

RESOLUTION

AMENDING FINANCIAL BUDGETARY POLICIES ADOPTED BY RESOLUTION 0331240 AND PROVIDING FINANCIAL POLICY DIRECTION ON PREPARATION OF THE ANNUAL BUDGETS.

·WHEREAS, the City of Corpus Christi has a commitment to citizens as expressed in its Mission Statement: "Provide exceptional service to enhance the quality of life"; and

WHEREAS, financial resources are budgeted to fulfill this commitment; and

WHEREAS, it has been the City's goal to rebuild the General Fund balance to acceptable levels, a goal which was expressly stated in past policies with targets for accomplishing that goal; and

WHEREAS, the City Council adopted a Financial Policy in January 1997 by Resolution No. 022828, reaffirmed the Financial Policy in June 1997 by Resolution No. 022965, modified the Financial Policy in July 1997 by Resolution No. 022992, adopted a new Financial Policy in May 1998 by Resolution No. 023319; reaffirmed the Financial Policy in May 1999 by Resolution No. 023657; reaffirmed the Financial Policy in May 2000 by Resolution No. 024044; reaffirmed the Financial Policy in May 2001 by Resolution No. 024455; reaffirmed the Financial Policy in May 2002 by Resolution No. 024863; reaffirmed the Financial Policy in April 2003 by Resolution No. 025280; reaffirmed the Financial Policy in April 2004 by Resolution No. 025737; reaffirmed the Financial Policy in May 2005 by Resolution 026265; reaffirmed the Financial Policy in January 2006 by Resolution 026605; amended the Financial Policy in April 2008 by Resolution 02'683; amended the Financial Policy in May 2009 by Resolution 028176; amended the policy in May 2010 by Resolution 028609; amended the policy in July 2011 by Resolution 029128; amended the policy in May 2012 by Resolution 029521; amended the policy in May 2013 by Resolution 029826; amended the policy in June 2013 by Resolution 029848; amended the policy in August 2014 by Resolution 030265; amended the policy in March 2016 by Resolution 030790; amended the policy in July 2017 by Resolution 031189; ~~and~~ amended the policy in August 2017 by Resolution 031240; and amended the policy in September 2018 by Resolution 031547.

WHEREAS, as a result of those policies, the City achieved its previous goal for the General Fund balance and desires now to articulate a new strategy to maintain a revised General fund balance and to utilize any surplus balance to provide for enhanced financial stability in future years, and also desires to establish similar goals for 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 new or modified policy annually in conjunction with preparation of the budget.

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

The Financial Budgetary Policies adopted by Resolution 031240 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 Equal / Exceed Current Expenditures. Current General Fund operating revenues will equal or exceed current budgeted 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 25% 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 25% 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. Such expenditures shall be subject to the normal appropriations and expenditure approval process applicable to all other funds. 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.

Amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the City Council will be reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Existing resources in the fund t h a t have been specifically committed for use in satisfying contractual obligations will be reported as assigned fund balance.

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 three percent (3%) and a maximum of an additional two percent (2%), for a total of five percent (5%) of the annual Internal Service Fund appropriations, exclusive of any one-time appropriations. This subsection only applies to the Information Technologies Internal Service Fund; Stores 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-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). This subsection 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 "effective 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 "rollback" rate (which is the rate that allows the City to raise the same amount of maintenance and operation revenue raised in the prior year with an 8% increase.)

