

City of Burleson, Texas
FINANCIAL POLICY STATEMENTS

Revised ~~7/10/2023~~

Draft 5/19/2025

I. STATEMENT OF PURPOSE

The intent of the Financial ~~Policy and Financial Management~~ Policy is to enable the City to achieve a long-term stable and positive financial condition. The guiding principles of the City's financial management include integrity, prudent stewardship, planning, accountability, and full disclosure.

The more specific purpose is to provide guidelines to Managementmanagement in planning and directing the City's finances and in developing recommendations to City Council.

The scope of the financial policies includeincludes the City's investment, debt and continuing disclosure policies covering areas such as accounting, auditing, financial reporting, internal controls, operating and capital budgeting, revenue management, cash and investment management, expenditure control, debt management, and planning concepts, in order to:

- a. present fairly and with full disclosure the financial position and results of financial operations of the City in conformity to generally accepted accounting principles (GAAP) as set forth by the governmental accounting standards board (GASB), and
- b. determine and demonstrate compliance with finance related legal and contractual issues in accordance with provisions of the Texas Local Government Code and other pertinent legal documents and mandates.

II. GENERAL IMPLEMENTATION AND COMPLIANCE GUIDELINES

- A. FINANCE COMMITTEE. ~~The Finance Committee, the City Manager, and the Finance Director shall be designated as the Finance Committee.~~ The committee will meet at least quarterly four times a year. The committee will report to the City Council ~~on the next~~ at a Regular City Council meeting. The function of the committee will be:

- 1) Fiscal policy review
- 2) Auditor selection recommendation
- 3) Investment and Debt policy review and guidance
- 4) Long-range planning
- 5) Financial Report review

- B. ANNUAL REVIEW. Based upon the results and recommendations of the Finance Committee review, the Council will annually approve the fiscal policies.
- C. IMPLEMENTATION, COMPLIANCE, ACCOUNTABILITY AND REVIEW. The Finance Director will be responsible for implementing these policies and will, to the best of his or her knowledge, make the City Manager, Finance Committee and the City Council aware of any variances in practice from these policies or any other deviation from prudent financial practices in accordance with GAAP, the ~~city charter~~City Charter, state laws and/or ethics of the profession.

III.- ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

- A. ACCOUNTING. The City is solely responsible for the reporting of its financial affairs, both internally and externally. The City Manager is the City's Chief ~~Fiscal~~Administrative Officer and the head of the administrative branch of the City government. The City Manager may delegate some or all of the financial ~~administration~~administrative duties but ~~will~~shall maintain supervisory authority over all functions as specified in the City's Charter Article VII, Section 68.
- B. AUDITING. An independent certified public accounting (CPA) firm will perform annual financial audits.
 - 1) Qualifications of the Auditor. In conformance with the City's Charter and according to the provisions of Texas Local Government Code, ~~Title 4,~~ Chapter 103, the City will be audited annually by outside independent accountants. ("auditor").
 - 2) Auditor Repute. The auditor must be a CPA firm of good reputation and must demonstrate that it has the breadth and depth of staff to conduct the City's audit in accordance with generally accepted auditing standards and contractual requirements. The auditor must be registered as a partnership or corporation or certified public accountants, ~~holding a license under Article 41a-1, Section 9, of the Civil Statutes of Texas,~~ capable of demonstrating that it has sufficient staff which will enable it to conduct the City's audit in accordance with generally accepted auditing standards as required by the City Charter and applicable state and federal laws.
 - 3) Timing. The auditor's report on the City's financial statements will be completed within 180 days of the City's fiscal year end.
 - 4) Management Letter. The independent CPA firm shall provide a management letter, if one is issued, no later than March 31 following the end of each fiscal year. The auditor will prepare and will review the management letter with Management and the Finance Committee. The Finance Director shall respond in writing to the City Manager and City Council regarding the auditor's

management letter, addressing the issues contained therein. The Council shall schedule its formal acceptance of the auditor's report upon the resolution of any issues resulting from the review.

- 5) Responsibility of Auditor to City Council. The auditor is accountable to the City Council and will have access to direct communication with the City Council if the City Staff is unresponsive to auditor recommendations or if the Auditor considers such communication necessary to fulfill its legal and professional responsibilities.
- 6) Rotation of Auditor. The City will not require an auditor rotation, but will circulate requests for ~~proposal~~proposals for audit services at least every five years. Should the City Council be dissatisfied with the auditor's performance, it may request new proposals at any time. Year--to--year authorization to continue shall be done by July 1st of each year.

C. FINANCIAL REPORTING.

1) External Reporting.

- a. Scope. The Annual Comprehensive Financial Report shall be prepared in accordance with generally accepted accounting principles (GAAP).
- b. Timing. The Report shall be presented to the Council within 180 calendar days of the City's fiscal year end. If City staffing limitations preclude such timely reporting, the Finance Director will inform the City Council of the delay and the reasons thereof.
- c. Awards. The Report shall be presented annually to the Government Finance Officer's Association (GFOA) for evaluation and consideration for the Certificate of Achievement for Excellence in Financial Reporting.

2) Internal Reporting.

The Finance Department will prepare internal financial reports, sufficient to plan, monitor, and control the City's financial affairs. Internal financial reporting objectives are addressed throughout these policies.

IV. OPERATING BUDGET.

- A. 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. The scope of the budget includes all funds for which the City will adopt a formal budget, including Government Funds and Proprietary Funds.

- 1) Budgetary Process. The budget is prepared by the City Manager or his/her designee with the cooperation of all City Departments. The proposed budget should be presented to the City Council between 60 and 90 days prior to the fiscal year end, and should be enacted by the City Council prior to fiscal year end in accordance with the Charter.
- 2) Awards. If feasible, the operating budget will be submitted to the GFOA annually for evaluation and consideration for the Award for Distinguished Budget Presentation.
- 3) Basis of Budgeting. The basis of budgeting will be the same as the basis of accounting; that is, that budgets for the General Fund and the Special Revenue Funds are prepared on the modified accrual basis of accounting, and budgets for the Utility (Proprietary) Funds are prepared on a full accrual basis, except that capital purchases and depreciation are not adjusted until year-end financial reporting.
- 4) Financial Forecast. A five-year financial forecast shall be prepared annually, projecting revenues and expenditures for all operating and capital funds. This forecast shall be used as a planning tool in developing the following year's operating budget.
- 5) Proposed Budget Format. A proposed budget shall be prepared by the City Manager with the participation of all of the City's Department Directors, within the provisions of the City Charter. The budget shall include at least four basic segments for review and evaluation. These segments are: (1) personnel costs, (2) operations and maintenance costs, (3) capital and other (non-capital) project costs, and (4) revenues. A four-column format should be used such that prior year actual, current year budget and revised, and next year proposed are all clearly shown.
- 6) Council Participation. 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 to allow for citizen participation in the budget preparation. The budget process shall span sufficient time to address policy and fiscal issues by the Council. The budget process will be coordinated so as to identify major policy issues for City Council consideration prior to the budget approval date so that proper decision analysis can be made.
- 7) Filing and Adoption. Upon the presentation of a proposed budget document acceptable to the Council, the Council shall call and publicize a public hearing and adopt by Ordinance such budget as the City's Official Budget, effective for the fiscal year beginning. A copy of the proposed budget shall be filed with the City Secretary in accordance with the provisions of the City Charter. Should the Council fail to take final action on or before the last day of the fiscal year, the

budget as submitted by the City Manager shall be deemed to have been finally adopted by the City Council. If a tax rate is not adopted by September 30, the tax rate for that year will be the lower of the no-new-revenue rate calculated for the tax year or the rate adopted by the taxing unit for the preceding year in accordance with State Law (Tax Code Sec.26.05. (c)).

- 8) Amending the Official Budget. The council may amend the budget for municipal purposes in accordance with state law.
 - 9) Encumbrances. Encumbrances outstanding at the end of each fiscal year shall be reflected as reservations of fund balance. Subsequent year's payments on previously encumbered funds will be reflected as expenditures in the current year. For Encumbrances that are brought forward from the previous year, budgets will be adjusted by the encumbered amount in the current year.
- B. BALANCED BUDGET. The operating budget will be balanced with current revenues and other resources greater than or equal to current expenditures/expenses. Use of beginning balances and other reserves to balance operations will be discussed with the City Council during the budget process.
- C. REPORTING. Monthly financial reports will be prepared to enable the Department Managers to manage their budgets and to enable the Finance Director to monitor and control the budget as authorized by the City Manager. Summary financial reports will be presented to the departments ~~within 10 business days.~~ City Council will receive a ~~quarterly~~ financial summary of key funds within 30 ~~to 45~~ days after the end of each ~~quarterly period (December, March, June and September)-month with the exception of the first quarter of the fiscal year. The report will be provided within 30 days after the first quarter of the fiscal year.~~
- D. ACTIVITY INDICATORS AND STATISTICS. Where appropriate, activity indicators and statistics will be used as guidelines and reviewed for efficiency and effectiveness. This information will be considered in the annual budgeting process and reported to the City Council regularly.
- E. OPERATING POSITION. The guidelines that the City should be following to assure fiscal stability are those outlined in Financial Condition/ Reserves/Stability Ratios ~~(IX.A. through F.)~~.

