

**CITY OF GRAND PRAIRIE
FINANCIAL MANAGEMENT POLICIES
January 3, 2023
Prepared by the Finance Department**

FINANCIAL MANAGEMENT POLICIES

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I. PURPOSE STATEMENT

The Financial Management Policies are developed by the City Manager to guide the Chief Financial Officer, Audit Services Director, and other department staff in all financial matters. The overriding goal of the Financial Management Policies is to enable the City to achieve a long-term stable and positive financial condition while conducting its operations consistent with the Council—Manager form of government established in the City Charter. The watchwords of the City’s financial management include integrity, prudent stewardship, planning, accountability, and full disclosure.

The purpose of the Financial Management Policies is to provide guidelines for the financial management staff in planning and directing the City’s day-to-day financial affairs and in developing recommendations to the City Manager. The scope of the policies spans accounting, auditing, financial reporting, internal controls, operating and capital budgeting, revenue management, cash management, expenditure control, and debt management.

II. ACCOUNTING, AUDITING AND FINANCIAL REPORTING

ACCOUNTING

The City Controller is responsible for establishing the chart of accounts, and for properly recording financial transactions.

FUNDS

Self-balancing groups of accounts are used to account for City financial transactions in accordance with generally accepted accounting principles. Each fund is created for a specific purpose, except for the General Fund, which is used to account for all transactions not accounted for in other funds. Funds are created and fund names are changed by City Council approval either through a resolution during the year or in the City Council’s approval of the annual operating or capital budget ordinances.

EXTERNAL AUDITING

The City will be audited annually by outside independent auditors. The auditors must be a CPA firm of national reputation and must demonstrate that they have the breadth and depth of staff to conduct the City’s audit in accordance with generally accepted auditing standards, generally accepted government auditing standards, and contractual requirements.

The auditors’ report on the City’s financial statements including federal grants (single audit) will be completed within 180 days of the City’s fiscal year end, and the auditors’ management letter will be presented to the City staff within 180 days after the City’s fiscal year-end. Staff will attempt to complete the reports prior to this, with a reach goal of 120 days. An interim management letter will be issued prior to this date if any materially significant internal control weaknesses are discovered. The City staff and auditors will jointly review the management letter with the City Council Finance and Government Committee and City Council within sixty (60) days of its receipt by the staff.

EXTERNAL AUDITORS' RESPONSIBILITY TO CITY COUNCIL

The external auditors are accountable to the City Council and will have access to direct communication with the City Council if the City staff is unresponsive to auditor recommendations, or if the auditors consider such communication necessary to fulfill their legal and professional responsibilities.

The City Council Finance and Government Committee will conduct at least one (1) closed session annually with the auditors present without the presence of City staff. Such meetings shall be conducted in accordance with the Open Meetings Act.

EXTERNAL AUDITOR ROTATION

The City will not require external auditor rotation but will circulate requests for proposals for audit services periodically, normally at five-year intervals. The City will also consider periodic partner-in-charge rotations if continuing with existing auditors past five (5) years.

INTERNAL AUDITING

The City Manager established an internal audit function on February 1, 1989. The Audit Services Director reports to the City Manager's office. The annual work plan for internal audit includes compliance test work and performance auditing along with designated special projects. The internal audit work plan is approved annually by the City Manager's office and by the Finance and Government Committee.

EXTERNAL FINANCIAL REPORTING

The City will prepare and publish an annual comprehensive financial report (ACFR). The annual report will be prepared in accordance with generally accepted accounting principles and will be presented annually to the Government Finance Officers Association (GFOA) for evaluation and awarding of the Certification of Achievement for Excellence in Financial Reporting.

The annual report will be published and presented to the City Council within 180 days after the end of the fiscal year. City staffing limitations may preclude such timely reporting. In such case, the Chief Financial Officer will inform the City Manager, and the City Manager will inform the City Council of the delay and the reasons, therefore.

INTERNAL FINANCIAL REPORTING

The Finance Department will provide internal financial information, via online access or reports, sufficient for management to plan, monitor, and control the City's financial affairs. Internal financial reporting objectives are addressed throughout these policies.

III. INTERNAL CONTROLS

WRITTEN PROCEDURES

The Chief Financial Officer and Audit Services Director are responsible for developing City-wide written guidelines on accounting, cash handling, and other financial matters which will be approved by the City Manager and Finance and Government Committee. Annually, the City

Manager and Finance and Government committee will approve the Internal Audit work plan. Projects on the work plan will be reviewed quarterly by the Finance and Government committee.

The Finance Department will assist department managers, as needed, in tailoring the guidelines into detailed written procedures to fit each department's requirements.

INTERNAL AUDIT

Audit Services will conduct reviews of the departments to determine if the departments are following the written guidelines applicable to the departments. Audit Services will also review the written guidelines on accounting, cash handling, and other financial matters. Based on these reviews, Audit Services will recommend internal control improvements, as needed.

DEPARTMENT MANAGERS' RESPONSIBILITY

Department Managers' responsibilities to the City Manager are to ensure that good internal controls are followed throughout his or her department, that all guidelines on accounting and internal controls are implemented, and that all independent and internal auditor internal control recommendations are addressed.

IV. OPERATING BUDGET

PREPARATION

The City's operating budget is the City's annual financial operating plan. The operating budget's basis of accounting will be cash or modified accrual and reconciled to the annual audit. The budget is prepared by the Budget Division with the cooperation of all City Departments and is submitted to the City Manager who makes any necessary changes and transmits the document to the City Council. The budget should be presented to the City Council no later than six (6) weeks prior to fiscal year-end and should be enacted by the City Council prior to fiscal year-end.

