<u>Backup for Updates to County Debt Issuance Policies</u>

Attachments:

I – City of Austin Policy

II – Bexar County Policy

III – Dallas County Policy

IV – El Paso Policy

Peter Einhorn

From: Leslie Browder
Sent: Monday, August 26, 2013 11:52 AM
To: Bruce Todd; Peter Einhorn; Sara Krause
Cc: Jessica Rio
Subject: FW: City of Austin General Debt Policies and GO-specific policies

The City's GO debt policies are below:

General Debt Management Policies
The City shall use several methods of debt issuance, including selling bonds competitively, by negotiated sale, or through private placement. The City may issue bonds by negotiated sale when appropriate, based on prevailing market conditions, size or structure of the planned issuance, or other factors. The City shall use the competitive sale method when issuing general obligation bonds, unless a negotiated sale or private placement would be more advantageous.

The City shall use competitive procurement methods to select professional firms used in the bond issuance process.

The City's financial advisor must be a firm that is independent of banking, underwriting, or other interests to assure that the selected financial advisor can effectively represent the City in negotiations with bankers, underwriters, and other service providers needed for the issuance of debt.

General Obligation Debt Financial Policies
A fund balance for the General Obligation Debt Service Fund of at least 10% of total general obligation debt service requirements shall be maintained to ensure the City's ability to meet debt service payments in spite of tax revenue shortfalls or fluctuations in interest rates.

The term of long-term debt generally shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed 20 years.

The ratio of net debt (total outstanding tax supported general obligation debt less G.O. Debt Service Fund balance to Total Assessed Valuation shall not exceed 2.0%. This excludes debt of overlapping jurisdictions. The City shall structure its bond issuance to achieve and maintain a debt to assessed value of 2.0% or less.

The ratio of Debt Service to Total Expenditures (operating expenditures and debt service combined) shall not exceed approximately 20%.

Bond sales shall be structured to achieve level debt service payments.

Interest earnings from bond proceeds for general government projects (excluding projects for enterprise funds) shall be deposited in and retained by the debt service fund (preferred practice) unless otherwise required by bond ordinance or used to fund future CIP projects.

Timing of general obligation bond elections shall be determined by the inventory of current authorized unissued bonds remaining to be sold. An estimated 2 years of authorized unissued bonds shall remain before an election will be held.

The total dollar amount of bond election propositions recommended to the voters shall not exceed the City's estimated ability to issue said bonds within a normal 6 year period.

The use of reimbursement resolutions shall be encouraged as a cash management tool for general obligation debt funded projects. Reimbursement resolutions may be used for any project which is on the bond sale schedule for the following year.

Reimbursement resolutions may be used for other projects if the projects are revenue supported, funded within a department's operating budget, or included on the schedule of capital projects to be funded by cash in the following year.

It is the City's priority to fund capital expenditures with cash or voter- approved debt. However, non voter approved debt may be used for capital expenditures as an alternative to lease/purchase or other financing options if the capital expenditure is:

- Urgent;
- Unanticipated;
- Necessary to prevent an economic loss to the City;
- Results in an economic gain to the City within a reasonable time;or
- Non voter approved debt is the most cost effective financing option available.

The average maturity of non voter approved debt shall not exceed the average life of the capital items financed.

Capital items financed with non voter approved debt shall have a value of at least $10,000 and a life of at least four years.

BEXAR COUNTY

FINANCIAL AND MANAGEMENT SERVICES

DEBT MANAGEMENT POLICY

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BEXAR COUNTY
ADMINISTRATIVE POLICY
AND PROCEDURES MANUAL

ADMINISTRATIVE POLICY NUMBER:	03.12
TITLE:	DEBT MANAGEMENT POLICY
PREPARED BY:	Commissioners Court
ADOPTED DATE:	August 14, 2007
REFERENCE:	N/A
EFFECTIVE DATE:	August 14, 2007
REVISED DATE:	N/A

Section 1

<u>PURPOSE AND OBJECTIVES</u>

1.1 Purpose

The purpose of this policy is to provide guidance regarding the issuance, management, continuing evaluation and reporting on all debt obligations issued by Bexar County, Texas (the "County"). The Bexar County Commissioners Court recognizes there are no absolute rules or easy formulas that can substitute for a thorough review of all information affecting the County's debt position. Debt decisions should be the result of deliberative consideration of all factors involved. This policy is intended to augment the deliberation process by addressing the methods, procedures and practices to be utilized to ensure effective and judicious fiscal management of County funds.

The terms of this Debt Management Policy (the "Policy") are intended to comply with all Texas and Federal Law governing debt, including, but not limited to, Texas law, Internal Revenue Service rules and regulations, United States Securities and Exchange Commission "(SEC)" regulations, Municipal Securities Rulemaking Board "(MSRB)" regulations, court rulings, and existing County debt covenants.

1.2 Objectives

Debt Management shall be conducted with the primary objectives of:

- Maintaining and improve the County's existing credit rating;
- Maintaining access to capital; and
- Minimizing borrowing costs

Section 2

SCOPE

2.1 This Policy shall govern debt obligations issued by the County that finance the construction or acquisition of infrastructure and other assets or to refinance existing debt. The County may also desire to issue debt obligations on behalf of external agencies, non profit corporations, or other authorities for the purpose of construction or acquisition of infrastructure or other assets that further the goals and objectives of County government. In that case, the County shall take reasonable steps to confirm the financial feasibility of the project and the financing solvency of any necessary borrower; and shall take all reasonable precautions to ensure the public purpose and financial viability of such transactions. This policy does not apply to the County's Capital Lease Program.

Section 3

ROLES AND RESPONSIBILITIES

3.1 As provided by the Texas Local Government Code, each member of Commissioners Court has a fiduciary responsibility in the management of the County's indebtedness. All debt programs are to be made in accordance with applicable Texas and federal regulations. The Commissioners Court will approve all County indebtedness.

3.2 The Executive Director of Planning and Resource Management has the primary responsibility for making debt-financing recommendations to the Commissioners Court.

3.3 The Executive Director of Planning and Resource Management, or their designee, will coordinate all activities necessary to issue debt, including, but not limited to:

- Review of resolutions provided by bond counsel;
- Review of offering memoranda provided by financial advisors; and
- Review of all related financial analyses.

ROLES AND RESPONSIBILITIES (Continued)

3.4 The Executive Director of Planning and Resource Management, or their designee, will report annually to the Commissioners Court:

a. A projected list of expected capital needs for the year;
b. An annual debt issuance schedule for capital projects;
c. An updated five-year capital improvement plan as part of the budget;
d. Certification that the County is current on all debt service payments; and
e. Disclosure of any bond covenant violations or defaults over the past year.

3.5 The Executive Director of Planning and Resource Management, or his designee, will implement and oversee the Capital Reporting System for County offices and departments pursuant to Section 17 of this policy.

3.6 The Executive Director of Planning and Resource Management, or his designee, will recommend to the Commissioners Court a financing team consisting of bond counsel, financial advisors, and underwriters.

3.7 The Office of the County Auditor is responsible for reporting monthly in its financial report a schedule that includes outstanding debt requirements as well as commercial paper activity. These reports will include principal and interest requirements, dates for each and related interest rates.

3.8 The Office of the County Auditor is responsible for assuring that all debt service payments are made in a timely manner to the appropriate paying agents.

3.9 The Office of the County Auditor is responsible for preparing the annual continuing disclosure and the County's bond counsel is responsible for reviewing, approving, and submitting the continuing disclosure pursuant to SEC Rule 15c-12.

3.10 The Office of the County Auditor is responsible for the annual estimation of the cumulative rebate amount (arbitrage) for each debt issuance as defined in Section 148(f)(2) of the Internal Revenue code. These annual estimates are for informational and internal reporting purposes only.

3.11 The Office of the County Auditor is responsible for ensuring compliance with the filing requirements with the Internal Revenue Service related to arbitrage.

3.12 Offices and Departments administering projects financed with debt funding are responsible to comply with Section 17 of this Policy.

Section 4

REPORTING

4.1 The Executive Director of Planning and Resource Management, or his designee, will report annually to the Commissioners Court:

a. A projected list of expected capital needs for the year;
b. An annual debt issuance schedule for capital projects;
c. An updated five-year capital improvement plan as part of the budget;
d. Certification that the County is current on all debt service payments; and
e. Disclosure of any bond covenant violations or defaults over the past year.

