

**CITY OF BRYAN**

**FINANCIAL MANAGEMENT POLICY STATEMENTS**

Updated 10.01.2024

## **OVERVIEW**

### **Purpose**

The City of Bryan Financial Management Policy Statements assemble all of the City's major financial policies into one document. These statements are the tools used to ensure that the City is financially able to meet its current and future service needs. The individual statements contained herein serve as guidelines for both the financial planning and internal financial management of the City.

Municipal resources must be wisely used to ensure adequate funding for the services, public facilities, and infrastructure necessary to meet immediate and long-term needs. These policy statements safeguard the fiscal stability required to achieve the City's objectives and ensure long-term financial health.

### **Objectives**

- A. To guide City Council and management policy decisions that have significant fiscal impact.
- B. To employ balanced revenue policies that provides adequate funding for services and service levels.
- C. To maintain appropriate financial capacity for present and future needs.
- D. To maintain sufficient reserves so as to maintain service levels during periods of economic downturn.
- E. To promote sound financial management by providing accurate and timely information on the City's financial condition.
- F. To protect the City's credit rating and provide for adequate resources to meet the provisions of the City's debt obligations on all municipal debt.
- G. To ensure the legal use of financial resources through an effective system of internal controls.
- H. To enhance transparency in financial matters.

### **Updates to Financial Management Policy Statements**

The Financial Management Policy Statements will be reviewed and approved by Council at a minimum of every two years.

### **Compliance with Financial Management Statements**

A Financial Management Policy Compliance checklist will be completed annually by the City of Bryan Fiscal Services Department and the results will be reported to the Audit Committee. The Financial Management Policies are guidelines, and occasionally exceptions may be appropriate and required. Exceptions to stated policies will be specifically identified and explained to the City Manager and City Council.

## **Summary of Major Policy Topics**

	<b>Page</b>
<b>I. Accounting, Auditing &amp; Financial Reporting</b>	<b>4</b>
<b>II. Financial Consultants</b>	<b>5</b>
<b>III. Budgeting and Long-Range Financial Planning</b>	<b>6</b>
<b>IV. Revenues and Other Resources</b>	<b>9</b>
<b>V. Capital Expenditures and Improvements</b>	<b>11</b>
<b>VI. Fund Balance/Ending Balances</b>	<b>11</b>
<b>VII. Debt</b>	<b>14</b>
<b>VIII. Cash Management/Investments</b>	<b>16</b>
<b>IX. Grants</b>	<b>17</b>
<b>X. Economic Development Agreements</b>	<b>17</b>

## **Detail of Major Policy Topics**

### **I. Accounting, Auditing and Financial Reporting**

Maintain accounting practices that conform to generally accepted accounting principles and comply with prevailing federal, state, and local statutes and regulations. Prepare and present regular reports that analyze and evaluate the City's financial performance and economic condition.

#### **A. Accounting Practices and Principles**

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

#### **B. Financial and Management Reports**

Interim financial reports that note significant deviations from the amended budget will be provided on a monthly basis to management and the City Council. These reports will be reviewed monthly with the City Manager and provided to City Council by the end of each month for the prior month. A quarterly report will be prepared based on these documents and will be presented to the Audit Committee for review.

Any reports that are required by the State Comptroller's Office as established by the legislature will be compiled and reported according to statute. This includes, but is not necessarily limited to debt reporting, Hotel Occupancy Tax reporting, and any reports related to the State Comptroller's Transparency Star Program.

#### **C. Annual Audit**

Pursuant to State Statute, the City shall have its records and accounts audited annually and shall have annual financial statements prepared based on the audit. The audit shall be performed by a certified public accounting (CPA) firm, licensed to practice in the State of Texas. The audit firm shall provide a management letter to the City prior filing the audit. The audit firm shall also provide a Single Audit of Federal and State grants, when necessary. An official Annual Comprehensive Financial Report (ACFR) shall be issued no later than 180 days following the end of the fiscal year.

