FINANCIAL AND DEBT POLICIES

Travis County's financial and budgeting guidelines, compiled below, set a basic framework for the overall fiscal management of the County. These guidelines assist the decision-making process of the Commissioners Court.

Most of the guidelines represent long-standing principles, traditions and practices which have guided the County in the past and have helped maintain financial stability over many years.

GENERAL FINANCIAL GUIDELINES

COUNTY BOND RATING

The County's bond rating is an important reflection of the County's financial strength to the national credit markets, and any actions that negatively affect the County's bond rating should be avoided.

INVESTMENTS

Investments made by the County shall comply with the Travis County Investment Policy and Procedures Manual and the State of Texas Public Funds Investment Act. Such investments shall be governed by the following investment objectives, in order of priority: consistency with statutory provisions, safety of principal, maintenance of adequate liquidity, and return on investments.

ENDING FUND BALANCE

The Commissioners Court is mindful of the financial importance of maintaining a healthy ending fund balance. The County's goal is to have a stable ending fund balance from year to year in the range of between 11% and 12% of budgeted expenditures in the total of the following funds: the General Fund, Road and Bridge Fund, and Debt Service Fund. The ending fund balance will be derived from the Unallocated Reserve (budgeted between 10% and 12% of expenses as outlined in Section IVA) and unspent but budgeted funds remaining at the end of the current fiscal year.

USE OF ONE-TIME REVENUES

The County's goal is to only use permanent revenue sources for on-going, permanent expenses. This means that one-time revenue sources (including ending fund balance) will not be used for on-going commitments. Temporary revenues are intended to be used solely for temporary expenses.

PERFORMANCE MEASURES

The use of performance measures is essential for the Commissioners Court to explain the relationships between the level of service and the level of an appropriation. Such performance measures are key to understanding core operations as well as any plan or any request for

additional funding. Both output measures and outcome measures should be used. Departments that receive approval for funding new activities will be asked to report regularly on progress toward meeting applicable performance measures that are associated with those activities.

PHYSICAL ASSETS

The County will maintain its physical assets at a level that is sufficient to protect the County's capital investment and to minimize future maintenance and replacement costs. The budget will provide for the adequate maintenance and the orderly replacement of capital equipment and facilities in order to avoid deterioration of the County's basic infrastructure. The Commissioners Court is also mindful of the County's natural assets and will protect Travis County's unique environmental quality including its lakes, parks, rivers, and open wildlife areas.

BUDGET ADHERENCE

The most preeminent budget rule is that County departments must live within the constraints of the County budget. Departments may not obligate the County to spend more money than budgeted and must process all budget transfers through the Planning and Budget Office. This office will help facilitate the appropriate reviews and necessary approvals consistent with Budget Rules that are adopted annually by the Commissioners Court.

PUBLIC SCRUTINY

The Commissioners court welcomes public scrutiny of its budget deliberations and will televise them. Public hearings beyond those mandated by law are encouraged. The budget document will be prepared in such a manner as to facilitate understanding by County residents and officials about the expenditure of their public funds and the services provided by Travis County.

COLLABORATION

The Commissioners Court fosters County-wide collaboration to help guide resource decisions, and wishes to review innovative proposals that involve multiple departments, measurable outcomes, and agreed-upon multi-year plans. Departments are strongly encouraged to collaborate with the Court and other partner agencies inside and outside the County to gain mutual agreement on future plans.

PROCUREMENT

Travis County has established a centralized purchasing office to ensure compliance with the County Purchasing Act. County departments are required to purchase all goods and services through the Purchasing Office. Departments are strongly encouraged to plan their procurements in far enough advance to allow the Purchasing Office to complete the procurement process so that tax dollars are saved.

INVESTMENTS IN HUMAN DEVELOPMENT

The Commissioners Court recognizes the long term value that well placed investments in human development can have on the health of a community and on avoiding increased future costs. As such, the Court supports such investments when there are well-defined performance

measures that show not only social rewards from a particular expenditure but financial benefits as well.

EXECUTION OF COURT APPROVED PROGRAMS
Commissioners Court approved programs should be executed in a timely, efficient, and effective manner. In the event that departments confront problems or impediments to such execution, the Court should be briefed in a timely fashion to allow the Court to determine how best to proceed.

GENERAL BUDGETING GUIDELINES

PLANNING BEFORE BUDGETING
The Commissioners Court wishes to ensure that formal planning occurs before funds are requested or allocated. Departments are encouraged to collaborate with the Commissioners Court on the development of plans for future operations. The Court wishes to have a Court approved plan before any new programs or services are considered for funding.

