the minimum standards are being maintained. This measurement system will be updated at least every 3 years. The City has elected to use this alternative method for reporting its street infrastructure assets.

The City uses the CarteGraph PavementView Pavement Management Information System to track the condition levels of each of the street sections. The condition of the pavement is based on the following factors:

- Type of Distress
- Amount of Distress
- Severity of Distress
- Deduct Values (function of first three)

The Pavement Condition Index (PCI) is a measurement scale is based upon a condition index ranging from zero for a failed pavement to 100 for pavement with perfect condition. The condition index is used to classify pavement in the following conditions:

PCI	Rating
100 – 85	Good
85 – 45	Fair
45 – 0	Poor

The City’s administrative policy is to achieve an average PCI level of 85. An 85 PCI is considered maintaining 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. The PCI level as of 2014 was 87.30.

C. **Internal Service Funds Capital Maintenance & Replacement** – The City currently utilizes internal service funds to maintain and replace existing assets. Assessments are 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 are available for the purchase of operational assets without the 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 will establish charges that are assigned to the using departments to account for the cost of that replacement. Vehicle maintenance is 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. A reserve will be established within the ISF for replacement of major systems and will be funded over time through excess revenues within the Fund. While cash funding is preferred, major IT systems and projects may require debt that is amortized over a shorter useful life appropriate for the software or hardware.

Compliance Status – IT replacement reserve FY2018 in compliance.

3. **Facilities Maintenance** – The City has established an on-going maintenance program, which includes major repairs, equipment, as well as contracts for maintaining City facilities. The City has anticipated a useful life of such equipment and established a means of charging those costs to the various departments in order to recognize the City’s continuing costs of maintaining its facilities. Determination for facility repairs is based on useful life of the various elements of each facility. A proportional cost for each element is expensed within the budget for capital replacement. An additional unscheduled repair reserve equal to 10% value of annual internal service funding is also budgeted.

Compliance Status – Facilities repair reserve FY2018 in compliance.

- D. **Departmental Capital Maintenance & Replacement** – The City also utilizes department capital maintenance and replacement schedules for specialized assets and equipment necessary to provide services.
1. **Parks and Recreation** – As part of the City’s on-going maintenance program, the City also recognizes the need to regularly maintain and replace grounds, equipment and facilities that are part of the City’s Parks and Recreation system. Separate replacement and maintenance schedules will be maintained for these items including, but not limited to, playground equipment, buildings, sport courts, trees and grounds, and restroom facilities. The City’s goal is to provide level on-going funding to ensure safe, well-maintained facilities for its citizens.
 2. **Public Safety Equipment** – As part of the City’s on-going maintenance program, the City also recognizes the need to regularly maintain and replace specialized equipment in Police and Fire. Separate replacement and maintenance schedules will be maintained for these items including but not limited to for Fire: SCBA’s and other firefighting equipment and protective gear; and for Police: bullet proof vests, armaments and other tactical equipment. The City’s goal is to provide level on-going funding to ensure proper protection for employees and citizens.

E. **Surplus Property**

1. From time to time it is necessary to dispose of certain vehicles or equipment that have been procured with City funds and used in City services. Individual surplus property items with expected sales value in excess of \$50,000 must be approved by the City Council prior to disposition.
2. City staff will maintain reports and records of all surplus property dispositions in accordance with good internal controls.

XII. 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 Finance Director 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. **General Government and Finance Advisory Board (GGAF)** – The City may establish a subcommittee consisting of at least 2 City Council members and not more than 3 citizens that may meet monthly to provide additional oversight to the City’s Finance operations. This subcommittee will also review general government items that are not reviewed by another City advisory board before being presented to City Council. The City’s Finance Director will be the liaison for this subcommittee.
- C. **Audit of Accounts** – In accordance with the *Charter*, an independent audit of the City accounts will be performed every year. The auditor is retained by and is accountable directly to the City Council. The auditing firm will serve for up to 5 years, at which time, the City will re-bid these services and changing firms if deemed necessary by GGAF and City Council.

