

## Financial Policies – 2014-15

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# **CITY OF AUSTIN, TEXAS**

## **FINANCIAL POLICIES**

Prepared by  
Financial Services Department

# Financial Policies – 2014-15

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## 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.

There is one change to the financial policies from the previous year which was approved on April 10, 2014. Council amended General Fund Financial Policy #3 revising the conditions under which mid-year budget amendments would be considered by City Council.

The City of Austin is in compliance with 97 of the 100 financial policies, as approved. Unless otherwise noted, the FY 2014-15 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 2014-15 through 2018-19;
- 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 Water Utility Policy #11: The calculated quick ratio (Current Assets less inventory divided by Current Liabilities) is 1.32 as of September 30, 2013, instead of the minimum 1.50 prescribed in the policy; and
- Austin Resource Recovery Policy #2: The department's fund balance is equivalent to 10 days of budgeted operations and maintenance, instead of the minimum 30 prescribed in the policy.

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## Policy

## Current Status

### General Topics

#### ***Accounting, Auditing, and Financial Planning***

1. The City will establish accounting practices that conform to generally accepted accounting principles as set forth by the authoritative standard-setting body for units of local government. In compliance.
2. An annual audit will be performed by an independent certified public accounting firm and an official comprehensive annual financial report (CAFR) shall be issued no later than 6 months following fiscal year-end. In compliance.
3. The independent certified public accounting firm shall present to the Audit and Finance Committee the results of the annual audit no later than 60 days from the issuance of the City's CAFR. In compliance.
4. A 5-year financial forecast shall be prepared annually projecting revenues and expenditures for all operating funds. This forecast shall be used as a planning tool in developing the following year's operating budget. In compliance.
5. The City Auditor's Office shall be responsible for conducting financial and performance audits as set forth in the annual work plan. This work plan will be submitted to the Audit and Finance Committee of the Council for approval. The City Manager shall be responsible for establishing a process to ensure timely resolution of audit recommendations. In compliance.
6. The City shall provide its share of contributions to the City's three retirement systems in accordance with the State statutes establishing each system. In compliance.
7. At the direction of the City Council and City Manager, City operations will be performed at the most economical cost while maintaining desired service levels. As one alternative to meet this goal, the City will initiate a competitive process that will allow for periodic analysis of proposals from City departments and from the private sector for purposes of evaluating the cost of performing selected municipal services. All such proposals will be evaluated through an orderly process that will include verification and appropriate classification of all costs. In compliance.
8. Investments shall be made in conformance with the City's investment policy, with the primary objectives of: In compliance.
  - Preservation of capital and protection of principal.
  - Maintenance of sufficient liquidity to meet operating needs.
  - Security of City funds and investments.
  - Diversification of investments to avoid unreasonable or avoidable risks.
  - Maximization of return on the portfolio.

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9. All grants and other Federal and State funds shall be managed to comply with the laws, regulations, and guidance of the grantor, and all gifts and donations shall be managed and expended according to the wishes and instructions of the donor.	In compliance. Single audit performed annually.
10. Maintenance and replacement funding will be prioritized each year to ensure that capital facilities and equipment are sufficiently maintained to avoid service disruptions.	In compliance.
11. The City shall require adequate financial controls to be included in the City's standard contract terms so as to provide assurance of minimum risk of and access to review compliance. Among these controls are the right to audit all provisions of contracts, the right to require appropriate levels of insurance, the right to review any financial/escrow accounts, bank letters of credit or other credit instruments, and the right to require complete financial reports if appropriate for the solicitation.	In compliance.

### Reserves

12. The City shall maintain a Liability Reserve Fund with a balance sufficient to fund 75% of anticipated claims expense and resulting liabilities, other than those for health benefits and workers' compensation. The Fund will be used to pay and account for such claims expense and liability, which will be identified in accordance with guidelines established by the Governmental Accounting Standards Board. Contributions from each operating fund shall be made in accordance with the fund's pro-rata share of claims expense, determined in accordance with the above mentioned guidelines.	In compliance.
<p>Payments in excess of departmental spending authority must be approved by the City Council. Payments for accrued claims will be paid from the Fund's reserve balance, which will have been appropriated by the City Council. Payments for unaccrued claims will be made against the Fund's current year appropriations. Payments in excess of current year appropriations for any unaccrued claims must be appropriated by the City Council at the time the payment is approved.</p>	
13. The Workers' Compensation Fund shall maintain a budgeted claims reserve equal to 25% of budgeted claims and settlement expenses.	In compliance.
14. An individual-specific stop-loss policy shall be maintained for the City Health Plan. In addition, the Employee Benefits Fund will maintain a stop-loss reserve in an amount recommended by the City's actuary. Further, the Employee Benefits Fund will maintain a cash balance equal to anticipated end-of-year claims incurred but not paid and other current liabilities.	In compliance.

