

## Fiscal and Budgetary Policy

*Adopted: September 22, 2020*

### I. PURPOSE

The City of Georgetown is committed to financial management through integrity, prudent stewardship, planning, accountability, transparency 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 residents 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. Examples include 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 the liabilities 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.

**Proprietary 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 1<sup>st</sup>.

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 revenue collections and compliance with spending limitations. Directors may transfer funds up to \$25,000 within the operations and maintenance or capital line items within a departmental budget category with approval from Finance. 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.G Budget Amendments* and *Section V.C.4 Use of Excess Salary Savings*.
- H. **Budget Amendments** – The *Charter (Section 6.04)* and the Local Government Code 102.009 and 102.010 provide a method to amend the budget for emergency appropriations and municipal purposes. The City Council may authorize, with a majority plus one vote, 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. 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.

If needed, the City will amend the budget at year end for increased revenue and for expenditures that exceeded budgeted amounts. The City may also amend the budget 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 items such as 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 Stability Reserve of annual General Fund operating expenditures according to *Section XV, A, 2, b, Economic Stability 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 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 Recreation 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 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** – Annually, the City will forecast property tax revenue as part of the budget process. Certified Assessed Value Reports from the Williamson Central Appraisal District are used to forecast property tax. The City will comply with State law regarding publication notices and Truth in Taxation requirements.
5. **Interest Income** – Interest earned from investments will be distributed to the funds in accordance with the average daily cash 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 five years on a rotating schedule 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 Activity Rates** – The City will review and adopt utility and airport 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. Enterprise 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 enterprise rates will be based on standardized cost of service methodologies and conservation goals.
  - a. **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.
  - b. **Wastewater Rates** are fixed for all residential customers based on the cost of providing services. Commercial customer rates are fixed and volumetric depending on size and specifications of each commercial customer.
  - c. **Electric Rates** include 100% of fixed costs within the base rate, and demand rates, with all variable costs included in the kWh rate. The Power Cost Adjustment (PCA) Factor and Transmission Cost Adjustment (TCA) Factor are determined by comparing forecasted costs against actual costs in a budget year, and seek to recover/credit variances within 6 to 12 months. For reference, see Code of Ordinances 13.04.075 and 13.04.080.

- d. **Stormwater Drainage Fees** are based on a mathematical calculation using impervious cover and applied in compliance with State Law.
  - e. **Solid Waste and Environmental Services Rates** are based on the wholesale cost of service and retail incentives for conservation, plus a return to the General Fund for wear and tear of heavy trucks on City streets, a franchise fee, and an administrative allocation for managing the solid waste contract and solid waste departmental programming.
  - f. **Airport Fuel and Lease Rates** are based on the cost of the fuel plus a profit margin to fund operations, capital improvement, contingency, and debt service requirements.
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 non-electric utilities. ROI for water and sewer customers outside the City is 10% of operating revenues.

The Franchise and Return on Investment for the Electric Utility are both derived from the base monthly charge gross revenue and kWh sold. For customers inside the City, the franchise fee is \$0.002947/kWh sold, and the Return on Investment is 7% of gross revenue of the base monthly charge, and \$0.007253/kWh sold. For customers outside the City, there is no franchise fee to the City of Georgetown; however, those customers may be subject to franchise fees in the jurisdiction in which they reside. Outside the City customers are charged a Return on Investment equal to 7% of gross revenue of the base monthly charge, and \$0.0102/kWh sold.

- 9. 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.
- 10. 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 grant applications must be approved by the City Council prior to being submitted to a granting agency. Prior to submittal to Council, departments will verify that the benefits of the grant exceed the cost of grant administration and will also provide the required grant forms to Finance for review in accordance with the Grant Acquisition, Management, and Compliance Policy. Finance will review and sign the forms which provides detailed information including, but not limited to, the term of the grant, any matching requirements, the resulting operational requirements once the grant is discontinued, and a budget request detailing the line items to be effected, all of which should be included in the Council agenda item packet requesting approval to apply. The City Council must also authorize acceptance of any grant awards received.
- 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.

