CITY OF LAGO VISTA, TEXAS

RESOLUTION NO. 16-1663

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAGO VISTA, TEXAS ADOPTING FISCAL & BUDGETARY POLICY STATEMENTS FOR FY16/17.

WHEREAS, the City of Lago Vista, Texas is committed to financial management through integrity, prudent stewardship, planning, accountability, full disclosure and communication; and

WHEREAS, the broad purpose of the Fiscal and Budgetary Policy Statements 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;

NOW, THEREFORE BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LAGO VISTA, TEXAS THAT:

The City Council of the City of Lago Vista, Texas hereby adopts the Fiscal & Budgetary Policy Statements for FY16/17, copy attached.

AND, IT IS SO RESOLVED, PASSED AND APPROVED this 20th day of October, 2016.

Dale Mitchell

Dale Mitchell, Mayor

ATTEST:

Sandra Barton

Sandra Barton, City Secretary

On a motion by Council Member Kevin Sullivan, seconded by Mayor Pro Tem Ron Smith, the above and foregoing instrument was passed and approved.

City of Lago Vista

Fiscal & Budgetary Policy Statements

Adopted by Lago Vista City Council October 20, 2016

Prepared by:

Melissa Byrne Vossmer, City Manager

Starr Lockwood, Finance Director

Nichole Navarro, Accounting Assistant

Table of Contents

I. PURPOSE 4
II. OPERATING BUDGET 6
III. REVENUE MANAGEMENT 10
IV. EXPENDITURE POLICIES 13
V. BUDGET CONTINGENCY PLAN 14
VI. CAPITAL IMPROVEMENT PROGRAM (CIP) BUDGET 14
VII. CAPITAL MAINTENANCE AND REPLACEMENT 15
VIII. ACCOUNTING, AUDITING AND FINANCIAL REPORTING 16
IX. ASSET MANAGEMENT 17
X. DEBT MANAGEMENT 19
XI. OTHER FUNDING ALTERNATIVES: 23
XII. FINANCIAL CONDITIONS, RESERVES, AND STABILITY RATIOS 24
XIII. INTERNAL CONTROLS 26

REFERENCE TRACKING:

Original Adoption by Resolution #_____ on October 20, 2016

Modifications:

Date	Section	Comments (authority)

City of Lago Vista
Fiscal and Budgetary Policy

Statutory Authorization: The following document provides a framework for fiscal stewardship of the City. It operates within the confines of 1) federal and state law, 2) city charter, and 3) city code of ordinances. Any conflict herein will be subordinate to those legal authorities.

Governance: The City Manager serves as the Chief Financial Officer (CFO) of the City and appoints a Director of Finance/Treasurer or similar position to oversee the administration of these policies.

I. PURPOSE

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

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

A. Demonstrate to the citizens of Lago Vista, the investment community, and the bond rating agencies that the City is committed to a strong fiscal operation;

B. Provide precedents for future policy-makers and financial managers on common financial goals and strategies;

C. Fairly present and fully disclose the financial position of the City in conformity to generally accepted accounting principles (GAAP);

D. Demonstrate compliance with finance-related legal and contractual issues in accordance with the Texas Local Government Code and other legal mandates; and

E. Ensure full transparency in the governance of public funds entrusted to the City Council and City staff to manage and protect.

These policies will be reviewed and updated annually as part of the budget preparation process. Council members will separately adopt these policies through resolution.

A. Funds Governed

The budgeted funds for the City of Lago Vista include:

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

Special Revenue Funds (SRF): Account for specific revenues that are legally restricted for specified purposes. The City currently budgets three SRF type funds: Hotel Occupancy Tax, Impact Fees, and Parkland Dedication.

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

Capital Project Funds: Used to account for the acquisition or construction of major capital facilities other than those financed by enterprise activities. A variety of project funds will be created based on the nature of the projects and the sources of funding. The CIP program (Section VI) includes specific dedicated accounts such as Jonestown FM/Effluent and PID – Tessera Development.