BALANCED BUDGETS

The operating budgets will be balanced with recurring revenues, exclusive of beginning resources, greater than or equal to recurring expenditures/expenses. Funds deemed at risk will be updated either monthly or quarterly to the Finance and Government Committee.

PLANNING

Several months prior to the budget approval date, the budget process will be coordinated so as to identify major policy issues for City Council consideration. The Budget Division will work closely with the Finance and Government Committee to review all budgeted funds prior to submitting a proposed budget to the entire City Council.

REPORTING

Monthly financial reports will be prepared and made available to Department Managers for use in managing their budgets and to enable the Chief Financial Officer to monitor and control the budget, as authorized by the City Manager.

CONTROL

Operating expenditure controls are addressed throughout the Financial Management Policies document.

V. CAPITAL BUDGET AND PROGRAM

PREPARATION

The City's capital budget will include all capital project funds and all capital resources. This budget will be prepared annually on a fiscal year basis and adopted by ordinance. The capital budget will be prepared by the Budget Division with the involvement of all required City departments.

CONTROL

All capital project expenditures must be appropriated in the capital budget. The Budget Division must certify the availability of resources so an appropriation can be made before a capital project contract is presented by the City Manager to the City Council for approval.

PROGRAM PLANNING

The capital budget will include plans for a capital improvements program for future years. The planning time frame should be at least five (5) years. The replacement and maintenance for capital items should also be projected for the next five (5) years. Future maintenance and operations will be fully costed, so that these costs can be considered in the operating budget.

ALTERNATE RESOURCES

Where applicable, assessments, impact fees, and/or other user-based fees should be utilized to fund capital projects which have a primary benefit to certain property owners.

DEBT FINANCING

Recognizing that debt is usually a more expensive financing method, alternative financing sources will be explored before debt is issued. When debt is issued, it will be used to acquire and/or construct major capital assets with expected lives equal to or exceeding the average life of the debt issue. The exceptions to this requirement are the traditional costs of marketing and issuing the debt, capitalized labor for the design and construction of capital projects, and small component parts which are attached to major equipment purchases. The City's debt policy will guide the use and extent of debt financing.

CAPITAL AND LENDING RESERVE FUND

The City established a Capital and Lending Reserve Fund in December 2009 which is monitored by the Budget Division and accounted for by the Accounting Division separately from all other funds. There are no set funding sources. However, contributions may be added to this fund by recommendation from the City Manager's Office and the Finance and Government Committee, and the contributions must be approved by the City Council.

Expenditures and disbursements from the Capital Lending and Reserve Fund must be authorized and approved by City Council action following recommendations by the City Manager's Office and the Finance and Government Committee. A plan to replenish the fund over a reasonable time frame will be included in this authorization. There may be one-time uses that will not be repaid.

STREET MAINTENANCE

The City recognizes that deferred street maintenance increases future capital costs by an estimated five (5) to 10 times. In 2020, the City re-authorized ¼ cent of its sales tax and dedicated those revenues to street maintenance. Additionally, the City devotes Payment in Lieu of Taxes (PILOT) and franchise fee revenue to street maintenance. A street maintenance paving assessment is done annually. The City reserves 10% of sales tax revenues for this purpose.

WATER/WASTEWATER MAIN REHABILITATION AND REPLACEMENT

The City recognizes that deferred water/wastewater main rehabilitation and replacement increases future costs due to loss of potable water from water mains and inflow and infiltration into wastewater mains. Therefore, to ensure that the rehabilitation and replacement program is adequately funded, the City will annually appropriate cash as available.

GENERAL GOVERNMENT CAPITAL RESERVE

A reserve will be maintained for general governmental capital projects. The reserve will be funded with General Fund operating surpluses. The reserve will be used for major capital outlay, and for unplanned projects. As soon as practicable after each fiscal year end when annual operating results are known, any General Fund operating surplus in excess of budget which is not required to meet ending resources requirements may be transferred to the reserve with the approval of the City Council.

REPORTING

Monthly financial information will be available to enable Department Managers to manage their capital budgets and to enable the Budget Division to monitor the capital budget as authorized by the City Manager.

VI. REVENUE MANAGEMENT

SIMPLICITY

The City will strive to keep the revenue system simple which will result in a decrease of compliance costs for the taxpayer or service recipient and a corresponding decrease in avoidance to pay.

CERTAINTY

An understanding of the revenue source increases the reliability of the revenue system. The City will understand its revenue sources and enact consistent collection policies so that assurances can be provided that the revenue base will materialize according to budgets and plans.

EQUITY

The City will strive to maintain equity in the revenue system structure. That is, the City will seek to minimize or eliminate all forms for subsidization between entities, funds, services, utilities, and customers. However, it is recognized that public policy decisions may lead to subsidies in certain circumstances, e.g., senior citizen property tax exemptions or partial property tax abatement.

ADMINISTRATION

The benefits of revenue will exceed the cost of producing the revenue. The cost of collection will be reviewed for cost effectiveness as a part of the indirect cost and cost of services analysis. Where appropriate, the City will use the administrative processes of State or Federal collection agencies to reduce administrative costs.

REVENUE ADEQUACY

The City will require that there be a balance in the revenue system. That is, the revenue base will have the characteristic of fairness and neutrality as it applies to cost of service, willingness to pay, and ability to pay.

COST/BENEFIT OF ABATEMENT AND REINVESTMENT ZONES

The City will exercise due caution in the analysis of any tax, fee, or water and wastewater incentives that are used to encourage development. Ideally, a cost/benefit (fiscal impact) analysis will be performed as a part of such analysis. Annually, the City will also assess the current boundaries, revenues, and participation levels of the tax increment reinvestment zones and determine their ongoing viability. The City will include administrative costs in the use of Tax Increment Reinvestment Zone (TIRZ) revenues. The City will follow an overall economic development program as authorized by the City Manager.

