

	<b>CITY OF BOERNE – FINANCE DEPARTMENT</b>	
	<b>POLICY 100 - FINANCIAL MANAGEMENT POLICY</b>	
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## **I. PURPOSE**

The City of Boerne, Texas (the “City”) is committed to financial management through integrity, prudent stewardship, planning, accountability, full disclosure and communication. The broad purpose of this Fiscal and Budget Policy is to enable the City to achieve and maintain a long-term stable and positive financial condition, and provide guidelines for the day-to-day planning and operation of the City’s financial affairs.

The scope of this policy spans areas of accounting and financial reporting, internal controls, both operating and capital projects budgeting, revenue management and forecasting. These functions are intended to:

- A. Demonstrate to the citizens of the City, the investment community, and the bond rating agencies that the City is committed to strong fiscal operations;
- B. Provide precedents of common financial goals and strategies for future policy-makers and financial managers;
- C. Fairly present and fully disclose the financial position of the City in conformity with accounting practices generally accepted in the United States of America; and
- D. Demonstrate compliance with finance-related legal and contractual issues in accordance with the Texas Local Government Code and other related legal mandates upon the City.

These policies will be reviewed annually and updated as needed as part of the new budget adoption process.

The budgeted funds for the City include:

### **Governmental Funds:**

1. **General Fund** which accounts for all financial resources except those required to be accounted for in another fund, and include basic governmental services, such as Police, Fire and Administration functions among others.
2. **Special Revenue Funds** which account for revenues that are restricted or committed for specified purposes other than debt service and capital projects. The City currently budgets five (8) Special Revenue Funds that include Hotel Motel, Parks, Library, Cemetery, Economic Development, Vehicle Replacement, Equipment Replacement, and Dispatch.
3. **Debt Service Fund** which is used to account for the payment of general long-term debt principal and interest.

4. **Capital Projects Funds** which are used to account for the acquisition or construction of major capital projects other than those financed by enterprise activities.

#### **Proprietary Funds:**

1. **Enterprise Funds** include the City's "business-type" activities including all the City's utility funds including a capital recovery fund, vehicle replacement, and equipment replacement.
2. **Utility Construction Funds** are used to account for the acquisition or construction of major system capital projects financed by utility revenue bonds designated for specific improvements to the utility systems.

#### **Permanent Fund:**

1. **Cemetery Trust Fund** is used to account for resources legally held in trust to provide for upkeep of the cemetery. This fund is restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs that is, for the benefit of the City or its citizens. This fund meets the criteria of a permanent trust fund and thus has been reported as governmental activity in the statement of net position.

#### **Blended Component Unit:**

1. **Boerne Public Facility Corporation Fund** is used to account for the activity of the Boerne Public Facility Corporation (BPFC), a blended component unit of the City. The BPFC is a nonprofit public corporation organized exclusively for the purpose of assisting the City in financing, refinancing, or providing public facilities within the City.

## **II. BASIS OF ACCOUNTING AND OF BUDGETING**

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

- Grants, in accordance with GASB 33 are considered revenue when eligibility requirements are met or resources are received (whichever is first); and
- Principal and interest on long-term debt, which are recognized when paid.

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

### **III. OPERATING BUDGET**

Budgeting is an essential element of the financial planning, control and evaluation process of municipal government. The "operating budget" is the City's annual financial operating plan. The annual budget includes all of the operating departments of the general fund, proprietary funds, debt service funds, special revenue funds, and capital improvements funds of the City.

- A. **Preparation** – The City of Boerne Home Rule Charter ("Charter") (Section 6.02) requires that "the City Manager submit a proposed budget containing a complete financial plan for each fiscal year. Such a budget shall be submitted to the City Council not more than one hundred twenty (120) days but not less than sixty (60) days prior to the beginning of each fiscal year."

The Budget will contain the following basic segments for review and evaluation:

- (a) A brief budget message which shall outline the proposed financial policies of the City for the fiscal year, shall set forth the reasons for any major changes in expenditure and revenue items from the previous fiscal year, and shall explain any major change in financial policy;
- (b) Revenue summary;
- (c) Departmental expenditures summary;
- (d) Departmental budgets;
- (e) Schedule of outstanding bonded debt;
- (f) Schedule of capital outlays by department;
- (g) Review of property valuations;
- (h) An analysis of tax rates;
- (i) Tax levies and collections by year for the last three (3) fiscal years;
- (j) A provision for financing the current Capital Improvement plan.

The proposed budget submitted to City Council will compare revenues and expenditures for at least the last complete fiscal year, the estimated total amount of each item for the current fiscal year, and the proposed total amounts for the ensuing fiscal year.

The budget review process will include City Council participation in the development of each segment through various budget workshops and will allow for citizen participation in the process through a public hearing on the proposed budget. Required notice of the hearing will be made in accordance with Local Government Code Section 102.

A copy of the proposed budget will be filed with the City Secretary and will also be available on the City's website.

