

City of Everman
Comprehensive Financial Management Policy Statements
Amended: 08/30/2025

The City of Everman, Texas (City) is committed to financial management through integrity, planning, accountability, communication, and full transparency. The purpose of this Financial Management Policy is to compile all the City's financial policies into one document and provide guidelines in managing and planning the City's finances. These policy statements safeguard the fiscal stability required to achieve the City's objectives and ensure long-term financial health. Some policy statements are driven by requirements of state law or City Charter, while others are formally documented through policies and procedures.

The Financial Management Policy Statements will be reviewed annually and updated, revised, or refined as deemed necessary. Policy statements adopted by City Council are guidelines, and occasionally exceptions may be appropriate and required. Exceptions to stated policies will be identified, documented, and explained to City Council and/or the City Manager.

ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

The City is solely responsible for the recording and reporting of its financial affairs, both internally and externally. Maintain accounting practices that conform to generally accepted accounting principles and comply with prevailing federal, state, and local statutes and regulations. Prepare and present regular reports that analyze and evaluate the City's financial performance and economic condition.

Accounting Practices and Principles

The City will maintain accounting practices that conform to generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB), the authoritative standard setting body for units of local government. All city financial documents, except monthly interim financial reports, including official statements accompanying debt issues, Annual Financial Reports and continuing disclosure statements will meet GASB standards. Monthly interim financial reports are on a cash basis and will be reported as budgeted. At year-end the general ledger and financials will be converted to full accrual basis.

The City accounts and budgets for all Governmental Funds using the modified accrual basis of accounting. This basis means that revenue is recognized in the accounting period in which it becomes available and measurable, while expenditures are recognized in the accounting period in which it is incurred. Because the appropriated budget is used as the basis for control and comparison of budgeted and actual amounts, the basis for preparing the budget is the same as the basis of accounting. Exceptions to the modified accrual basis of accounting include:

- Grants, which are considered revenue when awarded, not received; and
- Principal and interest on long-term debt, which are recognized when paid.

The City's Proprietary Funds, which include the enterprise funds, are accounted and budgeted using the full-accrual basis of accounting. Under this method, revenues are recognized when they are earned and measurable, while expenses are recognized when they are incurred regardless of timing or related cash flows. The basis for preparing the budget is the same as the basis of accounting except for principal payments on long-term debt and capital outlay expense which are treated as budgeted expenses.

Financial and Management Reports

Pursuant to the City Charter requirements, Interim Financial Reports will be provided monthly to management and City Council that explain key economic and fiscal developments and note significant deviations from the budget. These reports will be reviewed monthly with the City Manager and provided to City Council. These reports will be prepared on a cash basis. Quarterly, departments will report on service level measures and/or indicators as compared to target and prior years to the Finance Department. Capital Projects will be reported and reviewed quarterly to the City Manager and provided to City Council.

Annual Audit

Pursuant to State Statute, the City shall have its records and accounts audited annually and shall have an annual financial statement prepared based on the audit. The audit shall be performed by a certified public accounting (CPA) firm, licensed to practice in the State of Texas. The annual financial statement, including the auditor's opinion, shall be filed with the City Secretary within 180 days after the last day of the fiscal year. The audit firm shall provide a management letter to the City prior to the filing of the audit. The audit firm shall also provide a Single Audit of Federal and State grants, when necessary.

The objective of the ordinary audit of financial statements by the independent auditor is the expression of an opinion on the fairness with which they present, in all material respects, financial position, results of operations, and its cash flows in conformity with generally accepted accounting principles. The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

An official Comprehensive Annual Financial Report (CAFR) shall be issued no later than six (6) months following the end of the fiscal year. The CAFR shall be prepared to meet the requirements of the Certificate of Achievement for Excellence in Financial Reporting program through GFOA. This program establishes criteria that go beyond the minimum requirements for Generally Accepted Accounting Principles to prepare CAFRs that evidence the spirit of transparency and full disclosure. The Finance Director shall be responsible for establishing a process to ensure timely resolution of audit recommendations.

Continuing Disclosure

The Finance Director will ensure that the Municipal Securities Rulemaking Board's EMMA® website is current, and all disclosures are filed timely. EMMA® is the official repository for information on virtually all municipal securities. Continuing disclosure includes annual disclosure required within 180 days of fiscal year end, as well as material event disclosure required under the Securities and Exchange Commission (SEC) Rule 15c2-12 within 10 days of the occurrence of the event.

Signature of Checks

All checks shall have two signatures. Three persons shall be authorized to sign checks: the City Manager, the Assistant City Manager and/or Director of Finance, and the Mayor. Signatures shall be affixed to all City checks via facsimile signatures, either with a signature plate, with a secure laser check printing system, or through handwritten signatures affixed to each check.

Financial Consultants

The City will employ qualified financial advisors and consultants as needed in the administration and management of the City's financial functions. These areas include but are not limited to: audit services, debt administration, delinquent tax collection attorney, and financial modeling. The City shall implement evaluation criteria for each financial consultant to ensure the City receives the highest quality services available. The principal factors in the selection of these consultants will be experience/expertise, ability to perform, the services offered, references, and methodology to name a few. In no case should price be allowed to serve as the sole criterion for the selection.

Delinquent Tax Collections

Due to the nature and expertise required, the City shall hire a delinquent tax collection attorney to collect delinquent taxes, represent the City in filing bankruptcy claims, foreclose on real property, seize personal property, and represent the City in court cases and property sales.

