

Section I

EXECUTIVE SUMMARY

ORGANIZATION OF THE BUDGET PROCESS

The brief summary of information in the various sections within the budget is listed below.

Manager’s Message is designed to summarize key budget meetings and budget decisions proposed by the City Manager to City Council on May 20, 2016.

Executive Summary provides information pertaining to the various sections located in this budget, including budget presentation guidelines, objectives, philosophy, policies, Financial Policy Plan, Debt Service Policy, fund accounting, basics of accounting, Fixed Asset Capitalization Policy, cash management, investments, and others.

Budget Summary and Highlights provides historical and graphical comparisons and projections. It also includes highlights of major items included in the 2017 adopted budget. A staffing summary of all full and part-time positions authorized in the budget is included in this section.

Assessments & Levies includes historical property assessed values since the inception of taxes in 1970 to present.

Long-Term Plans includes summations of the City’s Comprehensive Long-Range Plan adopted in 1990, various other individual provided approved plans and objectives, and population estimates for the future.

General Fund provides detailed analysis of the City’s general operating fund, revenue, expenditure, and fund balances.

Special Revenue Funds provide a separate accounting for the various Special Revenue Funds that include: Parkland Dedication, Narcotics Seizure, Radio Communications, Grants, Donations, Municipal Court Funds, MCTV Facilities/Equipment, Community Development Block Grants, Development Authority, Tax Incremental Reinvestment Zones, Public Improvement Districts, and Hotel Occupancy Tax Fund.

Debt Service Fund accounts for all long-term debts of the General Government, i.e., City. Debt schedules for General Government/City, as well as for Utilities & Other Funds, are included.

Internal Service Funds provide a separate accounting for Fleet Replacement and Innovation & Technology Replacement activities, which are charged back to user departments.

Capital Improvement Funds is a listing of projects that are included in the various funds with detailed operations provided in Volume II of the budget.

Utility Funds account for the City’s utility operations, which are financed and operated similar to a private business enterprise.

Other Enterprise Funds account for funds outside of the Utility Funds and include the Solid Waste Collections Fund, which operates similar to a private business enterprise, and the Local Government Corporation (LGC), which provides for operation of the City Center and golf course.

Supplemental Information includes supplemental information consisting of ordinances, general community information, a glossary of terms and acronyms, account structures for classification of expenditures, pay plan information provided for our departmental internal use, and various other information.

BUDGET PRESENTATION GUIDELINES

The fiscal year 2017 budget document has been prepared and presented in an effort to comply with the guidelines and recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) Distinguished Budget Presentation Awards Program. The following four areas must be included in a budget presentation in order to be considered for the budget award: (1) the budget as a policy document; (2) the budget as a financial plan; (3) the budget as an operations guide; and, (4) the budget as a communications device. A brief explanation of each of these criteria is presented below.

The budget as a policy document. This criterion involves including a statement (or statements) of budgetary policies, goals and objectives for the year, and also explaining the budgeting process to the reader. There are goals and objectives included throughout the document which we believe satisfy this requirement.

The budget as a financial plan. This criterion involves including an explanation of the financial structure and operations of the City, and the City's major revenue sources and fund structure. The budget should contain an all-inclusive financial plan for all funds and resources of the City, including projections of financial condition at the end of the fiscal year, projections of current year financial activity, and provide a basis for historical comparisons. The budget should also present a consolidated picture of all operations and financing activities in a condensed format and an explanation of the budgetary accounting basis, whether prepared on a generally accepted accounting principles (GAAP) basis, cash basis, modified accrual basis, or any other acceptable method. The budget summary section as well as the various fund and department summaries should satisfy this requirement.

The budget as an operations guide. This criterion involves areas such as explaining the relationship between organizational units (departments) and programs, including an organization chart, a description of the department organizational structure and staffing levels, and historical comparisons of staff levels; explaining how capital spending decisions will affect operations; providing objectives and performance measures; and describing the general directions given to department heads through the use of goals and objectives, reorganizations, statement of functions, or other methods. Throughout the document, these areas are addressed in order to satisfy this requirement.

The budget as a communications device. This criterion relates to having the budget document available to the public; providing summary information suitable for use by interested citizens and/or the media; avoiding the use of complex technical language and terminology; explaining the basic units of the budget, including funds, departments, or activities; and disclosing sources of revenues and explanations of revenue estimates and assumptions. This information is contained in the budget message, transmittal letter and budget summary sections.

In summary, each of the above criterion is recognized by the GFOA as an integral part of any budget document in order to convey to the reader the goals and objectives the City will address during the year, and how those goals and objectives will be met and measured. These goals and objectives should be conveyed and presented to the reader in such a manner that any reader, regardless of the reader's financial background knowledge, will understand them.

BUDGET OBJECTIVES

The FY 2017 budget has been prepared in an effort to clearly communicate to the citizens and staff of the City the overall policies and strategic goals of the City Council. The budget document includes descriptions of the various activities and programs (departments) of the City, and comparative service level indicators for each program or activity, where available. This format is designed to communicate clearly to the public the goals and objectives of the City Council, thereby enabling the reader to gain more useful information about the City, without requiring detailed accounting or budgetary knowledge.

BUDGET PHILOSOPHY

Budget philosophy varies from organization to organization depending on the local needs and concerns of the citizens. Other factors also affect budget philosophy such as the state of the local economy, the needs of the organization, the demands of the public for increased services, and the ever-increasing unfunded mandates and requirements of federal and state regulatory agencies. The budget prepared by the City reflects a conservative perspective with regard to both revenues and expenditures. Although historical comparisons and trends are very useful, current data and trends will often take precedence over prior year trends. When budgeting from a “conservative” perspective, revenues are often anticipated either at or only slightly above prior year levels, unless there are other known factors that will significantly affect anticipated revenues. By estimating revenues conservatively, decreases in any one revenue source due to fluctuations in the economy and variations in weather should not adversely affect the City’s “bottom line.” In addition, expenditures are also estimated conservatively, i.e., allowances are projected regarding cost increases or unanticipated expenditures. As a result, over the years this method of budgeting has resulted in substantial increases in actual fund reserves when compared to budgeted or projected fund reserves. The City continues to use this method of budgeting rather than use unreasonable projections, which could have an adverse impact on the City’s reserves. Traditionally the City has spent 90-95 percent of budgeted expenditures, while actual revenues have been in excess of 100 percent of budgeted revenues. These differences have helped the City build and maintain adequate reserves in all funds.

BUDGET PROCESS

The budgetary process is initiated by a goals setting meeting and budget planning session with the City Manager, Department Heads, and City Council. The intent of this session is to provide a broad conceptual strategy by City Council based on needs and concerns of the citizens, and the overall strategic direction of the City. Specific guidelines and limitations are identified for staff use in developing the budget.