- B. **Amendment before adoption** - After the public hearing, the City Council may adopt the budget with or without amendments. In amending the proposed budget, it may add or increase programs or amounts and may delete or decrease any programs or amounts, except expenditures required by law or for debt service, provided that no amendment to the proposed budget shall increase expenditures to an amount greater than the estimated income (including the use of available Fund Balance).
- C. **Adoption** - The City Council will adopt the proposed budget on or before the deadline established under Local Government Code Section 102. If it fails to adopt the proposed budget by this date, the amounts appropriated for operations for the current fiscal year will be deemed adopted for the ensuing fiscal year on a month-to-month basis, with all items in it pro-rated accordingly, until such time as the City Council adopts a budget for the ensuing fiscal year. Adoption of the budget will constitute appropriations of the amounts specified therein as expenditures from the funds indicated and will constitute a levy of the property tax therein proposed.
- D. **Balanced Budget** -  
The Charter (Section 6.05) requires that the total of proposed expenditures shall not exceed the total estimated income. The City's goal is to balance the operating budget with current revenues, whereby, current revenues would match and fund on-going expenditures/expenses. The City considers the budget balanced when total expenditures/expenses are equal to total revenues. However, the budget is also balanced in situations where total expenditures/expenses are less than total revenues, which is technically a surplus. There are also instances when the City might plan to spend excess fund balances accumulated from previous years (while maintaining established reserves) on one-time or non-routine expenditures. The City considers the budget to be balanced in this case also, provided the funding from previous years is available, and a plan is in place to not build ongoing expenditures/expenses into this type of funding. This type of balanced budget is especially prevalent when capital projects are budgeted using proceeds from the issuance of bonds.

**Scenario One: Revenues = Expenditures**

**Scenario Two: Revenues > Expenditures**

**Scenario Three: Revenues + Appropriated Fund Balances = Expenditures**

- E. **Planning** - The budget process will be coordinated so that major policy issues are identified prior to the budget approval date. This will allow City Council adequate time for consideration of appropriate decisions and analysis of the financial impacts.
- F. **Reporting** - Summary financial reports will be presented to the City Council on a quarterly basis. These reports will be in an appropriate format to enable the City Council to understand the overall budget and the City's financial status. These reports will also give the current status of revenues and expenditures to-date compared with the corresponding budgets for each fund.
- G. **Control and Accountability** – Each department director, appointed by the City Manager, will be responsible for the goals and objectives adopted as part of the budget and for monitoring their individual departmental budget for compliance with spending limitations. The Finance Director and the City Manager may transfer funds within the operations and maintenance or capital line items of a departmental budget category without City Council approval. All other transfers of appropriation or budget amendments that alter the original adopted budgets at the fund level require City Manager and City Council approval as outlined in the following section.
- H. **Budget Amendments** – The City's Charter (Section 6.04) provides a method to amend the adopted budget for supplemental appropriations and emergency appropriations. The City Council may authorize supplemental appropriations for the year if the City Manager certifies that there are available revenues in excess of those estimated in the budget. In addition, in order to meet a public emergency affecting life, health, property or the public peace, the City Council may make emergency appropriations to the adopted budget. To the extent that there are no available unappropriated revenues to meet such emergency situations, the City Council may, by such ordinance, authorize the issuance of emergency notes, which may be renewed as necessary. In the event of a budgeted revenue shortfall, contingency procedures are further defined in Section VI.
- I. **Contingency Appropriations** – The budget may include contingency appropriations within designated operating departmental budgets. These funds are used to offset expenditures for unexpected maintenance or other unanticipated expenses that might occur during the year.
- J. **Lapse of Appropriations** – The Charter (Section 6.06) provides a method to address budget appropriations that have not been expended or encumbered before the end of the fiscal year. The Charter states that every appropriation, except an appropriation for a capital expenditure, shall lapse at the close of the fiscal year to the extent that it has not been expended or encumbered. An appropriation for a capital expenditure shall continue in force until the purpose for which it was made has been accomplished or abandoned; the purpose of any such appropriation shall be deemed abandoned if three (3) years pass without any disbursement from or encumbrance of the appropriation.

#### **IV. REVENUE MANAGEMENT**

A. **Characteristics** – The City will strive for the following optimum characteristics in its revenue system:

1. **Simplicity** – The City, where possible and without sacrificing accuracy, will strive to keep the revenue system simple in order to reduce compliance costs for the taxpayer or service recipient.
2. **Certainty** – A knowledge and understanding of revenue sources increases the reliability of the revenue system. The City will understand its revenue sources and enact consistent collection policies to provide assurances that the revenue base will materialize according to budget.
3. **Fund Balance**– The City shall make every effort to maintain fund balance in its revenue system; i.e., the City should seek to minimize or eliminate all forms of subsidization between entities, funds, services, utilities, and customer classes, and ensure an on-going return on investment for the City.
4. **Revenue adequacy** - The City should require that there be a balance in the revenue system; i.e., the revenue base will have the characteristics of fairness and neutrality as it applies to the cost of services, willingness to pay, and ability to pay.
5. **Realistic and conservative estimates** – Revenues will be estimated realistically, and conservatively, taking into account the volatile nature of various revenue sources.
6. **Administration** – The benefits of a revenue source should exceed the cost of levying and collecting that revenue.
7. **Diversification and stability** – A diversified revenue system with a stable source of income shall be maintained. This will help avoid instabilities in two major revenue sources due to factors such as fluctuations in the economy and variations in the weather.