- The City shall contract for a delinquent tax collection attorney either through Tarrant County in conjunction with the contract for billing and collection of the City's property taxes or shall contract directly with an attorney.
- The City shall review delinquent tax collection services and determine if they choose to contract direct or contract through the County either at the end of a direct contract for delinquent tax services or annually if contracted with Tarrant County.
- If the City chooses to contract directly for delinquent tax collection services, requests for proposals and statements of qualifications are to be solicited at least every five years.
- There is not a requirement for rotation.

Bond Counsel

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

Bond Counsel is responsible for the following tasks in a transaction:

1. Prepares and oversees bond proceedings;
2. Gets required government approval;
3. Ensures that the City meets all the legal requirements and authorization of the bond offering;
4. Discloses and analyzes all relevant legal proceedings that may have a bearing on the validity of the offering;
5. Interprets relevant regulations and laws and assists in structuring the issue;
6. Writes key financing documents.

Due to the complexity of the City's financial structure and the benefits that come with the history and knowledge of the City, the contract with Bond Counsel shall be considered evergreen, however with a termination clause.

BUDGET AND LONG-RANGE FINANCIAL PLANNING

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

Balanced Budget

The City Manager shall file annually a structurally balanced budget for the ensuing fiscal year with City Council in compliance with state law and the City Charter. A structurally balanced budget is further defined as recurring revenues funding recurring expenditures and adherence to fund balance policies. Deferrals, short-term loans, or one-time sources will be avoided as budget balancing techniques.

Current Funding Basis (Recurring Revenues)

The City shall budget and operate on a current funding basis. Revenues and expenditures shall be budgeted on a cash basis. Expenditures shall be budgeted and controlled so as not to exceed current revenues. Recurring expenses will be funded exclusively with recurring revenue sources to facilitate operations on a current funding basis.

Use of Non-Recurring Revenues

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

Tax Rate

By law, the City must levy a tax rate sufficient to generate revenues that will meet outstanding debt obligations, net of outside funding sources (transfers from other funds). The City Manager will recommend a tax rate that the City finances require to operate efficiently, yet effectively, and meets the City Council's expectations of services provided and service levels.

As economic conditions permit, the City Manager will recommend a tax rate not greater than the no-new revenue tax rate (formerly effective tax rate) plus 3%. The goal is not to exceed an average annual increase in the residential tax bill of 3% unless the voters approve a general obligation bond referendum. The following shall be considered in managing growth in the average tax bill: property revaluation, tax rate adjustments and/or changes to the residential homestead exemption.

The no-new revenue tax rate is defined by the State of Texas as the tax rate that raises the same amount of total tax revenue in the current year as the prior year's tax rate for properties taxed in both years. The no-new revenue tax rate is calculated based on a formula mandated by the state truth in taxation laws and excludes new property value. Depending on valuation changes, the no-new revenue tax rate may be

higher or lower than the prior year's tax rate and generate the same amount of total property tax levy. The only increase in tax revenue is from new value added to the tax roll since the prior year. Therefore, the no-new revenue tax rate plus 3% also may result in an increase to the nominal tax rate in order to achieve a 3% increase in the tax levy, excluding new value.

- *Homestead Exemption*

The City shall review the homestead exemption annually as part of the budget process. When the financial health of the City's finances and economic and market conditions of the local economy justify, the City Manager may recommend a change to the homestead exemption. In accordance with state statute, any recommended change in the homestead exemption will be presented to Council for approval prior to July 1. The total exemption percentage granted shall not exceed the state statute limitation. The City does not currently offer a local homestead exemption.

- *Over-Age and Disabled Persons Exemptions*

The City shall grant a \$35,000 over-age exemption and disabled persons' exemption each year when economic and financial conditions allow. This amount shall remain stable during the period in which the City is considering adjusting the homestead exemption. If a tax freeze were ever implemented for over-age and disabled persons, these exemptions would be reduced to zero. (Chapter 2 Article V Sec 2-119, Code of Ordinances)

Pay-As-You-Go Capital Projects

The transfer from the City's General Fund and the City's Water & Sewer Fund to fund pay-as-you-go capital projects will be budgeted when financially feasible and when projects present themselves with funding. The transfer will be based on the financial health of each fund with the long-term goal of adequately funding rehabilitation.

Revenue Estimating for Budgeting

In order to protect the City from revenue shortfalls and to maintain a stable level of service, the City shall use a conservative, objective, reasonable and analytical approach when preparing revenue estimates. The process shall include analysis of probable economic changes and their impacts on revenues, historical collection rates, and trends. This approach is intended to reduce the likelihood of actual revenues falling short of budget estimates and should avoid mid-year service changes.

- The City whenever possible, will seek outside sources of revenue, such as federal, state, and local grants, in order to leverage local dollars.
- Estimates from grant sources will be projected only to the specific date on which the entitlement will end.
- The Water & Sewer Fund revenues will be budgeted based on the average consumption over the last three years, pursuant to the rate model. The City will anticipate neither drought nor wet conditions. Adjustments to utility rates shall be made based on revenue requirements over the five-year forecast for the utility fund and increases necessary to maintain revenue coverage requirements shall be made in advance of anticipated bond issues, if possible, to allow for smaller increases to be made over time.

Employee Compensation

When funding is available, the proposed budget shall include an amount adequate to cover annual employee increases as determined annually by the City Manager. This amount will be calculated for each department, based on budgeted salaries for the year, and will be placed in the appropriate budget accounts. The City may also opt to give cost of living allowances, if the budget allows for it.

The City's compensation plan shall be approved by City Council and administered by the City Manager. All employees shall be paid within the approved budget and established salary ranges.