Following this meeting, budget revenue estimates are made by the Director of Financial Services in February of each year and amended in mid-April. The Director of Financial Services utilizes trend analysis over the past years whenever possible, but for a city as diverse as ours, those trends must be adjusted monthly. Therefore, a monthly schedule of revenues by line item for the past three years is used to project revenue at mid-point through the year and projected again at budget time. The estimates are evaluated by the City Manager before inclusion in the total budget. Once revenue estimates have been established, basic budget requests are developed at the department level and submitted to the Finance Department for analysis and compilation. The basic budget is considered to be the minimum budget that is necessary for the continuation of current municipal service levels during the next fiscal year. Supplemental requests for proposed changes from the basic budget, including capital items, are then submitted by the department heads to the City Manager. Finally, the five-year capital improvement requests are submitted. After the City Manager’s review and approval, the proposed budget is compiled by the Finance Department and submitted to the City Council for consideration, review, changes, and adoption.

During the year, the approved City budget is reviewed by the Finance Department to maintain expenditure controls. With the City Manager exercising overall control and responsibility of the City budget, departments

review their budgets monthly to stay within spending limitations. Financial statements are submitted to the City Manager and City Council monthly by the Finance Department.

Budget amendments may be made from line item to line item within a departmental budget but are usually done twice a year by ordinance. The first time is when the tax rate is set in September/October and again near the end of the year for the expenditure transfers.

Constant review of revenue and expenditure estimates is performed to assure the integrity of the adopted budget and to assure funds are available to meet current obligations. As a result of this review, it is possible to exercise administrative budgetary controls throughout the year.

BUDGET POLICIES

In accordance with Article IX of the City of Missouri City Charter and other related ordinances and policies, the following budget policies are followed:

Fiscal Year.

The fiscal year of the City begins on the first day of July and ends on the last day of June of each calendar year.

Public Record.

Copies of the budget as adopted shall be public records and shall be made available to the public upon request.

Annual Budget.

A. The budget shall provide a complete financial plan of all City funds and activities and, except as required by state law or the Charter, shall be in such form as the City Manager deems desirable or the Council may require. A budget message explaining the budget both in fiscal terms and in terms of the work programs shall be submitted with the budget. It shall outline the proposed financial policies of the City for the ensuing fiscal year, describe the important features of the budget, and indicate any major changes from the current year in financial policies, expenditures, and revenues, with reasons for such changes. It shall also summarize the City's debt position and include such other material as the City Manager deems desirable. The budget shall begin with a clear general summary of its contents, shall show in detail all estimated income, indicate the proposed property tax levy, and all proposed expenditures, including debt service, for the ensuing fiscal year. The proposed budget expenditures shall not exceed the total of estimated income. The budget shall be so arranged as to show comparative figures for actual and estimated income and expenditures of the current fiscal year and actual income and expenditures of the preceding fiscal year, compared to the estimate for the budgeted year. It shall include in separate sections:

1. An itemized estimate of the expense of conducting each department, division and office.
2. Reasons for proposed increases or decreases of such items of expenditure compared with the current fiscal year.
3. A separate schedule for each department indicating tasks to be accomplished by the department during the year, and additional desirable tasks to be accomplished, if possible.
4. A statement of the total probable income of the City from taxes for the period covered by the estimate.

5. Tax levies, rates, and collections for the preceding five (5) years.
 6. An itemization of all anticipated revenue from sources other than the tax levy.
 7. The amount required for interest on the City's debts, for sinking fund, and for any maturing serial bonds.
 8. The total amount of outstanding City debts, with a schedule of maturities on any outstanding bond issue of the City.
 9. Such other information as may be required by the Council.
 10. Anticipated net surplus or deficit for the ensuing fiscal year of each utility owned or operated by the City, if any, and the proposed method of its disposition; subsidiary budgets for each such utility giving detailed income expenditure information shall be attached as appendices to the budget.
 11. A capital program, which may be revised and extended each year to indicate capital improvements pending or in process of construction or acquisition, and shall include the following items:
 - a. A summary of proposed programs;
 - b. A list of all improvements which are proposed to be undertaken during the five (5) fiscal years next ensuing, with appropriate supporting information as to the necessity of such improvements;
 - c. Cost estimates, method of financing and recommended time schedules for each such improvement; and
 - d. The estimated annual cost of operating and maintaining the facilities to be constructed or acquired.
- B. Submission: On or before the first day of June of each year, the City Manager shall submit to Council a proposed budget and an accompanying message. Council shall review the proposed budget and revise as deemed appropriate prior to general circulation for public hearing.
- C. Public notice and hearing: The Council shall post in the City Hall and publish in the official newspaper a general summary of their proposed budget and a notice stating:
1. The times and places where copies of the message and budget are available for inspection by the public, and
 2. The time and place, not less than fifteen (15) days after such publication, for a public hearing on the budget.
- D. Amendment before adoption: After the public hearing, the Council may adopt the budget with or without amendment. In amending the budget, it may add or increase programs or amounts and may delete or decrease any programs or amounts, except expenditures required by law or for debt service. Amendment to the budget shall not increase the authorized expenditures to an amount greater than the total of estimated income plus funds available from prior years.

- E. Adoption: The Council shall adopt the budget by ordinance on one reading on or before the 25th day of June of each year. Adoption of the budget shall require an affirmative vote of at least a majority of all members of the whole Council. Adoption of the budget shall constitute appropriations of the amounts specified therein as expenditures from the funds indicated and shall constitute a levy of the property tax therein proposed.
- F. Failure to adopt: If the Council fails to adopt the budget by the 1st day of July of each year, the amounts appropriated for the current fiscal year shall be deemed adopted for the ensuing fiscal year on a month-to-month basis with all items in it prorated accordingly until such time as the Council adopts a budget for the ensuing fiscal year. The levy of property tax normally approved as a part of the budget adoption will be set to equal the total current fiscal year tax receipts, unless the ensuing fiscal year budget is approved by July 1st of the current fiscal year.

Amendments after adoption.

- A. Supplemental appropriations: If during the fiscal year the City Manager certifies that there are available for appropriation revenues in excess of those estimated in the budget, the Council by ordinance may make supplemental appropriation for the year up to the amount of such excess.
- B. Emergency appropriations: To meet a public emergency created by a natural disaster or man-made calamity affecting life, health, property or the public peace, the Council may make emergency appropriations, not to exceed ten (10) percent of the current fiscal year's budgeted receipts. Such appropriations may be made by an emergency ordinance. To the extent that there are no available unappropriated revenues to meet such appropriations, the Council may by such emergency ordinance authorize the issuance of emergency notes, which may be renewed from time to time.
- C. Reduction of appropriations: If at any time during the fiscal year it appears probable to the City Manager that the revenues available will be insufficient to meet the amount appropriated, he shall report to the Council without delay, indicating the estimated amount of the deficit, any remedial action taken by him, and his recommendations as to any other step to be taken. The Council shall then take such further action as it deems necessary to prevent or minimize any deficit; and for that purpose, it may by ordinance reduce one or more appropriations.
- D. Transfer of appropriations: Not later than the sixtieth (60th) day after the last day of the fiscal year, the city manager may transfer part or all of any unencumbered appropriations balance among programs within a department, division, or office and, upon written request by the city manager, the council may by ordinance transfer part or all of any unencumbered appropriation balance from one department, office or agency to another.
- E. Limitations: No appropriation for debt service may be reduced or transferred, and no appropriation may be reduced below any amount required by law to be appropriated or by more than the amount of the unencumbered balance thereof.
- F. Effective date: The supplemental and emergency appropriations and reduction or transfer of appropriations authorized by this section may be made effective immediately upon adoption of the ordinance.

