

Fiscal Management Policies

Budget Preparation/Administration Policy

PURPOSE: To provide basic instructional guidelines for all City departments in the preparation of budget requests, to assist Council in making informed choices about the provision of services and capital assets, and to involve and promote effective communication with the community during the process.

GENERAL POLICY:

As an effective and useful management guide, the development of the City's budget process is the result of careful preparation and active participation of all levels of City personnel. The budget becomes the centerpiece of a thoughtful and ongoing decision-making process for allocating resources and setting priorities and direction for our City.

Good budgeting is a broadly defined process that has policy, managerial, planning, communication and financial dimensions. A good budget process is characterized by several essential features such as a long-term perspective linked to broad organizational goals, budget decisions that focus on results and outcomes, promotion of effective communication with residents and the provision of incentives to City staff.

Study Sessions are held with City Council for this purpose on all phases of the budget, including fees, capital improvement programs and the maintenance and operations budget proposals. Additionally, a good budget process helps decision-makers make informed policy choices about the provision of services and capital assets and promotes resident participation in the process.

The budgeting process is necessary for maintaining financial control over the City's operations and provides the basis for program planning. The process does not end with appropriations, but continues to operate throughout the year as funds are obligated and disbursed. A series of ongoing decision-making, actions and adjustments are often required to achieve established goals. Additionally, decisions made in one year are meant to bring a desired result in subsequent years. In this way, each budget program is a one-year installment in the implementation of the City's long-range financial plan.

Proposed Budget

A proposed budget will be prepared by the City Manager with the participation of all the City's Department Directors.

A. The budget will include four basic segments for review and evaluation. These segments are:

1. Revenues,
2. Personnel needs,
3. Operations and Maintenance costs, and
4. Capital Outlay

B. The budget review process will include City Council participation in the development of each of the four segments of the proposed budget and Public Hearings to allow for citizen participation in the budget preparation.

C. The budget process will span sufficient time to address policy and fiscal issues by the City Council.

Adoption: Upon presentation by the City Manager of a proposed budget document to the City Council, a public hearing called and publicized. The City Council will subsequently adopt such budget, as it may have been amended, as the City's Annual Budget effective for the fiscal year beginning October 1.

Balanced Budget: To the extent financially possible the Operating Budget will be balanced with current revenues, greater than or equal to current expenditures/expenses.

Planning: The budget process will be coordinated so as to identify major policy issues for City Council consideration several months prior to the budget approval. This will allow adequate time for appropriate decisions and analysis of financial impacts.

Reporting: Periodic financial reports will be prepared by the Finance Director to enable the Department Managers to manage their budgets and to enable the Finance Director to monitor and control the budget as authorized by the City Manager. Summary financial and budgetary reports will be presented by the Finance Director to the City Council quarterly. Such reports will be in a format appropriate to enable the City Council to understand the overall budget and financial status of the City.

City's Budget Process Overview

The process by which the budget will be compiled and finally adopted by the City Council is one that requires the combined effort and cooperation of all departments.

The budget development process includes five steps:

1. Council establishes major goals and objectives for the budget year.
Departmental objectives are also refined at that time.
2. Based on the above directions from Council, departments prepare budget estimates for the next fiscal year.
3. Budget estimates and final departmental objectives are reviewed by the City Manager, followed by any necessary revisions.
4. Proposed budget is submitted to Council for review.
5. Following a public hearing, the budget is adopted by Council.

It is important to keep in mind that the budget adopted by Council is not "final" in nature. Rather, the budget is intended to establish a framework for what is actually a dynamic financial process. As work plans and issues develop over the budget year, Council may adjust resources accordingly. In other words, the budget reflects Council's ongoing direction, properly responding to the fiscal environment and the needs of the community.

Budget Document Overview

The *Operating Budget* document will be organized as follows:

1. *Section 1: City Manager's Budget Message* – Provides an overview of community and Council priority issues, budget highlights, community profile, future trends and the budget process.