- D. **External Reporting** – Upon completion and acceptance of the annual audit by the City’s auditors, the City shall prepare a written Comprehensive Annual Financial Report (CAFR) which shall be presented to the City Council within 180 calendar days of the City’s fiscal year end. The CAFR shall be prepared in accordance with Generally Accepted Accounting Principles (GAAP) and shall be presented annually to the Government Finance Officer Association (GFOA) for evaluation and consideration for the Certificate of Achievement in Financial Reporting.

- E. **Internal Reporting** – The Finance Department will prepare internal financial reports, sufficient to plan, monitor and control the City’s financial affairs.

XIII. ASSET MANAGEMENT

- A. **Cash Management and Investments** – The City Council has formally approved a separate Investment Policy for the City of Georgetown that meets the requirements of the Public Funds Investment Act (PFIA), Section 2256 of the Texas Local Government Code. This policy is reviewed annually by the City Council and applies to all financial assets held by the City and applies to all entities (component units) included in the City’s Comprehensive Annual Financial Report (CAFR) and/or managed 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 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
 - Ensure public trust through responsible actions as custodians of public funds
 - Maximize earnings (yield) to the greatest extent possible consistent with the City’s investment policy.

 - 3. **Safekeeping and Custody** – Investments may only be purchased 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 Finance Director 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
- Obligations of Municipal Issuers in Texas rated not less than A or its equivalent
- 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.

1. Capitalization Criteria – For purposes of budgeting and accounting classification, the following criteria must be met in order to be capitalized:
 - The asset 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 startup 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 assets 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 Division 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.

XIV. DEBT MANAGEMENT

The City of Georgetown recognizes 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 Debt Condition Update report will be provided annually.

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 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 purchase 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 cannot exceed \$0.04 for short-term debt (3-10 years).

B. **Types of Debt**

1. **General Obligation Bonds (GO’s)** – General obligation bonds must be authorized by a vote of the citizens of Georgetown. 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 City’s ad valorem taxing authority backs 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 though it is routine in nature; or

- When the project falls outside the normal bounds of projects the City has typically done.

For debt programs that include multiple projects that will be issued over multiple years at the discretion of the City Council, the City may approve a ***Contract with the Voters*** to manage future property tax rate impacts. The Contract with the Voters will be included in educational information for all applicable GO Bond elections, and will include a maximum **annual** tax rate increase and a cumulative total per bond authorization maximum tax rate increase. The City will include these impacts in its annual Debt Condition report.

The City Council will carefully manage the ***unissued GO Bond authorization*** through annual review of related projects to ensure full disclosure on future timing of projects included in the bond package. Timing of authorized projects and related bond issuance will be included in the Annual Budget and published on the City's website. Any changes to this schedule require specific Council authorization.

2. Revenue Bonds – Revenue bonds will 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 average life 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. An exception can be made for plant expansions or related system expansions whose useful life is in excess of 30 years. A cost benefit analysis will be done to fully disclose the impacts of extending debt beyond 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 funded by general obligation or revenue bonds. Debt service for CO's may be either from general revenues (tax-supported) or supported by a specific revenue stream(s) or a combination of both. 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 equipment; 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 the least preferred method of financing and will be used with prudent care and judgment by the City Council. Every effort will be made to ensure public participation in decisions relating to debt financing.

4. Self-supporting General Obligation Debt – Refers to certificates of obligation issued for a specific purpose and repaid through dedicated revenues other than ad valorem taxes. The annual debt requirements are not included in the property tax calculation. Both the Airport and Stormwater Drainage funds will issue this type of debt. In addition, the Electric and Water Services Funds can utilize this method of funding non-system capital assets. The City also issues debt on behalf of the Georgetown Transportation Enhancement Corporation (GTEC) and the Georgetown Economic

Development Corporation (GEDCO) whom then pledge 4A and 4B sales tax revenue for the repayment of that debt.