Borrowing for Capital Improvements.

- A. Borrowing: The Council shall have the power, except as prohibited by law, to borrow money by whatever method it may deem to be in the public interest, including certificates of obligation pursuant to the Certificate of Obligation Act of 1971.
- B. General obligation bonds: The City shall have the power to borrow money on the credit of the City and to issue general obligation bonds for permanent public improvements or for any other public purpose not prohibited by the Constitution and laws of the State of Texas, and to issue refunding bonds to refund outstanding bonds of the City previously issued. All such bonds shall be issued in conformity with the laws of the State of Texas.
- C. Revenue bonds: The City shall have the power to borrow money for the purpose of construction, purchasing, improving, extending or repairing of public utilities, recreational facilities or any other self liquidating municipal function not prohibited by the Constitution and laws of the State of Texas, and to issue revenue bonds to evidence the obligation created thereby. Such bonds shall be a charge upon and payable from the properties, or interest therein pledged, or the income there from, or both. The holders of the revenue bonds shall never have the right to demand payment thereof out of monies raised or to be raised by taxation. All such bonds shall be issued in conformity with the laws of the State of Texas.
- D. Bonds incontestable: All bonds of the City having been issued and sold and having been delivered to the purchaser thereof shall thereafter be incontestable; and all bonds issued to refund in exchange for outstanding bonds previously issued shall, and after said exchange, be incontestable.

Lapse of Appropriations.

Every appropriation, except an appropriation for a capital expenditure, shall lapse at the close of the fiscal year to the extent that it has not been expended or encumbered. An appropriation for a capital expenditure shall continue in force until the purpose for which it was made has been accomplished or abandoned; the purpose of any such appropriation shall be deemed abandoned if three (3) years pass without any disbursement from or encumbrance of the appropriation.

FUND ACCOUNTING

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. The following is a description of the various funds and account groups:

Governmental Fund Types

General Fund

The General Fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues of the General Fund are property taxes, sales and use taxes, franchise fees, permit fees, fines, and forfeitures. Expenditures are for general government, finance, public safety, public works, park maintenance and recreation, planning and zoning, and engineering.

Special Revenue Funds

The Special Revenue Funds are used to account for all financial transactions for the Parkland Dedication Fund, Narcotics Fund, Radio Communications Fund, Grants Fund, Donations Fund, Municipal Court Building Security, Technology and Juvenile Case Manager Funds, MCTV Facilities/Equipment Fund, Community Development Block Funds, Missouri City Development Authority Fund, the three Tax Incremental Reinvestment Zone Funds, and the two Public Improvement District Funds.

Debt Service Fund

The Debt Service Fund is used to account for the payment of interest and principal on all general obligation debts of the City. The primary source of revenue for the debt service fund is property taxes.

Capital Projects Funds

The Capital Projects Funds are used to account for the proceeds from the sale of general obligation bonds and certificates of obligation and expenditures of these proceeds for the acquisition of fixed assets as designated in each bond issue.

Proprietary Fund Types

Enterprise Funds

The Utility Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Such funds are to be financed or recovered primarily through user charges. The City currently has two plants in the Water/Wastewater Utility Fund: Mustang Bayou Regional Wastewater Treatment Plant and Mustang Bayou Regional Water Facility. The Surface Water Utility Fund is used to account for the collection of groundwater reduction pumpage and user fees which are used to operate the plant that the City built for use by twenty-three (23) of the municipal utility districts in the area. Steep Bank/Flat Bank WWTP Operational Fund is used to account for user fees collected from six (6) municipal utility districts in the Steep Bank/Flat Bank region and the operation of same regional wastewater plant. Other Enterprise Funds include the Solid Waste Collections Fund, which is used to account for user fees and expenses related to the City's garbage collection activities. The Local Government Corporation (LGC), classified as an Other Enterprise Fund, provides for the operation and maintenance of the City Centre and the Quail Valley Golf Course.

Internal Service Funds

Internal Service Funds are used to account for activities in which one or more departments of the City provide various services to other departments of the City. The intent of the fund is to recover the cost of providing those services from internal user charges. The two funds within the Internal Service Funds are the Fleet Replacement Fund, which is used to account for the rental and replacement of City vehicles, and the Innovation and Technology Replacement Fund, which is used to account for the rental and replacement of the City's information technology equipment. The Facilities Maintenance, Innovation and Technology Maintenance, and Fleet Maintenance Funds were previously included in the Internal Service Funds, but beginning with Fiscal Year 2015 those operations were consolidated into the General Fund.

ACCOUNTING AND BUDGETING BASIS AND CONTROL

Basis of Accounting

The City’s accounting records for general governmental operations are maintained on a modified accrual basis, with the revenues recorded when available and measurable, and expenditures recorded when the services and goods are received and the liabilities are incurred. Accounting records for the City’s proprietary activities are maintained on the accrual basis.

Consideration of adequate internal accounting controls has been made in designing the City’s accounting system. Internal accounting controls, instituted by the Finance Department as part of the accounting system, are designed to provide reasonable assurances that assets are properly safeguarded against loss from unauthorized use or disposition, that financial records used in preparation of the financial statements are reliable, and that accountability for the City’s assets is maintained. The concept of reasonable assurance in relation to internal controls recognizes that the cost of a control process should not exceed the benefits derived from the performance of related procedures, and that the City’s management must make estimates and judgments in evaluating the cost and benefit relationships relating to internal control processes and procedures that become a part of the City’s accounting system.

Basis of Budgeting

Fund budgets are proposed on a basis consistent with modified and full accrual accounting basis, with exceptions, including that depreciation, amortization and bad debt expenses are not included in the budget, capital purchases are budgeted in the year of purchase, and debt principal is budgeted in the year it is to be paid. The emphasis is on cash transactions in lieu of non-cash transactions, such as depreciation and amortization. The focus is on the net change in working capital.

The General Government Funds (General, Debt Service, Special Revenue and Capital Projects Funds) are budgeted on a modified accrual basis, with exceptions as noted above. Revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). Substantially all revenues are considered to accrue. Ad valorem taxes, sales and franchise tax revenues are susceptible to accrual. Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues (except earnings on investments) are recorded as revenues when received in cash because they are generally not measurable until they are received. Expenditures are recognized when the related fund liability is incurred, if measurable. Actual liabilities will be liquidated with resources included in the budget, except for (1) inventories of materials and supplies which may be considered expenditures either when purchased or used; (2) prepaid insurance and similar items which need not be reported; (3) sick pay, and other employee benefit amounts which need not be recognized in the current period; (4) unmatured interest on long-term debt is recognized when due, and (5) those exceptions noted above.

