



CITY OF PORT LAVACA, TX

FINANCIAL MANAGEMENT POLICIES

FY 2025-2026

~~Budgetary & Financial Management Policies~~

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

Statement of Purpose

The City of Port Lavaca has an important responsibility to its citizens, taxpayers, ratepayers, and all customers to carefully account for public funds, to manage the City's finances wisely, and to plan for the adequate funding of services desired by the public. To facilitate this responsibility, certain financial policies have been developed and implemented within the parameters established by provisions of the Texas Local Government Code and the City Charter. The purpose of the Financial Management Policies is to provide guidelines for the financial management staff in planning and directing the City's day-to-day financial affairs and in developing recommendations to the Mayor and City Council. These policies, as itemized below, are adopted by the City Council annually and considered the basis for financial management, planning and budget preparation.

Accounting, Auditing, and Financial Reporting

Accounting

The City's Director of Finance is responsible for establishing the chart of accounts, and for properly recording financial transactions.

Funds

Self-balancing groups of accounts are used to account for City financial transactions in accordance with Generally Accepted Accounting Principles. Each fund is created for a specific purpose except for the General Fund, which is used to account for all transactions not accounted for in other funds.

External Auditing

Pursuant to State Statute, the City shall have its records and accounts audited annually by a certified public accounting (CPA) firm, licensed to practice in the State of Texas. The CPA firm must demonstrate that they have the breadth and depth of staff to conduct the City's audit in accordance with accepted auditing standards, generally accepted government auditing standards, and contractual requirements. The auditors' report on the City's financial statements including any federal grant single audits and the auditor's management letter will be completed within 180 days of the City's fiscal year end. An interim management letter will be issued prior to this date if any materially significant internal control weaknesses are discovered. The City staff and auditors will jointly review the management letter with the City Council within 60 days of its receipt by the staff.

External Auditors Responsible to City Council

The external auditors are 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 auditors consider such communication necessary to fulfill their legal and professional responsibilities.

External Auditors Rotation

A review of the current CPA firm must be done every five years. This review does not necessarily result in a change in the CPA firm. If appropriate, the current CPA firm can be contracted for future annual audit. The City will not require external auditor rotation. The rotation of the audit firm will be based upon the proposals received, the qualifications of the firm, and the firm's ability to perform a quality audit.

External Financial Reporting

The City with collaboration from external auditors will prepare and publish an Annual Comprehensive Financial Report (ACFR). The ACFR will be prepared in accordance with Generally Accepted Accounting Principles and will be presented annually to the Government Finance Officers Association (GFOA) for evaluation and possibly awarding of the Certification of Achievement for Excellence in Financial Reporting. The deadline to submit application to participate in the Certificate of Achievement for Excellence in Financial Reporting Program is six months from the end of the fiscal year. The ACFR will be published and presented to the City Council within 180 days after the end of the fiscal year. City staffing limitations may preclude such timely reporting. In such a case,

the Director of Finance will inform the City Manager, and the City Manager will inform the City Council of the delay and the reasons, therefore.

Continuing Disclosure

The Director of Finance will ensure that the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) website is current, and all disclosures are filed timely with assistance from the City's Financial Advisor. EMMA is the official repository for information in virtually all municipal securities. Continuing disclosure includes annual disclosure required within 180 days of the 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.

Funds

Fund Structure and Basis of Accounting

All fund structures and accounting standards of the City of Port Lavaca shall be in compliance with generally accepted accounting principles for local governments as prescribed by the Governmental Accounting Standards Board (GASB) and other recognized professional standards.

Governmental Funds

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

Governmental funds revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they become available and measurable while expenditures are recognized in the accounting period in which the liability is incurred, if measurable. 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.

Governmental funds are used to account for general government operations and include the General Fund, Debt Service funds, Special Revenue funds, and Capital Projects funds.

- **General Fund**

The General Fund is the Primary fund for core government services and is used to account for all resources not required to be accounted for in another fund and not otherwise devoted to specific activities. Most of the financial transactions for the City are reported in this fund. The services provided by the City are classified according to activity and presented as operating departments in the budget.

- **Debt Service Funds**

This fund type is used to account for resources used to service the principal and interest on long-term debt such as general obligation bonds, revenue bonds, certificates of obligation and tax-exempt leases classified as debt.