#### **D. Annual Financial Disclosure**

As required by the Securities and Exchange Commission (SEC) Rule 15c2-12, the City, with support of the City's financial advisor and bond counsel, will provide certain annual financial information to various information repositories through disclosure documents or set of documents that include the necessary information. This will include any material event notices to be filed as required by relevant regulations.

E. Signature of Checks

All checks shall have two (2) signatures. Two (2) persons shall be authorized to sign checks: the Mayor and the Chief Financial Officer. Signatures shall be affixed to all City checks via facsimile signatures, made with a secure laser check printing system or through handwritten signatures affixed to each check. For checks issued on behalf of management companies, signatures of two (2) authorized representatives are affixed to each check.

## II. Financial Consultants

The City will employ qualified financial advisors and consultants as needed in the administration and management of the City's financial functions. Factors in the selection of these consultants will be experience/expertise, ability to perform, services offered, references, and methodology to name a few. In no case should price be allowed to serve as the sole criterion for the selection.

A. Selection of Auditors

At least every five (5) years, the City shall request proposals from qualified audit firms, including the current auditors if their past performance has been satisfactory. The Audit Committee shall recommend to City Council an independent firm of certified public accountants to perform an annual audit of the accounts and records, and render an opinion on the financial statements of the City.

1. It is the City's preference to rotate audit firms every five (5) years to ensure the City's financial statements are reviewed and audited with an objective, impartial, and unbiased point of view. The rotation of the audit firm will be based upon the proposals received, qualifications of the firm, and ability to perform a quality audit.
2. However, if through the proposal and review process, management and the Audit Committee select the current audit firm, it is the City's preference that the lead audit partner be rotated as well as the lead reviewer after a maximum of five (5) years.
3. Annually, the independent auditor will provide a letter of engagement to the City for annual audit services. The engagement letter shall be signed by the Chief Financial Officer and the Chairman of the Audit Committee and will be submitted to City Council as support for the auditor's contract renewal as specified in the contract terms.

B. Arbitrage

While the City is responsible to ensure that the records are in order, calculations are performed, reporting is completed, and filings are made, the actual arbitrage calculation and reporting shall be contracted out to a qualified firm.

Every five (5) years the City will issue a Request for Qualifications for Arbitrage Consultants. Qualifications will be the sole criteria for ranking and price will be negotiated once the top respondents are chosen.

C. Bond Counsel

Bond counsel to the City has the role of an independent expert who provides an objective legal opinion concerning the issuance and sale of bonds and other debt instruments. As bond counsel are specialized attorneys who have developed necessary expertise in a broad range of practice areas,

the City will always use a consultant for these services. Generally, bonds are not marketable without an opinion of nationally recognized bond counsel stating that the bonds are valid and binding obligations stating the sources of payment and security for the bonds and that the bonds are exempt from State and Federal income taxes.

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

**D. Financial Advisory Services**

The City issues various types of securities to finance its capital improvement program. Debt structuring and issuance requires a comprehensive list of services associated with municipal transactions, including but not limited to: method of sale, analysis of market conditions, size and structure of the issue, preparation of disclosure documents, coordinating rating agency relations, evaluation of and advice on the pricing of securities, assisting with closing and debt management, calculating debt service schedules, and advising financial management.

As financial advisors to governmental entities have developed the necessary expertise in a broad range of services, the City will use a consultant for these services. Every five (5) years the City will submit a Request for Qualifications for Financial Advisory Services. Qualifications will be the sole criteria for ranking and price will be negotiated once the top respondents are chosen.

**E. Depository Bank**

Pursuant to State law, the City of Bryan may approve a depository services contract with a term that does not exceed five (5) years. There is no requirement for rotation. The City of Bryan will select its official banking institution through a formal process based on best value in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available.

