

EXHIBIT

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City of Round Rock Financial Policies FY 2023-24

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PURPOSE

The City of Round Rock has an important responsibility to its citizens, taxpayers, ratepayers, and all customers to carefully account for public funds, to manage the City's finances wisely, and to plan for the adequate funding of services desired by the public. ***These policies implement and enhance the City Council's strategic goal which states "The City of Round Rock is a financially sound city providing high value services."*** To facilitate this responsibility, certain financial policies have been developed and implemented within the parameters established by provisions of the Texas Local Government Code and the City Charter. These policies, as itemized below, are adopted by the City Council annually and considered the basis for financial management, planning and budget preparation. These policies guide both the City of Round Rock and its blended component unit, the Round Rock Transportation and Economic Development Corporation (RRTEDC).

FUND STRUCTURE & BASIS OF ACCOUNTING

All fund structures and accounting standards of the City of Round Rock are in compliance with generally accepted accounting principles for local governments as prescribed by the Governmental Accounting Standards Board (GASB) and other recognized professional standards.

Governmental Funds

Governmental funds revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they become available and measurable while expenditures are recognized in the accounting period in which the liability is incurred, if measurable. Because the appropriated budget is used as the basis for control and comparison of budgeted and actual amounts, the basis for preparing the budget is the same as the basis of accounting.

The governmental funds are used to account for general government operations and include the General Fund, Debt Service funds, Special Revenue funds, and Capital Projects funds. The City utilizes a full-cost approach to budgeting all of its services, which results in limited inter-fund transfers.

- **General Fund**

The General Fund is the Primary fund for core government services and is used to account for all resources not required to be accounted for in another fund and not otherwise devoted to specific activities. Most of the financial transactions for the City are reported in this fund. The services provided by the City are classified according to activity and presented as operating departments in the budget.

- **Debt Service Funds**

This fund type is used to account for resources used to service the principal and interest on long-term debt such as general obligation bonds, revenue bonds, certificates of obligation and tax-exempt leases classified as debt.

- **Capital Project Funds**

Capital Projects funds are used to account for resources restricted for the acquisition or development of major capital equipment and structures. Financing sources are usually provided by transfers from other funds, bond issue proceeds, or grants-in-aid. Capital projects are generally tracked on a project-length basis. The required financing is not

appropriated on an annual basis (or any other period-length basis) but is approved at the outset of the project. The expected expenditures under the Community Investment Programs (called CIP) are presented as part of the overall budget adoption to accurately reflect the City's total expected use of funds in any given budget year but these estimates are not considered binding appropriations.

- **Special Revenue Funds**

This fund type is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Funds

Proprietary fund revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable while expenses are recognized in the period incurred, if measurable. The basis for preparing the budget is the same as the basis of accounting except for principal payments on long-term debt and capital outlay which are treated as budgeted expenses. Depreciation and compensated absences are not recognized as budgeted expenses.

Proprietary funds are used to account for the City's activities that are similar to commercial enterprise accounting. These funds include the Utility Fund and the Stormwater Fund.

- **Utility Fund**

The Utility Fund consists of utility administration, water and wastewater operations, billing and collections, environmental services, and utility fiscal support. It is the policy of the City that the water and wastewater operations be self-sufficient and not cross subsidize the other. Rates will be set to reflect cost of service by customer class where practical. **The Stormwater fund collects fees based on a property's impact to the City's drainage system.** The Utility Fund also accounts for the debt service and capital improvements of the utility system.

- **Water** - Water operations include water line maintenance, water systems support, and the water treatment plant.
- **Wastewater** - Wastewater operations include wastewater line maintenance, wastewater systems support, and the wastewater treatment plant.
- **Stormwater Fund** - ~~The Stormwater Fund administers all aspects of the City's Stormwater program including planning, engineering, programs, operations, and maintenance associated with storm water drainage, floodplain management, and water quality management. The Stormwater fund collects fees based on a property's impact to the City's drainage system. The fund also accounts for the debt service and capital improvements of the stormwater system.~~

- **Golf Fund**

The Golf Fund consists of course administration, operations, and fiscal support. The Golf Fund also accounts for capital improvements to the course and facilities.

STRATEGIC PLANNING AND GOALS

City Council Strategic Plan

The Council's Strategic Plan consists of the long-term Vision (15 years), five-year Goals, and near-term Policy and Management priorities. The Vision, Goals, and Priorities are reviewed and updated by Council and staff annually and are amended and refined by the City Council at its annual Strategic Planning retreat.

