



COMPREHENSIVE FINANCIAL MANAGEMENT POLICY STATEMENTS

FISCAL YEAR 2017

CITY OF SACHSE
3815 Sachse Rd, Bldg., B, Sachse, TX 75048

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Comprehensive Financial Management Policy Statements

Responsible Office: Finance Department

Issuance Date:

Last Revision:

Purpose

The Comprehensive Financial Management Policy Statements assembles all of the City's financial policies into one document. These statements are tools used to ensure that the City is financially able to meet its current and future service needs. The individual statements contained herein serve as guidelines for both the financial planning and internal financial management of the City.

Objectives

- A. To guide City Council and management policy decisions that have significant fiscal impact.
- B. To employ balanced revenue policies that provide adequate funding for services and service levels.
- C. To maintain appropriate financial capacity for present and future needs.
- D. To maintain sufficient reserves so as to maintain service levels during periods of economic downturn.
- E. To promote sound financial management by providing accurate and timely information on the City's financial condition.
- F. To protect the City's credit rating and provide for adequate resources to meet the provisions of the City's debt obligations on all municipal debt.
- G. To ensure the legal use of financial resources through an effective system of internal controls.

I. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

The City will maintain accounting practices that conform to generally accepted accounting principles and comply with prevailing federal, state, and local statutes and regulations. The City will provide for, prepare, and present regular reports that analyze and evaluate the City's financial performance and economic conditions. The Director of Finance is the City's Chief Fiscal Officer and is responsible for establishing the Chart of Accounts and for properly recording financial transactions.

A. Accounting Practices and Principles

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 governments). All City financial documents, except monthly interim financial reports, including official statements accompanying debt issues, Comprehensive Annual Financial Reports and continuing disclosures statements, will meet these standards. Monthly interim 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 GAAP and GASB.

B. Basis of Accounting and Budgeting

The City's finances shall be accounted for in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board.

The accounts of the City are organized and operated on the basis of funds and account groups. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. Governmental funds are used to account for the government's general government activities and include the General, Special Revenue, Debt Service and Capital Project, Impact Fee, Street Maintenance Tax, Tax Increment Financing (TIF) Funds and Vehicle Replacement Fund.

Governmental Fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Substantially all revenues are considered to be susceptible to accrual. Ad valorem, sales, franchise and tax revenues recorded in the General Fund, ad valorem tax revenues recorded in the Debt Service Fund and sales taxes in the Street Maintenance Tax Fund are recognized under the susceptible to accrual concept. 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 actually received. Investment earnings are recorded as earned since they are measurable and available. Expenditures are recognized when the related fund liability is incurred, if measurable, except for principal and interest on general long-term debt, which are recorded when due, and compensated absences, which are recorded when payable from currently available financial resources.

The City’s Proprietary Fund types are accounted for on a flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned, expenses are recorded at the time liabilities are incurred.

The City’s annual budget shall be prepared and adopted on a basis consistent with generally accepted accounting principles for all governmental and proprietary funds except the capital projects funds, which adopt project-length budgets. Depreciation of fixed assets is recognized in proprietary fund budgets. All annual appropriations lapse at fiscal year end. Under the City’s budgetary process, outstanding encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities since the commitments will be reappropriated and honored in subsequent fiscal year.

C. Auditing

An annual audit shall be conducted in conformance with the City’s Charter and provision of the Texas Local Government Code, Title 4, Chapter 103 by outside independent accountants (auditor). The audit firm must be a CPA firm of regional reputation and demonstrate breadth and depth of staff to conduct the City’s audit in accordance with GAAP and contractual requirements. The audit firm must be registered as a partnership or corporation of certified public accountants, holding a license under Article 41a-1, Section 9, of the Civil Statutes of Texas. The auditor will jointly review the management letter with City Council within 30 days of its receipt by the staff. The Director of Finance shall respond in writing to the City Manager and City Council regarding the auditor’s Management Letter, addressing the issues contained therein. The auditor is retained by and is accountable directly to the City Council and will have access to direct communication with the City Council if City staff is unresponsive to auditor recommendation, or if the auditor considers such communication necessary to fulfill its legal and professional responsibilities. The auditor’s report should be completed and the Comprehensive Annual Financial Report (CAFR) presented to City Council within 120 days of the City’s fiscal year end. Should new auditing standards and reporting requirements delay the CAFR presentation, the Director of Finance will inform the City Manager who, in turn, will inform the City Council of the delay and reasons therefore.

D. Financial and Management Reporting

1. Interim Financial Reports will be provided monthly to City Council covering revenues and expenditures of the City.
2. The accepted CAFR will be presented annually to the Government Finance Officers Association (GFOA) for evaluation and awarding of the Certificate of Achievement for Excellence in Financial Reporting.

E. Internal Controls

Each Department Director shall ensure that effective internal controls are followed throughout his(her) Department, that all Finance Department directives or internal controls are implemented, and that all independent auditor internal control recommendations are addressed.

F. Compliance with Council Policy Statements

The Comprehensive Financial Management Policy Statements will be reviewed annually and updated, revised or refined as deemed necessary. Policy statements adopted by City Council are guidelines, occasional exceptions may be appropriate and required. Exceptions will be identified, documented, and approved by the City Council before an exception is granted.

II. BUDGET AND LONG-RANGE FINANCIAL PLANNING

These guidelines for budgeting will help to ensure a financially sound City and to establish a long-range financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets.

A. Operating Budget Preparation

Budgeting is an essential element of the financial planning, control and evaluation process of municipal government. The City's "operating budget" is the City's annual financial operating plan. It comprises governmental and proprietary funds, special revenue funds and the debt service fund. The City's Capital Budget includes the General Capital Project Fund and Capital Projects included in the Utility Fund. Projects included in the Capital Budget are budgeted for the life of each project.

The budget is prepared by the Director of Finance at the direction of the City Manager with the cooperation of all City departments. The budget should be presented to the City Council in accordance with the City Charter, and should be enacted by the City Council prior to fiscal year end. The City Council shall hold public hearings in accordance with the City Charter and State Law.

The budget shall include four basic segments for review and evaluation. These segments are: (1) Personnel Costs, (2) Base Budget for Operations and Maintenance Costs, (3) Decision Packages for Capital and Other Non-capital Projects (i.e., new or expanded programs), and (4) Revenues. The operating budgets are subdivided by personnel costs, consumable supplies, contract services, capital outlays and transfers. The operating budgets are presented by object category with comparative data to one prior year of actual audited and estimated financial data. In addition the budget is presented with current year end estimates compared to current budget with percent changes. There shall be supplementary documents to reconcile new operating expenses or programs to the budget.

Revenues shall be summarized and scheduled with comparative and trend analysis for presentation. The Director of Finance shall calculate and prepare a statement of probable income for the City from property taxes supporting the General Fund operating budget and to fund the next year's debt requirements. The proposed budget shall contain a suggested and recommended tax rate to be levied to support the expenditures proposed.

A Combined Budget Summary with scheduled Interfund transfers will be included in the budget presented to the City Council. The budget review process shall include Council participation in the development of each of the four segments of the proposed budget and a Public Hearing in accordance with City Charter and State Law. The City Council shall adopt the budget in accordance with the City Charter and State Law. An annual tax rate ordinance shall be passed by City Council following compliance with the "truth-in-taxation" procedures as outlined in the Texas Property Tax Code.

A copy of the proposed budget shall be filed with the City Secretary and made available to the public in accordance with the City Charter and State Law.

B. Balanced Budget

The City Manager shall present annually, a structurally balanced budget for the ensuing fiscal year to City Council pursuant to the prevailing state and local law. A structurally balanced budget is defined as recurring revenues funding recurring expenditures and adherence to fund balance policies. One-time revenues sources (i.e. Fund Balances) may be used for one-time expenditures.

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.

C. Recurring Revenues

Recurring expenditures shall be budgeted and controlled so as not to exceed current revenues. Recurring expenses will be funded exclusively with recurring revenue sources to facilitate operations.