The Proprietary Funds (Internal Service Funds) are budgeted on a full accrual basis and “economic resources” measurement focus with exceptions noted above. Revenues are budgeted in the year they are expected to be earned, and expenses are budgeted in the year the liability is expected to be incurred.

Budgetary Compliance

Because budgetary compliance is significant in managing governmental activities, budgetary compliance controls are critical. The objective of these controls is to ensure compliance with legal spending limits in annual or project appropriated budgets approved by City Council. The City Charter provides that the City Council shall adopt annual or project budgets every fiscal year for all City funds. The budgets are prepared and maintained by City management.

Budgetary Controls

During the year, expenditure controls are maintained by each department with review of the budget provided by the Finance Director and overall control exercised by the City Manager. Constant review of revenue and expenditure estimates is performed to assure the integrity of the adopted budget and to assure funds are available to meet current obligations. As a result of this review, it is possible to exercise administrative budgetary controls throughout the year. As demonstrated by the financial statements presented in this report, the City continues to meet its responsibility for sound financial management.

COMPREHENSIVE FINANCIAL POLICY

The Comprehensive Financial Policy for the City of Missouri City is reviewed and adjusted annually, or as needed, to follow the City’s Long-Term Plan. Although the Comprehensive Financial Policy will be included in the annually adopted budget document, it will be submitted to City Council for separate adoption from the City’s annual budget. The established long-range policies regarding financial management are to retain the sound financial condition of the City, strive to retain the best possible bond rating on bonds, and provide future generations with the ability to borrow capital for purchase or construction of facilities, capital equipment, and infrastructure without severe financial burden.

Municipal resources must be wisely used to ensure adequate funding for services, public facilities, and infrastructure necessary to meet immediate and long-term needs. These policy statements safeguard the fiscal stability required to achieve the City’s objectives and ensure long-term financial health. This will be accomplished by:

- Prudent budgeting and effective budget control.
- Maintaining stable property tax rates.
- Maintaining the General Fund Balance between 20 percent and 30 percent of estimated revenues to assure adequate reserve for emergencies.
- Pay as you go financing of capital improvements where feasible while planning for capital improvements on a five-year basis and updated annually. Minor equipment needs may be financed through lease/purchase arrangements or the issuance of certificates of obligation if properly planned.
- Major improvements, such as large facilities, streets and drainage improvements, will be approved and funded through bond elections and issuance of general obligation bonds. Major improvements such as utility facilities, which will be paid for by user fees, may be funded with Certificates of Obligation.
- Revenues and charges for services will be reviewed annually and adjusted as deemed necessary.
- Insurance coverage will be examined annually to assure that policy limits are adequate.

I. FINANCIAL CONDITION

The City prepares analysis yearly to determine its ability to finance its services on a continuing basis. We address such issues by employing sound practices such as:

Maintaining existing service levels.
Proactively meeting demands of growth.
Estimate funding to ensure availability to pay for what we are doing.
Ensure that revenues are adequate.
Continually adjust to economic and other changes.

Accounting Practices, Principles, and Financial Reporting

The City will maintain accounting practices that conform to Generally Accepted Accounting Principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB), the authoritative standard setting body for units of local government. The city will comply with all prevailing federal, state and local statutes and regulations. All city financial documents, including official statements accompanying debt issues, Comprehensive Annual Financial Reports and continuing disclosure statements, will meet these standards. Monthly financial reports are on a cash basis and will be reported as budgeted. At year-end the general ledger and financials will be converted to full accrual basis.

II. FINANCIAL AND MANAGEMENT REPORTS

Reporting

Pursuant to City Charter requirements, each month the City Manager shall submit to the City Council the financial condition of the city by budget item, budget estimate versus accruals for the preceding month and for the fiscal year to date. The financial records of the city will be maintained in accordance with GAAP, as prescribed in Sec. 9.07B of the City Charter. This monthly report will analyze and evaluate the city's financial performance and economic condition. Quarterly reports on the status of the City's Strategic Projects will be provided through the City Manager's office and made available to the City Council. The reports will include project scope and work plan as well as comment on noteworthy activity.

Annual Audit

Pursuant to State Statute, the City shall have its records and accounts audited annually and shall have an annual financial statement prepared based on the audit. The audit shall be performed by a certified public accounting (CPA) firm licensed to practice in the State of Texas. Although the Texas Local Government Code, Section 103.003 requires the annual financial statement, including the auditor's opinion on the statement, to be filed with the City Secretary within 180 days after the last day of the fiscal year, it is the City's goal to file the audit at the first City Council meeting in December. The audit firm shall provide a management letter to the City prior to the filing of the audit. The audit firm shall also provide a Single Audit of Federal and State grants, when necessary. An official Comprehensive Annual Financial Report (CAFR) shall be issued no later than six (6) months following the end of the fiscal year. The Chief Accountant (or equivalent) shall be responsible for establishing a process to ensure timely resolution of audit recommendations.

Finance and Services Committee

The City Council shall designate a Finance and Services Committee. The role of the committee is to review and guide the financial policy and strategic financial issues as needed and determined by the City Manager or City Council.

Annual Financial Disclosure

As required by the Securities and Exchange Commission (SEC) Rule 15c2-12, the City, with support of the City's financial advisor and bond counsel, will provide certain annual financial information to various information repositories through disclosure documents or set of documents that include the necessary information. This will include any material event notices to be filed within 10 days of occurrence of the event as required by the 2010 amendments.

III. FUND BALANCE POLICY

General Fund Balance

The City must be prepared to absorb large or unexpected one-time expenditures or changes in the economy. As part of this policy and the City's financial plan, the City targets a Fund Balance within the range of 20% to 30% to meet emergencies.

The City Council may also establish commitments of fund balance from time to time in order to meet the City's needs. The City Council authorizes the City Manager to make assignments of the Fund Balance as situations may warrant.

Debt Service Fund Balance

The policy of the City for the debt service is to maintain a stable debt service tax rate whenever possible. This usually is done by providing a declining balance of total indebtedness schedule of principal and interest. In a rapidly growing City such as ours, this allows for the scheduling of new debt to be issued normally every two years.

The Texas Property Tax Code allows the tax rate to be set no greater than the total debt divided by the total appraised value after considering the collection rate of current taxes. However, the City may utilize existing fund balances to subsidize the total funds needed which helps to allow us to maintain the stable tax rate. This means, however, the fund balances for debt service may fluctuate greatly the year bonds are sold.

Operating Deficits

The City shall take immediate corrective action if at any time during the fiscal year expenditure and revenue estimates are such that net revenue is lower than budget. Corrective actions include:

- Deferral of capital equipment purchases
- Expenditure reductions
- Deferral of certain positions
- Hiring freezes
- Freeze merit increases
- Use of fund balance
- Use of volunteers
- Increase fees
- Reduce work hours with subsequent reduction in pay
- Eliminate positions which may require laying-off employees if there are no other vacant positions for which they are qualified.

Short-term loans as a means to balance the budget shall be avoided.

The use of fund balance, which is a one-time revenue source, may be used to fund an annual operating deficit,

only with a subsequent approval of a plan to replenish the fund balance if it is brought down below the established policy level.

