

Financial Policies – 2015-16

OVERVIEW OF FINANCIAL POLICIES

In June 1989, the City Council developed financial policies to ensure that the City's financial resources are managed in a prudent manner. These policies are reviewed annually for compliance. Changes and additions to these policies are approved by Council from time to time.

The following changes were made to the Financial Policies:

- Under General Topics, policy #10 was added to establish and maintain a Capital Rehabilitation Fund to support major maintenance and rehabilitation of non-enterprise department facilities;
- The General Fund Emergency Reserve and Contingency Reserve policies (#s 12 & 13 in FY15), were combined into one Emergency Reserve Fund and the minimum reserve level was changed from a flat \$40 million plus an additional 1% of departmental requirements to 6% of total requirement;
- General Fund Financial Policy #14 was added to set the target for total General Fund reserves of at least 12% of total fund requirements; and,
- The Convention Center added six new policies that establish operating and capital reserves, formalize the funding of debt service reserves, set guidelines for the use debt, limit the use of capitalized interest, and define how routine, preventative maintenance should be funded.

The City of Austin is in compliance with 101 of the 106 financial policies, as approved. Unless otherwise noted, the FY 2015-16 Budget has been used to determine the current status of the financial policies.

For example, the City:

- Prepared a 5-year financial forecast for fiscal years 2015-16 through 2019-20;
- Maintained reserves in the General Fund and General Obligation Debt Service Fund at designated levels; and,
- Managed the City's investment portfolio in alignment with the policies governing capital preservation, liquidity, asset security, portfolio diversification and return on investment.

The City is not currently in compliance with:

- General Obligation Debt Service Policy #7: In FY12, the City conducted a bond election with 4 years of authorized unissued bonds remaining;
- Austin Energy Policy #16: The Strategic Reserve will not be fully replenished until FY 2017-18;
- Austin Water Policy #11: The calculated quick ratio (Current Assets less inventory divided by Current Liabilities) is 1.49 as of September 30, 2014, instead of the minimum 1.50 prescribed in the policy;
- Austin Resource Recovery Policy #1: Instead of using a separate fund, Austin Resource Recovery utilizes their CIP and operating budgets to provide for the closing and monitoring of the City Landfill; and
- Austin Resource Recovery Policy #2: Austin Resource Recovery Fund anticipates achieving a fund balance which is equivalent to 30 days of budgeted operations and maintenance by FY 2016-17.

Financial Policies – 2015-16

Policy

Current Status

Reserves

12. A General Fund Emergency Reserve Fund of 6% of total fund requirements shall be budgeted annually. The Emergency Reserve Fund shall be used to provide for temporary financing for unanticipated or unforeseen extraordinary needs of an emergency nature; for example, costs related to a natural disaster or calamity or an unexpected liability created by Federal or State legislative action. In compliance

Funds shall be allocated from the Emergency Reserve Fund only after an analysis has been prepared by the City Manager and presented to City Council. The analysis shall provide sufficient evidence to establish that the remaining balance is adequate to offset potential downturns in revenue sources and provide a sufficient cash balance for daily financial needs. The analysis shall address the nature of the approved expenditure and the revenue requirement in subsequent budget years. Prior to allocating funds from the Emergency Reserve Fund, the City Council shall find that an emergency or extraordinary need exists to justify the use of these funds.

Funds shall be allocated each year in the budget process to replace any use of the Emergency Reserve Fund during the preceding fiscal year to maintain the balance of the Emergency Reserve Fund at the level set above.

13. A General Fund Reserve for Budget Stabilization shall be maintained to provide financial stability for the General Fund during economic downturns through the capture at each fiscal year end of any excess revenue and unspent appropriations. During the annual budget process, up to one-third of the total amount of this reserve may be appropriated to fund capital items or other one-time costs each year. In compliance
14. Combined, the Emergency Reserve and Budget Stabilization Reserve should be at least 12% of total fund requirements. In compliance

Financial Policies – 2014-15

Policy

Current Status

Reserves

12. A General Fund Emergency Reserve Fund of at least \$40,000,000 shall be budgeted. The Emergency Reserve Fund shall be used to provide for temporary financing for unanticipated or unforeseen extraordinary needs of an emergency nature; for example, costs related to a natural disaster or calamity or an unexpected liability created by Federal or State legislative action. Funds shall be allocated from the Emergency Reserve Fund only after an analysis has been prepared by the City Manager and presented to City Council. In compliance.

The analysis shall provide sufficient evidence to establish that the remaining balance is adequate to offset potential downturns in revenue sources and provide a sufficient cash balance for daily financial needs. The analysis shall address the nature of the approved expenditure and the revenue requirement in subsequent budget years. Prior to allocating funds from the Emergency Reserve Fund, the City Council shall find that an emergency or extraordinary need exists to justify the use of these funds. Funds shall be allocated each year in the budget process to replace any use of the Emergency Reserve Fund during the preceding fiscal year to maintain the balance of the Emergency Reserve Fund at \$40,000,000.

13. A General Fund Contingency Reserve Fund of 1% of total budgeted departmental expenditures, but not less than \$2,000,000, shall be budgeted annually. The Contingency Reserve Fund shall be used to provide for unanticipated or unforeseen needs that arise during the year; for example, expenses associated with unforeseen weather or other natural disasters, such as debris removal following a flood, unexpected liability created by Federal or State legislation, new service needs that have been identified after the budget process, new public safety or health needs, revenue shortfalls, service enhancements, or opportunities to achieve cost savings. In compliance.

Funds shall be allocated from the Contingency Reserve Fund only after an analysis has been prepared and presented by the City Manager to the City Council outlining the initial and recurring costs associated with the approved expenditure. Funds shall be allocated each year in the budget process to replace any use of the Contingency Reserve Fund during the preceding fiscal year and to maintain the balance of the Contingency Reserve Fund at one percent (1%) of budgeted departmental expenditures but not less than \$2,000,000. The Contingency Reserve Fund shall be exhausted prior to any utilization of the Emergency Reserve.

14. A General Fund Reserve for Budget Stabilization shall be budgeted. At the end of each fiscal year, any excess revenue received in that year and any unspent appropriations at the end of that year will be deposited into this reserve. Excess revenue is defined as the amount of revenue in excess of the amount budgeted. The reserve may be appropriated to fund capital or other one-time costs, but such appropriation will not normally exceed one-third of the total amount in the reserve, with the other two-thirds reserved for budget stabilization in future years. In compliance.