

City of Burnet Fiscal and Budgetary Policy

I. PURPOSE

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

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

- A. Demonstrate to the citizens of Burnet, 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), as applicable to governmental accounting; 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 should be reviewed and updated annually as part of the audit preparation process.

The budgeted funds for the City of Burnet include:

Governmental Funds: **General Fund** accounts for all financial resources except those required to be accounted for in another fund, and include basic governmental services, such as Fire/EMS, Police, Streets, Parks, and Administrative functions among others.

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

Capital Project Funds are used to account for the acquisition or construction of major capital facilities and equipment.

Special Revenue Funds account for specific revenues that are legally restricted for specific purposes. These currently include the Hotel Occupancy Tax, Police Seizure, Court Security and Technology.

Proprietary Funds: **Enterprise Funds** include the City's "business type" activities currently including utility funds and golf course.

Basis of Accounting and Basis of Budgeting

For internal reporting purposes, the City accounts and budgets for all funds using a modified cash method of accounting (hybrid blend of cash and accrual methods). This basis means that revenue is recognized in the accounting period in which it becomes available, while expenditures are recognized in the accounting period in which they are paid. 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.

For external reporting purposes, the modified accrual basis of accounting is used to present data in the governmental fund financial statements, while the accrual basis of accounting is used to present data in the Enterprise Fund financial statements.

II. OPERATING BUDGET

Budgeting is an essential element of the financial planning, control and evaluation process of municipal government. The operating budget is the City's annual financial operating plan. The annual budget includes the operating departments of the General Fund, Enterprise Funds, Debt Service Funds and Special Revenue Funds.

A. **Preparation** – The Charter (Section 7.02) requires that "on or before the 15th day of August of each fiscal year, the City Manager shall submit to the City Council a budget for the ensuing fiscal year". Therefore, the budget will be presented to the City Council no later than the 15th of August to provide the City Council time to adopt the budget in the required time frame. A copy of the proposed budget will be filed with the City Secretary when it is submitted to the City Council. A copy will also be available on the City website for citizen review.

1. *Proposed Budget* – *A proposed budget shall be prepared by the City*

Manager with the participation of all City Division Directors within the provision of the Charter.

2. *The budget shall include four basic elements for review and evaluation:*
 - a) Revenues
 - b) Personnel costs
 - c) Operations and maintenance
 - d) Capital and other non-project costs
3. *The budget shall provide a complete financial plan of all City funds and activities for the ensuing fiscal year and, except as required by law or the Charter, shall be in such form as the City Manager deems desirable or the City Council may require. The budget shall begin with a clear general summary of its contents; shall show in detail all estimated income, indicate the proposed property tax levy, all proposed expenditures including Debt Service; and shall be so arranged as to show comparative figures for actual and estimated income and expenditures of the current fiscal year and actual income and expenditures of the preceding fiscal year. It shall indicate in separate sections as follows:*
 - a) Goals and Objectives. The proposed goals, objectives and expenditures for current operations during the ensuing fiscal year, detailed for each fund by department or program, purpose or activity, and the method of financing such expenditures;
 - b) Capital Budget. Proposed capital expenditures during the ensuing fiscal year, detailed for each fund by department when practicable, and the proposed method of financing each capital expenditure; and
 - c) Enterprise Funds. The anticipated income and expense and profit and loss for the ensuing year for each public utility or other enterprise fund operated by the City.
4. 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.

5. *The Charter (Section 7.06) further states “a tax levy ordinance shall be made authorizing the property tax levy or levies and setting the tax rate or rates” prior to the beginning of the ensuing fiscal year.*

- B. **Balanced Budget** – The goal of the City is to balance the operating budget with current revenues, whereby, current revenues would match and fund on-going expenditures/expenses.
- C. **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.
- D. **Five-Year Financial Forecast** – A five-year financial forecast will be created and updated annually that will identify potential tax impacts, rate adjustments, capital improvements, equipment requirements, personnel and other factors that could impede the implementation of the City financial plans.
- E. **Reporting** – Reports comparing actual to budget will be presented to the City Council monthly. These reports will be in a format appropriate to enable the City Council to understand the overall budget and financial status.
- F. **Control and Accountability** – Each Division 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.
- G. **Amendment by Council Before Adoption** - After public hearings, the Council may adopt the budget with or without amendment. It may add or increase programs or amounts and may delete or decrease any programs or amounts, except expenditures required by law or for Debt Service or for estimated cash deficit, provided that no amendment to the budget shall increase the authorized expenditures to an amount greater than the total of estimated income plus funds available from prior years.
- H. **Budget Amendments After Adoption** –The budget may be amended after adoption for unusual and unforeseen conditions that were not known at the time the budget was adopted.