V. REVENUE MANAGEMENT.

- A. The City will strive for the following optimum characteristics in its revenue system:
- 1) SIMPLICITY. The City, where possible and without sacrificing accuracy, will strive to keep the revenue system simple in order to reduce compliance costs and to make it more understandable to the taxpayer or service recipient. The City will avoid nuisance taxes or charges as revenue ~~sources~~sources.

- 2) CERTAINTY. A knowledge and understanding of revenue sources ~~increases~~increase the reliability of the revenue system. The City will understand its revenue sources and enact consistent collection policies to provide assurances that the revenue base will materialize according to budgets and plans.
 - 3) EQUITY. The City shall make every effort to maintain~~;~~ equity in its revenue system structure~~;~~ i.e., the City shall seek to minimize or eliminate all forms of subsidy between entities, funds, services, utilities, and customers. The City shall require that there be a balance in the revenue system~~;~~ i.e., the revenue base will have the characteristic of fairness and neutrality as it applies to cost of service, willingness to pay, and ability to pay.
 - 4) ADMINISTRATION. The benefits of a revenue will generally exceed the cost of collecting and administering the revenue program. The cost of collection will be reviewed ~~annually~~periodically for cost effectiveness as a part of the indirect cost and cost of services analysis. Where appropriate, the City will use the administrative processes of State or Federal collection agencies in order to reduce administrative costs.
 - 5) DIVERSIFICATION AND STABILITY. In order to protect from fluctuations in ~~a~~ revenue ~~sources~~sources due to changes in the economy and variations in weather, a diversified revenue system will be maintained to provide stability.
 - 6) GRANTS AND RESTRICTED REVENUES. In order to maintain flexibility in the revenue system, grants and restricted revenues shall be pursued on a cost-benefit basis. All grants and other federal/state, and restricted funds shall be managed and accounted for to comply with the laws, regulations, and guidance of the grantor.
- B. The following considerations and issues will guide the City in its revenue policies concerning specific sources of funds:
- 1) COST/BENEFIT OF ABATEMENT. The City will use due caution in the analysis of any tax or fee incentives that are used to encourage development. Ideally, a cost/benefit (fiscal impact) analysis will be performed as a part of such caution.
 - 2) NON-RECURRING REVENUES. One-time or non-recurring revenues will not be used to finance current ongoing operations. Non-recurring revenues should be used only for one-time expenditures such as long-lived capital needs.
 - 3) PROPERTY TAX REVENUES. All real and business personal property located within the City shall be valued at ~~100% of the~~ fair market value for any given year based on the current appraisal supplied to the City by the ~~Johnson County~~ Central Appraisal District of Johnson County and Tarrant ~~County~~ Appraisal

District. Total taxable valuation will be reappraised and reassessed in accordance with State statute, in order to maintain current market values.

3) A 98% collection rate shall serve each year as a goal for tax collections. All taxes shall be aggressively pursued each year by the City's appointed tax assessor/collector. Tax accounts delinquent July 1st shall be submitted for collection each year to an attorney selected by the City Council. A penalty shall be assessed on all property taxes delinquent in accordance with State law and shall include all court costs, as well as an amount for compensation of the attorney as permitted by State law and in accordance with the attorney's contract with the City. Annual performance criteria will be developed for the attorney.

- 4) INTEREST INCOME. Interest earned from investment of available monies, whether pooled or not, will be distributed to the funds in accordance with the operating and capital budgets which, wherever possible, will be in accordance with the cash balance of the fund from which monies were provided to be invested.
- 5) USER-BASED FEES AND SERVICE CHARGES. For services associated with a user fee or charge, the direct and indirect costs of that service will be offset by a fee where possible. There will be an annual review of fees and charges to ensure that fees provide adequate coverage of the costs of services. User charges may be classified as "Full Cost Recovery", "Partial Cost Recovery," and "Minimal Cost Recovery," based upon City Council policy.
- 6) UTILITY RATES. The City will review and adopt utility rates annually that will generate revenues required to fully cover operating expenditures, meet the legal restrictions of all applicable bond covenants, and provide for an adequate level of working capital needs. This policy does not preclude drawing down cash balances to finance current operations. However, it is best that any extra cash balance be used instead to finance capital projects. Components of Utility Rates will include transfers to the General Fund as follows:
 - a. General and Administrative Charge. An administrative fee will be charged to the Utility Fund for services of general overhead, such as administration, finance, personnel, data processing, and legal counsel. This fee will be documented through a cost allocation procedure.
 - b. Franchise payment. A rate consistent with those charged to private utilities will be charged to the Utility Fund. This rate may be either raised or lowered so as to be consistent with those of the private utilities.

- c. Payment in lieu of Property Tax (PILOT). A fee will be charged to the Utility Fund to equate to property taxes lost due to municipal ownership. ~~Net book value~~ Total Assets from the most recent audited financials will be used as a basis, barring the absence of known market value. The ~~existing~~ tax rate from the same fiscal year as the most recent audited financials will be applied to this base to determine the PILOT charge.
- 7) REVENUE MONITORING. Revenues received will be compared to budgeted revenues throughout the fiscal year and significant variances will be investigated.

VI. -EXPENDITURE CONTROL

- A. APPROPRIATIONS. The level of budgetary control is at the Department level budget in the General and Enterprise Funds, and at the fund level in all other funds. When budget adjustments among Departments and/or funds are necessary, these must be approved by the City Council. Budget appropriations at lower levels of control, which is defined as transfers, shall be made in accordance with the applicable administrative procedures.
- B. AMENDMENTS TO THE BUDGET. In accordance with the City Charter, all budget amendments shall be approved by the Council.
- C. CENTRAL CONTROL. No recognized or significant salary or capital budgetary savings in any Department shall be spent by the Department Director without the prior authorization of the City Manager. However, Department Directors are authorized to approve budgetary line items transfers in the same fund within their own assigned departments. The City Manager assigns Departments to each Director as areas of their responsibilities, and documents it in the City's Organization Chart.
- D. PURCHASING. All purchases should be in accordance with the City's purchasing policies as defined in the Purchasing Manual. In accordance with the Charter provisions, purchases, and contracts as per the City's Procurement Policy, will be reviewed and recommended by staff and presented to Council for approval.
- E. 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 ~~of~~ with the Government Code ~~Title 10. General Government, Subtitle F. State and Local Contracts and Fund Management, Chapter 2251, Section 2251.021 and other related state and local government laws and regulations.~~

F. EQUIPMENT FINANCING. Equipment is accounted for at the original acquisition cost, which includes purchase price plus any costs incurred to place the equipment in service. Equipment may be leased or financed when the unit purchase price is \$5,000 or more and the useful life is at least five years. Departments shall contact the Finance Department for transfer or disposal instructions.

G. RISK MANAGEMENT. The City will aggressively pursue every opportunity to provide for the Public's and City employees' safety and to manage its risks. The goal shall be 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, insurance, and risk retention.

H. AUTHORIZATION OF ~~PAYMENT~~INVESTMENTS AND PAYMENTS. Two signatures are required to conduct business on behalf of the City of Burleson, Texas. Both the City Manager and the Director of Finance, or their designee(s), are hereby authorized to ~~execute the required Agreement with the Bank Depository. Designee(s) who are authorized to transact business on behalf of the City Manager are the City of Burleson's Deputy City Manager or the City Secretary. The designee who is authorized to transact business on behalf of the Director of Finance is the City of Burleson's Assistant Director of Finance and Controller.~~ approve investments and payments for the City.

~~I.~~ AUTHORIZATION OF ~~WIRE~~ELECTRONIC TRANSFERS BY THE CITY.

~~1.~~ In general, ~~attachments A through D to this Policy~~electronic transfer responsibilities and processes are ~~as follows:~~

- ~~a.~~ Attachment "A" List~~set by the Director~~ of authorized individuals who may approve wire transfers.
- ~~b.~~ Attachment "B" Designation of Custodial/Safekeeping Agent.
- ~~c.~~ Attachment "C" List of authorized Finance in accordance with banking resolutions adopted by the City Council and the Investment Pools.
- ~~d.~~ Attachment "D" List of authorized Paying Agents.