- **Capital Project Funds**

Capital Projects funds are used to account for resources restricted for the acquisition or development of major capital equipment and structures. Financing sources are usually provided by transfers from other funds, bond issue proceeds, or grants-in-aid. Capital projects are generally tracked on a project-length basis. The required financing is not appropriated on an annual basis (or any other period-length basis) but is approved at the outset of the project. The expected expenditures under the Capital Improvement Program (called CIP) are presented as part of the overall budget adoption to accurately reflect the City's total expected use of funds in any given budget year but these estimates are not considered binding appropriations.

- **Special Revenue Funds**

This fund type is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Federal and State Grant Funds

The City will have the necessary controls in place and follow all applicable federal and state financial grant requirements, including 2 CFR 200.302(b)(6) on advanced payments, 2 CFR 200.303 on internal controls for all grant funding, § 200.323 on contract cost and price, CFR 200 Part E on cost Principles and advance payment requirements, specifically § 200.403 Factors affecting allowability of costs and §

200.404 Reasonable costs as both allowable and reasonable, and § 200.305 on federal payment.-

For payments received from Federal grant sources, the City will track interest earned on those payments in accordance with § 200.305 Federal payment. The City will maintain advance payments of Federal awards in interest-bearing accounts and monitor that account would not be expected to earn in excess of \$500 per year on Federal cash balances or any additional interest earned on Federal advance payments deposited in interest bearing accounts must be remitted annually to the Department of Health and Human Services Payment Management System (PMS).

Proprietary Funds

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

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 which are treated as budgeted expenses.

- **Public Utility Fund**

The Public Utility Fund consists of utility administration, water and wastewater operations, billing and collections, environmental services, and utility fiscal support. It is the policy of the City that the water and wastewater operations be self-sufficient and not cross subsidize the other. Rates will be set to reflect the cost of service by customer class where practical. The Utility Fund also accounts for the debt service and capital improvements of the utility system.

- Water - Water operations include water line maintenance, water distribution systems support, and the contracted raw water supply and water treatment services.
- Wastewater - Wastewater operations include wastewater line maintenance, wastewater collection systems support, and the wastewater treatment plant.

- **Beach Operating Fund**

The Beach Operating Fund consists of beach administration, beach operations, and collections. It will be the general policy of the City that the fees collected will be spent on maintenance and capital improvements of the Beach Fund facilities, grounds, and other structures. The general fund tax dollars will not be used for these purposes, except as a loan from the General Fund to the Beach Fund, approved by Council.

- **Ports and Harbors Fund**

The Ports and Harbors Fund consists of ports and harbors administration, ports and harbors operations, billing and collections. It will be the general policy of the City that the fees collected will be spent on maintenance and capital improvements of the Ports and Harbors Fund facilities, grounds and other structures.

Fund Balance Policy

Purpose

The purpose of this policy is to establish a key element of the financial stability of the City of Port Lavaca by setting guidelines and parameters for fund balance of the various funds used by the City in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54. Unassigned fund balance is an important measure of economic stability, and it is essential that the City maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and other similar circumstances. This policy will ensure the City maintains adequate fund balances in the operating fund with the capacity to:

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

Definitions

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

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

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

- 1) ***Non-spendable fund balance*** – includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans, or prepaids) or because they must remain in-tact such as the principal of an endowment.
- 2) ***Restricted fund balance*** – includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include impact fees and bond proceeds.
- 3) ***Committed fund balance*** – includes the portion of net resources upon which the Council has imposed limitations on use. Amounts that can be used only for the specific purposes determined by a *formal action* of the council. Commitments may be changed or lifted only by the Council taking the same *formal action* that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.
- 4) ***Assigned fund balance*** – includes the portion of net resources for which an *intended* use has been established by the City Council or the City Official authorized to do so by the City Council. Assignments of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.

Authority to Assign - The City Council delegates the responsibility to assign funds not to exceed \$25,000 to the City Manager or their designee to be used for specific purposes. City Council shall have the authority to assign any amount of funds to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. The assignments may occur subsequent to fiscal year-end.

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

balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

Minimum ~~Unassigned Fund Balance~~ Reserve Policy

General Fund - Being a City on the Gulf Coast, it shall be the goal of the City to maintain a fund balance in the General Fund equal to 180 days of the operating expenditures and a policy to maintain an **unassigned** fund balance of no less than 120 days of operating expenditures as to provide operating liquidity and contingency funding for non-specific unscheduled expenditures such as natural disasters or major unexpected expenditures. Any excess above the minimum will be reviewed and authorized annually by the City Council and may be designated to the Capital Improvement Program and the Asset Replacement Program, or any other programs the City Council may seem appropriate. In the event that the unassigned fund balance is calculated to be less than the policy stipulates, the City shall plan to adjust budget resources in subsequent fiscal years to restore the balance.