All line item transfers require certification of availability of funds by the Finance Department. The City Manager shall have the authority to transfer within funds and from the General Fund to the Golf Course Fund.

The City Council may, by ordinance, amend the budget for expenditures in excess of the adopted budget, or revenue shortfalls that occur throughout the fiscal year.

The City will amend the budget at fiscal year's end, if needed, for revenue based expenditures that exceeded budgeted amounts due to increased revenue and grant funded expenditures for grants and policy driven expenditures previously approved by the City Council after the budget was adopted or last amended. The City will also amend the budget if necessary for any capital project timing adjustments, as well as any other known adjustments needed and approved.

I. **Contingency Appropriations** – The budget may include contingency appropriations which could be used to offset unanticipated expenditures that might occur during the year.

J. **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.

1. 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 – describes 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 of that designated purpose.
- e) Unassigned Fund Balance – represents funds that cannot be properly classified in one of the other four categories.

2. After fiscal year end, staff will report the projected fund balances 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:

- a) To fund capital projects and non-recurring expenditures/expenses;
- b) To fund equipment purchases in lieu of issuing debt;
- c) To reduce outstanding City debt, including bonded indebtedness and unfunded pension liabilities;
- d) To fund contingent liabilities and other similar obligations of the City;
- e) To take other steps to reduce property tax rates or mitigate any future increases;
- f) To hold those funds in reserve for future commitments or contingencies that may be pending;
- g) To fund an economic uncertainty reserve of annual general fund operating expenditures;
- h) Any other purpose as approved by the City Council.

K. **Failure to Adopt** – In accordance with Section 7.05 of the Charter, in the event the City Council fails to adopt a budget by September 30th, the City Manager proposed budget shall be considered adopted until such time as

Council adopts a new budget or amends the City Manager's proposed budget.

III. REVENUE MANAGEMENT

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

1. **Simplicity** – The City, where possible and without sacrificing accuracy, will strive to keep the revenue system simple in order to reduce compliance costs for the taxpayer or service recipient.
2. **Certainty** – 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 subsidization between entities, funds, services, utilities, and customer classes, and ensure an on-going return on investment for the City.
4. **Revenue Adequacy** – The City should require there be a balance in the revenue system; i.e., the revenue base will have the characteristics of fairness and neutrality as it applies to cost of service, willingness to pay, and ability to pay.
5. **Realistic and Conservative Estimates** – Revenues will be estimated realistically, and conservatively, taking into account the volatile nature of various revenue streams.
6. **Administration** – The benefits of a revenue source should exceed the cost of levying and collecting that revenue.
7. **Diversification and Stability** – A diversified revenue system with a stable source of income shall be maintained. This will help avoid instabilities in two particular revenue sources due to factors such as fluctuations in the economy and variations in the weather.

B. **Internal Cost Recovery Fees** –

1. **General and Administrative Charges** – Administrative costs should be allocated to funds for services of general overhead. All expenses charged to the Administration and Mayor and Council departments are allocated out. These charges will be determined through an indirect cost allocation following accepted practices and procedures and reviewed by the City's external auditors. Currently, this allocation of overhead is

made to the Hotel/Motel Fund, Airport Fund, Electric Fund, Water/Wastewater Fund and the Golf Course Fund.

2. **Payment for Return on Investment, Fee In-Lieu of Franchise, and Fee In-Lieu of Property Taxes** – the intent of these transfers to General Fund are to provide a benefit to the citizens for the ownership of the various utility operations they own and to receive taxes and franchise fees similar to those paid by other privately owned utilities. These rates will be reviewed periodically by the City and, with Council action, may be amended as deemed necessary.

- a) Electric Fund

- 1) The Return On Investment (ROI), Fee In-Lieu of Franchise, and Fee In-Lieu of Property Taxes is a combined rate of \$0.020 per kWh sold.

- b) Water/Wastewater Fund

- 1) *Fee In-Lieu of Franchise*. This transfer is currently calculated at 5% of the gross operating revenues.
- 2) *Fee In-Lieu of Property Tax*. This transfer is currently calculated at 3% of the gross operating revenues.
- 3) *Return on Investment*. There is currently no ROI calculated on the Water/Wastewater Fund.

3. **Shop Allocation** – all charges to the City Shop are allocated on a prorated basis to those departments utilizing shop services. The percentage of proration is reviewed during the budgeting process and is meant to be a reasonably fair allocation based on the services provided.

C. 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. Property Tax Revenues – All real and business personal property located within the City will be valued based on the current appraisal supplied by the Burnet County Appraisal District.

Conservative budgeted revenue estimates result in not less than 97% of budgeted collection rate for current Ad Valorem taxes. For budgeting purposes, the City will forecast the proposed property tax rate using the effective maintenance and 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.