~~Changes to attachments for revisions, additions, or deletions to any of the designations on Attachment "A", "B", "C" and "D" shall~~ Policy. Processes will require the approval of two individuals listed on Group B as listed on Attachment "A". Copies of additions, deletions, and changes will be provided to the Finance Committee at their next regular scheduled meeting.

~~2.~~ SECURITY PURCHASES.

- ~~a.~~ Two employees designated on Group A of Attachment "A" must approve wire transfers associated with security purchases.
- ~~b.~~ All security purchases shall be executed "delivery vs. payment."

~~c. Any change in assigned by the City's custodial relationship must be approved by two individuals designated in Group B of Attachment "A".~~

~~3. INVESTMENT POOLS~~

~~a. Two employees designated on Group A of Attachment "A" must approve wire transfers to designated investment pools.~~

~~b. Any revision, addition or deletions to the list of designated investment pools shall require the approval of two individuals designated in Group B of Attachment "A". Copies of additions, deletions, and changes will be provided to the Director of Finance Committee at their next regularly scheduled meeting.~~

~~4. PAYING AGENTS~~

~~a. Two individuals designated on Group A of Attachment "A" must approve wire transfers to designated paying agents.~~

~~b.1. Any revision, addition or deletion to the list of designated paying agents will require the approval of two individuals designated in Group B of Attachment "A". Such approval shall not be necessary when supplementary information unrelated to the accounts varies. For example, the paying agent may request that the wire include to separate the duties of initiating a notation that the transaction is to the attention and approval of a certain individual. So long as the wire is the benefit of an authorized account, such clarifying information is permissible. Copies of additions, deletions, and changes will be provided to the Finance Committee at their regular scheduled meeting.~~

~~5. MISCELLANEOUS~~

~~a. Wire transfers to any party not involving a security purchase destined for custodial safekeeping with an approved organization, or to an authorized investment pool, or to an authorized paying agent, shall require the approval of two authorized individuals in Group B of Attachment "A". Copies of such transactions will be provided to the Finance Committee at their next regularly scheduled meeting.~~

VII. ASSET MANAGEMENT

A. INVESTMENTS. The Finance Director shall promptly invest all City funds with the Bank Depository in accordance with the provisions of the current Bank Depository Agreement or in any negotiable instrument that the Council has authorized under the provisions of the Texas Public Funds Investment Act and in accordance with the City Council approved Investment Policy.

- B. CASH MANAGEMENT. The City's cash flow will be managed to maximize the cash available to invest. Such cash management will entail the centralization of cash collections, where feasible, including property tax payments, utility bills, municipal fines, building and related permits and licenses, and other collection offices as appropriate. Cycle billing will be used where appropriate.
- C. FIXED ASSETS AND INVENTORY. These assets will be reasonably safeguarded and properly accounted for, and prudently insured. A fixed asset of the City shall be defined as a purchased or otherwise acquired piece of equipment, vehicle, furniture, fixture, capital improvement, addition to existing capital investments, land, buildings, or accessioned Library materials. The cost or value of any such acquisition must be \$5,000 or more within an expected useful life greater than one year. All City departments with inventory are required to conduct a physical inventory under their control on an annual basis.
- D. DEPOSITORIES. The City Council, having given due consideration to all of its options and taking into consideration what is in the best interest of the municipality, hereby authorizes the consideration of applications of depositories not doing business within the City of Burleson, Texas so long as that bank maintains a business location within a five-mile radius of Burleson City Hall. This authorization encompasses all of the depository uses and requirements of the City.

VIII. CAPITAL BUDGET AND PROGRAM

- A. PREPARATION. The City will develop a 5-year capital improvement plan (CIP) to include all capital projects being considered and all resources for capital funding. The budget will be prepared on a fiscal year ending calendar and reported annually. The 5-year CIP will be prepared by the Department Director and presented to the City Council during the budget process. The Finance Director will work closely with Departments to ensure funding capacity is available.
- B. CONTROL. All capital project expenditures must be appropriated in the capital budget at a project level. The Finance Department must certify the availability of such appropriations, or the availability of resources needed to be appropriated before a capital project contract is presented to the City Council for approval. Any remaining funds of a completed project not allocated by the City Council will be closed into an unallocated account in the same fund. Similar projects are to be grouped together in a fund based on the type of project and source of funding, using the similar Capital Projects Fund classifications for reporting purposes in the Annual Financial Report.
- C. PROGRAM PLANNING. The capital budget will include capital improvements program plans for future years. The planning time frame should normally be at

least five years. The replacement and maintenance for capital items should also be projected for the next 5 years. Future maintenance and operational costs will be considered at the initiation of a project so the costs can be included in the relevant operating budget.

- D. FINANCING PROGRAMS. Where applicable, assessments, impact fees, pro-rata charges, or other fees should be used to fund capital projects having a primary benefit to specific, identifiable property owners.
- E. INFRASTRUCTURE MAINTENANCE. The City recognizes that deferring maintenance increases future capital costs. Therefore, a portion of the appropriate fund's budget will be set aside each year to maintain the quality of the City's infrastructure. The inclusion of infrastructure maintenance and replacement costs in the current operating budget will place the burden of the costs and repairs on the current users of the systems.
- F. REPORTING. Periodic financial reports will be prepared to enable Department Managers to manage their capital budgets and to enable the Finance Department to monitor and control the capital budget as authorized by the City Manager. Summary capital projects status reports should be presented to the City Council quarterly.

IX. FINANCIAL CONDITIONS, RESERVES, AND STABILITY RATIOS

- A. OPERATIONAL COVERAGE. (NO OPERATING DEFICITS). The City will maintain an operational coverage factor of 1.00, such that current operating revenues (plus approved fund balance appropriations) will equal or exceed current operating 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 ~~as stated in Paragraph B, following.~~

B. OPERATING RESERVES/FUND BALANCES

~~a.~~ 1) Governmental funds of the City of Burleson shall be defined as follows:

- 1) General Fund~~.~~ The general fund should be used to account for and report all financial resources not accounted for and reported in another fund.
- 2) Special Revenue Funds~~.~~ Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt

service or capital projects. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, omitted, or assigned to the specified purpose of the fund. Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

3) Capital Projects Funds-. Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

4) Debt Service Funds-. Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest, even if it is being accumulated for future years' payments. Debt service funds should be used to report resources if legally mandated.

2) Ending fund balances of the City of Burleson shall be reported according to the following classifications:

~~1) GENERAL FUND~~

~~2)1) DEBT SERVICE FUNDS RESTRICTED~~

~~3)2) SPECIAL REVENUE FUNDS RESTRICTED/COMMITTED~~

~~4) CAPITAL PROJECT FUNDS NON-BONDED - COMMITTED~~

~~3) CAPITAL PROJECT FUNDS BONDED -- RESTRICTED ASSIGNED~~

4) UNASSIGNED

3) **Order of expenditure** ---When committed, assigned and unassigned resources can be used for the same purpose, funds shall be spent in the sequence of committed resources first, assigned second, and unassigned last.

- 4) It is the goal of the City that the unassigned fund balance of the General Fund should be at least 20% of the General Fund annual expenditures. This percentage is the equivalent of 73 days' expenditures. In order to adhere to the principles of matching current revenues with current expenditures and minimizing property taxes, the City will strive to maintain the fund balance if the unassigned balance grows beyond 90 days' expenditures.
- 5) The Water and Wastewater Fund working capital should be maintained at least ~~at~~ 20% of total operating expenditures or the equivalent of 73 days.
- 6) It is the goal of the City that the fund balance of the 4A Corp and 4B Corp, should maintain at least a 20% minimum of total operating expenditure or the equivalent of 73 days.

~~C.A. CAPITAL AND DEBT SERVICE FUNDS~~

- ~~1) Items in the Capital Projects Funds will be completed and paid for within 36 months of receipt of proceeds. Balances will be used to generate interest income to offset construction costs.~~
- ~~2) 7) General Obligation Debt Service Funds will not have reserves. a reserve of approximately \$1,000,000. The policy above does not preclude~~include ~~the debt service reserves normally established to market revenue bonds. The City's policy and bond ordinance requirements are to maintain these debt service reserves at the level of the average annual debt service.~~

C. CAPITAL AND DEBT SERVICE FUNDS

- ~~1) Items in the Capital Projects Funds shall have the goal to be completed and paid for within 36 months of receipt of proceeds. Balances will be used to generate interest income to offset construction costs.~~
- ~~3) 2) Revenue Obligations will maintain Debt Coverage Ratios as specified by the bond covenants. The City is currently required to have net revenues in excess of average annual debt by 1.25 times. Net revenues must also exceed the maximum outstanding debt by 1.10 times. Both these tests must be met in order to issue additional bonds.~~
- ~~4) 3) Obligations of Burleson's economic development corporations will maintain coverage ratios as specified by bond covenants. If the City issues obligations partially secured by a limited pledge of the corporations' sales tax revenues, not subject to the coverage ratios of the revenue bond covenants, coverage shall be maintained at no less than 1.25 times average annual debt~~

service, and 1.15 times the maximum annual debt service. Both of these tests must be met in order to issue additional bonds.

