



## **Budgetary & Financial Management Policies**

The goal of formally adopting financial management and budgetary policies is to provide sound guidelines in planning the City's financial future. The adoption and adherence to these policies will help ensure long-term financial stability and a healthy financial position for the City of Bay City.

### **General Budgetary Policies**

#### **Budget Preparation**

The City Budget shall be prepared in accordance with all applicable Charter requirements and State laws. The goal each year shall be to present the Proposed Budget to Council no later than six weeks prior to the end of the fiscal year and for the final approval of the Budget to be ready for Council action no later than two weeks before the end of the fiscal year. The Budget shall be comprehensive in nature and address all major funds of the City.

#### **Government Finance Officer Association Distinguished Budget Program**

The goal this year and each year following will be for the City's Budget to conform to the requirements of the Distinguished Budget Program of the G.F.O.A. and be submitted thereto for peer review.

#### **Balanced Budget**

It shall be a requirement each year for the budget of each fund to be balanced. This means that total resources available, including prior year ending resources plus projected revenues, shall be equal to or greater than the projected expenditures for the coming year. In a case where a deficit fund balance does occur, the goal shall be to limit deficits to only those amounts representing one-time capital expenditures and/or to adjust revenues and/or expenses so that the deficit is eliminated in no more than two budget years.

#### **Public Hearings, Availability of Budget to Public**

Upon completion of the Proposed Budget to Council, the City holds public hearings in August and September. A copy of the Proposed Budget is made available in the City Secretary's Office, the Bay City Library, and on the City's website. These hearings provide the Citizens of Bay City a chance to ask questions as well as an opportunity for Council to hear any recommendations before final approval of the budget.

#### **Cost Center Accounting and Budgeting**

It shall be the policy of the City to allocate cost, and budget accordingly, to the various funds to the extent practical. This includes such items as utility costs, fuel costs, vehicle lease charges, overhead manpower and insurance fees.

**Bond Ratings**

It shall be the City's long-term goal to improve its bond ratings for general obligation bonds and revenue bonds. The City's policy shall be to manage its budget and financial affairs in such a way so as to promote enhancement of its bond ratings. This financial management includes the following:

- *Develop and maintain a multi- year operating budget*
- *Develop and maintain a multi-year capital improvements plan*
- *Implement financial procedures to quickly identify financial problems & limit budget shortfalls*
- *Review projected revenue methodologies annually*
- *Review method of determining appropriate cash reserve levels annually*

**Administrative Overhead Fee to Enterprise Funds**

It shall be the budgetary policy of each enterprise fund to pay to the General Fund an amount as set by the Budget each year. This charge shall be set as a percent of fund revenues and shall be construed as a payment for general administrative overhead, including management, accounting, legal, and personnel services. From an accounting perspective, such fee shall be treated as a fund operating transfer.

**Budget Projections for Revenues and Expenditures**

Most individual budget projections are a collaborative effort between the Division Heads, the Director of Finance, and the City Manager. The Director of Finance will note the methodology for estimating each major revenue or expense item budgeted; taking into consideration the insight of the respective Division Head. Revenue and expense estimates are always to be conservative so as to reduce any potential for budget shortfalls.

**Maintenance of Plant and Equipment**

The operating budget will provide for the adequate maintenance and replacement of the capital plant, building, infrastructure, and equipment. Deferral of such costs on a long-term continued basis will not be an acceptable policy to use in balancing the budget.

# Financial Management Policies

## Fund Balance Policy

### Purpose

The purpose of this policy is to establish a key element of the financial stability of the City of Bay City by setting guidelines for fund balance in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54. Unassigned fund balance is an important measure of economic stability and 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 other similar circumstances. This policy will ensure the City maintains adequate fund balances in the operating fund with the capacity to:

1. Provide sufficient cash flow for daily financial needs,
2. Secure and maintain investment grade bond ratings,
3. Offset significant economic downturns or revenue shortfalls, and
4. Provide funds for unforeseen expenditures related to emergencies.

### Definitions

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

*Fund Balance* – The fund equity of a governmental fund for which an accounting distinction is made between the portions that are spendable and nonspendable.