D. Use of Non-recurring Revenues

Non-recurring revenue sources, such as a one-time revenue remittance of fund balance in excess of policy can only be budgeted/used to fund non-recurring expenditures, such as capital purchases or capital improvement projects. This will ensure that recurring expenditures are not funded by non-recurring sources.

E. Tax Rate

The City Manager will recommend a tax rate that the City service and/or programs require in order to operate efficiently, yet effectively, and pay its debt. Final adoption of the budget by the City Council establishes the official levy of the property tax rate to be assessed and collected for the corresponding tax year.

F. Pay As You Go Capital Projects

The transfer from the City's General Fund and Utility Fund to fund pay-as-you-go capital projects will be budgeted when financially feasible and when projects are identified as needed. The transfer will be based on the financial health of each fund with the long-term goal of adequately funding rehabilitation and providing infrastructure to accommodate future growth.

G. Revenue Estimating for Budgeting

1. To protect the City from revenue shortfalls and to maintain a stable level of service, the City shall use a conservative, objective, reasonable and analytical approach when preparing revenue estimates. All revenues will be budgeted at 95-98% of anticipated revenues or as appropriate based on the variability of the revenue source, with the exception of property tax and inter-fund transfers. The process shall include historical collection rates, trends, and potential economic changes. This approach is intended to reduce the likelihood of actual revenues falling short of budget estimates and should avoid mid-year service changes.

2. All real and business personal property located within the City shall be valued at 100% of the fair market value provided each year by Dallas Central Appraisal District and Collin County Central Appraisal District.

3. The City, whenever possible, will seek outside sources of revenue, such as federal, state, and local grants as outlined by Section IX. Grants and Intergovernmental Revenues.

H. Budget Preparation

1. Department Directors have primary responsibility for formulating budget proposals with the guidance of the Director of Finance and the direction of the City Manager. New or expanded services shall support City Council goals, City Manager priority direction and department goals. The City Manager and Departments are charged with implementing the goals and priorities once they are approved.

2. All competing requests for City resources will be weighed within the formal annual budget process.

3. Actions on items that arise throughout the year with significant financial impacts should be withheld until they can be made in the full context of the annual budget process and long-range plan, unless unforeseen circumstances present themselves.

4. The Budget will be presented in a way that clearly communicates to the public the City's proposed level of services and capital projects planned for the coming year. The approved Budget shall be printed and available online in accordance with the City Charter and State law.

5. The adopted Budget will be presented annually to the Government Finance Officers Association (GFOA) for evaluation in the Distinguished Budget Presentation Award Program.

I. Budget Management

The City Council shall delegate authority to the City Manager in managing the budget after it is formally adopted by City Council. The City Manager may further delegate levels of authority for the daily operations of the budget to Department Directors. Expenditures/expenses are legally adopted at the fund level. Expenditures/expenses should not exceed the adopted budget, plus subsequent changes approved by the City Council.

J. Amended Budget

In order to preserve fund balances/ending balances, based on projected revenues and expenditures/expenses for the current fiscal year, City Council may periodically amend the budget during the year if budget adjustments are required at the fund level (total budget of revenues or expenditures for the fund would change). Amendments shall be by Ordinance with a majority vote of the full membership and shall become an attachment to the original budget.

Budget adjustments between and among departments require City Manager approval. Budget appropriation amendments at lower levels shall be allowed at the Department Director level with the exception of recognized salary or capital budgetary funds. No recognized salary or capital budgetary funds shall be spent in any department without prior written authorization of the City Manager.

K. Operating Deficits

The City shall take corrective action following three (3) consecutive months where estimated annual revenue is below budget projections. Appendix A, Fiscal Management Contingency Plan details the steps the City has established to counter economic situations that impact revenue significantly. Short-term loans as a means to balance the budget shall be avoided except as defined by City Charter Emergency Funding for situations arising from circumstances involving imminent threats to public health and safety or sudden unforeseen situations mandating immediate action by the governing body.

The use of fund balance, which is a one-time revenue source, may be used to fund an annual operating deficit with City Council approval and a plan to replenish the fund balance if drawn down below policy level. Reserve requirements are addressed in Section V. Reserves.

L. Long-Range Financial Plans

1. The City shall develop and maintain a three-year Financial Forecast and Capital Improvement Plan (CIP) for each major operating fund, in conjunction with the annual budget process.

2. All capital project expenditures must be appropriated in the capital budget. Finance Department shall certify the availability of resources for any capital project prior to requesting City Council approval

2. The forecast should enable current services and current service levels provided to be sustained over the forecast period. Operating impacts of future maintenance and operational costs from completed capital improvement projects in the City's Five-Year CIP shall be included in the forecast. Commitments/obligations that require future financial resources shall also be included.

3. Major financial decisions should be made in the context of the Long-Range Plan. The forecast assesses long-term financial implications of current and proposed policies, programs, and assumptions that develop appropriate strategies to achieve the City's goals. The forecast will provide an understanding of available funding; evaluate financial risk; assess the likelihood that services can be sustained; assess the level at which capital investment can be made; identify future commitments and resource demands; and identify the key variable that may cause a change in the level of revenue.

III. REVENUE MANAGEMENT

The City will design, maintain and administer a revenue system that will assure a reliable, equitable, diversified and sufficient revenue stream to support desired City services.

The City will use due caution in the analysis of any tax or fee incentives that are used to encourage development. A cost/benefit (fiscal impact) analysis will be performed as a part of such caution.

A. Balance and Diversification in Revenue Sources

The City will strive to maintain a balanced and diversified revenue system to protect the City from fluctuations in any one source due to changes in local economic conditions which may adversely impact that source.

B. User Fees – General Fund

1. For services that benefit specific users, the City shall establish and collect fees to recover the costs of those services. Where services provide a general public benefit, the City shall recover the costs of those services through property and sales taxes.

2. At a minimum, the City will strive to cover direct costs. User charges may be classified as full cost recovery, partial cost recovery and minimal cost recovery.

3. User fees will be reviewed annually and adjusted to avoid sharp changes.

4. Factors in setting fees shall include, but not be limited to, market and competitive pricing, effect of demand for services, and impact on users, which may result in recovering something less than direct, indirect, and overhead costs.

5. The City may set a different fee for residents versus non-residents.

6. All user fees shall be adopted by City Ordinance during the budget process and included in the Master Fee Schedule.

C. User Fees – Enterprise Funds

1. Utility rates shall be set at levels sufficient to cover operating expenditures (direct and indirect), meet debt obligations and debt service coverage, provide funding for capital improvements, and provide adequate levels of working capital.

2. Components of the Utility rates will include a transfer to the General Fund for an administrative fee for services of general overhead, such as administration, finance, personnel and data processing. This fee is documented with the budget process through a cost allocation.

3. The City may set a different fee for residential versus non-residential.

4. The approved Utility Rate Study of Water and Wastewater rates prepared by a third party vendor shall serve as the basis for rate change considerations.

5. User fees will be structured for smaller rate increases versus higher rate increases periodically.

6. All user fees shall be adopted by City Ordinance during the budget process and included in the Master Fee Schedule.

D. Impact Fees

1. Impact fees for Water, Wastewater and Thoroughfare will be imposed in accordance with state requirements.

2. Impact fees will be re-evaluated as required by law.

3. All impact fees shall be adopted by City Ordinance during the budget process and included in the Master Fee Schedule.

E. Revenue Collection

1. A ninety-nine percent (99%) collection rate shall serve each year as a goal for tax collections. All delinquent taxes shall be aggressively pursued with delinquents greater than 150 days being turned over to the delinquent tax attorney in July of each year, and a penalty assessed to compensate the attorney as allowed by State law and contractual agreement.
2. The City shall follow a consistent yet reasonable approach to collecting revenues to the fullest extent allowed by law.
3. Revenues received will be compared to budgeted revenues by the Director of Finance and any variances considered to be material will be investigated and reported in the monthly interim financial report.

