

## RESOLUTION

### AMENDING FINANCIAL BUDGETARY POLICIES ADOPTED BY RESOLUTION ~~032490032506~~ AND PROVIDING FINANCIAL POLICY DIRECTION ON PREPARATION OF THE ANNUAL BUDGETS

**WHEREAS**, the City Council adopted a Financial Policy in ~~June~~July 2021 by Resolution ~~032490032506~~; and

**WHEREAS**, as a result of this policy, the City achieved its goal for the General Fund balance and desires now to articulate a strategy to maintain a General fund balance and to utilize any surplus balance to provide for enhanced financial stability in future years, and also desires to manage fund balances of the Internal Service Funds, Enterprise Funds, the Combined Utility Reserve Fund, and Debt Service Reserve Funds; and

**WHEREAS**, this policy provides an essential guide to direct financial planning and to maintain and strengthen the City's bond rating; and

**WHEREAS**, it has been the City's practice to reaffirm its financial policy or to adopt a new or modified policy annually in conjunction with preparation of the budget and prior to presenting the Proposed Budget to the City Council.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CORPUS CHRISTI, TEXAS: ~~:-~~

The Financial Budgetary Policies adopted by Resolution ~~032490032506~~ are amended to read as follows:

**Section 1. Development / Effective Date of Financial Budgetary Policy.** This Financial Budgetary Policy reaffirms and amends the financial policies adopted each year by the City Council since 1997. The City Manager is directed to prepare each annual proposed budget in accordance with this policy. The City Council is prepared to make expenditure reductions that may be necessary to comply with this policy. This Financial Budgetary policy remains in effect and applies to future annual budget preparation processes until amended by City Council resolution.

**Section 2. Current Revenues /Current Expenditures.** General Fund current revenues and funds available from all sources will equal or exceed current expenditures.

**Section 3. General Fund Balance /Working Capital.** To ensure that current and future services or operations are not severely impacted by any economic slowdowns, emergencies, natural disasters or other unforeseen circumstances, adequate financial resources will be set aside in the General Fund unassigned fund balance. In the Government Finance Officers Association's (GFOA) "Best Practice for Determining the

"Appropriate Level of Unrestricted Fund Balance in the General Fund (2015)", GFOA recommends, at a minimum, that general-purpose government, regardless of size, maintain an unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. Accordingly; it is the goal of the City Council to build and maintain a reserve in the General Fund unassigned fund balance which totals at least two months (or approximately 17%) of regular general fund operating expenditures up to 20% of total annual General Fund appropriations, exclusive of any one-time appropriations. At the end of the fiscal year, upon completion of the Comprehensive Annual Financial Report, the amount calculated to be at least two months of regular general fund operating expenditures up to 20% of total annual General Fund appropriations will be Reserved for Major Contingencies and set up in a separate account. The City Manager shall report on the status of compliance with this policy at least annually as part of the budget process. Uncommitted fund balance in excess of the policy requirement may be recommended for expenditure by the City Manager. Finally, it is noted that extraordinary situations may arise in which the timing of external actions out of the City's control may require the use of the unassigned fund balance. The City Manager shall note these situations to the City Council as soon as the information is known.

#### **Section 4. Other Committed Fund Balances.**

**4.1 Internal Service Funds.** To ensure that current and future services or operations are not severely impacted by any economic slowdowns, emergencies, natural disasters or other unforeseen circumstances, it is the goal of the City Council to build and maintain an unassigned reserve in each Internal Service Fund listed below, of up to five percent (5%) of the annual Internal Service Fund appropriations, exclusive of any one-time appropriations. Any amount in excess of five percent (5%) will be returned to the paying Funds or used for one-time expenditures. Subsection 4.1 only applies to the Information Technologies Internal Service Fund; Stores Contracts and Procurement Internal Service Fund; Engineering Services Internal Service Fund; Fleet Maintenance Internal Service Fund; and Facilities Maintenance Internal Services Fund.

**4.2 Group Health Plans.** It is a goal of the City to maintain a fund balance in the group health plans to (1) pay any associated administrative costs and claims run-out based upon the most recent actuarial study in the event the plan ceases or a change in the third-party administrator is made; and to (2) hold a reserve for catastrophic claims equaling 10% of projected medical and prescription claims.