4. Interest Income – When applicable, interest earned from investments will be distributed to the funds in accordance with the cash balance of the fund from which the monies were provided to be invested.
5. User-Based Fees and Service Charges – For services associated with a City imposed 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 periodically to ensure that fees provide adequate coverage for the cost of services. The City Council will determine how much of the cost of a service should be recovered by fees and charges.
6. Utility Fund Rates – The City will review and adopt rates as needed to generate revenues required to cover operating expenses, meet the legal requirements of all applicable bond covenants, and provide for an adequate level of working capital. A utility rate study will be conducted periodically to review rate methodology and ensure revenues will meet future needs.
7. Grants – All potential grants will be examined for matching requirements and must be approved by the City Council prior to making application of the grant.
8. Revenue Monitoring – Revenues, as they are received, will be regularly compared to budgeted revenues and variances will be investigated, and any significant abnormalities will be included in the monthly report to the City Council.

IV. EXPENDITURE POLICIES

- A. Check Signing Authority – All checks, vouchers, or warrants for the withdrawal of money from the City depositories shall be in accordance with all policies, ordinances and Charter as amended from time to time.

The City Council, through Ordinance 2016-32, has authorized the use of machine-imprinted facsimile signatures of the Mayor or City Manager on checks for withdrawal of municipal funds, not to exceed \$5,000. The machine-imprinted facsimile signature of the Mayor or City Manager may only be used for one of the two required signatures for checks under \$5,000. Two original signatures shall be required for all checks in excess of \$5,000.

- B. **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.
- C. **Purchasing** – All City purchases of goods or services, except as noted below in Section “G” for the Electric Utility, will be made in accordance with the City’s current Purchasing Policy as established by the City Manager, consistent with State Law. Formal bids are required for all purchases in excess of the bid law limit as established by State Law and amended from time to time (currently \$50,000), unless such purchase is made through a purchasing cooperative (Coop) or previously approved contract. Purchases in excess of the state bid law limit shall require Council approval, regardless of whether such purchase is made through a purchasing cooperative or bid.
- D. **Contracts and Change Orders** – Contracts and related change orders must follow the City Purchasing Policies and State Law.
- E. **Prompt Payment** – It is the City’s target for all invoices approved for payment by the proper City authorities to 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.
- F. **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 or fund.
- G. **Purchasing for Electric Utility Distribution** – Purchases of inventory or materials used for the distribution of the electric utility shall be administered by the City Manager and/or his/her designee and awarded to the vendor or service provider who provides the best value. In determining the best value, the administrator may consider:
 - i. the purchase price;
 - ii. product availability (delivery dates);
 - iii. the reputation of the vendor or service provider and of their respective goods or services;

- iv. the quality of the goods or services;
- v. the extent to which the goods or services meet the Electric Utility's needs;
- vi. the vendor or service provider's past relationship with the City;
- vii. the impact on the ability of the City to comply with laws and rules relating to contracting with historically underutilized businesses and nonprofit organizations employing persons with disabilities;
- viii. the total long-term cost to the City to acquire the goods or services; and
- ix. any relevant criteria specifically listed in the Purchasing Administrator's request for goods or services.

The administrator shall make a good faith effort to solicit quotes from at least three vendors or service providers prior to the purchase of any goods or services that shall be equal to or exceed \$25,000. The administrator shall review the quotes and select the one that provides Best Value. The administrator may reject all quotes. Purchases made for Electric Utility distribution in accordance with these procedures would be exempt from the State's municipal procurement laws which require formal bids for all purchases in excess of \$50,000.

V. BUDGET CONTINGENCY PLAN

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

- A. **Immediate Action** – Once a budgetary shortfall is projected, the City Manager will notify the City Council as soon as reasonably practicable.
- B. **Further Action** – If the revenue shortfalls identified in subsection A are projected to be great enough to result in an operating fund (non-capital funds such as general fund, special revenue funds and enterprise funds) incurring an overall fiscal year deficit, or the cumulative impact on cash reserves in excess of the 90 day reserve requirement could potentially jeopardize the City's ability to fund previously approved capital projects, the City Manager shall take the necessary actions to offset such revenue shortfalls 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.
4. Any other steps deemed necessary to reduce expenditures.

Additionally, 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 a temporary reduction in the unobligated cash reserves from ninety (90) to seventy-five (75) days. Reserves shall not be reduced below seventy-five (75) days except in the event of a formally declared fiscal emergency approved by the City Council.
 3. Direct other reductions in services, including workforce reductions.
- C. **Replenish Surplus Funds** – As soon as practicable, without placing undue strain on City services, the City Council shall increase the unobligated surplus funds in the general fund, up to the 90-day amount required in Section XII (B) of this policy.

