

TOWN OF PROSPER ADMINISTRATIVE REGULATIONS

CHAPTER 17: FINANCIAL MANAGEMENT POLICY

SECTION 17.01: PURPOSE AND OVERVIEW

This policy guides the Finance Department, and staff in financial management and budgeting matters. The overriding goal of the Financial Management Policy is to enable the Town to achieve a long-term stable and positive financial condition while accomplishing the Town's long-term strategic goals. All financial operations will be under the direction of the Town Manager, consistent with the council-manager form of government established in the Town Charter.

The rapid growth experienced by the Town produces both financial opportunities and challenges. Often many years of sustained growth must occur before major capital expenditures for new facilities and infrastructure are justified and affordable. Often by the time needed improvements are made growth has slowed and only a limited amount of new revenue is available. If property tax revenues are not reserved for those future improvements including related staffing increases, significant financial stress and the need for major tax rate increases will occur.

SECTION 17.02: SCOPE

The scope of the Town's Financial Management Policies spans accounting, auditing, financial reporting, internal controls, annual operating and multi-year capital budgeting, revenue management, cash management, expenditure control, and debt management.

SECTION 17.03: ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

A. Accounting

The Town's Accounting Manager is responsible for establishing and maintaining the chart of accounts, and for properly recording financial transactions.

B. Funds

Self-balancing groups of accounts are used to account for the Town's 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. In essence, the General Fund is intended for governmental tax supported operations of the Town. Funds are created and fund names are changed by Town Council approval through resolution either during the year or in the Town Council's approval of the annual operating budget ordinances. (See Fund Balance Policy)

C. External Auditing

At the close of each fiscal year, and at such other times as may be deemed necessary, the Town Council shall call for an independent audit to be made of all accounts of the Town. The auditors must be a certified public accounting firm capable of conducting the Town's audit in accordance with generally accepted auditing standards, generally accepted government auditing standards, and contractual requirements. No more than five (5) consecutive annual audits shall be completed by the same firm. The certified public accountant selected shall have no personal interest, directly or indirectly, in the financial affairs of the Town or any of its officers, be a member of the Government Audit Quality Center of the AICPA and have a minimum of ten other government audit and single audit clients.

The audit report, with the auditor's recommendations and findings (if any) will be made to the Finance Sub-Committee of Town Council. Upon completion of the audit, the Independent Auditor's Report as part of the Annual Financial Report shall be published on the Town's website and copies of the audit placed on file in the office of the person performing the duties of Town Secretary, as public record. (See Town Charter Article VII, Section 7.18 Independent Audit)

D. External Financial Reporting

The Town will prepare and publish an Annual Comprehensive Financial Report (ACFR). The ACFR will be prepared in accordance with generally accepted accounting principles, (GAAP) and will be submitted annually to the Government Finance Officers Association (GFOA) for evaluation and awarding of the Certification of Achievement for Excellence in Financial Reporting. The ACFR will include the General Fund Budget and Actual information as a basic financial statement and therefore included in the audit opinion. It will be published and presented to Town Council within six months after the end of the fiscal year.

E. Internal Financial Reporting

The Finance Department will prepare internal financial reports sufficient for management to plan, monitor, and control the Town's financial affairs throughout the year.

SECTION 17.04: INTERNAL CONTROLS

A. Written Procedures

Town Management and the Finance Director is responsible for developing town-wide written guidelines for financial management, accounting, financial reporting and finance related compliance requirements including grant compliance and reporting.

B. Department Directors Responsibilities

Each department director is responsible to the Town Manager to ensure that good internal controls are followed throughout his or her department to achieve the operational, financial management and reporting and compliance objectives of the department and Town. These will include guidelines on accounting and internal controls required by Finance, and that all independent auditor internal control recommendations are addressed.

SECTION 17.05: OPERATING BUDGET

A. Preparation

The Town's annual "Operating Budget" is legally adopted by ordinance and may only be amended by similar action. It consists of governmental and proprietary funds, including the general obligation and revenue supported Debt Service Fund, but excluding Capital Projects Funds which are adopted on a multi-year project basis. The preliminary budget is prepared by the Finance Department with the cooperation of all Town departments and is submitted to the Town Manager who makes any necessary changes and transmits the document on or before the fifteenth (15th) day of August of the fiscal year to Town Council. Upon receipt of the preliminary budget, Town Council deliberates any needed changes prior to approving the proposed tax rate and budget for the legal advertising and public hearing process. The preliminary budget, a staff document, has now become the proposed budget, an official Town document.

