

FISCAL AND BUDGETARY POLICY

Adopted June 25, 2018

I. OVERVIEW AND STATEMENT OF PURPOSE

The City of Liberty Hill has an important responsibility to its citizens and customers to carefully account for public funds, to manage City finances wisely, and to plan for the adequate funding of services desired by the public.

The broad purpose of the 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 City's financial management, as directed by this Policy, is based upon the foundation of integrity, prudent stewardship, planning, accountability and full disclosure.

Policy scope generally spans areas of financial planning, operating and capital budgeting, revenue management, expenditure control, asset management, pay philosophy, accounting and financial reporting, debt management, and reserves. This is done in order to:

- A. Demonstrate to the citizens of Liberty Hill, the City's bond holders, other creditors, and the bond rating agencies that the City is committed to a strong fiscal operation;
- B. Provide a common vision for financial goals and strategies for current and future policy-makers and staff;
- 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, bond covenants, and other legal mandates.

The City Council will annually review and adopt the Fiscal and Budgetary Policy.

II. FINANCIAL PLAN

Budgeting is an essential element of the financial planning, control and evaluation process of municipal government. Multi-year budgeting provides a means to identify the impact of implementing new programs and projects on future budgets. The Financial Plan is the City's long range operations and capital plan. The plan includes all of the operating departments of the General Fund, Wastewater, Sewer, and Water Fund as well as the Capital Improvement Funds of the City. The plan is reviewed and updated annually.

- A. **Capital Improvements Program** – The Capital Improvements Plan (CIP) is an internal plan that outlines the major utility infrastructure, streets and drainage, facilities, parks, and other improvements needed to serve the citizens, maintain existing infrastructure and facilities, meet growth related needs, and comply with state and federal regulations.
 1. **Preparation** – The CIP includes all costs associated with the design, rights of way, acquisition, and construction of a project, as well as the estimated operating and maintenance costs, which impacts future operating budgets. The following guidelines will be utilized in developing the CIP:
 - Needed capital improvements and major maintenance projects are identified through life cycle system models, repair and maintenance records, and growth demands.
 - 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.
 - City Master Plans – Transportation, drainage, parks, and trails.
 2. **Financing Programs** – Where applicable, impact fees, assessments, pro-rata charges or other fees

should be used to fund capital projects which have a primary benefit to specific, identifiable property owners. Factors related to the issuance of debt will include the following: a.) legal constraints on debt capacity and financing alternatives, b.) essentiality of the proposed capital improvement and the economic cost of delay, c.) willingness and financial ability to pay for the capital improvement, d.) determination of the ability to fund through a pay-as-you-go system, e.) assess current interest rate environment for borrowing and investment, as well as other market conditions, and reserve requirements, e.) financial condition of the City, f.) the types, availability, and stability of revenues to be pledged for repayment of the debt, g.) type of debt to be issued, and h.) the nature and asset life of the capital projects.

3. **Control** – All Capital project expenditures must be appropriated in the capital budget. The Finance Director or City Administrator must certify the availability of resources before any right of way easement is negotiated or before any capital project contract is presented to Council for approval.
 4. **Reporting** – Periodic financial reports will be prepared to enable the Department Directors to manage their capital budgets and to enable the Finance Department to monitor and control the budget as authorized. Capital project status reports will be provided to Council on a monthly basis.
- B. Operations Plan** – The plan will include estimated operating expenses, the cost of new programs being contemplated, and staffing needs.
- C. Revenues and Financing Plan** - The Finance Department will develop conservative revenue forecasts based upon current and known future revenue streams. The Plan will illustrate the impact of the Capital and Operations Plan on the property tax rate, utility rates, and other fees. Sensitivity analyses may be used in order to react to low-medium-high growth environments that would allow for more aggressive investment in infrastructure and, conversely, time to react to economic slowdown.
- D. Performance Measures** - Department Directors will develop program performance measures to evaluate the impact of new programs and growth on the departments. Existing programs will be evaluated as a part of the planning process and annual budget process to determine whether certain programs should continue to be funded.