Hotel/Motel Tax Fund – Since the City's Convention Center (Bauer Center) qualifies for use of Hotel/Tax, it shall be the goal of the City to maintain a fund balance in the Hotel/Motel Fund to support the annual cost for improvements and maintenance of the Bauer Center. The proper level of this unassigned fund balance will be based on the most recent three-year average cost of maintenance and operations of the Bauer Center or \$250,000 whichever is greater.

Enterprise Funds Working Capital Position - the goal shall be to maintain a working capital position equal to 120 days of the operating budget and a policy to maintain a working capital position no less than 90 days of the operating budget. ~~The City shall designate a portion of the reserve for fixed asset replacement equal to one year's depreciation of all assets.~~ The Cities enterprise funds consist of the Public Utility Fund, Beach Fund, and Ports & Harbors Fund.

- **Public Utility Fund**

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

The City shall establish a project fund that will be funded by unanticipated revenues or revenue surpluses. This fund shall be used to fund unanticipated projects or to retire debt early.

- **Ports and Harbors Fund**

Annually, an amount equal to the sum of all property taxes collected from Port Commission leased properties shall be transferred from the General Fund to the Ports and Harbors Fund for which sum will be spent on maintenance and capital improvements of the Port facilities, grounds and other structures. No other general fund tax dollars will be used for this purpose, except as a loan from the General Fund to the Ports and Harbors Fund, approved by Council.

Committed Fund Balances

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

Replenishment of Minimum Fund Balance Reserves

If unassigned fund balance unintentionally falls below ~~120 days~~ **the required minimum** or if it is anticipated that at the completion of any fiscal year the projected unassigned fund balance will be less than the minimum requirement, the City Manager shall prepare and submit a plan to restore the minimum required level as soon as economic conditions allow. The plan shall detail the steps necessary for the replenishment of fund balance as well as an estimated timeline for achieving such.

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

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the Council, and unassigned fund balance), the Council will first spend the most restricted funds before moving down to the next most restrictive category with available funds. **The categories, in order of level of restriction, are as follows:**

- **Non-spendable fund balance**
- **Restricted fund balance**
- **Committed fund balance**
- **Assigned fund balance**
- **Unassigned fund balance**

Appropriation of Unassigned Fund Balance

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

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

Monitoring and Reporting

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

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

Capital Projects Funds

Every effort will be made for all monies within the Capital project funds to be expended within thirty-six (36) months or within a reasonable time according to construction schedule. Balances will be used to generate interest income to offset construction costs.

Approved funds in the Capital Improvements Program for projects not started or completed will automatically carryover into the next fiscal year. Any capital improvement included in the capital improvements program that has not started nor any funds spent for three consecutive years will be reevaluated by staff and presented to City Council for alternative project consideration. Any unused monies can be used to fund similar projects as outlined by bond covenants and remaining excess funds will be transferred to the Debt Service Fund, provided that this complies with the bond covenant.

Interfund Loans

Non-routine inter-fund loans shall be made only in emergencies where other temporary sources of working capital are not available and with the approval of the City Manager. Inter-fund; forgivable or non-forgivable loans may also be authorized for capital projects with the approval of the City Council as part of the City's regular budget process. At the time an interfund loan is considered, a plan to repay it shall also be considered. Or, the City Council may authorize to forgive the inter-fund loan partially or fully. A loan may be made from a fund only if the fund has ending resources in excess of the minimum requirement for the fund. Total inter-fund loans outstanding from a fund shall not exceed 50% of the ending fund balance for the fund. All inter-fund transfers must be approved by the city council. If any inter-fund loan is to be repaid from the proceeds of a future debt issue, a proper reimbursement resolution will be approved at the time the loan is authorized.

General Budgetary Policies

Budget Preparation

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

Government Finance Officer Association Distinguished Budget Program

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

Balanced Budget

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

Public Hearings, Availability of Budget to Public

Upon completion of the City Manager's Proposed Budget to Council, the City holds public hearings in accordance with the Local Government Code. A copy of the Proposed Budget is made available in the City Secretary's Office or on the City's website. These hearings provide the Citizens of Port Lavaca a chance to ask questions as well as an opportunity for Council to hear any recommendations before final approval of the budget.

Cost Center Accounting and Budgeting

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

Bond Ratings

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

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

- *Review method of determining appropriate cash reserve levels annually*

Administrative Overhead Fee to Enterprise Funds

It shall be the budgetary policy of each enterprise fund to pay to the General Fund an amount as set by the Budget each year. This charge shall be set as a percent of fund expenditures associated with each function and shall be construed as a payment for general administrative overhead, including management, accounting, legal, public safety, and personnel services **in the Public Utility Fund. This charge shall be set as a percent of fund revenues for all other enterprise funds.** From an accounting perspective, such fee shall be treated as a fund operating transfer.