X. TREASURY AND DEBT MANAGEMENT

A. CASH MANAGEMENT. ~~Periodic~~A periodic review of cash flow position will be performed to determine performance of cash management and investment policies. A detailed policy structure will be followed with respect to Cash/Treasury Management. The underlying theme will be that idle cash will be invested with the intent to 1) safeguard assets, (2) maintain liquidity, and 3) maximize return. Where legally permitted, pooling of investments will be done.

~~A.~~ The City will adhere to the investments authorized through the Texas' Public Funds Investment Act and the city's established comprehensive Investment Policies and Guidelines. Such policies ~~clarifies~~clarify acceptable investment securities, brokers, terms, and other pertinent investment information.

B. DEBT MANAGEMENT. The City's Debt Management Policy establishes parameters and provides guidance governing the issuance, management, continuous evaluation of and reporting on all debt obligations issued by the City, and to provide for the preparation and implementation necessary to ensure compliance and conformity with this policy.

XI. INTERNAL CONTROLS

A. WRITTEN PROCEDURES. Written procedures will be established and maintained by the Director of Finance for all functions and financial cycles including cash handling and accounting throughout the City. These procedures will embrace the general concepts of fiscal responsibility set forth in this policy statement.

B. DEPARTMENT DIRECTORS AND MANAGERS RESPONSIBILITY. City administrators and ~~manager~~managers are charged with the responsibility for establishing a network of processes with the objective of controlling the operations of the City in a manner which provides reasonable assurance that:

- 1) Data and information published either internally or externally is accurate, reliable, complete, and timely.
- 2) The actions of administrators and employees are in compliance with the City's charter, plans, policies and procedures, and all relevant laws and regulations.
- 3) The City's resources, including its people, systems, data/information, assets, and citizens are adequately protected.
- 4) Resources are acquired economically and employed effectively.

- 5) The City's internal controls promote the achievement of plans, programs, goals, and objectives.

Each Department Manager is responsible ~~to ensure~~for ensuring that good internal controls are followed throughout his or her Department, that all Finance Department directives or internal controls are implemented, and that all independent auditor internal control recommendations are addressed.

XII. STAFFING AND TRAINING

- A. ADEQUATE STAFFING. Staffing levels will be adequate for the fiscal functions of the City to operate effectively. Overtime shall be used only to address temporary or seasonal demands that require excessive hours. Workload shedding alternatives will be explored before adding staff.
- B. TRAINING. The City will support the continuing education efforts of all financial staff including the investment in time and materials ~~for maintaining~~to maintain a current perspective concerning financial issues. Staff will be held accountable for communicating, teaching, sharing with other staff members all information and training materials acquired from seminars, conferences, and related education efforts.
- C. AWARDS, CREDENTIALS AND RECOGNITION. The City will support efforts and ~~involvements~~involvement resulting in meeting standards and receiving exemplary recitations on behalf of any of the City's fiscal policies, practices, processes, products, or personnel. Staff certifications may include Certified Public Accountant, Management Accountant, Certified Internal Auditor, and Certified Cash Manager. Further, the Finance Director will try to obtain and maintain the designation of Certified Government Finance Officer as awarded by the GFOA of Texas.

The City will strive to maintain a high level of excellence in its accounting policies and practices as it prepares its Financial Report. The Report will be presented to the Government Finance Officers Association (GFOA) for review of qualifications necessary to obtain the Certificate of Achievement for Excellence in Financial Reporting. Additionally, if feasible the City will submit its annual budget to GFOA for consideration for the Distinguished Budget Award, and submit the Investment Policy to obtain the Certificate of Distinction from the Government Treasurers' Organization of Texas.

- D. TRANSPARENCY. A reasonable effort will be made to ensure relevant financial information is made available to all citizens in a 'user friendly' format in an easy-~~to~~ understand terminology. In pursuit of this goal, the city will seek recognition through state and national transparency and reporting programs.

|

~~ATTACHMENT A — AUTHORIZED INDIVIDUALS FOR WIRE TRANSFERS~~

Any ~~two~~ individuals listed below are hereby authorized to:

- ~~1. Execute wire transfers for security purchases executed on a delivery vs payment basis and for which custodial safekeeping is maintained at an approved institution.~~
- ~~2. Execute wire transfers to approved investment pools and paying agents.~~
- ~~3. Make a wire transfer for any other purpose. Any revision, addition or deletion involving an approved custodial agent, investment pool, or paying agent.~~

~~Revisions will be provided to the Finance Committee at the next scheduled meeting.~~

~~Director of Finance
City Manager
Deputy City Manager
Assistant Finance Director
Controller
Chief Accountant
Senior Accountant
Supervisory Accountant~~

~~ATTACHMENT B — CUSTODIAL (SAFEKEEPING) AGENT~~

~~American National Bank of Texas~~
~~ABA = 111901519 (routing)~~
~~FAO = For Account of City of Burleson~~

~~ATTACHMENT C — AUTHORIZED INVESTMENT POOLS~~

~~TEXPOOL~~

~~State Street Boston~~

~~ABA # 011000028~~

~~ACCOUNT # 67573774~~

~~BANK OF NEW YORK~~

~~ABA # 021000018~~

~~ACCOUNT #8900549424~~

~~ACCOUNT NAME: LONE STAR INVESTMENT POOL~~

~~TEXSTAR~~

~~JP MORGAN CHASE~~

~~ABA # 021000021~~

~~ACCOUNT # 9102733343~~

~~LOGIC~~

~~JP MORGAN CHASE~~

~~ABA # 1130000609~~

~~ACCOUNT # 08805173794~~

~~ATTACHMENT D — AUTHORIZED PAYING AGENTS~~

~~U.S. BANK, N.A.
MILWAUKEE, WI 53202
ABA # 091000022
BNF: USBANK CT WIRE CLRG
ACCOUNT #180121167365
QBI: ACCOUNT NAME
REF: ACCOUNT NUMBER~~

~~ATTACHMENT E – SECURITIES LAW COMPLIANCE AND DISCLOSURE POLICY©~~

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~~Exhibit A – Lease Agreements Operating as Vehicles to Borrow Money~~

E. Continuing Disclosure The continuing disclosure policy and procedures are attached as Attachment “A” to this policy.

ATTACHMENT E-A- SECURITIES LAW COMPLIANCE AND DISCLOSURE

POLICY©

ARTICLE I

PURPOSE AND SCOPE

SECTION 1.01 DEFINITIONS.

The words and terms used in this Model Securities Law Compliance and Disclosure Policy (this "Policy") have the meanings specified in Article II hereof, unless the context clearly otherwise requires. Except where the context otherwise requires, words importing the singular number shall include the plural number, and *vice versa*.

SECTION 1.02 PURPOSE OF POLICY.

- (a) Continuing Disclosure Undertaking Requirement. Under Rule 15c2-12, underwriters of Municipal Securities may not purchase or sell Municipal Securities unless the underwriters have reasonably determined that the issuer of the Municipal Securities or its designated agent has undertaken in a written agreement to provide continuing disclosure of certain financial information and operating data, and to file notices of certain events designated in Rule 15c2-12. The Issuer is required under its Continuing Disclosure Undertakings to provide disclosures of certain financial information and operating data and notice of certain events to the MSRB on EMMA to facilitate informed secondary market trading. This Policy is adopted by the Issuer to assist in its compliance with federal and state securities laws and regulations, including, specifically, Rule 15c2-12. This Policy is established to ensure that the Issuer maintains adequate policies and procedures for gathering, analyzing and disclosing all information that is required to be provided to, or that may be reasonably expected to reach investors or trading markets, which relates to the issuance of the Issuer's Debt Obligations. Such information consists of the content of the Issuer's Offering Documents, continuing disclosure reports, event notices and other statements reasonably expected to reach the public markets.
- (b) Recommendation of Written Procedures. The Issuer recognizes that the SEC recommends adopting disclosure policies and amending existing disclosure policies from time to time to address the process for evaluating the disclosure process including disclosures for certain Event Notices. Written policies and procedures adopted by the Issuer will serve to streamline the process of disclosing required information. The Disclosure Officer, and other officers selected by the Issuer, if any, may establish additional written procedures from time to time to ensure that any Offering Documents (i) fully and accurately present the Issuer's financial condition and operations and (ii) do not omit any Material information regarding the Issuer.