B. **Other Considerations** – The following considerations and issues will guide the City in its revenue policies concerning specific sources of funds:

1. **Cost/Benefit of incentives for economic development** – The City will use due diligence in the analysis of any incentives that are used to encourage development. A cost/benefit (fiscal impact) analysis will be performed as part of the evaluation.
2. **Non-recurring revenues** – One-time or non-recurring revenues should not be used to finance current ongoing operations. Non-recurring revenues should be used only for non-recurring expenditures and not for budget balancing purposes.
3. **Property tax revenues** – All real and business personal property located within the City will be valued at 100% of the fair market value for any given year based

on the current appraisal supplied by the Kendall Appraisal District. A conservative approach will be taken to estimate the budgeted collection rate taking into consideration historical data and the current economic climate. For budgeting purposes, the City will forecast the proposed property tax rate using the effective maintenance & operations (M&O) rate plus the interest and sinking (I&S) rate needed to fund tax supported debt service. Any increase to the M&O rate will be evaluated and determined by the City Council.

4. Interest Income – Interest income earned from investments will be distributed to the funds in accordance with the fund balance from which the monies were provided to be invested.
5. User-based fees and service charges – For services associated with a user fee or charge, the direct or indirect costs of that service will be offset by a fee where possible. The City will review fees and charges no less than once every year to ensure that fees provide adequate coverage for the cost of the services. The City Council will determine how much of the cost of a service should be recovered by fees and charges.
6. Enterprise fund rates – The City Council will serve as the governing body for the Utilities that make up the City's Utility Funds. The City Council will review and adopt utility rates as needed to generate revenues required to fully cover operating expenses, meet the legal requirements of all applicable bond covenants, and to provide for an adequate level of working capital and fund balance reserve. Utility rates will be reviewed annually as part of the budget process. An external rate study will be conducted on a regular basis (to be determined by City Council) to review rate methodology and to ensure revenues will meet future needs.

Additionally, enterprise activity rates will include transfers to and credits from other City funds as follows:

- a) General and administrative charges – Administrative costs should be charged for general overhead services such as administration, finance, legal, information technology services, and other costs as appropriate. These charges will be determined through an indirect cost allocation following accepted practices and procedures and will be reviewed annually during the City's budget process.
  - b) Payment for return on investment – The intent of this charge is to provide a benefit to the citizens of the City for the ownership of the various utility operations they own.
  - c) Street rental fee - This fee will be assessed to each utility based on a percentage of sales revenues in lieu of franchise fees.
7. Grant revenues – All potential grants will be reviewed for any matching requirements and on-going long term maintenance and operations expense



and must be approved by the City Council and addressed in the adopted budget or amendments to the budget. Operational requirements (on-going costs) set up as a result of an awarded grant should be discontinued once the term and conditions of the grant have been completed unless City Council approves continuance of the program and related expenses.

8. Revenue monitoring – Revenues will be regularly compared to budgeted revenues as they are received and variances will be investigated, and any abnormalities will be addressed in the quarterly report to the City Council.
9. Use of excess fund balance - Any inclusion of previous years' excess fund balance in the adopted budget will be intended for use for one-time or non-recurring expenses or projects.
10. Revenue reserve requirements – In the budget process, current excess fund balances for each fund carried-over from previous years will be reviewed and compared to the City's desired level of available operating revenue reserves. The desired level of available operating revenue reserves is equivalent to six (6) months of operating expenditures. This desired level will also be reviewed during the budget process to ensure adequate reserves are available to cover unforeseen temporary down-turns in revenue streams. The City considers a reserve balance of less than three (3) months of operating expenditures to be inadequate. See Section XIII C. for reserve balance policy.

## **V. EXPENDITURE POLICIES**

- A. **Appropriations** – The point of budget control is at the department level budget for all funds. The Charter (Section 6.04) provides that any transfer of appropriation between funds must be approved by the City Council and that the City Manager is authorized to transfer appropriations between categories within the same department and fund.
- B. **Purchasing** – The City Council has formally approved a separate Procurement Policy for the City of Boerne which is more restrictive than the legal requirements under State Law. This policy is reviewed and updated as needed by the Finance Department and approved by the City Council. All City purchases of goods or services will be made in accordance with the City's current Procurement Policy and in compliance with State law.
- C. **Prompt payment** – All invoices approved for payment by the proper City authorities shall be paid within thirty (30) calendar days of receipt of goods or services or the invoice date, whichever is later, in accordance with State law. The City will take advantage of all purchase discounts and early payment savings where possible.

