

CITY OF WHITE SETTLEMENT



FISCAL & BUDGETARY POLICIES

PREFACE

The City of White Settlement is committed to financial management through integrity, prudent stewardship, planning, accountability, full disclosure and communication. The broad purpose of these Fiscal and Budgetary Policies are to enable the City to achieve and maintain a long-term stable and positive financial condition, and provide guidelines for the day-to-day planning and operations of the City's financial affairs.

Policy scope generally spans areas of accounting and fiscal reporting, internal controls, both operating and capital budgeting, revenue management, investment and asset management, debt management and forecasting. This is done in order to:

- Demonstrate to the citizens of White Settlement, the investment community, and the bond rating agencies that the City is committed to a strong fiscal operation;
- Provide precedents for future policy makers and financial managers on common financial goals and strategies;
- Fairly present and fully disclose the financial position of the City in conformity with Generally Accepted Accounting Principles (GAAP); and
- Demonstrate compliance with finance related legal and contractual issues in accordance with the Texas Local Government Code and other legal mandates.

These policies will be reviewed and updated annually as part of the budget preparation process.

REVIEW & CITY COUNCIL APPROVAL

September 13, 2011

April 6, 2021

I. OPERATING BUDGET

A. Preparation

Budgeting is an essential element of financial planning, control and evaluation process of municipal government. The "Operating Budget" is the City's annual financial operating plan. The budget includes all the operating departments, special revenue funds, debt service funds, capital improvement programs, and all enterprise funds. The Finance Department prepares the budget, with cooperation of all departments, and under the direction of the City Manager who makes necessary changes and transmits the document to the City Council.

1. Proposed Budget

The City Manager is responsible for preparing and recommending an operating budget for the City Council consideration. Such budget shall provide a complete plan for the fiscal year.

- The budget shall include a budget message which shall outline the proposed financial policies for the next year with explanations of any change from previous years in expenditures, any major changes in policy and a complete statement regarding the financial conditions of the City.
- The budget shall include four basic segments for review and evaluation: (1) personnel costs, (2) operations and maintenance costs, (3) service level adjustments for increases or decreases to existing service levels, and (4) revenues.
- The budget review process shall include the City Council participation in development of each of the four segments of the proposed budget.

2. Public Hearing

The Council will name the time and place for a budget public hearing and will publish the notice of the public hearing as required by state law. At this hearing, interested citizens may express their opinions concerning items of expenditure, giving their reasons for wishing the increase or decrease in any items of expense.

3. Adoption of the Budget

The Council must adopt the budget by a favorable majority vote of all members of the council. The budget and all supporting schedules shall

be filed with the City Secretary and shall be open for public inspection by anyone interested.

4. The Operating Budget shall be submitted to the Government Finance Officers Association (GFOA) annually within 90 days of Council adoption for evaluation and consideration for the Award for Distinguished Budget Presentation.

B. Budget Administration

1. All expenditures of the City shall be made in accordance with the annual budget. Budgetary control is maintained at the individual expenditure account level by each department head through the review of all requisitions.
2. Transfers between expenditure accounts in one department may occur with the approval of the Department Head and Finance Director. Transfers between operating departments may occur with the approval of the Finance Director and/or City Manager. Transfer between funds must be accomplished by budget amendment approved by the City Council. Budget amendments calling for new fund appropriations must also be approved by the City Council. Should the City Council decide a budget amendment is necessary, the amendment is adopted in ordinance format, and the necessary budgetary changes are then made.

C. Balanced Budget

The goal of the City is to balance the operating budget with the current revenues, whereby, current revenues would match and fund on-going expenditures/expenses.

D. Planning

The budget process will be coordinated so that major policy issues are identified prior to the budget approval date. This will allow the City Council adequate time for consideration of appropriate decisions and analysis of financial impacts.

E. Reporting

The City Manager, or designee, shall present a monthly financial report and such additional information as may be required by the City Council. All income and expenses for the preceding month and for the year to date shall be shown and compared to the fiscal budget. These reports will be prepared by the Finance Department and distributed to and reviewed by each department head.

Information obtained from financial reports and other operating reports is to be used by department heads and City Manager to monitor and control the budget.

F. Control and Accountability

Each Department head, appointed by the City Manager, will be responsible for the administration of his/her departmental budget. This includes accomplishing the objectives adopted as part of the budget and monitoring each departmental budget for compliance with spending limitations.

II. REVENUES

A. To protect the City of White Settlement's financial integrity, the City will maintain a diversified and stable revenue system to shelter it from fluctuations in any particular revenue source.

- 1) 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.
- 2) The City will strive to understand its revenue sources and predict the reliability of revenue streams. City will enact consistent collection policies so that management may reasonably rely upon the certainty that revenues will materialize according to budgets, plans, and programs.

B. For every annual budget, the City of White Settlement shall levy two property tax rates: operation/maintenance and debt service. The debt service levy shall be sufficient for meeting all principal and interest payments associated with the City's outstanding debt for that budget year. The debt service levy and related debt service expenditures shall be accounted for in the General Debt Service fund. The operation and maintenance levy shall be accounted for in the General Fund.