***Fund Balance reporting in governmental funds:*** Fund balance will be reported in governmental funds under the following categories using the *definitions* provided by GASB Statement No. 54:

- 1) **Nonspendable fund balance** – includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans, or prepaids) or because they must remain in-tact such as the principal of an endowment.
- 2) **Restricted fund balance** – includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include impact fees, grants, and debt covenants.
- 3) **Committed fund balance** – includes the portion of net resources upon which the Council has imposed limitations on use. Amounts that can be used only for the specific purposes determined by a *formal action* of the council. Commitments may be changed or lifted only by the Council taking the same *formal action* that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements. An example would be committing hotel/motel tax funds for future consideration of a reconstruction project (i.e. Visitor’ Center).
- 4) **Assigned fund balance** – includes the portion of net resources for which an *intended* use has been established by the City Council or the City Official authorized to do so by the City Council.

Assignments of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund. An example would be encumbrances (i.e. Purchase Orders) for purchase of goods and/or supplies and/or construction services.

*Authority to Assign* - The City Council delegates the responsibility to assign funds to the City Manager or their designee to be used for specific purposes. City Council shall have the authority to assign any amount of funds to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. The assignments may occur subsequent to fiscal year-end.

- 5) **Unassigned fund balance – includes the amounts** in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It 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.

### ***Minimum Unassigned Fund Balance***

*General Fund* - Being a City on the Gulf Coast, it shall be the goal of the City to maintain a fund balance in the General Fund equal to 120 days of the operating expenditures and a policy to maintain a **unassigned** fund balance of no less than 90 days of operating expenditures and outgoing transfers as to provide operating liquidity and contingency funding for non-specific unscheduled expenditures such as natural disasters or major unexpected expenditures. In the event that the unassigned fund balance is calculated to be less than the policy stipulates, the City shall plan to adjust budget resources in subsequent fiscal years to restore the balance.

*Hotel/Motel Tax Fund* – Since the City's Convention Center qualifies for use of Hotel/Tax, it shall be the goal of the City to maintain a fund balance in the Hotel/Motel Fund to support the annual cost for repairs and maintenance of the Civic Center. The proper level of this unassigned fund balance will be based on the most recent three-year average cost of building maintenance plus the most recent insurance payment for the Civic Center or \$50,000 whichever is greater.

### ***Committed Fund Balances***

*Fixed or Capital Asset Replacement*- The City Council commits an additional portion of the General Fund Reserve for fixed asset replacement related to machinery and equipment. On an annual basis, the City strives to commit dollars equal to one year's depreciation expense of machinery and equipment for assets on record as of the previous fiscal year end. The balance at year end in this account will be the committed fund balance.

### ***Replenishment of Minimum Fund Balance Reserves***

If unassigned fund balance unintentionally falls below 90 days or if it is anticipated that at the completion of any fiscal year the projected unassigned fund balance will be less than the minimum requirement, the City Manager shall prepare and submit a plan to restore the minimum required level as soon as economic conditions allow. The plan shall detail the steps necessary for the replenishment of fund balance as well as an estimated timeline for achieving such.

These steps may include, but are not limited to, identifying new, nonrecurring, or alternative sources of revenue; increasing existing revenues, charges and/or fees; use of year end surpluses; and/or enacting cost saving measures such as holding capital purchases, reducing departmental operating budgets, freezing vacant positions, and/or reducing the workforce. The replenishment of fund balance to the minimum level shall be accomplished within a three to four-year period. If restoration of the reserve cannot be accomplished within such a period without severe hardship to the City of Bay City, then the Council shall establish an extended timeline for attaining the minimum balance.

### ***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 Council, and unassigned fund balance), the Council will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

### ***Appropriation of Unassigned Fund Balance***

Appropriation from the minimum unassigned fund balance shall require the approval of the City Council and shall be utilized only for one-time expenditures, such as capital purchases, and not for ongoing operating expenditures unless a viable revenue plan designed to sustain the expenditure is simultaneously adopted.

The Council may appropriate unassigned fund balances for emergency purposes, as deemed necessary, even if such use decreases the fund balance below the established minimum.

### ***Monitoring and Reporting***

The Director of Finance shall be responsible for monitoring and reporting the City's reserve balances. The City Manager is directed to make recommendations to the Council on the use of reserve funds both as an element of the annual operating budget submission and from time to time throughout the fiscal year as needs may arise.

Compliance with the provisions of the policy shall be reviewed as a part of the annual operating budget adoption process and subsequent review will be included in the annual audit and financial statement preparation procedures.