Budget Preparation

Article VI of the City Charter sets forth the basic policies for the overall management of the City finances. The annual city budget shall serve as a policy document, financial plan, operations guide, and a communication device. The City's primary objective is to adopt a balanced budget that is prepared in accordance with Texas State Law.

- The Council establishes certain policy goals within the budget; these are reflected in spending amounts and spending priorities. The budget is the single most comprehensive document which encapsulates information pertinent to issues the city wants to address and outcomes it wants to achieve. Such items as capital projects, planning documents, salary and compensation issues, and performance goals are implemented through expenditures programmed in the budget.
- The budget outlines estimated revenues and anticipated expenditures for each fund and each department in the City Government. Per the Texas State Constitution, the city must pass a balanced budget where expenditures cannot exceed revenue for the year, and any fund balance it may have.
- The budget document contains departmental missions and goals it wishes to accomplish, staffing tables, narratives and highlights that describe the scope of operations. This function of the budget starts to go into detail how the Council goals and objectives will be carried out.
- The budget is a document that is presented to the public where they can learn about the city's operations. By law, there must be a budget transmittal letter and information about the city's finances. There are also narratives describing the different aspects of the budget.
- The City will seek to obtain the Government Finance Officers Association Distinguished Budget Presentation Award. The Budget will be presented in a way that not only meets the criteria of the award, but also clearly communicates the budget to the public.

Budget Management

The budget is adopted by City Council through one reading of an ordinance. Upon approval, the budget can be either amended or adjusted based on the level of changes needed.

- Amendment – an increase to the overall appropriation in the fund or capital project. Must be approved by City Council through one reading of an ordinance.
- Adjustment – a reallocation of funds between departments without changing the total operating fund budget. Must be approved by the City Manager.

Operating Budget Adjustments

The City Manager is responsible for managing the operating budget after it is formally adopted by City Council, including the transfer of funds within program, between programs, between departments, and expenditure of contingency funds if there is no change in service levels because of the adjustments. The City Manager may further delegate levels of authority for the daily operation of the budget.

Operating Budget Amendments

Under State law, the budget must be adopted before a tax rate can be adopted. Should the adopted tax rate generate more or less ad valorem tax revenue than the adopted budget, the operating budget shall be amended as soon as possible to ensure that budgeted expenditures remain balanced with anticipated revenue sources.

Budget reductions shall be targeted to regain structural balance and focus on reductions to recurring expenditures for non-core services, when the imbalance is due to a recurring shortfall.

In order to preserve projected fund balances / ending balances based on projected revenues and expenditures for the current fiscal year, City Council will amend the annual operating budget for all funds, excluding capital improvements funds, as set forth in the projections. City Council will amend the current fiscal year budget to projections annually through adoption of an ordinance amending the budget.

Long-Range Financial Plans

The City shall develop and maintain a five-year Financial Forecast for each major operating fund, in conjunction with the annual budget process. Major operating funds are as follows:

- General Fund
- Debt Service Fund
- Water/Sewer Utility Fund
- Economic Development Corporation
- Five-Year Capital Improvement Program

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

The forecast will be used to identify anticipated financial issues so that a plan can be developed to correct anticipated issues before they become reality. The assumptions used to prepare the five-year forecast shall be consistent with those used to prepare the annual operating budget, unless specifically directed by a majority of City Council.

REVENUES & OTHER SOURCES

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

- Property Taxes
- Sales Tax Revenue
- Administrative Services Charges & Other Utility Transfers
 - The City shall determine annually the administrative services charges due to the General Fund from the enterprise funds for overhead and staff support using a cost allocation model.
- Water Revenue
- User Fees
 - General Fund
 - For services that benefit specific users, the City shall establish and collect fees to recover the costs of those services. Where services provide a public benefit, the City shall recover the costs of those services through property and sales taxes.
 - At a minimum, the City will strive to cover direct costs.
 - User fees should be reviewed, at a minimum, every two to three years and adjusted to avoid sharp changes.
 - Factors in setting fees shall include, but not be limited to: market and competitive pricing, effect of demand for services, and impact on users, which may result in recovering something less than direct, indirect and overhead costs.
 - The City may set a different fee for residents versus non-residents.
 - User fees should be adopted by Council Ordinance and included in the Annual Fee Schedule.
 - Enterprise Funds
 - Utility rates and other Enterprise Fund user fees shall be set at levels sufficient to cover operating expenditures (direct and indirect), meet debt obligations and debt service coverage, provide pay-as-you-go funding for capital improvements, and provide adequate levels of working capital.
 - The City may set a different fee for residents versus non-residents.
 - The Five-Year Financial Plan (rate model) and proposed operating budget shall serve as the basis for rate change considerations.
 - When necessary, the Five-Year Financial Plan (rate model) will be built around small rate increases annually versus higher rate increases periodically.
- One-time Revenue Sources
 - One-time, unpredictable revenue sources should not be used for ongoing expenses/expenditures.
 - One-time, unpredictable revenue sources will be used or one-time purchases such as increase in fund balance requirements, capital equipment purchase, capital improvements, etc.

Revenue Collections

The City shall maintain high collection rates for all revenues by monitoring monthly receivables. The City shall follow an aggressive, consistent, yet reasonable approach to fully collecting revenues allowed by law for all delinquent taxpayers and others overdue in payments to the City.

The City shall contract for billing and collection services when it makes financial sense to do so.