DIVERSIFICATION AND STABILITY

To protect the government from fluctuations in a revenue source due to fluctuations in the economy, and variations in weather, (in the case of water and wastewater), a diversified revenue system will be maintained across the organization.

NON-RECURRING REVENUES

One-time revenues will not be used for ongoing operations. Non-recurring revenues will be used only for non-recurring expenditures. Care will be taken not to use these revenues for budget balancing purposes.

PROPERTY TAX REVENUES

Property shall be assessed at 100% of the taxable value as appraised by the Dallas Central, Ellis, and Tarrant Appraisal Districts. Reappraisals and reassessments shall be completed as required by State law. A 99.5% collection rate will serve as a target budget for tax collections with a delinquency rate of 1% or less, barring extraordinary circumstances. The 99.5% rate is calculated by dividing total current year tax collections for a fiscal year by the total tax levy for the fiscal year.

All delinquent taxes will be aggressively pursued. Delinquencies greater than 150 days will be turned over to the City Attorney or a private attorney, and a penalty will be assessed to compensate the attorney as allowed by state law and in accordance with the attorney's contract. Annual performance criteria will be developed for the attorney.

PARKS AND RECREATION VENUE SALES TAX REVENUE

Parks and Recreation Venue sales tax revenue shall supplement, but not supplant, the funding for the Parks and Recreation System which was in place prior to 2000. No more than 49.99% of Parks and Recreation Venue sales tax revenue may be used for operations. At least 50.01% of the revenue will be dedicated to capital expenditures and debt service for Parks and Recreation System improvements and for associated reserves.

EMPLOYEE INSURANCE FUND

A portion of the revenue in the Employee Insurance Fund is deducted from employee paychecks for the specific purpose of providing health and life insurance coverage. Therefore, no funds shall ever be transferred out of this fund to be used for any other purpose. Any additional contingency will be budgeted in the Risk Fund for added flexibility. The Finance and Government Committee will review the status of the fund no less than quarterly.

USER-BASED FEES

For services associated with a user fee or charge, the direct and indirect costs of that service will be offset by a fee where possible. There will be a review of fees and charges to ensure that fees provide adequate coverage of costs of services. User charges may be classified as "full cost recovery," "partial cost recovery," and "minimal cost recovery," based upon City Council policy.

IMPACT FEES

Impact fees will be imposed for water and wastewater, in accordance with the requirements of state law. The staff working with the Impact Fee Advisory Committee (Planning and Zoning Commission) shall prepare a semi-annual report on the capital improvement plans and fees. Additionally, the impact fees will be re-evaluated at least every five (5) years, as required by law.

IN-LIEU-OF PROPERTY TAX

The in-lieu-of-property-tax paid by the Water/Wastewater and Solid Waste funds will be dedicated solely to street maintenance and improvements.

GENERAL AND ADMINISTRATIVE CHARGES

A method will be maintained whereby the General Fund can impose a charge to the enterprise funds for general and administrative services (indirect costs) performed on the behalf of the enterprise funds. The details will be documented in the annual indirect cost study or staff analysis. This process may also apply to Tax Increment Reinvestment Zone/Tax Increment Financing (TIRZ/TIF) funds and other support to special districts, as directed by the City Manager.

UTILITY RATES

The City will review utility rates annually, and if necessary, adopt new rates that will generate revenues required to fully cover operating expenditures, meet the legal restrictions of all

applicable bond covenants, and provide for an adequate level of working capital needs. This policy does not preclude drawing down cash balance to finance current operations. However, it is best that any extra cash balance be used instead to finance capital projects.

INTEREST INCOME

Interest earned from investment of available monies will accumulate in a Pooled Investment Fund to use for special projects, as approved by the City Manager and City Council. In specific instances, or where required by law (such as forfeiture funds), interest may be assigned to a particular fund or account. The activity in the Pooled Investment Fund will be reported in accordance with City investment policies as reviewed and adopted annually by City Council.

REVENUE MONITORING

Revenues actually received will be regularly compared to budgeted revenues, and variances will be investigated. This process will be summarized in the appropriate budget report.

SALES TAX REVENUE

The State Comptroller Office collects, administers, and disburses sales tax revenue each month. The Budget Division monitors and reports this activity reflecting any Economic Development Agreements, state audit adjustments, and refunds made to the gross collections. These adjustments are prorated back to other sales taxing entities (Crime Control and Prevention District, Park Venue, Streets, and Epic) that currently exist and have not been dissolved. The General fund may absorb any adjustment variances resulting from dissolutions among the sales tax entities. General Fund allocations exceeding 26% of total sales tax revenues will be budgeted and transferred as follows:

- The first \$1,000,000 over 25% of expected or realized sales tax will be allocated solely to Economic Development.
- After allocating the first 25% to General Fund and the following \$1,000,000 excess to Economic Development, additional funds will be evenly distributed to Economic Development, Redevelopment, Public Art, and Special Projects.

VII. EXPENDITURE CONTROL

APPROPRIATIONS

Appropriations are budgeted at the fund level. If budget amendments (increase in appropriations) are necessary, they must be approved by the City Council. Budget adjustments (transfers between line items within the same fund) are allowed if the adjustments do not exceed the total budgeted appropriations for that fund.

VACANCY SAVINGS AND CONTINGENCY ACCOUNT

The General Fund Contingency Account will be budgeted less than 1% of total general fund expenditures. The contingency account balance for expenditures will be increased monthly by the amount of available salary vacancy savings.