4.2 The Office of the County Auditor is responsible for reporting monthly in its financial report a schedule that includes outstanding debt requirements as well as commercial paper activity. These reports will include principal and interest requirements, dates for each and related interest rates.

4.3 The Office of the County Auditor is responsible for preparing the annual continuing disclosure and the County's bond counsel is responsible for reviewing, approving, and submitting the continuing disclosure pursuant to SEC Rule 15c-12.

4.4 The Office of the County Auditor is responsible for the annual estimation of the cumulative rebate amount (arbitrage) for each debt issuance as defined in Section 148(f)(2) of the Internal Revenue code. These annual estimates are for informational and internal reporting purposes only.

4.5 The Office of the County Auditor is responsible for ensuring compliance with the filing requirements with the Internal Revenue Service related to arbitrage

4.6 Offices and Departments administering projects financed with debt funding are responsible to comply with Section 17 of this Policy.

Section 5

ORGANIZATIONS AFFECTED

5.1 All County offices and departments must comply with the guidelines and procedures set forth in this Policy.

Section 6

USE OF DEBT INSTRUMENTS

6.1 Debt financing will not generally be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The County will use debt financing for one-time capital improvement projects including appropriate operating expenditures required to implement the projects under the following circumstances:

a. The project must be approved by Commissioners Court;
b. The project's useful life will be equal to or exceed the term of the financing;
c. The equipment has an expected useful life of at least the term of financing;
d. There are revenues sufficient to service the debt, whether from future property taxes, user fees, or other specified and reserved resources; or
e. Compliance with the appropriate provisions of Texas Law and the Internal Revenue Code of 1986, as amended.

6.2 Operating expenditures required to implement capital improvement projects will be funded using debt financing in accordance with Chapter 1201, as amended Texas Government Code and Chapter 1431, as amended Texas Government Code.

Section 7

STRUCTURE AND TYPE OF DEBT

7.1 Debt service will be structured to match projected cash flows and minimize the impact on future property tax levies.

7.2 The term of the debt issuance should equal the lesser of the useful life of the asset being financed or the maximum of 40 years in accordance with Chapter 1201, as amended Texas Government Code.

7.3 The types of debt instruments to be issued by the County include:

a. General Obligation Bonds;
b. Certificates of Obligation;
c. Revenue Bonds
d. Refunding Bonds;
e. Commercial Paper;
f. Tax Anticipation Notes; and
g. Any other debt instrument authorized for issuance by a County in accordance with the Texas Government Code or other applicable law

STRUCTURE AND TYPE OF DEBT (Continued)

7.4 Individual revenue streams considered for proposed debt service should meet a minimum debt service coverage ratio test of 1.10 along with any appropriate revenue or contingency funds. Debt coverage is defined as total revenue divided by total debt service.

Section 8

DEBT LIMITS

8.1 The County will not exceed the debt issuance limits described in Article 3, Section 52 of the Texas Constitution and Chapter 1301 of the Texas Government Code.

8.2 The County shall use economic ratios as a tool to assist in providing an objective analytical approach to determine debt capacity for new projects. These ratios may include:

a. Debt per capita;
b. Debt as a percent of statutory debt limit;
c. Debt as a percent of appraised valuation;
d. Debt service payments as a percent of governmental expenditures; or
e. Level of overlapping net debt of all local taxing jurisdictions.

8.3 The County will maintain a debt service fund balance of at least 10 percent of the annual debt service requirement for the fiscal year; provided; however, that this requirement shall comply with the provisions of the Internal Revenue Code of 1986, as amended.

Section 9

METHOD OF SALE

9.1 The County may use competitive sales, negotiated sales, or private placements. When considering the method of sale, the County will take into consideration:

a. Financial conditions;
b. Market conditions;
c. Transaction-specific conditions;
d. County-related conditions; and
e. Risks associated with each method.

9.2 Competitive sales are the preferred method under the following circumstances:

a. A general obligation pledge or annual appropriation of general revenue;
b. Simple structure and financial analysis;
c. Stable financial market; and

d. Moderate par amount.

9.3 Negotiated sales are the preferred method under the following circumstances:

a. Complex transactions that require extensive financial modeling, credit analysis, pre-marketing efforts, or that are interest rate sensitive; and
b. Volatile financial markets.

9.4 Private Placement is the preferred method under the following circumstances:

a. Small issue size;
b. Questionable security for the issue; and
c. Overall cost savings to the County.

Section 10

REIMBURSEMENT RESOLUTION

10.1 As provided in the Texas Government Code, Section 1201.042, as amended, Department of the Treasury Regulation, Section 1.150-2 of the Internal Revenue Code of 1986 as amended, Commissioners Court may decide that it is in the County's best interest to pass a reimbursement resolution prior to the formal issuance of debt. The purpose of the resolution would be to announce the intent to reimburse itself for expenditures related to capital programs for which debt will be issued and the General Fund could then be reimbursed once the debt is sold. The County will intend to reimburse itself within 18 months from the later of date of the original expenditure or the date the property financed is placed into service (but in no event more than 3 years after the original expenditure is paid).

Section 11

REFUNDING OF DEBT

11.1 The County may elect to refund existing debt for reasons including, but not limited to, the following:

a. To achieve Net Present Value (NPV) savings generally of at least 3 percent;
b. To update bond covenants on outstanding debt which impair efficient operations or prohibit necessary or desirable activities;
c. To restructure the debt service schedules associated with outstanding bond issues; or
d. To alter bond characteristics such as call provisions or payment dates.

REFUNDING OF DEBT (Continued)

11.2 If a refunding is undertaken, the County will evaluate:

a. Issuance costs that will be incurred;
b. Interest rate at which the refunding bonds can be issued;
c. Maturity dates of the refunded bonds;
d. Call date (if any) on the refunded bonds; and
e. Call premium (if any) on the refunded bonds

Section 12

VARIABLE RATE EXPOSURE

12.1 The County may use variable rate debt (including commercial paper) to lower the cost of borrowing and provide a hedge against interest rate risk.

12.2 The County should establish a target of not to exceed 20 percent of its total outstanding debt in a variable rate mode.

12.3 Variable rate debt should be converted to fixed rate debt as necessary to maintain the 20 percent target, to meet the particular needs of a financing program, or to lock in low long term fixed interest rates.

12.4 When issuing variable rate debt, the County will have appropriate contingency plans in place, such as reserves or hedging instruments, to mitigate the risk associated with rising interest rate environments.

Section 13

INTEREST RATE SWAP AGREEMENTS

13.1 The County will consider the use of interest rate swap agreements on a case-by-case basis and consistent with Texas law and financial prudence.

13.2 Interest rate swap agreements may be used for the following purposes:

a. To achieve significant savings as compared to other, non-derivative type products available in the bond market;
b. To prudently hedge risk in the context of a particular financing or the overall asset/liability management of the County;
c. To incur variable rate exposure within prudent financial guidelines;
d. To achieve more flexibility in meeting overall financial objectives than available in conventional markets; or
e. To accomplish a financial objective not otherwise obtainable using traditional financing methods.

13.3 The County will not enter into an interest rate swap agreement without advice of an independent advisor and bond counsel.

13.4 The County may enter into an interest rate swap agreement if the counterparty has at least two long term unsecured credit ratings of at least equal to the County's long term general obligation rating from Fitch Ratings, Moody's Investors Service or Standard & Poor's Ratings Services and the party has demonstrated experience in successfully executing interest rate swap agreements.

13.5 The County will select counterparties utilizing one of the Methods of Sale as outlined in Section 9 of this policy.

13.6 Before entering into an interest rate swap agreement, the County shall evaluate all the risks inherent in the transaction including counterparty risk, termination risk, rollover risk, basis risk, tax event risk, credit risk and amortization risk. Evaluation of risk will also include the following considerations:

a. Uncertainty with respect to the County's future debt obligations;
b. Effect on the County's credit quality;
c. Cumulative exposure to all risk factors identified;
d. Difficulty and costs associated with terminations; and
e. Limitations on the ability to refund the swap's underlying bonds.

13.7 The County will monitor interest rate swap agreements on a quarterly basis to ensure compliance with corresponding swap documentation.