VI. CAPITAL IMPROVEMENT PROGRAM (CIP) BUDGET

The City’s goal is to provide excellent services to the customers within the community, meet growth related needs, and comply with all state and federal regulations.

- A. **Goals and Objectives** – Council shall propose goals, objectives and expenditures for current operations during the ensuing fiscal year, detailed for each fund by organization unit and program, purpose or activity, and the method of financing such expenditures as provided for in Section 7.04 A. of the Charter.
- B. **Preparation** – The Charter requires annual updates and adoption of a five-year capital improvement program (CIP) schedule as part of 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 capital projects, capital resources, and estimated operational impacts.
- C. **Control** – Capital projects should be appropriated in the capital budget. Availability of cash resources shall be certified by the Finance Department. CIP expenditures approved by the City Council shall not be used for other purposes.

- D. **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.
1. 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.
 2. Short-term financing can be used to fund other expenditures that do not fall into long term financing option criteria.
 3. Excess cash from previous years as approved by Council.

VII. SELF-FUNDED BUDGET

The self-funded budget is designed to fund equipment purchases and capital expenditures internally rather than using loan proceeds. A separate fund will be maintained for this purpose and is replenished by charges to the appropriate department for the budgeted asset purchase price and a 5% interest fee per year. The fee is designed to help build the fund and provide for inflation in the asset cost when subsequent purchases are made. Charges for each purchase will be made in equal monthly amounts spread over the budgeted life of the asset.

VIII. CAPITAL MAINTENANCE AND REPLACEMENT

The City recognizes that deferred maintenance increases future capital costs.

- A. **Infrastructure Maintenance** – On-going maintenance and major repair costs are included within the departmental operating budgets. These costs may be considered system repairs and may or may not be capitalized for accounting purposes.

IX. 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 Department is responsible for establishing the structure for the City's Chart of Accounts and for assuring that procedures are in place to properly record financial transactions and report the City's financial position.
- B. **Audit of Accounts** – In accordance with the 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.

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

X. ASSET MANAGEMENT

A. **Cash Management** –

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. Effective internal controls during the entire cash handling process from cash collection to bank depositing are necessary to prevent mishandling of City funds and are designed to safeguard and protect employees from inappropriate misconduct charges of mishandling funds by defining their duties and responsibilities.
3. Each Department Director shall ensure that departmental procedures, as approved by the City Manager, are adequate to safeguard City funds.
4. Staffing and training shall be reviewed periodically to ensure adequacy.
5. Daily deposits of City cash shall be performed.
6. The City shall conduct periodic reviews of internal controls and cash handling procedures.
7. The City Council, through Council action, may reallocate current cash balances between funds.

- B. **Investment Policy Adopted** – City Council has formally approved a separate Investment Policy for the City of Burnet that meets the requirements of the Public Funds Investment Act (PFIA), Section 2256 of the Texas Local Government Code. All City investments will be made in accordance with the Investment Policy. The policy is reviewed annually by the City Council and applies to all financial assets held by the City.

- C. **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 will be used to determine expenditures to be capitalized:

- a) The asset is 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) For utility infrastructure, the dollar threshold may be lower if item b) is met.
 - e) 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. Improvement 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 of 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 the right of way acquisition.
 6. Reporting and Inventory – The Finance Department 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.

XI. LONG TERM DEBT MANAGEMENT

The City of Burnet establishes the following policy concerning the issuance and management of debt. This debt policy, as presented to the City Council and the citizens, was established by the City of Burnet Finance Department to improve the quality of decisions in relation to the city's financing activities, provide a comprehensive view of the city's long-term debt picture and make it easier for decision-makers to understand issues concerning debt issuance and management.

A. **Conditions of Debt Issuance** -

1. Debt should be issued for the purpose of meeting the needs of the community through funding of capital projects and equipment but without constituting an unreasonable burden to taxpayers.
2. Long-term debt is only issued to finance the acquisition and/or construction of capital improvements with an economic or useful life greater than five years and the term of the debt. Additionally, only capital needs identified in the capital improvement program will be considered. Refunding bonds will only be issued if the present value of debt service savings exceeds three percent of the par value of the refunded bonds. Debt for other purposes, such as acquisition of capital assets, is covered separately in this policy.