CONTINGENCY ACCOUNT EXPENDITURES

The City Council must approve all contingency account expenditures of \$50,000 or more, as discussed under Purchasing. While no approval is required, the City Council will be informed of General Fund contingency account expenditures of \$5,000 to \$49,999 by memorandum in the monthly reports. The Budget Division is responsible for submitting the memorandum to the City Manager based on information submitted by the spending department.

CENTRAL CONTROL

Significant vacancy (salary) and capital budgetary savings in any department will be centrally controlled and may not be spent by the department without City Manager authorization.

PURCHASING

All purchases shall be in accordance with the City's purchasing policies as defined in the Purchasing Policy. City procurements are governed by state and federal law, as well as the City Code of Ordinances. The primary Texas Statutes that pertain to Purchasing are:

- TEX. LOC. GOV'T CODE:
 - § 176 Disclosure of Certain Relationships with Local Government Officers; Providing Public Access to Certain Information
 - § 252 Purchasing and Contracting Authority of Municipalities
 - § 271 Purchasing and Contracting Authority of Municipalities, Counties, and Certain Other Local Governments
 - § 302 Energy Saving Performance Contracts for Local Governments
- TEX. GOV'T CODE:
 - § 791 Interlocal Cooperation Contracts
 - § 2155 Purchasing: General Rules and Procedures
 - § 2156 Purchasing Methods
 - § 2158 Purchasing: Miscellaneous Provisions for Purchase of Certain Goods & Services
 - § 2161 Historically Underutilized Businesses
 - § 2252 Contracts with Governmental Entity
 - § 2253 Public Work Performance and Payment Bonds
 - § 2254 Professional and Consulting Services
 - § 2258 Prevailing Wage Rates
 - § 2267 Public and Private Facilities and Infrastructure
 - § 2269 Contracting and Delivery Procedures for Construction Projects
- Strong ethical standards are required at all levels of the purchasing function. Purchasing personnel and City departmental staff face the challenging task of developing quality vendor relations and encouraging vendor competition while avoiding even the appearance of favoritism or other ethical misconduct.
- Criminal penalties are associated with attempts to avoid compliance with the state procurement laws, as detailed below.
- Local Government Code Section 252
Sec. 252.062. CRIMINAL PENALTIES
 - Subsection (a)

A municipal officer or employee commits an offense if the officer or employee intentionally or knowingly makes or authorizes separate, sequential, or component purchases to avoid the competitive bidding requirements of Section 252.021. An offense under this subsection is a Class B misdemeanor.

CLASS B MISDEMEANOR: An individual adjudged guilty of a Class B misdemeanor shall be punished by:

- a fine not to exceed \$2,000;
- confinement in jail for a term not to exceed 180 days; or
- both such fine and confinement

○ Subsection (b)

A municipal officer or employee commits an offense if the officer or employee intentionally or knowingly violates Section 252.021, other than by conduct described by Subsection (a). An offense under this subsection is a Class B misdemeanor.

- A municipal officer or employee commits an offense if the officer or employee intentionally or knowingly violates this chapter, other than by conduct described by Subsection (a) or (b), Local Government Code 252 above. An offense under this subsection is a Class C misdemeanor.
 - CLASS C MISDEMEANOR. An individual adjudged guilty of a Class C misdemeanor shall be punished by a fine not to exceed \$500.

● Local Government Code Section 252

Sec. 252.063. REMOVAL; INELIGIBILITY.

- The final conviction of a municipal officer or employee for an offense under Section 252.062 results in the immediate removal from office or employment of that person.
- For four (4) years after the date of the final conviction, the removed officer or employee is ineligible:
 - To be a candidate for or to be appointed or elected to a public office in this state;
 - To be employed by the municipality with which the person served when the offense occurred; and
 - To receive any compensation through a contract with that municipality.
- This section does not prohibit the payment of retirement or workers' compensation benefits to the removed officer or employee.

- Several purchasing practices may appear as attempts to avoid compliance with procurement laws. **Component, separate, or sequential purchases** are outlined in subsections below.

- **Component purchases** may be an attempt to circumvent bid or proposal laws or other requirements by buying items or services through the issuance of multiple purchase orders for the component parts or services of the item versus issuing a single purchase order for the entire item or service. Repeated purchases of additional optional equipment or parts after an initial purchase may create the perception of component purchasing. An example of component purchases for an item would be to place an order for a mower under a specific Purchase Order, then place an order for an attachment for

- the mower under a different Purchase Order. An example of component purchases for a service would be to place an order to have the grass mowed, then place another order to have the weeds pulled, and another separate order to have the area edged.
- **Separate purchases** are very similar to component purchases but are usually less likely to be a direct attempt to circumvent bid or proposal laws or other statutory/policy requirements. Items or services that are purchased under separate orders that should be ordered under a single Purchase Order or contract could be considered separate purchases. An example of separate purchases would be to place an order with a specific vendor to perform construction framing services, place a separate order with another vendor to install sheet rock, and place a separate order with another vendor to paint. An additional example of separate purchases would be to place an order with a vendor to document the management system for a specific department, then place a separate order for document the management system for another department.
 - **Sequential purchases** of like items or services over the course of a consecutive 365-day period may exceed the state competitive procurement requirements. In some cases, sequential purchasing is unintentional. It may result from needs that could not be anticipated. It may also result from lack of centralization of the purchasing function, as a department may not know that another department is purchasing the same goods or services. However, some sequential purchasing is intentional, and must be avoided. An example of sequential purchasing would be office supplies. Many departments do not individually purchase office supplies in values that exceed the limits of competitive procurement requirements. However, the value of office supplies purchased by all City departments far exceeds the limits at which competitive bidding is required. This circumstance is a significant reason that the Purchasing Division solicits bids and awards annual price agreement contracts for items and services. Operating departments are encouraged to bring to the attention of the Purchasing Division any items or services that are not on a price agreement contract and for which the anticipated usage will be near or exceed the \$50,000 threshold.