III. ANNUAL 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. Planning** – The budget process will include City Council participation in the identification of major policy issues. The budget process will be a part of an overall strategic planning process for the City. The process will also allow for citizen input.
- B. Preparation** – Local Government Code Section 102.001 states the budget officer is the Mayor. The proposed budget shall be prepared by the budget officer.
1. **Proposed Budget** – A proposed budget shall be prepared by the Mayor and delivered to the City Council in accordance with Local Government Code Section 102.003.
 - a. The budget shall provide a complete financial plan for the ensuing fiscal year, in a form the City Manager or Council deems desirable, and the budget shall include goals and objectives, a capital budget, enterprise funds and appropriations.
 - b. The City will publish in a newspaper of general circulation in the City and on the City website a general summary of the budget, as well as the times and places that the budget is available for public inspection, no less than two weeks after the publication.
 - c. A copy of the proposed budget will be filed with the City Secretary when it is submitted to the City Council, which must be at least 30 days prior to adoption of the tax rate.

2. Adoption – City Council will hold a public hearing and subsequently adopt by Ordinance the final budget. The budget will be effective for the fiscal year beginning October 1st.
 3. Standards for Publication - The City will utilize the criteria outlined in the Government Finance Officers Association (GFOA) Distinguished Budget Program for the presentation of the budget document.
 4. Budget Calendar – The timeline for budget adoption is guided by state Truth in Taxation laws. The deadline for the chief appraiser to certify rolls to taxing units is July 25. After certification, City Council must discuss the tax rate, and if the maximum rate they will consider adopting will exceed the rollback rate or effective tax rate, they must take a record vote and schedule a public hearing. If required, Notice of Public Hearing on Tax Increase must be published at least 7 days before the first public hearing. If required, the second public hearing must be no earlier than 3 days after the first public hearing, and is also when the meeting to adopt tax rate will be scheduled and announced (must be 3-14 days from this date). Notice of Tax Revenue Increase must be published before the meeting to adopt tax rate (at least seven days, if available). The meeting to adopt tax rate must be held 3-14 days after the second public hearing, and the tax rate must be adopted before September 30.
- C. Revenue Estimates** – In order to maintain a stable level of services, the City shall use a conservative, objective, and analytical approach when preparing revenue estimates. The process shall include the analysis of probable economic changes and their impacts on revenues, historical collection rates, and trends in revenues. This approach should reduce the likelihood of actual revenues falling short of budget estimates during the year, which could otherwise result in mid-year service reductions.
- D. Balanced Budget** – The goal of the City is to balance the operating budget with current revenues, whereby, current revenues match and fund on-going expenditures/expenses. Excess balances in the operating funds from previous years may be used for non-recurring expenditures/expenses or for capital expenditures.
- E. Reporting** – Summary financial reports will be provided and 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 Department Director, appointed by the City Administrator, 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. Department Directors may request a transfer of funds within a department budget. All transfers of appropriation or budget amendments require either City Council or City Manager approval as outlined in Section V.C. Further expenditure control guidance is located in Section V of this policy.
- G. Budget Amendments** – The City Council may amend the budget once adopted, but shall not delete or decrease appropriations required for debt service, or for estimated cash deficit, and shall not authorize expenditures in excess of the total of estimated income plus funds available from earlier years. The City Council may authorize:
1. Supplemental Appropriations – If the City Administrator certifies that revenues are available in excess of those estimated in the budget, an amendment ordinance may be prepared for City Council approval.
 2. Emergency Appropriations – To meet public emergency affecting life, health, property, or the public peace, or to avoid a material cost or public expense, the City Council may adopt an emergency appropriation.
 3. Reduction of Appropriations – If at any time during the fiscal year it appears probable that expected revenues will be insufficient to finance expenditures for which appropriations have been authorized, the City Council may adopt an ordinance to reduce appropriations.
- H. Contingency Appropriations** – The budget may include contingency appropriations within designated

operating department budgets. These funds are used to offset anticipated but amount unknown expenditures, unexpected maintenance or other unanticipated expenses that might occur during the year, including insurance deductibles, unexpected legal expenses, and equipment repairs.