- 1) The City of White Settlement will maintain a policy of levying the lowest tax rate on the broadest tax base. Mandated exemptions will be provided to home owners, senior citizens and disabled citizens. On an annual basis during the budget process, City Council will review the exemption for senior citizens and disabled persons with a goal to maintain a maximum tax benefit of approximately 55% of the average home value.
- 2) Property shall be assessed at 100% of the fair market value as appraised by Tarrant Central Appraisal District. Reappraisal and reassessment will

be done regularly as required by State law. A 99% collection rate on current assessments and a 1% collection rate on delinquent assessments and penalties will serve as “the goal” for tax collections.

- C. The City of White Settlement will establish user charges and fees at a level that attempts to recover the full cost of providing the service.
 - 1) User fees, particularly utility rates, should identify the relative costs of serving different classes of customers.
 - 2) The City will make every reasonable attempt to ensure accurate measurement of variables impacting taxes and fees (e.g. verification of business sales tax payments, verification of appraisal district property values, accuracy of water meters, etc.)
 - 3) The City will strive to maintain equity in the revenue system structure. That is, the City will seek to minimize or eliminate all forms of subsidization among entities, funds, services, utilities, and customers.

- D. The City of White Settlement will use the following considerations and issues to guide the City in its revenue policies concerning specific sources of funds:
 - 1) The City will use due diligence in the analysis of any incentives that are used to encourage development. A cost/benefit (fiscal impact) analysis will be performed as part of the evaluation.
 - 2) One time or non-recurring revenues should not be used to finance current ongoing operations. Non-recurring revenues should be used for non-recurring expenditures and not for budget balancing purposes.
 - 3) Interest income earned from investments will be distributed to the funds in accordance with the equity balance of the fund from which monies were provided to be invested.
 - 4) The City Council will serve as the governing body for the Utilities that make up the City’s Utility Funds. The City Council will review and adopt utility rates as needed to generate revenues required to fully cover operating expenses, meet the legal requirements of all applicable bond covenants, and to provide for an adequate level of working capital and fund balance reserve. Utility rates will be reviewed annually as part of the budget process. An external rate study can be conducted to review rate methodology and to ensure revenues will meet future needs.
 - 5) Business-Type Activities Funds, Crime Control Prevention District (CCPD) Fund and Economic Development Corporation (EDC) Fund will be

subject to administrative costs for general overhead services such as administration, finance, legal, information technology services, and other costs as appropriate. Business-Type Activities Funds will be determined through an indirect cost allocation following accepted practices and procedures and will be reviewed annually during the City's budget process. CCPD and EDC Funds will be subject to an administrative cost of 5% of sales taxes.

- 6) Street rental fee or franchise fee will be assessed to each utility based on a percentage of sales revenues in lieu of franchise fees.
 - 7) A payment in lieu of taxes (PILOT) will be assessed on the City's utilities based on the value of the assets times the property tax rate. The fee will be reviewed annually during the City's budget process.
- E. The City of White Settlement will attempt to maximize the application of its financial resources by obtaining supplementary funding through agreements with other public and private agencies for the provision of public services or the construction of capital improvements. The City of White Settlement will consider market rates and charges levied by other public and private organizations for similar services in establishing tax rates, fees and charges.
- F. When developing the annual budget, the City Manager shall project revenues from every source based on actual collections from the preceding year and estimated collections of the current fiscal year, while considering known circumstances, which will impact revenues for the new fiscal year. The revenue projections for each fund should be made conservatively so that total actual fund revenues exceed budgeted projections.

III. OPERATING EXPENDITURES

- G. Operating expenditures shall be accounted, reported, and budgeted for in the following major categories:
1. Personnel
 2. Materials & Supplies
 3. Contractual Services
 4. Debt
 5. Transfers
 6. Capital

7. Reserves

- H. The annual budget shall appropriate sufficient funds for operating and recurring expenditures necessary to maintain established quality and scope of City services.
- C. The City of White Settlement will constantly examine the methods for providing public services in order to reduce operating, recurring expenditures and/or enhance quality and scope of public services with no increase to cost.
- D. Personnel expenditures will reflect the minimum staffing needed to provide established quality and scope of city services. To attract and retain employees necessary for providing high-quality service, the City shall maintain a compensation and benefit package competitive with the public and, when quantifiable, private service industries.
- E. Materials and Supplies expenditures shall be sufficient for ensuring the optimal productivity of City employees.
- F. Contractual Services will include maintenance expenditures sufficient for addressing the deterioration of the City's capital assets to ensure the optimal productivity of the capital assets as well as fees for attorneys, auditors, consultants and other services that require specialized expertise. Maintenance should be conducted to ensure a relatively stable level of maintenance expenditures for every budget year.
- G. The City of White Settlement will utilize contracted labor for the provision of city services whenever private contractors can perform the established level of service at less expense to the City. The City will regularly evaluate its agreements with private contractors to ensure the established levels of service are performed at the lowest possible cost.
- H. Existing capital equipment shall be replaced when needed to ensure the optimal productivity of City of White Settlement employees. New capital purchases shall be made only to enhance employee productivity, improve quality of service, or expand scope of service.
- I. To assist in controlling the growth of operating expenditures, operating departments will submit their annual budgets to the City Manager within fiscal parameters provided by the City Manager's Office.
- J. All purchases shall be in accordance with City's Purchasing Policy and in accordance with State law.