Section 14

<u>CONTINUING DISCLOSURE</u>

14.1 The County will periodically review the requirements of the Municipal Securities Rulemaking Board (MSRB) and the recommendations of the Government Finance Officers Association (GFOA), including the GFOA recommendation that financial statements be prepared and presented according to generally accepted accounting principles.

14.2 The County will remain in compliance with SEC Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within six months after the end of each fiscal year.

Section 15

MATERIAL EVENTS

15.1 Material Events are defined as those events, which are considered likely to reflect on the credit supporting the securities.

15.2 The County will issue a material event notice in accordance with the provisions of SEC Rule 15c2-12.

15.3 The events Bexar County will consider material are:

a. Principal and interest payment delinquencies;
b. Non-payment related defaults;
c. Unscheduled draw on debt service reserves reflecting financial difficulties;
d. Unscheduled draw on credit enhancements;
e. Substitution of credit or liquidity providers, or their failure to perform;
f. Adverse tax opinions or events affecting the tax-exempt status of the security;
g. Modification to rights of the security holders;
h. Bond calls;
i. Defeasances;
j. Release substitution, or sale of property securing repayment of the securities;
k. Rating changes; and
l. Any change in the County's fiscal year

Section 16

INVESTMENT OF DEBT PROCEEDS

16.1 Debt proceeds will be invested in accordance with the County's Investment Policy #3.10 or as otherwise permitted in the order or resolution authorizing the issuance of the debt.

16.2 Interest earned on proceeds from bonds, certificates of obligation, commercial or other short-term or long-term debt proceeds (excluding capital lease proceeds) is allocated to the Debt Service Fund.

16.3 Interest earned on proceeds from bonds, certificates of obligations, or other short-term or long-term debt proceeds (excluding capital lease proceeds) allocated to the Debt Service Fund shall be used solely to pay current and future debt service payments, as well as all related issuance cost.

Section 17

ARBITRAGE

17.1 The County will follow a policy of full compliance with all arbitrage rebate requirements of the Internal Revenue Code of 1986, as amended and its adopted rules and regulations, and will perform (via contract consultant) arbitrage calculations for each debt issue subject to rebate on an annual basis. All necessary rebates liability will be filed and paid when due.

Section 18

CAPITAL PROJECT REPORTING SYSTEM

18.1 The Capital Reporting System is an internal reporting system used to track actual cash needs for capital improvement projects to be debt financed by requiring offices and departments administering a capital project to detail the different phases of the project, a timeline for each phase, and cost per phase pursuant to 17.3 and 17.4 of this section.

18.2 As set forth in Section 3 of this policy, the Executive Director of Planning and Resource Management is responsible for making debt-financing recommendations to the Commissioners Court. In order to ensure sufficient cash flow is available to meet capital improvement project cash requirements, an annual debt issuance schedule is required. The Capital Reporting System will provide the basis for the annual debt issuance schedule.

18.3 Upon approval of a new debt-financed project during the annual budget process, each office or department will complete the Initial Project Outline form (Appendix A). This form will be submitted to Planning and Resource Management not later than October 15th in any given fiscal year.

18.4 In order to update the annual debt issuance schedule, each office or department administering a project funded through debt financing will submit a Quarterly Project Report (Appendix B). The report will be submitted to Planning and Resource Management not later than the 15th day following the end of each quarter of the County's fiscal year.

Section 19

DEFINITIONS

19.1 Definitions:

a. Arbitrage – Arbitrage is the profit that results from investing tax-exempt proceeds in higher-yielding taxable securities. In general, Internal Revenue Service (IRS) Regulations require that positive arbitrage earnings be rebated back to the government.

b. Bond Indenture – The contract that sets forth the promises of a bond issuer and the rights of investors in the bond.

c. Bond Covenant – A clause in a bond indenture that either requires or forbids some act by, and the issuer is obligated to comply with the covenant by virtue of issuing its bonds.

d. Call Dates – The date, prior to maturity, on which a callable bond may be redeemed.

e. Call Premium – The price, as established in the bond covenant, at which bonds will be redeemed.

f. Certificate of Obligation – The Certificate of Act of 1971 (as amended) permits a County to issue certificates of obligations for the purpose of paying contractual obligations incurred in the construction of public works and the purchase of materials, supplies, equipment, buildings, professional services and real property. Certificates of obligation are normally secured by ad valorem tax revenue and there is no requirement for voter approval.

g. Call Provisions – A clause in a bond contract granting the issuer the right to buy back all or part of an issue prior to the maturity date.

h. Capital Lease – A contract for the purchase of capital equipment through installment payments.

i. Commercial Paper – Short-term, unsecured promissory notes usually backed by a line of credit with a bank. Maturities do not exceed 270 days.

j. Competitive Sales – A sale whereby the issuer determines the bond structure and solicits bids. The bonds are then awarded to the underwriting firm that submits the lowest interest costs for the debt.

k. Continuing Disclosure – The principal that accurate and complete information material to the transaction, which potential investors would be likely to consider material in making investment decisions with respect to the securities, be made available on an ongoing basis.

l. General Obligation – Bonds backed by the annual levy of an ad valorem tax as necessary, within the limits prescribed by law (if any), to pay off the bonds. Bonds are issued upon approval by the public in an election.

m. Interest Rate Management Agreement – An agreement entered into in connection with the issuance of debt by an issuer or in connection with debt already outstanding, with a counterparty to provide for an exchange of payments based upon fixed and/or variable interest rates.

n. Issuance Costs – The expenses associated with the sale of new securities, including such items as underwriter's spread, printing, legal fees and rating costs.

o. Negotiated Sales – A sale whereby the issuer selects an underwriter in advance so that the underwriter can assist with determining the appropriate structure of the bonds.

p. Private Placement – A sale whereby the issuer sells the bonds directly to an institutional investor.

q. Refunding Bonds – Bonds issued to retire a bond already outstanding that may be sold for cash and outstanding bonds redeemed with cash or exchanged with holders of outstanding bonds.

r. Revenue Bonds – Bonds issued where the money raised to pay off the bonds comes from a non-tax revenue source or a special/specific enterprise fund.

s. Tax Anticipation Notes – Short-term notes issued in anticipation of collections of taxes. Short-term notes issued by the county to finance current operations, with repayment from anticipated tax receipts. Also called tax anticipation warrant. These notes are issued at a discount, and must have a maturity of thirteen months or less, and mature either at a specific future date or when property and other taxes are collected. Tax anticipation notes hold first claim on tax receipts when collected.

t. Variable Rate Debt – Bonds with interest rates that fluctuate based upon an index or pricing procedure. These bonds often offer lower interest rates and have short maturities.

Appendix A

Bexar County Capital Improvement Program

FY 2006-07

Initial Project Outline

Approved Project:	
Funding Codes (Fund/Agency/Org):	
Approved Budget:	
Sponsoring Office/Department:	
Project Liaison: Name	
Title	
Office Location	
Phone Number	

Timeline by Phase and Budget:

Phase	Start Date/Completion Date	Approved Budget

Office/Department Approval:

Authorized Signature Date

Appendix B

Bexar County Capital Improvement Program

FY 2006-07

Quarterly Project Report

Approved Project:	
Funding Codes (Fund/Agency/Org):	
Approved Budget:	
Sponsoring Office/Department:	
Project Liaison: Name	
Title	
Office Location	
Phone Number	

Current Project Timeline by Phase and Budget:

Phase	Start Date/ Completion Date	Estimated Cost	Approved Budget

If the project timeline and/or budget has changed since last quarter, please explain:

Attach contracts approved for this project since last quarterly project report

Office/Department Approval:

Authorized Signature Date

DEBT AND DEBT SERVICE

Fund #205

The County accounts for its bonded debt through the Interest and Debt Fund. This fund is used to pay the principal, interest, and fiscal agent fees for all tax-secured County bonds. The primary source of revenue for this fund is ad valorem taxes although surplus funds from automobile license fees have historically been used to reduce the tax rate for debt service.

TYPES OF BONDED DEBT AND DEBT LIMITS

The County's outstanding bonds are of three (3) general types, each subject to different legal restrictions. The three types of bonds are as follows:

Limited Tax Bonds - These bonds and Certificates of Obligation (C.O.s) are used for permanent improvements other than roads and are repaid by a tax levied against all property in the County. The tax is limited to 80¢ per $100 of assessed valuation.

