

## EXHIBIT B

### PCDC Financial Policies Reserve Funds & Budget As of 5/19/16

#### **Reserves**

##### ***Hawaiian Falls Project Loan Reserve***

**Reserve Policy:** PCDC will build and maintain a Hawaiian Falls Project Loan Reserve in the aggregate amount of \$1,584,316 U.S. Dollars. This amount represents the equivalent to twelve months of the current debt service under current finance arrangements. Funds from the Hawaiian Falls Loan Reserve may not be appropriated for any other purpose by the PCDC Board without City Council pre-approval.

**Policy Implementation:** During FY2015-16, PCDC will budget to accumulate \$1.2M of the \$1.584M Reserve and set it aside. During FY2016-17, PCDC will budget to accumulate the remaining amount to reach the Policy Loan Reserve at a rate of at least \$120,000 annually until PCDC accumulates the target Policy fund balance. The initial targeted amount is determined sufficient as it is equivalent to nine-months of debt service on the loan, permitting operations to recover due to peak seasonal fluctuations in operation.

**Comment:** Due to the amount of the debt, the loan used to fund the Hawaiian Falls Project is being treated for purposes of fund reserves, similar to 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 Hawaiian Falls 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.

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#### ***Contingent Liability Reserve***

**Reserve Policy:** PCDC will build a reserve in an aggregate amount equaling 25% of its operating budget to cover unanticipated costs related to incentives and debt service in the current year.

**Policy Implementation:** Beginning in FY2016-17, proposed budgets will allocate up to \$10,000 per month to a Contingent Liability Reserve until the recommended amount in the aggregate is reached. Funds from the Contingent Liability reserve may not be spent without PCDC and City Council approval.

**Comment:** An annual reserve for contingent liabilities should be established at a level determined by PCDC Board based upon the review of the PCDC economic incentive and debt service obligations. The information available shall be reviewed by PCDC and City staff and presented to the Board for budget preparation.

#### ***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 Hawaiian Falls Project are a second source of PCDC revenue. It is also measureable 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 Hawaiian Falls Project.

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### PCDC Financial Policies Reserve Funds & Budget As of 5/19/16

#### ***Budget Amendment Policy***

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.

**Amendment Policy 1:** The revenues and expenditures of PCDC will be reviewed and modified through the budget amendment process on a quarterly basis.

**Amendment Policy 2:** Projects and incentives proposed to the PCDC Board and City Council that are not included in the current approved budget will be clearly identified as such and considered for budget amendments during project approval process. Both the project and the proposed budget amendment will be approved by the PCDC prior to funds being distributed.

**Amendment Policy 3:** All current economic development projects will be reviewed quarterly during the year to determine compliance and necessity for additional amendments to the budget.