Budget Projections for Revenues and Expenditures

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

Maintenance of Plant and Equipment

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

Reporting

Monthly financial reports will be prepared to enable the department directors to manage their budgets and to enable the Finance Department to monitor and control the budget as approved by the City Council. Monthly financial reports will be presented to the City Council. Such reports will include current year revenues and expenditures, and fund balance summary.

Performance Measures and Productivity Indicators

Where appropriate, performance measures and productivity indicators will be used as guidelines and reviewed for efficiency and effectiveness. This information will be included in the annual budgeting process.

Capital Budget and Program

~~Capital Improvement Plan (CIP)~~ Purpose

The City's goal is to maintain City facilities and infrastructure in order to provide services to the citizens within the community, meet growth related needs, and comply with all state and federal regulations. The City will develop a multi-year plan to present to Council each year for approval. The City will provide a list of proposed capital improvements, funding recommendations, and prospective timing of projects.

Preparation

The City annually reviews and updates a five-year Capital Improvement Program (CIP) schedule as part of the budget adoption process. The plan is adjusted annually as needed, and year one is adopted as the current year capital budget. The City's capital budget will include all capital projects funds and all capital resources. The budget will be prepared annually on a fiscal year basis and adopted by resolution. The capital budget will be prepared by the City Manager with assistance from the Finance Department and involvement of all required City departments. The required financing is not appropriated on an annual basis but is approved at the outset of the project. The expected expenditures under the CIP schedule are presented as part of the overall budget adoption to accurately reflect the City's total expected use of funds in any given budget year but these estimates are not considered binding appropriations in that year. CIP projects shall be for infrastructure over \$100,000 and facilities over \$50,000. Any maintenance and operational cost shall be disclosed that could impact future operating budgets.

Control

All capital project expenditures must be appropriated in the capital budget. Finance must certify the availability of resources so an appropriation can be made before a capital project contract is presented by the City Manager to the City Council for approval.

Program Planning

The capital budget will include the capital improvements program for future years. The planning time frame should normally be five years. The replacement and maintenance for capital items should also be projected for the next five years at a minimum. Future maintenance and operations will be fully costed, so that these costs can be considered in the operating budget.

Alternate Resources

Where applicable, assessments, impact fees, or other user-based fees should be used to fund capital projects which have a primary benefit to certain property owners.

Debt Financing

Recognizing that debt is usually a more expensive financing method, alternative financing sources will be explored before debt is issued. When debt is issued, it will be used to acquire major assets with expected lives that equal or exceed the average life of the debt issue. The exceptions to this requirement are the traditional costs of marketing and issuing the debt, capitalized labor for design and construction of capital projects, and small component parts which are attached to major equipment purchases. The City shall complete a debt capacity assessment before each bond issue to ensure that the proposed debt is affordable and contributes to the financial strength of the City.

Reporting

Monthly financial reports will be prepared to enable the department managers to manage their capital budgets and to enable the Finance Department to monitor the capital budget as authorized by the City Manager. Quarterly financial reports will be presented to the City Council.

Revenue Management Policy

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

- ***Simplicity and Certainty.*** The City shall strive to keep the revenue classification system simple to promote understanding of the revenue sources. The City shall describe its revenue sources and enact consistent collection policies to provide assurances that the revenue is collected according to budgets and plans.

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

Use of Fund Balance and Non-Recurring Revenues

The City will use non-recurring revenues and excess fund balance for capital expenditures or for non-recurring expenditures. These non-recurring revenues will not be used to fund recurring type maintenance and operating costs.

Property Tax Revenue

All real and business personal property located within the City shall be valued at 100% of the fair market value based on the appraisal supplied by the Calhoun County Appraisal District. Reappraisal and reassessment are as provided by the Appraisal District. A ninety-six~~eight~~ percent (96~~98~~%) collection rate based upon historical trends and current economic conditions shall serve each year as a goal for tax collections and the budgeted revenue projection shall be based on the average collection rate calculated by the Calhoun County Appraisal District. Property tax rates shall be maintained at a rate adequate to fund an acceptable service level. Based upon taxable values, rates will be adjusted to fund this service level. Collection services shall be contracted out with a central collection agency, currently the Calhoun County Appraisal District.