The proposed budget and all supporting schedules shall be filed with the Town Secretary when submitted to the Town Council and shall be open to public inspection. Thereafter, the Town Council should enact the final budget prior to fiscal year end. The operating budget may be submitted to the GFOA annually for evaluation and consideration of awarding the Award for Distinguished Budget Presentation.

B. Balanced Budget

The final operating budget adopted by Town Council shall constitute the official appropriations for the current year and shall constitute the basis of official levy of the property tax as the amount of tax to be assessed and collected for the corresponding tax year. Estimated recurring expenditures will not exceed proposed recurring revenue. Non-recurring expenditures may be funded from recurring revenues, non-recurring revenues or other sources or from undesignated fund balance in excess of the contingency reserve. Unused appropriations may be transferred during the year by the Town Manager within the level of budgetary control to any item required for the same general purpose. Items ordered during the year but not yet received will be encumbered and carried over to the new year,

C. Budgetary Control

The level of budgetary control is the fund level for all funds. Under conditions which may arise and which could not reasonably have been foreseen in the normal process of planning the budget, the Town Council may, by the affirmative vote of a majority of the full membership of the Town Council, amend or change the budget to provide for any additional expense in which the general welfare of the citizenry is involved. These amendments shall be approved by ordinance, and shall become an attachment to the original budget.

D. Tax Rate Management

The property tax rate is divided into two categories by state law: Maintenance & Operations (M & O) and Debt Service (also referred to as the Interest & Sinking Fund or I & S). Debt service tax rate is strictly limited to payment of principal and interest on general obligation debt. Maintenance and operations can be used for a wider range of purposes but is limited by state law regarding how much revenue may increase before triggering a mandatory election. For this reason, once reduced, it is very difficult to increase. Recognizing the need to manage its debt levels

and to have adequate revenue capacity to staff and operate future facilities without requiring a tax rate increase the Town will determine annually how much of the M & O rate can be designated a "Capital Dedicated/Future Facility Staffing". This levy will be used to reduce needed debt issuance but will ultimately be available to transfer back to the General Fund once growth has slowed but new facilities are still being brought on-line.

E. Contingency Reserve

Provisions shall be made in the annual budget maintaining a contingency reserve fund balance designation in an amount not less than twenty percent (20%) of the total general fund expenditures, to be used in case of unforeseen items of expenditure or revenue shortfalls. (See Town Charter Article VII, Section 7.08). It is also the goal of the Town to achieve and maintain an unassigned fund balance in the General Fund equal to five percent (1%) of budgeted expenditures for unanticipated expenditures, unforeseen revenue fluctuations, or other adverse circumstances. These contingency reserves are further detailed in the Town's Fund Balance Policy.

F. Planning

The budget process will be coordinated in concert with the Town Council's major strategic planning objectives. A one-year budget is adopted each year and a four-year financial plan is presented to help manage the decisions made for the next fiscal year and the impact it has on future fiscal responsibilities.

G. Reporting

Periodic 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 authorized by the Town Council. Summary financial reports will be presented to the Town Council each month. Such reports will include current year revenue and expenditures in comparison to budget and prior year actual revenues and expenditures.

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 processes.

SECTION 17.06: CAPITAL IMPROVEMENT PROGRAM

A. Preparation

The Town's Capital Improvement Program will include all capital projects. The Capital Improvement Program will be prepared annually to be a comprehensive five-year (5) capital program as an attachment to the annual budget.

B. Program Planning

The program as submitted shall include:

1. A clear general summary of projects;
2. A list of all capital improvements which are proposed to be undertaken during the upcoming five (5) fiscal years, with appropriate supporting information as to the necessity for such improvements;
3. Cost estimates, method of financing, and recommended time schedules for each improvement; and
4. The estimated annual cost of operating and maintaining the facilities to be constructed or acquired.