- Emergency Medical Transport billing requires a high level of knowledge relating to medical billing; in this case, outsourcing the billing & collection of EMS transport fees is the most prudent thing to do.
- Property Tax billing & collection requires certification of a tax assessor/collector and significant staff time; contracting this service to Tarrant County makes financial sense.
- The City shall contract for collection of delinquent receivables when it makes economic sense for the City to do so. The City currently contracts directly for the following delinquent receivables:
 - Ambulance Billing
 - Court Fines/Fees & Warrants
 - Fire Billing
 - Utility Billing
 - Property Taxes

Write-off of Uncollectible Receivables (excludes court fines and warrants)

- Receivables shall be considered for write-off as follows:
 - Undeliverable mail – accounts that remain outstanding for 6 months and all steps have been exhausted
 - State Statute authorizing the release or extinguishment, in whole or in part, of any indebtedness, liability, or obligation, if applicable
 - Accounts outstanding for 3 years, identified as uncollectible, and all attempts to collect have been taken
 - The write-off of uncollected accounts is a bookkeeping entry only and does not release the debtor from any debt owed to the City.
 - The City shall estimate uncollectible accounts through an allowance for doubtful accounts in each fund with receivables.

EXPENDITURES AND SERVICES

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

Purchasing and Vendor Selection

The City Manager shall maintain policies and procedures to ensure compliance with state laws relating to procurement of goods and services.

It is the policy of the city that, when lowest qualified bid is not the sole determining factor for a contract award, the contract shall be awarded to the highest ranked vendor based on merit as determined by a thorough evaluation by a team of staff evaluators. Merit factors that can be taken into consideration include: qualifications, past experience, quality of team, equipment, scheduling, and proven performance. In accordance with state law, City Council approval is required on purchases that will expend more \$100,000 of City funds over the term of the contract. After purchasing staff verification that all applicable state laws, purchasing policies, and procedures have been followed, a recommendation for award is made to City Council by staff.

Maintenance of Capital Assets

Within the resources available each fiscal year, the City shall maintain capital assets and infrastructure at sufficient level to protect the City's investment, to minimize future replacement and maintenance costs, and to maintain service levels.

Periodic Program/Services Reviews

The City Manager and staff shall undertake periodic reviews of City programs and services for both efficiency and effectiveness. Programs or services determined to be inefficient and/or ineffective shall be recommended through the annual budget process to be reduced in scope or eliminated.

Outsourcing of City Services

The City provides many municipal services to its citizens covering a wide variety of disciplines. Attempting to perform all of these services in-house could dilute the City's efficiency and not be cost effective. Two of the management tools utilized by the City to maximize efficiency and cost effectiveness are outsourcing and managed competition processes, the mere consideration of which provides economic benefits that flow from competition. The economic benefits of competition include lower costs and improved quality of performance irrespective of whether a given service is ultimately performed in-house or outsourced.

FUND BALANCE AND RESERVES

Maintain the fund balance and working capital of the various operating funds at levels sufficient to protect the City's creditworthiness as well as its financial position during emergencies or economic fluctuations. Should the budgeted fund balance drop below the minimum identified by the policy below, the City will establish a plan to replenish the balances within two years. The Government Accounting Standards Board (GASB) requires the City Council to make certain decisions regarding the use of resources and classifications of ending fund balance for the annual financial reports (audits) to follow generally accepted accounting principles (GAAP). The intent is to improve the usefulness of the amounts reported in ending fund balance on the year-end financial reports by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

A hierarchy of fund balance classifications has been created. These classifications are based primarily on the extent to which governments are bound by the constraints placed on resources reported in those funds. This approach is intended to provide users with more consistent and understandable information about a fund's net resources. For the City of Everman, this impacts the City's General Fund, Special Revenue Funds, and the Debt Service Fund. There are five categories required for ending fund balances:

Governmental Fund Balances

There are five categories of Fund Balance in all governmental funds, not all will always be present. The categories are defined below:

Nonspendable Fund Balance

- Amounts that cannot be spent due to form, for example, inventories and prepaid amounts. Also, long-term loan and notes receivables, and property held for resale would be reported here unless the proceeds are restricted, committed or assigned.
- Amounts that must be maintained intact legally or contractually (principal of a permanent fund)

Restricted Fund Balance

- Amounts constrained for a specific purpose by external parties, constitutional provision or enabling legislation.

Committed Fund Balance

- Amounts constrained for a specific purpose by a government using its highest level of decisions-making authority. It would require action by the same group to remove or change the constraints placed on the resources.
- Action to constrain resources must occur prior to year-end; however, the amount can be determined in the subsequent period.

Assigned Fund Balance

- For all governmental funds other than the general fund, any remaining positive amounts not classified as nonspendable, restricted or committed.
- For the general fund, amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts. Amount reported as assigned should not result in a deficit in unassigned fund balance.

Unassigned Fund Balance

- For the general fund, amounts not classified as nonspendable, restricted, committed or assigned. The general fund is the only fund that would report a positive amount in unassigned fund balance.

- For all governmental funds other than the general fund, amount expended in excess of resources that are nonspendable, restricted, committed, or assigned (a residual deficit). In determining a residual deficit, no amount should be reported as assigned.
- Only the General Fund has an unassigned category since money remaining in any other fund is automatically designated or assigned to the purposes of that fund. If the balance of a Special Revenue Fund is not formally restricted or committed by fiscal year end, then it must be reported as part of the General Fund for fiscal year end audited financial statement purposes. For some of the city's special revenue funds, this necessitates the City Council to provide direction on the intended use of resources for the future. Staff recommend that the City Council adopt the following list of the city's Special Revenue Funds and their expected ending fund balances classifications:

Street Improvement Fund – Restricted
 Crime Control Fund – Restricted
 Economic Development Fund – Restricted
 Confiscated Property Fund – Restricted

General Fund Unrestricted Fund Balance

The City shall maintain the General Fund unrestricted fund balance equivalent to 2 months of recurring operating expenditures, based on current year expenditures. If the fund balance exceeds this amount, funding non-recurring expenditures in the following fiscal year may be used to draw down the balance.

