



CITY COUNCIL WORKSHOP

CITY OF FAIR OAKS RANCH, TEXAS

AGENDA TOPIC: Proposed amendments to the City's Financial Management Policy, Fund Balance/Reserves Policy, and Debt Management Policy

DATE: October 2, 2025

DEPARTMENT: Finance

PRESENTED BY: Summer Fleming, CGFO, Director of Finance

INTRODUCTION/BACKGROUND:

The City last amended its Financial Management Policy ("Policy") in September 2021. In accordance with Section XIV, the Finance Director is required to conduct an annual review and present any significant revisions to the City Council for consideration and approval. This regular review helps ensure that the Policy remains current, reflects best practices in municipal finance, and aligns with evolving legal requirements and operational needs.

Following a comprehensive review, the City staff is recommending several updates. While many of the revisions are clarifying in nature, the following represent the more substantive changes proposed for Council's approval:

1. Throughout the policy
Expanded on certain sections without revising the policy
 - Strengthened supporting language
 - Added explanatory guidance
2. Section I.B. – Purpose Statement - Objectives
Added objectives to clearly state the purpose of the Policy and the City's financial priorities.
3. Section II.B. – Accounting, Auditing, and Financial Reporting – Encumbrance Accounting
Added this section to define the practice and document how it is applied by the City, formalizing an existing procedure.
4. Section II.G. – Accounting, Auditing, and Financial Reporting – Internal Controls Monitoring
The section name was updated from *Internal Auditing* to *Internal Controls Monitoring* to better reflect the City's in-house practices. While the City actively monitors internal controls to safeguard assets and ensure compliance, it does not perform formal audits. This change clarifies the scope of the City's responsibility and avoids confusion with external or independent audit functions. The section was also modified to assign operational responsibility to the Finance Director from the City Manager.
5. Section II.H. – Accounting, Auditing, and Financial Reporting – Internal Financial Reporting
Added a requirement for quarterly financial reports to City Council to formalize an existing practice, promote transparency, and provide Council with regular updates on the City's financial position. While the Public Funds Investment Act already requires quarterly

investment reports, extending this requirement to financial reports ensures consistency, strengthens accountability, and supports informed decisions.

6. Section II.I. – Accounting, Auditing, and Financial Reporting – Annual Financial Disclosure
Added this section to formally document the required disclosures that we are already complying with.
7. Section II.J. – Accounting, Auditing, and Financial Reporting - Compliance
Added this section to reinforce the importance of adhering to Council-adopted policies while allowing staff the flexibility to adapt to changing circumstances. This ensures accountability to Council direction but avoids overly rigid requirements that could hinder effective operations.
8. Section IV.B. – Operating Budget – Basis of Budgeting
Added this section to clearly document the basis of budgeting used by the City, ensuring transparency, consistency, and alignment with accounting standards and best practices.
9. Section IV.H. – Operating Budget – Adopted and Amended Budget
Added this section to document the legal requirement for adopting and amending the budget, ensuring compliance with state law.
10. Section IV.I. – Operating Budget – Budget Administration
Added this section to clarify expenditure compliance and defines the City Manager’s role in administering the budget.
11. Section IV.J. – Operating Budget – Long-Term Financial Planning
Added this section to recognize the City’s new multi-year financial planning process to better link long-term goals with the annual budget.
12. Section V.A. – Fund Balance/Reserves Policy
Modified this section to provide a general policy statement with reference to the City’s Fund Balance/Reserves Policy in Appendix F. This appendix is a new comprehensive policy that will be discussed during the workshop.
13. Section VI.F. – Capital Expenditures Program – Programmatic Replacement
Added this section to formalize the City’s existing capital replacement practices in policy, ensuring consistency, transparency, and long-term planning for asset management.
14. Section VII.M. – Revenue Management – Write-Off of Uncollectible Receivables
Added this section to establish clear criteria for writing off uncollectible receivables to ensure transparency, compliance with state law, and accurate financial reporting.
15. Section VIII.A. – Expenditure Control – Appropriations
Added definitions for Budget Amendment and Budget Transfer and clarified authority of each.
16. Section VIII.B. – Expenditure Control – Purchases
Raises the threshold for City Manager approval to \$100,000 aligning with the new competitive bidding threshold allowed by state law and reinforces best value purchasing and compliance with all applicable laws.
17. Section IX.E. – Asset Management – Surplus Property and Asset Disposal
Added this section to reference the Council-approved Surplus Property Policy, ensuring consistency and transparency in asset disposal.