**III. Budget and Long-Range Financial Planning**

**A. Financial Structure**

The accounts of the City are organized on the basis of funds and account groups, each of which operate separately and independently of each other. The operations of each fund are accounted for with a separate set of self-balancing accounts that are comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses. The following is a description of the various funds and account groups:

**1. Governmental Fund Type**

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

- a. General Fund: The General Fund is the general operating fund and is used to account for all financial transactions not properly included in other funds. Resources are generated through property tax, sales tax, other general taxes, franchise fees, fines, licenses, and fees

for services. This fund accounts for the primary activities of the City: police and fire protection, maintenance of parks, libraries, minor street repair, and general administration.

- b. Special Revenue Funds: Used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.
- c. Debt Service Fund: Used to account for the payment of interest and principal on all general obligation bonds, certificates of obligation, and other long-term debt.
- d. Capital Improvement Program Funds: Used to account for the expenditures of resources accumulated from the sale of debt instruments earmarked for such projects. These funds are allocated from debt proceeds on a project length basis rather than a fiscal year basis.
- e. Permanent Funds: Used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the City's programs. These funds are not included in the budget document and are not budgeted.

## 2. Proprietary Fund Type

Proprietary funds are used to account for the City's activities that are similar to commercial enterprise accounting. The City maintains two different types of proprietary funds

- a. Enterprise Funds: Used to account for services that are financed and operated in a manner similar to private business, where the intent of the governing body is that the cost of providing goods and services to the general public will be financed or recovered primarily through user charges or fees.
- b. Internal Service Funds: Used to account for the financing of goods and services provided by one department or agency to other departments and agencies of the city on a cost reimbursement basis. Internal Service Funds include the Warehouse Fund, Employee Benefits Fund, and Self Insurance Fund.

## 3. Fiduciary Fund Type

This fund type accounts for assets held by the City in a trustee capacity or as an agent for other governmental units and/or funds. The Fiduciary Fund for the City is the Payroll Fund. Each of the other funds contributes its respective share of personnel costs to the Payroll Fund. This fund is not included in the budget document and is not budgeted.

## B. Balanced Budget

The City Manager shall propose annually a *structurally* balanced budget for the ensuing fiscal year to City Council pursuant to the prevailing state and local law. A structurally balanced budget is further defined as recurring revenues funding recurring expenditures and adherence to both minimum and targeted fund balance policies. Short-term loans between funds will be avoided as budget balancing techniques. Non-recurring expenditures may be funded with either recurring or non-recurring revenues or fund balance.

The City shall demonstrate annually the impact of expected revenues and expenditures on fund balance and adhere to a structurally balanced budget through long-range financial planning.

C. Current Funding Basis (Recurring Revenues)

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

D. Use of Non-Recurring Revenues

Non-recurring revenue sources, such as a one-time revenue remittance of fund balance in excess of policy can only be budgeted/used to fund non-recurring expenditures, such as capital purchases or capital improvement projects. This will ensure that recurring expenditures are not funded by non-recurring sources. The use of one-time revenue funds such as the Capital Reserve Fund may be utilized to facilitate the separation between recurring and non-recurring revenues.

E. Property Tax Rate

The City Manager will recommend a property tax rate that allows the City to provide the level of services required by its citizens, continually fund ongoing operations and maintenance expenses, and pay its debt requirements.

F. Cash Funded Capital Projects

Cash funded capital projects will be budgeted when financially feasible while considering the impact of these projects on the long-range financial plans of the City. Funding will be based on the financial health of each fund with the long-term goal of adequately funding ongoing infrastructure and capital improvement needs.

G. Revenue Estimating for Budgeting

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

H. Performance, Merit Pool, and Civil Service Step Increases

The budget shall include an amount adequate to cover an overall average performance and merit pool, as well as an amount for police and fire step increases, as determined annually by the City Manager. Budgeted performance and merit increases shall be based on current market surveys. Amounts will be calculated for each fund based on budgeted salaries for the year. In addition, funds may be budgeted when appropriate to bring identified jobs and/or pay-scales up to market salary rates.

I. Budget Preparation

1. Department Directors have primary responsibility for formulating budget proposals. New or expanded services should support City Council goals, City Manager direction, and department goals. Departments are charged with implementing these directions and goals once they are approved.
2. All competing requests for City resources will be considered within the annual budget process.