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

The City will also make use of sub-ledger 'accounts' as a basis for tracking restricted funds where administratively feasible. Those include:

Court – City Truancy Prevention Fees, State Court Cost Fees, Building Security Fees, Court Technology Fees, City Judicial Fees, and Juvenile Case Management Fees
Police – School Crossing Guard, LEOSE, CAPCO, Bulletproof Vest
Development Services – Escrow accounts

B. Basis of Accounting and Basis of Budgeting

Generally Accepted Accounting Principles (GAAP) are the rules established by the Governmental Accounting Standards Board. The City will follow the standards in their annual financial reports on or by the designated effective reporting date.

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

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

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

Proprietary Funds, which include the Utility Fund are accounted for and budgeted using the full-accrual basis of accounting. Under this method, revenues are recognized when they are earned and measurable, while expenses are recognized when they are incurred regardless of timing or related cash flows. The basis for preparing the budget is the same as the basis of accounting except for the following:

- *Principal payments on long-term debt and capital outlay, which are treated as budgeted expenses;*
- *Depreciation which is not budgeted; and*
- *Non-budgeted accruals such as compensated absences.*

Year-end comparisons of budget to actual will appear in the financial statements of the City, at a minimum for those funds identified as major funds in the audit process.

II. OPERATING BUDGET

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

A. Comprehensive/Strategic Planning

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

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

The City Charter and the Comprehensive Master Plan describe the budget process as an integral planning tool, suggesting the City plan for both five and one year time horizons. They

recommend the budget be focused on these areas and significantly in consonance with the goals and objectives outlined in the comprehensive plan.

B. Preparation

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

C. Proposed Budget

A proposed budget shall be prepared by the City Manager with the participation of all City Department Heads that is within the provisions of the Charter and in consonance with the guidance contained in the Comprehensive Master Plan.

1. Elements. The budget shall include the following basic segments for review and evaluation:

- *Budget Message*
- *General Fund*
- *Utility Fund*
- *Capital Improvement Funds*
- *Hotel Occupancy Fund (HOT)*
- *Debt Service Fund & Investments*
- *Golf Fund*
- *Park Fund*
- *Water & Sewer Impact Fee Fund*
- *Section 8.04(b) requires itemized budget by department and agency*

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

3. Distribution. A copy of the proposed budget will be filed with the City Secretary at the time it is submitted to the City Council. A copy will also be available at City Hall and the Public Library for citizen review. It will also be posted on the city website as required.

4. Notifications. Public notifications, distribution, including the language incorporated and the methods by which the public gains access to the budget will be governed by state law in effect at that time. State laws affecting the budget and the tax rate include provisions from both the Local Government Code, as well as the Tax Code.

D. Adoption

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

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

E. Balanced Budget

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

F. Planning

The budget process will be coordinated so that major policy issues are identified prior to the budget approval date. This will allow City Council adequate time for consideration of appropriate decisions and analysis of financial impacts. A budget calendar will be submitted by the City Manager outlining the major steps in the process and the opportunities for City Council review and citizen input.

Outstanding encumbrances will expire if not spent in encumbered year and will have to be re-appropriated.

G. Reporting

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

H. Control and Accountability

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

I. Budget Amendments

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

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

The City Manager must certify availability of revenues or funding sources prior to adoption. The City will amend the budget at year end, if needed, for revenue based expenditures that exceeded budgeted amounts due to increased revenue and recognize any grant funded expenditures for grants received after the budget was adopted or last amended. The City Council may also amend the budget if necessary as part of the Mid-Year Review process for any capital project timing adjustments from prior year, as well as, any other known adjustments needed and approved at that time.

