

January 30, 2001

Travis County Financial and Budgeting Guidelines

Travis County's financial and budgeting guidelines, compiled below, set a basic framework for the overall fiscal management of the County. These guidelines assist the decision-making process of the Commissioners Court.

Most of the guidelines represent long-standing principles, traditions and practices which have guided the County in the past and have helped maintain financial stability over many years. They were originally developed and approved in July 1996. They were updated in April 1999 and again in January 2001.

I. General Financial Guidelines

A. County Bond Rating

The County's bond rating is an important reflection of the County's financial strength to the national credit markets, and any actions that negatively affect the County's bond rating should be avoided.

B. Investments

Investments made by the County shall comply with the Travis County Investment Policy and Procedures Manual and the State of Texas Public Funds Investment Act. Such investments shall be governed by the following investment objectives, in order of priority: consistency with statutory provisions, safety of principal, maintenance of adequate liquidity, and return on investments.

C. Ending Fund Balance

The Commissioners Court is mindful of the financial importance of maintaining a healthy ending fund balance. The County's goal is to have a stable ending fund balance from year to year in the range of between 11% and 12% of budgeted expenditures in the total of the following funds: the General Fund, Road and Bridge Fund, and Debt Service Fund. The ending fund balance will be derived from the Unallocated Reserve (budgeted between 10% and 12% of expenses as outlined in Section IVA) and unspent but budgeted funds remaining at the end of the current fiscal year.

D. Use of One-Time Revenues

The County's goal is to only use permanent revenue sources for on-going, permanent expenses. This means that one-time revenue sources (including ending fund balance) will not be used for on-going commitments. Temporary revenues are intended to be used solely for temporary expenses.

E. Performance Measures

The use of performance measures is essential for the Commissioners Court to explain the relationships between the level of service and the level of an appropriation. Such performance measures are key to understanding core operations as well as any plan or any request for additional funding. Both output measures and outcome measures should be used. Departments that receive approval for funding new activities will be asked to report regularly on progress toward meeting applicable performance measures that are associated with those activities.

F. Physical Assets

The County will maintain its physical assets at a level that is sufficient to protect the County's capital investment and to minimize future maintenance and replacement costs. The budget will provide for the adequate maintenance and the orderly replacement of capital equipment and facilities in order to avoid deterioration of the County's basic infrastructure. The Commissioners Court is also mindful of the County's natural assets and will protect Travis County's unique environmental quality including its lakes, parks, rivers, and open wildlife areas.

G. Budget Adherence

The most preeminent budget rule is that County departments must live within the constraints of the County budget. Departments may not obligate the County to spend more money than budgeted and must process all budget transfers through the Planning and Budget Office. This office will help facilitate the appropriate reviews and necessary approvals consistent with Budget Rules that are adopted annually by the Commissioners Court.

H. Public Scrutiny

The Commissioners court welcomes public scrutiny of its budget deliberations and will televise them. Public hearings beyond those mandated by law are encouraged. The budget document will be prepared in such a manner as to facilitate understanding by County residents and officials about the expenditure of their public funds and the services provided by Travis County.

I. Collaboration

The Commissioners Court fosters County-wide collaboration to help guide resource decisions, and wishes to review innovative proposals that involve multiple departments, measurable outcomes, and agreed-upon multi-year plans. Departments are strongly encouraged to collaborate with the Court and other partner agencies inside and outside the County to gain mutual agreement on future plans.

J. Procurement

Travis County has established a centralized purchasing office to ensure compliance with the County Purchasing Act. County departments are required to purchase all goods and services through the Purchasing Office. Departments are strongly encouraged to plan their procurements in far enough advance to allow the Purchasing Office to complete the procurement process so that tax dollars are saved.

K. Investments in Human Development

The Commissioners Court recognizes the long term value that well placed investments in human development can have on the health of a community and on avoiding increased future costs. As such, the Court supports such investments when there are well-defined performance measures that show not only social rewards from a particular expenditure but financial benefits as well.

L. Execution of Court Approved Programs

Commissioners Court approved programs should be executed in a timely, efficient, and effective manner. In the event that departments confront problems or impediments to such execution, the Court should be briefed in a timely fashion to allow the Court to determine how best to proceed.

II. General Budgeting Guidelines

A. Planning Before Budgeting

The Commissioners Court wishes to ensure that formal planning occurs before funds are requested or allocated. Departments are encouraged to collaborate with the Commissioners Court on the development of plans for future operations. The Court wishes to have a Court approved plan before any new programs or services are considered for funding.

B. Departmental Budget Requests

Should projected economic conditions show an immediate negative impact on the County's ability to meet its financial goals and standards, then the Planning and Budget Office may ask departments to submit budgets that are less than the department's Current Funding Level. In that event, then the departments should outline the impact on the department's performance measures of such a reduction in resources.

C. Annualizing the Cost of New Positions and Programs

When new positions or programs are added to the budget, they will be budgeted on an annual basis. This will avoid having the County's budget automatically increase in subsequent years for such positions or programs.

D. Capital Planning

The County encourages departments to submit three to five year capital plans for approval by the Commissioners Court. Approved plans shall be given priority during the annual budget process.