- K. All invoices will be paid within thirty (30) days of receipt in accordance with State law. Procedures will be used to take advantage of all purchase discounts where considered cost effective. Payments will be processed in order to maximize the City's investable cash.
- L. The City will pursue every opportunity to provide for the public's and City employees' safety. Health insurance coverage and property and casualty insurance coverage will be reviewed annually as to amount of coverage provided and cost effectiveness.
- M. The City will maintain property, liability and workman's compensation coverage.

IV. FUND TRANSFERS

- a. Fund transfers may occur when surplus fund balances are used to support non-recurring capital expenses or when needed to satisfy debt service obligations.
- b. Fund transfers are used to pay for the following types of costs:
 - 1) Administrative - Transfer from Water & Sewer Fund (Proprietary Fund), Storm Water Fund (Proprietary Fund) and Economic Development Corporation Fund (Special Revenue Fund) to reimburse the General Fund for recurring support costs, such as personnel, materials, etc.
 - 2) Reimbursement – Transfer from Crime Control Prevention District (CCPD) Fund (Special Revenue Fund) to the General Fund to pay for officers authorized by CCPD Fund. Transfer from Water & Sewer Fund (Proprietary Fund) to the Debt Service Fund to pay debt related project reimbursements. Transfer from Street Improvement Fund (Capital Projects Fund) to the Debt Service Fund to pay debt related project reimbursements. Transfer from General Fund, Water & Sewer Fund (Proprietary Fund), and Storm Water Fund (Proprietary Fund) to the Internal Service Fund to pay for vehicle lease costs for vehicle and equipment replacement costs.
 - 3) Internal Service Fund – Transfers from General Fund, Water & Wastewater Fund, Crime Control Prevention District (CCPD) Fund and Stormwater Fund to the Internal Service Fund are made monthly for enterprise vehicle costs. In addition, fund balance over 365 days will be transferred to the Internal Service Fund for asset replacement for the General Fund and to the Water & Sewer Capital Fund for Water & Wastewater Fund asset replacement.

V. CASH MANAGEMENT

The City Council has formally approved a separate Investment Policy for the City of White Settlement that meets the requirements of the Public Funds Investment Act (PFIA), Section 2256 of the Texas Local Government Code. This policy is reviewed annually by the City Council and it applies to all financial assets held by the City.

- A. Statement of Cash Management Philosophy – the City shall maintain a comprehensive cash management program to include the effective collection of all accounts receivable, the prompt deposit of receipts to the City’s depository, the payment of obligations, and the prudent investment of idle funds in accordance with this policy.
- B. Objectives – The City’s investment program will be conducted as to accomplish the following listed in priority order:
 - 1. Safety of the principal invested
 - 2. Liquidity and availability of cash to pay obligations when due
 - 3. Receive the highest possible rate of return (yield) consistent with the City’s investment policy
- C. Safekeeping and Custody – Investments may only be purchased through broker/dealers who meet the criteria detailed in the investment policy, which also addresses internal controls related to investments.
- D. Standard of Care and Reporting – Investments will be made with judgment and care, always considering the safety of principal to be invested and the probable income to be derived. The Finance Director is responsible for overall management of the City’s investment program and ensures all investments are made in compliance with the investment policy. An investment report, providing both summary and detailed information will be presented to the City Council quarterly.
- E. Authorized Investments – The City may currently invest in the following:
 - 1. U.S. Treasury and Agency Securities
 - 2. Obligations of this state or other states, agencies, counties, cities, rated as to investment quality by a nationally recognized investment rating firm of not less than an A
 - 3. Certificates of Deposit
 - 4. Fully collateralized Repurchase Agreements

5. No-load Money Market Mutual funds
6. Investment Pools that meet the requirement of PFIA

VI. CAPITAL ASSETS

A. General Information

1. The Governmental Accounting Standards Board (GASB) provides the following authoritative definition of capital asset for state and local governments:

The term *capital assets* includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

2. Capital assets should be recorded at historic cost or, if the cost is not readily determined, at estimated historic cost. Costs shall include applicable ancillary costs necessary to place the asset in its intended location and condition for use. All costs should be documented, including methods and sources used to establish any estimated costs.
3. The City acquires capital assets in one of the following ways:
 - Purchased assets – The recording of purchased assets should be made on the basis of actual costs, including all ancillary costs, based on vendor invoice or other supporting documentation.
 - Constructed assets – All direct costs (including labor) associated with the construction project should be included in determining the asset valuation.
 - Donated assets – Capital assets acquired by donation should be valued based on the acquisition value at the time of receipt.