Unlimited Tax Bonds - These bonds are issued to finance transportation projects and are secured by a property tax which can be set at an unlimited rate. However, the amount of unlimited tax-secured debt outstanding may not exceed 25% of the assessed valuation of real property within the County.

Revenue Bonds - Seldom used by Dallas County, these bonds are secured only by the revenues produced by a specific project, e.g., a parking garage.

Debt Limit - As a practical matter, neither the County's debt service tax nor its total debt is anywhere near the constitutional limits described in the preceding paragraphs. The policy of the Commissioners Court limiting total debt service payments to 25% of total operational expenditures is the primary factor that constrains the County's debt load. As mentioned in the transmittal letter, the county's financial plan calls for a multi-year trend toward cash - rather than debt - financing of major projects.

DEBT POLICY

In addition to statutory provisions effecting local government debt issuance, Dallas County adheres to debt management policies and principles designed to preserve its financial integrity, and to ensure the aggressive maintenance of superior bond ratings from both Moody's Investors Service (Aaa) and Standard & Poor's Corporation (AAA).

The most significant components of the county's debt management principles are listed below. A full statement of the County's debt management policy can be found in the "Trends and Summaries" section of this budget document.

- Average weighted general obligation bond maturities is maintained at ten and one-half (10 ½) years;

- Each bond issue is structured so that an equal principal amount is retired each year over the life of the issue to produce a total debt schedule with a yearly declining balance;
- Debt service for all funds in any year may not exceed 25% (twenty-five percent) of the total annual operating budgets;
- Total bonded debt may not exceed 1% (one percent) of the net valuation of taxable property in Dallas County based on 100% (one hundred percent) of the net appraised valuation;
- The tax rate for debt service is maintained at a rate that provides a beginning balance in the Interest & Debt Fund equal to 50% of the subsequent year's debt service;
- Certificates of Obligation (C.O.s) are issued with a term not to exceed ten years;
- Total C.O. debt issued in each fiscal year shall be limited to the greater of (*i*) 5% of total debt projected to be outstanding at the end of the current fiscal year, or (*ii*) the amount of C.O. debt scheduled to be retired during the current fiscal year, plus, debt for which a funding source other than the debt service tax is available.

Dallas County, in seeking to maximize cost savings to taxpayers, has from time to time issued refunding bonds designed to reduce the amount of interest paid on previously - issued debt by selling new bonds, at a reduced interest rate, and using the proceeds of such a sale to pay off existing high rate debt. Additionally, Dallas County utilizes interest earned on issued bond debt, as well as reserve fund balances as a means in keeping the tax rate for debt service as low as possible.

BOND RATINGS

Moody's Investors Service ("Moody's") and Standard and Poor's Corporation ("S&P") have assigned their municipal bond ratings of "Aaa" and "AAA" respectively to the Series 2011B Limited-Tax GO Refunding Bonds and Series 2011 Limited-Tax GO Notes sold in FY2011.

TOTAL OUTSTANDING DEBT

Table IV-1 summarizes the total indebtedness of Dallas County as of October 1, 2012. Table IV-2 provides additional detail on the purposes of past certificate of obligation issues.

The pattern of debt maturity is shown in Table IV-3, reflecting the County's practice of issuing its long term debt as 20 year serial bonds with equal principal repayment each year.

STANDARD AND POOR'S RATING OF RECENT COUNTY DEBT

STANDARD & POOR'S

PUBLIC FINANCE

Dallas County, Texas

Primary Credit Analyst
Emmanuelle Lawrence
Dallas
214-871-1473
emmanuelle_lawrence@standardandpoors.com
Secondary Contact: Horacio Aldrete-Sanchez
Dallas
(1) 214-871-1426
horacio_aldrete@standardandpoors.com

Credit Profile		
US$43.355 mil Limited Tax Notes, Series 2011 dated 05/01/2011, due 02/15/2018		
Long Term Rating	AAA/Stable	New
US$31.31 mil Unlimited Tax Refunding Bonds, Series 2011A, dated 05/01/2011, due 08/15/2021		
Long Term Rating	AAA/Stable	New
US$1.945 mil Limited Tax Refunding Bonds, Series 2011B, dated 05/01/2011, due 08/15/2012		
Long Term Rating	AAA/Stable	New
Dallas County, General Obligation		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to Dallas County, Texas' series 2011A unlimited-tax general obligation (GO) refunding bonds, series 2011B limited-tax GO refunding bonds, and series 2011 limited-tax GO notes and affirmed its 'AAA' rating, with a stable outlook, on Dallas County's existing GO debt.

The rating reflects our view of the county's:

- Large and diverse economic base,
- Above-average wealth and income levels,
- Sound financial position and management with a competitive tax rate, and
- Manageable debt levels with limited debt-financed capital needs.

Table IV-1

DALLAS COUNTY
OUTSTANDING BONDED INDEBTEDNESS

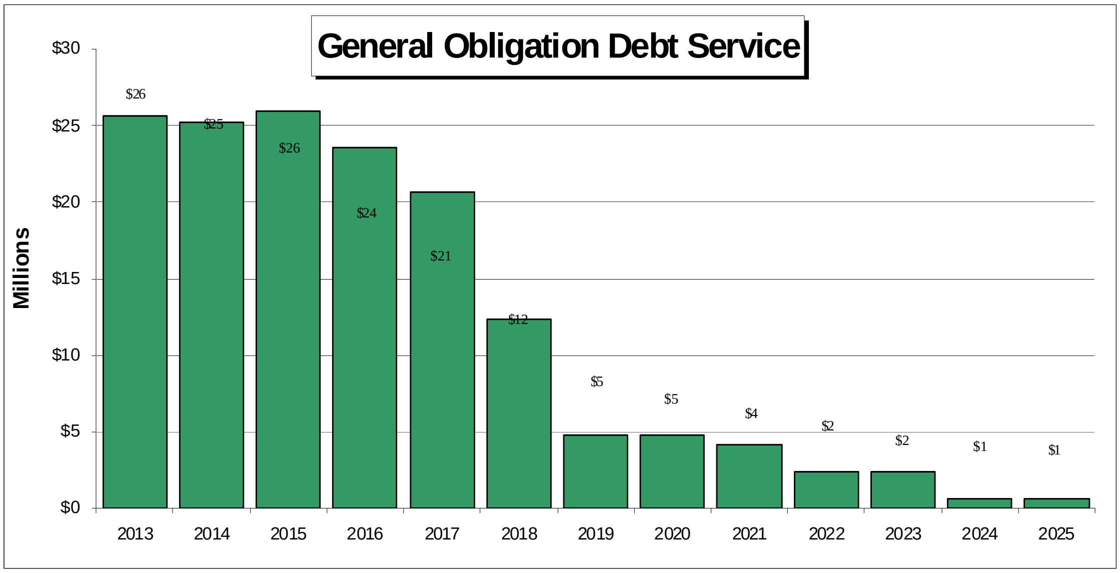
Issue Description	Amount Outstanding
Unlimited Tax Bonds	
Refunding Bonds Series 2005	$20,510,000
Refunding Bonds Series 2011A	$22,750,000
Total Unlimited Tax Bonds	$43,260,000
Total Unlimited Tax Bonds Allowed by Constitutional Limits	$36,031,127,528
Limited Tax Bonds	
Series 2011	$36,675,000
Total Limited Tax Bonds	$36,675,000
Total Limited Tax Bonds Allowed by Constitutional Limits	$1,152,996,080
Certificates of Obligation	
Series 2004	$12,695,000
Series 2006	$28,975,000
Total Certificates of Obligation	$41,670,000
	Total Bonded Debt
	$121,605,000
Total Bonded Debt Payments in FY2013	$25,460,506
Total Bonded Debt Payments per FY Allowed by Dallas County Policy Limits	$121,581,354

Table IV-2

DALLAS COUNTY USES OF
CERTIFICATE OF OBLIGATION FINANCING

Series	Purpose	Amount Issued	Amount Outstanding	Final Maturity	Term in Years
2004	Parking Garages	$16,145,000	$12,695,000	08/15/25	22
2006	New South Tower Jail and Forensics Buildings	$63,220,000	$28,975,000	08/15/16	10
	Total Outstanding		$41,670,000		