E. County-wide Issues

The Commissioners Court intends to fund countywide issues before committing resources for specific departmental programs. Such issues include:

- a. legally mandated requirements;
- b. issues that have such a substantial impact on the community that they must be accommodated first;
- c. funding needs that affect every County department such as performance pay or other compensation needs or employee benefits; and
- d. needs that impact the County's fiscal strength such as reserves.

F. Mid-Year Budget Increases

Departmental budget increases proposed after the beginning of the fiscal year will be considered for funding if the Commissioners Court indicated during the budget mark-up process that the proposal was not yet fully developed and should be considered for funding from Allocated Reserves. Otherwise, such a funding proposal must meet the following criteria: It is of an emergency nature, funding cannot be identified internally, and it cannot be delayed until the next fiscal year without a very significant negative impact on the public.

G. Matching Funding to Expenditures

The goal of the Commissioners Court is to have funds expended for their intended use in a timely fashion and to match the schedule of funding both operating and capital needs as closely as possible to the expected expenditure pattern, being mindful of meeting the financial goals described in these guidelines. The Court wishes to schedule the actual inflow of public tax dollars to the County in direct relationship to the outflow of projected expenditures for all funds.

III. Debt Guidelines

A. Debt Policy

The Commissioners Court has established a formal debt policy that provides guidelines in deciding whether to issue additional debt and to keep the debt issuance of the County within established limits. These guidelines are intended to ensure that Travis County will maintain a prudent approach to the issuance of debt. This debt policy is attached.

B. Short Term Debt

The Commissioners Court will work toward reducing its reliance on short-term debt. Major capital expenditures that are not funded from annual appropriations to the General Fund Capital Acquisition Resources Account will be considered for short term debt.

C. Use of Outstanding Certificates of Obligation

Toward the end of each fiscal year, all remaining balances in projects funded through Certificates of Obligation will be reviewed to determine whether such balances will: (a) become undesignated for use by a particular department and identified as available for future use within the scope of the purposes for which the Certificate of Obligation was issued; (b) be rolled over into the next fiscal year for the department to use for the same purpose; or (c) be used to retire principal.

IV. Reserves Guidelines

A. General Fund and Debt Service Reserves

The goal of the Commissioners Court is to maintain an Unallocated Reserve equal to between 10% and 12% of the total budgeted expenses for the combined General Fund, Road and Bridge, and Debt Service Funds. Historically, the individual reserve ratio for the Debt Service Fund has been higher than the reserve ratio for General Fund. It is the intent of the Commissioners Court that each of these two funds will eventually have reserves that are more equalized between the two funds.

B. Capital Acquisition Resources Account

The County funds purchases of capital equipment through either short-term debt or through a Capital Acquisition Resources Account (CAR). This account is established by an annual General Fund appropriation and it is intended to reduce the County's reliance on short-term debt. This account provides the Commissioners Court with increased flexibility on the use of these funds as well as the timing of their availability compared to Certificates of Obligation. The Commissioners Court has set a goal of having all equipment with a unit cost of at least \$100,000 or less funded out of current funds through CAR, rather than from debt issuance.

C. Allocated Reserves

The Commissioners Court has established an Allocated Reserve for unforeseen operating expenditures after the budget has been adopted. It is expected that some or all of this reserve will be expended, depending upon the needs that emerge during the year. This is a fund source to be used sparingly, and only after all other alternatives have been fully explored. The amount of the Allocated Reserve shall be established during the budget process, depending upon the degree to which mid-year needs are known and the amount of budget flexibility desired by the Commissioners Court. As a rule of thumb, however, this reserve should be between .5% and 1.0% of the total General Fund budgeted expenditures.

D. Other Reserves

The Commissioners Court may also wish to establish specialized reserves when it is known that a major future expenditure will occur in one or more subsequent years, to ease the impact on the future tax rate and to reduce the likelihood of sharp changes in revenue requirements. Such specialized reserves would anticipate major improvements in technology or facilities, unusually large anticipated staffing requirements required by law or as part of an approved plan, and other investments known to be so large that they should be phased over time.

E. Unallocated Reserve

The Unallocated Reserve is not intended to be used for any purpose other than a serious public calamity or other emergency during the year. It is intended to establish the County's fiscal soundness and is a key part of the County's bond rating. Under special circumstances, the Court may choose to adopt a reimbursement resolution that allows a temporary transfer from the Unallocated Reserve which will be reimbursed within the same fiscal year from bond or Certificate of Obligation proceeds. All permanent expenditures from this reserve will be reported in detail in the County's Comprehensive Annual Financial Report (CAFR).

IV. Revenue Guidelines

A. Tax Rate

It is the goal of the Commissioners Court that the tax rate proposed in the County's Preliminary Budget should be at or near the Effective Tax Rate.

B. Non-Property Tax Revenue

For the foreseeable future, the Commissioners Court expects that the County will be reliant on revenue from property taxes, and recognizes that this revenue stream is limited due to taxpayer concerns over historical increases in property taxes. Therefore,

the Commissioners Court will positively consider other forms of revenue as a way of ensuring a balanced budget from a more diversified source of income.