- D. **Risk Management** – The City will pursue every opportunity to provide for the Public's and City employees' safety and to manage its risks. The goal shall be to minimize the risk of loss of resources through liability claims with an emphasis on safety programs.

## **VI. BUDGET CONTINGENCY PLAN**

The Charter Section 6.04C refers to the actions to be taken by the City Manager in event that available revenues will be insufficient to meet appropriations during the fiscal year. This policy is designed to establish general guidelines for managing revenue shortfalls resulting from local and national economic down-turns that adversely affect the City's revenue streams.

- A. **Immediate action** – Once a budgetary shortfall is projected, the City Manager will take the necessary actions to offset the projected shortfall with a reduction in current expenses. The City Manager may:
- a) Freeze all new hires and filling of vacant positions except those deemed to be absolutely necessary for public safety;
  - b) Review and delay all planned remaining capital expenditures not funded by bond proceeds;
  - c) Delay all "non-essential" spending or equipment replacement purchases.
- B. **Further action** – If the above actions are insufficient to offset the revenue deficit and the shortfall continues to increase, the City Manager will further reduce operating expenses to balance the variance. Any remaining service level reductions, including workforce reductions, will be reviewed and addressed by the City Council.

## **VII. CAPITAL IMPROVEMENT PROGRAM (CIP) BUDGET**

The City's goal is to maintain City facilities and infrastructure in order to provide excellent services to the customers within the community, meet growth related needs, and comply with all state and federal regulations.

- A. **Preparation** - The City annually reviews and updates a five-year Capital Improvement Program (CIP) schedule as part of the operating budget adoption process. The plan is adjusted annually as needed, and year one is adopted as the current year capital budget. The capital budget will include all capital projects, capital resources, and estimated operational impacts.
- Needed capital improvements are identified through system models, repair and maintenance records and growth demands.
  - Economic development projects that have capital infrastructure needs must be reviewed and approved for funding by the City Manager or his designee.

- A team approach will be used to prioritize CIP projects, whereby City staff from all affected operational areas will provide input and ideas relating to each project and its effect on operations.
  - Citizen involvement and participation may be solicited in formulating the capital budget through meetings, public hearings and other forums.
  - Capital infrastructure necessary to meet the requirements of the City's Master Plan will be identified separately with the CIP plan, so that additional or alternative funding can be developed if necessary.
- B. **Control** - All capital project expenditures must be appropriated in the capital budget. The availability of resources must be identified and then reviewed by the Finance Department and approved by the City Manager before any CIP document is presented to the City Council for approval.
- C. **Financing programs** - Where applicable, assessments, impact fees, pro-rata charges, or other fees should be used to fund capital projects which have a primary benefit to specific identifiable property owners.
- 1) Recognizing that long-term debt is usually a more expensive financing method, alternative financing sources will be explored before debt is considered. When long-term debt is determined to be the financing source, it will be used to acquire major assets. The type of assets acquired will determine the average life of the debt issued.
  - 2) Short-term financing including capital leasing and other tax-supported obligations can be used to fund vehicles, computers and other operating equipment, provided the impact to the tax rate is minimal. Caution should be used in replacing assets with short-term, tax-supported obligations due to the repetitive nature of the replacements.

## **VIII. CAPITAL MAINTENANCE AND REPLACEMENT**

The City recognizes that deferred maintenance increases future capital costs. Therefore, a portion of all individual funds with capital asset infrastructure should be budgeted each year to maintain the quality within each system.

- A. **Infrastructure maintenance** – On-going maintenance and major repair costs are included as capital expense within the departmental operating budgets. These costs are generally considered system repairs and are not capitalized for accounting purposes. They include such items as street seal coat, water line repairs and other general system maintenance.
- B. **Other funds** – The City currently uses regular maintenance and replacement in order to maximize use of its operational assets and to ensure that repair costs do not become overly burdensome on what are considered relatively short-term assets. In this way, suitable funds are available for the replacement of these assets without the need to issue debt.

1. **Vehicle and Equipment maintenance and replacement funds** - The City has a major investment in its fleet of cars, trucks, tractors, and other similar equipment. The City anticipates having to replace the existing equipment as necessary and budgets to that end each year. Vehicle and equipment maintenance is also funded in this manner. Vehicles and equipment will be replaced when it is cost effective to do so. Vehicles and equipment purchased will be suitable for their purpose but not exceed the necessary features and capabilities required to meet the day to day requirements of the vehicle/equipment. When an existing vehicle is replaced by a new vehicle, every effort should be made to:
  - a. Utilize the proceeds of the sale of the vehicle toward the purchase of future vehicles or equipment, or;
  - b. Utilize the outgoing vehicle somewhere else in the City fleet as long as its condition is suitable for the new purpose.
2. **Information technology maintenance and replacement fund-** It is the current policy of the City to plan and fund the maintenance and replacement of its computer network and other technology systems. Equipment of this type typically is covered by warranty for five (5) years. As this is the case, the City will budget for replacement of approximately 20% of the equipment in place each year if funds are available. However, if a department such as Police, Finance or Cash Collections has any technology that is no longer under warranty, it is considered to be at end of life and must be replaced to stay in compliance with Federal and State policies such as the Criminal Justice Information Security Policy and the Payment Card Industry Security Policy. If it is determined by the IT Director to be beneficial, older computers can fill a need within another area in the City and if so, each one is used as needed beyond the five year cycle.
3. **Facilities maintenance fund** – Facilities are also an area of major investment on the part of the City. Due to the rich heritage of buildings in the City, it is not surprising that several of the main City facilities are historic buildings and many years old. For this reason, the City has established an on-going maintenance program, which includes major repairs, equipment upgrades, and contracts for maintaining City facilities. By maintaining these facilities on a regular basis, the City is able to be a proud contributor to preserving some of the City's colorful past.