Table IV-3



DALLAS COUNTY
GENERAL OBLIGATION DEBT SERVICE

YEAR	PRINCIPAL	INTEREST	TOTAL	Cummulative % of Principal Amortized
2013	$20,075,000.00	$5,522,256.00	$25,597,256.00	46.63%
2014	$20,630,000.00	$4,592,156.00	$25,222,156.00	57.12%
2015	$21,110,000.00	$4,826,881.00	$25,936,881.00	67.85%
2016	$19,855,000.00	$3,675,713.00	$23,530,713.00	77.94%
2017	$17,337,500.00	$3,333,556.00	$20,671,056.00	86.75%
2018	$10,402,500.00	$2,000,134.00	$12,402,634.00	92.04%
2019	$3,467,500.00	$1,333,422.00	$4,800,922.00	93.80%
2020	$3,467,500.00	$1,333,422.00	$4,800,922.00	95.56%
2021	$3,467,500.00	$666,711.00	$4,134,211.00	97.33%
2022	$2,104,000.00	$279,004.00	$2,383,004.00	98.40%
2023	$2,104,000.00	$279,004.00	$2,383,004.00	99.47%
2024	$526,000.00	$139,502.00	$665,502.00	99.73%
2025	$526,000.00	$139,502.00	$665,502.00	100.00%
Total	$196,737,500.00	$37,499,403.00	$234,236,903.00	

DEBT SERVICE PROJECTION MODEL

Because Dallas County has for many years utilized excess revenue from the vehicle license fee to offset the property tax rate for debt service, the establishment of the annual debt service tax rate requires a projection of the operations of the four Road and Bridge districts. The Debt Service Model is used to estimate the availability of excess funds prior to the setting of the tax rate.

The projection requires assumptions about the future of the license fee revenue, the growth in the tax base, and future bond issuance scheduling, including borrowing rate assumptions. Less significant projection assumptions involve smaller revenue sources (e.g. transfers from other funds) and use of the license fee for equipment replacement.

Table IV-4 is an example of the debt service model used to establish debt service tax rate. The notes to Table IV-4 provide additional detail for each section of the model.

Beginning with the FY2000-2004 Capital Improvement Plan, the Commissioners Court has established its intention to manage its large construction and computer infrastructure projects within the constraints of the cash flow provided by a tax rate diverted from debt service to the new Major Capital Development Fund. A full explanation of this plan is contained in the transmittal letter to this document. The Major Capital Development Fund projects are discussed in detail following the Capital Improvement Plan tab in this document.

Table IV-4

DEBT SERVICE TAX ANALYSIS
BASE CASE

(in thousands)

PART I: ROAD & BRIDGE OPERATIONAL ANALYSIS

	SOURCES				CURRENT USES					
FISCAL YEAR	BEG. BALANCE	LIC. FEE	OTHER FEES	INT.	TRANS. TO GEN. FUND	BUDGET ALLOCATION	BRIDGE/EQP EXPENSES	CURRENT SURPLUS	AVAIL FOR MAJOR CAP	ENDING BALANCE
FY13	22,974	20,244	10444	120	6,506	36,072	1,000	10,204	29,571	3,607
FY14	1,804	20,446	10548	121	6,636	36,433	1,000	(11,149)	(12,969)	3,643
FY15	1,822	20,651	10654	122	6,769	36,797	1,000	(11,317)	(13,175)	3,680
FY16	1,840	20,857	10760	124	6,904	37,165	1,000	(11,488)	(13,385)	3,717
FY17	1,858	21,066	10868	125	7,042	37,537	1,000	(11,662)	(13,567)	3,754
FY18	1,877	21,277	10977	126	7,183	37,912	1,000	(11,839)	(13,753)	3,791
FY19	1,896	21,489	11087	127	7,327	38,291	1,000	(12,019)	(13,953)	3,829
FY20	1,915	21,704	11197	129	7,473	38,674	1,000	(12,203)	(14,156)	3,867
FY21	1,934	21,921	11309	130	7,623	39,061	1,000	(12,389)	(14,362)	3,906
FY22	1,953	22,141	11422	131	7,775	39,451	1,000	(12,679)	(14,571)	3,945
FY23	1,973	22,362	11537	133	7,931	39,846	1,000	(12,773)	(14,785)	829

PART II: NON-TAX SOURCES
OF FUNDS FOR DEBT SERVICE

FISCAL YEAR	NT. ON EXISTINC BOND FUNDS	TRAN NEW BOND FUNDS	OTHER TRANSFERS	NON-TAX FUNDS TOTAL
FY13	157	1,201	0	1,358
FY14	392	1,201	0	1,593
FY15	294	1,201	0	1,495
FY16	331	1,201	0	1,532
FY17	248	1,201	0	1,449
FY18	186	1,201	0	1,387
FY19	139	1,201	0	1,340
FY20	105	1,201	0	1,306
FY21	78	1,201	0	1,279
FY22	59	1,201	0	1,260
FY23	0	1,201	0	1,201

PART III: DEBT SERVICE FUND ANALYSIS

SOURCES

FISCAL YEAR	RESERVE BEGINNING BALANCE	INT ON RESERVE BALANCE	(see note 1) NON-TAX SOURCES	PROPERTY TAX BASE	DEBT SERVICE TAX RATE	DEBT SERVICE TAX LEVY	NEW CONST. REVENUE	TAX COLLECT 94%	TOTAL SOURCES
FY13	2,333	70	1,358	144,124,510	1.500	23,220	0	21,920	25,681
FY14	220	7	1,593	146,142,253	1.600	23,383	0	22,073	23,892
FY15	1,047	31	1,495	150,526,521	1.400	21,074	0	19,894	22,467
FY16	3,615	108	1,532	155,042,316	1.100	17,055	0	16,100	21,356
FY17	2,861	86	1,449	159,693,585	1.000	15,969	0	15,075	19,471
FY18	1,332	40	1,387	164,484,393	0.800	13,159	0	12,422	15,181
FY19	1,875	56	1,340	169,418,925	0.770	13,045	0	12,315	15,586
FY20	2,280	68	1,306	174,501,493	0.740	12,913	0	12,190	15,844
FY21	2,538	76	1,279	179,736,538	0.720	12,941	0	12,216	16,110
FY22	2,804	84	0	185,925,969	0.710	13,272	0	12,529	15,417
FY23	2,111	63	0	194,403,039	0.160	3,110	0	2,936	5,110
FY24	1,975	59	0	202,179,161	0.171	3,457	0	3,264	5,298
FY25	2,163	65	0	210,266,327	0.161	3,385	0	3,196	5,424
FY26	2,289	69	0	218,676,980	0.151	3,302	0	3,117	5,475

USES

FISCAL YEAR	EXISTING DEBT SERVICE	NEW DEBT SERVICE	TOTAL DEBT SERVICE	RESERVE INCREASE (DECREASE)	ENDING BALANCE	BEG. BAL PLUS TAX AS % OF DEBT SVC	BEG. BAL AS % OF DEBT SVC	FISCAL YEAR
FY13	25,461	0	25,461	(2,113)	220	95%	9%	FY13
FY14	22,845	0	22,845	828	1,047	98%	1%	FY14
FY15	18,852	0	18,852	2,568	3,615	111%	6%	FY15
FY16	18,494	0	18,494	(754)	2,861	107%	20%	FY16
FY17	18,139	0	18,139	(1,529)	1,332	99%	16%	FY17
FY18	13,306	0	13,306	543	1,875	103%	10%	FY18
FY19	13,306	0	13,306	405	2,280	107%	14%	FY19
FY20	13,306	0	13,306	258	2,538	109%	17%	FY20
FY21	13,306	0	13,306	266	2,804	111%	19%	FY21
FY22	13,306	0	13,306	(693)	2,111	115%	21%	FY22
FY23	3,135	0	3,135	(135)	1,975	161%	67%	FY23
FY24	3,135	0	3,135	188	2,163	167%	63%	FY24
FY25	3,135	0	3,135	126	2,289	171%	69%	FY25
FY26	3,135	0	3,135	51	2,340	172%	73%	FY26

PART IV: ASSUMPTIONS

BOND ISSUANCE SCHEDULE

	Int on Balances	Lic. Fee Growth	Tax Base Growth	R&B Exp Growth
FY13	2.00%	2.00%	1.40%	0.00%
FY14	2.00%	2.00%	2.00%	1.00%
FY15	3.00%	1.00%	2.00%	1.00%
FY16	3.00%	1.00%	3.00%	1.00%
FY17	3.00%	1.00%	3.00%	1.00%
FY18 and beyond	3.00%	1.00%	3.00%	1.00%

NOTES TO TABLE IV-4
PART I OF DEBT SERVICE MODEL

Fiscal Year - The Dallas County fiscal year begins October 1ST, of the calendar year prior to that listed in this column. Example: FY2013 begins October 1, 2012.