Water/Sewer Unreserved Working Capital

The City shall maintain a working capital sufficient to provide reserves for emergencies and revenue shortfalls. A cash-equivalent operating reserve will be established and maintained at 25% of the current year's budget for recurring operating expenses.

The cash operating reserve is derived by dividing the total cash equivalents balance by recurring operating expenses.

Use of Fund Balance/Working Capital

Fund balance/Working Capital shall only be used for emergencies, non-recurring expenditures/ expenses or major capital purchases that cannot be accommodated through current year savings. Should such use reduce balances below the level established as the objective for that fund, restoration recommendations will accompany the request/decision to utilize said balances.

Debt Service Fund Unrestricted Fund Balance

The City shall maintain the debt service fund balance at 10% of annual debt service requirements OR a fund balance reserve as required by bond ordinances, whichever is greater.

Property/Liability Insurance Fund Unrestricted Fund Balance

The Property/Liability Insurance Fund accounts for uninsured and deductible claims for the City's property and liability insurance. Claims cannot be reasonably predicted and budgeted for; therefore, the fund will maintain a balance that approximates the prior average annual expense for the last three years, excluding extraordinary expenses in the fund.

Employee Benefits Fund Unrestricted Fund Balance

The Employee Benefits Fund is funded through City and employee contributions. Estimated costs shall be determined during each budget year and the contributions adjusted accordingly. There is no minimum balance for this fund.

Community Development Corporation

As sales tax revenue fluctuates due to changes in economic conditions, the CDC shall maintain a fund balance of no less than 10% of budgeted sales tax revenues.

Water/Sewer Revenue Debt Coverage Reserves

Revenues shall be maintained at 1.15 times coverage in a fiscal year where the water/sewer fund is not issuing additional debt and 1.4 times coverage in a year where debt is anticipated to be issued.

Bond Issuance Reserves

Debt service reserves should be maintained for each bond issue as required by bond covenants. J. Contingency Fund Pursuant to the City Charter, a provision shall be made within the annual budget for a contingency fund in an amount not more than seven percent of the total budget (General Fund) to be used in case of unforeseen items of expenditure.

Committed Fund Balance

The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council at the City's Council meeting.

The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance

The City Council has authorized the City's Financial Director as the official authorized person to assign fund balances to a specific purpose as approved by this fund balance policy.

Order of Expenditure of Funds

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

CAPITAL EXPENDITURES AND IMPROVEMENTS

Capitalization Threshold for Tangible Capital Assets

- Tangible capital items should be capitalized only if they have an estimated useful life of 2 years or more following the date of acquisition or significantly extend the useful life of the existing asset and cannot be consumed, unduly altered, or materially reduced in value immediately by use and have a cost of not less than \$5,000 for any individual item.
- The capitalization threshold of \$5,000 will be applied to individual items rather than to a group of similar items (i.e.: desks, chairs, etc.).
- Accurate inventories of all tangible items will be maintained to ensure proper stewardship of public property.

Five-Year Capital Improvement Plan (CIP)

- The City shall annually prepare a five-year capital improvement plan based on the needs for capital improvements and equipment, the status of the City infrastructure, replacement and renovation needs, and potential new projects. Capital projects are improvements or additions to the City's physical plant/facilities/infrastructure and become a part of the City's asset inventory. Capital projects can be further categorized into land, buildings, improvements other than buildings, and infrastructure, which includes roads, sidewalks, bridges, utility lines, physical plants, etc. Capital costs typically consist of preliminary design, final design, and construction, and may involve the acquisition of land or easements. For purposes of the CIP Plan, a Capital Improvement Project should generally exceed the cost of \$50,000.
- For the most part, projects in the CIP should be based upon master plans or developer agreements. This ensures that the City's CIP, which is the embodiment of the recommendations of these individual planning studies, is responsive to the officially stated direction of the City as contained in the Comprehensive Plan and supporting master plans.
- For every project identified in the CIP, a project scope and project justification will be provided. Also, project costs shall be estimated, funding sources identified, and annual operation and maintenance costs computed.
- The Planning and Zoning Commission will be provided with opportunities to review the list of CIP projects for the CIP and may suggest additions and/or changes to the plan as appropriate.
- The City Manager is charged with recommending a Capital Improvement Plan to City Council. The CIP shall be filed and adopted in conjunction with the annual budget.

- Annually, through the budget process and at year-end, projects are to be reviewed. For those identified as complete, any remaining funds will be close to fund balance. For those projects with identified savings, the project budget will be reduced, and the subsequent savings will flow to fund balance. These funds can then be re-appropriated during the next fiscal year capital budget. Funds remaining from bond proceeds will only be used in accordance with the legal use of those funds.
- Appropriations for capital projects are for the life of the project; therefore, re-appropriation of capital funding for each fiscal year for budgeted projects is not necessary.

Replacement of Capital Assets on a Regular Schedule (Fleet, Streets, and Technology)

- The City shall annually prepare a schedule for the replacement of its fleet, streets, and high technology capital assets. Funding for the replacement of these assets will be accomplished using an annual depreciation structure charged to each participating fund at 100% of annual depreciation based on lifecycle or useful life of the asset. Within the resources available each fiscal year, the City shall replace these assets according to City policies.