B. **Types of Debt** -

1. **General Obligation Bonds** - General Obligation Bonds may only be issued with a majority approval of a popular vote. The use of the proceeds from GO Bonds is limited to the acquisition or improvement of real property and other uses allowed by law and applicable bond ordinances. Libraries, parks and public safety facilities are all types of facilities that could be financed with GO Bonds. To the extent that property tax revenues are used to fund debt service, a separate property tax will be levied.
2. **Enterprise Revenue Bonds** - Enterprise Revenue Bonds finance facilities for a revenue producing enterprise, and are payable from revenue sources within that enterprise. Municipal Water and Sewer and Solid Waste are examples of revenue producing enterprises within the City.
3. **Refunding Obligations** - Pursuant to the Government Code and various other financing statutes applicable in particular situations, the City Council is authorized to provide for the issuance of bonds for the purpose of refunding any long-term obligation of the City. Absent any significant non-economic factors, a refunding should produce minimum net debt service savings (net of reserve fund earnings and other offsets)

of at least 3% of the par value of the refunded bonds on a net present value basis, using the refunding issue's True Interest Cost (TIC) as the discount rate, unless the Finance Department determines that a lower savings percentage is acceptable for issues or maturities with short maturity dates.

4. Certificates of Obligation, Contract Obligations (CO's) - Certificates of obligation or contract obligations may be used to fund capital requirements in lieu of revenue bonds. Debt service for CO's may be either from general revenues (tax-supported) or supported by 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, vehicles, equipment and City facilities; 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.
5. Tax Anticipation Notes - Proceeds from Tax Anticipation Notes are used to fund projects whose source of payment is future tax revenues. These instruments have a term of one to three years and are for a specific purpose such as temporary financing for capital improvements, cash flow needs and major equipment leasing.
6. Tax Increment Financing Bonds - The city may use these bonds to finance capital improvements within the tax increment reinvestment zone. Repayment is from property taxes generated within the zone.
7. Leases - Leases may be used to finance major capital purchases, other than infrastructure, including fleet, major system upgrades and large equipment purchases. The useful life of the asset should not exceed the term of the lease.
8. Assessment Bonds - Proceeds from Assessment Bonds may be used to finance local public improvements, provided that said improvements benefit the parcels of land to be assessed. Local streets, street lights, landscaping, sidewalks and sanitary sewers are some examples of local improvements commonly financed by assessment bonds.

9. Other Obligations - There may be special circumstances when other forms of debt are appropriate and may be evaluated on a case-by-case basis. Such other forms include, but are not limited to limited tax notes, non-enterprise revenue bonds, bond anticipation notes, grant anticipation notes and judgment or settlement obligation bonds.

C. **Restrictions on Debt Issuance** -

1. The City of Burnet will not use long-term debt to finance current operations or normal maintenance.
2. Derivative products will not be used by the city.
3. General obligation debt will not be issued if other, more financially efficient financing sources are available such as certificates of obligation, limited tax notes, leases or revenue bonds.
4. Short-term debt will not be used to refinance long-term debt.
5. All debt issuances shall be approved by the City Council.
6. Before any debt may be issued, the city will perform an analysis of the requirements to determine the impact on future budgets, the sufficiency of revenues to fund the debt service requirements and additional operating costs of the capital asset acquired. The analysis will ensure that debt service payments funded by the Interest and Sinking portion of the tax rate shall be not greater than 35% of the total ad valorem tax levy. Payments on bonds that are tied to a specified revenue stream such as waterworks bonds are not subject to this limitation.

D. **Limitations on Outstanding Debt** -

Limitations on the city's outstanding bonded debt include:

1. The total of gross bonded tax supported debt of the City of Burnet will not exceed 10 percent of the assessed valuation of the city for the same year.
2. The total gross bonded debt of the City of Burnet and the municipal authorities for which it has direct debt responsibility, to the extent that such authority has issued debt backed by the City's taxing ability.

These limitations shall be periodically compared with other cities to determine if the city is still within the norm for comparably-sized cities.

E. **Characteristics of Debt Issuance** -

When the city finances capital projects by issuing bonds, it will pay back the bonds in a period not exceeding the expected life of those projects. Other standard terms shall include the following:

1. Term may be up to 30 years depending on cash flow assumptions, and useful life of asset being financed.
2. Call provisions will be shortest possible optional call consistent with optimal pricing.
3. The city will seek to retire at least 35 percent of the total General Fund-supported principal outstanding within the next 10 fiscal years.
4. The city will seek level or declining debt repayment schedules.
5. The city will avoid variable-rate debt due to the potential volatility of such instruments. Therefore, the city will avoid the use of variable-rate debt for its general obligation bond issues.
6. Debt service reserve will be in conformity with bond covenant.
7. Commercial insurance or other credit enhancements to the bond rating shall be considered when cost-effective.
8. Repayment of debt shall be made with revenues derived from the projects that benefitted from the bond issuance when possible.

F. **Debt Issuance Process** -

The City of Burnet will strive to achieve a bond rating of AAA/Aaa by a nationally recognized rating service. The city will maintain good communications with bond rating agencies about its financial condition and will follow a policy of full disclosure on every financial report and bond prospectus. The city will also comply with all federal tax law provisions, including arbitrage requirements.