IV. DEBT SERVICE POLICY

In a dynamic community such as Missouri City, the infrastructure needs significantly impact the demands for capital expenditures and resultant Debt Service. In addition, since Fort Bend County is one of the fastest growing counties in the State, the school and county needs, as well as municipal utility district needs, cause the overlapping debt burden to grow.

As a result of this overall growth factor, the City will monitor its sale of general obligation bonds or other debt that affects the debt service tax rate. Planned bond sales will be delayed should the economy decline and a proposed bond sale delayed another year until assessed values increase.

The City carefully monitors the debt issuance to assure that new debt does not increase the debt service tax rate in excess of \$.04 for the entire life of the following bonds approved by the voters of Missouri City:

- 2003 - \$75 million bond issue. The purpose of these funds was to address public safety, transportation, drainage, parks and facilities.
- 2008 - \$17.5 million bond issue. The purpose of these funds was to acquire recreational park facilities.
- 2014 - \$40 million bond issue. The purpose of these funds was to cover drainage, a fire stations, facilities improvements, and transportation.

V. CASH MANAGEMENT

The City's cash and investments are classified as cash and cash equivalents and investments. The cash and cash equivalents include cash on hand, deposits with financial institutions, short-term investments in an external public funds investment pool accounts Local Government Investment (LOGIC), Texas Local Government Investment Pool (TEXPOOL), Texas Cooperative Liquid Assets Securities System (CLASS), and other investments, which have maturities at purchase date of less than three months. The investments, which have maturities at purchase date of greater than three months, consist mainly of commercial paper and U.S. government obligations. For better management of cash, the City pools the cash, based on the City's needs, into deposits in the bank, in short-term investments with LOGIC, TEXPOOL, and CLASS, or in longer-term investments in commercial paper or U.S. Government securities. However, each fund's balance of cash and investments is maintained in the books of the City.

The Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act (Chapter 2256 Texas Government Code). The investments of the City are in compliance with the Council's investment policies. It is the City's policy to restrict its investments to direct obligations of the U.S. Government, commercial paper, fully collateralized certificates of deposit and other interest-bearing time and demand deposits, and other instruments and investments in public funds investment pools such as LOGIC, TEXPOOL, and CLASS.

Cash and Cash equivalents

The City's deposits are maintained under the provisions of a depository contract as a cash concentration account for use by all City funds. All receipts of City funds are deposited into a money market mutual fund account, and the depository bank transfers funds to a separate demand deposit checking account as checks are posted. The City bids out excess funds as necessary and awards the bid to the institution or agency offering the highest interest rate. (See disclosures for investments below.) Brokers/dealers must complete a questionnaire, submit

financial statements, and be approved by City Council before being accepted to bid on investments of excess City funds.

Credit Risk Categorization for Deposits

Collateral is required for all bank deposits at 100 percent of deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. Collateral pledged to cover the City's deposits is required to be held in the City's name by the trust department of a bank other than the pledging bank (the City's agent). Collateral securities must bear a Baa-1 or better rating to qualify for use in securing uninsured depository balances. Deposits at year-end are representative of the types of deposits maintained by the City during the year.

The City's deposits in banks at year-end are typically covered entirely by federal depository insurance or by acceptable collateral held by the City's agent in the City's name.

VI. INVESTMENTS

Under provisions of state and local statutes, the City's investment policies, and provisions of the City's depository contracts with the area financial institutions, the City is authorized to place available deposits and investments in the following:

Obligations of the U. S., its agencies, and instrumentalities.

Direct obligations of the State of Texas or its agencies.

Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

Other obligations, the principal and interest on which are unconditionally guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their agencies and instrumentalities.

Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to the investment quality by a nationally recognized investment firm and having received a rating of not less than A or its equivalent.

Certificates of Deposit issued by state and national banks or savings and on associations domiciled in this state that are: guaranteed or insured by the Federal Deposit Insurance Corporation; or

secured by obligations that are described in 1-5 above, which are intended to include all direct federal agency or instrumentality issued mortgage backed securities that have a market value of not less than the principal amount of the certificates or in any other manner and amount provided by law for deposits of the investing entities.

Certificates of Deposit and share certificates issued by a state or federal credit union domiciled in the State of Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in 1 through 5 above in any other manner and amount provided by law for City deposits.

Fully collateralized repurchase agreements having a defined termination date, secured by obligations of the United States, its agencies or instrumentalities, pledged with a third party selected or approved by the political

entity, and placed through a primary government securities dealer, as defined by the Federal Reserve, or through a financial institution domiciled in the State of Texas.

Prime domestic banker's acceptances, defined as a banker's acceptance with a remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P- 1 or equivalent by at least one nationally recognized credit rating agency.

Commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or State bank.

SEC-registered no-load money market mutual fund (MMMF), with a dollar weighted average portfolio maturity of 90 days or less, includes in their investment objectives the maintenance of a stable net asset value of \$1 for each share.

SEC-registered, no-load money market mutual funds (MMMF) that have an average weighted maturity of less than two years, invests exclusively in obligations described above and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of no less than AAA or its equivalent.

Authorized government investment pools that invest solely in obligations of any of the above investments provided that the pools are rated no lower than Aaa or AAA or an equivalent by at least one nationally recognized rating service.

The State of Texas exercises oversight responsibility over LOGIC and TEXPOOL in accordance with state laws and the Public Funds Investment Act. These external pools operate in a manner consistent with SEC Rule 2a7 of the Investment Company Act of 1940. Net assets are reported using amortized cost rather than market value in computing share price. In accordance with LOGIC and TEXPOOL management policies, the net asset value will always be between .9965 and 1.0035. Accordingly, the fair value of the City's position in the pool is the same as the value of the shares in the pool.

VII. FIXED ASSET CAPITALIZATION POLICY

Fixed Asset

Fixed assets are items of property that are tangible in nature and have an economic useful life longer than one year. These assets maintain their identities through their useful lives, either as separate units or as identifiable components of a unit. They are not repair or supply items.

- Capital Assets – assets purchased for \$5,000 or more are capitalized and depreciated over the useful life.
- Non-Capital Assets – assets purchased between \$1,000 and \$4,999 are expensed.
- Personal property of high pilferage such as audio-visual equipment, digital cameras, power tools, radio equipment, electronic, computer equipment etc. purchased for less than \$5,000 may be included in the fixed asset records of the City at the direction of the department directors or may be carried as a “0” or nominal value in the fixed asset records of the City.
- Inventory of computers, printers, software, and other IT related equipment are maintained by the Innovation & Technology Department.
- The City's radios are maintained by the Radio Division of the Police Department, and pagers, and other equipment lists are maintained by the purchasing agent and departments.

Classification of Fixed Assets

Fixed assets to which the City has purchased or has title will be entered into the City’s accounting records, including leased equipment. Fixed assets of enterprise funds and internal service funds shall be recorded in the appropriate proprietary type fund. General fixed assets related to governmental-type activities, such as those of the General Fund and Capital Projects Fund, including public domain infrastructure assets, shall be recorded in the General Fixed Asset Group as required by Generally Accepted Accounting Principles (GAAP) rather than the specific fund. Except, however, reporting changes per GASB Statement 34 may be phased in each year.