SECTION 1.03 SCOPE OF POLICY.

This Policy applies to all Debt Obligations of the Issuer that are currently outstanding and all future bonds, notes, leases or derivative instruments to be executed by the Issuer. If the provisions of this Policy conflict with a respective Continuing Disclosure Undertaking, the terms of such Continuing Disclosure Undertaking will control.

ARTICLE II

DEFINITIONS

SECTION 2.01 DEFINED TERMS.

"Annual Report" means the Issuer's audited financial statements (or unaudited financial statements if permitted by the Continuing Disclosure Undertaking) and certain other financial information and operating data required to be filed annually with the MSRB.

"Business Day" means any day except any Saturday or Sunday, any day which is a federal legal holiday in the United States, or any day on which banking institutions are authorized or required by law to close.

"Code" means the Internal Revenue Code of 1986, as amended.

"Compliance Date" means February 27, 2019.

"Continuing Disclosure Undertaking" means a continuing disclosure agreement, continuing disclosure undertaking, continuing disclosure instructions or other written certification and agreements of the Issuer setting out covenants for satisfying the Issuer's requirements for providing information to the MSRB in an electronic format pursuant to and in accordance with Rule 15c2-12.

"Debt Obligation" means each contract of the Issuer that has sufficient characteristics of debt so that it is included in the Issuer's financial statements as a long-term liability of the Issuer, including, but not limited to bonds, notes, leases and similar instruments used by the Issuer for borrowing purposes.

ATTACHMENT ~~E-A~~- SECURITIES LAW COMPLIANCE AND DISCLOSURE
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"Disclosure Officer(s)" means the Issuer's Director of Finance, or, if the position of Director of Finance is vacant, the person(s) filling the responsibilities of the City Manager or Assistant City Manager for the Issuer.

"EMMA" means the Electronic Municipal Market Access system, the prescribed electronic format for disclosures established and maintained by the MSRB, which can be accessed at www.emma.msrb.org.

"Event 15" means the event set forth in Section 5.02(a) of this Policy.

"Event 16" means the event set forth in Section 5.03(a) of this Policy.

"Event Notices" means all event notices required by Rule 15c2-12.

"Financial Obligation" means: (i) a Debt Obligation; (ii) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned Debt Obligation; or (iii) a guarantee of (i) or (ii). The term Financial Obligation shall not include Municipal Securities as to which a final official statement has been provided to the MSRB consistent with Rule 15c2-12.

"GASB" means the Governmental Accounting Standards Board.

"IRS" means the Internal Revenue Service.

"Issuer" means the City of Burleson, Texas.

"Material" has the meaning given in Section 3.02(f) of this Policy.

"MSRB" means the Municipal Securities Rulemaking Board, or any successor repository designated as such by the SEC in accordance with Rule 15c2-12(b)(5) promulgated by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Municipal Securities" means securities which are direct obligations of, or obligations guaranteed as to principal or interest by, a State or any political subdivision thereof, or any agency or instrumentality of a State or any political subdivision thereof, or any municipal corporate instrumentality of one or more States and any other Municipal Securities described by Section 3(a)(29) of the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Obligated Person" means any person, including an issuer of Municipal Securities, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all or part of the obligations on the Municipal Securities to be sold in the Offering (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities); furthermore, for purposes of this Policy, the Issuer is an Obligated Person.

"Offering" means a primary offering of Municipal Securities with an aggregate principal amount of \$1,000,000 or more.

"Offering Document" means any preliminary or final official statement, private placement memorandum or limited offering memorandum, or other similar instrument prepared in connection with the sale, issuance and delivery of an Offering.

"Rule 15c2-12" means SEC Rule 15c2-12, governing the obligations of dealers regarding Municipal Securities under the Securities Exchange Act of 1934, as amended from time to time, which is available at <https://www.gpo.gov/fdsys/pkg/CFR-2013-title17-vol3/pdf/CFR-2013-title17-vol3-sec240-15c2-12.pdf>.

"SEC" means the United States Securities and Exchange Commission.

"SEC Municipal Markets Report" means the Report on the Municipal Securities Market of the SEC, dated July 31, 2012, available at <https://www.sec.gov/news/studies/2012/munireport073112.pdf>.

"Terms Affecting Security Holders" means a Material agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Issuer that affects security holders.

"U.S. Bankruptcy Code" means Title 9 of the United States Code, as amended from time to time, and any successor to or replacement of such Title and any other applicable federal bankruptcy, insolvency or similar law.

ARTICLE III

DISCLOSURE OFFICER; RECORD RETENTION; TRAINING

ATTACHMENT ~~E-A~~- SECURITIES LAW COMPLIANCE AND DISCLOSURE
POLICY©

SECTION 3.01 DISCLOSURE OFFICER.

The Issuer shall appoint a Disclosure Officer who shall be responsible for implementing this Policy. The Disclosure Officer will work with other employees and officials of the Issuer to assist in implementing this Policy. The Disclosure Officer will consult with bond counsel, legal counsel to the Issuer (including designated disclosure counsel, if any), accountants, municipal advisors, financial advisors and other outside consultants to the extent necessary to carry out the purpose of this Policy. The Disclosure Officer will report to the Issuer's governing body as provided in Section 6.01 herein, regarding implementation of this Policy and any recommended changes or amendments to this Policy.

SECTION 3.02 DUTIES OF DISCLOSURE OFFICER.

- (a) General Duties. The Disclosure Officer shall be primarily responsible for ensuring and determining the Issuer's compliance with this Policy and federal and state securities laws and regulations applicable to the Issuer, including specifically Rule 15c2-12, and including identifying and remedying any non-compliance with this Policy and such laws and regulations.
- (b) Review of Relevant Documents. The Disclosure Officer will review the following documents, obligations, and disclosure and reporting requirements of the Issuer in connection with the issuance of Municipal Securities to comply with Article IV and V of this Policy and in the ordinary course of business of the Issuer:
 - i. Offering Documents;
 - ii. Audited and unaudited financial statements, including notes to such statements;
 - iii. Changes to accounting standards promulgated by GASB and other applicable accounting standards and rules;
 - iv. Adopted annual budgets and amendments thereto;
 - v. Continuing Disclosure Undertakings; and
 - vi. Other relevant documents that reflect the Issuer's financial position and operating data.

The Disclosure Officer shall take reasonable steps to ensure that all Offering Documents are timely provided to the Issuer's governing body to ensure meaningful review and approval thereof. In addition, the Disclosure Officer shall take reasonable steps to ensure that for purposes of securities law compliance the Issuer's governing body is generally aware of the other documents listed above and of the significance of those documents to the Issuer's disclosure obligations.

- (c) Solicitation of Relevant Information. In the performance of its duties under this Policy, the Disclosure Officer shall be responsible for soliciting any relevant information from other employees, officials or departments within the internal organization of the Issuer, including public statements made by officials of the Issuer that the Disclosure Officer reasonably believes will reach investors or trading markets generally. The Disclosure Officer is additionally responsible for obtaining any documentation prepared by an outside source that may be necessary to assist the Disclosure Officer in carrying out this Policy. The Disclosure Officer shall undertake a thorough review of the form and content of each of the Issuer's annual filings, and any Event Notice filings, as required pursuant to Article IV and V hereof.
- (d) Public Statements Regarding Financial Information. Whenever an officer or employee of the Issuer makes statements or releases information relating to its finances and other operations of the Issuer to the public that is reasonably expected to reach investors and the trading markets (including, without limitation, all Event Notices, statements in a comprehensive annual financial report, and other financial reports and statements of the Issuer), the Disclosure Officer shall be responsible for ensuring that such statements and Material information are complete, true, and accurate in all material

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aspects and available to all investors. The Disclosure Officer will work with other officers of the Issuer to ensure that all public statements and information released by the Issuer are accurate and are not misleading in all Material aspects.

- (e) Issuance of Debt Obligations. Whenever the Issuer prepares or participates in the preparation of an Offering Document, the Disclosure Officer, in addition to any other officers selected by the Issuer, shall be responsible for making all certifications that may be required to the effect that such Offering Document does not contain any untrue statement of Material fact or omit to state any Material fact necessary to make the information contained in such documents, in the light of the circumstances under which it was provided, not misleading.