F. Write-off of Uncollectible Receivables (excluding property taxes, court fines and warrants)

1. Receivables shall be considered for write-off as follows:
 - a. State statute authorizing the release or extinguishment, in whole or in part, of any indebtedness, liability, or obligation, if applicable.
 - b. Utility accounts delinquent three (3) or more years shall be written off annually prior to fiscal year end.
2. The write-off of uncollected accounts is a bookkeeping entry only and does not release the debtor from any debt owed to the City.

G. Bond Revenue Coverage Requirements

The City shall meet the required legal revenue coverage requirements as set forth in all bond rate covenants.

IV. EXPENDITURE MANAGEMENT

The City will identify services, establish appropriate service levels and administer the expenditure of available resources to assure fiscal stability and the effective and efficient delivery of those services.

The City must follow the Texas State Constitution and Statutes for purchasing and contracting expressed in the Local Government Code, and Government Code. These policies and procedures are established to incorporate the Texas state guidelines in one encompassing document and to establish rules and regulations for disbursements through check requests, procurement cards (P-cards), petty cash, requisitions and purchase orders. The purpose of this document is to make every effort to ensure the efficient disbursement of funds, maximize prompt payment discounts, minimize late payment penalties, and encourages good relations with citizens, vendors and other departments throughout the City.

A. Disbursement Approvals

The Finance Director shall approve the disbursement of City funds; however, such approval shall not be given without authorization by the responsible Department Head in the form of a purchase order transaction, a check request, petty cash, p-cards or other acceptable written documentation based on the following approval level:

Area of Responsibility	From	To
Dept. Head Designee	\$0.00	\$499.99
Dept. Head	\$500.00	\$9999.99
City Manager	\$10,000.00	\$49,999.99
City Council	\$50,000.00	And up

Dollar Limits	Procurements	Requirements
Under \$1,000	Under the small purchase limit	No competitive bid required; P-cards may be used.
\$1,000 to \$9,999.99	Within informal bid limit	A minimum of two informal competitive bids required unless exempted.
\$10,000 to \$49,999.99	Within City Manager’s approval	A minimum of three informal competitive bids required. City Manager must approve the purchase.
\$50,000 and above	Competitive bidding required	Formal solicitations, which includes public notices, required unless exempted. City Council approval required.

Dollar Amount	0-499.99	500-999.99	1000-2,499.99	2,500-2,999.99	3,000-9,999.99	10,000-24,999.99	25,000 – 49,999.99	50,000 or above
2 Written Quotes								
3 Written Quotes								
Formal Competitive Bid								
2 Historically Underutilized Bus.								
Dept. Head Designee								
Dept. Head								
City Manager								
City Council								

1. Over \$1,000 to \$10,000.

a. Two (2) written quotes are to be obtained for single item purchases over \$1,000 up to \$10,000. (Attach quote documentation to the requisition).

2. \$3,000 to \$10,000

a. Contact at least two (2) historically underutilized business on a rotating basis.

2. All purchases over \$10,000

a. Require City Manager pre-authorization and pre-approval.

3. Over \$10,000 to \$50,000.

a. Three (3) written quotes or pricing obtained through any inter-local purchasing authority or cooperative. (Attach quote documentation to the requisition).

4. Over \$50,000

a. All City purchases and contracts over \$50,000 shall conform to a competitive bidding process as set forth in Chapter 252 of the Local Government Code of Texas.

b. Recommendations on purchases and contracts shall be submitted to the Council by the City Manager for Council approval.

c. Upon Council approval, the City shall confirm the bid award to the successful bidder by means of a written City purchase order.

B. Purchasing Summary

A Form W-9 and Conflict of Interest are required to be on file for each vendor the City conducts business.

C. Prompt Payment

All invoices approved for payment by the proper City authorities shall be paid by the Finance Department within thirty (30) calendar days of receipt in accordance with the provisions of Article 601(f), Section 2 of the State of Texas Civil Statutes.

1. All overage >10% must be signed by Department Head and/or City Manager based on approval level.

D. Signature of Checks

All checks shall have two authorized employee signatures, one of which must be the Director of Finance. Signatures may be affixed using a facsimile check-signing machine or secure laser check printing system. On any one (1) check that exceeds an amount of \$2,500 or greater, it shall bear the initial of an authorized check signer.

E. Budget Tracking

The City Manager, in coordination with each Department Head is responsible for insuring the total expenses in each fund do not exceed the adopted annual budget.

1. Budgeted Capital Items.

a. If the bid received for a capital item varies from the budgeted amount by \$10,000 or more, any savings cannot be reallocated to new capital items without City Council approval.

b. City Manager will report to Council any expenditures that varies by more than \$10,000.

c. Contracts and related Change Orders must follow these City purchasing guidelines and State law. In accordance with State law, change orders are limited to 25% of the total contract amount.

d. Change orders greater than \$50,000 require the same Council approvals as the original contracts.

F. Competitive Bidding

A municipality is required to follow competitive requirements for purchases pursuant to Chapter 252.021 *Competitive Requirements for Purchases*, Local Government Code. Before a municipality may enter into a contract that requires an expenditure of more than \$50,000 from one or more municipal funds, the municipality must: (1) comply with the procedure prescribed by 252.021 Subchapter C for competitive sealed bidding or competitive sealed proposals; (2) use the reverse auction procedure, as defined by Section 2155.062(d), Government Code for purchasing; or (3) comply with the method described by Chapter 2267, Government Code for public and private facilities and infrastructure; or (4) comply with the method described by Chapter 2269, Government Code for contracting and delivery procedures for construction projects; and (5) comply with all notice requirements described by Section 252.041 Subchapter C, Local Government or Section 2269.052 Subchapter B, Government Code dependent upon the project.

A municipality may use the competitive sealed proposal procedure for the purchase of goods or services, including high technology items and insurance. Section 252.042 *Requests for proposals* made under Chapter 252.021 must solicit quotations and must specify relative importance of price and other evaluation factors.

1. Notice requirements – Section 252.041, Subchapter C, Local Government or Section 2269.052 Subchapter B, Government Code depending on the project. Notice of the time and place at which the bids will be publicly opened and read aloud must be published at least once a week for two consecutive weeks in a newspaper published in the municipality. The date of the first publication must be before the 14th day before the date set to publicly open the bids and read aloud.

2. Award of Contract – Section 252.043 *Award of Contract* specifies award of contract must be awarded to the lowest responsible bidder or to the bidder who provides goods or services at the best value for the municipality.

3. A municipality additionally must follow the guidelines established by the Section 2269, Government Code for construction projects.

G. Historically Underutilized Business

A municipality, in making an expenditure of \$3,000.00 - \$50,000.00, shall contact at least two (2) historically underutilized businesses on a rotating basis, based on information provided by the General Services Commission pursuant to Chapter 2161, Government Code. Section 2161.064 Directory provides a directory of businesses certified as historically underutilized business updated semiannually available for review at <http://www.window.state.tx.us/procurement/prog/hub/>. Five (5) businesses for the City of Sachse are listed and should be considered for purchasing compliance.

H. Cooperative Purchasing

Any purchase made through a purchasing authority or cooperative shall be made in accordance with State Law, and nothing in this policy shall be construed as placing additional requirements on such a purchase.

I. Risk Management

The City will aggressively pursue every opportunity to provide for the Public's and City employees' safety and to minimize the risk of loss of resources through liability claims with an emphasis on safety programs. All reasonable options will be investigated to finance risks. Such options may include risk transfer, risk avoidance, and risk retention. Where risk is retained, reserves will be established based upon actuarial determinations and not be used for purposes other than for financial losses.