Council Vision and Goals

The Council has further defined the City's Strategic Plan around six (6) Goals. These Goals become the City's strategic direction for development and implementation of its master planning, capital improvement programs for infrastructure, long-term financial plans, and annual budgets. The Goals may be reprioritized or refined from year to year, but generally stay consistent.

1. Financially Sound City Providing High Value Services
2. City Infrastructure: Today and for Tomorrow
3. Great Community to Live
4. "The Sports Capital of Texas" for Tourism and Residents
5. Authentic Downtown – Exciting Community Destination
6. Sustainable Neighborhoods – Old and New

LONG TERM FINANCIAL PLANNING

A Five-Year Financial Forecast and Plan will be maintained and updated annually that will identify potential tax impacts, rate adjustments, and other factors that will enable or impede the implementation of the City's Strategic Goals. Five-year plans will be created and updated for each of the City's major operating funds, including:

- General Fund, including impacts to the M&O and Debt portions of the property tax rate
- Utility Fund
- Stormwater Fund
- RRTEDC (also known as Type B) Fund
- Hotel Occupancy Tax Fund
- Sports Center Fund
- Multi-Purpose Field Complex Fund
- Golf Course Fund

The financial forecasts will assess long-term financial implications of current and proposed policies and programs and assist with the development of strategies to achieve the City's goals.

ANNUAL BUDGET

Preparation

The Charter (Section 8.03) requires that "the budget will provide a complete financial plan for all City funds and activities and, except as required by law or this Charter, shall be in such a form as the City Manager deems desirable or the City Council may require." The budget shall be submitted on or before the first day of August of each year to the City Council.

Guiding Principles:

- The annual budget will be prepared to address Council Strategic Goals and direction.
- Long-term financial needs identified in the five-year plans will be considered and addressed when appropriate.
- Current expenditures (operating and recurring capital) are to be funded with current, on-going revenues.

Proposed Budget

A proposed budget shall be prepared by the City Manager with participation from all of the City's Department Directors within the provision of the Charter and the City Council's strategic goals. A copy of the proposed budget will be available for citizen review at Round Rock City Hall and the public library.

Balanced Budget

The goal of the City is to adopt and maintain a balanced operating budget using sustainable funding sources that are expected to continue to be available in subsequent fiscal years.

Revenues and Expenditures

The annual budget is staff and Council's best estimate of the revenues, expenditures, and available fund balances at the time of preparation. Therefore, transfers and amendments may be needed from time to time due to changing conditions.

Administrative allocations

Allocations for the general support services to the Utilities Fund, Stormwater Fund, RRTEDC and any other operating funds will be reviewed, documented, and adjusted if necessary, at least once every three years to assure reasonable cost of services is allocated to those funds.

Personnel

The annual Budget will also include the approved number of full-time equivalents (FTEs) for the City. Approval of budget is considered approval of the FTEs. City Manager may transfer and/or repurpose FTEs among departments and funds as needed to meet the needs of the community. If the transfer changes the total appropriations for any particular fund, then City Council approval is necessary.

In order to maintain effective staffing levels, the Police and the Fire departments may exceed total budgeted FTEs by 4.0 FTEs each to accommodate planned departures and retirements in light of the long recruitment and training times required. The departments must stay within appropriated budget for that fiscal year and receive advanced approval from the City Manager.

Fund Balance

Balances in excess of authorized reserves will be used to fund the pay-as-you-go repair and maintenance programs, major capital projects and other one-time needs.

Adoption

Upon finalization of the budget proposal, the City Council will hold a public hearing, and subsequently adopt by Ordinance the final budget as amended. State law requires at least 60 percent of the members of the governing body to vote in favor of an ordinance setting a property tax rate that exceeds the no-new-revenue tax rate. In practical terms, that means five of the seven members must vote in favor of the tax rate. The budget shall be finally adopted not later than the final day of the last month of the fiscal year. The budget will be effective for the fiscal year beginning October 1.

The Annual Budget document will be submitted annually to the Government Finance Officers Association (GFOA) for evaluation and consideration for the Distinguished Budget Presentation Award.

Reporting

Summary financial reports will be presented to the City Council quarterly. These reports will be in a format appropriate to enable the City Council to understand the overall budget and financial status.

Budget Amendments

The City will amend the budget at year end, if needed, for revenue-based expenditures that exceeded budgeted amounts due to increased revenues. The City will also amend the budget if necessary as part of the Mid-Year Review process if any known adjustments are needed and approved at that time. The Chief Financial Officer must certify availability of revenues or funding sources prior to amendment.

Emergency Appropriations

The Charter (Section 8.05) allows for emergency appropriations “to meet a pressing need for public expenditure, for other than regular or recurring requirements, to protect the public health, safety or welfare.” An ordinance must be adopted by favorable votes of five (5) or more of the City Council members.