## 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.
- 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** – Major Funds with Personnel Budgets 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, Electric Fund, Water Fund and Joint Services Fund FY2021 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 FY2021 in compliance.***

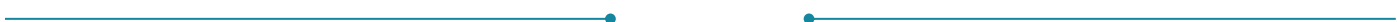
3. Position Control – The annual budget includes a set number of positions within departments when approved and adopted by City Council. Additional positions cannot be added without approval of the City Council. The City Manager may approve the transfer of authorized positions between departments if 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:
  - a. Public Safety
  - b. Transportation
  - c. Housing
  - d. Parks & Recreation
  - e. Veteran Services
  - f. 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 – FY2021 in compliance.***



2. **Public Art Funding** – The City will annually allocate \$43,000 of funding for Public Art in the Tourism Fund. Any unspent funds will accumulate and be reallocated in the following budget year. Disbursement of these funds will be determined by the City’s Arts & Culture Advisory Board.

**Compliance Status – FY2021 in compliance.**

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 written Purchasing Policies. 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 and does not substitute the formal Purchasing Policies.

Dollar Limits:	Procurements:	Requirements:
\$3,000 and less	Under the small purchase limit	No competitive bids and City credit cards may be used.
\$3,001 up to \$50,000	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.
\$50,001 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 signature authority limits.

- F. **Contracts, Change Orders and Amendments** – Contracts and related change orders and amendments must follow the City’s Purchasing Policies and State Law. Contract term lengths should balance the need for value as well as the ability to respond to changing conditions.
- G. **Prompt Payment** – In accordance with State Law, 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 may 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 J.3.* should reflect the reciprocal 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 two reserves.
  - a. Incurred but Not Reported (IBNR) Reserve: In the event the City stopped self-insuring for health benefits and was required to pay incurred costs, the City will reserve between 5 and 10 percent of the annual costs of claims, benefit administration and stop loss coverage.

*Compliance Status – IBNR reserve FY2021 in compliance.*

- b. Rate Stabilization Reserve: To alleviate shocks to the City and employees due to sharp increases in health insurance costs, the City will reserve between 10 and 20 percent of annual medical claims, benefit administration and stop loss coverage. Staff and the benefits consultant will consider a 3 year forecast on premiums when determining to utilize the funds or rebuild the reserve.

*Compliance Status – Rate stabilization reserve FY2021 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, reserves history 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 and considered during the annual budget process.

#### 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:
  - 1. Freeze all new hire and vacant positions except those deemed to be a necessity.
  - 2. Review all planned capital expenditures.
  - 3. 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 Stability Reserve , contingency reserves, capital reserves or any other reserves appropriate as outlined in the sections XII. CAPITAL MAINTENANCE AND REPLACEMENT and XV. FINANCIAL CONDITIONS, RESERVES, AND STABILITY RATIOS
  - 3. Direct other reductions in services, including workforce reductions.

4. Authorize a temporary reduction in one or more fund’s contingency reserves from 90 days to 75 days.

C. **Replenish Fund Balance** – Generally, if any existing reserve is used as described above in the budget contingency plan, the reserve should be restored in the next fiscal year. If the restoration within one year is impractical or places and undo strain of City services, staff shall recommend to Council an alternative timeline that is subject to Council approval.

**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.

1. Needed capital improvements are identified through system models, repair and maintenance records and growth demands.
2. 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.
3. Citizen involvement and participation will be solicited in formulating the capital budget through master planning processes, board meetings, public hearings and other forums.
4. 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 approval, the following Advisory Boards will review the Capital Projects budget and contracts for expenditures:

Electric Utility Board	Water Utility Board	Georgetown Transportation Advisory Board (GTAB)	General Government and Finance Advisory Board (GGAF)	Parks Advisory Board	Georgetown Transportation Enhancement Corporation (GTEC)
Electric	Water Wastewater	Streets Stormwater Drainage Airport	Facilities, Fleet, IT and Other General Government Capital Projects	Parks and Recreation	Transportation projects related to economic development



- B. **Control** – All capital project expenditures must be appropriated in the capital budget.
- 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. Debt financing is referenced in *Section XIV. Debt Management* of this document.

**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 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 repair, 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 uses a 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 2018 was 85.5.