Interest Income

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

User Based Fees and Service Charges

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

~~Water and Wastewater~~Utility Rates and other fees for Utility Services

~~Water, wastewater, and garbage fees shall be set~~ The City will review utility rates and service fees annually and, if necessary, adopt new rates to generate revenues required to cover operating expenditures, including depreciation, meet the legal requirements of applicable bond covenants, and provide for an adequate level of working capital. It is the policy of the City that the Public Utility Fund, and other enterprise funds, not be subsidized by property tax revenue.

Intergovernmental Revenues/Grants/Special Revenues

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

Collection of Charges

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

Revenue Monitoring

Revenues actually received are to be regularly compared to budgeted revenues (at least monthly) with a formal report to City Council at least quarterly. If revenue estimates fall

below budget expectations, the City Manager shall recommend to Council a corrective action to minimize the impact on the budget at the next available Council Meeting.

Expenditure Control Policy

Appropriations

The responsibility for budgetary control lies with the Department Head. **The level of budgetary control is the department level budget in the General Fund, and the fund level in all other funds.** Department Heads may not approve expenditures that exceed monies available at the departmental budget level excluding personnel and capital expenditures. Capital expenditures are approved by the City Council on a per project basis normally during the annual budget process. Personnel allocations may not be changed without the approval of the City Manager.

Amendments to the Budget

In accordance with the City Charter, under Article 8.03 (Transfer of Appropriations) provides, with approval of the City Council, the City Manager may transfer any unencumbered appropriated balance within any office, department, or agency at any time. At the request of the City Manager, and within the last three months of the fiscal year, the Council may by resolution transfer any unencumbered appropriation balance or portion thereof from an office, department or agency to another. The City Manager is authorized to transfer budgeted amounts within and among departments; however, any revisions that alter the total expenditures/expenses must be approved by the City Council.

Contingency Account Expenditures

In accordance with the City Charter, under Article 7.11 (Contingent Appropriation) provides, with approval of the City Council in the budget process, an contingent appropriation in the amount not less than one half of one percent (0.5%) of the total general fund expenditures, to be used in unforeseen items of expenditures shall be budgeted in the annual budget. Contingent Appropriations are under the control of the City Manager for expenses under \$25,000 and require City Council approval if \$25,000 or greater.

Central Control

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

~~City's Manager Authority to Amend the Budget~~

Purchasing

All purchases shall be made in accordance with the Purchasing Policies approved by the City Council. City procurements are governed by state and federal law, as well as the City Code of Ordinances. Authorization levels for appropriations previously approved by the City Council in the Operating Budget are as follows: The City Manager can authorize expenditures under \$25,000. Any purchases of \$25,000 or over not planned in the annual budget requires approval of the City Council. Strong ethical standards are required at all levels of the purchasing function.

Professional Services

Professional services contracts consist of the following services: Certified Public Accountant, Architect, Physician, Optometrist, Surgeon, Surveyor, Engineer, Lawyer, Insurance Broker or Consultant, Construction Manager, Financial Advisors, Artist, Appraisers, Teachers, Landscape Architectural and Geoscientific. Professional services will generally be processed through a request for a proposals process, except for contracts less than \$50,000, or in cases approved by the City Manager, or as otherwise approved by the City Manager.

Contract Authority

By statute, contracts greater than or equal to \$25,000 must be approved by Council, after which either the Mayor or the City Manager may then sign any necessary documents. By ordinance, contracts less than \$25,000 may be authorized and signed by the City Manager, provided there is an appropriation for such contract.

Prompt Payment

All invoices approved for payment by the proper City authorities shall be paid by the Finance Department within thirty (30) calendar days of receipt, in accordance with the provisions of state law. Proper procedures shall be established that enables the City to take advantage of all purchase discounts, except in the instance where payments can be reasonably and legally delayed in order to maximize the City's investable cash.

Prepaid Expenditures

Final determination of expenditure coding in the General Ledger is assigned to the Finance Department. Expenditure coding must remain consistent. Purchased items must fit the description of the line item they are being charged to. Amounts paid in advance or across budget years will be coded as prepaid items and charged to the next budget year. Department Directors are responsible for budgeting and paying these items accordingly.

Formal Approvals

The City Manager or City Council approval is required as detailed below.

- City Manager Approval
 - Any outside agreement/contract that requires a signature under \$25,000.00;
- City Council Approval
 - Any item the City Manager deems necessary to require City Council approval;
 - Any outside agreement/contract over \$25,000.00;
 - All intergovernmental agreements

Authorized Purchases

The adopted annual budget will include an Authorized Purchases list that considers certain planned purchases as approved in advance by Council. This policy allows the City Manager to approve items as listed without going back to Council under certain conditions.