COMMUNITY INVESTMENT PROGRAM (CIP) BUDGET

The City’s goal is to maintain City facilities and infrastructure to provide services to the citizens within the community, meet growth related needs, and comply with all state and federal regulations.

Preparation

The City will maintain and periodically update master plans to maintain and expand its infrastructure including, but not limited to: City Facilities, Stormwater, Parks and Recreation, Transportation, Water and Wastewater. The City annually updates a five-year CIP schedule. The capital budget will include all capital projects, capital resources, and estimated operational impacts. Capital projects are generally tracked on a project-length basis. The required financing is not appropriated on an annual basis but is approved at the outset of the project. The expected expenditures under the CIP schedule are presented as part of the overall budget adoption to accurately reflect the City’s total expected use of funds in any given budget year but these estimates are not considered binding appropriations in that year.

Financing Programs

When determining the financing options for CIP, the City will first evaluate the available funds in the Self Finance Construction funds. Where applicable, assessments, impact fees, pro rata charges, or other fees should be used when a specific developer can be identified as specifically benefitting from a particular project. Once other financing options have been considered, long-term debt financing will be explored to acquire major assets with expected lives equal to or exceeding the average life of the debt issue.

Short-term financing including Capital Leasing and other tax-supported obligations can be used to fund vehicles, computers, and other operating equipment provided the impact to the tax rate is minimal.

CAPITAL MAINTENANCE AND REPLACEMENT

The City recognizes that deferred maintenance increases future capital costs. Assessments are made annually as part of the budget preparation process to ensure that major repairs, replacements, and maintenance necessary to preserve the City's capital investments are funded. To the extent that prior year excess fund balances are available, the City will annually fund allocations to the following:

- Fleet Maintenance and Replacement
- Information Technology
- Facilities Maintenance
- Parks and Recreation
- Public Safety Equipment

BUDGET CONTINGENCY PLAN

The City will take immediate corrective action at any time during the fiscal year if expenditure and revenue estimates are such that an operating deficit is projected at year end. Corrective actions in order of the precedence that will be explored are:

1. Reduce transfers to Self Finance Construction Funds for pay-as-you-go CIP
2. Deferral of capital purchases
3. Expenditure reductions
4. Hiring freezes
5. Freeze merit increases
6. Use of fund balance, including repair and maintenance funds
7. Increase fees
8. Lay-off employees

The use of fund balance, which is a one-time revenue source, may be used to fund an annual operating deficit only with a subsequent approval of a plan to replenish the fund balance if it is brought down below policy level.

FUNDS, RESERVES AND DESIGNATIONS

The City of Round Rock will maintain budgeted minimum reserves in the ending working capital/fund balances of its operating and debt funds to provide a secure, healthy financial base for the City in the event of a natural disaster or other emergency and to maintain or enhance its credit worthiness. Funds will be used for purposes as designated by state law, charter and this policy.

General Fund

- **Reserve**

In recognition of fund balance reserve best practices, the fund balance reserve in the General Fund shall be ninety (90) days or 25% of annual budgeted General Fund operating expenditures. Staff will evaluate the financial stability of the General Fund revenues annually to ensure the reserve requirement remains adequate.

- **Designation**

Concentration Risk account: For any single sales tax payer that represents more than 5% of the City's net General Fund revenues, the city will designate a concentration risk fund at or above the City's annual net exposure to that revenue

source. If at any time a single tax payer drops below that threshold or no tax payer meets this threshold, this account may be gradually reduced and used for one-time expenditures.

Self Finance Construction Funds

These designated funds support the City's pay-as-you-go philosophy for repair and maintenance and major capital projects to reduce or eliminate the use of long-term debt where possible. The funding sources are as follows:

- **General Self Finance Construction (GSFC)**
 - Sales tax revenue determined to be in excess of the amount necessary for ongoing operations or above limits defined in the Revenues section.
 - Transfers at year end from the General Fund for the repairs and maintenance of fleet, facilities, parks, information technology, public safety equipment, one-time programs, and general capital improvements.
- **Utilities Self Finance Construction (USFC)**
 - Transfers at year end from the Utility Fund to fund for major capital improvements of the Utility System.

Utilities Fund

- **Reserve**

Working capital reserves should be 33% or one hundred twenty (120) days of operating expenses and annual payments for long-term water contract costs.
- **Coverage**

The City will maintain 1.35 times average annual debt service, above the bond covenant minimum requirement of 1.25 times average annual debt service.

Stormwater Fund

- **Reserve**

Working capital reserves should be 25% or ninety (90) days of operating expenses, net of debt service requirements.
- **Coverage**

The City will maintain 1.35 times average annual debt service, above the bond covenant minimum requirement of 1.25 times average annual debt service.