- a. The City will prepare a Base Budget consisting of expenditures supporting current levels of service, including current staffing levels adjusted for budgeted compensation increases for performance, merit and civil service step increases.
- b. Increases to staffing or levels of service will be budgeted through Budget Decision Packages, which must be fully justified and will be reviewed separately.

**J. Budget Management**

The City Council shall delegate authority to the City Manager in managing the budget after it is formally adopted by the City Council, including the transfer of funds within departments, between divisions, and between departments, as well as amending budgeted revenues. The City Manager may further delegate levels of authority for the daily operations of the budget. Expenditures/expenses are legally adopted at the fund level. All unbudgeted transfers between funds or amendments increasing annual expenditures must be approved by City Council. Expenditures should not exceed the adopted budget, including budget amendments approved by the City Council.

**K. Long-Range Financial Plans**

1. The City shall develop and maintain a five-year financial forecast for each major operating fund in conjunction with the annual budget process. Major operating funds are as follows:
  - a. General Fund
  - b. Debt Service Fund
  - c. Enterprise Funds
  - d. Special Revenue Funds
  - e. Internal Service Funds
2. The forecast should enable current services and current service levels provided to be sustained over the forecast period. Operating impacts from completed capital improvement projects in the City's five-year Capital Improvement Program shall be included in the forecast. Commitments and obligations already made that require future financial resources shall also be included.
3. The forecasts should identify the impact to property taxes and utility rates.

**IV. Revenues and Other Resources**

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

**A. Property Taxes**

1. The City's property tax revenues fund the City's General Fund, Debt Service Fund, TIRZ Funds and Oil and Gas Fund. The City's property tax rate, both O&M and I&S, are evaluated annually through the budget process.
2. Payments to Tax Increment Reinvestment Zones (TIRZ) – The City has several TIRZ established within the City. Taxes paid to the City on properties in each zone are paid to each TIRZ monthly, or as they are received by the County Tax Assessor/Collector.
3. Oil and Gas property taxes will be transferred to the Oil and Gas Fund to use for one-time expenditures.

B. Electric/Water/Wastewater Billings

Electric, water, and wastewater charges are billed in arrears, as customer meters are read monthly for the previous month's usage. At year end, revenues are accrued to adjust revenues to full accrual basis. During the year, revenues are recorded on a modified accrual basis (when billed).

C. Revenue Collections

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

1. The City shall contract for collection of outstanding receivables when it makes economic sense for the City to do so.
2. Utility write-offs will be recorded on accounts outstanding for two (2) years, identified as uncollectible, where all attempts to collect have been taken. The write-off of uncollected accounts is a bookkeeping entry only and does not release the debtor from any debt owed to the City.
3. The City shall estimate uncollectible accounts through an allowance for doubtful accounts in each fund with receivables.

D. User Fees

The City shall design, maintain, and administer a revenue system that will help ensure a reliable, equitable, diversified, and sufficient revenue stream to support desired City services.

1. General Fund

- a. For services that benefit specific users the City shall establish and collect fees to recover the costs of those services.
- b. Where services provide a general public benefit, the City shall finance those services through property and sales taxes.
- c. For services that provide both specific benefits and a general public benefit, it may be appropriate to subsidize those services from property and sales tax revenues.
- d. Factors in setting fees shall include but not be limited to: market and competitive pricing, effect on demand for services, and impact on users, which may result in recovering something less than full cost.

2. Enterprise Funds

- a. Utility rates and other fund user fees shall be set at levels sufficient to cover operating expenditures (direct and indirect), meet debt obligations and debt service coverage, provide pay-as-you-go funding for designated cash-funded capital improvements, provide funding of the Right of Way Transfer, and provide adequate levels of working capital.
- b. The five-year financial forecast shall serve as the basis for rate change considerations.
- c. If rate increases are necessary, the five-year financial forecast shall be built around smaller rate increases annually versus higher rate increases periodically.