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. Other Short-term Borrowing – The City may authorize the issuance of Public Property Finance Contractual Obligations (PPFCO) which is 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.
- 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 bid. 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. The financial advisor must meet all licensing requirements and comply with all Municipal Securities Rulemaking Board (MSRB) regulations. The City’s financial advisor will not act as the underwriter on any City bond issue.
- 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 written procedures to follow post issuance compliance rules, arbitrage rebate and other Federal requirements.
- Post issuance tax compliance rules will include records retention, arbitrage rebate, use of proceeds, and
 - Continuing disclosure requirements under SEC Rule 15c2-12, MSRB standards, or as may be required by bond covenants or related agreements.
- F. Debt Structuring – The City will issue bonds with an average life of twenty (20) years or less, 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. Exceptions to the 20 year average life include debt issues for major system expansions, such as water, sewer or electric plants, in which case the City may issue debt greater than 20 years since the average life of the asset exceeds 30 years. A cost benefit analysis indicating the impacts of extending debt beyond 20 years will be completed.
- G. Debt Coverage Ratio – Refers to the number of times the current combined debt service requirements or payments would be covered by the current operating revenues net of on-going operating expenses of the City’s combined utilities (Electric, Water, and Wastewater). The City will maintain a minimum debt service

coverage ratio of 1.5 times for these utilities as a whole. The bond ordinances allow the City to forego a debt reserve fund for its utility debt if the coverage is maintained at 1.35 times or better. A coverage ratio of 1.5 times will also be required for all funds issuing self-supporting debt.

Compliance Status – Debt coverage ratio FY2018 in compliance.

- H. **Bond Reimbursement Resolutions** – The City may utilize bond reimbursements 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 issues until such time when issuance is favorable and beneficial to the City.

The City Council may authorize a bond reimbursement resolution for General Capital projects that have a direct impact on the City's ad valorem tax rate when the bonds will be issued within the term of the existing City Council. In the event of unexpected circumstances that delay the timing of projects, or market conditions that prohibit financially sound debt issuance, the approved project can be postponed and considered by a future council until circumstantial issues can be resolved.

The City Council may also authorize revenue bond reimbursements for approved utility and other self-supporting capital projects within legislative limits. Currently revenue bonds must be issued within 18 months after an eligible bond funded project is begun.

The total outstanding bond reimbursements may not exceed the total amount of the City's reserve funds.

XV. 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 Finance, 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.
- C. **Developer Contributions** – The City will require developers who negatively impact the City's utility capital plans 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 three years. All fees collected will fund projects identified within the Fee study and as required by state laws.

XVI. FINANCIAL CONDITIONS, RESERVES, AND STABILITY RATIOS

The City of Georgetown 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 1.0 (one), 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. Reserves will be used only for emergencies or non-recurring expenditures, except when balances can be reduced because their levels exceed guideline minimums as stated below.

- 1. **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. The amount of these funds are allocated within the following operating funds and using the following guidelines to maintain the fund balance, working capital and retained earnings (reserves) of the various operating funds at levels sufficient to protect the City’s creditworthiness, as well as, its financial position from unforeseeable emergencies.

Compliance Status – Total reserves FY2018 in compliance.

- 2. **General Fund** – The fund balance reserve in the General Fund should equal ninety (90) days or 25% of annual budgeted General Fund operating expenditures. Reserves are allocated as follows:
 - a. **Base Level Reserve** – will equal ninety (90) days of current year budgeted operating expenditures which will be designated for emergency use only. If the Base Level Reserve is used during the fiscal year, the balance must return to the ninety (90) day requirement within the following fiscal year’s adopted budget.

Compliance Status – General Fund Reserve FY2018 in compliance.

- b. **Economic Uncertainty Reserve** – will equal up to 6% of current year budgeted operating expenditures. The reserve will be designated to temporarily offset a decline in any General Fund revenue source during the current fiscal year or in planning the future budget year. The reserve may be used when growth in any General Fund revenue source from one fiscal year to the next is below zero. The reserve will be available to support only existing programs approved in a prior fiscal year. Used funds shall be restored up to the 6% reserve as soon as practical.

Compliance Status – General Fund Reserve FY2018 at 2%.

- 3. **Tourism Fund** – A minimum sixty days (60) or 16.67% of operating expenditures will be reserved within the fund balance. These funds are designated to be used to offset any potential revenue

shortfall that occurs during the fiscal year and should be replenished in the following fiscal year's budget.

Compliance Status – Tourism Fund Reserve FY2018 in compliance.

4. Water Services Fund – Working capital reserves should be 25% or ninety (90) days of operating expenses, net debt service and long-term water contract costs. These reserves are designated to be used to offset potential revenue shortfalls or fund unexpected or emergency expenses that occur during the fiscal year. These reserves should be replenished in the following budget cycle.