- I. **Outside Agency Funding** – The City Council may fund a number of outside agencies and organizations that provide core services for the citizens of Liberty Hill. The amount of funding received by each agency depends upon Council direction and the availability of funds. The City Council may fund up to 0.75% of the estimated General Fund revenues during the budget process.
1. **Funding Process** - All agencies shall have a standardized process for application, review, monitoring, and reporting. All agencies are required to submit applications for funding to the City during the budget process. Applications will include the following:
 - a. Information about the organization including organization’s purpose, charter, board of directors, etc.
 - b. Copy of organization’s financial policies.
 - c. Copy of prior year’s tax filing demonstrating non-profit status.
 - d. Copy of prior year’s audit or financial review for organizations whose operating budget exceeds \$100,000 annually.
 - e. Agencies will need to provide a list and description of what the funding is for and program measures that indicate the increased success of the program due to the funding.
 2. Funding of non-profit agencies through public funds require enhanced guidelines for spending and operations which shall include:
 - a. Funding will typically be used for specific programs, rather than for general operating costs, and demonstrates the program’s sustainability beyond a three-year funding period.
 - b. The City shall have the ability to review financial reports to monitor how public funds are utilized by an organization.
 - c. Other items may be addressed by the City Council as specified in each organization’s Outside Agency Funding Agreement.
 3. The City Council will review requests from other agencies and award based upon available funding. Applications will be evaluated on the following criteria:
 - a. Number of Liberty Hill citizens served by the organization;
 - b. Type of service provided and whether other organizations in the community provide the service;
 - c. Availability of other funding sources for the organization;
 - d. Demonstration of ability to adhere to the guidelines outlined by this policy;
 - e. The City Council prefers to allocate funding based upon the following guideline:
 - Education – 15%
 - Quality of Life – 15%
 - Social Services – 50%
 - Public Health and Safety – 20%

All funded agencies shall be required to submit quarterly reports with performance data unless otherwise specified.

- J. **Periodic Program Reviews** – The City Administrator and Department Directors will periodically review programs for efficiency and effectiveness. Programs not meeting efficiency or effectiveness objectives shall be brought up to required standards, or be subject to reduction or elimination.
- K. **Budget Contingency Plan** – This policy is intended to establish general guidelines for managing revenue shortfalls resulting from factors such as local and economic downturns that affect the City’s revenue streams.
1. **Immediate Action** - Once a budgetary shortfall is projected, the City Council will take the necessary actions to offset any revenue shortfall with a reduction in current expenses. The City

Council may:

- a. Freeze all new hire and vacant positions except those deemed to be a necessity.
 - b. Review all planned capital expenditures.
 - c. Delay all "non-essential" spending or equipment replacement purchases.
2. Further Action - If the above actions are insufficient to offset the revenue deficit and the shortfall continues to increase, the City Council will further reduce operating expenses to balance the variance. The City Administrator may ask Department Directors for recommendations on reductions of service levels in order to reduce expenditures to balance the budget. Any resulting service level reductions, including workforce reductions, will be addressed by the City Council.

IV. REVENUE MANAGEMENT

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

1. 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.
2. Realistic and Conservative Estimates - Revenues will be estimated realistically, and conservatively, taking into account the volatile nature of various revenue streams.
3. Administration – The benefits of a revenue source should exceed the cost of levying and collecting that revenue. Where appropriate, the City will use the administrative processes of State, Federal, or County collection agencies in order to reduce administrative costs.
4. Diversification and Stability – A diversified revenue system with a stable source of income shall be maintained. This will help avoid instabilities in two particular revenue sources due to factors such as fluctuations in the economy and variations in the weather.