## **IX. ACCOUNTING, AUDITING AND FINANCIAL REPORTING**

- A. **Accounting** - The City is solely responsible for the recording and reporting of its financial affairs, both internally and externally. The Finance Director is the City's Chief Financial Officer and is responsible for establishing the structure for the City's Chart of Accounts and for assuring that procedures are in place to properly record financial transactions, pay all of the City's bills on a timely basis,

keep revenues and expenditures realistic and equitable to all the citizens of the City, and to report the financial position of the City at any given time.

- B. **Auditing** - In accordance with the Charter, an independent audit of the City's financial statements will be performed every year. The auditor will be retained by City Council and will be directly accountable to the City Council.
- C. **External Reporting** - In conjunction with the completion and acceptance of the annual audit by the City's auditors, the Finance department shall prepare a written Annual Comprehensive Financial Report (ACFR) with all reasonable efforts to be made to present the ACFR to the City Council within 180 calendar days of the City's fiscal year end. The ACFR shall be prepared in accordance with Generally Accepted Accounting Principles (GAAP) and shall also be presented annually to the Government Finance Officers Association (GFOA) for evaluation and consideration for the GFOA Certificate of Achievement in Financial Reporting.
- D. **Internal reporting** - The Finance department will prepare internal financial reports for presentation to and review by the City Council on a quarterly basis. Reports must be timely, accurate, and sufficient to plan, monitor and control the City's financial affairs.

## **X. ASSET MANAGEMENT**

- A. **Cash management and investments** – The City Council has formally approved a separate Investment Policy for the City of Boerne that meets the requirements of the Public Funds Investment Act (PFIA), Section 2256 of the Texas Local Government Code. This policy is reviewed and updated annually by the Finance Department and approved by the City Council and as it applies to all financial assets held by the City.
- B. **Capital Assets** - The Finance department is responsible for ensuring that capital assets are reasonably safeguarded, properly accounted for, reported and capitalized in accordance with GAAP, and prudently insured against loss.
- 1. **Capitalization criteria** – For the purposes of budgeting and accounting classification, the following criteria apply to assets to be capitalized:
  - The asset must be owned by the City.
  - The asset must be tangible.
  - The expected useful life of the asset must be longer than three (3) years or must extend the life of an existing asset by more than three (3) years.
  - The original or improved cost of the asset must be greater than \$5,000.
  - 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.

- On-going repairs and general maintenance will not be capitalized.
  - Assets not meeting the above criteria will be expensed in the period in which they were purchased or added.
2. **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.
  3. **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.
  4. **Contributed capital** – Infrastructure assets received from developers or as a result of annexation will be recorded as capital contributions when they are received at fair market value. Assets received from developers in the form of cash contributions will be accounted for separately from infrastructure assets for purposes of cash-flow reporting.
  5. **Distribution systems** – All costs associated with public domain assets, such as streets and utility distribution lines will be capitalized in accordance with the capitalization policy. Costs should include engineering, construction and other related costs including right-of-way acquisition.
  6. **Reporting and inventory** – The Finance Department will maintain the permanent records of the City's capital assets, including description, cost, department of responsibility, date of acquisition, depreciation and expected useful life. Periodic, random sampling will be performed to inventory capital assets assigned to a department. Responsibility for safeguarding the City's capital 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. All assets will be inventoried using a system specific to each capital asset and recorded in the permanent records of capital assets.
  7. **Intangible Assets** – right-of-way easements are considered intangible assets and are recorded at fair market value based on the date purchased or the most recent appraisal (if donated).
  8. **Lease Assets** – the City leases machinery and equipment. Leases are approved by City Council, and recorded as assets amortized over the life of the lease in accordance with GASB Statement No. 97 *Leases*.