J. City Travel/Training and Business Meals Policy

The Travel/Training Policy is contained in the City of Sachse Employee Manual Section 3.11 *Travel*. Individuals (including elected or appointed officials) who travel on official City business and/or to promote the interest of the City are required to adhere to these regulations. Business and travel expense reimbursements must likewise meet the Internal Revenue Service (IRS) accountable plan rules. A plan under which an employee is reimbursed for expenses or receives an allowance to cover expenses is an accountable plan only if three conditions are satisfied: (1) There must be a business connection for the expenses, (2) the employee must either substantiate or be deemed to have substantiated the expenses, and (3) the employee must return to the employer amounts in excess of the substantiated expense. The City meets the IRS accountable plan rules.

K. Sachse Economic Development Corporation Travel Policy

Sachse Economic Development Corporation is a separate entity and follows the travel and training guidelines adopted by the EDC Board. Individuals who travel on official EDC business and/or to promote the interest of the EDC are required to adhere to the regulations adopted by the EDC Board. Business and travel expense reimbursements must likewise meet the Internal Revenue Service (IRS) accountable plan rules. A plan under which an employee is reimbursed for expenses or receives an allowance to cover expenses is an accountable plan only if three conditions are satisfied: (1) There must be a business connection for the expenses, (2) the employee must either substantiate or be deemed to have substantiated the expenses, and (3) the employee must return to the employer amounts in excess of the substantiated expense. The EDC Travel/Training Policy meets the IRS accountable plan rules.

L. Petty Cash Policy

The Petty Cash Fund Policy provides guidelines and procedures to encourage effective administration and internal control of cash handling operations throughout the City. The Petty Cash Fund Policy supports the use of petty cash for appropriate business transactions, while assuring that the appropriate internal controls are in place to minimize the City's risk of financial loss.

M. Procurement Card (P-Card) Policy

1. Procurement cards may be utilized for purchasing consumable supplies, but must comply with the purchasing levels defined in the policy.

2. The purpose of the procurement card (also known as the purchasing card and/or P-Card) is for efficient, cost-effective purchasing and for small-dollar (\$1,000 or less), as well as, high-volume purchases. This program is designed as an alternative to the traditional purchasing process and can result in a significant reduction in the volume of purchase orders, invoices, and checks processed. The policy supports the use of purchasing cards for appropriate business transactions, while assuring that the appropriate internal controls are in place to minimize the City's risk of financial loss. All purchasing cards shall be governed by the P-Card policy and used in a manner that complies with the said policy.

V. RESERVES

The City will maintain the fund balance and working capital of the various operating funds at levels sufficient to protect the City's credit worthiness as well as its financial position during emergencies or economic fluctuations. In addition, the City may accumulate Fund Balances for a specific purpose and for unexpected financial opportunities.

A. Fund Balance Policy

The City has adopted a Fund Balance Policy, revised to comply with GASB 54. The policy as adopted is included in Appendix B.

B. General Fund Unassigned Fund Balance

1. The City shall maintain a minimum of 90 days of regular General Fund operating expenditures (25%). The targeted level of General Fund unassigned should be between 25% and 35%. A fiscal year ending balance of less than 25% of current year expenses is cause for concern, and should indicate a need for corrective action.

2. Excess fund balance levels may be used to fund emergencies, nonrecurring expenditures or major capital purchases that cannot be accommodated through the current year's budgeted revenues with Council approval.

3. Funds accumulated for a specific purpose should be identified as such in the City's Financial Statements.

4. Methods used to replenish fund balances that fall below required levels include an increase in property tax and/or a decrease in budgeted expenses as economic conditions allow. The City should seek to replenish fund balance levels within two (2) years of use.

C. Utility Enterprise Funds/Unassigned Working Capital

1. The Utility Fund working capital should be maintained at a minimum of 20-25% of the total operating expenditures or the equivalent of 75 days.

2. Excess fund balance levels may be used to fund emergencies, nonrecurring expenditures or major capital purchases that cannot be accommodated through the current year's budgeted revenues with Council approval. The City shall not use proceeds or reserves from an Enterprise fund except for expenditures within the purpose of the fund, unless those expenditures have been approved for other purposes as part of the adopted budget.

3. Funds accumulated for a specific purpose should be identified as such in the City's Financial Statements.

4. Methods used to replenish fund balances that fall below required levels include an increase in utility rates and/or a decrease in budgeted expenses as economic conditions allow. The City should seek to replenish fund balance levels within two (2) years of use.

D. Debt Service Fund Unassigned Fund Balance

1. Debt service Fund reserves are maintained at a level to support interest and principal payments in the event of a delay in property tax collections.

2. The City should set aside resources to fund a reserve for years of decline and/or to fund capital out of current funds for projects that would have otherwise been funded by debt financing.

E. Vehicle and Equipment Replacement Fund

1. Funding for the replacement of these assets will be accomplished through the annual budget process with the establishment of the Vehicle and Equipment Replacement Fund.

VI. CAPITAL EXPENDITURES AND IMPROVEMENTS

A. Capitalization Threshold for Tangible Capital Assets

1. Tangible capital items should be capitalized only if they have an estimated useful life of two (2) years or more following the date of acquisition or significantly extend the useful life of the existing asset and cannot be consumed, unduly altered, or materially reduced in value immediately by use and have a cost of \$5,000 or greater for any individual item. Items could include a piece of equipment, vehicle, furniture, fixture, capital improvement, addition to existing capital investments, land or buildings.

2. The capitalization threshold of \$5,000 will be applied to individual items rather than to a group of similar items (i.e. desks, chairs, etc.)

3. Safeguarding the City's fixed asset is the responsibility of the Department Director of the department to which the fixed asset is assigned. Accurate inventories of all tangible items will be maintained by the Department to ensure proper stewardship of public property. The Finance Department shall maintain the permanent records of the City's fixed assets including description, cost, department of responsibility, date of acquisition, depreciation and expected useful life. The Finance Department shall also perform an annual inventory of assets using random sampling at the department level. Inventory will be performed by the designee of the Finance Department and the designee of the department of responsibility. The Finance Department has the granted rights and responsibilities to audit all fixed assets of any City department.

B. Infrastructure Evaluation and Replacement/Rehabilitation

Utilities, street lighting, streets and sidewalks, municipal facilities and other infrastructure are fundamental and essential functions for public health and safety, environmental protections and the economic wellbeing of the City. As a result, the City's CIP should be focused on ensuring that infrastructure is replaced as necessary to protect the City's investment, to minimize future replacement and maintenance costs, and to maintain existing levels of service and accommodate growth.

1. High priority should be given to replacing/rehabilitating capital improvements, prior to the time that they have deteriorated to the point where they are hazardous, incur high maintenance costs, negatively affect property values, or no longer serve their intended purpose.

2. The decision on whether to repair, replace or to rehabilitate an existing capital asset will be based on which alternative is most cost-effective and provides the best value to the City.

C. Replacement of Capital Assets on a Regular Schedule (Fleet, Fire Trucks, and High- Tech)

The City shall annually prepare a schedule for the replacement of its fleet, fire trucks, and high technology capital assets. Funding for the replacement of these assets will be accomplished through the annual budget process through the establishment of the Vehicle and Equipment Replacement Fund (VERF). The VERF is to be utilized for replacement of existing vehicles and equipment in the General Fund. Utility Fund assets will be financed within the Utility Fund as needed.

D. Capital Expenditure Financing

The City recognizes that there are three (3) basic methods of financing its capital requirements: 1) Funding from current revenues; 2) funding from fund balance; or 3) funding through the issuance of debt. Types of debt and guidelines are included in Section VII. Debt. Capital Project funds continue from year to year or until expended for the purpose for which they were issued with the exception of abandoned funds. An appropriation is deemed abandoned when three (3) years pass without disbursement or encumbrance of the appropriation. All funds not expended, disbursed or encumbered shall be deemed excess funds.

E. Capital Improvements/Project Reporting

A summary/status report on the City's various capital projects will be prepared quarterly by Engineering and available to the City Manager and to City Council.

F. Surplus Equipment Policy

The purpose of this policy is to establish a framework and process for the disposal of assets no longer useful in the course of conducting City business.