Hotel Occupancy Tax (HOT) Fund

- **Reserve**

Fund balance reserves should be 25% or ninety (90) days of operating expenditures, net of debt service requirements and other designations. Bond covenant also requires 1.40 times average annual debt service to be reserved.
- **Designations**

The City will maintain 1.35 times average annual debt service, above the bond covenant minimum requirement of 1.25 times average annual debt service.

 - **Capital Infrastructure**

The City Council may designate available fund balance for the maintenance of assets considered part of the City's "Sports Capital of Texas" strategic goal and to meet the statutory requirements for the use of these funds. These projects may include the city-owned Dell Diamond Triple A baseball stadium and conference center, the Round Rock Sports Center, and the Old Settlers Park Multi-Purpose Field Complex.
 - **Promotion of the Arts**

A minimum of five percent (5%) of HOT revenues, net of any incentives, is designated to fund the promotion of the Arts. The City will ensure that these

funds are used to promote tourism as required by statute through an annual review of the use of the funds.

- **Historic Preservation**

The City Council designates three percent (3%) of HOT revenues, net of any incentives, to fund historic preservation. ~~In addition, the City will make a one-time designation of \$300,000 of excess, uncommitted fund balance for this purpose in FY 2022.~~ The City will ensure that these funds are used towards programs that support retention of the historic character of buildings, structures, sites, and districts throughout the City.

Round Rock Transportation and Economic Development Corporation (RRTEDC) (Type B)

- **Allocation of Funds for Projects**

A five-year project spending plan will be presented and adopted at least annually to ensure adequate funds are available for transportation, economic development, and other allowed uses of Type B funds. This five-year plan will be reviewed by staff at least quarterly and updates will be presented to the Type B board as needed for *transportation capital improvements programs* (TCIP), *economic incentive programs* (EIP) and *other legally allowable projects* approved by the Type B board and ratified by Council.

- **Reserve**

The RRTEDC shall maintain a reserve of \$1 million or 33% of recurring operating type expenditures, whichever is higher.

Sports Center

- **Reserve**

Fund Balance reserves should be 25% or ninety (90) days of operating expenses, net debt service requirements and other designations.

- **Designations**

It is the goal of the City Council to establish a capital replacement account of \$3 million to ensure the facility is maintained.

- **Investment Reimbursement**

At such time as revenues are sufficient to meet operations, reserve and replacement funds, this fund is expected to repay the GSFC and HOT for initial investment in the Sports Center Facility.

Multi-Purpose Field Complex

- **Reserve**

Fund Balance reserves should be 25% or ninety (90) days of operating expenses.

- **Designation**

A designation of \$750,000 is established as a capital replacement account to ensure the facility is maintained.

- **Funding Source**

Operating and debt principal and interest costs not covered by tournament and field rentals will be funded by transfers from the General Fund and HOT Fund at 50% from each fund.

Golf Course Fund

- **Reserve**

It is the goal of the City Council to establish fund balance reserves of 25% or ninety (90) days of operating expenses.

- **Designation**

A designation of \$150,000 is established as a capital replacement account to ensure the facility is maintained.

REVENUES

The City will maintain a diverse and stable revenue system. In order to protect the City from revenue shortfalls and to maintain a stable level of service, revenues will be estimated realistically and conservatively taking into account the volatile nature of various revenue streams. The analysis will include probable economic changes and their impacts on revenues, historical collection rates, and trends. The benefits of a revenue source should exceed the cost of administration and collection of that revenue.

- **Property Tax**

All real and business personal property located within the City will be valued at 100% of the fair market value for any given year based on the current appraisal supplied by Williamson and Travis Central Appraisal Districts. The property tax rate will be calculated and applied in accordance with State law.

- **Sales Tax**

Sales tax revenue will be used to fund the recurring operations of the General Fund, the transportation improvements, and economic development activities of the RRTEDC (Type B) fund, and one-time capital requirements in the General Self Finance Construction Fund. Sales tax revenue fluctuates due to changes in economic conditions and will be closely monitored to ensure the needs of the City are met.

Key Sales Taxpayer Limits

The City's goal is to have balanced and reliable ongoing revenues for its General Fund operations without over-reliance on any single sales tax provider or group. Therefore, any single tax provider or group will be limited to 15% of the total General Fund budgeted sales tax revenue, net of incentives for FY 2024, and thereafter with excess being recognized in the General Self Finance Fund.