The classifications and examples are as follows:

Land – Includes all land parcels purchased or otherwise acquired by the City for building sites, street right of way, recreation, etc.

Buildings and Building Improvements – Includes all buildings and improvements to buildings (which include permanently attached fixtures installed during the construction) are considered a part of the building. The subsequent addition of equipment may be recorded as machinery and equipment or may be included in the building component, depending on the purchase.

Improvements Other Than Buildings – These normally are public domain or infrastructure improvements such as streets, drainage improvements to roads, bridges, storm sewers, etc.

Machinery and Equipment – Includes all motor vehicles, office equipment, furnishings and equipment purchases where the purchase price exceeds \$5,000. It may include groupings of smaller items such as shelves, books, etc., when bought in quantity.

Construction in Progress – Includes partially completed construction projects entered into the financial statements as Construction in Progress. Upon completion and placement into service, the assets are transferred from this category into the fixed asset records under separate identities.

VIII. ASSET VALUATION

Acquisition Through Purchase

Fixed assets should be recorded at original (historical) or construction cost of the asset and any other necessary and reasonable costs incurred to place the asset into service. Land should include all costs in preparing the land, professional fees, legal costs, and other costs attributable to the purchase. Buildings and improvements shall be recorded at purchase or construction cost, including broker fee, architect, legal fees, and interest on construction, testing, design, and project administration. Machinery and equipment shall be recorded at purchase cost and include fees and costs to place the equipment in service, such as title fees, decals, and freight. Construction in Progress shall be capitalized into a Construction in Progress account until completed and then transferred to the appropriate classification. Fixed assets purchased in quantities of two or more shall be capitalized and recorded in aggregate as determined by the Finance Department.

Donations

Donations or contributed assets shall be recorded at the estimated fair market value at the time of the donation. Missouri City Park foundation is a 501(c) nonprofit organization. Its financial activities are recorded and reported separately.

Capital Leases

A lease shall be classified as a capital lease and capitalized if it meets one or more of the following criteria.

- The lease transfers ownership to the City at the end of the lease.
- The lease contains an option to purchase the lease property at a bargain price.
- The lease term is equal to or greater than 75 percent of the estimated useful life of the leased property.
- The present value of the rental payments equals or exceeds 90 percent of the fair market value of the leased property.

A lease that fails to meet any of the above criteria shall be classified as an operating lease and recorded as an expense.

Grant Funded Assets

Property and equipment acquired with grant funds must be used for its original purpose as long as needed.

Surplus and Salvage

All machinery and equipment that are no longer needed or usable by the department due to age, obsolescence or damage beyond repair shall be considered surplus and salvage and shall be turned over to the purchasing agent for sale or disposal. The appropriate forms may be completed with the purchasing agent taking possession of the assets, or the department may maintain responsibility for custody of the asset until the time of disposal or sale depending on the storage capacity of the purchasing agent.

Source of Funds

All fixed asset records should contain the source or sources of funds from which the asset was purchased such as:

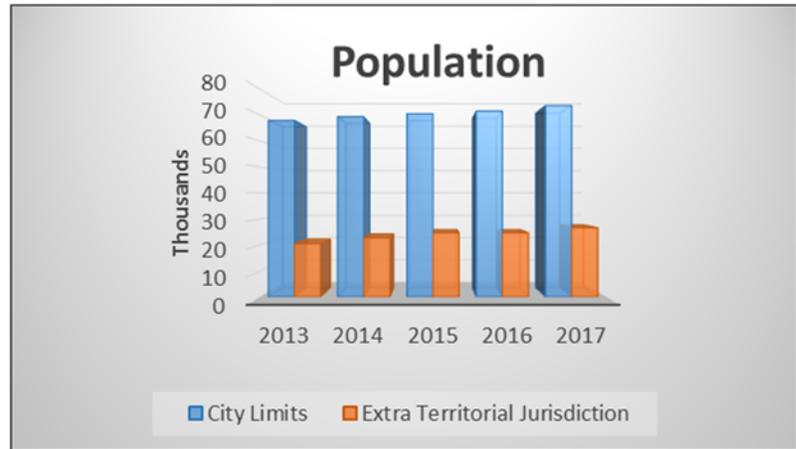
- General Fund
- Utility Fund
- Special Revenue
- Capital Projects
- Grants
- Donations

Depreciation

Under Governmental Accounting Standards Board (GASB) Statement No. 34 requirements, depreciation will be recorded for all fixed assets.

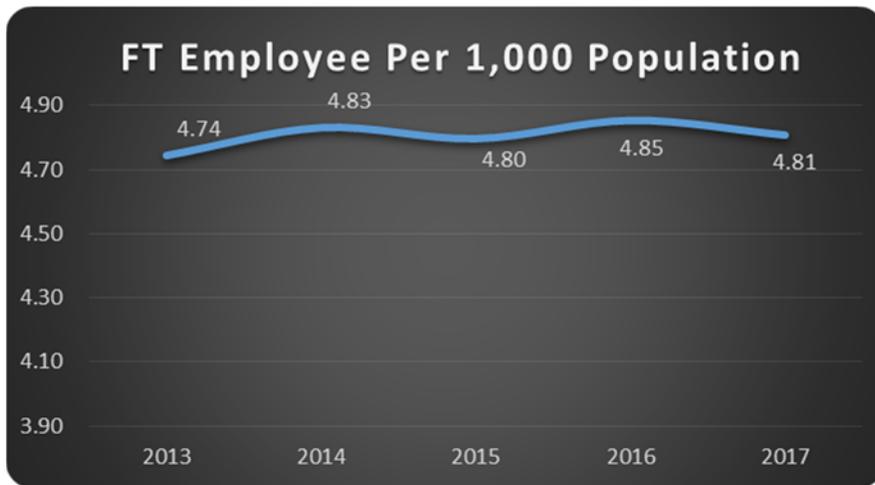
Population Growth

Fort Bend County is one of the fastest growing counties in Texas. Missouri City’s growth has been a little slower than other areas allowing for an adequate planning process.