J. Contingency Appropriations

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

K. Manager's Contingency Account

The budget may also include a set amount of contingency appropriations within the Administration Budget to be spent at the discretion of the City Manager. These funds may be

used to offset expenditures for unexpected purchases and other unanticipated expenses that might occur during the year. The specific amount of contingency funds included in the budget shall be set by the City Council through the adoption of the annual budget.

III. REVENUE MANAGEMENT

A. Characteristics

The City will strive for the following optimum characteristics in its revenue system:

1. **Simplicity** – The City, where possible and without sacrificing accuracy, will strive to keep the revenue system simple in order to reduce compliance costs for the taxpayer or service recipient.

2. **Certainty** – A knowledge and understanding of revenue sources increases the reliability of the revenue system. The City will understand its revenue sources and enact consistent collection policies to provide assurances that the revenue base will materialize according to budget.

3. **Equity** – The City will make every effort to maintain equity in its revenue system; i.e., the City should seek to minimize or eliminate all forms of subsidization between entities, funds, services, utilities, and customer classes.

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 is preferred. This will help offset instabilities in revenue sources with large fluctuations due to the economy (sales tax) and variations in the weather (water sales, golf rounds).

B. Other Considerations

The following considerations and issues should guide the City in its revenue policies concerning specific sources of funds:

1. **Cost/Benefit of Incentives for Economic Development** – The City will use due caution in the analysis of any incentives that are used to encourage development. A cost/benefit (fiscal impact) analysis will be performed as part of the evaluation.

2. **Non-Recurring Revenues** – One-time or non-recurring revenues should not be used to finance current ongoing operations. Non-recurring revenues should be used only for non-recurring expenditures and not for budget balancing purposes.

3. **Property Tax Revenues** – All real and business personal property located within the City will be valued at 100% of the fair market value for any given year based on the current appraisal supplied by the Travis County Appraisal District. Conservative budgeted revenue estimates result in a projected ninety-eight percent (98%) budgeted collection rate for current ad valorem taxes. Two percent (2%) of the current ad valorem taxes will be projected as the budget for delinquent ad valorem tax collection. For budgeting purposes, the City will forecast the current year's effective tax rate at the current collection rate of 100%, unless directed otherwise.

4. **Interest Income** – Interest earned from investments will be distributed to the funds based on their allocated investments, unless otherwise required by statute or determined by the City Council.

5. **User-Based Fees and Service Charges** – The City Council will determine how much of the cost of a service should be recovered by fees and charges. A fee can be driven by a cost-recovery approach, such that a service is identified into one of the following categories:

- Partial Cost Recovery – only a stated portion of the direct costs of services will be recovered from fees. These are for such services as library, parks, public safety and other services where a general benefit ensues to the citizenry as a whole and specific users ca not be easily ascertained or charged.
- Direct Cost Recovery – applies to all direct costs (operating and personnel) in the exchange for a service that is directly beneficial to a particular user. Such services as recreation classes, sports leagues, copying costs, etc. These services gain the benefit of building, facility, and capital use as well as overhead support that are not expected to be captured in a fee.
- Full Cost Recovery – applies to all direct operating costs, as well as administrative and capital overhead in the course of providing a service that is uniquely identifiable to a customer who exclusively benefits from that service. Those services would entail all utility programs, and related services. Full cost

would capture debt burden, capital costs, overhead fees, as well as personnel and operating expenses.

The City will review fees and charges no less than once every three years to ensure that fees provide adequate coverage for the cost of services.

6. Enterprise Fund Rates – The City has undertaken a seven year plan to review and adopt utility rates as needed to generate revenues required to attempt to cover operating expenses, meet the legal requirements of all applicable bond covenants, debt service, and provide for an adequate level of working capital for cash flows. Additionally, enterprise activity rates will consider transfers to other funds as follows:

a) General and Administrative Charges – Administrative costs should be charged to all funds for services of general overhead, such as administration, finance, customer billing, legal and other costs as appropriate. These charges will be determined through an indirect cost allocation following accepted practices and procedures.