18. Section X.A. – Financial Condition – Operating Deficits

Changed the name of this section from *No Operating Deficits* to *Operating Deficits* to provide flexibility while maintaining the principle of balanced operations and recognizes that limited use of short-term tools may be necessary in special circumstances.

19. Section XI. – Debt Management

Modified this section to provide a high-level framework while moving detailed standards and procedures into a comprehensive Debt Management Policy (Appendix E). This appendix is a new policy that will be discussed during the workshop. This approach aligns with best practices, eliminates duplication, and strengthens the City's credibility with rating agencies and external stakeholders.

20. Section XIII. – Grant Financial Management

Broadened the policy beyond administration to include solicitation, evaluation, and acceptance of grants. This ensures alignment with Council priorities, promotes sustainable funding practices, and strengthens transparency and compliance through City Manager approval and Council acceptance.

21. Section XIV. – Donations

Added a Donations section to establish clear standards, protect the City's interests, and clarify Council and staff authority for accepting donations, delegating authority up to \$1,000 to the City Manager.

In addition to these substantive changes, staff prepared comprehensive Debt Management and Fund Balance/Reserves Policies for Council consideration. These policies provide detailed practices, establish clearer benchmarks for decision-making, and enhance transparency and accountability by consolidating guidance into dedicated documents.

For governmental funds, the proposed Fund Balance/Reserves Policy outlines target levels for the General Fund Emergency Reserve (4 months of operating expenditures) and Budget Stabilization Reserve (2 months of operating expenditures), along with reserves for capital projects and capital asset replacement. For enterprise funds, it sets minimum levels for the Utility Fund Emergency Reserve (6 months of operating expenses) and reserves for debt service, capital projects, and impact fee-driven infrastructure improvements.

The policy also provides clear guidelines for the use of reserves, requirements for replenishment if balances fall below targets, and options for the use of excess reserves. Together, these provisions strengthen transparency, promote prudent fiscal management, and ensure the City is well-positioned to respond to economic fluctuations, emergencies, and future capital needs.

POLICY ANALYSIS/BENEFIT(S) TO CITIZENS:

- **Promotes Transparency and Accountability** – A comprehensive review and adoption of updated financial management, debt, and reserve policies provide citizens with a clear framework for how the City manages public funds, ensuring decisions are consistent, responsible, and in the community's best interest.
- **Strengthens Long-Term Financial Stability** – Formalizing debt management and reserve policies safeguards the City's financial health, reduces reliance on short-term fixes, and positions the City to respond effectively to emergencies and capital needs without placing unnecessary burdens on taxpayers.

- **Supports Strong Creditworthiness** – By responding to S&P Global ratings’ guidance and formalizing financial policies, the City demonstrates fiscal discipline that can lead to improved bond ratings, lowering borrowing costs and benefitting taxpayers through long-term savings.

LONGTERM FINANCIAL & BUDGETARY IMPACT:

The comprehensive review and adoption of the City’s Financial Management Policy, including the addition of debt management and reserve policies, strengthens the City’s long-term financial position. Together these policies establish clear guidelines for financial planning, borrowing practices, reserve levels, and funding strategies. This framework preserves credit quality, reduces borrowing costs, and protects against fiscal instability, ultimately saving taxpayer dollars. By aligning current budget decisions with long-term priorities, the policies ensure the City can manage economic fluctuations, fund critical infrastructure, and maintain service levels in a sustainable and responsible manner.