Beginning Balance - This amount represents contingency funds, specifically designed to be at a constant level at the beginning of the coming fiscal year.

License Fee - Amount received from optional $10 license fee collected on each vehicle registered in the County. Revenue estimate from this fee provided by the County Auditor's Office.

Other Fees - This amount represents the combination of the Highway License Fee (#561) and the Gross Axle Weight Fee (#565). Revenue estimates from these fees provided by the County Auditor's Office.

Interest - The amount of interest income earned on the combined total of the beginning balance, license fee revenue, and the revenue earned from other fees, after all transfers and payments have been made.

Transfer to the General Fund - This amount represents monies paid to general fund departments from the Road and Bridge Fund for services provided to (or in relation to) Road and Bridge operations throughout the fiscal year. General Fund departments which receive these transfers include the Sheriff's Department and the Public Works Department, as well as the payment of fees through the general fund in support of the Nuisance Abatement Officer.

Budget Allocation - The amounts listed in this column represent the annual budget allocation for operation of all four Road and Bridge Districts.

Bridge/Equipment Expenses - This amount represents the funds budgeted for use in the purchase of heavy equipment (now paid for out of unencumbered cash balances returned to the individual Road and Bridge Districts and the end of the fiscal year), and support of the "off-system bridge" program, administered by the Bridge Repair Specialist.

Current Surplus - This amount represents the difference between the total fees and interest in Part I, less all transfers, expenses, and allocations.

Available for Major Capital Development Fund - This amount represents the difference between the current surplus in Part I, less 10% of Budget allocation set aside for the ending balance. This amount is then transferred to the Major Capital Development Fund.

PART II OF DEBT SERVICE MODEL

Fiscal Year - The Dallas County fiscal year begins October 1 of the calendar year prior to that listed in this column. Example: FY2000 begins October 1, 1999.

Interest on Bonds - The revenue earned from deposits and investments of funds from bonds sold and before the proceeds are spent on authorized bond projects.

Transfers - This amount represents debt service payments on C.O. debt issued by the County on behalf of the 6th Floor Exhibit and/or the General Fund that are to be reimbursed by the Historical Commission and/or the General Fund.

Non-Tax Funds Total - Represents the total of bond fund interest and other transfers.

PART III OF DEBT SERVICE MODEL

Reserve Beginning Balance - represents the sum of the beginning fund balance in the Debt Service Fund (205) and the beginning fund balances from Road & Bridge Fund 105-2550.

Interest on Reserve Balance - this amount represents the amount of interest income earned on deposits and investments on the Reserve Beginning Balance.

Non-Tax Sources - represents all funds not derived from taxation, which after expenses, can be used to pay debt service. This number is also the Non-Tax Funds number from Part II.

Property Tax Base - this amount represents the Total Taxable Value of all property in Dallas County as certified by the Dallas Central Appraisal District and adjusted by the Tax Assessor Collector.

Debt Service Tax Rate - the tax rate, set annually by the Commissioners Court, dedicated to payment on bonded indebtedness of the County.

Debt Service Tax Levy - the amount of revenue which will be received (assuming 100% collection rate) when the Debt Service Tax Rate is applied to the Property Tax Base number which, after adjustments, is the Total Taxable Value of all property in Dallas County.

New Construction Revenue - the amount of revenue which will be received (assuming a 100% collection rate) when the Debt Service Tax Rate is applied to the amount of New Construction per $100 of value (not included in Property Tax Base number).

Tax Collect 99% - this number represents the amount of revenue (including New Construction) that would be received if only 99% of all taxes due in a given year were collected.

Total Sources - this represents the total of the Tax Collect 99% column, the Reserve Beginning Balance, the interest earned on the Reserve Balance, and all Non-Tax Sources from Part II.

Existing Debt Service - the amount due to be paid in the current year on debt issued in previous years.

New Debt Service - this number represents the amount which will have to be paid on new debt which has been, or is projected to be issued in a given fiscal year.

Reserve Increase (Decrease) - this number represents the amount by which the Reserve Beginning Balance will have to be either increased or decreased after Total Debt Service is subtracted from Total Sources in a given fiscal year.

Ending Balance - the amount remaining in the Reserve Beginning Balance after any increases or decreases are made in the Reserve Increase (Decrease) column.

Beginning Balance plus Tax as a % of Debt Service - the total of the Reserve Beginning Balance and the Tax Collect 99% number divided by the Total Debt Service due in a given fiscal year.

Beginning Balance as a % of Debt Service - the percentage obtained by dividing the Reserve Beginning Balance by the Total Debt Service. This percentage, by County policy, must be at least 50% in a given fiscal year.

Table IV-5

INTEREST AND DEBT FUND

Fund 205

Fund Summary

	FY2012 Actual	FY2013 Budget	Difference
Beginning Balance	$2,333,703	$3,357,519	$1,023,816
Revenues			
Property Tax	20,956,740	23,220,347	2,263,607
Interest	70,000	70,000	0
Parking	1,292,000	1,292,000	0
Other	8,468,529	0	(8,468,529)
Total Revenue	30,787,269	24,582,347	(6,204,922)
Total Sources	33,120,972	27,939,866	(5,181,106)
Expenditures and Transfers	29,763,453	25,460,507	(4,302,946)
Total Expenditures and Transfers	29,763,453	25,460,507	(4,302,946)
Ending Balance	$3,357,519	$2,479,359	($878,160)

Financial Policies

These policies are indicative of significant factors impacting the budgetary decisions of the Commissioners' Court, County Officials and department heads in the fiscal management of the County. These policies are not all inclusive of every possible scenario in the fiscal management of the County. Rather, they are intended as a reference guide in the decision-making process of the Commissioners' Court, instilling continual maintenance of and progression of innovative fiscal management in meeting the increasing demands on the County as well as achievement of short and long-term goals and objectives.

Over the past few years, the County has put more emphasis on establishment of an overall financial policy guide that at a minimum should be updated annually as part of the ongoing budgetary process. Some areas such as the cash management and investment policy are only touched upon briefly due to the fact that they are maintained as separate policy guides.

Operating Budget Policies

1. The County will formulate a budget based on actual and anticipated revenues and other financial resources estimated to be available as provided by law on the last day of each fiscal year to fund the proposed budget. The fiscal year of the County spans a twelve-month period from October 1 through September 30.

2. A major challenge for the County is not to become dependent upon state or federal funds that could dissipate from one year to the next. In order to ensure sound fiscal budgeting, the most significant expenditure items within each fund, typically salary and fringe benefit expenditures, followed by operating costs, will not exceed the sum of stable operating revenues from ad valorem property taxes, sales taxes plus a reasonable estimate of operating income.

3. On a yearly basis, the County will analyze the fees and charges for services it sets and associated costs in order to preserve stability and enhancement of the revenue stream to the County. Furthermore, a continual assessment will be made of the outstanding sources of revenue with emphasis on innovative approaches to enhancement of collection efforts.

4. During the budgetary process, funding priority will be given to all mandated functions and programs within the County when allocating resources. Statutorily required, new or expanded services will be implemented without reduction or trade off of expenses or revenues from other mandated functions or programs. This applies to personnel, operating and capital budgets. All other additions or expansions of expenditures will be implemented provided there is a trade off with other expenditures or certification of new revenue sources prior to adoption of the budget.

5. Non-mandated funding will be restricted and funded if deemed necessary to supplement support services as provided by the County.

Operating Budget Policies-Continued

6. The County will pay for current expenditures with current resources as required by Article XI, of the State's Constitution, and by Articles 111.091 through 111.093 of the *Texas Revised Civil Statutes.*

7. The Court will aggressively seek and encourage cooperation between local governmental entities; support efforts of increased efficiency in planning and funding of discretionary community projects; identify and eliminate duplicate services and related costs and encourage community and business involvement in improving services to the citizenry of the County.