DEPARTMENTAL BUDGET REQUESTS
Should projected economic conditions show an immediate negative impact on the County's ability to meet its financial goals and standards, then the Planning and Budget Office may ask departments to submit budgets that are less than the department's Current Funding Level. In that event, then the departments should outline the impact on the department's performance measures of such a reduction in resources.

ANNUALIZING THE COST OF NEW POSITIONS AND PROGRAMS
When new positions or programs are added to the budget, they will be budgeted on an annual basis. This will avoid having the County's budget automatically increase in subsequent years for such positions or programs.

CAPITAL PLANNING
The County encourages departments to submit three to five year capital plans for approval by the Commissioners Court. Approved plans shall be given priority during the annual budget process.

COUNTY-WIDE ISSUES
The Commissioners Court intends to fund countywide issues before committing resources for specific departmental programs. Such issues include:

- Legally mandated requirements;
- Issues that have such a substantial impact on the community that they must be accommodated first;
- Funding needs that affect every County department such as performance pay or other compensation needs or employee benefits; and
- Needs that impact the County's fiscal strength such as reserves.

MID-YEAR BUDGET INCREASES

Departmental budget increases proposed after the beginning of the fiscal year will be considered for funding if the Commissioners Court indicated during the budget mark-up process that the proposal was not yet fully developed and should be considered for funding from Allocated Reserves. Otherwise, such a funding proposal must meet the following criteria: It is of an emergency nature, funding cannot be identified internally, and it cannot be delayed until the next fiscal year without a very significant negative impact on the public.

MATCHING FUNDING TO EXPENDITURES

The goal of the Commissioners Court is to have funds expended for their intended use in a timely fashion and to match the schedule of funding both operating and capital needs as closely as possible to the expected expenditure pattern, being mindful of meeting the financial goals described in these guidelines. The Court wishes to schedule the actual inflow of public tax dollars to the County in direct relationship to the outflow of projected expenditures for all funds.

DEBT GUIDELINES

DEBT POLICY

The Commissioners Court has established a formal debt policy that provides guidelines in deciding whether to issue additional debt and to keep the debt issuance of the County within established limits. These guidelines are intended to ensure that Travis County will maintain a prudent approach to the issuance of debt. This debt policy is attached.

SHORT TERM DEBT

The Commissioners Court will work toward reducing its reliance on short-term debt. Major capital expenditures that are not funded from annual appropriations to the General Fund Capital Acquisition Resources Account will be considered for short term debt.

USE OF OUTSTANDING CERTIFICATES OF OBLIGATION

Toward the end of each fiscal year, all remaining balances in projects funded through Certificates of Obligation will be reviewed to determine whether such balances will:

a) Become undesignated for use by a particular department and identified as available for future use within the scope of the purposes for which the Certificate of Obligation was issued;
b) Be rolled over into the next fiscal year for the department to use for the same purpose; or
c) Be used to retire principal.

RESERVES GUIDELINES

GENERAL FUND AND DEBT SERVICE RESERVES

The goal of the Commissioners Court is to maintain an Unallocated Reserve equal to between 10% and 12% of the total budgeted expenses for the combined General Fund, Road and Bridge, and Debt Service Funds. Historically, the individual reserve ratio for the Debt Service Fund has been higher than the reserve ratio for General Fund. It is the intent of the Commissioners Court that each of these two funds will eventually have reserves that are more equalized between the two funds.

CAPITAL ACQUISITION RESOURCES ACCOUNT

The County funds purchases of capital equipment through either short-term debt or through a Capital Acquisition Resources Account (CAR). This account is established by an annual General Fund appropriation and it is intended to reduce the County's reliance on short-term debt. This account provides the Commissioners Court with increased flexibility on the use of these funds as well as the timing of their availability compared to Certificates of Obligation. The Commissioners Court has set a goal of having all equipment with a unit cost of at least $100,000 or less funded out of current funds through CAR, rather than from debt issuance.

ALLOCATED RESERVES

The Commissioners Court has established an Allocated Reserve for unforeseen operating expenditures after the budget has been adopted. It is expected that some or all of this reserve will be expended, depending upon the needs that emerge during the year. This is a fund source to be used sparingly, and only after all other alternatives have been fully explored. The amount of the Allocated Reserve shall be established during the budget process, depending upon the degree to which mid-year needs are known and the amount of budget flexibility desired by the Commissioners Court. As a rule of thumb, however, this reserve should be between .5% and 1.0% of the total General Fund budgeted expenditures.

