



AGENDA MEMORANDUM

Action Item for the City Council Meeting of August 19, 2025

DATE: August 19, 2025

TO: Peter Zanoni, City Manager

THRU : Heather Hurlbert, CPA, CGFO, Assistant City Manager

FROM: Sergio Villasana, CPA, CIA, CGFO Director of Finance & Procurement
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Amendment to Financial Budgetary Policies for FY 2025-2026

CAPTION:

Resolution amending Financial Budgetary Policies adopted by Resolution 033143 and providing financial policy direction on preparation of the FY 2026 operating and capital budgets.

SUMMARY:

The financial budgetary policies for FY 2025-2026 are being requested for an amendment to address several changes including updated Section 3-General Fund Balance, Section 8-Funding Level from General Fund for Residential Street Reconstruction Fund and Section 12-Operating Contingencies.

BACKGROUNDAND FINDINGS:

Annually, City staff reviews the financial budgetary policies for direction on preparing the upcoming, annual budget. The financial budgetary policies for FY 2025-2026 are being recommended by staff for amendment as follows:

- **Section 3. General Fund Balance** – Over the past five adopted budgets, the City has consistently maintained a 20% reserve for major contingencies. This approach aligns with the recommendation from the City’s financial advisors, Special Public Finance Inc., who advise setting a minimum reserve at 20%. A comparative review of other coastal cities reveals reserve levels ranging from 20% to as high as 50%, underscoring the importance of tailoring reserve policies to local risk factors and fiscal conditions. Based on this information, Section 3 of the policy will be updated by replacing the goal of maintaining an unrestricted fund balance of 17% and up to 20% with the goal of maintaining a reserve of 20%. A presentation on the general fund reserve policy is included with additional detail.

Other amendments include:

- Removing the reference to Working Capital in the title as this section refers to the Fund Balance.
 - Removing the reference to the GFOA Best Practice publication
 - Clarifying that the calculation is based on the general fund operating expenses and not appropriations.
 - Updating the reference to the Annual Comprehensive Financial Report (ACFR) and removing the Comprehensive Annual Financial Report.
- **Section 8. Funding Level from General Fund for Residential Street Reconstruction Fund Subsection 3**
 - Added “has not been approved by City Council to date” and updated the date from FY 2023-2024 to 2025-2026.
 - **Section 12. Operating Contingencies**
 - Replacing “is directed” with “may...up...”

ALTERNATIVES:

An alternative would be to leave the financial budgetary policies as they currently are written.

FISCAL IMPACT:

There is no financial impact for this item.

RECOMMENDATION:

Staff recommends approval of the resolution as presented.

LIST OF SUPPORTING DOCUMENTS:

Resolution

Presentation – Financial and Budgetary Policy

Presentation – General Fund Reserve Policy