Once a department has determined property owned by the City is no longer useful, the department head shall complete a "Surplus Property Form" and submit to the City Manager and Finance Department. The Finance Department will confirm the acquisition cost, depreciation, and book value; the City Manager shall make the determination of method of disposal: transfer, trade-in, sell, or scrap. The City Manager will determine if the asset has potential usefulness in another department. If an asset is transferred, a "Fixed Assets Transfer" form will be completed.

The method of disposal and authorization for disposal shall be based on the original cost of the asset according to the following criteria:

1. If the asset's original cost was more than \$50,000, the disposal must be authorized by the City Council, along with the preferred method of disposal.
2. If the asset's original cost was less than \$50,000, the City Manager is authorized to declare the item as surplus property and to determine the best method of disposal: sell at auction, sell through a sealed bid process, or disposal by any other method permitted under State Law.

Funds generated through the sale of surplus equipment will be deposited in the Vehicle and Equipment Replacement Fund.

VII. DEBT

A. Use of Debt Financing

Debt financing, to include general obligation bonds, revenue bonds, certificates of obligation, certificates of participation, lease/purchase agreements, tax notes and other obligations permitted to be issued or incurred under State and local laws, shall only be used to purchase capital assets that cannot be prudently acquired from either current revenues or fund balance and to fund infrastructure improvements and additions. Debt will not be used to fund current operating expenditures.

The City will pay cash for capital improvements within the financial affordability of each fund versus issuing debt when funding capital expenditures and capital improvements, which shall include but not be limited to sales tax, utility system revenues, developer fees, inter-local agreements, and state and federal grants.

B. Affordability

The City shall use an objective analytical approach to determine whether it can afford to issue general-purpose debt, both General Obligation and Certificates of Obligation, and any other financing permitted by State law. The process shall include a feasibility analysis for each long-term financing which analyzes the impact on current and future budgets which would include the tax and utility rates. The process shall also include the benefits of the proposed projects. The decision on whether or not to issue new debt shall be based on the benefits of the project, current conditions of the municipal bond market, and the City's ability to afford new debt. The analysis will ensure that debt to operations component of the tax rate should not exceed 30%.

C. Types of Long-Term Debt

1. General Obligation Bonds (GO)

General Obligation bonds required voter approval and are secured by a promise to levy taxes in an amount necessary to pay annual debt service.

- a. General Obligation bonds must be issued for projects that are in accordance with the wording in the bond proposition.

2. Certificates of Obligation

Certificates of Obligation may be issued without voter approval to finance any public works project or capital improvement, as permitted by State law. It is the City's policy to utilize Certificates of Obligation to finance public improvements in certain circumstances and only after determining the City's ability to assume additional debt. Circumstances in which Certificates might be issued include, but are not limited to the following:

- a. The City may issue CO's when there is insufficient funding on a general obligation bond-financed capital improvement.

- b. The City may issue CO's when emergency (urgent, unanticipated) conditions require a capital improvement to be funded rapidly.

- c. The City may issue CO's for projects when the City can participate with others to reduce the City's capital cost for a community improvement.

- d. The City may issue CO's for projects when there is no other adequate funding source available, the project is determined to be in the best interest of the City, and where a determination is made that waiting for the next bond referendum or having a bond referendum for a small issue amount or a small number of projects is impractical and where a public notice versus a voted bond referendum is deemed acceptable by the City Council.

- e. The City may issue CO's if it would be more economical to issue Certificates of Obligations rather than issuing revenue bonds.

3. Enterprise Revenue Bonds

Revenue bonds are generally payable from a designated source of revenue. They do not require voter approval.

For the City to issue new Revenue Bonds, revenues, as defined by City Charter, shall be received from the properties and/or interest pledged at the time of issuance. Municipal water and sewer are examples of revenue producing enterprises within the City.

4. Refunding Obligations

The City's financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. As a general rule, the net present value savings of a particular refunding should exceed 3.0% of the refunded maturities unless (1) a debt restructuring is necessary or (2) bond covenant revisions are necessary to facilitate the ability to provide services or to issue additional debt or (3) the refunding is combined with a new debt issuance.

5. Tax Notes

Tax Notes have a shorter amortization schedule, no more than seven years, and can be utilized for large equipment purchases or small projects. Debt service is supported by an I&S tax levy.

6. Lease Purchase Agreements

The City shall use lease/purchase agreements for the acquisition of equipment when it is cost-effective and provides for attractive terms. All lease/purchase agreements must be approved by City Council regardless of the dollar amount. Lease payments must be made from M&O funds.

D. Debt Limits

The debt to operations component of the tax rate should not exceed 30% to 70%. This limit should be reviewed periodically to ensure continued compatibility with the City's needs.

E. Debt Structures

1. The City shall normally issue bonds with a life not to exceed 25 years for General Obligation bonds and 30 years for revenue bonds, but in no case longer than the useful life of the financed asset.

2. The City shall seek level or declining debt repayment schedules and will avoid issuing debt that provides for balloon principal payments reserved at the end of the term of the issue, unless such debt issue is originally intended to be refinanced to produce level or declining overall debt repayment.

3. The City will seek to retire at least 25% of the total General Fund supported principal outstanding within the next 10 fiscal years of the issue.

4. The City will issue debt based on a fixed rate and limit use of variable-rate debt due to the volatility of such instruments.

5. The City shall pay at least interest in the first fiscal year after a bond sale and principal payments starting generally no later than the second fiscal year after the bond issue.

F. Debt Issuance Process

1. The City staff with the assistance of financial advisors and bond counsel, will prepare the necessary materials for presentation to the rating agencies, will aid in the production of Offering Statements, and will take responsibility for the accuracy of all financial information released. The City will also comply with all federal tax law provisions, including arbitrage requirements.

2. The City shall utilize the service of independent financial advisor(s) and bond counsel on debt financing.

3. The Finance Department shall review each debt issuance transaction on a case by case basis to determine the most appropriate method of sale.

4. The City shall use a competitive bidding process in the sale of bonds unless the nature of the issue warrants a negotiated bid. In situations where a competitive bidding process is not elected, the City will publicly present the reasons why and the City will participate with the financial advisor in the selection of the underwriter or direct purchaser.

a. **Competitive Sale.** In a competitive sale, bids for the purchase of the bonds are opened at a specified place and time and are awarded to the underwriter (or syndicate) whose conforming bid represents the lowest true interest cost to the City (TIC). This method is most advantageous when the debt to be issued is less complex, the municipal bond market for high grade credits is stable, and the sale of the City's bonds is assured.

b. **Negotiated Sale.** In a negotiated sale, the City chooses the initial buyer of the bonds in advance of the sale date. The initial buyer is usually an investment banking firm, or a syndicate of investment banking firms interested in reoffering the bond to investors through an underwriting process. This type of sale allows the City to discuss different financing techniques with the underwriter in advance of the sale date. This method is most advantageous when the debt issue is complex, debt structuring flexibility is required (as would be the case in a bond refunding) or the municipal bond market is unstable or uncertain.

5. The City will reimburse with proceeds of the Obligations any amount expended prior to the issue date for the acquisition, renovation or construction of the facilities.

G. Application of Bond Proceeds

1. Assignment of Responsibility and Establishment of Calendar

On the date of issuance of any bond, the Finance Director will identify and document in the Bond Resolution for the bond issue:

- a. The funds and/or accounts into which bond proceeds are deposited.
- b. The types of expenditures expected to be made with bond proceeds
- c. The dates by which all proceeds must be spent or become subject to arbitrage yield limitations and all interim dates by which funds and/or accounts must be evaluated to ensure compliance with the applicable expenditure deadlines.

H. Underwriting Syndicates

The City's financial advisor shall attempt to involve qualified and experienced firms, which actively participate in the City's competitive sale in its negotiated underwritings. In conjunction with the City, the City's financial advisor shall recommend the structure of underwriting syndicates, which will be optimal for the type and amount of debt being issued.