E. Lien Collections

The collection of outstanding liens shall be addressed through the City of Bryan Policy for the Management and Release of City Held Liens, Resolution 3828 adopted June 11, 2019.

**V. Capital Expenditures and Improvements**

City staff will review and monitor the state of the City's capital equipment and infrastructure annually, setting priorities for its replacement and renovation based on needs, funding alternatives, and availability of resources.

A. Capitalization Threshold for Tangible Capital Assets

Tangible capital items should be capitalized only if they have an estimated useful life of at least three (3) years following the date of acquisition or significantly extend the useful life of the existing asset and cannot be consumed, unduly altered, or materially reduced in value immediately by use and has a cost of not less than \$10,000 for any individual item.

The capitalization threshold of \$10,000 will be applied to individual items rather than to a group of similar items, (i.e.: desktop computers, desks, chairs, etc.) unless individual items are acquired as part of a system (i.e.: implementing a new computer system or furnishing a newly constructed building).

B. Capital Improvement Program

The Capital Improvement Program (CIP) address Bryan's long-term needs in the form of street and drainage improvements, new parks, and other public utilities and facilities. The CIP process is governed by a separate resolution.

C. Replacement of Capital Assets on a Regular Schedule (Fleet and Technology)

The City shall annually review a schedule for the replacement of its fleet and technology capital assets. Within the resources available each fiscal year, the City shall replace these assets according to needs.

D. Capital Expenditure Financing

The City recognizes that there are three (3) basic methods of financing its capital requirements: funding from current revenues, funding from fund balance/working capital as allowed by the Fund Balance/Working Capital Policy, or funding through the issuance of debt. Types of debt and guidelines for issuing debt are set forth in the Debt section of this policy.

**VI. Fund Balances/Ending Balances**

The City shall maintain the fund balance of the various operating funds at levels sufficient to protect the City's creditworthiness as well as its financial position during emergencies or economic fluctuations. Should the budgeted fund balance drop below the minimum identified by the policy below, the City will establish a plan to replenish the balances the following year. Fund balance is calculated on an as budgeted basis and therefore excludes non-cash operating expenses in determining balance minimums or targets. The budgeted spending for each fund type should consider the expected fund balance for all years of the five-year financial forecast, not just the most current year.

A. Fund Balance Classification

The governmental fund financial statements will present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor certain constraints on the use of the financial resources within the governmental funds. The classifications used will be as follows:

1. Non-spendable: includes fund balance amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact.
2. Restricted: includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts restricted due to constitutional provisions or enabling legislation.
3. Committed: includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City through the adoption of an ordinance. In order for fund balance to be committed, the City Council must adopt an ordinance stating the purpose for which the fund balance is committed. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (adoption of an ordinance) it employed to previously commit these amounts.
4. Assigned: includes fund balance amounts that are self-imposed by the City to be used for a particular purpose. Fund balance can be assigned by the City Manager, the Chief Financial Officer, or their designee. This authority was delegated to the City Manager and the Chief Financial Officer by formal resolution of the City Council. Assigned funds are generally year end encumbered funds related to open purchase orders.
5. Unassigned: includes the residual fund balance which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes. These negative balances are accounted for in the General Fund as amounts due from the funds carrying a negative balance.

B. Commitment of Fund Balance

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Similarly, committed fund balances are reduced first followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications are available.

C. Assignment of Fund Balance

The City Council has authorized the City Manager as the official authorized to assign fund balance to a specific purpose pursuant to the guidelines.

D. General Fund Unassigned Fund Balance

Minimum Unassigned Fund Balance – The City shall maintain the General Fund unassigned fund balance at a minimum level equivalent to 60 days of recurring, budgeted operating expenditures in the five-year financial forecast.

Target Unassigned Fund Balance – Because the City is subject to unplanned fluctuations in revenues and expenditures, a targeted fund balance of 100 days has been established. The annual budget should be set at a level that produces the target level of unassigned fund balance by the end of the five-year financial forecast.