8. In addressing future goals and objectives, the County will continually formulate and maintain revenue trends and expenditure forecasts at a minimum five years ahead of the current fiscal year. For the most part, future projections will be based on prior year actual data and projected future economic indicators such as the rate of inflation, growth, the local economy, national and international factors affecting the El Paso border region and other relevant known factors.

9. The County will continue over the next five years, to actively evaluate its computerization efforts such as its financial and judicial software systems. This process will entail much analysis at the individual department level and may impact the budget spanning numerous years and possibly result in required new funding. The overall objective is to utilize current technology in order to take advantage of the cost efficiencies of such systems. This fits into the overall objective to continually increase the efficiencies of County government, thereby reducing costs to the taxpayer.

Revenue Policies

The County will maintain a stable and diversified revenue system to protect it from short-term fluctuations in any single revenue source by doing the following:

1. Whenever applicable, establishing user fees and charges permitted by law at levels associated with the direct costs and indirect costs of providing those services. Furthermore, the County will annually evaluate fees and charges to assure that total costs are covered and will adjust accordingly to keep pace with the cost of providing those services;

2. Pursuing the enactment of new legislation, when deemed appropriate, to permit changes in user fees and charges;

3. Aggressively collecting ad valorem property tax revenues, including filing suits when permitted by the *Texas Property Tax Code;* and,

4. Funding the operations of the road and bridge fund with vehicle registration fees and vehicle sales taxes.

Revenue Policies-Continued:

El Paso County will restrict its reliance on non-recurring revenue sources by:

1. Remaining cognizant of intergovernmental grant revenues exceeding 20 percent of the total operating budget when approving grants that ultimately result in 100 percent County funding.

2. Cautiously monitoring and balancing of the general fund budget with emphasis of not utilizing fund balance equaling 15 percent or more of the general fund appropriations while concurrently assuring the County maintains adequate reserves as defined by the County. For Example:

   Fund Balance Estimate=$45 Million
   Adequate Reserves Estimate=10-15 % of General Fund Budget
   Adopted Budget=$175 Million

   Fund Balance – Reserves designated to balance budget $\frac{\$45-\$17.5}{\$175}$ =15.7%
   Adopted Budget

3. Not allowing revenues generated by the levies of the sales and use taxes and ad valorem property taxes to exceed 70 percent of the total budgeted expenditures.

4. Transfers between funds, unless provided for with specific previously approved budgetary provisions, will only be made after approval by the Commissioners Court.

Budget Process

The budget material submitted to the Commissioners Court members will contain: (1) preliminary revenue estimates by major account, (2) operating and maintenance expenditures by object code, major expenditure categories, functionally related department and program summaries, and (3) debt service funds delineated by individual bond issue detailing principal, interest and reserves, if any.

The proposed budgetary material will contain schedules relating to: (1) proposed personnel staffing levels including individual salaries and associated fringe benefits, (2) equipment requests, (3) ongoing capital projects, and (4) any information, data or analyses required by Commissioners Court.

Initial budget material will be submitted to Commissioners Court around March 1 of each year. Revenue estimates will not be provided until information required to compute the ad valorem property tax rate, in accordance with the truth-in-taxation legislation, is received from the El Paso Central Appraisal District (CAD) on July 25, or as soon thereafter as practical.

Proposed budgeted revenues will be provided by the County Auditor pursuant to the *Texas Local Government Code 111.039(b).*

Budget Process-Continued:

El Paso County will formally approve and adopt the annual operating budget as close to October 1 of each year as possible, usually, the earliest being at the first regularly scheduled meeting of the Commissioners Court in the new fiscal year pursuant to *Texas Local Government Code §§111.033 and 111.037.*

Interim monthly budget and financial reports will be prepared by the County Auditor's Office and submitted to Commissioners Court pursuant to the *Texas Local Government Code.* These interim reports show the budget and financial status and trends throughout the budget.

County budgetary procedures will focus on identifying distinct functions and activities of county government and allocation of resources to adequately perform these functions and activities at a defined level of service.

All amendments to the adopted budget will require written request and justification for transfer from the respective department head or elected official. Pursuant to *Texas Local Government Code, §§ 111.070,* only Commissioners Court has authority to approve budget amendments. Approved budget amendments resulting in a new appropriation must be recorded prior to expenditure against such appropriation.

Budget change requests that are within a departmental index and within the same character (personnel, operating or capital) are authorized to be made by the Auditor’s Department on a regular basis with the annual approval of the County’s financial policies by Commissioners Court. Transfers between character require separate approval of the Commissioners Court. Budget amendments within a department for local training under the maximum dollar amount of $300 each is allowed without prior approval from the Travel Committee. All other travel requests must be approved by the Travel Committee and funds will be disbursed from the General and Administrative Account.

The County Auditor may initiate budgetary amendments that are deemed necessary in order to cover expenditures for utilities and fuel up to year end. These changes may be done as transfers between departmental indexes and between character and objects.

The County Auditor may initiate budget changes that are deemed necessary in order to cover expenditure accruals at year end. These changes may be done as transfers between departmental index and between character and objects only during the fiscal year end accrual period.

Commissioners Court may, at any time and for any duration, institute a freeze on hiring, promotions, transfers, operating expenditures and capital equipment purchases as deemed financially necessary and appropriate provided this does not hamper an elected official in performing their duties as set forth in Attorney General Opinion, GA-0037. If such action is taken, Commissioners Court may make exceptions with departments under its control on a case-by-case basis as deemed necessary in the particular circumstances.

Accounting, External and Internal Auditing, and Financial Planning

The County Auditor's Office will continue to maintain the County's financial records on a basis that is compatible with the guidance of generally accepted accounting principles and standards that have been promulgated by the Governmental Accounting Standards Board for local governments.

Pursuant to the *Texas Local Government Code, §§ 111.091, 111.092 and 114.025,* interim monthly and comprehensive annual financial reports will be issued by the County Auditor's Office. These reports will summarize the County's financial transactions by fund and department. Also, actual revenues and actual expenditures will be monitored and compared to the associated budgeted amounts.

Pursuant to the *Texas Local Government Code, § 115.045,* once each fiscal year, the Commissioners Court will engage a disinterested Certified Public Accounting firm to conduct a comprehensive external audit of all books, records and accounts of the County. The external audit will cover all matters relating to the fiscal affairs of the County.

The Commissioners Court will continue to identify and refer business matters for analysis to boards, committees, consultants or staff, in order to improve the effectiveness and efficiency of services and activities of the County.

Cost versus benefits studies will be made, when deemed appropriate by Commissioners Court, on non-recurring expenditures and capital projects.

In accordance with provisions contained in the *Texas Local Government Code, §§ 111.091, 111.092, 114.025* and *115.045,* full disclosures will continue to be provided in the comprehensive annual financial reports, budget reports and bond representations.

The County Auditor's staff will continually conduct internal audits throughout the County that are designed to strengthen internal accounting and budgeting controls and to protect the County's assets.

Personnel Policies

At the present time, the County has a plan allowing for progressive advancement within pay levels for the various job classifications of the county with the exception of sheriff deputies and detention officers who follow a compensation plan in compliance with an approved collective bargaining agreement.

The Court will continue to support its salary plan, having developed step levels within the approved salary plan within job classes. This plan should continue to result in the reduction of employee turnover in the County as well as encourage career employment within the County, therefore, reinforcing maintenance of its valuable workforce. Furthermore, the Court will continually strive to provide a system of fair compensation to employees based on annual satisfactory employee performance evaluations. Any such system will be addressed during budgetary hearings and funded accordingly and as soon as financially practical.

Personnel Policies-continued:

At no time will the number of regular and temporary full-time and part-time employees on the payroll exceed the number of regular and temporary full-time and part-time employees on the staffing table as approved by the Commissioners Court. All personnel actions will be in strict compliance with applicable State and Federal laws and County policies.

All additional positions, position upgrades, reclassifications and reorganizations will not be implemented without prior approval of Commissioners' Court and/or the Staffing Review Committee.

Overtime compensation payments may only be made to nonexempt employees at a rate of time and a half when Commissioners Court has provided overtime appropriations.

A department head or elected official may, at their discretion, delete or downgrade positions. A reduction in workloads or technological advances may be among the reasons for taking these actions.

Reserve Policies

The County will maintain a nominal appropriated reserve to provide funding, by means of a formal budgetary amendment, for unforeseen emergencies that may develop throughout the year. In this regard, it will be absolutely necessary for elected officials and department heads to oversee and control expenditures so that the departmental expenditures are minimized and remain within the associated budgetary limits.