I. Bond Ratings

Full disclosure of operations and open lines of communication shall be maintained with the rating agencies. Credit ratings will be sought from one or more of the nationally recognized municipal bond rating agencies as recommended by the City's financial advisor.

The City will continually strive to maintain or increase the City's current bond ratings by prudently managing its funds and by reviewing and monitoring financial policies, budgets, forecasts and the financial health of the City.

J. Post Issuance Tax Compliance

The City will comply with post-issuance requirements of federal income tax law to preserve the tax-exempt status of any tax-exempt bonds or other obligations.

1. Arbitrage

Arbitrage is the simultaneous purchase and sale of an asset in order to profit from a difference in the price. It is a trade that profits by exploiting price differences of identical or similar financial instruments, on different markets or in different forms. Federal guidelines generally restrict the ability to earn arbitrage in connection with Obligations. The Responsible Person (as defined below) will review the Closing documents at least annually to ascertain if an exception to arbitrage compliance applies.

- a. Investment Restrictions. The Responsible Person will monitor the investment of bond proceeds to ensure compliance with the yield restriction rules. A general requirement under the Internal Revenue Code is that proceeds of tax-exempt bonds cannot be used to make investments at a higher yield than the yield on the bonds
- b. Arbitrage Yield Calculation and Rebate. Investment earnings on bond proceeds will be tracked and monitored to comply with applicable yield restrictions and/or rebate requirements. The City utilizes an arbitrage rebate consultant. The Responsible Person will provide the arbitrage rebate consultant with requested documents and information on a prompt basis, reviewing applicable rebate reports and other calculations to ensure the timely preparation of rebate reports and/or payments of any rebate liability.
- c. Arbitrage Rebate Payments. The reports and calculations provided by the arbitrage rebate consultant will confirm compliance with rebate requirements, which include the City to make rebate payments (if any rebate liability exists) at least every 5 years after the Issue Date and within 30 days after the final maturity of the Obligation. The Responsible Person will confer and consult with the arbitrage rebate consultant and bond counsel to determine whether any rebate spending exception may be met.

2. Procedures applicable to Obligations issued for construction and acquisition purposes

With respect to the investment and timely expenditure of the bond proceeds that are issued to finance public improvements or to acquire land or personal property, the Responsible person will:

- a. Instruct the appropriate person who is primarily responsible for the construction, renovation or acquisition of the facilities financed with the Obligations ("Project"), that binding contracts for the expenditure of at least 5% of the proceeds of the Obligations are entered into within 6 months of the date of closing of the Obligations (the "Issue Date") and that the Project must proceed with due diligence.
- b. Monitor that at least 85% of all proceeds of the Obligations to be used for construction, renovation, or acquisition of the projects are expended within three (3) years of issuance.
- c. Monitor the yield on the investments purchased with proceeds of the Obligations and restrict the yield of such investments to the yield on the Obligations after 3 years of the Issue Date;
- d. Monitor all amounts deposited into a sinking fund or funds pledged (directly or indirectly) to the payment of the Obligations, such as the Interest and Sinking Fund, to assure that the maximum amount invested within such applicable fund at a yield higher than the yield on the Obligations does not exceed an amount equal to the debt service on the

Obligations in the succeeding 12 month period plus a carryover amount equal to one-twelfth (1/12) of the principal and interest payable on the Obligations for the immediately preceding 12-month period; and

e. Ensure that no more than 50% of the proceeds of the Obligations are invested in an investment with a guaranteed yield for 4 years or more.

3. Procedures applicable to Obligation with a debt service reserve fund

In addition to the foregoing, if the Obligations are secured by a debt service reserve fund, the City will assure that the maximum amount of any reserve fund for the Obligations invested at a higher yield than the yield on the issuance will not exceed the lesser of (1) 10% of the principal amount of the Obligations, (2) 125% of the average annual debt service on the Obligations as of the issue date, or (3) 100% of the maximum annual debt service on the Obligations as of the issue date.

4. Procedures applicable to Escrow Accounts for Refunding Issues

In addition to the foregoing, if the City issues Obligations and proceeds are deposited to an escrow fund to be administered pursuant to the terms of an escrow agreement, the Responsible Person will:

- a. Monitor the actions of the escrow agent to ensure compliance with the applicable provisions of the escrow agreement, including with respect to reinvestment of cash balances;
- b. Contract the escrow agent on the date of redemption of obligations being refunded to ensure that they were redeemed;
- c. Monitor any unspent proceeds of the refunded obligations to ensure that the yield on any investments applicable to such proceeds are invested at the yield on the applicable obligations or otherwise applied as shown in closing documents.

5. Procedures applicable to all Tax-exempt Obligations Issues

For all issuances of Obligations the Responsible Person will:

- a. Maintain any official action of the City (such as reimbursement resolution) stating the City's intent to reimburse with the proceeds of the Obligations any amount expended prior to the Issue Date for the acquisition, renovation or construction of the facilities;
- b. Ensure that the application information return (e.g., IRS Form 8038-G, 8038-GC, or any successor forms) is timely filed with the IRS;
- c. Assure that, unless excepted from rebate and yield restriction under section 148(f) of the Code, excess investment earnings are computed and paid to the U.S. government (if any rebate liability exists) at least every 5 years after the Issue Date and within 30 days after the final maturity of the Obligation.

6. Ownership and Use of Project (Private Business Use)

Generally, to be tax-exempt, only an insignificant amount of the proceeds of each issue of Obligations can benefit (directly or indirectly) private businesses. The Responsible Persons will review the Closing Documents periodically (at least once a year) for the purpose of determining that the use of the facilities financed or refinanced with the proceeds of the Obligations (the "Project") do not violate provisions of federal tax law that pertain to private business use. In addition, the Responsible Persons will:

- a. Develop procedures or a "tracking system" to identify all property financed with tax-exempt debt;
- b. Monitor and record the date on which the Project is substantially complete and available to be used for the intended purpose;
- c. Monitor and record whether, at any time the Obligations are outstanding, any person, other than the City, the employees of the City, the agents of the City or members of the general public has any contractual right (such as a lease, purchase, management or other service agreement) with respect to any portion of the facilities;
- d. Monitor and record whether, at any time the Obligations are outstanding, any person, other than the City, the employees of the City, the agents of the City or members of the general public has a right to use the output of the facilities (e.g., water, gas, electricity);
- e. Monitor and record whether, at any time the Obligations are outstanding, any person, other than the City, the employees of the City, the agents of the City or members of the general public has a right to conduct or to direct the conduct of research;
- f. Monitor and record whether, at any time the Obligations are outstanding, any person, other than the City, has a naming right for the facilities or any other contractual right granting an intangible benefit;
- g. Monitor and record whether, at any time the Obligations are outstanding, the facilities are sold or otherwise disposed of; and
- h. Take such action as is necessary to remediate any failure to maintain compliance with the covenants contained in the Bond Order related to the public use of the Project.

7. Continuing Disclosure Compliance Requirements

In each year that the City has bonds outstanding subject to SEC Rule 15c2-12, the Responsible Person will provide updated information for the Annual report with the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal

Market Access system for municipal securities disclosure (“EMMA”) by the date specified in each bond’s official statement. The Responsible Person will continuously monitor other events relevant to the bonds and provide proper notice to the MSRB through EMMA as may be required. Relevant events may include but not limited to principal and interest payment delinquencies, unscheduled draws on debt service reserves, adverse tax opinions, defeasances, rating changes, bankruptcy, merger and modifications to rights of bondholders if material. The City will coordinate any submissions with the MSRB through EMMA with Bond Counsel or other legal counsel.

8. Record Retention

The Finance Department shall be responsible for maintaining the following documents for the term of each issue of bond or other obligation plus at least three (3) years:

- a. Bond closing transcript
- b. All records of investments, arbitrage reports, and underlying documents
- c. Construction contracts, purchase orders, invoices and payment records
- d. Documents relating to costs reimbursed with bond proceeds
- e. All contracts and arrangements involving private use of the bond-financed property
- f. All reports relating to the allocation of bond proceeds and private use of bond-financed property
- g. Itemization of property financed with bond proceeds

If any portion of the Obligation is refunded, records shall be maintained until three (3) years after the refunding is completely extinguished. Records can be maintained in paper or electronic format.