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## ***Debt Refinancing***

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| 15. An advance refunding of outstanding debt shall only be considered when present value savings of at least 4.25% of the principal amount of the refunded bonds are produced, unless (1) a debt restructuring is necessary or (2) bond covenant revisions are necessary to facilitate the ability to provide services or to issue additional debt. The same requirements will normally apply to municipal utility district tax and revenue refunding bond issues approved by the City of Austin. Savings from general obligation and district bond refundings will be distributed to lessen the impact of debt service requirements in future years. | In compliance. |
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Refundings will be done in accordance with City debt management practices, including the interest rate exchange policy approved through Resolution 20050623-014.

The following policies shall be established for the management of the City's investment pool:

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| 16. Funds having negative balances in the centralized cash pool will not be charged interest.  | In compliance. |
| 17. Operating and capital funds incurring a sustained negative cash balance exceeding \$1 million over the course of one year, for which City management has not identified a repayment plan, will be brought to Council for direction on implementing a repayment plan. | In compliance. |
| 18. Funds on a repayment plan will be expected to repay their debt to the pool through revenue and/or assistance from other funds.   | In compliance. |

## ***Unbudgeted Funds***

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| 19. The following types of funds will not be included in the City's annual budget: | In compliance. |
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- a. Funds whose revenue source is primarily donations or contributions from the public. Examples:
    - *Ellis Library Trust Fund* – accounts for donations and expenditures for the purchase of library books on the subject of mental health.
    - *Lady Bird Johnson Lake Beautification Fund* – accounts for donations and expenditures for the beautification of Lady Bird Johnson Lake.
  - b. Funds used to account for escrow or performance deposits. Examples:
    - *Subdivision Participation Fund* – accounts for escrowed funds received from contractors for construction and installation of streets, sidewalks, etc.
    - *Hydromulch/Erosion Control Fund* - accounts for escrowed funds received from contractors for hydromulch and erosion control.
  - c. Funds controlled by another legal entity. Examples:

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- *Housing Assistance Fund* – accounts for proceeds from residual equity bonds issued by the Austin Housing Finance Corporation.
  - *Austin Industrial Development Fund* - accounts for the administrative costs related to the Austin Industrial Development Corporation.
- d. Funds used to account for the repayment of certain loans. Examples:
- *RMD Loan Fund* - accounts for the repayment of energy loans.
  - *Leveraged Loan Pool Fund* – accounts for the repayment of loans made to small businesses to stimulate economic development.

Any fund not included in the annual budget will have a stated purpose and will be assigned to a responsible department that will ensure that accounts in the fund are used in accordance with the fund's stated purpose.

## ***Letters of Credit***

20. A City department may accept letters of credit for less than \$10,000 from any bank or savings and loan if the total City-wide exposure for that institution is less than \$250,000. In compliance.

A City department may accept any letter of credit that is 110% collateralized by an acceptable investment instrument registered in the City's name. The Treasurer's Office must receive safekeeping receipts for all collateral before the letter of credit is accepted. If the value of the collateral falls below 105% of the letter of credit value, the Treasurer's Office will make a margin call.

Letters of credit that are not collateralized, and are \$10,000 or more, which are issued by an institution whose total City-wide exposure is \$250,000 or more, may be accepted only if the issuer meets the following criteria:

### Banks

- Equity capital of at least \$2 million;
- Highland Data rating of ten (10) or higher, or core capital as a percent of total assets of at least 6.0%; and,
- Total letters of credit held by the City at each bank totaling no more than 50% of the bank's equity capital.

### Savings and Loan Associations

- Tangible capital (excluding reserves) of at least \$2 million;
- Highland Data rating of ten (10) or higher, or tangible capital (excluding reserves) as a percent of total assets of at least 3%; and,

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## Policy

## Current Status

- Total letters of credit held by the City at each savings and loan totaling no more than 50% of the savings and loan's capital (excluding reserves).