Section 7. Funding Level from General Fund for Street Maintenance. City Council approved Resolution #029634 on September 18, 2012 to declare its intent to establish a street user fee for implementation in Fiscal Year 2013-2014. Section 4 of this resolution expressed an intent to preserve the funding level of the Street Department at the percentage of the Street Fund's budget in Fiscal Year 2012-2013 relative to the General Fund. Excluding a decrease in General Fund revenues, the percentage of the Street Fund's budget relative to the General Fund will neither go below that of Fiscal Year 2012-2013 nor go below the dollar equivalent if General Fund revenues increase. That funding level equates to 6.00% of General Fund revenue less grants from the annual adopted operating budget or \$10,818,730, whichever is greater. Beginning in Fiscal Year 2015-2016, the funding level will be 6% of General Fund revenue less grants and industrial district revenue or \$10,818,730, whichever is greater. Additionally, beginning in Fiscal Year 2015-2016, 5% of industrial district revenue will be transferred to the Street Maintenance Fund. Beginning in Fiscal Year 2018-2019, the funding level will be 6% of General Fund revenue less grants, industrial district revenue and any property taxes passed through the General Fund and transferred to the Residential Street Reconstruction Fund or \$10,818,730, whichever is greater.

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. For 3 years beginning in Fiscal Year 2014-2015, appropriate \$1,000,000 each year from the uncommitted fund balance of the General Fund and transfer to the Residential Street Reconstruction Fund.

2. Beginning in Fiscal Year 2015-2016, appropriate and transfer 5% of industrial district revenue to the Residential Street Reconstruction Fund.

3. In Fiscal Year 2020-2021, transfer 1/3 of one percent of the General Fund revenue less:

- Grants
- Industrial District revenue, and
- Any property taxes passed through the General Fund and transferred to the Residential Street Reconstruction Fund

To the Residential Street Reconstruction Fund.

4. In Fiscal Year 2021-2022, transfer 2/3 of one percent of the General Fund revenue less:

- Grants
- Industrial District revenue, and
- Any property taxes passed through the General Fund and transferred to the Residential Street Reconstruction Fund

To the Residential Street Reconstruction Fund.

~~grants and industrial district revenue to the Residential Street Reconstruction Fund.~~

5. In Fiscal Year 2022-2023 and thereafter, transfer 1% of the General Fund revenue less:

- Grants
- Industrial District revenue, and
- Any property taxes passed through the General Fund and transferred to the Residential Street Reconstruction Fund

To the Residential Street Reconstruction Fund.

~~3. grants and industrial district revenue to the Residential Street Reconstruction Fund.~~

B. 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 for the purpose of residential street reconstruction.

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

The City reached the fully funded contribution rate for TMRS in January 2019. It is a goal of the City Council to ~~contribute-maintain~~ the fully funded contribution rate to TMRS to fund the general City employees' and sworn police officers' pension. ~~In order to implement this goal, beginning in Fiscal Year 2015-2016, an additional 2% will be added to the City's contribution to TMRS each year until the actuarially determined fully funded rate is met.~~

Section 10. 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 11. Operating Contingencies. The City Manager is directed to budget at least \$200,000 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. The City Manager is directed to budget similar operating contingencies as expenditures in enterprise, internal service, and special revenue funds of the City.

Section 12. 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 13. 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 14. 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.

Section 15. 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 16. 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 17. Capital Improvement Plans/Funding. The annual Capital Improvement Plan (CIP) shall follow the same 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. ~~For the three-year short-term plan, projects include any projected incremental operating costs for programmed facilities. The long-range plan extends for an additional seven years, for a complete plan that includes ten years. Short-term plan projects must be fully funded, with corresponding resources identified. 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 reduce debt levels and improve financial flexibility, the City shall pursue pay-as-you-go capital funding where possible. The CIP is a necessary tool in the capital planning process, and shall be organized as follows:

A. 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.

B. SHORT RANGE CIP: A schedule of capital expenditures to be incurred over a three (3) year period to carry out the City's CIP program. 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 liquidated.

C. 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 18. 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 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.

Section 19. Zero-Based Budgeting type of process. To prepare the City's operating budget, the City shall utilize a Zero-Based Budgeting type of process. The staff shall be accountable for utilizing a Zero-Based Budgeting type of process comprehensively for all department budgets.

Section 20. A State Hotel Occupancy Tax (HOT) Fund. A state HOT 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 State HOT Fund.

Section 21. 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.