Capital Expenditure Financing

- The City recognizes that there are three basic methods of financing its capital requirements: Funding from current revenues; funding from fund balance; or funding through the issuance of debt. Types of debt and guidelines for issuing debt are set forth in the Debt Policy Statements.

Pay-As-You-Go Capital Improvements

- The City will pay cash for capital improvements within the financial affordability of each fund versus issuing debt when funding capital improvements and capital purchases. This will reduce/minimize the property tax and utility rate impacts on Pearland citizens.
- The City will seek out and use intergovernmental funding sources for capital improvements in order to leverage City funding and to minimize property and utility rate impacts.

Capital Improvements/Project Reporting

- A summary/status report on the City's various capital projects will be prepared monthly and available to the City Manager and to City Council. Income statements on the City's CIP funds will be prepared monthly and include budget-to-actual for each project as well as list of major contracts, expense to date, and % contract completion.

DEBT

The City shall establish guidelines for debt financing that will provide needed facilities, land, capital equipment and infrastructure improvements while minimizing the impact of debt payments on current and future revenues.

Use of Debt Financing

Debt financing, to include general obligation bonds, revenue bonds, certificates of obligations, certificates of participation, lease/purchase agreements, and other obligations permitted to be issued or incurred under Texas law, shall only be used to purchase capital assets that cannot be prudently acquired from either current revenues or fund balance/working capital and to fund infrastructure improvements and additions. Debt financing is utilized to better ensure inter-generational equity by spreading payments of assets and infrastructure over their useful lives. Debt will not be used to fund operating expenditures.

The City will pay cash, when possible, for capital improvements within the financial affordability of each fund versus issuing debt when funding capital expenditures and capital improvements. Projects that are rehabilitative in nature shall be earmarked for funding from cash instead of debt when possible. (This is not intended to include reconstruction projects that significantly extend the useful life of an asset.) Cash sources include, but are not limited to general fund one-time revenues, utility and airport system revenues, economic development corporation funding, developer fees, inter-local agreements, and state and federal grants.

Bond Ratings

In evaluating the issuance of additional debt to finance projects, the City shall consider the statements of the rating agencies regarding the City's financial condition.

Ratings reflect the assessment of the following factors, and these must be evaluated to determine the impact of potential bond issues:

- Local economic activity
- Strong financial policies as evaluated under the Financial Management Assessment methodology
- Budgetary performance & flexibility
- Total liquidity and reserve balances
- Debt and contingent liability- evaluation of debt carrying costs as a percentage of expenditures
 - With adjustments for self-supporting debt
- Impact of future debt issuance on bond ratings/debt profile and outlook

Affordability

The City shall use an objective analytical approach to determine whether it can afford to issue new general-purpose debt, both General Obligation bonds and Certificates of Obligation. This process shall compare City accepted standards of affordability to the current values for the City. These standards may include debt per capita, debt as a percentage of taxable value, taxable value per capita, and tax rate. The process shall also examine the direct costs and benefits of the proposed expenditures. In addition, the analysis will evaluate the capacity within the General Fund to take on the operating expenditures associated with the completion of the proposed capital improvements. When a project will have a significant impact on the operating budget, the tax rate shall be shifted from debt service to maintenance & operations to support the increased expenditures. Further debt capacity shall be evaluated based on the remaining debt service tax capacity. The decision on whether to issue new debt shall be based on these costs and benefits, current conditions of the municipal bond market, and City's ability to "afford" new debt as determined by the standards.

Debt Capacity

The City shall complete an annual debt capacity assessment to ensure that proposed debt is affordable and contributes to the financial strength of the City. The debt capacity is the upper limit on the dollar amount of capital improvements that the City can afford to fund from debt.

Debt capacity calculations for long-term planning shall assume market rates for the average annual interest costs at the time the capacity is determined. The analysis shall not assume future refunding of any outstanding bonds and shall consider both debt service requirements on current and proposed debt.

For property tax supported debt, maximum capacity shall be determined by an amount of annual debt service that the City can absorb within the proposed tax rate allocation for debt based on assumed growth in assessed valuation.

For revenue debt, maximum capacity shall be determined by the amount of annual debt service that the City can absorb within a proposed rate structure that has been reviewed with City Council, and which can support the proposed debt within the additional bonds test as defined in the revenue bond covenants. The City shall not exceed debt capacity as defined through bond covenants or fall below bond coverage ratios for additional revenue bonds.

Factors that will be included in the annual debt capacity determination shall include:

- Existing debt obligations
- Evaluation of revenue and expenditure trends
- Various measures of debt burden on the community
- Debt per capita
- Debt to assessed value ratio
- Taxable value per capita
- Statutory or constitutional requirements
- Market factors such as interest rates, credit ratings or market status

Certificate of Obligation (CO's)

Certificates of Obligation may be issued without voter approval to finance any public works project or capital improvement, as permitted by State law. However, it is the policy of the City to utilize Certificates of Obligation to finance public improvements in certain circumstances and only after determining the City's ability to assume additional debt based on the standards identified above.

Circumstances in which Certificates might be issued include, but are not limited to the following:

- The City may issue CO's when there is insufficient funding on general obligation bond-financed capital improvement;
- The City may issue CO's when conditions require capital improvement to be funded rapidly rather than waiting for a GO bond election;
- The City may issue CO's for projects when the City can leverage dollars from others to reduce the City's capital cost for community improvement;
- The City may issue CO's for projects when there is no other funding source available and the project is determined to be in the best interest of the City.