9. Responsible Persons

The City’s Chief Financial Officer together with other employees of the City to whom report to such officer, is collectively the responsible person. Each Responsible Person shall receive appropriate training regarding the City’s accounting system, contract intake system, facilities management and other systems necessary to track the investment and expenditure of the proceeds and the use of the Project financed or refinanced with the proceeds of the Obligations. The foregoing notwithstanding, each Responsible Person shall report to the City Council whenever experienced advisors and agents may be necessary to carry out the purposes of these instructions for the purpose of seeking City Council approval to engage or utilize existing advisors and agents for such purposes.

VIII. CASH MANAGEMENT AND INVESTMENTS

The City will maintain cash and investments in such a manner so as to ensure the absolute safety of principal, to meet the liquidity needs of the City, and to achieve the highest possible yield. The City Council and applicable governing boards will annually review and adopt the City's Investment Policy, as required by the Public Funds Investment Act (PFIA).

A. Investment Management

1. All aspects of cash/investment management shall be conducted in full compliance of the prevailing local, state, and federal regulations authorized annually in the City of Sachse, Sachse Economic Development Corporation, President George Bush Turnpike Reinvestment Zone Tax Increment Fund Investment Policy.

2. The City will utilize competitive quotes from approved broker/dealers, affording no special advantage to any individual or corporate member of the financial or investment community.

3. Investments of the City shall be made with the exercise of judgement and care which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment.

B. Investment Strategy

The City of Sachse maintains a consolidated portfolio in which it pools the funds for investment purposes. The City's investment program seeks to achieve safety of principal, adequate liquidity to meet cash needs, public trust, and reasonable yields.

C. Interest Income

Interest earned from investments shall be distributed to the funds from which the funds were provided.

D. Arbitrage Investments

Investment on bond proceeds will be made with safety of principal and liquidity in mind, but with a competitive rate of return. If there is positive arbitrage, the rebatable earnings will be sent to the IRS as necessary. Section VII. Debt contains more in depth explanation.

E. Depository

The City will select its official bank through a formal bidding process in order to provide the City with the most comprehensive, flexible and cost-effective banking services available. The City will, at a minimum, bid depository services every five (5) years.

F. Collateralization of Deposits

1. The value of the pledged collateral should be marked to market monthly and shall be at least 102 % of market value of principal and accrued interest less F.D.I.C. insurance when applicable.

2. The pledge of collateral shall comply with the City's Investment Policy.

IX. GRANTS AND INTERGOVERNMENTAL REVENUES

The City may seek, apply for, and effectively administer federal, state, and local grants which support the City's current priorities and objectives. The City shall utilize opportunities to enhance service delivery through intergovernmental cooperation, shared revenues, and grants.

A. Grant Guidelines

1. The City shall apply and facilitate the application for only those grants that are consistent with the objectives and high priorities identified by City Council and management.
2. Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs and services.
3. The potential for incurring ongoing costs, to include assumptions of support for grant-funded positions from local revenues, will be considered prior to applying for a grant.
4. Professional services for grant-writing may be contracted for potential grant acceptances greater than \$25,000.
5. Grant opportunities \$24,999 and below will be written in-house by the department head or designee of the department specific grant.

B. Grant Review Process

1. A uniform grants pre-application process will be utilized to assure the City has all the information necessary to make a decision regarding a potential grant. Information to be provided should include but not be limited to:
 - a. The grant being pursued and the use to which it would be placed.
 - b. The objectives or goals of the City which will be achieved through the use of the grant.
 - c. The local match required, if any, plus the source of the local match.
 - d. The increased cost to be locally funded upon the termination of the grant.
2. All grant agreements will be reviewed by the appropriate City staff, including Finance, legal, HR and the sponsoring department, to ensure compliance with state, federal, and City regulations.
3. The City Manager shall approve all grant submissions
4. The City Council shall approve all grant acceptances over \$50,000.

C. Budgeting for Grant Expenditures

Annually via the budget process, departments will submit for possible funding of known grant opportunities. These grant opportunities will be prioritized and ranked along with all other supplemental requests. If approved, the expenditure and associated revenue will be appropriated to the grant recipient fund and/or department. If there are grant opportunities that arise during the year and are received by the City, the budget will be amended via the projections if the City can fund the local match required.

D. Grant Termination and/or Reduced Grant Funding

1. In the event of reduced grant funding, City resources will be substituted only after all program priorities and alternative are considered during the budget process, unless the City is obligated through the terms of the grant to maintain the positions, services, or equipment.
2. The City shall terminate grant-funded programs and associated positions when grant funds are no longer available, and it is determined that the program no longer supports City goals and/or is no longer in the best interest of the City, unless the City has obligated itself through the terms of the grant to maintain the positions, services, or equipment.

X. FINANCIAL CONSULTANTS

The City will employ qualified financial advisors and consultants as needed in the administration and management of the City's financial function. These areas include but are not limited to audit services, debt administration, and financial modeling. The principal factors in the selection of these consultants will be experience/expertise, ability to perform, the services offered, references, and methodology to name a few. In no case should price be allowed as the sole criterion for the selection.

A. Selection of Auditors

At least every five (5) years, the City shall request proposals from qualified firms. The City Council shall select an independent firm of certified public accountants to perform an annual audit of the accounts and records, and render an opinion on the financial statements of the City.

The City's Charter requires that no more than five consecutive audits shall be completed by the same firm unless no other certified public accountants have submitted a proposal to provide audit services for the city, in which event the existing firm may be retained for an additional one year period until another certified public accountant is available and selected by the City. The rotation of the audit firm will be based upon the proposals received, the qualifications of the firm, and the firm's ability to perform a quality audit.

B. Post-Issuance Compliance Consultants

1. The City shall review the closing documents of obligations annually for Federal arbitrage compliance. While the City is responsible to ensure that the records are in order, the calculations made, reporting complete, and filings made, the actual arbitrage calculation and reporting shall be contracted with a qualified firm.

2. There is not a requirement for rotation.

C. Bond Counsel

1. Bond Counsel to the City has the role of an Independent expert who provides an objective legal opinion concerning the issuance and sale of bonds and other debt instruments. As bond counsel are specialized attorneys who have developed necessary expertise in a broad range of practice areas, the City will always use a consultant for these services. Generally, bonds are not marketable without an opinion of nationally recognized bond counsel stating that the bonds are valid and binding obligations stating the sources of payment and security for the bonds and the at the bonds are exempt from Federal income taxes.

2. There is not a requirement for rotation.

D. Financial Advisory Services

1. Financial advisors to governmental entities have developed the necessary expertise in a broad range of services to comply with Federal, state, and local guidelines in the areas of debt financing and investment transactions. A Consultant is beneficial for these services.

2. There is not a requirement for rotation.

E. Depository Bank

1. Pursuant to State law, Local Government Code, Chapter 105, the City may approve a depository contract whose term does not exceed five (5) years.

2. There is no requirement for rotation. The City will select its official banking institution through a formal process based on best value in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available.

APPENDIX A

FISCAL MANAGEMENT CONTINGENCY PLAN

The Fiscal Management Contingency Plan is a guide to assist in budget balancing strategies in response to economic and financial conditions that impact the current adopted budget. Economic and budget conditions will be evaluated monthly to identify negative budget impacts. A negative budget impact is defined as a shortfall in adopted budget revenue for three (3) consecutive months directly related to an identified economic or financial condition.

The plan is comprised of the following components:

(1) Indicators – Serve as warnings that potential budgetary revenue shortfalls are increasing in probability. Staff will monitor state and national economic indicators to identify recessionary or inflationary trends that could negatively impact consumer spending or property values.