B. City – Wide Department Responsibilities

1. Serve as custodians of capital assets that are designed to their departments.
2. Ensure full departmental compliance with the established capital asset policy in order to maintain adequate records of the City's capital assets.

3. Identify capital asset purchases, transfers, impairments, and disposals and provide information to purchasing.

C. Finance Responsibilities

1. Ensure that all capital assets belonging to the City are properly identified and recorded in the accounting software module and that the module is reconciled to the general ledger balances.
2. Ensure that journal entries and depreciation expense are properly recorded in the general ledger.

D. Asset Classification

1. Land

Land includes all land parcels purchased or otherwise acquired by the City for any purpose, including but not limited to building sites, streets, right of way, recreation, future use, etc.

Land is frequently associated with some other asset. Land should always be treated and accounted for separately. The cost of the land should not include not only the acquisition price, but also the cost of initially preparing land for its intended purpose, provided the preparations have an indefinite useful life, like the land itself. The recorded cost of the land includes the following:

- The contract purchase price
- The costs of the closing the transaction and obtaining title, including commissions, options, legal fees, title search, insurance, and past due or current taxes
- The costs of surveys
- The cost of preparing the land for its particular use such as clearing and grading

If the land is purchased for the purpose of constructing a building, all costs incurred up to the excavation for the new building should be considered land costs. Removal of an old building, clearing, grading and filling are considered land costs because they are necessary to get the land in condition for its intended purpose.

2. Land Improvements

Land improvements are used for permanent improvements other than buildings that add value to the land, but do not have an indefinite useful life. Examples include fences, retaining walls and parking lots.

3. Buildings

All permanent structures are included in the classification of buildings. The cost of an improvement (or betterment) is normally added to the cost of the related structure, rather than being treated as a separate asset. The same is true of restoration costs following a capital asset impairment. Capitalization of costs related to buildings includes, but are not limited to, the following:

- Original contract price of the asset acquired or cost of design and construction
- Expenses incurred in remodeling, reconditioning, or altering a purchased building to make it available for the purpose for which it was acquired
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits
- Architects' and engineers' fees for design and supervision

4. Infrastructure

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, drainage systems, water and sewer systems, and lighting systems.

5. Machinery and Equipment

This classification includes construction and maintenance equipment, office equipment and furnishings, etc. Capitalization of equipment costs include but are not limited to, the following:

- Original contract or invoice amount
- Freight, acquisition fees, import duties, handling and storage

costs

- Specific in-transit insurance charges
- Installation charges

6. Vehicles

A motor vehicle is a self-propelled road vehicle that is used for the transportation of passengers, or passengers and property. The capitalization amount includes the total purchase price less any applicable discounts and any ancillary payments required to place the asset in its intended state of operation.

7. Intangible Assets

Intangible assets are those that lack physical substance, are non-financial in nature and have an initial useful life extending beyond a single reporting period. Intangible assets must be identifiable, meaning they are either capable of being separated by means of sale, transfer, license or rent, or that they arise from contractual or other legal rights.

Intangible assets acquired or developed by the City could include licensed software, internally generated software, works of arts and historical treasures.

8. Construction Work in Progress

Construction work in progress represents capitalized costs related to a capital asset that is not yet substantially ready to be placed in service. For construction work in progress assets, no depreciation is recorded until the asset is placed in service. When the asset is placed in service, the asset is reclassified to the correct category and depreciation begins.

E. Capitalization

1. Capitalization Thresholds

- Land, Land Improvements, and Buildings must be capitalized regardless of the value or cost.
- Infrastructure, Betterments and Improvements, Machinery and Equipment, Vehicles, and Intangible Assets must be capitalized when the useful life is 1 year or greater and the cost is \$5,000 or more.

2. Contributed or Donated Assets

Contributed or donated assets must be recorded at acquisition value. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date.

F. Betterments, Improvements, and Repair and Maintenance

1. Betterments

Betterments materially renovate or enhance a previously capitalized asset without introduction of a completely new unit. Alterations that change the physical structure of assets but neither materially add value to the asset nor prolong its useful expected life should be charged to maintenance expense. Examples of betterments include:

- Enhancement of an old shingle roof through the addition of modern fireproof tiles
- “Major catch-up” repair to or rehabilitation of an existing neglected asset that extends the useful life or substantially increases the value of the asset.

A betterment that meets the capitalization threshold should be capitalized.

2. Improvements

Improvements include additions of new components to previously capitalized assets that increase the assets’ value, extend the useful life, increase the normal rate of output, lower the operating cost, or increase the efficiency of the existing asset. Replacements of components of existing capitalized assets with improved or superior units, such that the value of the assets is increased, are also classified as improvements. Examples of improvements include:

- Installation of an air condition system where there previously was none
- Installation of a crane on a truck that did not previously have one

- Removal of a major part or component of equipment and the substitution of a new part or component that increases either the value or useful life
- Addition of a new wing on a building

An improvement that meets the capitalization threshold should be capitalized.