- The City may issue CO's if it would be more economical to issue Certificates of Obligation rather than issuing revenue bonds; and
- The City may issue CO's for projects for which the City will be reimbursed by Developer (principal plus interest)

General Obligation Bonds (GO's)

General Obligation bonds require voter approval. When the list of unfunded projects contains projects that the City Council wishes to fund but cannot afford, then the City will consider taking a GO Bond Proposition(s) to the voters.

- Bond Elections
 - Timing of general obligation bond elections shall be determined by the inventory of current authorized, unissued bonds remaining to be sold and the City's ability to fund projects in the five-year CIP
 - The total dollar amount of bond election propositions recommended to the voters may not exceed the City's estimated ability to issue the bonds within a seven-year period after the election passes.
 - An analysis showing how the new debt combined with current debt impacts the City's tax rate and debt capacity will accompany every bond issue proposal. The analysis will also include the estimated impact on the operations and maintenance portion of the tax rate.
- General Obligation bonds must be issued to accomplish projects identified in the bond referendum and associated material.
- General Obligation bonds must be issued for projects that are consistent with the wording in the bond propositions.
- In the tax year after a GO bond election, the tax rate is to be increased by the projected impact - before any projects from the GO bond election are funded in the CIP. If the tax rate is not adjusted to fully fund approved projects, the projects will not be included in the CIP nor bonds issued.

Revenue Bonds

For the City to issue new revenue bonds, revenues, as defined in the ordinance authorizing the revenue bonds in question, shall be a minimum of 125% of the average annual debt service and 110% of the debt service for the year in which debt requirements are scheduled to be the greatest. Annual adjustments to the City's rate structures for enterprise funds will be made as necessary to maintain the coverage factor.

When the City issues CO's for enterprise fund projects, the City shall prepare a five-year financial plan to ensure that the enterprise fund maintains appropriate reserves and coverage requirements without overly burdening rates and user fees.

Debt Structures

- The City shall normally issue bonds with a life not to exceed 25 years for general obligation bonds and 25 years for revenue bonds, but in no case longer than the useful life of the asset.
- The City shall seek level or declining debt repayment schedules and shall seek to retire 50% of the total principal outstanding within 10 years of the year of issuance.

- There should be no debt structures that include increasing debt service levels in subsequent years, with the first and second year of a bond payout schedule the exception or as special situations may warrant.
- There shall be no “balloon” bond repayment schedules, which consist of low annual payments and one large payment of the balance due at the end of the term.
- There shall always be at least interest paid in the first fiscal year after a bond sale and principal payments starting generally no later than the second fiscal year after the bond issue.
- Normally, there shall be no capitalized interest included in the debt structure except for debt issuances reimbursing developers for infrastructure, which shall not exceed 2 years of capitalized interest.

Debt Refinancing

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

Interest Earnings and Remaining Bond Proceeds

Interest earnings on bond proceeds will be limited to funding changes to the bond financed Capital Improvement Plan in compliance with the voted propositions, cost overruns on bond projects, or be applied to debt service payments on the bonds issued. Issued but unspent bond proceeds may be appropriated for projects consistent with the ballot language after completion of projects identified in the approved bond propositions.

Sale Process

The City shall use a competitive bidding process in the sale of debt unless the nature of the issue warrants a negotiated sale. The City will utilize a negotiated process when the issue is, or contains, a refinancing that is dependent on market/interest rate timing. The City shall award the bonds based on a true interest cost (TIC) basis. However, the City may award bonds based on a net interest cost (NIC) basis if the financial advisor agrees that the NIC basis can satisfactorily determine the lowest and best bid.

Underwriting Syndicates

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

Bond Ratings

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

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

Covenant Compliance

The City will comply with all covenants stated in the bond ordinance, including providing for annual disclosure information and providing for material event notices.

Arbitrage Rebate Monitoring and Reporting

Arbitrage is the interest earned on the investment of bond proceeds above the interest paid on the debt. The City will maintain a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirement of the IRS regulation. The recordkeeping shall include tracking project expenditures, interest earned on the bonds, calculating rebate payments, and remitting any rebatable earnings to the federal government in a timely manner to preserve the tax-exempt status of the outstanding debt. Arbitrage rebate calculations will be performed annually on all debt issues and the liability recorded for any positive arbitrage. Due to the specialized nature of the calculations, this function will typically be outsourced.

Lease/Purchase Agreements

The City will use lease/purchase agreements for the acquisition of equipment when it is cost-effective and provides for attractive terms.

CASH MANAGEMENT AND INVESTMENTS

To maintain the City's cash in such a manner to ensure the absolute safety of principal, to meet the liquidity needs of the City, and to achieve the highest possible yield in compliance with the Public Funds Investment Act (Chapter 2256 of the Local Government Code) and the City's Investment Policy.

Investment Policy

All aspects of cash/investment management shall be designed to ensure safety and integrity of the City's financial assets. Cash/Investment management activities shall be conducted in full compliance with prevailing local, state, and federal regulations. Please refer to the City's Investment Policy as adopted annually by City Council.

The City shall design and establish policies relating to a variety of cash/investment management issues, such as the eligibility and selection of various broker/dealers, safekeeping requirements, collateral requirements, delivery versus payment requirements, weighted average maturity requirements and such other aspects of the program, which necessitate standard setting in pursuit of appropriate prudence and enhanced protection of assets.

Investment Strategy

The City of Everman maintains a consolidated portfolio in which it pools its funds for investment purposes. The City's investment program seeks to achieve safety of principal, adequate liquidity to meet cash needs, and reasonable yield commensurate with the preservation of principal and liquidity.