PROFESSIONAL SERVICES

Professional Services Contracts consist of the following services: Certified Public Accountant, Architect, Physician, Optometrist, Surgeon, Surveyor, Professional Engineer, Interior Designer, Insurance, Real Estate Appraisers, and Professional Services. Professional Services will generally be processed through a request for qualifications or proposals process, apart from smaller contracts. The City Manager may execute any professional services contract other than insurance less than \$50,000, provided there is an appropriation for the contract. While City Council approval of other contracts less than \$50,000 is not required, the Budget Division will inform the City Manager and the City Council whenever a professional services contract of \$5,000 or more is approved.

PROMPT PAYMENT

All invoices will be paid within thirty (30) days of receipt in accordance with the prompt payment requirements of State Law. Procedures will be used to take advantage of all purchase discounts when considered cost effective. However, payments will also be reasonably delayed to maximize the City's investable cash, where such delay does not violate the agreed upon payment terms.

EQUIPMENT FINANCING

Equipment may be financed when the unit purchase price is \$10,000 or more and the useful life is at least two years. General Fund equipment financing and equipment for the Parks and Recreation programs that were funded in the General Fund prior to fiscal year 2000 will be accounted for in the Equipment Acquisition Fund, along with related professional services costs including long range plans and studies.

INFORMATION TECHNOLOGY

Certain information technology acquisitions will be centrally funded from the Information Technology (IT) Capital Project Fund. Acquisitions from this fund may include all related professional services costs for researching and/or implementing an information technology project. Lease cost is also an eligible expense. Lease agreements must be pre-approved by the Finance Department.

- Items to be paid for in other funds include the cost of repair and maintenance, supplies and replacement parts, acquisition of radios, telephones, computer equipment and mobile devices, on-going personnel costs, and items acquired for a new position which will be budgeted with the position.
- Annual funding of between \$250,000 and \$500,000 for replacements and between \$250,000 and \$500,000 for new technology will be provided through transfers from the General Fund and Water Wastewater Fund based on the relative amount of their budgeted ending resources.
- Additional funding above the base amount may be provided for major projects with available one-time sources, including debt proceeds.

VIII. ASSET MANAGEMENT

INVESTMENTS

The City's investment practices will be conducted in accordance with the City Council approved Investment Policies.

CASH MANAGEMENT

The City's cash flow will be managed to ensure all expenses can be paid with cash on hand.

INVESTMENT PERFORMANCE

A quarterly report on investment performance will be provided by the Chief Financial Officer to the City Manager for submission to the City Council.

FIXED ASSETS AND INVENTORY

These assets will be reasonably safeguarded, properly accounted for, and prudently insured.

IX. FINANCIAL CONDITION AND RESERVES

NO OPERATING DEFICITS

Current expenditures will be paid with current revenues. Deferrals, short-term loans, or one-time sources will be avoided as budget balancing techniques. Reserves will be used only for emergencies or non-recurring expenditures, except when balances can be reduced because their levels exceed guideline minimums.

INTERFUND LOANS

Non-routine interfund loans shall be made only in emergencies when other temporary sources of working capital are not available and with the approval of the City Council. At the time an interfund loan is considered, a repayment plan prior to fiscal year end shall also be considered. A fund will only lend money that it will not need to spend for the next 365 days. A loan may be made from a fund only if the fund has ending resources in excess of the minimum requirement for the fund. Loans will not be made from the City's enterprise funds (e.g., Water/Wastewater, Solid Waste) except for projects related to the purpose of the fund. Total interfund loans outstanding from a fund shall not exceed 15% of the target fund balance for the fund. If any interfund loan is to be repaid from the proceeds of a future debt issue, a proper reimbursement resolution will be approved at the time the loan is authorized.

OPERATING RESERVES

A key element of the financial stability of the City is to establish guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the City maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. Fund balance also provides cash flow liquidity for the City.

Definitions:

Fund Equity is generally the difference between its assets and liabilities. Fund Balance is an accounting distinction made between the portions of fund equity that are spendable and non-spendable. The fund equities are divided into five (5) categories:

- Non-spendable refers to amounts that are not in a spendable form, or required to be maintained intact (e.g., inventory, prepaid assets, permanent funds).
- Restricted fund equities include amounts that can be spent only for specific purposes, either constitutionally or through enabling legislation (e.g., grants, child safety fees).
- Committed fund equities include amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- The City Council is the highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.
 - Assigned equities comprise amounts intended to be used by the government for specific

purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds (other than the General Fund), assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in these funds are, at a minimum, intended to be used for the purpose of that fund. The City Council has authorized the City Manager as the official person to assign fund balance to a specific purpose, as approved by the Fund Balance Policy.

- Unassigned fund equities are the residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.
 - Failure to meet the minimum unassigned fund balance will be disclosed to the City Council as soon as the situation is recognized, and a plan to replenish the ending resources or fund balance over a reasonable time frame shall be adopted.
 - The General Fund available fund balance will be maintained at a level of at least 50 days of expenditures.
 - The Water/Wastewater ending resources shall be maintained at a level at least 80 days of expenditures. The annual budget shall target rating agency standards.
 - The ending resources for the Parks and Recreation Venue Fund will be maintained at a level at least 80 days of budgeted Parks and Recreation Venue Sales Tax revenue.
 - EPIC Surplus Operating Reserve Fund, \$1,000,000, will be maintained during the term of the outstanding debt schedule for the EPIC. This amount is funded by surplus sales tax collections.
 - The Pooled Investment Fund resources balance should be maintained at a level equal to .50% times the value of the investment portfolio.
 - All other enterprise funds, including the Risk Management Fund and Employee Insurance Fund, should be maintained at a level equivalent to a minimum of 45 days of expenditures.
- Order of Expenditure of Funds - When multiple categories of a fund balance are available for expenditure, the City will prioritize the most restricted category and spend those funds first before moving to the next category with available funds.