### ***Fund Balance Policy for Component Units***

Each Component Unit (i.e. Bay City Community Development, Bay City Gas Company) shall create a fund balance/reserve policy that shall be approved by the City Council.

### **Revenue Management Policy**

The City strives for the following optimum characteristics in its revenue system:

- ***Simplicity and Certainty.*** The City shall strive to keep the revenue classification system simple to promote understanding of the revenue sources. The City shall describe its revenue sources and enact consistent collection policies to provide assurances that the revenue is collected according to budgets and plans.
- ***Equity.*** The City shall make every effort to maintain equity in its revenue system structure. The City shall minimize all forms of subsidization between entities, funds, services, utilities, and customers.
- ***Realistic and Conservative Estimates.*** Revenues are to be estimated realistically. Revenues of volatile nature shall be budgeted conservatively.
- ***Centralized Reporting.*** Receipts will be submitted daily to the Finance Department for deposit and investment. Daily transaction reports and supporting documentation will be prepared.
- ***Review of Fees and Charges.*** The City shall review all fees and charges annually in order to match fees and charges with the cost of providing that service.
- ***Aggressive Collection Policy.*** The City shall follow an aggressive policy of collecting revenues. Utility services will be discontinued (i.e. turned off) for non-payment in accordance with established policies and ordinances. The Matagorda County Tax Office is responsible for delinquent tax collection, through the central collection agency, shall be encouraged to collect delinquent property taxes using an established tax suit policy and sale of real and personal property to satisfy non-payment of property taxes. A warrant officer in the Police Division will aggressively pursue outstanding warrants, and the Court will use a collection agency to pursue delinquent fines.

### **Use of Fund Balance and Non-Recurring Revenues**

The City will use non-recurring revenues and excess fund balance for capital expenditures or for non-recurring expenditures. These non-recurring revenues will not be used to fund recurring type maintenance and operating costs. *For example, the City receives annual contributions from the City's two component units- the Bay City Gas Company and the Bay City Community Development Corporation. These appropriations are treated as non-recurring in the sense that they are committed for capital expenditures (i.e. park amenities and/or street projects).*

**Property Tax Revenue**

All real and business personal property located within the City shall be valued at 100% of the fair market value based on the appraisal supplied by the Matagorda County Appraisal District. Reappraisal and reassessment is provided by the Appraisal District. A ninety-eight percent (98%) collection rate shall serve each year as a goal for tax collections and the budgeted revenue projection shall be based in average collection rate calculated by the Matagorda County Appraisal District. Property tax rates shall be maintained at a rate adequate to fund an acceptable service level. Based upon taxable values, rates will be adjusted to fund this service level. Collection services shall be contracted out with a collection agency, currently the Matagorda County Tax Office.

**Interest Income**

Interest earned from investment of available monies, whether pooled or not, shall be distributed to the funds in accordance with the equity balance of the fund from which monies were invested.

**User Based Fees and Service Charges**

For services associated with a user fee or charge, the direct and indirect costs of that service shall be offset wholly or partially by a fee where possible. There shall be an annual review of fees and charges to ensure that the fees provide adequate coverage of costs of services.

**Water and Wastewater Rates and other fees for Services**

Water and wastewater shall be set to generate revenues required to cover operating expenditures, meet the legal requirements of applicable bond covenants, and provide for an adequate level of working capital. It is the goal of the City that the Water and Wastewater Fund, and other enterprise funds, not be subsidized by property tax revenue.

**Intergovernmental Revenues/Grants/Special Revenues**

Grant revenues and other special revenues shall be spent for the purpose(s) intended. The City shall review grant match requirements and include in the budget all grant revenues and expenditures.

**Collection of Charges**

The City will follow a policy of collecting, on a timely basis, all fees, charges, taxes and other revenues properly due to the City. The City will follow an aggressive policy of collecting all delinquencies due to the City.

**Revenue Monitoring**

Revenues actually received are to be regularly compared to budgeted revenues (at least monthly) with a formal report to City Council at least quarterly. If revenue estimates are down, the Director of Finance shall recommend to Council a corrective action to minimize the impact on the budget at the next available Council Meeting.