Such determination by the Disclosure Officer shall only be made after coordination with the Issuer's attorney or other administrative officer having ultimate responsibility with respect to the Issuer's operations, risks and litigation, to ensure that any current, pending or threatened losses, investigations or litigation, and any settlement or court orders that are Material to the Issuer are properly identified.

- (f) Determination of Material Information. The Issuer understands that determining materiality requires a complete review of facts and circumstances (which may include a review of outstanding Debt Obligations) and in some instances may require the Disclosure Officer to discuss matters with other officers or consultants of the Issuer. Furthermore, each determination of materiality made by the Disclosure Officer shall be made on a case-by-case basis. For purposes of this Policy, information is "Material" if there is a substantial likelihood that the disclosure of that information would be viewed by a reasonable investor as having significantly altered the total mix of information made available in making an informed investment decision.¹

SECTION 3.03 RECORD RETENTION.

The Disclosure Officer will maintain or cause to be maintained all records relating to annual disclosure filings including the financial information and operating data to be included in the Annual Report for a period of three (3) years after retirement of the related Debt Obligations. The Disclosure Officer will additionally maintain or cause to be maintained all records relating to Event Notices required to be filed with the MSRB under the Continuing Disclosure Undertaking. Such records shall be maintained in either paper or electronic format, or in both formats.

SECTION 3.04 TRAINING.

The Disclosure Officer shall have at least a general familiarity with the content of Rule 15c2-12 and the SEC Municipal Markets Report, and in furtherance thereof receive appropriate training regarding the Issuer's disclosure obligations in accordance with federal securities laws, state regulations and Rule 15c2-12. When appropriate, the Disclosure Officer and/or other Issuer employees and officials under the direction of the Disclosure Officer will attend training programs offered by the SEC or other industry professionals regarding disclosure policies and procedures developed in the context of Rule 15c2-12 that are relevant to the Issuer. Each person acting in the capacity of a Disclosure Officer shall receive such training as may be necessary for the person to perform competently the duties and responsibilities of Disclosure Officer to ensure the Issuer's compliance with the provisions of this Policy.

ARTICLE IV

ANNUAL DISCLOSURE FILINGS

¹ The general materiality standard used by the United States Supreme Court. *See TSC Industries, Inc. v. Northway, Inc.*, 426 U.S. 438, 449 (1976).

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SECTION 4.01 ANNUAL DISCLOSURE FILINGS.

The Disclosure Officer shall annually review each Continuing Disclosure Undertaking to determine: (i) the appropriate financial information and operating data required to be included in the Annual Report; and (ii) the filing deadline for such Annual Report or a part thereof. The Disclosure Officer should review the Issuer's documents, Debt Obligations, and disclosure and reporting requirements described in Sections 3.01 and 3.02 of this Policy in determining the appropriate financial information and operating data to be included in the Annual Report. As indicated in Section 3.02 of this Policy, the Disclosure Officer's review necessarily includes review of other documents relating to the financial and operating status of the Issuer to ensure that all required information is appropriately incorporated into the Annual Report. The Disclosure Officer shall be required to provide only the financial information, operating data, financial statements and notices which the Issuer has expressly agreed to provide pursuant to a respective Continuing Disclosure Undertaking, but, in consultation with appropriate accountants, municipal advisors, financial advisors and other outside consultants of the Issuer, may submit other appropriate information to EMMA that will impact the Issuer's financial condition and/or existing security holders in a manner deemed Material by the Disclosure Officer. Additionally, the Disclosure Officer shall notify the MSRB in an electronic format as prescribed by the MSRB, in a timely manner, of any failure by the Issuer to provide financial information or operating data in accordance with the Continuing Disclosure Undertaking.

ARTICLE V

DISCLOSURE FILINGS FOR EVENT NOTICES

SECTION 5.01 DISCLOSURE FILINGS FOR EVENT NOTICES 1-14.

The Disclosure Officer shall determine whether an event included below has occurred with respect to the Issuer. If the Disclosure Officer determines that notice of the following events should be provided to the MSRB pursuant to a Continuing Disclosure Undertaking, the Disclosure Officer will cause the appropriate notice to be filed with the MSRB on EMMA, in a timely manner, not in excess of ten (10) Business Days after the occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry

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into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

For the purposes of the event identified as item (12) in this Section 5.01, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

The Disclosure Officer may seek the advice of other employees and officials of the Issuer, as well as the advice of the consultants and counsel to the Issuer, as to whether one of the above described events has occurred and whether an Event Notice shall be filed with the MSRB consistent with Rule 15c2-12.

SECTION 5.02 EVENT 15: INCURRENCE OF A MATERIAL FINANCIAL OBLIGATION OR TERMS AFFECTING SECURITY HOLDERS.

- (a) Event 15. Beginning on the Compliance Date and continuing thereafter, in addition to the fourteen events described in Section 5.01 and Event 16 described in Section 5.03, the Disclosure Officer shall determine whether an Event 15 has occurred with respect to the Issuer. If the Disclosure Officer determines that an Event 15 has occurred, the Disclosure Officer shall file, or cause to be filed, notice of such Event 15 with the MSRB through EMMA in a timely manner, not in excess of ten (10) Business Days after the date of incurrence. Beginning on the Compliance Date, Rule 15c2-12 establishes that an Event 15 is as follows:

- (15) Incurrence of a Financial Obligation of the Obligated Person, if Material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Obligated Person, any of which affect security holders, if Material.

The Issuer recognizes that, unlike the events listed in Section 5.01 above, the stated purpose of the SEC in adding Event 15 to Rule 15c2-12 is to provide the secondary market with information regarding all debt, debt-like or debt-related Financial Obligations or Terms Affecting Security Holders incurred by the Issuer. The incurrence of Financial Obligations may occur outside the issuance of Municipal Securities and therefore engagement by the Disclosure Officer with counsel and other consultants experienced in compliance issues related to Rule 15c2-12 may be necessary to determine whether it is necessary to file an Event Notice for Event 15 with the MSRB through EMMA.

- (b) Financial Obligations and Terms Affecting Security Holders Subject to Disclosure. The Disclosure Officer shall first determine whether a contract or obligation incurred by the Issuer is a Financial Obligation or Terms Affecting Security Holders subject to disclosure under Event 15. When assessing whether a particular contract or obligation is a Financial Obligation or Terms Affecting Security Holders subject to disclosure as such terms are used in Event 15, the Disclosure Officer should consider the facts and circumstances surrounding the Issuer's incurrence of each type of contract and obligation, as well as the factors set forth below:

- i. Whether the contract or obligation could affect, or contains provisions or triggers that may impair, the Issuer's liquidity, overall creditworthiness or an existing security holders' rights;
- ii. Whether the contract or obligation is a private placement of debt with a financial institution, letter of credit, standby line of credit, or a similar "credit agreement" that relates to a Debt Obligation;

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- iii. Whether the contract or obligation is an ordinary financial and operating liability incurred in the Issuer's normal course of business;
- iv. Whether the contract or obligation contains acceleration provisions or restrictive debt service covenants that could affect the rights of existing security holders;
- v. Whether the contract or obligation is a short or long-term Debt Obligation of the Issuer under the terms of an indenture, loan agreement, capital lease, or other similar contract such as a line of credit;
- vi. Whether the contract or obligation is an operating lease, or a capital lease which operates as a vehicle for borrowing money (e.g. a lease-purchase agreement). For purposes of this Disclosure Policy, factors relevant to determining whether a lease is a vehicle for borrowing money (i.e., a Financial Obligation) are included in **Exhibit A** attached hereto;
- vii. Whether the contract or obligation represents competing debt with the Issuer's prior Debt Obligations that may affect the rights of the existing security holders;
- viii. Whether the contract or obligation is a derivative instrument entered into in connection with a pledge as security or source of payment for an existing or planned Debt Obligation, which may include any swap, security-based swap, futures contract, forward contract, option, a combination of the foregoing or any similar instrument;
- ix. Whether the contract or obligation is a derivative instrument designed to mitigate investment risk; or
- x. Whether the contract or obligation is a guarantee provided by the Issuer as a guarantor for the benefit of a third party.

The Disclosure Officer will consult with bond counsel, legal counsel to the Issuer (including designated disclosure counsel, if any), accountants, municipal advisors, financial advisors and other outside consultants to the extent necessary in making a determination as to whether a contract or obligation incurred by the Issuer is a Financial Obligation or Terms Affecting Security Holders subject to the disclosure requirements of Event 15.