General Fund Sales Tax Cap

Any expected or realized sales tax in the General Fund will not exceed 45% of the operating budget. Any amount above 45% will be recognized in the General Self Finance Construction Fund for pay-as-you-go one-time capital expenditures or projects.

- **User Fees and Charges**

For services associated with a user fee or charge, the direct and/or indirect costs of that service will be offset by a fee where possible. The City will review fees and charges no less than once every two years to ensure that fees provide adequate coverage for the cost of services. The City Council will determine how much of the cost of a service should be recovered by fees and charges.

- **Utility Rates**

Rates will be reviewed periodically and adopted to generate sufficient revenues to fully cover operating expenses, meet debt coverage requirements and provide an adequate level of working capital. The utility revenues will be budgeted based on an average year's rainfall/consumption. The rate analysis will anticipate neither drought nor wet conditions. Adjustments to the utility rates will be made based on revenue requirements over the five-year forecast for the Utility Fund. When financially feasible, a transfer from the Utility Fund will be budgeted to fund pay-as-you-go one-time capital expenditures or projects. It is the

City's goal to have growth pay for growth through impact fees and developer contributions where practical.

- **Franchise Fees**

Derived from major public utilities operating within the City, franchise fees are intended to reimburse the City for use of public streets and rights of way.

- **Hotel Occupancy & Venue Taxes**

Taxes imposed on hotel room nights and short-term rentals less than 30 days allowed by statutory and charter authority. The use of these revenues are limited by state law to specific tourism promotion activities. The revenues will be estimated using actual properties and occupancy rates and prior year revenue collections.

- **Non-Recurring Revenues**

One-time or non-recurring revenues should not be used to finance current ongoing operations.

EXPENDITURES

- **Appropriations & Transfers**

All expenses of the City will be made in accordance with the adopted annual budget or as legally amended. The legal level of control is at the fund level. The City Manager is authorized to transfer budgeted amounts among departments within any fund; however, any transfers or amendments that change the total expenditures of any fund must be approved by the City Council.

- **Procurement**

In accordance with state law and city ordinances, the City is to provide for the fair and equitable treatment of all persons involved in public purchasing with the City of Round Rock, to maximize the purchasing value of public funds in procurement, and to provide safeguards for maintaining a procurement system of quality and integrity while meeting all legally mandated federal, state, and local requirements. Competitive pricing will be sought in accordance with the following guidelines to ensure the best value is obtained through the procurement of products and services.

- **Formal Approvals**

The City Manager or City Council approval is required as detailed below.

- City Manager Approval

- Any outside agreement/contract that requires a signature under ~~\$50,000.00~~ \$100,000.00;

- City Council Approval

- Any item the City Manager deems necessary to require City Council approval;
 - Any outside agreement/contract over ~~\$50,000.00~~ \$100,000.00;
 - All intergovernmental agreements

- **Authorized Purchases**

The adopted annual budget will include an Authorized Purchases list that considers certain planned purchases as approved in advance by Council. This policy allows the City Manager to approve items as listed without going back to Council under certain conditions.

- Routine equipment and technology purchases as included in the budget and the budget list are considered approved by Council, unless:
 - Item is \$200,000 or greater, unless the Council makes an exception,
 - Item contains a contract requiring the Mayor's signature;
 - Purchase deviates from the original purchase as designated on the list;
 - Cost exceeds the greater of 10% or \$10,000; or
 - Council has designated that item (s) come back for approval
- Capital projects and funding agreements will be presented to Council for consideration and approval.

CASH MANAGEMENT AND INVESTMENTS

The City Council has formally approved a separate Investment Policy for the City of Round Rock that meets the requirements of the Public Funds Investment Act (PFIA), Section 2256 of the Texas Local Government Code. This policy is reviewed annually by the City Council and applies to all financial assets held by the City and applies to all entities (component units) included in the City's Annual Comprehensive Financial Report (ACFR) and/or managed by the City. The City will maintain cash management and investment policies and procedures will maintain the public trust through responsible actions as custodians of public funds.

Cash Management Philosophy

The City shall maintain a comprehensive cash management program to include the effective collection of all accounts receivable, the prompt deposit of receipts to the City's depository, the payment of obligations, and the prudent investment of idle funds in accordance with this policy.

Investment Objectives

The City's investment program will be conducted as to accomplish the following listed in priority order:

- Safety of the principal invested
- Liquidity and availability of cash to pay obligations when due
- Maximize earnings (yield) to the greatest extent possible consistent with the City's investment policy.

DEBT

The City of Round Rock establishes the following policy concerning the issuance and management of debt. This policy is to improve the quality of decisions in relation to the City's financing activities, provide a comprehensive view of the City's long-term debt picture and make it easier for decision-makers to understand issues concerning debt issuance and management.