E. Water, Wastewater, Solid Waste, and Airport Funds Unrestricted Cash Balance

The City shall maintain the Water, Wastewater, Solid Waste, and Airport Funds unrestricted cash balance at a level that ensures that an equivalent to 60 days of recurring, budgeted operating expenditures is maintained in the five-year financial forecast.

F. Bryan Texas Utilities (BTU) City Fund Unrestricted Cash Balance

Minimum Unrestricted Cash Balance – Will be maintained at a minimum of 90 days of the current year's operating expenditure budget.

Target Unrestricted Cash Balance – Because BTU is subject to unexpected changes in energy costs, revenues, and expenditures, a targeted unrestricted cash balance is set at 225 days of the current year's operating expenditure budget, excluding extraordinary items. For the purposes of this calculation, the expenditure budget includes operating expenditure, right-of-way payments, and any excess funds assignment to the City's General Fund. The annual expenditure budget in association with the rate-setting process, should be set at a level that produces the target level of unrestricted cash by the end of the five-year financial forecast.

G. Bryan Texas Utilities (BTU) Rural Fund Unrestricted Cash Balance

Minimum Unrestricted Cash Balance – Will be maintained at a minimum of 45 days of the current year's operating expenditure budget.

Target Unrestricted Cash Balance – Because BTU-Rural is subject to unexpected changes in energy costs, revenues, and expenditures, a targeted unrestricted cash balance is set at 125 days of the current year's operating expenditure budget, excluding extraordinary items. The annual expenditure budget in association with the rate-setting process should be set at a level that produces the target level of unrestricted cash by the end of the five-year financial forecast.

H. TIRZ Funds Unassigned Fund Balance

Target Unassigned Fund Balance – Because TIRZ funds generally have minimal operating expenses other than debt service, the City shall target an unassigned fund balance of no less than \$50,000 in each TIRZ fund, rather than as a percent of operating expenses. Budgeting should consider future debt service levels in setting current and future funding levels.

I. Self-Insurance Fund Unassigned Fund Balance

Target Unassigned Fund Balance – The City shall target a minimum unassigned fund balance equal to the stop-loss deductible for the City's excess worker's compensation and liability policy.

J. Employee Benefits Fund Unrestricted Fund Balance

Target Unassigned Fund Balance – The City shall target an unassigned fund balance of 60 days of the current year's budgeted expenditures.

K. Debt Service Fund Balance

The City shall maintain the minimum debt service fund balance at one (1) month of annual debt service requirements.

L. All Other City Funds Unassigned Fund Balance/Unrestricted Cash Balance

All other funds do not have a stated minimum unassigned fund balances/unrestricted cash balances but rather are monitored on a monthly basis. A balance sufficient to meet budgeted expenditures will be maintained in all funds.

## **VII. Debt**

Establish guidelines for debt financing that will provide needed facilities, land, capital equipment, and infrastructure improvements, while minimizing the impact of debt payments on current and future tax rates.

A. Use of Debt Financing

Debt financing, to include general obligation bonds, revenue bonds, certificates of obligations, lease/purchase agreements, and other obligations permitted to be issued or incurred under Texas law, shall only be used to purchase capital assets that cannot be prudently acquired from either current revenues or fund balance/working capital and to fund infrastructure improvements and additions. Debt may also be used to fund pension obligation liabilities when it makes financial sense to do so. Pension obligation bonds will not be used to pay current pension expenditures (also known as normal costs). Debt will not be used to fund current operating expenditures.

The City will pay cash for capital improvements within the financial capability of each fund based on the five-year financial forecast versus automatically issuing debt when funding capital expenditures and capital improvements. Cash sources include, but are not limited to, general fund unassigned fund balance, utility and airport system revenues, economic development corporation funding, developer fees, inter-local agreements, and state and federal grants.

B. Debt Financing

1. Affordability

The City shall use an objective analytical approach to determine whether it can afford to issue new general purpose debt, both General Obligation bonds and Certificates of Obligation.