3. Repair and Maintenance

Maintenance and repairs can be distinguished from betterments and improvements in that maintenance and repairs are not intended to alter or change the asset or to increase the useful life of the asset, but rather to sustain the asset in its present condition. A cost will qualify as maintenance if any of the following are true:

- Recurs on an ongoing basis (scheduled maintenance) and keeps the asset in a useable condition
- Does not add substantially to the value of the asset (does not meet the requirements to be capitalized)
- Simply restores a capital asset to its former condition, addressing normal wear and tear associated with the use of an asset
- Facilitates assets utilization for its original useful life

Examples include:

- Painting and similar activities
- Engine overhaul in a vehicle
- Resurfacing a roof with similar materials
- Remodeling and rearrangement costs

Expenditures attributable to repair and maintenance after the asset has been placed in service will not be capitalized and will instead be charged to maintenance expense.

G. Depreciation

Depreciation is defined as a reduction in the value of an asset with the passage

of time, due in particular to wear and tear. Depreciation will be calculated and recorded yearly for the City's depreciable assets in accordance with GAAP. Finance is responsible to record depreciation on a yearly basis.

The City uses the straight-line method of depreciation and a full month of depreciation is taken in the original month of acquisition or capitalization. To calculate depreciation expense using the straight line method:

1. Annual Depreciation = (Cost – Salvage Value) / Asset Useful Life (in years)

Salvage value is an estimate of the amount that will be realized at the end of useful life of a depreciable asset. The City may assume that salvage value will be insignificant and therefore, will not use it in the depreciation calculation.

Asset must be depreciated according to the useful life guidelines established by the City. These guidelines are summarized below:

1. Buildings: 20 – 40 years
2. Infrastructure: 20 – 60 years
3. Machinery and Equipment: 2 – 20 years
4. Vehicles: 4 – 8 years

H. Retirement

All capital assets are sold, exchanged, traded in, donated, stolen, damaged beyond repair or in any way removed from service and disposed of during the current fiscal period should be recorded as retirements on the capital asset form and in the accounting software module.

I. Impairments

Finance and the departments are responsible for determining whether an asset should be classified as impaired.

In order to determine impairment, one or more of the following conditions must apply:

1. Evidence of physical damage
2. Enactment or approval of laws or regulations or other changes in environmental factors

3. Technological development resulting in a change of the expected duration of use of a capital asset
4. A change in the manner or expected duration of use of a capital asset
5. Construction stoppage

If the asset is not impaired, Finance and the departments should re-evaluate the remaining useful life and salvage value (if any). All final impairment decisions will be made by finance.

J. Transfers

When an asset is exchanged between the departments during the current fiscal period should be recorded as a transfer on the capital asset form and in the accounting software module.

K. Quarterly Review

Finance is responsible for reviewing the departmental capital assets recorded in the accounting software module at least quarterly. Finance is responsible for reconciling the balance recorded in the accounting software module to the general ledger at least quarterly.

L. Physical Inventory

Each department must perform an Annual Asset Physical Inventory. The department is responsible for verifying the accuracy of the assets recorded in the accounting software module and TML insurance records based on their physical observation of the department's assets.

M. Acquisition of Capital Assets

Capital assets shall be acquired by the City following all required federal, state, and local purchasing requirements.

VII. DEBT MANAGEMENT

The City of White Settlement recognizes the primary purpose of capital facilities is to provide services to the citizens. Using debt financing to meet the capital needs of the community must be evaluated according to efficiency and equity. Efficiency must be evaluated to determine the highest rate of return for a given investment of resources. Equity is resolved by determining who should pay for the cost of capital improvements. In meeting demand for additional services, the City will strive to

balance the needs between debt financing and “pay-as-you-go”, methods. The City realizes that failure to meet the demands of growth may inhibit its continued economic vitality, but also realizes that too much debt may have detrimental effects on the City’s long-range financial condition.

The City will issue debt for the purpose of acquiring or constructing capital assets for the general benefit of its citizens and allow it to fulfill its various purposes as a city.

A. Usage of Debt – Debt financing will be considered for non-continuous capital improvement which citizens will be benefited. Alternatives for financing will be explored prior to debt issuance and include, but not limited to:

1. Grants
2. Use of Reserve Funds
3. Use of Current Revenues
4. Contributions from developers and others
5. Leases
6. Impact fees

B. Type of Debt –

1. General Obligation Bonds – General obligation bonds must be authorized by a vote of the residents of White Settlement. They are used only to fund capital assets of the general government and are not to be used to fund operating needs of the City. The full faith and credit of the City as well as the City’s ad valorem taxing authority back general obligations bonds. Conditions for issuance of general obligation debt include:

- When project will have a significant impact on the tax rate;
- When the project may be controversial even though it is routine in nature; or
- When the project falls outside normal bounds of projects the City has typically done.

2. Revenue Bonds – Revenue bonds will be issued to provide for the capital needs of any activities where the capital requirements are

necessary for a continuation or expansion of a service. The improved activity shall produce a revenue stream to fund the debt service requirements of the necessary improvement to provide service expansion. The average life of the obligation should not exceed the useful life of the asset(s) to be funded by the bond issue.