Compliance Status – Water Fund Reserve FY2018 in compliance.

5. Stormwater Drainage Fund – \$250,000 for unforeseen emergencies or other potential revenue shortfalls.

Compliance Status – Stormwater Fund Reserve FY2018 in compliance.

6. Electric Fund – The remaining balance to meet the citywide requirement of seventy-five (75) days of reserve funds will be maintained within this fund. It can be used for unforeseen emergencies and expenditures. The Rate Stabilization Account and the Power Contract Credit Reserve are not included in this Contingency Reserve.

Compliance Status – Electric Fund Reserve FY2018 in compliance.

7. Airport Fund – A contingency reserve of 75 days of operating expenses will be maintained in the fund. The 75 day reserve will represent all operating expenses minus fuel costs and any transfers.

Compliance Status – Airport Fund Reserve FY2018 in compliance.

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 within each fund 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. This action requires an amendment to the City's Annual Budget and is outlined in *Section III. J. Use of Unanticipated and Unappropriated General Fund Balances.*

- B. **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. The Finance Director is authorized to write-off non-collectible, non-utility accounts that are delinquent for more than 180 days, and utility accounts delinquent more than 180 days, provided proper delinquency procedures have been followed, and include this information in the annual report to the City Council.

- C. **Capital Project Funds** – Every effort will be made for all monies within the Capital Project Funds to be expended in a timely manner preferably 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.
- D. **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. Fund balance should not fall below 45 days annual debt service requirements, in accordance with IRS guidelines.

Compliance Status – Debt Fund Reserve FY2018 in compliance.

- E. **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.
- F. **Ratios/Trend Analysis** – Ratios and significant balances will be incorporated into both the mid-year 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:

<ul style="list-style-type: none"> • Fund Balance/Equity: FB/E 	<ul style="list-style-type: none"> Assets - liabilities AL (Acceptable level) minimum reserve requirement
<ul style="list-style-type: none"> • Working Capital: CA - CL 	<ul style="list-style-type: none"> Current assets less current liabilities AL minimum reserve requirement
<ul style="list-style-type: none"> • Current Ratio: CA/CL 	<ul style="list-style-type: none"> Current assets divided by current liabilities AL > 1.00
<ul style="list-style-type: none"> • Quick Ratio: Liquid CA/CL 	<ul style="list-style-type: none"> "Liquid" current assets divided by current liabilities AL > 1.00
<ul style="list-style-type: none"> • Debt/Assessed AV Taxes: D/AV 	<ul style="list-style-type: none"> Debt divided by assessed Ad Valorem value AL < 5
<ul style="list-style-type: none"> • Debt Ratio: CL +LTL/TA 	<ul style="list-style-type: none"> Current liabilities plus long-term liabilities divided by total assets AL < 1
<ul style="list-style-type: none"> • Enterprise Operating Coverage: OR/OE 	<ul style="list-style-type: none"> Operating revenue divided by operating expense AL > 1.25
<ul style="list-style-type: none"> • Times Coverage Ratio: (OR-OE)/DSV 	<ul style="list-style-type: none"> Operating revenue less operating expense divided by annual debt service AL > 1.5

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

XVII. INTERNAL CONTROLS

- A. **Written Procedures** – Wherever possible, written procedures will be established and maintained by the Finance Director 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. **Internal Audit Program** – An internal audit program will be maintained by the Finance Director to ensure compliance with City policies and procedures and to prevent the potential for fraud.
 - 1. Departmental Audits – departmental processes will be reviewed to ensure dual control of City assets and identify the opportunity for fraud potential, as well as, to ensure that departmental internal procedures are documented and updated as needed.

 - 2. Employees or Transaction Review – Programs to be audited include Petty Cash, City Credit Card accounts, time entry, and travel. All discrepancies will be identified, and the employee’s Director will be notified. The City Manager will also be notified depending on the seriousness of the infraction.

 - 3. The Finance Director and City Manager will present an annual audit plan to the General Government and Finance board. Results of all internal audits will be provided to the GGAF and City Council at year-end.

- C. **Directors Responsibility** – Each Director is responsible for ensuring that good internal controls are followed throughout their department, that all Finance Division directives are implemented and that all independent auditor internal control recommendations are addressed. Departments will develop and periodically update written internal control procedures.