2. Debt Capacity

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

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

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

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

C. Debt Coverage Ratios

The Debt Coverage Ratio is the ratio of Net Revenue Available for Debt Service to Debt Annual Service cost. Debt Coverage Ratios shall be maintained at:

	<b>Minimum</b>	<b>Target</b>
BTU City Electric	1.1	2.5
BTU Rural Electric	1.2	2.0
Water & Wastewater	1.25	2.0

D. Fixed Charge Coverage Ratio

The Fixed Charge Coverage Ratio measures a utility's ability to service both its total debt and debt-like obligations, and is based on the following calculation:

(Revenues-Expenses-Total Net Transfers Out + Fixed Costs and Imputed Charges – Total Debt Service) divided by Fixed Costs and Imputed Charges. For BTU-City and BTU-Rural the Fixed Charge Coverage Ratio will be targeted at a level no lower than 1.4. This measure applies only to BTU-City and BTU-Rural.

E. Debt Reserve Fund

Debt service reserves should be maintained for each bond issue as required by bond covenants.

F. Continuing Financial Disclosure related to Debt

The covenants related to debt require continual annual disclosure of specific financial information about the City. Required annual disclosure information will be posted to the Electronic Municipal Market Access (EMMA) website and as a supplement to the City's annual ACFR document

G. TIRZ Debt.

It is the City's policy not to issue City debt in order to fund any future Tax Increment Reinvestment Zones (TIRZ).

H. Debt Structures

1. The City shall normally issue bonds with a life not to exceed 25 years for general obligation bonds and 25 years for revenue bonds, but in no case longer than the useful life of the asset.
2. The City shall generally seek level or declining debt repayment schedules. However, in the case of pension obligation bonds, the debt repayment schedule should increase over time in a manner

paralleling Texas Municipal Retirement System's ("TMRS") projected Prior Service funding being replaced by the pension obligation bonds.

3. There shall always be at least interest paid in the first fiscal year after a bond sale and principal payments starting generally no later than the second fiscal year after the bond issue.
4. Normally, there shall be no capitalized interest included in the debt structure except for debt issuances reimbursing developers for infrastructure, which shall not exceed two (2) years of capitalized interest.

**I. Debt Refunding**

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

**J. Sale Process**

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

**K. Rating Agency Presentations**

Full disclosure of operations and open lines of communications shall be maintained with the rating agencies. City staff, with the assistance of financial advisors, shall prepare the necessary materials and presentation to the rating agencies.

**L. Bond Ratings**

The City will prudently manage the General and Enterprise Funds and attempt to issue and structure debt to help maintain or increase the current bond ratings.

**M. Lease/Purchase Agreements**

The City will use lease/purchase agreements for capital items when it is cost-efficient and provides for more attractive terms than issuance of bonds.

**VIII. Cash Management/Investments**

The City's investment policy is governed by a separate resolution. It is the policy of the City to invest public funds in a manner that will ensure the preservation of capital, meet daily cash flow demands, conform to all applicable State and Local statutes governing the investment of public funds, and provide reasonable investment returns.



## **IX. Grants**

The City will seek, apply for, and effectively administer federal, state and local grants, which support the City's current priorities and policy objectives.

### **A. Grant Guidelines**

The City shall apply and facilitate the application for only those grants that are consistent with the objectives and high priority needs identified by Council and City Management.

Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs.

The potential for incurring ongoing costs, to include assumptions of support for grant-funded positions from local revenues, will be considered prior to applying for a grant.

### **B. Grant Termination and/or Reduced Grant Funding**

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

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

### **C. Any grants that are funded by the City will be governed by the resolution adopted by City Council to establish the grant or the agreement between the City and the agency/entity receiving the funds. However, in no case shall any funds be granted to an entity that is eligible to receive funding for the same purpose from an insurance settlement.**

## **X. Economic Development Agreements**

The City shall monitor compliance with the terms of all economic development agreements and report the compliance status to City Council at least annually.