2. *Section II: Fiscal Policies* - Establishes the policies and procedures to be followed in preparing and administering the budget.

3. *Section III: Budget Summaries & Graphs* – Provides revenue and expenditure/appropriation summaries for all funds as well as detail of revenue and expenditures for the General Fund. Graphics include pie charts and community information with pictures.

4. *Section IV: Department Budget Sections* – Each department budget section includes an organizational chart, program budgets and program trends and objectives.

5. *Position Summary by Fund Section* – Summary of budgeted positions by Fund.

5. *Supplementary Section* – Includes active bond issues, and Glossary.

Compensation Policy

For 2007-08 fiscal year, a comprehensive survey was made of all full time classifications used by the City to determine the average wages and salaries paid by comparable cities in central Texas. The list of cities surveyed included:

Cedar Park	San Marcos
Georgetown	Schertz
New Braunfels	Seguin
Pflugerville	Universal City

Data was gathered from The Texas Municipal League who contracts with a consulting group that collects and compiles the data then makes it available to all Texas cities. Based on the results of the survey, market adjustments were made for each position for which it was determined that an employee with several years of experience in their current position or similar city was eligible to receive a market adjustment based on the following criteria:

Maximum increase 10% for any individual employee

A ceiling of 15% above the average for all classifications. If an employee was currently above 15% of the average, there was a mandatory freeze on that employee's pay until the average exceeds the current pay level.

City Manager has discretion to grant up to 10% increase effective the first pay period ending in November 2008, for those employees below average by more than 10%. Considerations for market adjustment include length of experience with the City or experience in a current or similar position in another City and overall value to the organization.

If differential was less than 10% the maximum allowable, the maximum percentage increase was permissible only up to the amount of the percentage differential.

Employees were still be eligible for a maximum 5% merit increase on their anniversary date based on a written performance evaluation.

Entry level pay was set at 10% below the average pay for each classification.

City Manager had discretion to consider override in excess of 10% if a particular employee was still 10% below the average after the 10% increase is given. This is to avoid the possibility that an entry level employee is paid more than a fully qualified current employee that came in at a lower rate.

Given the cost of this program to catch up with salaries, no across the board cost-of-living increase was entertained.

Implementation of this policy in 2007-08 went a long way towards helping the majority of employees gain equal pay for equal work within the central Texas market for local government employees. For 2008-09 an increase in the consumer price index published by the US Bureau of Labor Statistics in excess of 4.00% has again put pressure on salaries in general if the City expects to keep up with increases in the cost of living. The 2008-09 Budget proposes a 4.00% across the board increases (COLA) for all employees. Those qualifying employees that are still below the average or minimum wages after the COLA has been calculated will still be eligible for a market adjustment as defined above.

Capital Asset Maintenance and Replacement

The City's repair/replacement schedule for facilities is developed in three steps. First, the Public Works Department reviews the condition of each building in the inventory and develops a prioritized list of capital needs. Second, the Facilities Manager develops a ten-year program based on inventory capital needs and projected funds available. Third, the ten-year repair/replacement schedule is presented to the City Council for review and adoption. Capital needs are evaluated for inclusion in the repair/replacement schedule according to four criteria:

1. Improvements to the structural integrity of a facility that bring the facility up to good condition;
2. Improvements that keep HVAC, electrical and plumbing systems in good mechanical condition;
3. Energy-efficient improvements with a payback of less than five years; and
4. Modifications to enhance function and use.

The repair/replacement schedule guarantees that City facilities are maintained in good condition. Major improvements to facilities are considered, as funds are available.

Fund Balance Reserve Policy

Purpose: To establish policies which create sufficient reserves in the general fund and other operating funds.

General Fund Undesignated Fund Balance

The City will strive to maintain the General Fund undesignated fund balance at 20% of current year General Fund budgeted expenditures with a 5% contingency reserve.