(2) Levels – Serve to classify and communicate the severity of the estimated budgetary revenue shortfalls and identify the actions to be taken at the given phase.

(3) Actions – Preplanned steps to be taken in order to prudently address and counteract the estimated budgetary revenue shortfall.

Four levels of severity will be assigned to estimate budgetary revenue shortfalls and identify the appropriate action based on the consecutive months of shortfall. Level I, plan of action occurs with three consecutive months of shortfall; Level II, six consecutive months of shortfall; Level III, nine consecutive months of shortfall; Level 4, twelve consecutive months of shortfall. All four (4) levels are intended to be short-term in nature, In the event the underlying economic situation is expected to last for consecutive years, more permanent actions will be taken.

The City Manager or designee will apprise City Council at the regular Council meeting of any action that is being considered at all levels. Information will include underlying economic condition, economic indicators, estimated budgetary revenue shortfalls, actions considered and expected duration of shortfall. City Council may appropriate available fund balance necessary to cover any estimated revenue shortfall. Appropriation of fund balance will be carefully analyzed and long-term budgetary impacts will be considered in conjunction with the projected length of the economic downturn. Any action taken with the contingency plan will make every effort to not impact revenue generation. Actions taken should first reduce expense well in excess of resulting revenue losses.

Throughout the contingency plan process, the goal is to protect current service levels while continuing to provide competitive pay and benefits to all employees. At all levels of action, some parts of the plan may be implemented sooner or later, in accordance with direction from City Council.

A. Level I. Estimated annual revenue is below budget projections for three consecutive months with current economic conditions expected to continue.

1. Expenditures:

- a. Freeze newly created positions
- b. Implement a time delay for hiring vacant positions
- c. Increase/decrease temperatures in all City buildings during hours not open to the public

2. Revenues

- a. Identify any new potential revenue sources

3. Service Level Impacts:

- a. Minor service level disruptions and/or delays
- b. New projects may be postponed or deferred
- c. Begin planning for Levels II – IV
- d. Implement Community Communication Plan in order to communicate to citizens any service levels that may be impacted.

4. Improvement in Economic Conditions. When the estimated annual revenue equals or exceeds the budget projections for three consecutive months, and economic indicators are anticipated to continue to improve, initiate normal operating procedures.

B. Level II: The estimated annual revenue is below budget projections for six consecutive months. Current economic conditions and indicators are anticipated to continue.

1. Expenditures:

- a. Implement a managed-hiring program for vacant positions.
 - b. Reduce the hours/number of part-time and seasonal employees as per Reduction In Force Policy.
 - c. Reduce travel and training expenses.
 - d. Review and prioritize reductions of operating and capital expenditures.
 - e. Eliminate or defer capital outlay expenses.
 - f. Review and prioritize expenses for professional and contracted services.
2. Revenues:
- a. Evaluate user fees in order to remain competitive.
 - b. Identify and/or implement new revenue sources.
 - c. Evaluate property tax rate increase.
 - d. Evaluate water and wastewater rate increases.
 - e. Evaluate use of available fund balance.
3. Service Levels Impacts:
- a. Cutbacks or reductions in non-essential day-to-day operations (number of times parks are mowed, hours of operations of facilities).
 - b. Adjust service hours for City Facilities. (example: increase hours of City Hall from 9 to 11 for four days and close one day per week with increased/decreased temperatures or adjust hours of Library, etc.)
 - c. Defer general (non-essential) maintenance.
 - d. Prioritize and defer or freeze vehicle replacements, computer upgrades and new computer purchases. Replacements for essential non-working equipment are allowed, subject to approval by the City Manager.
 - e. Reduce or defer non-essential repair and maintenance expenses. Examples – vehicles, communications, office equipment, machinery and buildings. Repair and maintenance of essential non-working equipment is permitted, subject to approval by the City Manager.
4. Improvement in Economic Conditions. When the estimated annual revenue equals or exceeds the budget projections for three consecutive months, and economic indicators are anticipated to continue to improve, initiate Level I.

C. Level III: The estimated annual revenue is below budget projections for nine consecutive months, or is below budget projections by more than 6% for six consecutive months. Current economic conditions and indicators are anticipated to continue or possibly worsen.

1. Expenditures:
- a. Prepare for implementation of a Reduction in Force Plan.
 - b. Implement a compensation freeze.
 - c. Identify overtime expenses that may likely be reduced.
 - d. Reduce external program funding.
 - e. Eliminate or defer pending capital improvement projects.
 - f. Consider deferring payments to City-owned utilities – water and wastewater services.
2. Revenues:
- a. Recommend property tax increase.
 - b. Recommend water and/or wastewater rate increase.
 - c. Recommend new revenues, or increases in current fees.
 - d. Recommend use of available fund balance.
3. Service Level Impacts:
- a. Significant reductions in service levels.
 - b. Evaluate and/or recommend a reduction in hours of operation at all facilities.
 - c. Essential programs and services will be evaluated for reductions.
 - d. Reduce energy costs through reduction in hours of operations.
4. Improvement in Economic Conditions. When the estimated annual revenue equals or exceeds the budget projections for three consecutive months, and economic indicators are anticipated to continue to improve, initiate Level II.

D. Level IV: The estimated annual revenue is below budget projections for twelve consecutive months, or is below budget projections by more than 6% for nine consecutive months. Current economic conditions and indicators are anticipated to continue and are likely to worsen.

1. Expenditures:
- a. Implement Reduction in Force Plan (reduce employee personnel costs, including an employee furlough plan for time off without pay and/or four-day work weeks, laying off of personnel, etc.).
 - b. Consider other cost reduction strategies.
 - c. Reduce departmental budgets by a fixed percentage or dollar amount.
 - d. Eliminate external program funding.

- e. Reduce and/or eliminate overtime expenses throughout departments.
- 2. Revenues:
 - a. Implement property tax rate increase.
 - b. Implement water and wastewater rate increase.
 - c. Increase user fees.
 - d. Implement use of available fund balance.
- 3. Service Level Impacts:
 - a. Reduce hours of operations of all facilities.
 - b. Implement service level reductions throughout all departments and/or eliminate specific programs.
 - c. Departments will prioritize service levels and programs according to City Council goals and objectives.
 - d. Defer infrastructure and street overlay maintenance.
- 4. Improvement in Economic Conditions. When the estimated annual revenue equals or exceeds the budget projections for three consecutive months, and economic indicators are anticipated to continue to improve, initiate Level III.

APPENDIX B

CITY OF SACHSE, TEXAS FUND BALANCE POLICY Revised for GASB 54

I. Purpose

The purpose of this policy is to establish a key element of the financial stability of the City by setting 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. The fund balance also provides cash flow liquidity for the City's general operations.

II. Definitions

Fund Equity – A fund's equity is generally the difference between its assets and its liabilities.

Fund Balance – An accounting distinction is made between the portions of fund equity that are spendable and nonspendable. These are divided into five categories:

- 1) **Nonspendable fund balance** – includes amounts that are not in a spendable form or are required to be maintained intact. Examples are inventory or permanent funds.
- 2) **Restricted fund balance** – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants and child safety fees.
- 3) **Committed fund balance** – includes 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.
- 4) **Assigned fund balance** – comprises 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 other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- 5) **Unassigned fund balance** – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

III. Policy

Committed Fund Balance

- The City Council is the City's 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 City Council at a council meeting. 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 Fund Balance

- The City Council has authorized the City Manager as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

IV. Minimum Unassigned Fund Balance

It is the goal of the City to achieve and maintain an unassigned fund balance in the general fund equal to 25% to 35% of expenditures. The City considers a balance of less than 25% to be cause to implement actions that will achieve a 25% balance, barring unusual or deliberate circumstances.

If unassigned fund balance falls below the goal or has a deficiency, the City will implement the steps outlined in the City's Fiscal Management Contingency Plan.

V. Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will start with the most restricted category and commit those funds first before moving down to the next category with available funds, generally.