- Routine equipment and technology purchases as included in the budget and the budget list are considered approved by Council, unless:
 - Item is \$50,000 or greater, unless the Council makes an exception,
 - Item contains a contract requiring the Mayor's signature;
 - Purchase deviates from the original purchase as designated on the list;
 - Cost exceeds the greater of 10% or \$10,000; or
 - Council has designated that item (s) come back for approval
- Capital projects and funding agreements will be presented to Council for consideration and approval

Long-Term Debt Policy

Purpose

The following policy provides the methods, procedures, policies and practices which ensure the sound management of the City of Port Lavaca's debt program. The City uses debt as a mechanism to equalize the costs of needed capital improvements for the benefit of both the present and future citizens. Adherence to the policy is essential to ensure that the City maintains a sound debt position and protects the credit quality of its obligations while providing flexibility and preserving fiscal stability. This policy applies to all long-term debt securities issued by the City. This may include General Obligation Bonds, Certificates of Obligation, Revenue Bonds, Capital Leases, Private Placements and Letters of Credit.

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

The City's debt policies and procedures are designed to ensure compliance with all State and Federal Law governing debt, including but not limited to, State Law, Federal Law, Internal Revenue Service rules and regulations, Securities and Exchange Commission regulations, Municipal Securities Rulemaking Board regulations, court ruling, existing debt covenants and charter provisions.

Revenue Bond Sinking Account

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

General Obligation Bond Debt Service Account

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

Debt Policy Guidelines

- The City will limit long-term debt to only those capital projects that cannot be financed from current revenues. Assets that last a long time will benefit citizens and taxpayers far into the future. It is fair for these future taxpayers and citizens to help pay the cost of the asset by paying some of the debt. **When appropriate, self-supporting revenues will pay debt service in lieu of tax revenues.**
- The City will not use long-term debt to finance recurring maintenance and operating costs.
- The City will not issue long-term debt for a period longer than the estimated useful life of the capital project.
- Decisions will be made based on long term goals rather than a short- term fix. **The City will explore all financing alternatives in addition to long-term debt including leasing, grants and other aid, developer contributions, impact fees, and use of reserves or current monies.**
- Debt Service Funds will be managed and invested according to all federal, state, and local laws.
- Coverage Ratios of Revenue Bonds will always be in compliance with the minimum coverage ratio required by the revenue bond ordinances. It shall be the goal of the City to achieve a budgeted coverage ratio of 1.60.

Types of Debt

- **Cash or Pay-As-You-Go** - Pay-As-You-Go is the use of current resources to purchase a capital asset. Projects utilizing this method can be adequately funded from available current revenue and fund balances and the project can be completed in an acceptable timeframe given the available revenues.
- **Capital Leases** - Lease purchase or financing contracts are payment obligations that represent principal and interest components which are general obligations of the City.
- **General Obligation Bonds (GO's)** - General obligation bonds will be issued to fund capital projects of the general government and are not to be used to fund operating needs of the City. GO's are backed by the full faith and credit of the City as well as the ad valorem taxing authority of the City as prescribed by law. The term of a bond issue will not exceed the useful life of the major capital projects funded by the bond

issue and will generally be limited to no more than twenty (20) years. GO's must be authorized by a vote of the citizens of the City. Unless otherwise justified and deemed necessary, debt service should be structured on a level or declining repayment basis.

- **Certificates of Obligation (CO's)** - Certificates of obligation will be issued to fund major capital projects, which are not otherwise covered under either revenue bonds or general obligation bonds. The term of the obligation may not exceed the useful life of the capital project and appropriate to the life of the project and financing objectives. Debt service for CO's may be either from general revenues (tax-supported) or supported by a specific revenue stream(s), or a combination of both. CO's may not require a vote of the citizens of the City. Unless otherwise justified and deemed necessary, debt service should be structured on a level or declining repayment basis.
- **Revenue Bonds (RB's)** - Revenue bonds will be issued to fund major capital projects necessary for the continuation or expansion of a service which produces a revenue sufficient enough to obtain investment grade ratings and credit enhancement and for which the major capital project may reasonably be expected to provide for a revenue stream to fund the annual debt service requirement. The term of a bond issue will not exceed the useful life of the major capital projects funded by the bond issue and will generally be limited to no more than twenty (20) or thirty (30) years). RB's do not need a vote of the citizens of the City. Unless otherwise justified and deemed necessary, debt service should be structured on a level or declining repayment basis. The City primarily issues fixed rate bonds to protect the City against interest rate risk. The City has the option to issue variable rate bonds, and may if market conditions warrant consideration of such a structure.