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

7. Intergovernmental Revenues – All potential grants will be examined for matching requirements and must be approved by the City Manager prior to making application for the grant. It must be clearly understood that operational requirements (on-going costs) set up as a result of a grant program could be discontinued once the term and conditions of the program have been completed. The department filing the grant application will notify Finance at the point of application and will ensure that the grant is set up appropriately for reimbursement or award, depending on the nature of the grant.

8. Revenue Monitoring – Revenues, as they are received, will be regularly compared to budgeted revenues and variances in excess of 5% should be investigated.

- Revenues will be monitored by Fund. It is understood that many of the City's revenues are seasonal in nature or are reported to the City on a quarterly basis.
- For the Enterprise Funds, all revenues will be tracked on a monthly basis for comparison purposes.
- As necessary, an item will be placed on the City Council agenda to discuss the status of revenues. This will include a variance in excess of 5%. All revenues will continue to be included in the financial reports presented to Council monthly.

IV. EXPENDITURE POLICIES

A. Appropriations

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

Further, the budget is controlled by the authorized positions in the adopted budget. No changes can be made to the number of authorized positions without City Council approval.

B. Purchasing

All purchases of goods or services by the City will be made in accordance with state law and the following guidelines. All purchasing decisions shall be made in accordance with the Annual Budget or Capital Budget as approved by the City Council. The purchase of items not included in the Annual or Capital Budget less than $40,000 shall require approval from the City Manager. The purchase of items not included in the Annual or Capital Budgets in excess of $40,000 shall require the approval of the City Council. All contracts greater than $40,000 shall be approved by the City Council. Emergency purchases in excess of $40,000 will be limited to incidents that threaten public health, safety or damage to persons or property or in those situations in which inaction shall present a substantial financial loss to the City. All emergency purchases shall be submitted to the City Council for ratification. The following shows a summary of approval requirements for purchases.

APPROVAL REQUIREMENTS FOR PURCHASES:

1. The City Manager shall determine the purchasing authority limits of all Department Heads and other employees on a case-by-case basis; however, under no circumstances shall that authority exceed $5,000.

2. Department Heads shall determine the purchasing authority of subordinate employees on a case-by-case basis; however, under no circumstances shall that authority exceed $500.

C. 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.

D. Risk Management

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

V. BUDGET CONTINGENCY PLAN

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

A. Immediate Action

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

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

B. Further Action

If the above actions are insufficient to offset the revenue deficit and the shortfall continues to increase, the City Manager will further reduce operating expenses to balance the variance. Any resulting service level reductions, including workforce reductions, will be brought to the City Council for direction and determination.

VI. CAPITAL IMPROVEMENT PROGRAM (CIP) BUDGET

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

A. Preparation

The City annually updates and adopts a five-year Capital Improvement Program (CIP) schedule as part of the operating budget adoption process. The plan is reviewed and adjusted annually as needed, and year one is adopted as the current year capital budget. The capital budget will include all capital projects, capital resources, and estimated operational impacts.
Priorities for Capital Improvements should consider:

• Needed capital improvements should be identified through system models, repair and maintenance records and growth demands.
• Economic development projects that have capital infrastructure needs should be reviewed and approved for funding by the City to be included in the CIP process or subsequent amendment.
• A team approach will be used to prioritize CIP projects, whereby City staff from all operational areas provide input and ideas relating to each project and its effect on operations.
• Citizen involvement and participation may be solicited in formulating the capital budget through public hearings and other forums.

In cases where CIP requirements vary, such as impact fees (with 10-year planning windows and a specialty review process), the City will abide by those requirements.

B. Control

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

C. Financing Programs

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

Recognizing that long-term debt is usually a more expensive financing method, alternative-financing sources will be explored before debt is issued. See Sections X and XI. Short-term financing including Capital Leasing and other tax-supported obligations can be used to fund vehicles, computers and other operating equipment if the impact to the tax rate is minimal.