3. Certificates of Obligation, Contractual Obligations (CO's) - Certificates of obligations or contractual obligations may be used to fund capital requirements that are not otherwise covered either by general obligation or revenue bonds. Debt service for CO's may be either from general revenues (tax-supported) by a specific revenue stream(s) or a combination of both. Typically, the City may issue CO's when the following conditions are met:
 - When the proposed debt will have a minimal impact on future effective property tax rates;
 - When the projects to be funded are within the normal bounds of city capital projects, such as roads, parks, various infrastructure and city facilities; and
 - When the average life of the obligation does not exceed the useful life of the asset(s) to be funded by the issue.

Every effort will be made to ensure public participation in decisions relating to debt financing.

- C. Method of Sale – The City will use a competitive bidding process in the sale of bonds unless conditions in the bond market or the nature of the issue warrant a negotiated bid. In such situations, the city will publicly present the reason for the negotiated sale. The City will rely on the recommendation of the financial advisor in selection of the underwriter or direct purchaser.
- D. Disclosure - Full disclosure of operation costs along with capital costs will be made to the bond rating agencies and other users of financial information. The city staff, with the assistance of the financial advisor and bond counsel, will prepare the necessary materials for presentation to the rating agencies and will aid in the production of the preliminary Official Statements. The City will take the responsibility for the accuracy of all financial information released.
- E. Debt Restructuring – The City will issue bonds not to exceed the useful life of the asset being financed. The structure should approximate level debt service unless operational matters dictate otherwise. Market factor, such as the effects of tax-exempt designations, the cost of early redemption options and the like, will be given consideration during the structuring of long-term debt

instruments.

- F. Debt Coverage Ratio – Refers to the number of times the current combined debt service requirements or payments would be covered by the current operating revenues, net of ongoing operating expenses of the City’s combined utilities (Water and Wastewater). The current bond ordinance for outstanding utility debt requires a combined minimum 1.25 time coverage ratio.
- G. Bond Reimbursement Resolutions – The City may utilize bond reimbursements as a tool to manage its debt issues, due to arbitrage requirements and project timing. In so doing, the City uses its capital reserves “cash” to delay bond issues until such time when issuance is favorable and beneficial to the City.
- H. Arbitrage Liability

It is the City’s policy to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the law. The City will maintain procedures to comply with arbitrage rebate and other Federal requirements.

1. General

Federal arbitrage legislation is intended to discourage entities from issuing tax exempt obligations unnecessarily. In compliance with the spirit of this legislation, the City will not issue obligations except for identifiable projects with very good prospects of timely initiation. Obligations will be issued as closely in time as feasible to the time contracts are expected to be awarded so that they will be spent quickly.

2. Responsibility

Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the advice of Bond Counsel and other qualified experts will be sought whenever questions about arbitrage rebate regulations arise. The City has a contract for arbitrage rebate services with a third party.

Finance will be responsible for identifying the amount of unspent debt proceeds including interest which is on hand and ensuring that, to the extent feasible, the oldest proceeds on hand are spent first.

The third party consultant will maintain a system for computing and tracking the arbitrage rebate liability. They will be responsible for notifying the City when a rebate of excess earnings is due to the Internal Revenue Service.

The City's bond counsel and financial advisor shall review in advance any arbitrage rebate payments and forms sent to the Internal Revenue Service.

The City Council may authorize a bond reimbursement resolution for General capital projects that have a direct impact on the City's ad valorem tax rate when the bonds will be issued within the term of the existing City Council.

The City Council may also authorize revenue bond reimbursements for approved utility and other self-supporting capital projects.

VIII. OTHER FUNDING ALTERNATIVES

When at all possible, the City will research alternative funding opportunities prior to issuing debt or increasing user-related fees.

- A. Grants – All potential grants will be examined for any matching requirements and the source of those requirements identified. It must be clearly understood that any resulting operation requirements of the grant could be discontinued once the term and conditions of the project have been terminated. The City Council must authorize acceptance of any grant funding. See Grant Submission & Acceptance Policy for further guidance.
- B. Use of Reserve Funds – The City may authorize the use of reserve funds to potentially delay or eliminate a proposed bond issue. This may occur due to higher than anticipated fund balances in prior years, thus eliminating or reducing the needs for debt proceeds, or postpone a bond issue until market conditions are more beneficial or timing for the related capital improvements does not correspond with the planned bond issue. Reserve funds used in this manner are replenished upon issuance of the proposed debt. See Fund Balance Policy for further guidance.
- C. Developer Contributions – the City will require developers who negatively impact the City's utility capital plans to offset those impacts.
- D. Leases – The City may authorize the use of lease financing for certain operating equipment when it is determined that the cost benefit of such arrangement is advantageous to the City.
- E. Impact Fees – The City will impose impact fees as allowable under state law for both water and wastewater services. These fees will be calculated in accordance with statute and reviewed at least every three years. All fees collected will fund projects identified within the fee study and as required by state laws.