9. **Subscription-based Information Technology Arrangements (SBITA)** are contracts between a government entity and another party (such as an IT Vendor) that grants the right to use IT software for a period of time in an exchange or exchange-like transaction. SBITA's are amortized over the life of the arrangement and are intangible in nature in accordance with GASB Statement No. 96, Subscription Based Information Technology Arrangements

## **XI. DEBT MANAGEMENT**

The City recognizes the primary purpose of capital facilities is to provide services to the community. Using debt financing to meet the capital needs of the City must be evaluated according to efficiency and fund balance. Efficiency must be evaluated to determine the highest rate of return for a given investment of resources. Allocation of debt is resolved by determining who should pay for the cost of capital improvements. In meeting demand for additional services, the City will strive to balance the needs between debt financing and "pay as you go" methods. The City realizes that failure to meet the demands of growth may inhibit its continued economic viability, but also realizes that too much debt may have detrimental effects on the City's long-range financial condition. The City 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 purposes as a city.

- A. **Usage of debt** - Long-term debt financing will be considered for non-continuous capital improvements of which future citizens will be benefited. Alternatives for financing will be explored prior to any debt issuances and include, but are not limited to:

- Grants;
- Reserve funds;
- Current revenues;
- Contributions from developers and others;
- Leases; and
- Impact fees.

When the City utilizes long-term financing, it will ensure that the debt is adequately financed by conservatively projecting revenue sources that will be used to pay the debt. It will not finance the improvement over a period greater than the useful life of the improvement and it will determine that the cost benefit of the improvement including interest costs is positive to the City.

The City may utilize the benefits of short-term debt financing for purchasing operating equipment provided the debt doesn't extend past the useful life of the asset and the potential impact to the tax rate is within policy guidelines.

- B. **Types of debt** -

1. **General Obligation Bonds (GO's)** - General Obligation (or limited tax) Bonds must be authorized by a vote of the citizens of Boerne. They are used only to fund capital assets of the general government and are not to be used to fund operating needs of the City. The full faith and credit of the City as well as the City's ad valorem taxing authority back GO's. Conditions for issuance of GO debt include:
  - A significant impact will occur on the tax rate due to the contemplated project;
  - A project is controversial, even if it is routine in nature;
  - A project that resides outside the normal bounds of projects the City has typically undertaken.
2. **Revenue Bonds** - Revenue bonds will be issued to provide for the capital needs of any activities where the capital requirements are necessary for the continuation or expansion of a service. The improved activity shall produce a revenue stream to fund the debt service requirements of the necessary improvement to provide service expansion. Revenue bonds are issued and repaid by the revenue derived from the sales of the utility service or expansion. The average life of the obligation should not exceed the useful life of the asset(s) to be funded by the bond issue and will generally be limited to thirty (30) years or less.
3. **Certificates of Obligation (CO's)** - Certificates of obligation may be used to fund capital requirements that are not otherwise covered either by general obligation or revenue bonds. 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. Typically, the City may issue CO's when the following conditions are met:
  - The proposed debt will have minimal impact on future effective property tax rates;
  - The projects to be funded are within the normal bounds of City capital requirements, such as for roads, parks, various infrastructure and City facilities; and
  - The average life of the obligation does not exceed the useful life of the asset(s) to be funded by the issue.
4. **Tax Notes** - The City may issue tax notes in anticipation of tax collections, grant proceeds, bond proceeds or any other lawful purpose. These tax notes are of a short-term, usually not more than seven (7) years and are intended to boost cash flow in anticipation of future receipts of funds. The asset(s) to be purchased with tax notes may at times be later incorporated into an issuance of a GO or CO on a similar or related issue.



- C. **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.
- D. **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.
- E. **Federal Requirements** - The City will maintain procedures to comply with arbitrage rebates and other Federal requirements of debt issuance.
- F. **Debt Structuring** - The City will issue bonds with an average life of no more than twenty-five (25) years, not to exceed the useful lives of the assets acquired. The structure should approximate level debt service unless operational matters dictate otherwise. Market factors, such as the effects of tax-exempt designations, the cost of early redemption options and the like, will be given consideration during the structuring of long-term debt instruments.
- G. **Debt Coverage Ratio** - Debt coverage ratio refers to the number of times the current combined debt service requirements or payments would be covered by the current operating revenues net of on-going operating expenses of the City's combined utilities (Electric, Water, Wastewater, and Gas). The City will maintain a minimum debt service coverage ratio of at least 1.25 times for these utilities as a whole unless otherwise dictated by the bond covenants.
- H. **Bond Reimbursement Resolutions** - The City may utilize bond reimbursements as a tool to manage its debt issues, due to arbitrage requirements and project timing. In doing so, the City uses its capital reserve "cash" to delay bond issues until such time when bond issuance is favorable and most beneficial to the City.

The City Council may authorize a bond reimbursement resolution for General Capital projects that have a direct impact on the City's ad valorem tax rate when the bonds will be issued within the term of the existing City Council. The City Council may also authorize revenue bond reimbursements for approved utility and other self-supporting capital projects within legislative limits. The total outstanding bond reimbursements may not exceed the total amount of the City's reserve funds.

## **XII. OTHER FUNDING ALTERNATIVES:**

When at all possible, the City will research alternative funding opportunities prior to issuing debt or increasing user-related fees.