OTHER RESERVES

The Commissioners Court may also wish to establish specialized reserves when it is known that a major future expenditure will occur in one or more subsequent years, to ease the impact on the future tax rate and to reduce the likelihood of sharp changes in revenue requirements. Such specialized reserves would anticipate major improvements in technology or facilities, unusually large anticipated staffing requirements required by law or as part of an approved plan, and other investments known to be so large that they should be phased over time.

UNALLOCATED RESERVE

The Unallocated Reserve is not intended to be used for any purpose other than a serious public calamity or other emergency during the year. It is intended to establish the County's fiscal soundness and is a key part of the County's bond rating. Under special circumstances, the Court may choose to adopt a reimbursement resolution that allows a temporary transfer from the Unallocated Reserve which will be reimbursed within the same fiscal year from bond or

Certificate of Obligation proceeds. All permanent expenditures from this reserve will be reported in detail in the County's Comprehensive Annual Financial Report (CAFR).

REVENUE GUIDELINES

TAX RATE

It is the goal of the Commissioners Court that the tax rate proposed in the County's Preliminary Budget should be at or near the Effective Tax Rate.

NON-PROPERTY TAX REVENUE

For the foreseeable future, the Commissioners Court expects that the County will be reliant on revenue from property taxes, and recognizes that this revenue stream is limited due to taxpayer concerns over historical increases in property taxes. Therefore, the Commissioners Court will positively consider other forms of revenue as a way of ensuring a balanced budget from a more diversified source of income.

REVENUE BENCHMARKING

Market rates and charges levied by other public entities and private organizations for similar services will be used as an important consideration when establishing fees and charges for service.

Approved by the Commissioners Court on January 30, 2001.

Chapter 22. Debt Policy[1]

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22.001 Purpose

(a) The purpose of this policy is to provide guidance governing the issuance, management, and continuing evaluation and reporting of all Travis County debt obligations. This policy provides parameters for Commissioners Court debt issuance decisions. Travis County is committed to sound capital financial management practices. Debt management policies help guide capital planning and ensure sound financial management practices associated with the issuance of debt. These guidelines are meant to be parameters in serving the public interest, not absolute terms.

(b) This policy will be reviewed by the Planning and Budget Office annually for compliance, and will be reviewed by the Commissioners Court at least once every five years to ensure the policy is relevant and up to date.

22.002 [Reserved for Expansion]

22.003 General Approach to Debt

Travis County will maintain a prudent approach to the issuance of debt that adheres to all applicable laws and associated bond covenants. This approach includes the following:

(1) Travis County will provide essential services to the community in a timely and sufficient manner using current revenues.

(2) Travis County will provide necessary equipment, facilities, and infrastructure in a timely manner using the most cost-effective method of payment available for such expenditures.

(3) Travis County will strive to finance routine purchase and replacement of capital equipment, such as computer equipment, furniture, and "down payments" on larger capital projects through the Capital Acquisition Resources account (CAR) from current operating revenues. CAR is adjusted annually through the budget process. The purpose of the CAR

[1] Chapter 21 Fiscal, Subchapter B Debt Policy, was amended and moved to Chapter 22. Debt Policy on February 20, 2018, Item 16. Prior history: Chapter 21 was amended on May 27, 2014, Item 9. Section 22.007 was amended on January 15, 2019, Item 17.

is to reduce or to eliminate the need for issuing debt or entering into any other financing arrangement for recurring operating equipment purchases.

(4) Travis County will issue debt obligations following general market conventions to assure the best interest rate and most favorable overall terms deemed possible at the time, based upon advice from the County's independent municipal financial advisor.

22.004 Long-Term Debt

The Travis County Commissioners Court will issue long-term debt (with a repayment period in excess of five years) with the approval of such bond issue by the voters at an election, except under any of the following circumstances:

(1) The expenditure is legally required of the County, and penalties or fines could be imposed on the County if the expenditure is not made.

(2) The expenditure will be used for a project that has been categorized as a safety project per specific criteria approved by Commissioners Court.

(3) A financial analysis demonstrates that during a stipulated term Travis County would spend significantly less.

(4) The expenditure is for the purchase of real estate (including buildings, land, or right- of-way) where delays for a bond referendum would impede the County's ability to negotiate and be competitive on behalf of the taxpayers.

(5) The voters have previously approved the issuance of general obligation bonds but, for valid reasons, certificates of obligation must be substituted for such bonds to carry out the voters' authorization.

(6) The expense is for necessary planning services or acquiring options for a future capital project that will be submitted to the voters.

22.005 Capital Expenditures

Capital expenditures, particularly those involving the issuance of debt, will be considered only in the context of multi-year planning by the County.

22.006 Process to Determine Needs

(a) Expenditures for capital improvements and equipment will be requested, justified, and approved as part of the annual County budget process. The recommended method of finance for such expenditures will be specified prior to budget adoption.

