

PCDC Fund Reserve & Budget Policy

Approved 07-11-2019

PCDC Reserve Funds

Contingent Reserve Policy: PCDC will build and maintain a Contingent Reserve in the aggregate amount equivalent to twelve months of the current debt service under current finance arrangements and 20% of its operating budget to cover unanticipated costs.

Policy Implementation: During FY2015-16, PCDC accumulated \$1.2M of the Contingent Reserve and set it aside. During FY2016-17, PCDC budgeted \$120,000 from operations for the Contingent Reserve. Future budgets will continue to set aside a minimum of \$120,000 annually until accumulating the target Contingent Reserve fund balance.

Comment: Due to the amount of the debt, the loan used to fund the Typhoon Texas Project is being treated for purposes of fund reserves, similar but not identical to a government revenue bond issuance. Generally, government revenue bonds have a higher level of risk than other types of government funding due to the reliance on finite and uncertain revenue streams. Typically, government revenue bond covenants require a “restricted reserve fund” be established by the entity for the life of the bonds in an amount that is equivalent to an average of one year debt service payments to protect the investors in the bond.

To issue revenue bonds, government entities are generally required to demonstrate compliance with the “bond coverage test.” Adequate coverage levels for a governmental entity with a good bond rating is typically 125% of revenues over expenditures, on an annual basis. Because the Corporate risk/exposure experience from the loan used to fund the Typhoon Texas Project was caused by intermittent cash flow, rather than a need to seek additional debt by a future issuance of revenue debt the Pflugerville Community Development Corporation (PCDC) has adopted this reserve policy to reflect the circumstances present in this Project.

Project Reserve Policy: Funding for this reserve is from annual excess revenues received by the PCDC, defined as actual revenues received over budgeted revenues not otherwise allocated. Project Reserve Funds may be spent from this reserve only in accordance with Texas Local Government Code §501.073(a) (The corporation’s authorizing unit will approve all programs and expenditures of a corporation and annually review any financial statements of the corporation).

Annual Operating Budget Policy: Anticipated sales tax revenue is the primary source of PCDC revenue. It is measurable and sustainable. Anticipated long-term lease payments from the Typhoon Texas Project are a second source of PCDC revenue. It is also measurable and sustainable. Other short and intermediate term lease payments and land

sales are a third source of PCDC revenue and are generally considered more contingent and speculative. Recurring general operating and maintenance costs, such as personnel, rent, utilities, PCDC loan payments and annual debt service reimbursement payments due the city will be budgeted in an amount not to exceed anticipated sales tax revenues and long-term lease payments from the Typhoon Texas Project. The annual total expenditures of PCDC should not exceed the budgeted measurable and sustainable revenues of PCDC. All expenditures and revenues shall be in accordance with the City Council approved budget and the PCDC Bylaws.

Executive Director Spending: The Executive Director shall be authorized to spend up to \$20,000 for non-budgeted purposes without specific Board approval, provided that any expenditure of more than \$5000 is reported to the Board of Directors in a written weekly report to all Board members, and provided further that the Executive Director's spending authority, as described herein, is reviewed and approved by the Board of Directors during and as part of the preparation and adoption of the Corporation's annual budget each fiscal year.