The City of Austin will draw on any letter of credit if a bank or savings and loan no longer meets the criteria. The City will not accept new letters of credit issued by institutions that do not meet these criteria.

Each department will provide the Treasurer's Office with a quarterly report listing dollar values, by institution, of that department's letter of credit. The Treasurer's Office will prepare a quarterly report indicating total City-wide exposure at each financial institution.

## General Fund Financial Policies

1. Current revenue, which does not include the General Fund beginning balance, will be sufficient to support current expenditures (defined as "structural balance"). Unreserved fund balances in excess of required shall normally be used to fund capital items in the operating and capital budget. However, if projected revenue in future years is not sufficient to support projected requirements, an unreserved ending balance may be budgeted to achieve structural balance. In compliance.
2. Fiscal notes provided Council shall include initial costs of a program/project and the operations costs for a minimum of five years. Unbudgeted items would require identification of savings necessary to fund needs. Fiscal notes for reimbursement resolutions shall require the fiscal impact to debt service both in real dollars and tax rate for a minimum of five years. In compliance.
3. To improve financial planning and control, budget amendments should be infrequent and limited to cases where: In compliance.
  - a. Funding is required to address extraordinary circumstances resulting from a natural disaster, a public health emergency, or other similar critical need that could not have been reasonably anticipated when the budget was adopted; or
  - b. There is verifiable evidence of significant costs or risks associated with delaying funding until the next budget cycle; or
  - c. Correction of errors or omissions in the Council Approved Budget.

Prior to City Council consideration of any budget amendment, the Budget Office will review all department and fund budgets to first determine if the new funding requirements can be met within existing appropriation limits or other appropriate revenue sources. Reserves should only be used when no other funding sources can be identified. Budget amendments resulting in recurring expenses should generally not be funded with one-time sources or revenue.

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Policy	Current Status
4. Tax Increment Financing (TIF) Policy	
a. Tax Increment Financing zones should be established where revenues will recover the public cost of debt with adequate safety margin.	In compliance.
b. No more than 5% of the City's tax base will be in Tax Increment Financing zones.	In compliance.

### Capital and Debt Management

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| c. All Public Improvement District (PID) and TIF proposals, even "pay-as-you-go" projects, will be evaluated for service impact. A five-year fiscal note must accompany any request to establish a PID or TIF including repayment terms of any interfund borrowing.  | In compliance. |
| d. All approved PID or TIF debt issuances supported by a district's revenues are subject to the following criteria:  | In compliance. |
| <ul style="list-style-type: none"> <li>i. Coverage Tests - The project should provide for revenues, net of overlapping taxes, of 1.25 times maximum annual debt service requirement. The issuance of TIF bonds may be considered prior to achieving coverage ratio of 1.25 if a developer or property owner provides a credit enhancement such as a letter of credit or bond insurance from an AAA rated financial institution for the entire amount of the debt issue.</li> <li>ii. In the event that there is insufficient TIF increment revenues to retire TIF bonds, which event consequently requires that the credit enhancement mechanism be called upon to service the TIF bonded indebtedness, contingent liability to reimburse a credit-enhancer would be the sole liability of the developer or its affiliates.</li> <li>iii. In the event that there are changes in the rating of the financial institution providing credit enhancement, then that institution shall be replaced with a "AAA" rated financial institution within 90 days; and in the event that no replacement of a "AAA" rated institution is provided, no further TIF bonds in advance of the 1.25 coverage ratio will be provided for any additional TIF projects undertaken by the developer or its affiliates.</li> <li>iv. Additional Bonds Test - The project should include an additional bonds test parallel to the coverage test.</li> <li>v. Reserve Fund - The project should include a debt service reserve fund equal to the maximum annual debt service requirements.</li> <li>vi. Limitations on Amount of PID/TIF Bonds - The total amount of PID/TIF indebtedness will be included and managed as part of the City's overlapping debt and the total amount of PID/TIF debt outstanding should generally not exceed 20% of the City's outstanding general obligation indebtedness.</li> </ul> |                |