RISK MANAGEMENT RESERVES

The City will aggressively pursue every opportunity to provide for the public and City employees' safety and to manage its risks.

- Property, Liability, Workers Comp Reserves - Cash Reserves of no less than 85% of the actuarially determined incurred but not reported (IBNR) costs shall be maintained in the Risk Management Fund.
- Employee Insurance Reserves - Cash Reserves of no less than 100% of actuarially determined incurred but not reported (IBNR) costs shall be maintained in the Employee Insurance Fund.
- Employee Insurance Stop Loss Reserves - The City will self-fund its employee health insurance stop loss. A cash reserve will be established to fund the stop loss reserve. The City's goal will be a \$2,000,000 stop loss reserve. This goal will be reviewed on an annual basis during the budget preparation process to evaluate the funding level adequacy.
- Contingency Reserves - The City will self-fund a reserve in the employee insurance fund, of at

least \$2,000,000 to help offset claim years that result in higher-than-expected losses in order to preserve stability in the fund. This reserve is not actuarially required but has been determined a sound process by actuaries reviewing the insurance fund due to volatility of claims that can occur. This reserve will be rebuilt, in whole or part, as funding is available, up to the minimum of \$2,000,000, during each budget year. The City may fund more in this reserve, as needed or desired, for financial stability.

LOSS FINANCING

All reasonable options will be investigated to finance losses. Such options may include risk transfer, insurance, and risk retention. Where risk is retained, reserves will be established based on a calculation of incurred but not reported (IBNR) claims and actuarial determinations. Such reserves will not be used for any purpose other than for financing losses.

ENTERPRISE FUND SELF-SUFFICIENCY

The City's enterprise funds' resources will be sufficient to fund operating and capital expenditures. The enterprise funds will pay (where applicable) their fair share of general and administrative expenses, in-lieu-of-property taxes and/or franchise fees. If an enterprise fund is temporarily unable to pay all expenses, the City Council may waive general and administrative expenses, in-lieu-of-property taxes and/or franchise fees until the fund is able to pay them. The City Council may pay out-of-pocket expenses that a fund is temporarily unable to pay with interfund loans to be repaid at a future date.

LANDFILL RESERVES

A series of cash reserves will be funded to help ensure stable customer rates and long-term financial security for the City's landfill. The amounts required will be reviewed no less frequently than every second year.

- Liner Reserve - An amount will be set aside from operations annually so that sufficient funds accumulate to pay for the next liner, when required. The amount set aside will be based on the average annual amount actually paid for liners over the most recent three-year period, modified for known scope changes, if any, anticipated in the next liner project.
- Equipment Replacement - An amount will be set aside from operations annually approximately equal to the average annual depreciation cost of all landfill equipment, based on estimated replacement cost, less salvage value.
- Closure/Post Closure - The reserve required according to Generally Acceptable Accounting Principles (GASB Statement No. 18) will be accumulated over time through annual contributions from operations so that sufficient funds are available to pay closure/post closure costs at the end of the life of the landfill.
- Landfill Replacement - The City's goal will be to fund through annual contributions from operations the amount estimated to be required to provide a replacement solid waste disposal facility by the end of the life of the landfill.
- Capital Projects/Emergency Reserve - An amount approximately equal to the average annual amount required for miscellaneous capital improvements at the landfill will be provided annually from operations. Additionally, approximately one-year's average annual amount will be retained in the fund to provide for miscellaneous, moderate emergencies.

CEMETERY CARE AND MAINTENANCE FUND

In accordance with Section 713.002 of the Health and Safety Code, the City shall contribute 15% of every sale of burial rights (including graves, lawn crypts, mausoleum crypts, and columbaria niches) within the cemetery to the Cemetery and Maintenance Care Fund. The principal amount contributed to the fund will be non-expendable. Interest earned on the fund balance shall be used for the care and preservation of cemetery grounds.

CEMETERY PREPAID SERVICE FEE ESCROW

The Parks and Recreation Department is authorized to collect prepaid burial service fees from patrons of the cemetery. When collected, such fees will be deposited into the Cemetery Prepaid Service Fee Escrow account, and a separate record of each patron's deposit will be maintained by the Parks and Recreation Department. Upon delivery of the burial service to the patron, the amount on deposit will be transferred into the Cemetery Fund as revenue. Any interest earned on the Prepaid Service Fee Escrow account balance will be revenue to the Cemetery Fund. In the event the burial service is not delivered, the Parks and Recreation Department may refund the original amount paid without interest.

WATER/WASTEWATER RATE STABILIZATION FUND

A Water/Wastewater Rate Stabilization Fund shall be established by ordinance as a fund and maintained separately from other funds. Its purpose will be to protect rate payers from excessive utility rate volatility. It may not be used for any other purpose. It will be funded with surplus revenues of the Water/Wastewater Fund and interest earnings. The City's goal will be to maintain the Fund's assets at a minimum of 7.5% of budgeted operating expenditures.

X. DEBT MANAGEMENT

GENERAL

The City's borrowing practices will be conducted in accordance with Debt Management Policies approved by the City Manager and City Council.

SELF-SUPPORTING DEBT

When appropriate, self-supporting revenues will pay debt service in lieu of property tax revenues.