Each fiscal year, the Court will establish four contingency reserves (Personnel, Maintenance and Operations, Equipment, and Professional Services) within the general fund account titled General and Administrative. When fiscally permissible, each reserve, at a minimum, will be established at one quarter of one percent (.25%) of the total General Fund appropriations for any fiscal year when financially possible. These funds will only be reallocated by majority vote of the Commissioners Court.

The Court will make every effort to maintain an emergency reserve. This unbudgeted unrestricted fund balance should, at a minimum, equal to projected cash needs for the first fiscal quarter to meet operating obligations or 10-15 percent of the total General Fund adopted operating budget in any one fiscal year. Use of this reserve is only in the event of an unanticipated emergency, calamity, natural disaster or the loss or shortfall of a major revenue source. Additionally, working capital is essential to the County due to the fact that inflow from ad valorem property taxes, the major revenue source, does not become substantial until mid December or the third fiscal month. This reserve will be monitored periodically throughout the year. The County Auditor will estimate this reserve continuously during the budgetary process. The adequacy of the County's unreserved fund balance will be periodically reviewed.

Insurance reserves and appropriations will be maintained in the budget at levels agreeable with the risk manager's recommendations. These reserves and appropriations will be designed to satisfactorily indemnify the County elected officials and department heads against losses.

Reserve Policies-Continued:

In regard to appropriations in capital projects, immediately after a capital project has been completed, residual unspent funds will be transferred, with Commissioners Court approval, to the respective debt service fund as a means of reducing of debt, or otherwise, as stated in the order issuing the bonds. Project managers will notify the County Auditor's office immediately upon completion of all projects in order to reduce the County's exposure to arbitrage rebate calculations, and actual rebate costs.

County Policies and Procedures on Fund Balance Classifications

As mentioned above, the Commissioners Court have established operating and reporting guidelines for the fund balances of the governmental funds of El Paso County, Texas.

Pursuant to Governmental Accounting Standards Board Statement Number 54, the County’s Fund Balances will be classified into 5 categories: Nonspendable, Restricted, Committee, Assigned and Unassigned.

Nonspendable Fund Balance – Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance – Represents amounts that are restricted to specific purposes, with constraints placed on the use of resources by (a) external creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – Represents amounts that can only be used for specific purposes that have imposed constraints by formal action of the government’s highest level of decision-making authority. The Commissioners Court represents the highest level of decision-making authority for the County of El Paso. The amounts may not be used for other purposes unless the Court removes or changes the constraints pursuant to the same type of action used to initially commit them.

Assigned Fund Balance – Represents amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted not committed. The governing body may delegate its authority to assign amounts to another body or officials, for example a budget or finance committee.

Unassigned Fund Balance – Represents the residual amount in the general fund and that has not been restricted, committed, or assigned to specific purposes.

Debt Service Funds
Fund balance on the debt service funds will be restricted for the payment of principal and interest on the debt service obligation. Any funds that are remaining after all debt is extinguished will be transferred to the general fund to be used for any general purpose.

County Policies and Procedures on Fund Balance Classifications-Continued:

Capital Project Funds
Fund balance on the capital funds will be classified as restricted or committed funds either for the purpose for which the debt was issued or for the purpose as established by County Commissioners Court. Formal action by the County Commissioners is required to establish, modify, or rescind a fund balance commitment.

Special Revenue Funds
Fund balance in the special revenue funds will be classified as restricted to the extent that the proceeds are generated through enabling legislation or externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

General Fund
Fund balance in the general fund will be classified as nonspendable, committed, assigned or unassigned fund balance.

As part of the County's financial policies adopted by County Commissioners Court, the County Auditor is authorized to assign amounts in the various funds as deemed appropriate for County operations.

It is the County's policy to use restricted funds first, when and expenditure is incurred for purposes for which both restricted and unrestricted funds are available. In the case of unrestricted funds, the County will consider first reducing committed funds, then assigned, and followed by unassigned when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Minimum Fund Balance Policy
The County Commissioners Court has established a minimum fund balance policy which aims at maintaining a minimum unassigned fund balance of 10 to 15 percent of the total general fund adopted operating budget in any one fiscal year, or at a minimum a balance equal to the projected cash needs for the first fiscal quarter to meet operating obligations.

Fixed Assets and Capital Planning

The Commissioners Court will continually assess the County's capital needs and establish policies, procedures and plans to address infrastructure, fleet and general capital needs of the County in its budgetary process.

For financial accounting and reporting purposes, it is the policy of the County that only assets with a value exceeding $5,000 or more and having a useful life expectancy of at least one year are reported as general fixed assets in the County's Comprehensive Annual Financial Report. Note however, that this does not mean that items less than the $5,000 threshold will not be tagged. The purchasing agent, at his discretion, may tag any items deemed appropriate for adequate control and accountability purposes.

The County Auditor's Office will periodically reconcile the yearly inventory listing, provided by the purchasing agent, to the County's financial accounting records.

Fixed Assets and Capital Planning-Continued:

During each annual budgetary process, the Commissioners Court members will evaluate the County's inventory. After the evaluation is made, satisfactory financial arrangements will be made to either repair or replace depreciating items, as deemed necessary.

Capital needs for projects and equipment are reviewed by the equipment committee and are budgeted when funds are identified. Requests for unbudgeted equipment or projects must be submitted to the equipment committee for review and approval. The committee's recommendation is then submitted to the Commissioners Court for approval prior to a purchase requisition being issued.

To reduce the County's overall expenditures, the purchasing agent will, wherever deemed appropriate, issue useable items placed in storage to departments and agencies requesting comparable new equipment.

The Court will evaluate the capital needs with the assistance of the County Equipment Committee throughout the year and especially during the budget cycle for fiscal budget impact and will update its present and future capital plan.

Debt Management Policies

The County will not, under any circumstances, use funds earmarked for payment of the current portion of long-term debt for current operations pursuant to **Article XI, Section 7 and Article VIII, Section 9, of the Texas Constitution**.

When the Commissioners Court makes a determination to issue bonds, the policies below will be followed.

1. New bonds issued will be amortized resulting in equal principal amounts being retired each fiscal year with payments due on February and August 15th. This will produce a total debt schedule with a declining yearly balance.

2. Debt service appropriations in total will not exceed 35 percent of the total budget in any fiscal year pursuant Article VIII, Section 9, of the Texas Constitution.

3. The County's total bonded debt will never exceed 2 percent of the net valuation of taxable property values in El Paso County. The El Paso Central Appraisal District ascertains the net valuation of taxable property.

4. Bond financing arrangements will be restricted to capital improvement projects that cannot be feasibly funded with current revenues and reserves.

5. The term of bonds will not exceed the useful life expectancy of the capital project or equipment for which the borrowing was done.

The Commissioners Court will make a diligent effort to coordinate planning, issuing and timing of bond issues with the overlapping jurisdictions in the County.

Cash Management and Investments Policies

All County funds received by the treasury division will be deposited within one business day of receipt in order to optimize the County's cash flow and interest earnings. Receipt and disbursement of funds will be performed in compliance with applicable provisions of the *Texas Local Government Code.*

In accordance with Commissioners Court authorization and approval and the State's pertinent legal provisions, the County Auditor will serve as the County's investment officer. The County's available monies will be aggressively invested, at least once each working day, in a way that generates the most interest income for the County, while at the same time, maintains diversification of investments with the paramount consideration being **safety** at all times.

Pursuant to the *Texas Local Government Code,* Commissioners Court will establish and approve a written investment policy annually. The investment policy will, among other topics, address the parameters of maximizing rates of return, liquidity, safety, prudence and diversification. The County will issue quarterly investment reports in a timely manner.

Strategies and Plans

County strategies and plans will be integrated into all departmental budgets to ensure unified efforts within County government to achieve the goals and objectives of the County. These are guidelines that demonstrate the steps undertaken in order to meet the objectives of the County without negatively impacting other goals within the County. Performance measures and productivity indicators will continue to be integrated into all departmental budget requests. The County's strategies and plans are guidelines necessary in order to allow the Commissioners Court and the citizens of El Paso County a means of evaluating County government's efficiency and effectiveness in utilizing taxpayer dollars in achieving its goals and objectives.