C. **Internal Service Funds Capital Maintenance & Replacement** – The City currently utilizes internal service funds to maintain and replace existing assets. Assessments are made to other funds for the use of existing equipment and to purchase new equipment. 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. The targeted asset replacement reserve amount is the average (1/5<sup>th</sup>) of the next five years on the replacement schedule for cash-funded vehicles.

***Compliance Status – Fleet replacement reserve FY2021 in compliance.***

It is the general policy of the City not to hold back vehicles or equipment from replacement or disposition. Departmental requests to hold back units must be approved by the Fleet Manager and the City Manager.

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. The targeted amount is the average (1/5<sup>th</sup>) of the next five years on the replacement schedule. 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.

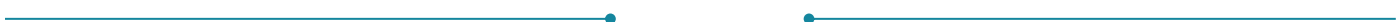
***Compliance Status – IT replacement reserve FY2021 in partial compliance. The IT Fund will need to increase recovery rates in future years to cover the purchase of the fiber asset from the Electric Fund.***

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. The targeted replacement reserve amount is the average (1/5<sup>th</sup>) of the next five years on the replacement schedule.

***Compliance Status – Facilities replacement reserve FY2021 partial compliance. Due to the economic impacts of the pandemic, the City has elected not to increase recovery rates to build the reserve to compliance. It is estimated to take 2 additional years to build the replacement reserve.***

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 playgrounds, 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. The current funding level is an annual \$297,000 transfer from the General Fund.

***Compliance Status – Parks maintenance replacement FY2021 in partial compliance. Due to the economic impacts of the pandemic, the General Fund is transferring \$50,000.***

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 residents. The current funding level is an annual appropriation in the General Fund of \$80,000 for Fire and \$88,000 for Police.

***Compliance Status – Public safety equipment replacement FY2021 in partial compliance. Due to the economic impacts of the pandemic, reductions were made to General Fund base budgets including public safety equipment.***

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 change 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.

### 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 and 2257 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. Refer to the separate policy for details regarding:

1. Statement of Cash Management Philosophy
2. Objectives
3. Safekeeping and Custody
4. Standard of Care and Reporting
5. Investment Strategies
6. Authorized Investments and Approved Broker/Dealer List.

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:
  - a. The asset owned by the City
  - b. 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
  - c. The original cost of the asset must be at least \$5,000
  - d. The asset must be tangible, or uniquely intangible like a trademark.

On-going repairs and general maintenance are not capitalized. Public Education and Government (PEG) Funds will capitalize assets in aggregate over \$1,000 on an annual basis.

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. The City will seek input on major projects funded with debt via bond elections, master planning exercises, board meetings, budget workshops, and other methods as needed.

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 benefit. 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.



**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:
  - a. When the project will have a significant impact on the tax rate;
  - b. When the project may be controversial even though it is routine in nature; or
  - c. 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 an **Agreement with the Voters** to manage future property tax rate impacts. The Agreement 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:
  - a. When the proposed debt will have minimal impact on future effective property tax rates;
  - b. 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
  - c. 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 during the budget development process.

4. Self-supporting Certificates of 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. Tax Increment Reinvestment Zones also may issue self-supporting debt.
  
  5. Internal borrowing between City Funds – The City Council 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 or other method. In such situations, the City will publicly present the reasons for the other method. 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.
1. Post issuance tax compliance rules will include records retention, arbitrage rebate, use of proceeds, and
  2. 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. **Utility and Self-Supporting Debt Coverage Ratio** – Refers to the number of times all utility supported 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 the 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 (Airport, Stormwater, GTEC, GEDCO, and TIRZ).

***Compliance Status – Debt coverage ratio FY2021 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. 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. Generally, if any existing reserve is used to cover expenses as described, the reserve should be restored in the next fiscal year. If the restoration within one year is impractical or places and undo strain of City services, staff shall recommend to Council an alternative timeline that is subject to Council approval.

- 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, capital improvements, direct cost for purchased power, debt service, non-operating special revenue funds and payments to third party grant agents. 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. For asset replacement reserves, see *Section XI. Capital Maintenance and Replacement*.

***Compliance Status – 75 day citywide reserves FY2021 in compliance.***

2. General Fund – General Fund reserves will be assigned on the balance sheet. Reserves are allocated as follows:
  - a. Base Level Reserve – will equal ninety (90) days, or 25%, of current year budgeted operating expenditures designated for emergency use only.