IX. FINANCIAL CONDITIONS AND RESERVES

The City of White Settlement will maintain budgeted minimum reserves in the ending working capital/fund balances to provide a secure, healthy financial base for the City in the event of a natural disaster or other emergency, allow stability of City operations should revenues fall short of budgeted projections and provide available resources to implement budgeted expenditures without regard to actual timing of cash flows into the City.

- A. Operational Coverage – The City’s goal is to maintain current operations coverage at 100%, such that operating revenues will at least equal or exceed current operating expenditures. Deferrals, short-term loans, or one-time sources will be avoided as budget balancing techniques.
- B. Operating Reserves – City-wide the City will maintain reserves at a minimum of one hundred forty-four (144) days or 40% of net budgeted operating expenditures. Net budgeted operating expenditures are defined as total budgeted expenditures less inter-fund transfers, general debt service (tax-supported) and payments from third party grant funds.
 - 1. General Fund – The unobligated fund balance in the General Fund should equal at least one hundred forty-four (144) days or 40% of annual budgeted expenditures.
 - 2. Water and Sewer Fund – Working capital reserves in the Water and Sewer Fund should be one hundred forty-four (144) days or 40% of annual budgeted expenditures.
- C. Capital Asset Replacement Reserves – Transfer fund balance over 365 days will be transferred to the Internal Service Fund for asset replacement for the General Fund and to the Water & Sewer Capital Fund for Water & Wastewater Fund asset replacement.

For all other funds, the fund balance is an indication of the balance of each particular fund at a specific time. The ultimate goal of each such fund is to have expended the fund balance at the conclusion of the activity for which the fund was established.

Reserve requirements will be calculated as part of the annual budget process and any additional required funds be added to the reserve balances will be appropriated within the budget. Funds in excess of the minimum reserves may be expended for City purposes at the will of the City Council once it has been determined that the use of the excess will not endanger reserve requirements in future years.

- D. Liabilities and Receivables – Procedures will be followed to maximize discounts and reduce penalties offered by creditors. Current liabilities will be paid within 30 days of receiving the invoice. Accounts receivable procedures will target

collection for a maximum of 30 days of service. Receivables aging past 60 days will be sent to a collection agency.

- E. Capital Projects Funds – Every effort will be made for all monies within the Capital Projects Funds to be expended within thirty-six (36) months of receipt. The fund balance will be invested and income generated will offset increases in construction costs or other costs associated with the projects. Capital project funds are intended to be expended totally, with any unexpected excess to be transferred to the Debt Service Fund to service project-related debt service.
- F. General Debt Service Funds – Revenues within this fund are stable, based on property tax revenues. Balances are maintained to meet contingencies and to make certain that the next year’s debt service payments are met in a timely manner. The fund balance should not fall below one month or 1/12th annual debt service requirements, in accordance with IRS guidelines.
- G. Investment of Reserve Funds – The reserve funds will be invested in accordance with the City’s investment policy.

X. INTERNAL CONTROLS

This policy is intended to establish guidelines to maintain an internal control structure designed to provide reasonable assurance that the City assets are safeguarded and that the possibilities for material errors in the City’s financial records are minimized.

- A. Written Procedures – Wherever possible, written procedures will be established and maintained by the Finance Director for all functions involving cash handling and/or accounting throughout the City. These procedures will embrace the general concepts of fiscal responsibility set forth in this policy statement. In addition, written procedures should follow the guidelines below:

1) Proper Authorizations

- Procedures shall be designed, implemented and maintained to ensure that financial transactions and activities are properly reviewed and authorized.

2) Separation of Duties

- Job duties will be adequately separated to reduce, to an acceptable level, the opportunities for any person to be in a position to both perpetrate and conceal errors or irregularities in the normal court of assigned duties.

3) Proper Recording

- Procedures shall be developed and maintained that will ensure financial transactions and events are properly recorded, and that all financial reports may be relied upon as accurate, complete, and up-to-date.

4) Access to Assets and Records

- Procedures shall be designed and maintained to ensure that adequate safeguards exist over the access to and use of financial assets and records.

5) Independent Checks

- Independent checks and audits will be made on staff performance to ensure compliance with established procedures and proper valuation of recorded amounts.

6) Cost and benefits

- Internal control systems and procedures must have an apparent benefit in terms of reducing and/or preventing losses. The cost of implementing and maintaining any control system should be evaluated against the expected benefits to be derived from that system.

- B. Department head's Responsibility – Each Department head is responsible for ensuring that good internal controls are followed throughout the department, that all Finance Department directives are implemented and that all independent auditor internal control recommendations are addressed.

XI. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

This policy is intended to establish guidelines to manage and direct the City's accounting, auditing, and financial reporting activities. Specifically, under this policy, the City shall comply with prevailing federal, state, and local statutes and regulations, as well as current professional standards, principles, and practices.

A. Conformance to Accounting Principles and Recommended Practices

The City's accounting practices and financial reporting shall conform to Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants (AICPA), and the Government Finance Officers

Association (GFOA).