The above information may be revised and extended each year for capital improvements still pending or in process of construction or acquisition. The Capital Improvement Program will be updated and presented to the Town Council, annually.

C. 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.

D. 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, which equal or exceed the average life of the debt issued. 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.

E. Reporting

Periodic 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 Town Council.

SECTION 17.07: REVENUE MANAGEMENT

A. Simplicity

The Town will strive to keep the revenue system simple, which will result in a decrease of compliance costs for the taxpayer or service recipient and a corresponding decrease in avoidance to pay.

B. Administration

The benefits of revenue will exceed the cost of producing the revenue. The cost of collection will be reviewed annually for cost effectiveness. Where appropriate, the Town will use the administrative processes of state or federal collection agencies in order to reduce administrative costs.

C. Dedication of Revenues

Revenues will not be dedicated for specific purposes unless required by law or contractual provisions. All non-restricted revenues will be deposited into the General Fund and appropriated by the budget process.

D. Financial Stability

Current revenues will fund current expenditures and one-time revenues will not be used for ongoing operations. Non-recurring revenues will be used only for non-recurring expenditures. Care will be taken not to use these revenues for budget balancing purposes.

E. Property Tax Revenues

Property shall be assessed at 100% of the fair market value as appraised by the Collin and Denton Appraisal Districts. Reappraisal and reassessment shall be done regularly, as required by state law.

All delinquent taxes will be pursued and turned over to a private attorney. A penalty will be assessed to compensate the attorney as allowed by state law, and in accordance with the attorney's contract.

F. User-Based Fees

For services associated with a user fee or a fee to offset charge, the direct and indirect costs of that service will be imposed. There will be a periodic review of fees and charges to ensure that fees provide adequate coverage of costs of services. User charges may be classified as "full cost recovery," "partial cost recovery," and "minimal cost recovery," based on Town Council policy.

G. Impact Fees

Impact fees are currently imposed for water, wastewater, and roadway in accordance with applicable Town ordinances and state law. Impact fees will be re-evaluated at least every five years, as required by law.

H. Utility Rates

The Town will review utility rates periodically, and if necessary, adopt new rates that will generate revenues required to fully cover operating expenses, meet the legal restrictions of all

applicable bond covenants, and provide for an adequate level of working capital needs and debt service requirements. This policy does not preclude drawing down cash balance to finance current operations. However, it is best that any extra cash balance be used instead to finance capital projects.

I. Interest Income

Interest earned from investment of available cash resources, whether pooled or not, will be distributed to the funds in accordance with the average monthly cash balances.

J. Revenue Monitoring

Revenues actually received will be regularly compared to budgeted revenues and variances will be investigated. This process will be summarized in the appropriate budget report.

SECTION 17.08: EXPENDITURE CONTROL

A. Appropriations

The level of budgetary control is explained in Section 17.05.C. Budgetary Control. When budget amendments between funds are necessary, Town Council must approve these. Budget appropriation amendments at lower levels of control shall be made in accordance with the applicable administrative procedures.

B. Purchasing

All purchases shall be in accordance with the Town's Purchasing Policy.

C. Lapse of Appropriations

Every appropriation subject to an annual operating budget shall lapse at the close of the fiscal year to the extent that it has not been expended or encumbered. An encumbered appropriation that has not been received by two months after fiscal year end will also lapse unless a special exception is granted based on extenuating circumstances. Capital expenditures adopted or transferred in a capital project fund or the VERF internal service fund are adopted on a project basis. The purchase of any such appropriation shall be deemed abandoned if three (3) years pass without any disbursement from or encumbrance of the appropriation. Any funds not expended, disbursed or encumbered shall be deemed excess funds.

SECTION 17.09: ASSET MANAGEMENT

A. Investments

The Town's investment practices will be conducted in accordance with the Public Funds Investment Act (PFIA) and the Town Council approved Investment Policy and Strategy each year.

B. Cash Management

The Town's cash flow will be managed for liquidity first while maximizing the cash available to invest.

C. Investment Reporting

A quarterly Investment Officer's Report meeting the requirements of the Public Funds Investment Act (PFIA) on investment activities will be provided by the Finance Director for presentation to the Town Council.

D. Fixed Assets and Inventory

These assets will be reasonably safeguarded and properly accounted for, and prudently insured.