Method of Sale

The City will use a competitive bidding process in the sale of bonds unless conditions in the bond market or the nature of the issue warrant a negotiated bid. In such situations, the City will publicly present the reasons for the negotiated sale. The City will rely on the recommendation of the financial advisor in the selection of the underwriter or direct purchaser.

Disclosure

Full disclosure of operating costs along with capital costs will be made to the bond rating agencies and other users of financial information. The City staff, with the assistance of the City's financial advisors and bond counsel, will prepare the necessary materials for presentation to the rating agencies and will aid in the production of the offering documents. The City Manager is responsible for the accuracy of all financial information released.

Federal Requirements

The City will maintain procedures to comply with arbitrage rebates and other Federal requirements of debt issuance.

Capital Asset Policy

Purpose and Objectives

The purpose of the Capital Asset Policy is to establish guidelines to ensure that accurate records of assets owned, purchased, replaced, sold and/or traded-in are maintained. The objectives are:

- To manage and maintain the capital asset portfolio of the City which includes land, **land improvements**, buildings, building improvements, machinery, ~~furniture~~, equipment, vehicles, works of art and historical treasures, infrastructure, **etc.** ~~and construction in progress.~~
- To determine the appropriate depreciation method to use in accordance with Generally Accepted Accounting Principles (GAAP).
- To provide the City with accurate record keeping for inventory and financial reporting purposes.

Definition of a Fixed Asset

Fixed assets are tangible or intangible items with a useful life exceeding one year and a cost that meets or exceeds the established capitalization thresholds. These assets are used in the City's operations and are not intended for resale.

Responsibility and Authority

The Director of Finance shall be responsible for ensuring the principles and policies set in the Capital Asset Policy are consistently applied and carried out in conformity with Generally Accepted Accounting Principles (GAAP) for Governments. As such, the Director of Finance shall assure that this policy is carried out in conformity with the financial policies, goals and strategies set forth by the City Manager, the Mayor, and the City Council.

Overview

Costs to obtain tangible assets with lives greater than one year are called capital expenditures and such expenditures are commonly said to be capitalized. Expenditures treated as expense of

the current period are called operating expenses **such as on-going repairs and general maintenance**. There are several factors involved in determining whether an expenditure is to be classified as a capital expenditure or as an operating expense. Following is a synopsis of guidelines used to determine whether or not an item is to be capitalized.

Criteria for Capitalization

For the purpose of this policy, a “capital asset” must be capitalized if they meet the following criteria:

- The expected useful life is longer than one year.
- The asset ~~has at least a unit cost~~ **has an original or improved cost** of \$5,000.00 or more.
- Expenditures that materially add to the value or prolong the life of existing equipment will be considered capital assets and will be appropriately capitalized.
- The item belongs to one of the general classes of assets as defined by general accounting terms.
- **The asset must be owned by the City**
- **Useful life will be established based on available sources such as the Internal Revenue Service, or other acceptable sources that are in accordance with GAAP.**
- ~~Land (all land capitalized regardless of cost)~~
- ~~Buildings and Building Improvements~~
- ~~Equipment~~
- ~~Improvements other than Buildings~~
- ~~Infrastructure assets~~

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

A capitalization threshold is the cost established by the Director of Finance that must be met or exceeded if an asset is to be recorded and depreciated as a capital asset. The capitalization threshold is based on the cost of a single asset. Assets that do not meet the capitalization threshold will be recorded as expenditures or expenses. **For the purpose of property control (insurance, security, etc.), the Director of Finance and/or department heads may develop**

and maintain the appropriate record keeping system(s) to account for assets which do not meet the capitalization threshold. In some circumstances, assets with a unit cost less than \$5,000 may be capitalized if they are part of a large project or renovation or if the improvement added to the value or prolonged the life of the asset. This determination will be made by the Finance Department at the time of the initial request for purchase of the asset.

- **New purchases** – All costs associated with bringing the asset into working order will be capitalized as part of the asset cost. This will include start up costs, engineering or consultant type fees that are incurred once the decision to purchase the asset is made. The cost of land acquired should include all related costs associated with its purchase.
- **Improvements and replacement** – Improvements will be capitalized when they extend the original life of an asset or when they make the asset more valuable than it was originally. The replacement of asset components will normally be expensed unless they are of a significant nature and meet all of the capitalization criteria.