***Compliance Status – General Fund 90 day Reserve FY2021 in compliance.***

- b. Economic Stability 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.

***Compliance Status – General Fund Stability Reserve FY2021 at 3%.***

3. Tourism Fund – A minimum ninety (90) days 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.

***Compliance Status – Tourism Fund Reserve FY2021 in compliance.***

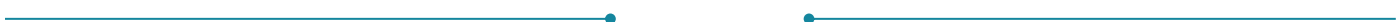
4. Joint Services Fund – A minimum ninety (90) days of operating expenses will be reserved for unexpected delays in revenue or emergency expenses.

***Compliance Status – Joint Services Fund Reserve FY2021 partial compliance. Due to the economic impact of the pandemic, the City is not increasing recovery rates to build this reserve. It is estimated to take approximately 3 years to build the reserve to 90 days.***

5. Fleet Fund – A minimum ninety (90) days of operating expenses will be reserved for unexpected delays in revenue or emergency expenses.

***Compliance Status – Fleet Fund Reserve FY2021 in compliance.***

6. Facilities Fund - A minimum ninety (90) days of operating expenses will be reserved for unexpected delays in revenue or emergency expenses.



***Compliance Status – Facilities Fund Reserve FY2021 in compliance.***

7. Information Technology Fund - A minimum ninety (90) days of operating expenses will be reserved for unexpected delays in revenue or emergency expenses.

***Compliance Status – IT Fund Reserve FY2021 in compliance.***

8. Water Services Fund – The Water Fund will maintain the following reserves and assign them on the balance sheet. These reserves are designated to be used to offset potential revenue shortfalls or fund unexpected or emergency expenses that occur during the fiscal year.
  - a. Operations Contingency Reserve – A minimum ninety (90) days or 25% of operating expenses, including wholesale water contracts and net of transfers, designated for unexpected or emergency use during the fiscal year.

***Compliance Status – Operating Water Fund Reserve FY2021 in compliance.***

- b. Non-Operating Contingency Reserve – to maintain continuity of debt payments, capital projects and to begin recovering from a natural disaster during the lag time of revenue recovery. This reserve will be evaluated annually as part of the budget process, considering the 5 year CIP and future debt requirements.

***Compliance Status – Non-operating Water Fund Reserve FY2021 in compliance.***

9. Stormwater Drainage Fund – The Stormwater Fund will maintain the following reserves and assign them on the balance sheet:
  - a. A minimum ninety (90) days or 25% of operating expenses, will be reserved in fund balance. These funds are designated to be used to offset any potential revenue shortfall that occurs during the fiscal year.

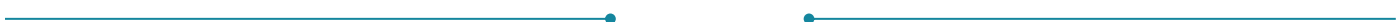
***Compliance Status – Contingency Reserve FY2021 in compliance.***

- b. A debt service reserve equal to 1x the upcoming debt service payment for existing debt (example - FY2020 reserve = FY2021 debt payment before new sale).

***Compliance Status – Debt Service Reserve FY2021 in compliance.***

10. Electric Fund – The Electric Fund will maintain the following reserves and assign them on the balance sheet:
  - a. Operations Contingency Reserve – A minimum ninety (90) days or 25% of operating expenses, net of transfers and purchased power, designated for unexpected or emergency use during the fiscal year.

***Compliance Status – Operating Contingency reserve FY2021 in compliance.***



- b. Rate Stabilization Reserve – Up to 10% of purchased power costs will be reserved to protect against energy market exposure and to maintain wholesale power contracts and stability until expenses are recovered through revenue generated in the Power Cost Adjustment Factor.