(b) Each year prior to the issuance of debt, the Planning and Budget Office will prepare a report analyzing all recommended expenditures proposed to be financed with debt. The report will:

(1) Explain the impact the proposed new debt will have on the County's debt service tax rate,

(2) Provide an analysis of such impact on the average county taxpayer, and

(3) Provide the impact of the issuance of the proposed County debt on industry standard primary guideline ratios and secondary guideline ratios, including the impact of the general obligation debt of other taxing entities in Travis County (schools, cities, special districts).

(c) The Facilities Management Department will review and assess major building/facility renovation or construction projects advanced as part of the County's facilities master plan. Smaller projects will be reviewed through the budget process prior to consideration by the Commissioners Court.

(d) The Transportation and Natural Resources Department will review and assess projects that include roads, drainage, or parks prior to consideration by the Commissioners Court.

(e) The Commissioners Court will consider staff recommendations for projects to be undertaken, the timing of those projects and the source of funding to be provided for accomplishment of those projects.

22.007 Debt Principles[2]

(a) The County may issue General Obligation Bonds, Certificates of Obligation, Revenue Bonds, Refunding Bonds, State Highway Bonds, Tax Notes, and other debt instruments authorized for issuance by a county in accordance with the Texas Government Code or other applicable law.

(b) Debt proceeds will be invested in accordance with the Travis County Investment Policy and Procedures and applicable state laws. Derivatives will not be used in connection with investment of debt proceeds or in connection with issuance of debt.

(c) A debt service fund balance of at least 11% of total debt service requirements for the current fiscal year will be targeted to ensure availability of funds to meet the debt service payments in the event of tax revenue shortfalls. It is the County's practice to budget a reserve from year to year that is targeted to maintain a fund balance of 11%.

(d) The term of any debt supported by ad valorem taxes should not exceed 20 years, and should never exceed the useful life of the asset being financed or the weighted average useful life of a group of assets when multiple assets are funded in a single issue.

(e) Except in the case of revenue producing facilities, debt will not be issued for the purpose of making debt service interest payments. If interest capitalization

[2] 22.007(c) amended January 15, 2019, Item 17.

becomes necessary, it will only be used for three years or the period of the construction phase, whichever is the shorter period.

(f) Delays in repayment of principal will be part of the debt structure only if in a particular circumstance such delay is seen to be in the County's best financial interest.

(g) Interest earnings on voter approved bonds which have been sold will be retained in the project until that project is completed unless the Commissioners Court has instructed otherwise in a bond covenant. Funds not needed for the project after its completion will be either transferred to the Interest and Sinking Fund to mitigate the need to increase the debt service tax rate or may be used for projects of a similar nature as allowed by law. Excess funds will not be allowed to increase the scope of the original project without additional justification and analysis.

(h) Interest earnings and savings on Certificates of Obligation may be used to reduce the issuance of new certificates for projects that are allowed in the authorizing order.

(i) Debt redemption shall be provided for, based upon the advice of the County's independent municipal financial advisor.

(j) Guidelines in the form of industry-standard ratios will be reviewed in conjunction with each debt issuance to provide a framework within which to view overall Travis County debt. Those guideline ratios include:

(1) Primary Guidelines

(A) Net bonded debt to taxable value should not exceed the range of 1.0%- 1.5%.

(B) Net bonded debt to population should not exceed $800 per capita.

(C) Debt service to total expenditures (operating expenditures and debt service combined) shall be approximately 20% or less.

(2) Secondary Guidelines

(A) A total debt target of 5% of taxable value for all overlapping debt in Travis County (county, city, school district, and other) will be established, in concert with cooperative efforts toward sharing this goal with the other debt-issuing entities.

(B) Annual short-term debt service payments to total debt service shall be approximately 25% or less.

(C) Short-term debt service payments to total General Fund expenditures shall be approximately 5% or less.

(k) The annual debt analysis will show the anticipated net bonded debt to taxable value and the net bonded debt per capita that will be shown as a part of an upcoming official statement.

(l) Travis County may issue debt using the sale method recommended by the County's independent municipal financial advisor (competitive, negotiated, or private placement) deemed to be in the best financial interest of the County.

(m) Travis County may issue refunding bonds as recommended by the County's independent municipal financial advisor when deemed to be in the best financial interest of the County.

(n) Travis County may utilize reimbursements resolutions that express the County's intent to reimburse itself for expenditures made related to capital programs for which debt will be issued.

(o) Travis County will follow its written post-issuance federal tax compliance procedures for tax- exempt debt.