VII. CAPITAL MAINTENANCE AND REPLACEMENT

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

A. Infrastructure Maintenance

On-going maintenance costs are included as operating or capital expense within the departmental operating budgets. These costs are generally considered system repairs and are not capitalized for accounting purposes. They include such items as street seal coat, water line

repairs and other general system maintenance. Staff will prepare a street maintenance budget for Council's consideration during the budget process.

B. Internal Service Funds

The City may utilize internal service funds to maintain and replace existing assets. Assessments are to be made to the "using" department for the use of current equipment and items to be purchased during the year. In this way, suitable funds should be accumulated and available for the purchase of operational assets with minimal issuance of debt. A systematic methodology will guide the calculation of the department charges.

VIII. ACCOUNTING, AUDITING AND FINANCIAL REPORTING

A. Accounting

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

B. Audit of Accounts

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

C. Internal Reporting

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

D. External Reporting

The Finance Department will be responsible for preparing the annual financial report by March 30 of each year [Charter IV(f)], or as timely thereafter as possible.

IX. ASSET MANAGEMENT

A. Cash Management and Investments

The City must comply with the requirements of the Public Funds Investment Act (PFIA), Section 2256 of the Texas Local Government Code. A separate Investment Policy will be reviewed annually by the City Council and applies to all financial cash and investments held by the City.

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

- Cash handling procedures will be coordinated through the Finance Department and all personnel handling cash, checks, or customer payments will be required to take applicable training. Such training will cover PCI compliance and red flag rules as applicable.
- Financial Procedures will outline that bank reconciliations will be performed monthly immediately after statements are processed by the bank; discrepancies will be researched and corrected immediately.

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

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

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

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

B. Fixed Assets & Inventory –

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

1. Capitalization Criteria – Capitalization is defined as the point at which an item gets recorded as an asset instead of expense. For purposes of budgeting and accounting classification assets meeting all of the following criteria must be capitalized:

- *The asset is owned by the City.*
- *The expected useful life of the asset must be longer than one year, or extend the life of an identifiable existing asset by more than one year.*
- *The original cost of the asset must be at least $5,000.*
- *The asset must be tangible.*
- *On-going repairs and general maintenance are not capitalized.*

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

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

4. Contributed Capital - Infrastructure assets received from developers or as a result of annexation or other dedications will be recorded as equity contributions when they are received and depreciated the same as city funded assets. The City will not accept dedications from homeowners association or other similar property owners without full review and consideration of the ongoing maintenance costs of those assets.

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

6. Reporting and Inventory – The Finance 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 cash and fixed assets lies with the department supervisor or manager whose department has been assigned the asset.

7. Inventory and Control – The Finance department maintains an inventory with descriptions, dates and amounts and has the authority to conduct periodic inventory audits of any city assets, including equipment, cash or other city owned property. Assets assigned to individuals such as cars, computers, and phones must be itemized and returned to city control upon replacement or termination.

8. Disposal – City assets may be disposed if they are considered: too costly to repair, obsolete, or no longer functional. For any items with a residual value, the City will dispose of assets through public auction or sealed bid, either directly or through a cooperative effort. If an asset originally cost less than $5,000, the manager may dispose of it through auction. If an asset cost more than $5,000 or is being disposed of through a sealed bid, the City Council must approve it.

X. DEBT MANAGEMENT

The City of Lago Vista recognizes that the primary purpose of capital facilities is to provide services to the community. Using debt financing to meet the capital needs of the community must be evaluated according to efficiency and equity. Efficiency must be evaluated to determine the highest rate of return for a given investment of resources. Equity is resolved by determining who should pay for the cost of capital improvements.

In meeting demand for additional services, the City will strive to balance the needs between debt financing and "pay as you go" methods. The City realizes that failure to meet the demands of growth may inhibit its continued economic viability, but also realizes that too much debt may have detrimental effects on the City's long-range financial condition.