It is the intent of this policy that the City's debt be managed and monitored so as to enhance or maintain its credit rating with major ratings agencies.

Conditions of Debt Issuance

Debt should be issued for the purpose of meeting the needs of the community through funding of capital projects and equipment but without constituting an unreasonable burden to taxpayers.

Long-term debt is only issued to finance the acquisition and/or construction of capital improvements. Additionally, only capital needs identified in the community investment program will

be considered. Refunding bonds will only be issued if the present value of debt service savings exceeds three percent of the par value of the refunded bonds.

Types of Debt

- **General Obligation Bonds**

General Obligation (GO) Bonds may only be issued with a majority approval of a popular vote. The use of the proceeds from GO Bonds is limited to the acquisition or improvement of real property and other uses allowed by law and applicable bond ordinances. Libraries, parks, and public safety facilities are all types of facilities that could be financed with GO Bonds. To the extent that property tax revenues are used to fund debt service, an increase to the property tax will be proposed.

- **Certificate of Obligations**

Certificate of Obligations (CO) may be used to fund capital improvements or equipment that are not otherwise funded by general obligation or revenue bonds. With CO bonds, the voters have an option to petition for an election on whether the certificates should be issued. There is a forty-five (45) day notice period before a city can pass an ordinance to issue the certificates giving time for citizen input and time to gather signatures for a petition to call an election. To the extent that property tax revenues are used to fund debt service, an increase to the property tax will be proposed.

- **Enterprise Revenue Bonds**

Enterprise Revenue Bonds finance facilities for a revenue producing enterprise and are payable from revenue sources within that enterprise. Municipal Water and Sewer and Solid Waste are examples of revenue producing enterprises within the City.

- **Refunding Obligations**

Pursuant to the Government Code and various other financing statutes applicable in particular situations, the City Council is authorized to provide for the issuance of bonds for the purpose of refunding any long-term obligation of the City. Absent any significant non-economic factors, a refunding should produce minimum net debt service savings (net of reserve fund earnings and other offsets) of at least 3% of the par value of the refunded bonds on a net present value basis, using the refunding issue's True Interest Cost (TIC) as the discount rate, unless the Finance Department determines that a lower savings percentage is acceptable for issues or maturities with short maturity dates.

- **Tax Anticipation Notes**

Proceeds from Tax Anticipation Notes are used to fund projects whose source of payment is future tax revenues. These instruments have a term of one to three years and are for a specific purpose such as temporary financing for capital improvements, cash flow needs and major equipment leasing.

- **Leases**

Leases may be used to finance major capital purchases, other than infrastructure, including fleet, major system upgrades and large equipment purchases.

- **Assessment Bonds**

Proceeds from Assessment Bonds may be used to finance local public improvements, provided that said improvements benefit the parcels of land to be assessed. Local streets, streetlights, landscaping, sidewalks, and sanitary sewers are some examples of local improvements commonly financed by assessment bonds.

- **Internal borrowing between City funds**

The City can authorize use of existing long-term reserves as "loans" between funds. The

borrowing fund will repay the loan at a rate consistent with current market conditions. The loan will be repaid within ten (10) years. The loan will be considered an investment of working capital reserves by the lending fund.

- **Other Obligations**

There may be special circumstances when other forms of debt are appropriate and may be evaluated on a case-by-case basis. Such other forms include, but are not limited to limited tax notes, non-enterprise revenue bonds, bond anticipation notes, grant anticipation notes and judgment or settlement obligation bonds.

Restriction on Debt Issuance

- The City of Round Rock **will not** use long-term debt to finance current operations or normal maintenance.
- Derivative products **will not** be used by the City.
- Swaps **will not** be entered into without establishment of a Swap Policy.
- Variable rate debt **will not** be entered into without establishment of a Variable Rate Debt Policy.

Limitations on Outstanding Debt

There is no direct debt limitation in the City Charter or under State law. The City operates under a Home Rule Charter (Article XI, Section 5, Texas Constitution) approved by voters in August 1977 that limits maximum tax rate, for all City purposes to \$2.50 per \$100 assessed valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for general obligation debt service.

Characteristics of Debt Issuance

When the City finances capital projects by issuing bonds, it will pay back the bonds within standard terms that include the following:

- Term may be up to 30 years depending on cash flow assumptions, or useful life of asset being financed.
- Call provisions will be shortest possible optional call consistent with optimal pricing.
- The City will seek level or declining debt repayment schedules and will avoid issuing debt that provides for balloon principal payments reserved at the end of the term of the issue.
- The City will avoid variable-rate debt due to the potential volatility of such instruments. Therefore, the City will avoid the use of variable-rate debt for its general obligation bond issues.
- The Debt service program will be managed in conformity with applicable bond covenants.