ANALYSIS OF FINANCING ALTERNATIVES

The City will explore all financing alternatives in addition to long-term debt including leasing, grants and other aid, developer contributions, impact fees, and use of reserves or current monies.

VOTER AUTHORIZATION

The City shall obtain voter authorization before issuing General Obligation Bonds as required by law. Voter authorization is not required for the issuance of Revenue Bonds, Tax Notes or Certificates of Obligations. However, the City may elect to obtain voter authorization for Revenue Bonds.

XI. TREASURY DEBT MANAGEMENT

GENERAL

In return for the privilege of safeguarding and investing the community's wealth and doing business with the City, financial institutions have a continuing and affirmative obligation to serve the credit and other financial needs of all communities, including and especially minority communities, consistent with applicable laws. The City shall assess the financial performance of institutions in meeting community needs as evidenced by data provided through the federal Community Reinvestment Act ("CRA") exams. The City may use this data as a factor in its banking decisions, including but not limited to, the evaluation of applications and selection of a depository under Texas Local Gov't Code Ch. 105.

DEFINITIONS

In addition to the definitions provided by Texas Local Gov't Code Ch. 105, the following definitions shall provide additional policy guidance, as applicable:

- Commercial Bank. A banking institution that accepts cash deposits for checking and savings accounts from customers and uses those deposits to issue loans and provide Commercial Banking Services.
- Commercial Banking Services. Those services necessary for supporting current financial transactions such as checking, fund transfers, and similar activities that support the payment of payroll and other current financial obligations.
- Designated Officer. The finance director or the finance director's designee.
- Investment Bank. A financial institution that provides underwriting services including the buying and selling of stocks, bonds, and other securities and other debt related services or Investment Services.

CITY BANKING CONTRACTS

- Evaluation Procedures - As provided by Texas Local Gov't Code Ch. 105, the Designated Officer shall request, receive, and review applications for the performance of depository services. The Designated Officer shall present the specifications of each application to the City Council who will then select a depository.
- The Designated Officer shall use publicly available data to develop key indicators of performance to better understand the result of CRA exams for this locality. The publicly available data shall include, but not be limited to, the Home Mortgage Disclosure Act (HMDA) data, the Community Reinvestment Act (CRA) data on small business lending, data obtained from CRA exams, and the fair lending review component of CRA exams.
- In the case of commercial banks, key indicators of performance shall include, but not be limited to:
 - For each of the following home loan types, use Home Mortgage Disclosure Act (HMDA) data to conduct the analysis and to further understand the federal CRA exams:
 - Home purchase, single family
 - Refinance loans

- Home improvement loans
- Each of the above loan types will be analyzed separately for each institution according to, but not limited to, the following metrics:
 - Number of loans (excluding secondary market purchase activity)
 - Percentage of loans to low and moderate-income (LMI) borrowers. LMI as defined as borrowers with up to 80 percent of area median income
 - Percentage of loans in LMI census tracts
 - Percentage of loans to African Americans
 - Percentage of loans to Hispanics
 - Percentage of loans to Asians
 - Percentage of loans in minority census tracts (i.e., more than 50% of the residents are minority)
- Multifamily loans (five [5] or more units, rental housing)
 - Number of loans
 - Percentage of loans in low and moderate-income tracts
 - Percentage of loans in minority census tracts
 - Use small business loan data banks report per the CRA regulation to analyze small business lending, including, but not limited to, the following:
 - Number of loans (exclude secondary market purchase activity)
 - Percentage of loans in low-income tracts (tract median income is up to 50% of area median income)
 - Percentage of loans in moderate-income tracts (tract median income is between 50% to 80% of area median income)
 - Percentage of loans to small businesses with revenues less than \$1 million
 - Percentage of loans to small businesses with revenues less than \$1,000,000
 - Percentage of loans of amounts of \$100,000 or less.
 - Use data on community development loans, qualified investments, grants, and community development services data from CRA exams (most recent and previous):
 - Number and dollar amount obtained from most recent and previous CRA exams for the bank(s) in the assessment area encompassing this jurisdiction for the following purposes as defined in the CRA regulation: affordable housing, economic development, revitalization and stabilization, community services
 - Number and types of community development services
 - Use publicly available data from the Federal Deposit Insurance Corporation (FDIC) to further understand the federal CRA exams' analysis of bank branching:
 - The number and percent of branches in minority and low and moderate-income census tracts. The dollar amount and percent of deposits in minority and low- and moderate-income census tracts
- **Basis for Recommendation**
 - To qualify as the City's depository, the minimum acceptable CRA performance rating shall be "Outstanding" or "High Satisfactory" in the institution's most recent CRA review by the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, or the

Federal Reserve Board.

- The results of the analysis developed under Section XI shall be made available to the public, presented to the City Council, and be a substantial element supporting the identification of a Commercial Banking Services provider as the City's depository.
- The City may waive the requirements in this Section XI if:
 - No qualified bidders apply.
 - If the federal program is no longer applicable.
 - There is a compelling City need, as determined by the City Council.

XII. STAFFING AND TRAINING

ADEQUATE STAFFING

Staffing levels will be adequate for the fiscal functions of the City to operate effectively. Overtime shall be used only to address temporary or seasonal demands that require excessive hours. Workload shedding alternatives will be explored before adding staff.

TRAINING

The City will support the continuing education efforts of all financial staff, including the investment in time and materials for maintaining a current perspective concerning financial issues. Staff will be held accountable for communicating, teaching, and sharing with other staff members all information and training materials acquired from seminars, conferences, and related education efforts.