Retained Earnings of Other Operating Funds

In other enterprise operating funds, the City will strive to maintain positive retained earnings positions to provide sufficient working capital reserves for emergencies and revenue shortfalls. Specifically, in the Utility Fund, an operating reserve will be established and maintained at approximately 10% of the current year's budget appropriation for operation and maintenance, which is defined as the total budget, less debt service and capital project expenditures.

Fund Balance/Retained Earnings will be used only for emergencies, non-recurring expenditures, or major capital purchases that cannot be accommodated through current year savings. Should such use reduce the balance below the appropriate level set as the objective for that fund, restoration recommendations will accompany the decision to utilize said balance.

Debt Service Funds

The City will maintain sufficient reserves in its debt service funds that will equal or exceed the reserve fund balances required by bond covenants.

Debt Policy

PURPOSE: To ensure the proper and orderly issuance of debt for the purpose of achieving the City Council's goals and objectives.

GENERAL POLICY: The City Council of the City of Kyle adopts the following Debt Policy to ensure the proper and orderly issuance of Debt for the purpose of achieving the City Council's Goals and Objectives.

The purpose of this Debt Policy is to ensure that the City's bonded indebtedness is incurred and administered in a prudent manner. A decision by the City Council to incur bonded indebtedness is one of its most important decisions. Bond investors are going to purchase the City's bonds with the absolute expectation that the City will honor its promise to pay the annual debt service without exception for the 25-to-30 year life of the bonds. A decision to incur bonded indebtedness, also incurs the ongoing annual responsibility for the payment of debt service, annual State and Federal reporting requirements and the obligation to address any problems which may arise for as long as the bonds are still in existence. Although this policy addresses bonded indebtedness, these same policy concerns can be directed to a bank loan or an internal inter-fund loan.

Policy Elements

1. Budget Integration: The decision to incur bonded indebtedness is to be integrated with the City Council approved annual Operating Budget and Capital Improvement Program Budget. A bond issue can be utilized to implement the financing of a Capital Project. Provision for the annual principal and interest payments (debt service) is provided for in the Operating Budget. In addition, the need for bond financing can be incorporated into a capital facilities financing plan relating to the General Fund or an Enterprise Fund. Bond proceeds are not to be used to fund operating expenses.

2. Required Bond Analysis: The Finance Director is to prepare an analysis of each proposed bond issue. This analysis should include (a) determining that the capital project is eligible for bond financing, (b) identifying the sources of financing for the project other than bond financing, (c) Identifying the total cost of the capital project including its construction cost, cost of furnishings fixtures and equipment, and source of revenue to fund the annual debt service. (d)

analyzing the municipal bond market, including economic and interest rate trends. (e) identifying alternative bond structures, option to use bond insurance and the information needed by rating agencies and the disclosure requirements of the Official Statement. (f) The timing of when the City should enter the bond market.

3. Types of Bond Issues: The City Council will authorize the issuance of bonds by adopting a bond resolution on behalf of the City of Kyle. The type of Bonds that the City will issue include General Obligation Bonds, Certificates of Obligation Bonds, Revenue Bonds, Special Tax Bonds and any other bonds which are allowed under State Law and Federal Tax Law.

4. General Provision: The term of a bond issue is not-to-exceed the useful life of the capital project that is being financed. The bonds are to be sold at Competitive Sale, however, the City reserves the option of pursuing a Negotiated Sale if the proposed financing or the Capital Project is unusual or complex. The overall objective is to obtain the lowest possible interest cost. The City is to remain cognizant of fluctuations in interest rates for the purpose of identifying Refunding opportunities. Refund of existing bonds should be undertaken to reduce overall debt service expense or to remove restrictive covenants in the existing Indenture.

6. Financing Consultants: The City is to retain professional consultants including Bond Counsel, Underwriter, Financial Advisor, Trustee, and arbitrage analyst. The City will consider the professional qualifications and experience of these consultants as it relates to the particular bond issue under consideration. In certain instances, the City will conduct a request for proposal/qualification process to select such consultants.