Fiscal Year	Actual 2013	Actual 2014	Actual 2015	Estimate 2016	Adopted 2017
City Population	67,881	69,338	70,465	71,482	73,626
Extra Territorial Jurisdiction	20,556	22,779	24,632	24,632	26,603
Total	88,437	92,117	95,097	96,114	100,229

Employees per Capita

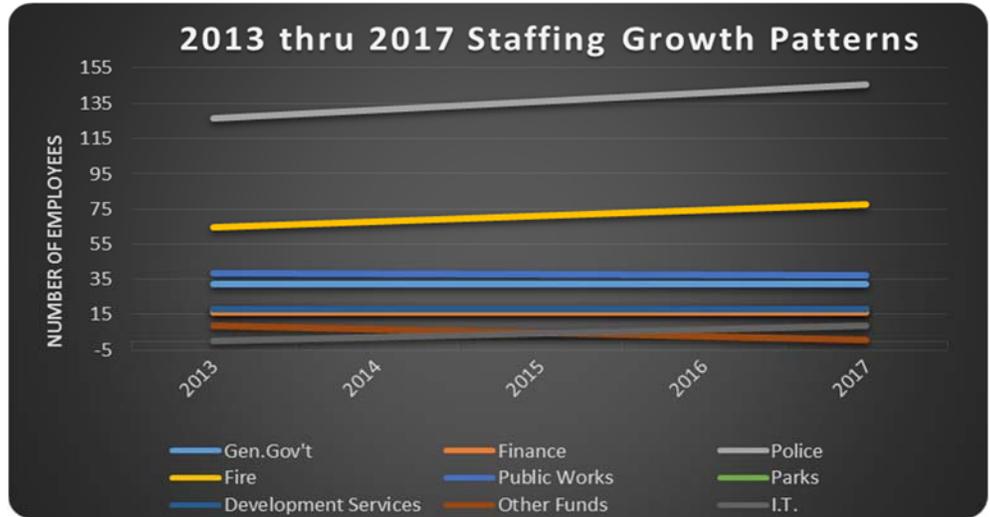


With a slow, but steady increase in the population, the City has been able to adequately keep up with the population growth, in order to continue to provide services to the community.

Fiscal Year	2013	2014	2015	2016	2017
Number of FT Employees	322	335	338	347	354
Population	67,881	69,338	70,465	71,482	73,626
Employees Per 1,000 Population	4.74	4.83	4.80	4.85	4.81

Staff Growth

Public Safety staff growth has accounted for much of the increase in employees. Public Works decreased from 2013-2017. Other Funds decreases are associated with Internal Services Fund positions being reflected in their respective departments. In FY 17, the Police Department's positions increased by five from the prior fiscal year.



	Actual 2013	Actual 2014	Actual 2015	Estimated 2016	Adopted 2017
General Government	32	29	30	31	32
Finance	16	16	17	16	16
Police	126.2	131.2	132.2	140.2	145.2
Fire	65	78	78	78	78
Public Works	38	37	38	37	37
Parks	18	18	18	18	18
Development Services	18	18	17	17	18
Innovation & Technology	0	0	7	9	9
Other Funds	8.8	7.8	0.8	0.8	1
Total	322	335	338	347	354

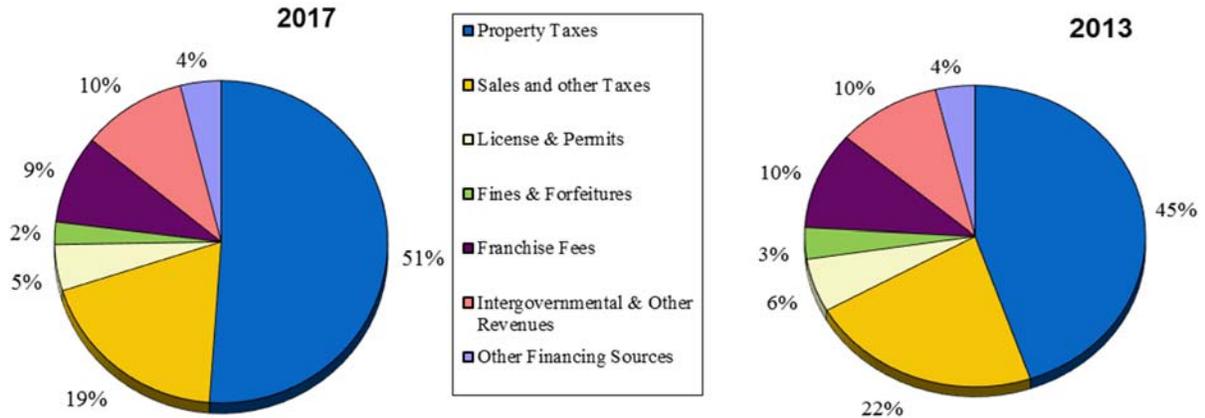
Net Operating Revenues per Capita



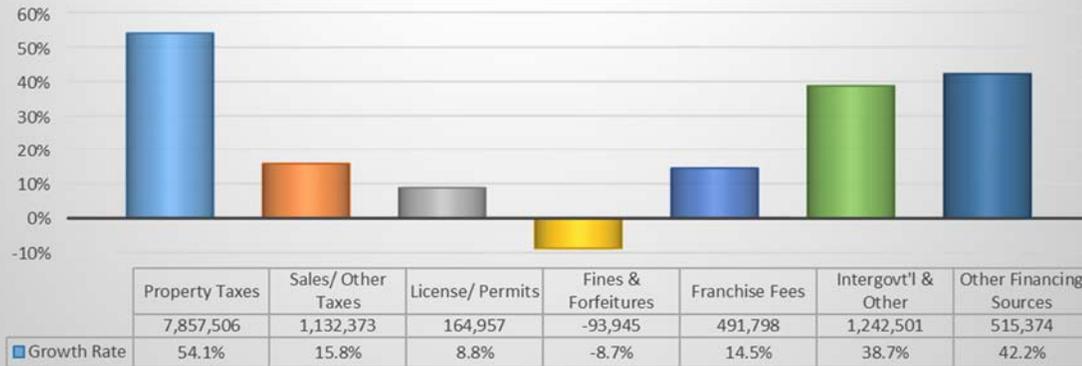
Net operating revenues increased by 2.6% due to increase in revenue from increased property values.

Fiscal Year	Actual 2013	Actual 2014	Actual 2015	Estimated 2016	Adopted 2017
Net general operating Revenues per Capita	\$207.12	\$212.43	\$218.91	\$248.60	\$247.81
Net operating revenues (Constant Dollars)	\$14,059,374	\$14,729,513	\$15,425,606	\$17,770,778	\$18,245,584
Current population	67,881	69,338	70,465	71,482	73,626