Commercial insurance or other credit enhancements to the bond rating shall be considered when cost-effective.

Debt Issuance Process

The City shall utilize the services of an independent, Municipal Securities Rulemaking Board-registered financial advisor on all debt financing. Although not required, the City may utilize a request-for-proposal (RFP) selected pool of underwriters to mitigate time constraints and reduce overhead costs to the City in procuring such services. Bond counsel will be used for each transaction.

The Finance Department shall review each debt issuance transaction on a case-by-case basis to determine the most appropriate method of sale.

- **Competitive Sale**

In a competitive sale, bids for the purchase of the bonds are opened at a specified place and time and are awarded to the underwriter (or syndicate) whose conforming bid represents the lowest true interest cost to the City (TIC). This method is most advantageous when the debt to be issued is less complex, the municipal bond market for high-grade credits is stable, and the sale of the City's bonds is assured.

- Bond sales shall be cancelable at any time prior to the time bids are to be received.
- Upon award to the bidder whose conforming bid represents the lowest true interest cost, the City may restructure the bonds in accordance with the Official Notice of Sale. The City shall reserve the unfettered right to reject all bids or waive bid irregularities.

- **Negotiated Sale**

In a negotiated sale, the City chooses the initial buyer of the bonds in advance of the sale date. The initial buyer is usually an investment banking firm, or a syndicate of investment banking firms interested in reoffering the bonds to investors through an underwriting process. This type of sale allows the City to discuss different financing techniques with the underwriter in advance of the sale date. This method is most advantageous when the debt issue is complex, debt structuring flexibility is required (as would be the case in a bond refunding) or the municipal bond market is unstable or uncertain.

- **Direct Purchase**

In a direct purchase, the City may select a private purchaser willing to bid a below market rate or other preferential financing terms. Such transactions often allow debt to be issued more efficiently by eliminating the need for bond ratings and other associated issuance costs. Such financing will be analyzed on a case-by-case basis, depending primarily on rates prevailing in the market from time to time.

Rating Agency Communication & Disclosure

The City will seek to maintain and improve its current bond ratings so its borrowing costs are reduced to a minimum and its access to credit is preserved. In conjunction with the financial advisor, the City will open a line of communication with at least one of the rating agencies (Standard and Poor's, Moody's, or Fitch) when issuing new bonds or refunding existing bonds to obtain an affirmed or upgraded rating.

Full disclosure of the City's operations will be made to the bond rating agencies. The City staff, with the assistance of the financial advisors and bond counsel, will prepare the necessary materials for presentation to the rating agencies.

The City will adhere to the recommended disclosure guidelines as endorsed by the Public Securities Association, the Government Finance Officers Association, the Municipal Securities Rulemaking Board, the Government Accounting Standards Board, and the nationally recognized municipal securities information repository (NRMSIR) and any state information depository (SID) that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the SEC). SEC Rule 15c2-12 defines disclosure required by the SEC.

Bond Reimbursement Resolutions

The City may utilize bond reimbursements as a tool to manage its debt issues, arbitrage requirements, and project timing. In so doing, the City uses its capital reserve “cash” to delay bond issues until such time when issuance is favorable and beneficial to the City.

The City Council may authorize a bond reimbursement resolution for General Capital projects that have a direct impact on the City’s ad valorem tax rate when the bonds will be issued within the term of the existing City Council. In the event of unexpected circumstances that delay the timing of projects, or market conditions that prohibit financially sound debt issuance, the approved project can be postponed and considered by a future council until circumstantial issues can be resolved.

The City Council may also authorize revenue bond reimbursements for approved utility and other self-supporting capital projects within legislative limits.

The total outstanding bond reimbursements may not exceed the total amount of the City’s reserve funds.

Investment of Bond Proceeds

The City maintains in its Investment Policy document approved by the City Council, the strategy and policies for investing bond proceeds. The City’s Investment Policy complies, and will at all times comply, with the provisions of the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. Interest on bond proceeds is restricted such that it may only be used to fund projects that have the same purpose as the purpose for which the bonds were originally issued. Construction proceeds are typically invested in short-term securities so that they are liquid. Interest & Sinking funds may be invested longer as they have to be maintained for the life of the issue.

Federal Requirements

The City will maintain written procedures to follow post issuance compliance rules, arbitrage rebate and other Federal requirements.

- Post issuance tax compliance rules will include records retention, arbitrage rebate, use of proceeds, and
- Continuing disclosure requirements under SEC Rule 15c2-12, MSRB standards, or as may be required by bond covenants or related agreements.