***Compliance Status – Rate stabilization reserve FY2021 in compliance.***

- c. Non-Operating Contingency Reserve – to maintain continuity and begin recovery process from a natural disaster during the lag time of revenue recovery:
- 1% of historical rate base (total assets plus accumulated depreciation)
  - 1/5<sup>th</sup> of the average cash funded portion of the 5 year CIP
  - At least 50% of annual debt service payment

***Compliance Status – Non-operating reserve FY2021 in partial compliance. It is estimated to take 1 years to complete this reserve after enacting the new cost of service rate structure and PCA.***

- d. Uses of Unanticipated and Unappropriated Electric Fund Balances – In the event that fund balance in the Electric Fund exceeds recommended minimum cash as enumerated in the above reserves, the funds may be used for the following purposes as approved by the City Council:
- Reduce the Power Cost Adjustment
  - Reduce outstanding utility debt
  - Fund capital projects
  - Fund other one-time projects or equipment

11. Airport Fund – The Airport Fund will maintain the following reserves and assign them on the balance sheet;
- a. A contingency reserve of ninety (90) days of operating expenses will be maintained in the fund for unforeseen or emergency expenditures. The reserve will represent all operating expenses minus fuel costs and any transfers.

***Compliance Status – Contingency Reserve FY2021 in compliance.***

- b. A debt service reserve equal to 1x the upcoming debt service payment for existing debt (example - FY2020 reserve = FY2021 debt payment before new sale).

***Compliance Status – Debt Service Reserve FY2021 in compliance.***

12. GEDCO Fund –
- a. A contingency reserve equal to 25% of budgeted sales tax revenue.

***Compliance Status – Contingency Reserve FY2021 in compliance.***

- b. A debt service reserve equal to 1x the upcoming debt service payment for existing debt (example - FY2020 reserve = FY2021 debt payment before new sale).

***Compliance Status – Debt Service Reserve FY2021 in compliance.***

13. GTEC Fund –

a. A contingency reserve equal to 25% of budgeted sales tax revenue.

***Compliance Status – Contingency Reserve FY2021 in compliance.***

b. A debt service reserve equal to 1x the upcoming debt service payment for existing debt (example - FY2020 reserve = FY2021 debt payment before new sale).

***Compliance Status – Debt Service Reserve FY2021 in compliance.***

14. Rivery TIRZ Fund – A debt service reserve equal to 1x the upcoming debt service payment for existing debt (example - FY2020 reserve = FY2021 debt payment before new sale).

***Compliance Status – Debt Service Reserve FY2021 in compliance.***

15. Cemetery Fund – A perpetual reserve should build over time so that interest earnings can offset annual operational costs. The General Fund makes an annual transfer of \$75,000 to this fund.

***Compliance Status – In FY2021 not in compliance. Due to the economic impact of the pandemic, the General Fund is transferring \$35,000. The reserve has \$560,000. Annual operational costs are \$100,000. With an interest rate of 2%, the reserve needs a balance of \$5 million to support operations. This fund is not likely to build this level of reserve without a significant change in revenue.***

For all other 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 90 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 Comprehensive Annual Financial 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. Due to the long timeline of some projects, unused cash or bond proceeds will be reserved on the fund schedule and appropriated when needed. 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 approved for use according to the bond covenant and opinion of bond counsel.



- 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 FY2021 in compliance.*

- E. **Investment of Reserve Funds** – The reserve funds will be invested in accordance with the City’s investment policy.
- F. **Ratios/Trend Analysis** – Ratios and significant balances will be incorporated into the quarterly financial reports to the City Council for the Electric, Water and General Debt Service Funds. 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:

- Debt Ratio: Current liabilities plus long-term liabilities divided by total assets  

$$\frac{CL + LTL}{TA}$$
AL < 0.5
  
- Times Coverage Ratio: Operating revenue less operating expense divided by annual debt service  

$$\frac{(OR - OE)}{DSV}$$
AL > 1.5

The City will develop minimum/maximum levels for the above ratios/balances through analyzing of City historical trends and future projections.

**XVI. RISK MANAGEMENT AND 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. Fraud Awareness and Reporting – The City will maintain its personnel policy regarding fraud. They will maintain an arrangement with a third party for anonymous reporting of fraud, waste, or abuse



of City resources. The City will provide training to all City employees on recognizing and reporting fraud.

4. 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.
- D. **Cybersecurity** – The Information Technology department shall regularly assess new forms of security risk and maintain multiple layers of protections and controls to thwart cyber attacks. The City will provide regular cybersecurity awareness training for all employees.
- E. **Electric Utility Risk** – Chapter 13.38 of the City’s Code of Ordinances establishes Council’s authority to oversee all risk of the Electric utility including CRR auctions, wholesale power agreements, futures contracts, and other transactions that expose the City to significant risk.
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