The City shall utilize the services of independent financial advisor(s) on debt financing when deemed prudent. Although not required, the City may utilize an RFP-selected pool of such financial advisors to mitigate time constraints and reduce overhead costs of the City in procuring such services. Bond counsel will be used for each transaction.

The Finance Department shall review each debt issuance transaction on a case-by-case basis to determine the most appropriate method of sale.

1. Competitive Bid Sale - In a competitive bid sale, bids for the purchase of the bonds are opened at a specified place and time and are awarded to the underwriter (or syndicate) whose conforming bid represents the lowest true interest cost to the City (TIC). This method is most advantageous when the debt to be issued is less complex, the municipal bond market for high-grade credits is stable, and the sale of the City's bonds is assured.
 - a) Bond sales shall be cancelable at any time prior to the time bids are to be received.
 - b) Upon award to the bidder whose conforming bid represents the lowest true interest cost, the City may restructure the bonds in accordance with the Official Notice of Sale. The City shall reserve the unfettered right to reject all bids or waive bid irregularities.
2. Negotiated Sale - In a negotiated sale, the City chooses the initial buyer of the bonds in advance of the sale date. The initial buyer is usually an investment banking firm, or a syndicate of investment banking firms interested in reoffering the bonds to investors through an underwriting process. This type of sale allows the City to discuss different financing techniques with the underwriter in advance of the sale date. This method is most advantageous when the debt issue is complex, debt structuring flexibility is required (as would be the case in a bond refunding) or the municipal bond market is unstable or uncertain.
3. Private Placement - In a private placement, the City may select a private purchaser willing to bid a below market rate. Such placements often allow debt to be issued more efficiently by eliminating the need for bond ratings and other associated issuance costs. Such financing will be analyzed on a case-by-case basis, depending primarily on rates prevailing in the placement market from time to time.

Professional services used in conjunction with a bond issuance may be obtained using a request for proposal (RFP). If an RFP is used, selection will be based on experience in the type of issuance and municipal bond activities, ability to perform needed services, conflicts of interest, fees and fee structure.

G. **Permitted Investments** -

All investments of debt proceeds shall adhere to the city's investment policy. Accordingly, the investment of proceeds is limited to:

1. Securities guaranteed for both principal and interest by the federal government.

2. Collateralized certificates of deposit from banks whose collateral consists of securities of the United States or secured by a letter of credit from the Federal Home Loan Bank Board that guarantee both principal and interest.
3. Local government investments pools.

A financial advisor may be used to assist in investing bond proceeds. However, the advisor must be independent of the underwriter or financial advisor involved with the sale of the bonds. Bond proceeds may not be commingled with operating funds. To ensure adequate liquidity and safety of principal, investment maturities shall precede debt service requirements.

XII. 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 final submission of any grant application. 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 to offset those impacts. These policies are further defined within the City's utility line extension policy, utility oversizing policy and other development regulations or development policies as approved by the City Council.

- 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 and reviewed in accordance with state statute. All fees collected will fund projects identified within the Capital Improvement Plan, as required by state laws.

XIII. FINANCIAL CONDITIONS, RESERVES, AND STABILITY RATIOS

The City of Burnet shall maintain the following minimum standards 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 as funds are available.

- A. **Operational Coverage** – the City’s goal is to maintain operations coverage of 100% so that operating revenues will at least equal or exceed current operating expenditures. Deferrals, short-term loans, or one-time sources will be avoided as budget balancing techniques.
- B. **Operating Reserves** – The City will strive to maintain unrestricted cash reserves of ninety (90) days (24.66%) of net budgeted operating expenditures. For purposes of this policy, 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, payments from third party grant monies and discretionary capital investments. The minimum unrestricted cash reserve balance shall not fall below seventy-five (75) days (20.55%) without prior council authorization.

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

- C. **Liabilities and Receivables** – Procedures will be followed to maximize discounts and reduce penalties offered by creditors. Current liabilities should be paid within thirty (30) days of receiving the invoice. Accounts Receivable procedures will target collection for a maximum of thirty (30) days from the date of invoicing.