- A. **Grants** - All potential grants will be examined for any matching requirements and the source of those requirements identified. A grant funding worksheet, reviewed by the Finance Department, that clearly identifies funding sources, outcomes and other relevant information will be presented and approved by the City Manager prior to any grant application being submitted. The information identified will be included as a factor in determining inclusion into the budget. It must be understood that any resulting operation requirements of the grant should be discontinued once the term and conditions of the project for which the grant was awarded has been terminated or completed.
- B. **Use of reserve funds** – The City may authorize the use of reserve funds to potentially delay or eliminate a proposed bond issue. This may occur due to higher than anticipated fund balances in prior years, thus eliminating or reducing the need for debt proceeds, or postpone a bond issue until market conditions are more beneficial or because timing of the related capital improvements does not correspond with the planned bond issue. Reserve funds used in this manner are replenished upon issuance of the proposed debt.
- C. **Developer contributions** – The City will require developers who negatively impact the City's utility capital plans to offset those negative impacts. These policies are further defined within the City's Utility Rules and Regulations on line extensions and other development regulations.
- D. **Leases** – The City may authorize the use of lease financing for certain operating equipment when it is determined that the cost benefit of such an arrangement is advantageous to the City.
- E. **Impact fees** – The City will impose impact fees as allowable under state law for both water and wastewater services. These fees will be calculated in accordance with applicable statute(s) and reviewed and updated at least every five (5) years. All fees collected will fund projects identified within the Fee study and as required by state laws.

### **XIII. FUND BALANCE/NET POSITION POLICY, FINANCIAL CONDITIONS, RESERVES, AND STABILITY**

- A. **Fund Balance Policy (Revised for GASB 54)** – The purpose of this policy is to establish a key element of the financial stability of the City of Boerne by setting guidelines and parameters for fund balance of the various funds used by the City. 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. Advantages of a fund balance policy are as follows:
- Enhances the quality of decisions by imposing order and discipline

- Promotes consistency and continuity in decision making
- Demonstrates a commitment to long term financial planning objectives.

GASB 54 Background – In February 2009, The Governmental Accounting Standards Board (GASB) issued GASB 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement substantially changes how fund balances are categorized. It clarifies/modifies how some of the governmental funds are presented and classified.

Non-spendable	Not available for spending, either now or in the future, because of their form (e.g., debt retirement, inventory, prepaids)	
Restricted	Constraints on spending that are legally enforceable by outside parties.	
Unrestricted	Committed	Constraints on spending that the government imposes upon itself by highest-level formal action prior to the close of the period.
	Assigned	Resources intended for spending for a purpose set by the governing body itself or by some person or body delegated to exercise such authority in accordance with policy established by the City Council.
	Unassigned	Residual (general fund only)

- B. Net Position Policy (Revised for GASB 63)** – The purpose of this policy is to establish a key element of the financial stability of the City of Boerne by setting guidelines and parameters for net position of the various proprietary funds used by the City. Unrestricted net position is an important measure of economic stability and it is essential that the City maintain adequate levels of unrestricted net position to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and other similar circumstances.

GASB 63 Background – In June 2011, The Governmental Accounting Standards Board (GASB) issued GASB 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement incorporated the terminology of deferred outflows/inflows of resources and updated the calculation of net position for proprietary funds.

### C. Definitions

*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 is classified into five categories:

- 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.
- 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.

*Net Position* - The difference between a business-type activities (i.e. proprietary, enterprise, utilities) assets, deferred outflows, deferred inflows and liabilities of proprietary funds. Net position is classified into three categories:

- 1) **Net Investment in Capital Assets** – This component of net position is the difference between assets, deferred outflows, deferred inflows and liabilities of proprietary funds that consists of capital assets (both tangible and intangible). The calculation is detailed and done in accordance with GFOA's requirements.

- 2) **Restricted**– This component of net position is the difference between assets, deferred outflows, deferred inflows and liabilities of proprietary funds that consists of assets with constraints placed on their use by externally imposed by creditors, grantors, contributors or laws/regulations of other governments or imposed by law through enabling legislation or constitutional provisions.
- 3) **Unrestricted**– this component of net position is the difference between the assets, deferred outflows, deferred inflows and liabilities of business type activities not reported as net investment in capital assets or restricted net position. Operating reserves are included herein as the reserves are determined by the government and thus, not externally restricted.

#### **D. Policy**

##### *Committed Fund Balance*

The Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council at a City Council meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period (i.e. the Council may approve the calculation or formula for determining the amount to be committed).

##### *Assigned Fund Balance*

The City Council authorizes the City Manager as the City Official responsible for the assignment of fund balance to a specific purpose as approved by this fund balance policy.

##### *Unassigned Fund Balance and Unrestricted Net Position*

The unassigned fund balance and unrestricted net position for all funds of the City will be maintained at a level sufficient to provide the required resources to meet operating cost needs, to allow for unforeseen needs of an emergency nature, and to permit orderly adjustment to changes resulting from fluctuations of revenue sources.