ECONOMIC DEVELOPMENT

The City will actively promote economic development and business retention with prescribed business focus areas to maintain and expand the long-term business, financial and employment base for the community. These efforts will be accomplished through a contract with the Round Rock Chamber of Commerce and partnership with City staff, Council, and local business leadership.

- An economic development plan or strategy will be developed and periodically reviewed and updated as conditions change.
- Financial incentive guidelines will be established and periodically reviewed.
- Both economic impact and direct financial impact to the City will be evaluated and considered for each incentive proposal.
- Risks will be assessed as part of each proposed agreement and mitigated by emphasizing performance-based programs and financial surety provisions where possible for any up-front investments by the City or its partners.

Approved incentive agreements will be monitored for compliance with reporting of that compliance made to the City Manager at least annually. The City will comply with all State or Federal reporting requirements for its economic development agreements.

ACCOUNTING, AUDITING AND FINANCIAL REPORTING

- **Accounting**

The City is solely responsible for the recording and reporting of its financial affairs, both internally and externally. The Chief Financial Officer (CFO) is responsible for establishing the structure for the City's Chart of Accounts and for assuring that procedures are in place to properly record financial transactions and report the City's financial position.

- **Audit of Accounts**

In accordance with the City Charter, an independent audit of the City accounts will be performed every year. The auditor is retained by and is accountable to the City Council and will have no personal interest, directly or indirectly, in the financial affairs of the city or any of its officers. The auditing firm will serve for up to 5 years, at which time, the City will re-solicit proposals for these services if deemed necessary by the City Council. The actual need to rotate an auditing firm will be considered, but only at the discretion of the City Council in providing for the best financial oversight of the City.

- **External Reporting**

Upon completion and acceptance of the annual audit by the City's auditors, the City will prepare a written Annual Comprehensive Financial Report (ACFR) which will be presented to the City Council within 180 calendar days of the City's fiscal year end. The ACFR will be prepared in accordance with Generally Accepted Accounting Principles (GAAP) and will be presented annually to the Government Finance Officer Association (GFOA) for evaluation and consideration for the Certificate of Achievement in Financial Reporting.

- **Receivables Policy**

All receivables of the City are accounted for, aged and collected at the earliest opportunity. Delinquent receivables are processed expediently and collection agencies are utilized when appropriate.

- **Payables Policy**

All payables for incurred expenses are accounted for, aged and paid at the latest permissible time to maximize the City's investment earning capability. All applicable discounts are taken.

INTERNAL CONTROLS

The Finance Department is responsible for designing appropriate controls for the departments and the departments are responsible for implementation. Inherent in these responsibilities is the recognition that the cost of the internal control should not exceed the benefits expected to be derived. The objective of internal controls is to provide management with reasonable, but not absolute, assurance that assets are safeguarded from fraud and are recorded properly.

- **Department Policies**

Where appropriate, this City will maintain appropriate policies to manage budgetary expenditures and control, procurements, personnel, and staffing management. These policies will be developed, updated, and approved by the City Manager as necessary.

- **Written Procedures**

Wherever possible, written procedures will be established and maintained by the CFO for all functions involving cash handling and/or accounting throughout the City.

- **Internal Audit Program**

An internal audit program will be maintained by the CFO to ensure compliance with City policies and procedures and to prevent the potential for fraud.

EMPLOYEES & COMPENSATION

Realizing the importance and contribution of employees in achieving the Strategic Goals of the City and to maintaining its high standards, the City's policy as an employer is to attract and retain quality employees who provide excellent, friendly service to the Round Rock community in an effective and efficient manner.

To meet the goal of a quality workforce, the City will maintain competitive compensation and benefit programs.

- The proposed budget will include an amount adequate to cover changes in market salaries, as well as funds for performance-based merit increases as determined annually by the City Manager.
- The City will maintain a competitive health insurance program, including considering new options and adjustments to provide quality benefits in a cost-effective manner.

SELF INSURANCE & RISK MANAGEMENT

The City will maintain an internal service fund to account for the self-funded health insurance coverage for all City employees. In addition to the basic coverage provided to each employee, the employee may purchase dependent coverage through payroll deductions. Coverage will be financed by contributions from the City and employee payroll deductions.

The City will make a diligent effort to avoid or prevent loss of City assets and to reduce the City's exposure to liability. All reasonable options will be investigated to finance risk exposure. If risk is retained, reserves will be established based on actuarial determinations.

FEDERAL AND STATE GRANTS

The City will seek State and Federal grants where applicable and practical. The benefits of the grant should exceed the cost of administration of the grant when possible. Council should approve the application of all grants that will have future funding requirements.