Useful Lives and Thresholds of Capital Assets

Class	Asset	Capitalization Life (Years)	Threshold (\$)
Land	Land and Site Improvements	Inexhaustible	Any Value
Buildings	Buildings	50	50,000 Any Value
Buildings	Building Improvements	10-50	10,000 100,000
Equipment	Accounting Systems	5-10	5,000
Machinery &			
Equipment	Construction Machinery	5-10	5,000 25,000
Equipment	Misc. Equipment	5-10	5,000
Equipment	Fire Fighter Apparatus	10	5,000
Equipment	Computer Hardware and Software	5	5,000
Improvements	Fences, Trails, etc.	15-20	\$100,000 20,000
Improvements	Docks	10	20,000
Improvements	Dredging	10	50,000
Improvements	Parks and Playgrounds	20	50,000
Improvements	Swimming Pools	20	50,000
Infrastructure	Bridges & Tunnels	15-50	100,000
Infrastructure	Curbs & Sidewalks	50	50,000

Infrastructure	Drainage	50	100,000
Infrastructure	Parking Lots	25	20,000
Infrastructure	Lift Stations	15	20,000
Infrastructure	Sewer	50	100,000
Infrastructure	Streets (Primary)	50	100,000
Infrastructure	Streets (Secondary)	40	100,000
Infrastructure	Traffic Signals and Signs	25	50,000

Accounting for Capital Assets

City owned land, buildings, and infrastructure will be segregated from furniture and equipment in separate accounts. The City will follow GASB 34 guidelines as it maintains Capital Asset Records of the City. Proper insurance coverage must be maintained by the City for all premises, furniture, and equipment. Coverage amounts will be reviewed yearly by a designated officer of the City and presented to the City Council for approval.

It is the responsibility of the Finance Department to record the costs of capitalized assets acquired and to maintain accurate inventory and depreciation records. Capital assets that meet the minimum capitalization threshold will be recorded at historical cost and depreciated on a straight-line method for financial statement purposes. Entries to record depreciation on new purchases will be calculated and posted at fiscal year-end. Donated capital assets will be recorded at their estimated fair value at the time of acquisition or project completion date, including any ancillary charges. Property will be recorded at historical cost unless there has been a permanent loss of value that should be reflected in the capital asset accounts. The value will usually include costs related to acquisition including freight, delivery, training, and installation.

Construction in Progress (CIP)

Should time be required to complete a project extend past the close of any accounting period, it will be placed in (CIP) and not capitalized until the project is complete.

Capital Leases

All policies and procedures mentioned above also apply to capitalized leases. All lease purchases and/or agreements must be in compliance with all applicable laws and regulations. Any operating leases which will not be capitalized will be approved by the Mayor. All copies of lease agreements should be maintained by the City Secretary and Director of Finance. Capital leases will be recorded on the books and will be accounted for in accordance with Generally Accepted

Accounting Principles as it applies to municipalities.

Fixed Asset Components

An **addition** is a new and separate asset or an extension of an existing asset. All assets will be added according to the thresholds established at the time of acquisition. **Improvements** are added based on the thresholds established as long as it seems reasonable that the improvement adds value to the existing asset. Infrastructure improvements will be added after consultation from our City Engineer to obtain the value that was added taking into consideration of any disposals that may have occurred during the construction.

Repair and Maintenance

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

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

Examples include:

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

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

Reporting and Inventory

The Finance Department will maintain the permanent records of the City's fixed assets, including description, cost, department of responsibility, date of acquisition, depreciation and expected useful life. Periodic, random sampling will be performed to inventory fixed assets assigned to a department. Responsibility for safeguarding the City's fixed assets lies with the department that has been assigned that asset. When an asset leaves a department's responsibility due to

disposition, sale or transfer, the assigned department is responsible to report the change in status or location to the Finance Department.

It is the responsibility of each City department to keep a current record of inventory held within their department. The Finance Department will provide each department with a list of the assets that are recorded into the Fixed Asset System on a yearly basis. The department responsible for the asset will then physically verify that each asset on the list still exists and that they are all accounted for. If there are any assets that are in the department's care that are not on the inventory list a Fixed Asset Form should be filled out by the department and sent to the Finance department for input into the Fixed Asset System.

Sale, Disposal, or Transfer of Capital Assets

It is the responsibility of each department to provide the Finance Department with all information required to properly record the sale, disposal, or transfer of an asset. A Fixed Asset Form is to be filled out by the department and signed by a manager or director of that department. If transferring an asset from one department to another, the receiving department manager or director should also sign the Fixed Asset Form upon receipt of the asset.

Seized Vehicles

Seized vehicles are not considered capital assets, since they are not acquired by the City for use in operations.