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Policy	Current Status
<p>vii. PID bonds should be limited to those projects which can demonstrate the ability to support the debt either through its own revenues or another pledge source other than ad valorem taxes. PID/TIF bond authorizations should remain in effect for no more than five years from the date of City Council approval.</p>	
<p>e. All approved PID or TIF debt issuances must mature on or before the termination date of the respective PID or TIF district, and, further, all bonds must also conform to the district's Financial Plan by maturing on or before the Plan's projected date by which all district expenses would be paid, including repayment of bonds.</p>	In compliance.
<p>f. The City will not propose the issuance of any unrated, high-yield PID/TIF bond that could be labeled a "high risk bond" except for small (less than \$5 million) private placements coordinated with the City's Financial Advisor.</p>	In compliance.
<p>All projects must be carefully evaluated for credit worthiness and meet the criteria above whether or not a credit rating is obtained.</p>	
<p>g. The City should use PID/TIF bonds only when other options have been considered.</p>	In compliance.
<p>5. A tax abatement ordinance and policy will be established, as necessary, according to State law and in accordance with Council guidelines and criteria for economic development. There is currently no tax abatement ordinance in effect.</p>	N/A
<p>6. Debt will not be used to fund current expenditures.</p>	In compliance.
<p>7. Each year, the City Manager's Budget shall reflect an ad valorem tax rate that helps sustain existing core service levels. The year-to-year increase of actual revenue from the levy of the ad valorem tax shall generally not exceed 8% (Peveto limit):</p> <p>a. excluding taxable value gained through annexation or consolidation;</p> <p>b. excluding the value gained through new construction;</p> <p>c. excluding expenditure increases required for General Obligation Debt Service; and</p> <p>d. not excluding the valuation gained or lost through revaluation or equalization programs.</p>	In compliance.
<p>8. As part of the annual budget process, the City Council shall adopt by resolution a maximum approved ad valorem tax rate that the Council may consider for the upcoming fiscal year consistent with State law. The resolution will establish the date(s) the Council will adopt and levy the ad valorem tax rate. The actual tax rate adopted by the City Council after its budget deliberations may be lower than the approved rate, but it will not be higher.</p>	In compliance.
<p>9. Property values shall be appraised, at a minimum, every two years.</p>	In compliance.

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Policy	Current Status
10. The City shall encourage the Tax Assessor-Collector to follow an aggressive policy of collecting property tax revenues. An average collection rate of at least 98% of current levy shall be maintained.	In compliance.
11. Charges for services and other revenues shall be examined at a minimum of once every five years and adjusted as deemed necessary to respond to changes in cost of service.	In compliance.

## Reserves

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| 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. |
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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.

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| 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. |
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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.

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| 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. |
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Policy	Current Status
15. A General Government Capital Contingency of at most 3% of capital expenditures, but not less than \$2,000,000, shall be budgeted annually.	In compliance.

## General Debt Management Policies

1. The City shall use several methods of debt issuance, including selling bonds competitively, by negotiated sale, or through private placement. The City may issue bonds by negotiated sale when appropriate, based on prevailing market conditions, size or structure of the planned issuance, or other factors. The City shall use the competitive sale method when issuing general obligation bonds, unless a negotiated sale or private placement would be more advantageous.	In compliance.
2. The City shall use competitive procurement methods to select professional firms used in the bond issuance process.	In compliance.
3. The City's financial advisor must be a firm that is independent of banking, underwriting, or other interests to assure that the selected financial advisor can effectively represent the City in negotiations with bankers, underwriters, and other service providers needed for the issuance of debt.	In compliance.

## General Obligation Debt Financial Policies

1. A fund balance for the General Obligation Debt Service Fund of at least 10% of total general obligation debt service requirements shall be maintained to ensure the City's ability to meet debt service payments in spite of tax revenue shortfalls or fluctuations in interest rates.	In compliance.
2. The term of long-term debt generally shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed 20 years.	In compliance.
3. The ratio of net debt (total outstanding tax supported general obligation debt less G.O. Debt Service Fund balance) to Total Assessed Valuation shall not exceed 2.0%. This excludes debt of overlapping jurisdictions. The City shall structure its bond issuance to achieve and maintain a debt-to-assessed-value of 2.0% or less.	In compliance.
4. The ratio of Debt Service to Total Expenditures (operating expenditures and debt service combined) shall not exceed approximately 20%.	In compliance.
5. Bond sales shall be structured to achieve level debt service payments.	In compliance.
6. Interest earnings from bond proceeds for general government projects (excluding projects for enterprise funds) shall be deposited in and retained by the debt service fund (preferred practice) unless otherwise required by bond ordinance or used to fund future CIP projects.	In compliance.