B. External Auditing

Every five years, the City shall request proposals from qualified firms, including the current auditors if their past performance has been satisfactory, and the Council shall approve the selection of an independent firm of certified public accountants to perform an annual audit of the books of account, records and transactions, opining of the Comprehensive Annual Financial Report and Single Audit Report (if applicable) and reporting the results and recommendations to the Council.

C. Audit Completion

The City seeks to have its Comprehensive Annual Financial Report and Single Audit Report (if applicable) audited and available within 180 days after the close of its previous fiscal year, which ends September 30.

D. Certificate of Achievement for Excellence in Financial Reporting

The Governmental Finance Officers Association (GFOA) established the Certificate of Achievement for Excellence in Financial Reporting (CAFR) to encourage state and local governments to go beyond the minimum requirements of generally accepted accounting principles by preparing comprehensive annual financial reports that evidence the spirit of transparency and full disclosure. The City will participate in the program yearly by submitting it's CAFR for review and implement recommended changes, as appropriate.

XII. CAPITAL IMPROVEMENT PROGRAM (CIP) BUDGET

The City's goal is to maintain City facilities and infrastructure in order to provide excellent services to the customers within the community, meet growth related needs, and comply with all state and federal regulations.

A. Preparation

The City annually reviews and updates a five-year Capital Improvement Program (CIP) schedule as part of the operating budget adoption process. The plan is adjusted annually as needed and year one is adopted as the current year capital budget. The capital budget will include all capital projects, capital resources, and estimated operational impacts.

- 1) Needed capital improvements are identified through system models, repair and maintenance records and growth demands.

- 2) Economic development projects that have capital infrastructure needs must be reviewed and approved for funding by the City Manager or his/her designee.
- 3) A team approach will be used to prioritize CIP projects, whereby City staff from all affected operational areas will provide input and ideas relating to each project and its effect on operations.
- 4) Citizen involvement and participation may be solicited in formulating the capital budget through meetings, public hearings and other forums.
- 5) Capital infrastructure necessary to meet the requirements of the City's Master Plan will be identified within the CIP plan, so that additional or alternative funding can be developed if necessary.

B. Control

All capital project expenditures must be appropriated in the capital budget. The availability of resources must be identified and then reviewed by the Finance Departments and approved by the City Manager before any CIP document is presented to the City Council for approval.

C. Financing Programs

Where applicable, assessments, pro-rata charges, or other fees should be used to fund capital projects which have a primary benefit to specific identifiable property owners.

- 1) Recognizing that long-term debt is usually a more expensive financing method, alternative financing sources will be explored before debt is considered. When long-term debt is determined to be the financing source, it will be used to acquire major assets. The type of assets required will determine the average life of the debt issued.
- 2) Short-term financing including capital leasing and other tax-supported obligations can be used to fund vehicles, computers, and other operating equipment, provided the impact of the tax rate is minimal. Caution should be used in replacing assets with short-term, tax-supported obligations due to the repetitive nature of the replacements.

XIII. CAPITAL MAINTENANCE AND REPLACEMENT

The City recognizes that deferred maintenance increases future capital costs. Therefore, a portion of all individual funds with capital asset infrastructure should be

budgeted each year to maintain the quality within each system.

A. Infrastructure Maintenance

On-going maintenance and major repair costs are included as capital expense within the departmental operating budgets. These costs are generally considered system repairs and are not capitalized for accounting purposes. They include such items as street seal coat, water line repairs and other general system maintenance.

B. Other Funds

The City currently uses regular maintenance and replacement in order to maximize use of its operational assets and to ensure that repair costs do not become overly burdensome on what are considered relatively short-term assets. In this way, suitable funds are available for the replacement of these assets without the need to issued debt.

1) Vehicle / Equipment Maintenance and Replacement

The City has a major investment in its fleet of cars, trucks, tractors, and other similar equipment. The City anticipates having to replace the existing equipment as necessary and budgets to that end each year. Vehicle and equipment maintenance is also funded in this manner. Vehicles and equipment will be replaced when it is cost effective to do so. Vehicles and equipment purchased will be suitable for their purpose but not exceed the necessary features and capabilities required to meet the day to day requirements of the vehicle/equipment.

2) Information Technology

The City will work to plan and fund the maintenance and replacement of its computer network and other technology systems. Equipment of this type typically is covered by warranty for five (5) years. As this is the case, the City will budget for replacement of approximately 20% of the equipment in place each year if funds are available. However, if a department such as Police, Finance or Cash Collections has any technology that is no longer under warranty, it is considered to be at end of life and must be replaced to stay in compliance with Federal and State policies such as the Criminal Justice Information Security Policy and the Payment Card Industry Security Policy. Every effort is used to determine if the older computers can fill a need within another area in the City and if so, each one is used as needed beyond the five year cycle.

3) Facilities Maintenance

Facilities are also an area of major investment on the part of the City. The City will work on developing a maintenance program, which includes major repairs, equipment upgrades, and contracts for maintaining City facilities.