AWARDS, CREDENTIALS

The City will support efforts and involvements which result in meeting standards and receiving exemplary recitations on behalf of any of the City's fiscal policies, practices, processes, products, or personnel. Staff certifications may include Certified Public Accountant, Certified Management Accountant, Certified Internal Auditor, Certified Payroll Professional, Certified Government Finance Officer, Professional Public Buyer, Registered Tax Assessor/Collector, Certified Cash Manager, and others, as approved by the City Manager upon recommendation of the Chief Financial Officer.

XIII. GRANTS

APPLICABLE LAWS

The City shall adhere to federal and state laws and regulations related to grants.

- Federal grants are governed by, and the City shall adhere to, Federal Register Title 2, Subtitle A, Chapter II, Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Grant Guidance).
- State grants are governed by, and the City shall adhere to, Local Government Code Title 7, Chapter 783 - Uniform Grants Management Standards issued by the Governor's Office of Budget and Planning for the State of Texas.

AUTHORITY

The City Council determines the goals and priorities of the City. The City Council approves all grant activities/programs. However, the Council may delegate authority to the City Manager to accept grant awards and execute all grant-related documents. All grant-funded activities/programs are assessed and approved by the City Council to ensure that:

- The activity/program is consistent with these goals and priorities,
- Grant financial assistance is needed, and
- Grant proposals and budgets accurately reflect these goals and needs.

INDIRECT COSTS

When allowable, indirect costs may be included when formulating budgets prior to application submission. The rates are determined by the Budget Division and approved by the City's cognizant agency and are effective for the period October 1 through September 30 of each grant year.

SOLICITATION

It is the responsibility of City Departments to locate grant sources, determine the appropriateness of the grant, prepare City Council communications regarding applications and/or grant offers, and draft grant applications for submission for grants which would be cost beneficial and meet the City's objectives.

SUPPLEMENT NOT SUPPLANT FEDERAL GRANTS

The City has implemented guidelines to ensure compliance with federal fiscal requirement of supplement, not supplant. The purpose of the procedures is to ensure that the level of state and local support for programs remains at least constant and is not replaced by federal funds. Federal funds are used to supplement (i.e., add to, enhance, expand, create something new, increase) the funds available from non-federal sources, and not to supplant (i.e., replace or take the place of) the existing non-federal funds.

- Federal funds may be used only to provide supplemental or augment the programs generally offered with state and local funds.
- Federal funds may be used only to provide supplemental services that would not have been provided had the federal funds not been available.
- State and local funds which previously funded activities may not be diverted to another purpose simply because federal funds are now available to fund those activities. That is, the use of federal funds may not result in a decrease in state and local funds for a particular activity, which, in the absence of the federal funds, would have been available to conduct the activity.
- Federal funds must supplement or augment that which must be provided by state law, or any activities which have been adopted as policy by the City to fund from non-federal sources.
- If federal funds are used to enhance or expand a state mandate or City policy, the federal supplementary activities must be separately identified and clearly distinguishable from the activities identified as necessary for implementing a state mandate or City policy as outlined in the implementation plan.

PROCUREMENT

In addition to City procurement policies and guidelines as outlined in the City's Purchasing Policy, all applicable procurement requirements of federal and state grant fund regulations, other applicable laws and regulations, and Office of Management and Budget (OMB) circulars apply to the use of grant funds.

COMPLIANCE

The City shall comply with **specific** terms and conditions as set forth in Federal and State Grant Award Notifications (GAN). GANs may also include **general** terms and conditions. Should there be any inconsistency between the **specific** terms and conditions, and **general** terms and conditions, **specific** terms and conditions will govern. If **general** or **specific** terms and conditions conflict with City policies and procedures, the most conservative rule will govern.

MANAGEMENT

Grant management lies within each Department of the City under the direction of Department Directors.

- Department Directors are accountable to the City Manager, the City Council, and to the granting agencies for the financial and regulatory administration of Federal, State, and local financial assistance awarded to the City.
- Grant management shall be in accordance with the City's Grant Management Guidelines and Procedures Manual. Applications will be sent to Finance prior to submission in order to establish appropriate accounting and reporting, as well as to ensure appropriate banking information is provided to the grantor.

SECTION 8 OPERATING RESERVES

Section 8 reserves shall only be used for housing related expenditures in compliance with Department of Housing and Urban Development (HUD) regulations.

- A minimum threshold reserve of \$250,000 shall be maintained for Section 8 purposes to provide funding for future administrative and housing assistance payments in the event funding from HUD is not sufficient. Such an insufficiency might become the responsibility of the City, should unforeseen market or economic conditions arise, changes in HUD policy, or human error result in a Section 8 deficit.
- In addition to the minimum reserve, a contingency account of up to \$50,000 may be established annually which may, with the approval of the City Manager or, if appropriate, the City Council, be used for unforeseen, unbudgeted housing-related items.
- Amounts in excess of the \$250,000 minimum reserve and contingency account may be used for housing-related projects implemented by the Housing and Neighborhood Services Department (HNS) and approved by the City Council.
- Funds may be temporarily loaned from the \$250,000 minimum threshold reserve to finance housing-related projects if, in the judgment of the HNS Director and the City Council, the funds will not be required in the near future to cover a Section 8 deficit. At the time such a loan is approved, a repayment plan must also be approved.

CDBG PROGRAMS

City Council approval shall be required to add any new activity after adoption of the final budget. If the project cost of the new activity will be greater than 10% of the total budget, the addition shall be submitted to HUD for approval.

XIV. ANNUAL REVIEW & REPORTING

The Financial Management Policies will be reviewed administratively by the City Manager at least annually, prior to preparation of the operating budget and will be presented to the City Council for confirmation regarding any significant changes. The Chief Financial Officer will report annually to the Finance and Government Committee on compliance with these Financial Management Policies.