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Policy	Current Status
7. Timing of general obligation bond elections shall be determined by the inventory of current authorized unissued bonds remaining to be sold. An estimated 2 years of authorized unissued bonds shall remain before an election will be held.	Not in compliance. In FY12, the City conducted a bond election with 4 years of authorized unissued bonds remaining.
8. The total dollar amount of bond election propositions recommended to the voters shall not exceed the City's estimated ability to issue said bonds within a normal 6 year period.	In compliance.
9. The use of reimbursement resolutions shall be encouraged as a cash management tool for general obligation debt funded projects. Reimbursement resolutions may be used for any project which is on the bond sale schedule for the following year.	In compliance.
10. Reimbursement resolutions may be used for other projects if the projects are revenue-supported, funded within a department's operating budget, or included on the schedule of capital projects to be funded by cash in a subsequent year.	In compliance.
<p>11. It is the City's priority to fund capital expenditures with cash or voter-approved debt. However, non-voter-approved debt may be used for capital expenditures as an alternative to lease/purchase or other financing options if the capital expenditure is:</p> <ul style="list-style-type: none"> <li>· Urgent;</li> <li>· Unanticipated;</li> <li>· Necessary to prevent an economic loss to the City;</li> <li>· Results in an economic gain to the City within a reasonable time; or</li> <li>· Non-voter approved debt is the most cost effective financing option available.</li> </ul>	In compliance.
12. The average maturity of non-voter approved debt shall not exceed the average life of the capital items financed.	In compliance.
13. Capital items financed with non-voter approved debt shall have a value of at least \$10,000 and a life of at least four years.	In compliance.

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Policy	Current Status
<b>Austin Energy Financial Policies</b>	
1. The term of debt generally shall not exceed the useful life of the asset, and in no case shall the term exceed 30 years.	In compliance.
2. Capitalized interest shall only be considered during the construction phase of a new facility if the construction period exceeds 7 years. The time frame for capitalizing interest may be 3 years but not more than 5 years. Council approval shall be obtained before proceeding with a financing that includes capitalized interest.	N/A
3. Principal repayment delays shall be 1 to 3 years, but shall not exceed 5 years.	In compliance.
4. Austin Energy shall maintain either bond insurance policies or surety bonds issued by highly rated (“AAA”) bond insurance companies or a funded debt service reserve or a combination of both for its existing revenue bond issues, in accordance with the Combined Utility Systems Revenue Bond Covenant.	In compliance.
5. A debt service reserve fund shall not be required to be established or maintained for the Parity Electric System Obligations so long as the “Pledged Net Revenues” of the System remaining after deducting the amounts expended for the Annual Debt Service Requirements for Prior First Lien and Prior Subordinate Lien Obligations is equal to or exceeds one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations. If the “Pledged Net Revenues” do not equal or exceed one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations, then a debt service reserve fund shall be established and maintained in accordance with the Supplemental Ordinance for such Parity Electric System Obligations.	In compliance.
6. Debt service coverage of a minimum of 2.0x shall be targeted for the Electric Utility Bonds. All short-term debt, including commercial paper, and non-revenue obligations will be included at 1.0x.	In compliance. Debt service coverage (DSC) for the FY 2014-15 Budget is 3.21x.
7. Short-term debt, including commercial paper, shall be used when authorized for interim financing of capital projects and fuel and materials inventories. The term of short-term debt will not exceed 5 years. Both Tax-Exempt and Taxable commercial paper may be issued in order to comply with the Internal Revenue Service Rules and Regulations applicable to Austin Energy. Total short-term debt shall generally not exceed 20% of outstanding long-term debt.	In compliance.
8. Commercial paper may be used to finance capital improvements required for normal business operation for Electric System additions, extensions, and improvements or improvements to comply with local, state and federal mandates or regulations. However, this shall not apply to new nuclear generation units or conventional coal generation units.	In compliance.