**4.3 General Liability Fund.** It is a goal of the City to maintain a fund balance in the General Liability Fund (1) to fund long-term liabilities, incurred but not reported expenses (IBNR), and a risk margin for the adverse development of claims as determined by the actuarial recommendation and reflected in the Comprehensive Annual Financial Report; (2) to provide additional protection against significant unexpected claims experience in the fiscal year as a catastrophic reserve equaling 25% of the average incurred costs of claims experience over the prior five-year period; and (3) to protect against

significant cost increases in the fiscal year for purchased insurance coverage premiums equaling 25% of the cost for purchased insurance over the prior year.

**4.4 Worker's Compensation Fund.** It is a goal of the City to maintain a fund balance in the Worker's Compensation Fund (1) to fund long-term liabilities, incurred but not reported expenses (IBNR), and a risk margin for the adverse development of claims as determined by the actuarial recommendation and reflected in the Comprehensive Annual Financial Report; and (2) to protect against significant unexpected claims experience in the fiscal year as a catastrophic reserve equaling 25% of the average of incurred costs of claims experience over the prior five-~~yearperiod~~year period.

**4.5 Enterprise Funds.** To ensure that current and future services or operations are not severely impacted by any economic slowdowns, emergencies, natural disasters or other unforeseen circumstances, it is the goal of the City Council to build and maintain an unreserved fund balance in each of the Enterprise Funds of a *maximum of twenty-five* percent (25%) of the annual Enterprise Fund appropriations, exclusive of debt service and any one-time appropriations, and anything over that amount shall be designated for specific purpose(s). Subsection 4.5 only applies to Water, Wastewater, Gas, Stormwater, Airport, and Marina fund balances.

**4.6 Debt Service Reserve Fund.** The City will strive to maintain a debt service fund balance for bonds, certificates of obligation, tax notes, and other debt instruments of at least two percent (2%) of the annual debt service appropriation(s) for the fiscal year; provided, however, this requirement shall comply with the provision of Treasury Regulation 1.148-2(f) which limits the amount of reserve funds that may secure the payment of debt service on bonds.

**Section 5. Liabilities for Other Post-Employment Benefits, Accrued Compensated Absences and Net Pension Liability.** For financial reporting purposes, the City will record liabilities for Other Post-Employment Benefits, Accrued Compensated Absences and Net Pension Liability according to guidance of the Governmental Accounting Standards Board. These liabilities will be funded on a pay-as-you-go basis, and thus will not be included in the minimum fund balances of the affected funds.

**Section 6. Property Tax Rate for Operations and Maintenance.** Each proposed annual budget shall be prepared assuming that the City will be adopting a tax rate necessary to be in compliance with Section 2 above. Full consideration will be given to achieving the "no new-revenue maintenance and operations tax rate" for maintenance and operations when assessed property values decrease, and full consideration will be given to maintaining the current tax rate when assessed properties values increase, as long as the tax rate does not exceed the "voter approval tax rate" (which is the rate that allows the City to raise the same amount of maintenance and operation revenue raised in the prior year, excluding new property, with a 3.5% increase.)

**Section 7. Funding Level from General Fund for Street Maintenance.** The General Fund will contribute the higher of 6% of General Fund revenue less grants, industrial district revenue and any transfer to Residential Streets or \$10,818,730 for Street Maintenance. In addition, the City must include 5% of industrial district revenue in the Street Maintenance Fund.

**Section 8. Funding Level from General Fund for Residential Street Reconstruction Fund.** In order to develop a long-term funding mechanism for capital improvements related to residential/local streets, implement the following:

1. The City must include 5% of industrial district revenue in the Residential Street Reconstruction Fund.
2. In Fiscal Year 2020-2021, transfer 1/3 of one percent of the General Fund revenue less:
  - Grants
  - Industrial District revenue, and
  - Any General Fund transfer to the Residential Street Reconstruction Fund (i.e. four cents of the property tax rate)
3. In Fiscal Year 2021-2022, transfer 2/3 of one percent of the General Fund revenues less:
  - Grants
  - Industrial District revenue, and
  - Any General Fund revenue to the Residential Street Residential Street Reconstruction Fund
4. In Fiscal Year 2022-2023, transfer 1% of the General Fund revenues less revenues less:
  - Grants
  - Industrial District revenue, and
  - Any General Fund transfer to Residential Streets Reconstruction Fund
5. At a Special City Election in November 2016 Corpus Christi voters voted to create a dedicated fund to be used solely for residential street reconstruction and the city council was authorized each year to levy, assess and collect a property tax not to exceed six cents (\$0.06) per one hundred dollars (\$100.00) of assessed value for the purpose of residential street reconstruction to be deposited in such fund. Said taxes shall be used solely for the purpose of residential street reconstruction, including associated architectural, engineering and utility costs, and shall be implemented gradually at a rate not to exceed two cents (\$0.02) per one hundred dollars (\$100.00) of assessed value per year. For the purposes of this provision, the term "reconstruction" is defined as removing all or a significant portion of the pavement material and replacing it with new or recycled materials. The dedicated fund established by this section may not be used for payment of debt service. The City Council approved two cents