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

A. Usage of Debt

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

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

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

The City may utilize the benefits of short-term debt financing to purchase operating equipment provided the debt doesn't extend past the useful life of the asset, and the potential impact to the tax rate is within policy guidelines.

B. Types of Debt

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

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

As needed, the city will prepare Bond Propositions and the City Council will approve any election items and will set election dates in accordance with state law. The Finance Department will track all authorized propositions, the related debt issues and projects for those authorizations, and all remaining amounts approved but unissued.

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

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

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

Certificates of obligation will be used with prudent care and judgment by the City Council. Notice of Intent to Issue COs will conform to state law requirements.

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

5. Internal borrowing between City funds – The City can authorize use of existing long-term reserves as "loans" between funds. The borrowing fund will repay the loan at a rate consistent with current market conditions. The loan will be repaid within 18 months. The loan will be considered an investment of working capital reserves by the lending fund.

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

C. Method of Sale

The City will use a competitive bidding process in the sale of bonds unless conditions in the bond market or the nature of the issuance warrant a negotiated sale. In such situations, the City will publicly present the reasons for the negotiated sale. The City will rely on the recommendation of the financial advisor in the selection process of the underwriter or direct purchaser.

D. Disclosure & Federal Requirements

Full disclosure of operating costs along with capital costs will be made to the bond rating agencies and other users of financial information for an anticipated bond issuance. 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.

The City will maintain procedures to comply with its continuing disclosure requirements, through the MSRB "EMMA" program, as well as any arbitrage rebate and other Federal requirements.

The City can contract with an external service provider to assist with continuing disclosure requirements as well as rebate calculations due to the expertise required, the complexity of the law or calculation, and the magnitude of risk for non-compliance.

F. Debt Structuring

The City will issue bonds with the final maturity not to exceed the useful life of the asset acquired. 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. Efforts will be made to minimize the effect of large deferrals or 'balloon note' type structures.

G. I&S Accounting

City Charter section 8.12 requires a separate "account" for the City's interest and sinking fund, referred to as the Debt Service account.

H. Reimbursement Resolutions

The City will utilize reimbursement resolutions as a tool to manage its debt issues, due to arbitrage requirements and project timing (but not market driven reasons). In so doing, the City uses its capital reserve "cash" to delay bond, note and CO issues until such time when issuance is favorable and beneficial to the City. The City Council may authorize a reimbursement resolution for General Capital projects that have a direct impact on the City's ad valorem tax rate when the bonds, notes and COs will be issued within the term of the existing City Council.

I. Subject Matter Experts and Advisors

The City will select a financial bond advisor to assist with the issuance and monitoring of debt activities. The financial advisor will recommend other parties to use as bond counsel, rating agencies, paying agents, escrow agents and others involved in a transaction. The City will designate the financial advisor in such a manner to allow investors and underwriting firms to participate in a bond transaction, in accordance with the federal municipal advisor rule.

XI. OTHER FUNDING ALTERNATIVES

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

A. Grants

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

B. Use of Reserve Funds

The City may authorize the use of reserve funds to potentially delay or eliminate a proposed bond issuance. 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 issuance until market conditions are more beneficial or timing of the related capital improvements does not correspond with the planned bond sale. Reserve funds used in this manner can be replenished upon issuance of the proposed debt provided a reimbursement resolution is promptly adopted.

C. Developer Contributions

The City will require developers who negatively impact the City's utility capital plans to offset those impacts.

D. Leases

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

E. Impact Fees

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

XII. FINANCIAL CONDITIONS AND RESERVES

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

A. Operational Coverage

The City's goal is to maintain operations coverage of 1.00-1.25, such that operating revenues will at least equal or exceed current operating expenditures. Deferrals, short-term loans, or one-time sources will be avoided as budget balancing techniques.