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Policy	Current Status
Commercial paper will be converted to refunding bonds when dictated by economic and business conditions. Both Tax-Exempt and Taxable refunding bonds may be issued in order to comply with the Internal Revenue Service Rules and Regulations applicable to Austin Energy.	
Commercial paper may be used to finance voter approved revenue bond projects before the commercial paper is converted to refunding bonds.	
9. Ongoing routine, preventive maintenance should be funded on a pay-as-you-go basis.	In compliance.
10. Austin Energy shall maintain a minimum quick ratio of 1.50 (current assets less inventory divided by current liabilities). The source of this information should be the Comprehensive Annual Financial Report.	In compliance.
11. Austin Energy shall maintain operating cash equivalent to 45 days of budgeted operations and maintenance expense, less fuel.	In compliance.
12. Net Revenue generated by Austin Energy shall be used for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies, and other Austin Energy requirements such as working capital.	In compliance.
13. The General Fund transfer shall not exceed 12% of Austin Energy three-year average revenues, calculated using the current year estimate and the previous two years' actual revenues from the City's Comprehensive Annual Financial Report.	In compliance.
14. Capital projects should be financed through a combination of cash, referred to as pay-as-you-go financing (equity contributions from current revenues), and debt. An equity contribution ratio between 35% and 60% is desirable.	In compliance.
15. A Repair and Replacement Fund shall be created and established. Moneys on deposit in the Repair and Replacement Fund shall be used for providing extensions, additions, replacements and improvements to the Electric System. Net revenues available after meeting the General Fund Transfer, capital investment (equity contributions from current revenues) and 45 days of working capital may be deposited in the Repair and Replacement Fund. The targeted balance shall not exceed 50% of the previous year's electric utility depreciation expense, which is at a level necessary to keep the electric system in good operating condition or to prevent a loss of revenues.	In compliance.
16. A Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components:	In compliance by the end of FY 2014-15.
<ul style="list-style-type: none"> <li>• An Emergency Reserve with a minimum of 60 days of non-power supply operating requirements.</li> <li>• Up to a maximum of 60 days additional non-power supply operating requirements set aside as a Contingency Reserve.</li> </ul>	

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## Policy

## Current Status

- Any additional funds over the maximum 120 days of non-power supply operating requirements may be set aside in a Rate Stabilization Reserve.

The Emergency Reserve shall only be used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted.

The Contingency Reserve shall be used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in fuel costs or purchased power which stabilizes fuel rates for Austin Energy customers.

In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two (2) years.

A Rate Stabilization Reserve shall be created and established, replacing the Competitive Reserve in FY 2011-12, for the purpose of stabilizing electric utility rates in future periods. The Rate Stabilization Reserve may provide funding for: (1) deferring or minimizing future rate increases, (2) new generation capacity construction and acquisition costs and (3) balancing of annual power supply costs (net power supply/energy settlement cost). The balance shall not exceed 90 days of net power supply costs.

Funding may be provided from net revenue available after meeting the General Fund Transfer, capital investment (equity contributions from current revenue), Repair and Replacement Fund, and 45 days of working capital.

- Electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to support (1) the full cost (direct and indirect) of operations including depreciation, (2) debt service, (3) General Fund transfer, (4) equity funding of capital investments, (5) requisite deposits of all reserve accounts, (6) sufficient annual debt service requirements of the Parity Electric Utility Obligations and other bond covenant requirements, if applicable, and (7) any other current obligations. In addition, Austin Energy may recommend to Council in the budget directing excess net revenues for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies and other Austin Energy requirements such as working capital.

In compliance.

In addition to these requirements, electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to ensure a minimum debt service coverage of 2.0x on electric utility revenue bonds.

A rate adequacy review shall be completed every five years, at a minimum, through performing a cost of service study.

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Policy	Current Status
18. A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the South Texas Nuclear Project. An external investment manager may be hired to administer the trust investments.	In compliance.
19. The master ordinance of the Parity Electric System Obligations does not require a debt service reserve fund. Austin Energy will maintain a minimum of unrestricted cash on hand equal to six months debt service for the then outstanding Parity Electric System Obligations.	In compliance.
20. Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as “structural balance”). However, if projected revenue in future years is not sufficient to support projected requirements, ending balance may be budgeted to achieve structural balance.	In compliance.
21. A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four (4) years prior to the expected plant closure.	In compliance.