- (c) **Determination of Material Event 15.** If the Disclosure Officer determines that the Issuer has incurred a Financial Obligation or Terms Affecting Security Holders subject to Event 15, the Disclosure Officer shall proceed to determine whether such Financial Obligation or Terms Affecting Security Holders are Material. The same practice used by the Issuer for determining whether a particular piece of information is Material in connection with preparing a disclosure document for an Offering set forth in Section 3.02(f) should be used for purposes of Event 15.

The Disclosure Officer shall determine whether a Financial Obligation or Terms Affecting Security Holders are Material upon the incurrence of the Financial Obligation or the Terms Affecting Security Holders, taking into account all relevant facts and circumstances. Relevant facts and circumstances may include, but are not limited to:

- i. The principal amount of the Financial Obligation, including the aggregate par amount of a series of related Financial Obligations, and the method of setting or adjusting the interest rate thereof;
- ii. The Issuer's overall balance sheet and the size of its existing Debt Obligations;

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- iii. The source of security pledged for repayment of the Financial Obligation and the rights associated with such pledge;
- iv. The length of time that the Financial Obligation is to remain outstanding; and
- v. Other appropriate terms of a Financial Obligation that will impact the Issuer's financial condition and/or existing security holders in a manner deemed Material by the Disclosure Officer.

The Disclosure Officer, in consultation with the governing body of the Issuer, bond counsel, legal counsel to the Issuer (including designated disclosure counsel, if any), accountants, municipal advisors, financial advisors and other outside consultants of the Issuer, to the extent necessary, shall no less often than annually set objective standards of materiality with respect to Debt Obligations incurred by the Issuer, which may include, but are not limited to, a monetary threshold that, in connection with other relevant facts and circumstances, is the basis for the determination of materiality for Financial Obligations or Terms Affecting Security Holders of the Issuer. With respect to lease agreements entered into by the Issuer, the Disclosure Officer shall implement the guidelines set forth in **Exhibit A** when assessing whether such lease agreements are Material Financial Obligations.

- (d) **Incurrence.** A Financial Obligation and Terms Affecting Security Holders is considered to be incurred by the Issuer on the date that such Financial Obligation or Terms Affecting Security Holders is enforceable against the Issuer. As a filing under Event 15 is required to be made in a timely manner, not in excess of ten (10) Business Days after date of incurrence, the Disclosure Officer shall begin the process of assessing whether a particular Financial Obligation or Terms Affecting Security Holders should be disclosed as far in advance of its incurrence as possible. Additionally, although not required, the Disclosure Officer may file a voluntary filing of all outstanding Material Financial Obligations incurred prior to the Compliance Date.
- (e) **Exemption of Municipal Securities as to Which a Final Official Statement Has Been Provided.** The Disclosure Officer is not obligated to disclose, as a Financial Obligation or Terms Affecting Security Holders subject to Event 15, Municipal Securities as to which a final official statement has been provided to the MSRB consistent with Rule 15c2-12. The Disclosure Officer recognizes that this exclusion from the definition of "Financial Obligation" does not extend to Debt Obligations, contingent or otherwise, related to such Municipal Securities that may be disclosed or referenced in such final official statements.
- (f) **Exemption of Monetary Obligations Resulting From Legal Proceedings.** The Disclosure Officer is not required to disclose monetary obligations resulting from a judicial, administrative, or arbitration proceeding as an Event Notice.
- (g) **Subjecting Debt Obligations to Annual Appropriation not Determinative.** The Disclosure Officer understands that qualifying Debt Obligations or Financial Obligations such that payment is subject to annual appropriation may remove the "debt" designation for state constitutional or statutory purposes; however, this qualification alone will not be determinative as to whether the Issuer or Obligated Person has incurred a Material Financial Obligation; rather, when analyzing Debt Obligations and Financial Obligations that are subject to annual appropriation, the Disclosure Officer shall determine whether such Financial Obligation is Material, as described in Section 3.02(f), taking into account all relevant facts and circumstances as described in this Section 5.02.
- (h) **Form of Event 15 Event Notice.** Upon review of the factors outlined above, if the Disclosure Officer affirmatively determines that a Debt Obligation incurred by the Issuer is a Financial Obligation or Terms Affecting Security Holders that are Material and not exempt under subsection (e) and (f) of this Section 5.02, and therefore subject to Event 15, the Disclosure Officer shall file or cause to be filed with the MSRB through EMMA a notice not in excess of ten (10) Business Days of the date of the incurrence of the Financial Obligations or Terms Affecting Security Holders. The Disclosure

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Officer shall include a description of the Material terms of the Financial Obligation or Terms Affecting Security Holders within the Event 15 Event Notice. Terms considered Material for Event 15 may include, but are not limited to:

- i. The date of incurrence;
- ii. Principal amount;
- iii. Maturity and amortization;
- iv. Interest rate, if fixed, or method of computation and any default rates, if variable; or
- v. Other appropriate terms deemed material by the Disclosure Officer, the inclusion of which would help further the availability of information to assist investors in making more informed investment decisions in connection with such incurrence of Financial Obligations or Terms Affecting Security Holders.

The Disclosure Officer shall determine, based on the facts and circumstances, whether to submit to the MSRB a description of the Material terms of the Financial Obligation or the Terms Affecting Security Holders, or alternatively or in addition, submit related materials such as transaction documents prepared in connection with the Financial Obligation or the Terms Affecting Security Holders that set forth the material terms of the Financial Obligation or the Terms Affecting Security Holders. The Disclosure Officer shall not include, and shall take actions to redact, confidential information such as account numbers or other personally identifiable information (but not information relating to an interest rate or other pricing data). Should the Disclosure Officer determine that filing one or more of the transaction documents prepared in connection with the Financial Obligation or the Terms Affecting Security Holders is appropriate under this subsection, the Disclosure Officer may redact any confidential or personally identifiable information from the Event 15 Event Notice.

SECTION 5.03 EVENT 16: EVENTS UNDER THE TERMS OF A FINANCIAL OBLIGATION WHICH REFLECT FINANCIAL DIFFICULTIES.

- (a) Event 16. Beginning on the Compliance Date and continuing thereafter, in addition to the fourteen events described in Section 5.01, and Event 15 described in Section 5.02, the Disclosure Officer shall determine whether an Event 16 has occurred with respect to the Issuer as follows:

- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Obligated Person, any of which reflect financial difficulties.

If the Disclosure Officer determines that an Event 16 has occurred with respect to the Issuer, the Disclosure Officer will file or cause to be filed with the MSRB through EMMA a notice of Event 16, whether Material or not, provided the occurrence reflects financial difficulties of the Issuer. The Disclosure Officer shall file an Event 16 Event Notice even where the underlying Financial Obligation was incurred before the Compliance Date.

- (b) Reflection of Financial Difficulty of Obligated Person. The Disclosure Officer shall disclose to the MSRB the occurrence of an event listed in Event 16 only if the Disclosure Officer, in consultation with the governing body of the Issuer, bond counsel, legal counsel to the Issuer (including designated disclosure counsel, if any), accountants, municipal advisors, financial advisors and other outside consultants to the Issuer, to the extent necessary, determines that the occurrence of the event reflects financial difficulties of the Issuer.
 - (c) Events Subject to Event 16 Filing. Subject to subsection (b) of this Section 5.03, the Disclosure Officer should disclose any occurrence in connection with the terms of a Financial Obligation that reflects financial difficulties of the Issuer. Such occurrences may include, but are not limited to the following types of events:
 - i. Monetary defaults or events of non-appropriation where the Issuer has failed to pay principal, interest, or other funds due, or a non-payment related default where the Issuer has failed to comply with specified covenants;

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- ii. An event of acceleration exercised by a trustee or counterparty as the result of an event of default or other applicable remedy provision;
 - iii. A modification of terms that reflects financial difficulties of the Issuer;
 - iv. A written or verbal waiver of an agreement provision that is a departure from what was agreed to under the original terms of such agreement; and
 - v. Other events under the terms of a Financial Obligation that reflect financial difficulties of the Issuer and share similar characteristics with the specific types of events in Event 16.
- (d) Form of Event 16 Event Notice. Upon review of the factors outlined above, if the Disclosure Officer affirmatively determines that, in connection with the terms of a Financial Obligation of the Issuer, the Issuer is experiencing financial difficulties pursuant to Event 16, the Disclosure Officer shall file or cause to be filed with the MSRB through EMMA an Event 16 notice filing within ten (10) Business Days of the date of such determination containing a description of the relevant terms of the Financial Obligation. Terms considered relevant to an Event 16 notice filing may include, but are not limited to:
- i. The provisions within the Financial Obligation giving rise to the occurrence under Event 16;
 - ii. The nexus between the terms of such Financial Obligation giving rise to the occurrence under Event 16 and the existing or potentially forthcoming financial difficulties resulting therefrom;
 - iii. A description of the Issuer's current financial status; and
 - iv. Other appropriate facts deemed material by the Disclosure Officer, the inclusion of which would help further the availability of information to assist investors in making more informed investment decisions in connection with the occurrence of events relating to a Financial Obligation that reflect financial difficulties.