General Operating Revenues by Source, FY 2017

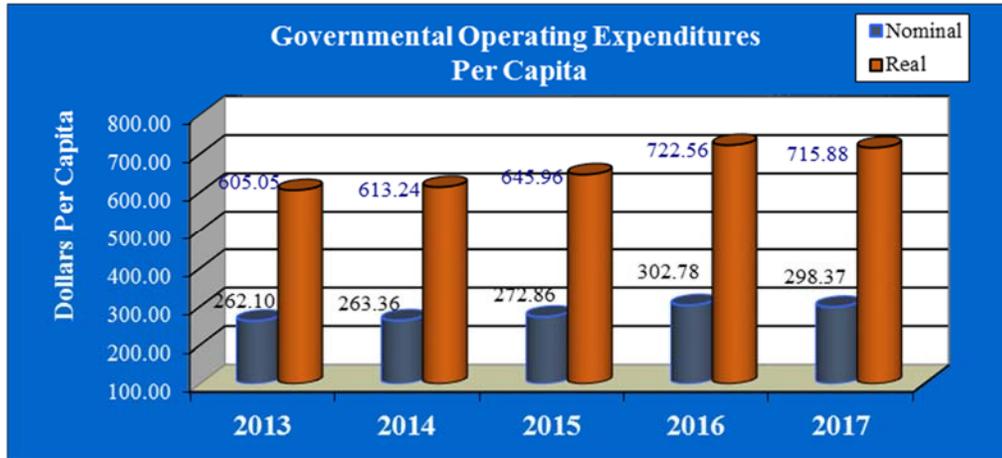


Growth Rate 2013 to 2017



Fiscal Year	2013	2014	2015	2016	2017
Property Taxes	\$14,519,803	\$16,099,339	\$17,256,564	\$20,343,560	\$22,377,309
Sales & Other Taxes	7,165,627	\$7,708,738	\$8,464,897	\$8,591,102	8,298,000
License & Permits	1,868,943	\$1,941,428	\$2,156,998	\$2,098,658	2,033,900
Fines & Forfeitures	1,080,020	\$837,891	\$853,899	\$860,937	986,075
Franchise Fees	3,393,202	\$3,867,029	\$3,908,835	\$3,873,871	3,885,000
Intergovernmental & Other Revenues	3,208,049	2,487,828	2,893,064	4,457,873	4,450,550
Other Financing Sources	<u>1,220,422</u>	<u>1,355,417</u>	<u>1,473,818</u>	<u>2,570,187</u>	<u>1,735,796</u>
Total Revenues	\$32,456,066	\$34,297,670	\$37,008,075	\$42,796,188	\$43,766,630

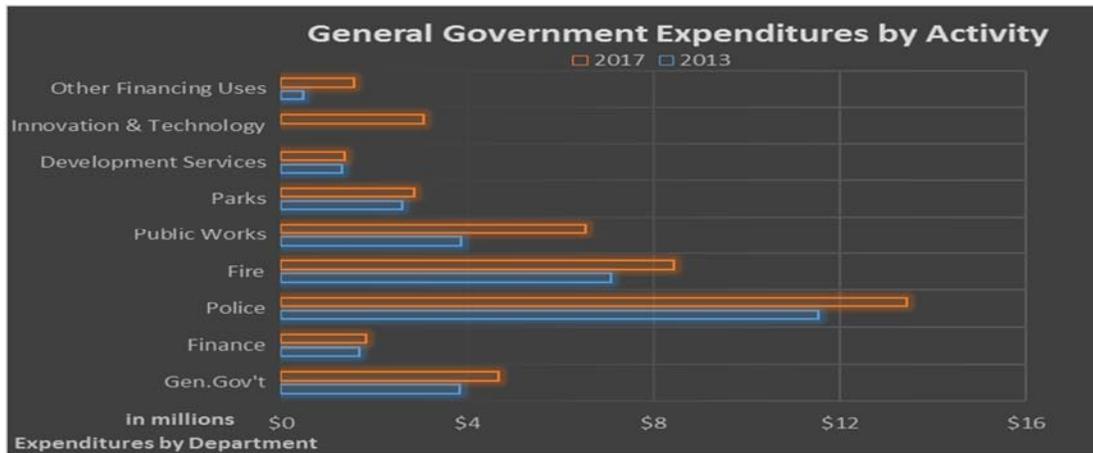
Governmental Operating Expenditures per Capita



General Government Operating Expenditures

	Actual 2013	Actual 2014	Actual 2015	Estimated 2016	Adopted 2017
General Fund	\$32,451,878	\$33,764,925	\$36,518,579	\$42,408,185	\$43,766,630
Debt Service	<u>8,619,332</u>	<u>8,755,751</u>	<u>8,999,008</u>	<u>9,241,924</u>	<u>8,940,922</u>
Total	\$41,071,210	\$42,520,676	\$45,517,587	\$51,650,109	\$52,707,552

Expenditures by Activity



Increases in Fiscal Year 2017 are the result of a 3% across the board salary increase for all full-time employees; pay adjustment to market; and pay adjustments for time in position. The budget also reflects general increases for goods and services.

Fiscal Year	Actual 2013	Actual 2014	Actual 2015	Estimate 2016	Adopted 2017
General Government	\$3,849,964	\$3,988,036	\$3,500,642	\$4,193,644	\$4,680,510
Finance	1,700,716	1,719,587	1,575,435	1,615,474	1,832,398
Police	11,546,779	12,078,267	11,348,508	13,335,448	13,421,440
Fire	7,096,264	7,327,756	7,711,905	8,261,009	8,435,420
Public Works	3,884,243	4,089,968	6,193,596	6,547,603	6,527,008
Parks	2,596,575	2,737,533	2,449,060	2,821,630	2,870,734
Development Services	1,303,724	1,349,109	1,234,429	1,378,804	1,361,057
Innovation & Technology			2,365,764	2,752,119	3,063,630
Other Financing Uses	<u>473,613</u>	<u>474,669</u>	<u>139,239</u>	<u>1,502,454</u>	<u>1,574,433</u>
Total	\$32,451,878	\$33,764,925	\$36,518,578	\$42,408,185	\$43,766,630

LOOKING TO THE FUTURE

SIENNA PLANTATION/HILLWOOD JOINT DEVELOPMENT AGREEMENT

In February 1996, the City entered into a joint development agreement with Sienna Plantation Partners, L.P., AFG Pacific Properties, Inc., and Thompson Lake Partners, LTD., to develop approximately 7,361 acres of land within the City’s extraterritorial jurisdiction.

This agreement defines the City’s regulatory authority, imposes certain restrictions and other commitments, and develops a master plan for development to assure the development meets or exceeds the City’s present standards. The development agreement provides a systematic framework for the provision of infrastructure, fire and police services, commercial development, implementation of regional wastewater treatment, and enables the City to orderly annex the area in the future.

Subsequent amendments to the Sienna Plantation Joint Development Agreement were approved adding additional acreage totaling approximately 3,170 acres. Approximately 3,827 acres of land described in the Sienna Development Agreement will be developed by Hillwood Residential, with the balance of the area to be developed by AFG Johnson Development. Development of Sienna North and Hillwood is planned to include approximately 16,900 single residential units and 1,043 acres of commercial/retail/condominium development. Sienna North will be bisected by the planned extension of the Fort Bend County Toll Road and Hillwood will be bisected by the extension of Sienna Parkway south/southeast to FM 521. A large regional park will be dedicated in these areas that will be part of the Brazos River Corridor Plan.

RIVERSTONE

An additional 2,500 acres is being developed to the west of Sienna North and immediately adjacent to Missouri City, called Riverstone. Approximately 1/3 of Riverstone is in Missouri City or its extra territorial jurisdiction. It includes the 300-acre Frost Ranch on State Highway 6 with commercial, office and low-density residential development.

University Boulevard will extend from State Highway 6 through Riverstone to the planned University of Houston campus in Sugar Land, then to U.S. Highway 59 and ultimately will loop back to SH 6 in Sugar Land.

The development agreement provides a systematic framework for the provision of infrastructure, fire and police services, commercial development, implementation of regional wastewater treatment, and enables the City to annex the area in the future.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Missouri City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual finance report, with contents that conform to program standards. Such comprehensive annual financial reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Missouri City has received a Certificate of Achievement for 32 consecutive years.