### Austin Water Utility Financial Policies

1. The term of debt generally shall not exceed the useful life of the asset, and shall not generally exceed 30 years.	In compliance.
2. Capitalized interest shall only be considered during the construction phase of a new facility, if the construction period exceeds 7 years. The time frame for capitalizing interest may be 3 years but not more than 5 years. Council approval shall be obtained before proceeding with a financing that includes capitalized interest.	In compliance.
3. Principal repayment delays on revenue bonds shall be 1 to 3 years, but shall not exceed 5 years.	In compliance.
4. Each utility shall maintain a fully funded debt service reserve for its existing revenue bond issues and future issues, in accordance with the Combined Utility Systems Revenue Bond Covenant.	In compliance.
5. Debt service coverage of at least 1.50x shall be targeted.	In compliance.
6. Short-term debt, including tax-exempt commercial paper, shall be used when authorized for interim financing of capital projects. The term of short-term debt shall not exceed 5 years. Commercial paper will be converted to refunding bonds when appropriate under economic and business conditions. Total short-term debt shall generally not exceed 20% of outstanding long-term debt.	In compliance.



## Financial Policies – 2014-15

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Policy	Current Status
7. Commercial paper may be used to finance new water and wastewater plants, capital expansions, and growth-related projects as well as to finance routine capital improvements required for normal business operation. Commercial paper for the necessary amount may also be used to finance improvements to comply with local, state and federal mandates or regulations.	In compliance.
8. Capital improvement projects for new water and wastewater treatment plants, capital expansions, and growth-related projects that are located in the Drinking Water Protection Zone (DWPZ) will be identified and submitted, as part of the annual budget process, to the following Boards and Commissions: Water and Wastewater Commission, Resource Management Commission, Environmental Board, Planning Commission, and the Zoning and Platting Commission.	In compliance.
<p>These Boards and Commission will review growth-related DWPZ capital projects spending plans, obtain Board and Commission and citizen input, review consistency with Imagine Austin Comprehensive Plan, review effect on growth within the DWPZ, and make recommendations on project approval for inclusion in Austin Water Utility's 5-year capital spending plan.</p> <p>A public hearing will be held during the City's annual budget review process to provide citizens an additional opportunity to comment on growth related projects located within the DWPZ.</p>	
9. Ongoing routine, preventive maintenance should be funded on a pay-as-you-go basis.	In compliance.
10. Capital projects should be financed through a combination of cash, referred to as pay-as-you-go financing (equity contributions from current revenues), and debt. An equity contribution ratio of at least 20% is desirable.	In compliance.
11. The Austin Water Utility shall maintain a minimum quick ratio of 1.50 (Current Assets less inventory divided by Current Liabilities). Source of information shall be the Comprehensive Annual Financial Report.	Not in compliance at 1.32 based on 2013 CAFR.
12. The Austin Water Utility shall maintain operating cash reserves equivalent to a minimum of 60 days of budgeted operations and maintenance expense.	In compliance.
13. Revenue generated by the Austin Water Utility from Debt Service Coverage requirements shall be used for General Fund transfers, capital investment, or other Austin Water Utility requirements such as working capital reserve or non-CIP capital.	In compliance.
14. Austin Water Utility rates shall be designed to generate sufficient revenues to support the full cost (direct and indirect) of operations and debt, provide debt service coverage and meet other revenue bond covenants, if applicable, and ensure adequate and appropriate levels of working capital.	In compliance.