(\$0.02) per one hundred dollars (\$100.00) of assessed value for fiscal year 2018-2019 and two cents (\$0.02) per one hundred dollars (\$100.00) of assessed value for fiscal year 2019-2020 for the purpose of residential street reconstruction. Due to the COVID-related economic downturn the final two cents ~~will~~was not ~~be~~-added in FY 2020-2021 ~~but will be considered~~or FY 2021-2022 and will not be recommended for FY 2022-2023.

**Section 9. Funding of Texas Municipal Retirement System (TMRS) Contributions.**

It is a goal of the City Council to maintain the fully funded contribution rate to TMRS to fund the general City employees' and sworn police officers' pension.

**Section 10. Funding of Corpus Christi Fire Fighters' Retirement System (CCFFRS).**

Whereas, pursuant to a Special Task Force appointed by the City Manager, it is a goal of the City to, over time, adequately fund the CCFFRS so that its funding ratio is in line with the funding ratio of TMRS for general City employees and sworn ~~police officers~~police officers.

**Section 11. Priority of City Services.** The City Council recognizes the need to provide public services which support the continued growth of the local economy and personal income growth to insure an adequate financial base for the future.

**Section 12. Operating Contingencies.** The City Manager is directed to budget up to \$500,000 per year as an operating contingency as part of General Fund expenditures in order to further insulate the General Fund unreserved fund balance from unforeseen circumstances. Up to 2% of annual appropriations for operating contingencies may be budgeted, as deemed necessary, in enterprise, internal service, and special revenue funds of the City.

**Section 13. Multi-year Budget Model.** Whereas many of the City's fiscal goals require commitment and discipline beyond the one year considered within the City's fiscal year, the City will also consider adoption of business plans necessary for the accomplishment of City short term or long-term goals. These business plans will be presented and recommended to the City Council in the proposed annual operating budget and shall be used for development of future budget recommendations as necessary to accomplish these goals. The City shall also maintain business plans and/or rate models for enterprise operations. Preparation of the annual budget will include model for years two and three, with specific revenue and expenditure assumptions and with respect to the debt horizon.

**Section 14. Cost Recovery.** The City may recover costs in the General Fund by charging other funds for administrative costs incurred to support their operations. The City shall attempt to pursue and maintain a diversified and stable revenue stream for the General Fund in order to shelter finances from short term fluctuations in any one revenue source. In order to meet the requirements outlined herein, every effort will be made to base rates on a cost of service model, so costs incurred for certain services are paid by the population benefiting from such services.

**Section 15. Quarterly Financial Reporting and Monitoring.** The City Manager shall provide interim financial performance reports and updates to the City Council on a quarterly basis. These interim reports must include detailed year to date revenue and expenditure estimates, as well as explanations for major variances to budget. The format of the quarterly report must be relatively consistent with the adopted budget. Quarterly financial reports shall include a summary of fund balances for each fund and a statement regarding compliance with these financial policies, where applicable.

**Section 16. Use of Nonrecurring Revenue.** The City shall endeavor to use nonrecurring revenue to fund one-time expenditures. Nonrecurring revenue may include items such as sale of fixed assets, court settlements, or revenue collection windfalls.

**Section 17. Debt Management.** The City Manager shall adhere to the Debt management Policy adopted by Resolution 028902 on December 14, 2010 and reaffirmed by Resolution 029321 on December 13, 2011.

**Section 18. Capital Improvement Plans/Funding.** The City Manager shall provide quarterly updates to the City Council on Capital Improvement Projects and post these updates on the City website. The annual Capital Improvement Plan (CIP) shall follow a similar cycle as the Operating Budget. As part of the annual capital budget process, the City shall update its short and long-range capital improvement plans. Due to the limited amount of available funds, the CIP serves to establish a priority for the many necessary projects. Therefore, the CIP will be updated annually in order to incorporate the changing priorities, needs and funding sources. As part of a concerted effort to improve financial flexibility, it is authorized that all interest and other revenues relating to Capital Funds will be appropriated at the beginning of each fiscal year and become part of those funds to be used for capital project expenditures. Additionally, the City shall pursue pay-as-you-go funding for maintenance-type capital costs to the extent possible. The CIP is a necessary tool in the capital planning process, and shall be organized as follows:

1. **ANNUAL CAPITAL BUDGET:** This is the first year of the short-range CIP and shall be fully funded. All approved projects must have corresponding funding resources identified by individual project. Projects added to the approved annual Capital Budget shall require City ~~Council approval~~Council approval.
2. **SHORT RANGE CIP:** A schedule of capital expenditures to be incurred over the current annual Capital Budget plus two (2) additional years. The short-range plan projects must have programmed funding with corresponding funding resources identified by individual project. Any projects that include projected increases to operating costs for programmed facilities will be notated. A review of all CIP encumbrances will be done annually. Any encumbrance that does not represent a true commitment will be returned to reserves.
3. **LONG RANGE CIP:** The long-range plan extends for an additional seven years beyond the short range, for a complete plan that includes ten years. The long-range CIP projects must have realistic planned funding tied to the projects.

**Section 19. Capital Improvement Annual Close-out.** No less than annually, all capital funds will be reconciled by City Staff.

1. Voter-approved Debt – ~~When all projects in a Fund are deemed complete,~~ Capital Improvement Plan funds associated with voter-approved debt shall be brought to City Council when all projects in the Fund are deemed complete for review and recommendation on use ~~of any remaining funds.~~ Funds may be held in the short-term to complete projects or may be assigned to other projects as allowed by bond language.
2. Utility Revenue Debt – Capital Improvement Plan funds associated with utility bond debt shall be brought to City Council in a report comparing budget to actuals when a utility bond issuance is deemed complete. Funds may be held in the short-term to complete projects or may be assigned to other projects as allowed by bond language.

**Section 20. Expenditures.** Within the limitation of public service needs, statutory requirements and contractual commitments expenditures included in the operating budget shall represent the most cost-efficient method to deliver services to the citizens of Corpus Christi. Efforts to ~~identify~~ identify the most cost-efficient method of service delivery shall continue during the fiscal year after the operating budget is adopted and may be implemented during the fiscal year as necessary and of benefit to ~~the public~~ the public.

**Section 21. Line Item Budget Review Process.** During the preparation of the City's operating budget, City staff shall perform a line item budget review of departmental budgets.

**Section 22. State Hotel Occupancy Tax (SHOT) and Hotel Occupancy Tax (HOT) Fund.** A SHOT Fund was created for the Fiscal Year (FY) 2015-16 budget as a result of the Texas 84th Legislature's (2015) House Bill (HB)1915 that allowed Corpus Christi and three other Texas cities to retain 2% of the state hotel occupancy taxes collected by the cities to be reinvested for beach maintenance and restoration. The expenditures in this Fund shall not be used to offset expenditures for Gulf Beach maintenance currently paid for out of the local HOT Fund. The funding for Gulf Beach maintenance in the local HOT Fund shall not fall below the lesser of \$1,825,088 or 15% of HOT revenue (not including the Convention Expansion portion) budgeted. This amount will be in addition to any expenditures budgeted for Gulf Beach Maintenance in the SHOT Fund.

**Section 23. Drought Surcharge Exemption Fund.** Beginning in Fiscal Year 2018-2019 The Drought Surcharge Exemption Fees collected from large-volume industrial customers pursuant to Ordinance 031533 shall be dedicated for development of a drought-resistant water supply and shall not be used for operation and maintenance costs of any water supply, treatment facility or distribution system. The Drought Surcharge

Exemption Fees paid to the City will be accounted for and reserved in a separate Drought Surcharge Exemption Fund and used only for capital costs to develop and/or acquire an additional drought-resistant water supply including but not limited to, payment of debt for an allowable capital project.

**Section 24. Community Enrichment Park Development Fund.** ~~Revenues and expenditures are recorded in this fund.~~ Expenditures shall be used for community enrichment programs and activities not in the General Fund. acquisition of land for a public park and/or construction improvements for a public park including utility extensions required to serve recreational areas. Revenues come from ~~contributions, developer fees~~ Park Development Fee in lieu of land dedication and earnings on investments. ~~Expenditures are restricted to acquisition or development of public parks.~~ Revenues are authorized to be appropriated at the beginning of each fiscal year and will be restricted as per current City codes and ordinances and unspent appropriations will carry over from fiscal year to fiscal year.

**Section 25. Budget Controls.** Budgetary compliance is an important tool in managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits. Budgetary controls, levels at which expenditures cannot legally exceed appropriated amounts, are established within individual funds. The City utilizes an encumbrance system of accounting as one mechanism to accomplish effective budgetary controls. Encumbrances at year end which represent a true commitment are generally added to the budget.