SECTION 17.10: FINANCIAL CONDITION AND RESERVES

A. No Operating Deficits

Current expenditures will be paid with current revenues and prior year surplus. Deferrals, short-term loans, or one-time resources will be avoided as budget balance techniques. Reserves will be used only for emergencies or non-recurring expenditures.

B. Operating Reserves

In accordance with GASB-54, it is the policy of the Town to classify fund balances as Non-spendable, Restricted, Committed, Assigned, or Unassigned and develop policy for establishment and activity of each classification. See Fund Balance Policy that defines such categories.

C. Minimum Unassigned Fund Balance

It is the goal of the Town to achieve and maintain an unassigned fund balance in the General Fund equal to one percent (1%) of budgeted expenditures for unanticipated expenditures, unforeseen revenue fluctuations, or other adverse circumstances. This amount is in addition to the twenty percent (20%) restricted fund balance amount required by the Town Charter.

D. Risk Management Program

The Town will aggressively pursue every opportunity to provide for the public's and Town employees' safety and to manage its risks.

E. Loss Financing

All reasonable options will be investigated to finance losses. Such options may include risk transfer, insurance, and risk retention.

F. Enterprise Fund Self-Sufficiency

The Town's enterprise funds' resources will be sufficient to fund operating and capital expenditures. The enterprise funds will pay (where applicable) their fair share of general and administrative expenses in lieu of property taxes and/or franchise fees. If an enterprise fund is temporarily unable to pay all expenses, then the Town Council may waive general and administrative expenses in lieu of property taxes and/or franchise fees until the fund is able to pay them.

G. Special Purpose Districts Cash Reserves

The Town has two Special Purpose Districts: Crime Control and Prevention Special Purpose District; and Fire Control, Prevention and Emergency Medical Services Special Purpose District. It is the desire of the Town to maintain a cash reserve balance equal to twenty-five thousand dollars (\$25,000) in each of the Special Purpose Districts beginning in fiscal year 20-21 and future fiscal years.

H. Contingent Budget Measures

Economic downturns including recessions are inevitable even in a rapidly growing community. The dynamic economy of both Texas and Dallas-Fort Worth metroplex and Prosper's location in the northern growth path make it likely that even recessions will be more a "pause" rather than a "stop". However, the town must ensure that a structurally balanced budget is maintained even if debt issuance and staffing additions must be paused until the economy recovers.

SECTION 17.11: DEBT MANAGEMENT

A. General

The Town's borrowing practices will be conducted in accordance with the Town Council approved Debt Management and Debt Post Issuance Policies.

B. Self-Supporting Debt

When appropriate, self-supporting revenues will pay debt services in lieu of tax revenues.

C. Analysis of Financing Alternatives

The Town 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.

D. Voter Authorization

The Town shall obtain voter authorization before issuing General Obligation Bonds as required by law. In general, voter authorization is not required for the issuance of Revenue Bonds and Certificates of Obligation.

SECTION 17.12: STAFFING AND TRAINING

A. Adequate Staffing

Staffing levels will be adequate for the fiscal functions of the Town to function effectively. Comparison of workload and staffing levels of comparison cities will be explored before adding staff.

B. Training

The Town will support the continuing education efforts of all financial staff including the investment in time and materials for maintaining a current perspective concerning financial issues. Staff will be held accountable for communicating, teaching, and sharing with other staff members all information and training materials acquired from seminars, conferences, and related education efforts.

C. Awards, Credentials

The Town will support efforts and involvements which result in meeting standards and receiving exemplary recitations on behalf of any of the Town's fiscal policies, practices, processes, products, and personnel. Staff certifications may include Certified Public Accountant, Certified Management Accountant, Certified Internal Auditor, Certified Payroll Professional, Certified Government Finance Officer, Professional Public Buyer, Certified Cash Manager, PFIA investment training, and others as approved by the Town Manager upon recommendation of the Finance Director.

SECTION 17.13: GRANT MANAGEMENT

A. General

The Town's grant management practices will be conducted in accordance with the Town's Grant Management Policy.

The Town of Prosper Financial Management Policy was approved on the 1st of xxx, 2024.

Mario Canizares, Town Manager