## Financial Policies – 2014-15

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Policy	Current Status
<p>15. The General Fund Transfer shall not exceed 8.2% of the Austin Water Utility three-year average revenues, calculated using the current year estimate at March 31 and the previous two years’ actual revenues from the City's Comprehensive Annual Financial Report.</p> <p>Revenue collected from the Reserve Fund Surcharge will be included in the General Fund Transfer calculation, however any use or transfer of the reserve fund back into the operating fund in the future due to revenue loss will not be included in the total revenues to calculate the General Fund Transfer.</p>	In compliance.
<p>16. A Water Revenue Stability Reserve Fund shall be created and established for the purpose of offsetting current year water service revenue shortfalls below budgeted revenue levels.</p> <p>The target funding level for the Reserve Fund is 120 days of the budgeted water operating requirements of Austin Water Utility, which includes operations and maintenance, and other operating transfers, but excludes debt service and other transfers. In the event that any portion of the Reserve Fund is used, the balance will be replenished to the target level within 5 years.</p> <p>Upon creation of the Reserve Fund, the goal to reach the target funding level of 120 days of budgeted water operating requirements will be no later than 5 years. If the fund is drawn down prior to reaching the 120 day target during the first 5-year development period, the reserve fund surcharge shall not be lower than it was during the year in which the draw down occurred until such time as the fund reaches its 120 days of operating costs.</p> <p>Sources of funding for the Reserve Fund may include a Reserve Fund volumetric surcharge charged to all customer classes, operating reserves in excess of 60 days of operating requirements, and any available net water service revenue after meeting all obligations of the Austin Water Utility.</p> <p>The City Council must approve all Reserve Fund utilization of funds through a separate action during the year. The Reserve Fund shall only be used to offset a current year water service revenue shortfall where actual water service revenue is less than the budgeted level by 10% or greater. The maximum use of the Reserve Fund in any fiscal year is 50% of the existing balance at the time of request for Council action.</p> <p>When the target levels of the Reserve Fund are reached, any Reserve Fund Surcharge shall be reduced to levels sufficient to only maintain the goal of 120 days of operating requirements as may be necessitated by changes in budgeted operating costs over time.</p> <p>All interest earned by the Reserve Fund account shall remain in the Reserve Fund in order to offset funding and replenishment requirements and to minimize rate impacts for water customers.</p>	

# Financial Policies – 2014-15

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Policy	Current Status
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## Airport Financial Policies

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|---|----------------|
| 1. Debt service coverage shall be targeted at a minimum of 1.25x.   | In compliance. |
| 2. The debt service reserve shall be funded at the same time long-term debt is issued (typically equal to 1 year's average debt service requirement).   | In compliance. |
| 3. The term of long-term debt shall not exceed the expected useful life of the capital asset being financed, and in no case shall the life of the debt exceed 30 years.   | In compliance. |
| 4. Capitalized interest during construction shall generally not exceed 5 years. Council approval shall be obtained before proceeding with a financing that includes capitalized interest.   | In compliance. |
| 5. The Airport shall maintain a ratio of current assets plus operating reserve to current liabilities of at least 1.5 times. Source of information shall be the Comprehensive Annual Financial Report.  | In compliance. |
| 6. The Aviation Fund shall maintain working capital that is equivalent to 60 days of budgeted operations and maintenance expense, in accordance with bond ordinance provisions. (Current assets plus operating reserve less current liabilities.) | In compliance. |

## Drainage Utility Fund Financial Policies

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| 1. A Drainage Utility Fund will be established to account for all revenues and all operational expenses related to this activity.   | In compliance. |
| 2. The department that manages the Drainage Utility Fund shall recommend to Council in the budget setting rates sufficient to pay all requirements including debt service and to maintain a fund balance which is equivalent to 30 days of budgeted operations and maintenance. | In compliance. |

## Austin Resource Recovery Financial Policies

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| 1. The Austin Resource Recovery Fund shall establish and fund a reserve to provide for the closure and monitoring of the City's landfills in compliance with federal regulations.   | In compliance.     |
| 2. The department that manages the Austin Resource Recovery Fund shall recommend to Council in the budget setting rates sufficient to pay all requirements including debt service and to maintain a fund balance which is equivalent to 30 days of budgeted operations and maintenance. | Not in compliance. |

# Financial Policies – 2014-15

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## Policy

## Current Status

### Fleet Services Financial Policies

1. Fleet Services Department shall maintain, in a separate Fleet Fuel Reserve Fund (Reserve Fund), an amount that may be drawn upon in the event significant fuel losses occur in a given fiscal period. The maximum ending balance of the fund shall not exceed 20% of total budgeted fuel costs or \$3 million, whichever amount is less. In compliance.

Funding shall consist of a fixed price per gallon (with the exception of compressed natural gas and propane) to be charged to each user department as determined each budget year. Fleet Services Department is responsible for calculating the annual per gallon fixed price during the City's annual budget process. The amount collected each fiscal year is to be deposited in the Fleet Fuel Reserve Fund in the same year as collected.

Upon determination that fuel costs exceeded fuel revenues in any given year in an amount greater than \$500,000, the Reserve Fund may be utilized to fund the deficiency in the subsequent fiscal year.