C. Revenue Benchmarking

Market rates and charges levied by other public entities and private organizations for similar services will be used as an important consideration when establishing fees and charges for service.

Approved By Commissioners Court unanimously on January 30, 2001

TRAVIS COUNTY DEBT POLICY

The purpose of this policy is to provide guidelines for the Commissioners' Court in deciding whether to issue additional debt and to attempt to keep the debt issuance of the County within established limits.

General Approach to Debt

- I. Travis County will maintain a prudent approach to the issuance of debt that includes the following:
 - Travis County will ensure that necessary services are provided in this community in a timely and sufficient manner using current revenues.
 - Travis County will ensure that necessary equipment and facilities are provided to County departments in a timely manner using the most frugal method of payment available for such expenditures.
 - Routine purchase and replacement of capital equipment, such as computer equipment, furniture, and "down payments" on larger capital projects will be financed through the Capital Acquisition Resources Account from current operating revenues. This fund will be gradually increased as existing funds become available and as economic circumstances allow, to eventually eliminate the need for issuing debt or entering into any other financing arrangement for recurring operating equipment purchases.
 - Sale of bonds or certificates of obligation will follow general market conventions assuring the best interest rate deemed possible at the time, as determined by the Commissioners' Court, based upon advice from the County's financial advisors.
- II. The Travis County Commissioners' Court will not issue long-term debt (with a repayment period in excess of five years) without the approval of such bond issue by the voters at an election, except under the following circumstances:
 1. The expenditure is legally required of the County, where penalties or fines could be imposed on the County if the expenditure is not made. Or,
 2. When a financial analysis demonstrates that during a stipulated term Travis County would spend significantly less. Or,
 3. The voters have previously approved the issuance of general obligation bonds but, for valid reasons, certificates of obligation must be substituted for such bonds in order to carry out the voters' authorization. Or
 4. When the expense is for necessary planning services or acquiring options for a future capital project that will be submitted to the voters.
- III. Capital expenditures, particularly those involving the issuance of debt, will be approved only in the context of multi-year planning by the County.

Process to Determine Needs

- Expenditures for capital improvements and equipment will be requested, justified and approved, specifying the recommended method of finance for such expenditures as part of the annual County budget process, prior to budget adoption.
- Each year as part of the budget process, the Planning and Budget Office will prepare a debt report analyzing all recommended expenditures which are proposed to be financed with debt. The report will explain the impact the proposed new debt will have on the County's debt service tax rate and an analysis of such impact on the average county taxpayer, and the impact of the issuance of the proposed County debt in light of the general obligation debt of other taxing entities in Travis County (schools, cities, special districts).
- Building renovation or construction projects will be reviewed and assessed by the Facilities Management prior to consideration by the Commissioners' Court.
- The Transportation and Natural Resources Department will review and assess any project which includes roads, drainage or parks prior to consideration by the Commissioners' Court.
- The Commissioners' Court will decide which projects will be undertaken, the timing of those projects and the source of funding to be provided for accomplishment of those projects.

Debt Policies

- A debt service reserve of at least 10% of total debt service requirements for the current fiscal year will be maintained to ensure availability of funds to meet the debt service payments in the event of tax revenue shortfalls.
- The term of any debt should not exceed 20 years, and should never exceed the useful life of the asset, or the weighted average useful life of a group of assets when multiple assets are funded in a single issue.
- Except in the case of revenue producing facilities, debt will not be issued for the purpose of making debt service interest payments. If interest capitalization becomes necessary, it will only be used for three years or the period of the construction phase, whichever is the shorter period.
- Delays in repayment of principal will be part of the debt structure only if in a particular circumstance such delay is seen to be in the County's best financial interest.
- Interest earnings on bonds which have been sold will be retained in the project until that project is completed unless the Commissioners Court has instructed otherwise in a bond covenant or official statement. Funds unneeded for the project after its completion will be transferred to the Interest and Sinking Fund in order to mitigate the need to increase the debt service tax rate. Excess funds will not be allowed to increase the scope of the original project without additional justification and analysis.
- Optional debt redemption shall be provided for, based upon the advice of the County's financial advisor.

- Travis County will maintain a ratio of annual short-term debt service payments to total debt service of 25% or less, and short-term debt service payments to total General Fund expenditures of 5% or less.
- Guidelines in the form of industry-standard ratios will be reviewed in conjunction with each debt issuance in order to provide a framework within which to view overall Travis County debt. Those guideline ratios include:
 1. Net bonded debt to taxable value should not exceed the range of 1.0%-1.5%.
 2. Net bonded debt to population should not exceed \$500 per capita.
 3. Debt service to total expenditures (operating expenditures and debt service combined) shall be approximately 20% or less.
 4. A total debt target of 5% of market value for all overlapping debt in Travis County (county, city, school district and other) will be established, in concert with cooperative efforts toward sharing this goal with the other debt-issuing entities.
- The debt analysis will also show the anticipated net bonded debt per taxable value and the net bonded debt per capita that will be shown as a part of an upcoming official statement.

Approved by Commissioners Court unanimously on January 30, 2001