Interest Income

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

Arbitrage Investments and Reporting

The City's investment position as it relates to arbitrage is as follows: Investments on bond proceeds will be made with safety of principal and liquidity in mind, but with a competitive rate of return. Investment of bond proceeds will be clearly tracked and investment earnings recorded for arbitrage purposes.

Depository Bank

Pursuant to State law, the City of Everman may approve a depository services contract whose term does not exceed five years. There is no requirement for rotation. The City of Everman will select its official banking institution through a formal process based on best value in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available. Depository accounts may only be opened by employees with authority specifically granted in the depository agreements approved by City Council.

Collateralization of Deposits

The City shall have pledged collateral held at an independent third-party institution and evidenced by a written receipt. The value of the pledged collateral should be marked to market monthly and shall be at least 102 percent of par or market value of the investments, whichever is greater. The City's depository

bank monitors the required collateral and makes necessary adjustment to increase or decrease it. Substitutions of collateral shall meet the requirements of the collateral agreement and have prior written approval. Collateral shall not be released until the replacement collateral has been received. The pledge of collateral shall comply with the City's Investment Policy.

Grants

The City will seek, apply for, and effectively administer federal, state and local grants, which support the City's current priorities and policy objectives in accordance with all applicable statutes, rules, regulations, and guidelines.

Grant Guidelines

- The City shall apply and facilitate the application for only those grants that are consistent with the objectives and high priority needs identified by Council and City Management.
- Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs.

- The potential for incurring ongoing costs, including assumptions of support for grant-funded positions from local revenues, will be considered prior to applying for a grant.
- Finance will serve as fiscal oversight authority for all grant-related expenditures and reimbursements.
- Finance will ensure efficient administration of the grant.

Grant Review and Acceptance

All grant submittals shall be reviewed for their cash match requirements, their potential impact on the operating budget, and the extent to which they meet the City's goals. If there is a cash match requirement, the source of funding shall be identified prior to application.

All grants must be reflected in the budget. Grants may be officially accepted by action of the City Council during budget adoption or with a budget adjustment. If the funding is not already included in the annual budget, the budget shall be amended to reflect revenues and expenditures associated with the grant.

Budgeting for Grant Expenditures

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

Approving and Processing Grant Expenditures

The City shall ensure that all expenditures funded by grants are allowable, permitted by the grant award, reasonable, and properly documented. Purchases shall comply with the City's purchasing policies, competitive procurement rules, and grant specific requirements.

All grant-related expenditures must be paid first from City funds (General Fund, Water & Sewer Fund, departmental budget, or project-specific account). Departments are prohibited from paying grant-related invoices using personal funds or credit cards.

Departments must submit invoices, receipts, and any other related documentation along with the payment request to the Finance for approval and payment.

The City shall ensure prompt payment of all grant-eligible expenses. Late fees, penalties, or interest resulting from failure to process invoices promptly may not be reimbursable by the grant and will be charged back to the originating department.

Grant Reimbursement

The City shall seek reimbursement in compliance with grant agreements, while maintaining accountability, transparency, and proper fiscal responsibility of public funds. Reimbursement requests shall be made in accordance with the schedule outlined within each grant (i.e.: monthly, quarterly, or upon grant completion).

- Reimbursement requests must be complete, accurate, and submitted in a timely manner.
- All grant-related expenditures must be incurred and paid by the City prior to seeking grant reimbursement, unless prior approval is given by the grantor.
- Reimbursement requests must include:
 - Itemized invoices and receipts
 - Proof of payment (cleared checks, check register, or payment confirmations)
 - Approved purchase order
 - Payroll records, timesheets, or benefit allocations (if personnel costs are being reimbursed)
 - Travel authorization forms and receipts, if applicable
 - Any other supporting documentation required by the granting agency
- Reimbursement requests must be made electronically or by mail as required by the grantor.
- Any delays or issues in reimbursement shall be reported to Finance and the City Manager immediately.

Distribution of Reimbursed Funds

Reimbursed funds shall be deposited into the City's pooled cash account and credited back to the department that incurred the original expense.

Finance shall ensure the accuracy of all financial information. proper reconciliation between reimbursed amounts, match requirements, and actual expenditures reported. Finance will also be responsible for recording all grant-related expenditures in the capital asset management software.

Grant Reporting

All terms, conditions, and reporting requirements set forth within each individual grant agreement must be met in compliance with federal, state (Texas Local Government Code), and Office of the Governor regulations.

Grant Record Retention and Audit Compliance

The City shall maintain all grant-related records to support all administrative and/or financial audits for no less than five (5) years after the grant closing out, or longer if required by the grantor.

- Records must be maintained for immediate retrieval during audits or monitoring.
- Records must be stored securely to prevent unauthorized access or distribution.
- Records containing any personal identifiable information (PII) or sensitive data must comply with federal and state privacy laws.

Grant Termination and/or Reduced Grant Funding

In the event of reduced grant funding, City resources will be substituted only after all program priorities and alternatives are considered during the budget process, unless the City is obligated through the terms of the grant to maintain the positions.

The City shall terminate grant-funded programs and associated positions when grant funds are no longer available, and it is determined that the program no longer supports City goals and/or is no longer in the best interest of the City, unless the City has obligated itself through the terms of the grant to maintain the positions after the grant period ends.

Compliance

Failure to comply with any of this policy may result in repayment of disallowed costs, loss of grant eligibility, and/or disciplinary action for responsible employees.