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

1. Non-Recurring Revenues – One-time or non-recurring revenues shall not be used to finance current ongoing operations. Non-recurring revenues shall be used only for non-recurring expenditures and not for budget balancing purposes.
2. Property Tax Revenues – All real and business personal property located within the City will be estimated at a collection rate of 98% of the taxable value for any given year based on the current appraisal supplied by the Williamson County Appraisal District.
3. Investment Income – Earnings from investments will be distributed to the funds in accordance with the equity balance of the fund from which the monies were provided to be invested.
4. User-Based Fees and Service Charges – For services associated with a user fee or charge, the direct or indirect costs of that service will be offset by a fee where possible. The City will review fees and charges no less than once every two years to ensure that fees provide adequate coverage for the cost of services. The City Council will determine how much of the cost of a service should be recovered by fees and charges.
5. Utility Fund Rates – The City will review and adopt utility rates as needed to generate revenues required to fully cover operating expenses, meet the legal requirements of all applicable bond covenants, and provide for an adequate level of working capital.

Additionally, enterprise activity rates will include transfers to and receive credits from other funds as follows:

6. Administrative Cost Recovery – Administrative costs shall 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.

7. Revenue Monitoring – Revenues as they are received will be regularly compared to budgeted revenues, variances will be investigated and if material will be included in the quarterly report to the City Council.

C. Funding Alternatives

1. Grants - The City shall seek to obtain grants which are consistent with the City's current and future priorities and objectives. The City Council must authorize acceptance of any grant funding. Potential grants will be examined for any matching requirements and the source of those requirements identified. Grant applications will be reviewed by Finance to ascertain funding sources, outcomes and other relevant information before the information is presented to the City Council. The City shall recover indirect costs to the maximum allowable by the funding source, and may waive or reduce indirect costs if doing so will significantly increase the effectiveness of the grant. Grant-funded programs and associated positions will be terminated as directed by the City Council when grant funds are no longer available, unless alternate funding is identified.
2. 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.
3. 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.
4. Liabilities and Receivables - Procedures will be followed to maximize discounts and reduce penalties offered by creditors. Current liabilities will be paid within 30 days of receiving the invoice. Accounts Receivable procedures will target collection for a maximum of 30 days of service. Receivables aging past 120 days can be sent to a collection agency. The Finance Director is authorized to write-off non- collectible accounts that are delinquent for more than 180 days, provided proper delinquency procedures have been followed, and include this information in the annual report to the City Council.

V. EXPENDITURE POLICIES

- A. Appropriations – The point of budget control is at the department level budget for all funds. The Department Directors shall manage budgets to ensure that appropriations are not exceeded. Budgets are approved by the Council at a departmental level.
- B. Central Control – No recognized or significant salary or capital budgetary savings in any Department shall be spent by the Department Head without prior authorization from the City Administrator. This control will realize budget savings each year that will be available to be transferred by the City Administrator, without further Council action.
- C. Budget Transfers – The City Administrator may transfer balances within departments and programs. A Department Director may request a transfer between line items, or categories of items through the City Administrator. Finance will make the adjustment upon approval from the City Administrator.
- D. Purchasing – All City purchases of goods or services will be made in accordance with the City's current Purchasing Policy and with State law. In accordance with Texas Local Government Code, Subchapter B, Sections 252.021 and 252.043, the City shall make award to the lowest responsible bidder or to the bidder who provides goods or services at the best value for the municipality. State law requires any purchase of goods or materials over \$50,000 be formally bid or procured through an approved cooperative. The City's Purchasing Policy follows State Law by requiring multiple quotes for most purchases over \$1,000. The City's Purchasing Policy requires all contracts greater than \$50,000 annually must be approved by the City Council. The following shows a summary of approval requirements for purchases.
 1. Interlocal Cooperation in Delivery of Services – In order to promote the effective and efficient

delivery of services, the City shall work with other local jurisdictions to share on an equitable basis the cost of services, to share facilities and to develop joint programs to improve service to its citizens.

2. **Conflict of Interest** – The City will comply with all conflict of interest requirements as mandated by the Texas Government Code and Local Government Code.
- E. **Prompt Payment** – All invoices approved for payment by the proper City authorities shall be paid within thirty (30) calendar days of receipt of goods or services or invoice date, whichever is later in accordance with State law. The City will take advantage of all purchase discounts, when possible.