B. Operating Reserves

Operating Reserves are generally considered as the Unassigned Portion of Fund Balance for Governmental Funds. GASB #54 outlines the categories of Fund Balance and the appropriate definitions.

1. ***Non-Spendable Fund Balances*** are amounts of the City's fund balance that are:
    i. not in a spendable form including inventory and prepaid items,
    ii. cannot be converted to cash within the current period including long-term portion of loans receivable and non-financial assets held for resale, or
    iii. are required to be maintained intact pursuant to legal or contractual requirements including an endowment or permanent fund.
2. ***Restricted Fund Balances*** are amounts of the City's fund balance that reflect resources that are subject to externally enforceable legal restrictions including those imposed by:
    i. Creditors (through debt covenants),
    ii. Grantors,
    iii. Contributors, and
    iv. Other government's legislation or regulations.

    Restricted special revenue funds/accounts of the City include Public Safety & Courts, Hotel Occupancy (Bed Tax). Other restricted funds include all capital bond funds, impact fee funds, and the General Debt Service Fund.

3. ***Committed Fund Balances*** are the amounts of the City's fund balance that represent resources that are constrained by limitations of the City Council and that remain binding unless removed, modified, or rescinded by the City Council prior to the last day of the fiscal year for which the commitment is made. Committed funds include the Reserve Fund and Parks Fund.
4. ***Assigned Fund Balances*** are those amounts of the City's fund balance that reflect the government's intended use of resources. This would include any future appropriation amounts of fund balance. The City Council has authorized the City Manager as the official authorized to assign fund balance to a specific purpose but retains the power of final appropriation of those funds.

5. ***Unassigned Fund Balance*** are those amounts of the City's fund balance that are excess of what can properly be classified in one of the previous four categories. These funds are available for any purpose. Unassigned fund balance shall be held to mitigate financial risk that can occur from unforeseen revenues fluctuations and unanticipated expenditures, and provide cash flow for the City's general operations. Annual amounts may vary pending tolerable risk associated with volatility of the economy or exposure to natural risks. Fund unassigned balance should be used only for emergencies, major capital purchases or non-recurring expenditures that cannot be provided by savings in the current year.

The City targets operating reserves at 90 days (25%), but not to drop below 60 days (16.7%). Reserve requirements will be calculated as part of the annual budget process. In rare circumstances, the City will allow the reserves to fall below the target requirement providing a plan is in place to restore the funds and continue to maintain fiscally responsible levels that ensure a positive outlook in the bond ratings.

C. Liabilities and Receivables

Procedures will be followed to maximize discounts and reduce penalties offered by creditors. Current liabilities will be paid within 30 days of receiving the invoice. Accounts Receivable procedures will target collection for a maximum of 30 days of service.

Receivables that are protected by liens on properties will be aggressively pursued through county and state filing methods. Similarly, payments due from utility system customers will also be aggressively pursued, including cut-off procedures for delinquent accounts.

D. Capital Project Funds

Every effort will be made for all monies within the Capital Project Funds to be expended within thirty-six (36) months of receipt. The fund balance will be invested and income generated will offset increases in construction costs or other costs associated with the project. Capital project funds are intended to be expended totally, and may include internal costs of labor and equipment determined to be meet the requirements of a capital asset.

E. General Debt Service Funds

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

F. Investment of Reserve Funds

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

XIII. INTERNAL CONTROLS

A. Written Procedures

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

The City Manager designates the Finance Director to have access to any city records in order to perform duties of safekeeping and control of assets.

To ensure proper controls, the City will maintain a transition policy, coordinated through its Human Resources and Information Technology departments. This policy with cover safety-sensitive positions that have been assigned duties related to the management of city assets.

Within the Finance Department and areas with significant cash handling, all prudent measures will be taken to ensure proper segregation of duties, within the confines of staffing resources. Finance will work with customer departments, as well as the external audit team, to develop compensating controls and actions in areas where separation is limited.

B. Department Head Responsibility

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