- D. **Bad Debt** - Receivables, other than EMS, aging past one hundred twenty (120) days will be forwarded to a collection agency and will be shown as uncollectable on the customer account. The City Manager, and/or his or her designee, is authorized to write-off non-collectable, non-utility and non EMS accounts that are delinquent for more than one hundred eighty (180) days. Utility accounts shall be written-off at, or before, the end of the fiscal year. Non-collectible EMS debts will be written off after three hundred sixty five (365) days.
- E. **Capital Project Funds** – Every effort will be made for all monies within the Capital Project Fund to be expended in a timely manner. The fund balance will be invested and income generated with offset increases in construction costs associated with the project. Capital project funds are intended to be expended in full, with any excess to be utilized for other authorized purposes or transferred to the Debt Service fund to service project-related Debt Service.
- F. **General Debt Service Funds** – 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.
- G. **Investment of Reserve Funds** – The reserve funds will be invested in accordance with the City’s investment policy.
- H. **Debt Coverage Ratio** –The City will attempt to maintain a Debt Coverage Ratio of a minimum of 1.25 times for each fund and for the City as a whole, or as may be determined by the City Council.
- I. **Ratios/Trend Analysis** – Ratios and significant balances may be incorporated into budgeting process. This information will provide users with meaningful data to identify major trends of the City’s financial condition through analytical procedures.

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

XIV. INTERNAL CONTROLS

- A. **Written Procedures** – Whenever possible, written procedures will be established and maintained 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 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. Employee or Transactional 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 Division Director will be notified. The City Manager will also be notified depending on the seriousness of the discrepancy.
- C. **Division Directors Responsibility** – Each Division Director is responsible for ensuring that good internal controls are followed throughout their department, that all City Manager directives are implemented and that all independent auditor internal control recommendations are addressed. Departments may develop and periodically update written internal control procedures specific to their department.

XV. STAFFING

The City's goal as an employer is to attract and retain quality employees who provide excellent, friendly services to our community in an effective and efficient manner.

- 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. **Salary Schedule Adjustments** – The City periodically conducts a comprehensive compensation study to ensure employees are fairly and adequately compensated. Pay scales have been adopted for each position within the City.
- C. **Additional Salary Adjustment** – Additional salary adjustments to adjust for inflation or other market forces may be recommended at the discretion of the City Manager.
- D. **Pay for Performance** – The City Manager may fund merit increases within the operating budget, and/or one time bonuses, incentives or stipends to aid in retaining quality employees and reward employees for productivity and job performance.

Definitions

Adopted – Adopted, as used in fund summaries and department and division summaries within the budget document, represent the budget as approved by formal action of the City Council which sets the spending limits for the fiscal year.

Ad Valorem – In proportion to value, a basis for levy of taxes on property.

Appropriation – An authorization made by the City Council through an approved budget which permits the City to incur obligations and to make expenditures of resources. Appropriations lapse at the end of the fiscal year.

Asset – Resources owned or held which have monetary value.

Audit – A comprehensive review of the manner in which the government's resources were actually utilized. A certified public accountant issues an opinion over the presentation of financial statements, tests the controls over the safekeeping of assets and makes recommendations for improvement where necessary.

Bond – A written promise, generally under seal, to pay a specified sum of money, called the face value, at a fixed time in the future, called the date of maturity, and carrying interest at a fixed rate, usually payable periodically. The difference between a note and a bond is that the latter usually runs for a longer period of time and requires greater legal formality.

Budget – A plan of operation embodying an estimate of proposed expenditures for a given period and the proposed means of funding them.

Capital Budget – A plan of proposed capital outlays and the means of funding them for the current fiscal period.

Capital Improvement Program – The capital improvement program (CIP) is a comprehensive plan of capital investment projects which identifies priorities as to need, method of financing, and project costs and revenues that will result during a five year period. The program is a guide for identifying current and future fiscal year requirements and becomes the basis for determining the annual capital budget.

Cash Method of Accounting – A basis of accounting in which transactions are recorded when cash is either received or expended.

Charter – The Home Rule Charter initially adopted on July 27, 2000 and as subsequently amended, that establishes the City as an incorporated political subdivision (municipal government) in accordance with the statutes of the State of Texas. The Charter provides the form, roles and powers of the municipal government that is the City of Burnet.

Contingency Appropriation – A budgetary appropriation reserve set aside for emergencies or unforeseen expenditures not otherwise budgeted for.

Debt Coverage Ratio - 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.

Debt Service – The City’s obligation to pay principal and interest on debt.

Delinquent Taxes – Taxes that remain unpaid after the date on which a penalty for nonpayment is attached. Property tax statements are mailed out in October and become delinquent if unpaid by January 1.

Department – a specific functional area within a City division.

Depreciation – The process of estimating and recording the expired useful life of a fixed asset which is used to distribute its cost over its revenue producing years.

Encumbrance – Any commitment of funds against an appropriation. It may be in the form of a purchase order or a contract. Encumbrance accounting is formally integrated into the accounting system for expenditure control purposes. An encumbrance differs from an account payable as follows: an account payable represents a legal liability to pay and results from the goods and/or services requested in a purchase order or contract having been delivered to the City. Until such time as the goods and/or services are delivered, the commitment is referred to as an encumbrance.