ARTICLE VI

MISCELLANEOUS

SECTION 6.01 ANNUAL REVIEW.

The Disclosure Officer shall conduct an evaluation of the policies set forth in this Policy no less often than annually, and promptly after completing the evaluation the Disclosure Officer shall prepare an annual report of the Issuer's compliance.

SECTION 6.02 AMENDMENTS TO POLICY.

This Policy may be amended from time to time to adapt to changed circumstances that arise from a change in legal requirements or industry disclosure practices or procedures, a change in Rule 15c2-12, or a change in law.

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EXHIBIT A

LEASE AGREEMENTS OPERATING AS VEHICLES TO BORROW MONEY (FINANCIAL OBLIGATIONS)

As a result of the amendments to Rule 15c2-12, compliance therewith effective February 27, 2019, Issuers or Obligated Persons that periodically enter into leases should develop policies and procedures to (i) determine whether the lease is a vehicle to borrow money, and is therefore a Financial Obligation, as opposed to an operating lease, (ii) determine if such lease becomes Material once incurred, after considering other relevant factors and all outstanding Financial Obligations (an Issuer or Obligated Person's threshold for outstanding Financial Obligations) and (iii) require that all executed leases are timely communicated to the Disclosure Officer for purposes of determining whether an Event Filing is necessary.

I. Leases Operating as Vehicles to Borrow Money (Financial Obligations)

The SEC has determined that a lease should generally be considered a debt obligation and thus a "Financial Obligation" under the Rule when such lease operates as a vehicle to borrow money (i.e., capital leases but not mere operating leases).¹

Capital leases are generally recorded on the balance sheet of the Issuer or Obligated Person as an asset and a liability by an amount equal to the present value of the minimum lease payments; in contrast, operating leases are handled as off-balance sheet financings of assets and are recorded as operating expenses on the Issuer or Obligated Person's income statement. In determining which types of leases to include under the umbrella of "Financial Obligations," the SEC deemed it appropriate to include only those leases that could represent competing debt of the Issuer or Obligated Person (e.g., capital leases which are essentially vehicles to borrow money).

Because capital leases of the Issuer or Obligated Person are recorded in the same fashion as other competing debt of the Issuer or Obligated Person, each sharing a line item in the balance sheet as a liability or included in a more general line item (i.e., competing debt), capital leases are viewed by the SEC as rising to the level of a Financial Obligation because they operate more like a debt obligation. As such, Issuers and Obligated Persons should have procedures in place that help determine whether leases are capital leases or operating leases, as the incurrence of a capital lease will require a Materiality analysis to determine whether an Event 15 notice filing is required.

To make the determination of whether a lease operates as a vehicle to borrow money, the Disclosure Officer should work with appropriate staff and accountants, municipal advisors, financial advisors and other outside consultants of the Issuer or Obligated Person, to the extent necessary, to determine whether the lease is a vehicle to borrow money (i.e., a capital lease) or an operating lease as operating leases will not rise to the level of a Financial Obligation under Event 15 of Rule 15c2-12.

Characteristics of Leases Operating as Vehicles to Borrow Money (Capital Leases)

In making the determination of whether a lease operates as a vehicle to borrow money and is therefore a Financial Obligation for purposes of Event 15, relevant characteristics may include, but are not limited to, the following:

- i. The lease contains a transfer of ownership of the underlying asset at the end of the lease term or shortly thereafter;
- ii. An option to purchase the underlying asset being leased at a discounted price is available, which may be exercised during or at the end of the lease term;
- iii. The term of the lease is greater than 75% of the useful life of the leased asset; or
- iv. The present value of the lease payment is greater than 90% of the leased asset's fair market value.

Although the characteristics above may be helpful in determining whether a lease operates as a vehicle to borrow money, the Disclosure Officer and appropriate staff and consultants should review of the entire lease, in context with the Issuer's financing and/or operating objectives, in considering whether a lease is a Financial Obligation subject to Event 15. Although a capital lease (as such term in commonly understood) will generally be treated as a vehicle to borrow money, the mere labelling of the lease as "capital" or "operating" will not itself be determinative.

¹ Although the SEC in Release No. 34-83885, implementing the amendment of Rule 15c2-12 to include Event 15 and 16, has discontinued (following GASB's lead) the use of the term "capital lease" and "operating lease," the distinction remains useful to the extent that "capital leases" are commonly understood to be financed purchases of an underlying asset (and thus generally are vehicles to borrow money) whereas "operating leases" are not.

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II. Determining Factors for Materiality of Leases that Constitute Financial Obligations

Issuers and Obligated Persons should apply the Materiality standard in Section 3.02(f) and the relevant facts and circumstances in Section 5.02(c) of this Policy, in conjunction with the factors below for purposes of determining whether a lease that operates a vehicle to borrow money is Material and subject to an Event Filing under Event 15.

Given the difference in size, sophistication, features and number of obligations executed by certain issuers and Obligated Persons, factors used in determining the materiality of a lease that operates as a vehicle to borrow money may vary. The Disclosure Officer may utilize factors relevant to the Issuer or Obligated Person which may include, but are not limited to, one or more the following:

- i. Whether the cost of the lease incurred and the payment obligations thereof exceeds a specified percentage of the Issuer's or Obligated Person's fund balance (for purposes of this and the following considerations, the Issuer must determine, given its circumstances, the appropriate way to measure the impact of a lease, e.g., by the aggregate payments required, by principal amount or by annual payment impact to the Issuer's debt portfolio);
- ii. Whether the incurrence of the lease will increase the outstanding indebtedness of the Issuer or Obligated Person by more than a specified ratio or percentage;
- iii. Whether the incurrence of the lease and the payment obligations thereof exceeds a specified percentage of the Issuer's unrestricted revenues;
- iv. Whether the lease represents multiple counterparts of a single transaction that, if incurred at once, would exceed the limits stated in (i), (ii) or (iii) above;
- v. Whether the incurrence of the lease in conjunction with other outstanding Financial Obligations would in the aggregate exceed the limits stated in (i), (ii) and (iii) above; or
- vi. Whether the lease has acceleration provisions or is considered a security on parity or senior to outstanding Financial Obligations.

When utilizing the above factors, the Disclosure Officer must be aware that although a lease may not be Material when compared to the Issuer's or any Obligated Person's general revenues and fund balance, such lease may be material to Financial Obligations pledged to be paid from the specifically pledged revenues and fund balances. Therefore, the Disclosure Officer must look at both the general revenues and the specifically pledged revenues of the Issuer and any Obligated Person when determining the materiality of a lease that operates as a vehicle to borrow money.

If after using the Materiality standard in Section 3.02(f), the relevant facts and circumstances in Section 5.02(c) of this Policy and the factors described above, the Disclosure Officer determines that the lease operating as a vehicle to borrow money is Material, a filing under Event 15 must be made within ten business days from the incurrence of such lease.

If a determination of Materiality is made under factor (v) above for a lease or any other Financial Obligation, additional Financial Obligations incurred thereafter may likely carry a *de facto* Materiality designation. As such, factor (v) above works as a magnitude test of the Issuer or Obligated Person as it becomes the Issuer or Obligated Person's Materiality threshold for all outstanding Financial Obligations.

III. Communication Amongst Departments Once Leases are Incurred

The Disclosure Officer should become aware of the frequency in which the Issuer or Obligated Person incurs leases, as opposed to other forms Financial Obligations, in the ordinary course of the Issuer or Obligated Person's business. To further communication amongst multiple departments within the Issuer or Obligated Person, the Disclosure Officer should require that any member of the Issuer or Obligated Person's staff authorized to execute leases on behalf of the Issuer or Obligated Person report and provide copies of all leases directly to the Disclosure Officer within two (2) business days prior to their execution. Upon receipt of any lease, the Disclosure Officer shall immediately work with appropriate staff and accountants, municipal advisors, financial advisors

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and other outside consultants of the Issuer, to the extent necessary, to determine whether the lease operates as a vehicle to borrow money (i.e., is a Financial Obligation) and whether such lease is Material using the Materiality standard in Section 3.02(f), the relevant facts and circumstances in Section 5.02(c) of this Policy and the factors described above.