VI. PAY PHILOSOPHY

The City's goal as an employer is to attract and retain quality employees who provide exemplary public service to our community in an effective and efficient manner.

- A. **Adequate Staffing** – Staffing levels will be adequate for the operations and programs of the City to be conducted efficiently and effectively. In order to provide continuing services to a growing population, as well as add new services, staffing levels will be evaluated by the City Administrator regularly to determine workloads. Workload allocation alternatives, such as contract labor and contracted services, will be explored before adding additional staff.
- B. **Market Adjustments** – The City shall utilize salary survey data, as well as data from other benchmark cities, as a reference for making market-based adjustments. Market based adjustments are based upon the job duties and job descriptions of the position, not on performance of the employee within the position. City Council identified benchmark cities based on parameters such as population, proximity to Liberty Hill, growth rate, and tax base. The cities selected are: Bastrop, Brenham, Buda, Burnet, Cedar Park, Dripping Springs, Georgetown, Kyle, Hutto, Jonestown, Lago Vista, Lampasas, Leander, and Marble Falls.
- C. **Merit Adjustments** – The City utilizes a merit based pay and step pay plan as a part of the overall compensation system. Council may fund merit increases annually during the budget process to aid in retaining and rewarding quality employees for productivity and job performance. These merit based adjustments are recommended by the employee's immediate supervisor and reviewed by both the Department Director and the City Administrator. Employees may receive a merit increase upon approval of the City Administrator based upon performance, or when other situations warrant this type of increase, such as a reclassification due to additional job duties.

VII. ACCOUNTING, AUDITING AND FINANCIAL REPORTING

- A. **Accounting** – The City is responsible for the recording and reporting of its financial affairs, both internally and externally. The City's 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. **Audit of Accounts** – 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. **External Reporting** – Upon completion and acceptance of the annual audit by the City's auditors, the City shall present a written Annual Financial Report (AFR) which shall be presented to the City Council within 180 calendar days of the City's fiscal year end. The AFR shall be prepared in accordance with GAAP. If City staffing limitations preclude such timely reporting, the Chief Financial Officer will inform the City Council of the delay and the reasons therefore.

VIII. RISK AND ASSET MANAGEMENT

- A. **Risk Management** - The City will utilize programs to prevent and/or reduce the financial impact to the

City due to claims and losses. Transfer of liability for claims through transfer to other entities through insurance and/or by contract will be utilized where appropriate. Prevention of loss through the safety program and the employee health program will be employed.

- B. **Investments** – The City Council has formally approved a separate Investment Policy for the City of Liberty Hill that meets the requirements of the Public Funds Investment Act (PFIA), Section 2256 of the Texas Local Government Code. This policy is reviewed annually by the City Council and applies to all financial assets held by the City.
- C. **Cash Management** - 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.

IX. DEBT MANAGEMENT

The City of Liberty Hill recognizes the primary purpose of capital facilities is to support provision of services and mobility to its residents. 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, including equipment, for the general benefit of its citizens and to allow it to fulfill its various purposes as a city.

- A. **Usage of Debt** - Long-term debt financing will be considered for multi-year capital improvements of which future citizens will benefit. Alternatives for financing will be explored prior to debt issuance and include, but not be 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.

B. **Types of Debt** –

1. **General Obligation Bonds (GO's)** – General obligation bonds must be authorized by a vote of the citizens of Liberty Hill. They are used only to fund capital assets of the general government and will not be used to fund operating needs of the City. The full faith and credit of the City as well as the City's ad valorem taxing authority back general obligation bonds. Conditions for issuance of general obligation debt include:
 - When the project will have a significant impact on the tax rate;
 - When the project may be discretionary or nonessential even though it is routine in nature;
or
 - When the project falls outside the normal bounds of projects the City has typically done.
2. **Certificates of Obligation, Contract Obligations (CO's)** – Certificates of obligation or contract obligations may be used to fund capital requirements that are not otherwise covered either by general obligation or revenue bonds. Debt service for CO's may be either from general revenues

(tax-supported) or supported by a specific revenue stream(s) or a combination of both. Typically, the City may issue CO's when the following conditions are met:

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

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

3. **Self-supporting General Obligation Debt** – Refers to general obligation debt including CO's 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. The Utility Fund issues this type of debt.
 4. **Internal Borrowing between City Funds** – The City can authorize use of existing long-term reserves as “loans” between funds. The borrowing fund will repay the loan at a rate consistent with current market conditions. The loan will be repaid within ten (10) years. The loan will be considered an investment of working capital reserves by the lending fund.
 5. **Short-term Borrowing** - The City may authorize the issuance of Public Property Finance Contractual Obligations (PPFCOs) or Limited Tax Notes (Notes) which are short-term obligations for the acquisition of personal public property, such as equipment. PPFCOs and Notes 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 and should be grouped in a single PPFCO or Note issue in order to develop economies of scale. Notes are limited to a 7 year term.
 6. **Revenue Bonds** – Revenue bonds may be issued to provide for the capital needs of any activities where the capital requirements are necessary for the continuation or expansion of a service. The improved activity shall produce a revenue stream to fund the debt service requirements of the necessary improvement to provide service expansion. The 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.
- 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 warrants a negotiated sale. In such situations, the City will publicly present the reasons for the negotiated sale. The City will rely on the recommendation of the financial advisor and Finance Director in the selection of the underwriter or direct purchaser.
- D. Disclosure** – Full disclosure of operating costs along with capital costs will be made to the bond rating agencies and other users of financial information. The City staff, with assistance of the financial advisor and bond counsel, will prepare the necessary materials for presentation to the rating agencies and will aid in the production of the Preliminary Official Statements. The City will take responsibility for the accuracy of all financial information released.
- E. Federal Requirements** – The City will maintain procedures to comply with arbitrage rebate and other Federal requirements.
- F. Debt Structuring** – The City will issue bonds with maturity not to exceed the useful life of the asset acquired. The structure should approximate overall level debt service and tax rate or revenue source stability 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.

- G. **Debt Coverage Ratio** – Refers to the number of times the current combined debt service requirements or payments would be covered by the current operating revenues net of on-going operating expenses of the City's Utility. The City will maintain a minimum debt service coverage ratio of 1.0 times depending on the fund.
- H. **Reimbursement Resolutions** – The City may utilize reimbursement resolutions for debt financings 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.

X. FINANCIAL CONDITIONS, RESERVES, AND STABILITY RATIOS

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

- A. **Operating Reserves** – The City will maintain emergency reserves at a minimum of 25% of net budgeted operating expenditures. Net budgeted operating expenditure is defined as total budgeted expenditures less interfund transfers and charges, general debt service (tax supported), and payments from third party grant monies. The right is reserved by the City Council to change the targeted reserve level by resolution, ordinance or budget adoption.
 - 1. **General Fund** – The unobligated fund balance in the General Fund should equal at least 25%.
 - 2. **Utility Fund** – Working capital reserves in these funds should be at least 25%.

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.

- B. **Capital Project Funds** - Every effort will be made for all monies within the Capital Project Funds to be expended within thirty-six (36) months of receipt. The fund balance will be invested and income generated will offset increases in construction costs or other costs associated with the project. Capital project funds are intended to be expended totally, with any unexpected excess to be transferred to the Debt Service fund to service project-related debt service.
- C. **Debt Service Funds for Ad Valorem Tax Obligations** – This fund holds receipts from ad valorem property taxes levied to pay debt service on outstanding ad valorem tax obligations. Due to the nature of the source of funds, monies held within this fund are stable. Balances are maintained in this fund to ensure that debt service payments may be made in a timely manner and to comply with ordinances authorizing such outstanding debt obligations.
- D. **Investment of Reserve Funds** – The reserve funds will be invested in accordance with the City's investment policy.
- E. **Sales Tax Excess** – Due to the volatile nature of sales tax revenue, collections over and above the estimated sales tax revenue amount should be used to fund non-recurring expenses, such as (but not limited to) equipment purchases, capital improvement projects, or transfers to the capital replacement fund.