Enterprise Fund – A fund established to finance and account for operations (1) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including Depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purpose.

Expenditures – If the accounts are kept on the accrual basis this term designates total charges incurred, whether paid or unpaid, including expenses, provision for the retirement of debt not reported as liability of the fund from which retired, and capital outlays. If the accounts are kept on the cash basis, the term covers only actual disbursements for these purposes. Encumbrances are not considered expenditures.

Expense – Charges incurred, whether paid or unpaid, for operation, maintenance, and interest, and other charges which are presumed to benefit the current fiscal period. Legal provisions sometimes make it necessary to treat as expense, charges whose benefits extend over future periods.

Fiscal Year – an accounting period, typically twelve months, to which the annual budget applies and at the end of which a city determines its financial position and results of operations. The City’s fiscal year is October 1 through September 30.

Fixed Assets – Assets of a long-term character which are intended to continue to be held or used, such as land, building, machinery, furniture and other equipment.

Fund – An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources, together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on in accordance with special regulations, restrictions, or limitations.

Fund Balance – The excess of a fund’s assets over its liabilities and reserves.

General Fund – The fund that is available for any legal authorized purpose and which is therefore used to account for revenues and activities of ordinary governmental operations, except special revenue and enterprise funds.

Generally Accepted Accounting Principles (GAAP) – The uniform minimum standards and guidelines for financial accounting and reporting. The primary authoritative body on the application of GAAP to state and local governments is the Governmental Accounting Standards Board (GASB).

General Obligation Debt – Tax supported bonded debt which is backed by the full faith and credit of the City.

Grant – A contribution by one governmental unit to another. The contribution is usually made to aid in the support of a specified function (for example, education), but it is sometimes also for general purposes.

Impact Fees – Fees assessed to help defray a portion of the costs that naturally result from increased development. By Texas law, these fees must be used for capital acquisition or Debt Service relating to capital projects.

Infrastructure – Roads, bridges, curbs and gutters, streets, sidewalks, drainage systems, lighting systems, water lines wastewater line and other improvements that are installed for the common good.

Interfund Transfer – A movement of cash between funds for the purpose of return on investment or funding projects and operations.

Modified Accrual Basis of Accounting – a basis of accounting used in conjunction with the current financial resources measurement focus that modifies the accrual basis of accounting in two important ways: 1) revenues are not recognized until they are measureable and available and 2) expenditures are recognized in the period in which the

governments in general normally liquidate the related liability, rather than when that liability is first incurred (if earlier).

Operating Budget – This budget, associated with providing on-going services to citizens, includes general expenditures such as personal services, professional services, maintenance costs, supplies and operating capital items.

Operating Revenues – Operating revenues are defined as those revenues received in the course of normal operations and do not include any one time payments or uses of fund balance for projects.

Program – A group of related activities performed by one or more departments or funds for the purpose of accomplishing a function for which the City is responsible.

Property Taxes – Used to describe all revenue received in a period from current taxes and delinquent taxes. Property taxes are levied on both real and personal property according to the property's valuation and tax rate.

Revenue – The yield of taxes and other monetary resources that the City collects and receives into the treasury for public use. For those revenues which are recorded on the accrual basis, this term designates additions to assets which (1) do not increase any liability; (2) do not represent the recovery of an expenditure; (3) do not represent contributions of fund capital in enterprise funds. The same definition applies to those cases where revenues are recorded on the cash basis, except that additions would be partially or entirely to cash.

Revenue Bonds – Bonds of the City are supported by the revenue generating capacity.

Special Revenue Fund (SRF) – A fund used to account for the proceeds of a specific revenue source (other than special assessments, expendable trusts, or for major capital projects) that are legally restricted to expenditure for specified purposes.

Surplus – the excess of the assets of a fund over its liabilities; or if the fund has other resources and obligations; the excess of resources over the obligations.

Tax Base – The total value of all real, personal and mineral property in the City as of January 1st of each year, as certified by the County Appraisal District. The tax base represents net value after all exemptions.

Tax Levy – The resultant product when the tax rate per one hundred dollars is multiplied by the tax base.

Tax Rate – Total tax rate is set by Council and is made up of two components; Debt Service and operations rates. It is the amount levied for each \$100 of assessed valuation.

Tax Supported Debt – Debt for which the City has pledged a repayment from its property taxes.

Transfers – Amounts transferred from one fund to another to assist in financing the services or programs for the recipient fund.

User Charges – The payment of a fee for direct receipt of a public service by the party benefiting from the service.

Working Capital – for enterprise funds, the excess of current assets over current liabilities. Working capital of a fund is important because budgeted expenditures of the fund must be provided for from cash receipts during the year supplemented by working capital carried over from the prior years, if any.