## **Expenditure Control Policy**

### **Appropriations**

The responsibility for budgetary control lies with the Department Head. Department Heads may not approve expenditures that exceed monies available at the departmental budget level excluding personnel and capital expenditures. Capital expenditures are approved by the City Council on a per project basis normally during the annual budget process.

### **Amendments to the Budget**

In accordance with the City Charter, under Article 10.14 (Budget Amendments after Adoption) provides, that if, during the fiscal year, the City Treasurer certifies that there are available for appropriation revenues in excess of those estimated in budget, the Council, by ordinance, may make supplemental appropriations for the fiscal year up to the amount of the excess.

### **Central Control**

Unspent funds in salary and capital allocation object codes may not be spent for any purpose other than their specifically intended purpose without prior authorization of City Manager.

### **City Manager's Authority to Amend the Budget**

The City Manager is authorized to transfer budgeted amounts within and among departments; however any revisions that alter the total expenditures/expenses must be approved by the City Council.

### **Purchasing**

All purchases shall be made in accordance with the Purchasing Policies approved by the City Council.

### **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 state law. Proper procedures shall be established that enables the City to take advantage of all purchase discounts, except in the instance where payments can be reasonably and legally delayed in order to maximize the City's investable cash.

## **Long-Term Debt Policy**

### **Revenue Bond Debt Service Account**

It shall be the policy of the City to always be in strict compliance with the requirements of the ordinance that created the Revenue Bond Debt Service Fund. Monthly transfers are to be made to this account each year in accordance with the bond debt service payment schedule. The balance in the account must be adequate to cover semi-annual payments as they become due.

### **General Obligation Bond Debt Service Account**

It shall be the policy of the City to always be in strict compliance with the requirements of the ordinance that created the General Obligation Bond Interest and Sinking Fund Account. Taxes, as applicable shall be distributed to this account monthly as received. Utility Revenues transferred to the Interest and Sinking Fund Account shall occur, as needed prior to the semi-annual payment dates. The balance in the account must be adequate to cover semi-annual payments as they become due.

### **Capital Improvement Plan (CIP)**

The City will develop a multi-year plan to present to Council each year for approval. The City will provide a list of proposed capital improvements, funding recommendations, and prospective timing of projects. CIP projects shall be for equipment over \$2010,000, infrastructure over \$50,000 and facilities over \$25,000. Any maintenance and operational cost shall be disclosed that could impact future operating budgets.

### **Debt Policy Guidelines**

- The City will limit long-term debt to only those capital projects that cannot be financed from current revenues.
- The City will not use long-term debt to finance recurring maintenance and operating costs.
- The City will not issue long-term debt for a period longer than the estimated useful life of the capital project.
- Decisions will be made based on long term goals rather than a short- term fix.
- Debt Service Funds will be managed and invested according to all federal, state, and local laws
- Coverage Ratios of Revenue Bonds will always be in compliance with the minimum coverage ratio required by the revenue bond ordinances. It shall be the goal of the City to achieve a budgeted coverage ratio of 1.60.

### **Other Fund Use Information**

#### **Governmental Funds**

Most government functions are financed through governmental funds. The acquisition, use, and balances of the City's expendable resources and related current liabilities are accounted for through governmental funds. Long-term liabilities and fixed assets are not accounted for through governmental funds.

#### **Proprietary Funds**

These funds listed below are used to account for the ongoing activities of the City that are similar to those found in the private sector. These funds are financed through user charges to recover costs of services provided. Proprietary funds use accrual accounting, which means revenues are recognized when they are earned by the City and expenses are recognized when they are incurred. Enterprise funds are considered proprietary funds and are used to account for operations for the City's Public Utility Fund and Airport Fund.

***Working Capital Position-*** the goal shall be to maintain a working capital position equal to 120 days of the operating budget and a policy to maintain a working capital position no less than 90 days of the operating budget.

**Public Utility Fund**

It shall be the general policy of the City to commit a portion of the reserve for fixed asset replacement as it strives to budget for revenue to cover depreciation.

**Airport Fund**

It will be the general policy of the City that the fees collected will be spent on maintenance of the facilities grounds, and other structures. The goal shall be to reduce the reliance of the general fund tax dollars for this purpose.

---

***Implementation and Review***

Upon adoption of this policy the City Council authorizes the City Manager to establish any standards and procedures which may be necessary for its implementation. The Director of Finance shall review this policy at least annually and make recommendations for changes to the Mayor and City Council.