**General Fund** –It is the goal of the City of Boerne to maintain an unassigned fund balance in the General Fund equivalent to six (6) months of operating expenditures. The City considers a balance of less than three (3) months of operating expenditures to be inadequate and will take action as described in this policy to increase the unassigned fund balance to maintain the required minimums.

**Special Revenue Funds** – The fund balances of the Special revenue funds (Hotel/Motel, Parks, Library, and Cemetery)-should have a minimum of three (3) months or 25 % of annual budgeted operating expenditures in reserve

Debt Service Funds – Revenues within this fund are by nature stable and based on property tax revenues. Balances are maintained to meet contingencies and to make certain that the next year's debt service payments may be met in a timely manner. The fund balance should not fall below the one month or 1/12 annual debt service requirements, in accordance with IRS guidelines.

Utility Funds – It is the goal of the City of Boerne to maintain unrestricted net position in the Utility Funds equivalent to six (6) months of operating expenses. Although the goal is for each enterprise (utility) fund to maintain the minimum level of reserve by enterprise fund, the reserve requirement can be met when all utility funds are considered as a whole. The City considers a balance of less than three (3) months of operating expenses to be inadequate and will take action as described in this policy to increase the net position to maintain the required minimums.

- E. **Replenishment of Minimum Fund Balance/Net Position Reserves** – If unassigned fund balance/unrestricted net position unintentionally falls below the required minimum or if it is anticipated that at the completion of any fiscal year the projected unassigned fund balance/net position 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 it is feasible to do so. The plan shall detail the steps necessary for the replenishment of fund balance/net position 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/net position 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, then the Council shall establish an extended time line for attaining the minimum balance.

Reserve requirements will be reviewed and recalculated as part of the annual budget process. Funds in excess of the minimum reserves may be expended for City purposes at the will of the City Council once it has been determined that use of the excess will not endanger reserve requirements in future years.

- F. **Order of Expenditure of Funds** – When multiple categories of fund balance or net position are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will first spend the most restricted funds/net position before moving down to the next most restrictive category with available funds.
- G. **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.

- H. **Monitoring and Reporting** – The City Manager, Assistant City Manager, and Finance Director 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 as an element of the annual operating budget submission. The City Manager, Assistant City Manager, and Finance Director will prepare a report documenting the status of the fund balances and present to the Council with the presentation of the Comprehensive Annual Financial Report, in conjunction with the development of the annual budget and from time to time throughout the fiscal year as needs may arise.
- I. **Operational Coverage** – The City's goal is to maintain operations coverage of 100%, such that operating revenues will be at least equal to or exceed current operating expenditures. Certain one-time capital expenses may be covered using excess fund balance operating reserves.
- J. **Liabilities and Receivables** – Procedures will be followed to maximize vendor discounts and reduce any penalties from creditors. Accounts receivable procedures will target collection at a maximum of thirty (30) days of service. Receivable aging past one hundred twenty (120) days will be sent to a collection agency unless internal collection procedures are determined to be more effective. The Finance Director is authorized to write-off non-collectible, non-utility accounts that are delinquent for more than one hundred eighty (180) days. Utility accounts that are delinquent more than one hundred eighty (180) days will also be written-off provided normal delinquency procedures have been followed in attempting to collect the delinquencies. Efforts to collect written off accounts will continue taking into consideration the cost vs. benefits of further collection efforts.
- K. **Capital Project funds** – Every effort will be made for all monies within the Capital project funds to be expended within thirty-six (36) months and no longer than 60 months of receipt. The idle fund balance will be invested and the income generated will be used by the project to offset increases in construction or other costs associated with the project. Capital project funds are intended to be expended totally, with any unexpected excess to be transferred to the Debt Service fund to service project-related debt.
- L. **Investment of Reserve funds** – Investment of reserve funds that are required by bond covenants will be invested in accordance with the City's Investment Policy.

#### **XIV. INTERNAL CONTROLS**

- A. **Written procedures** – Wherever possible, written procedures will be established and maintained by the Finance Director for all functions involving cash handling and/or accounting throughout the City. These procedures will embrace the general concepts of fiscal responsibility set forth in this policy statement.
- B. **Internal Audit Program** – An internal audit program will be maintained by the Finance Director to ensure compliance with City policies and procedures and to prevent the potential for fraud.
  - 1. **Departmental audits** – Departmental processes will be reviewed on an on-going basis to ensure dual control of City assets and to identify the opportunity for fraud potential, as well as, to ensure that departmental internal procedures are documented and updated as needed.
  - 2. **Employee or transaction reviews** – Programs to be audited include petty cash, city credit card accounts, time entry, and travel expense. Discrepancies will be identified and remedied immediately. The Director of the department will be notified of the situation and in cases of serious infractions, the City Manager will also be notified.
- C. **Department Directors responsibility** - Each department Director is solely responsible for ensuring that good internal controls are followed throughout his/her department. All Finance directives must be implemented and any recommendations resulting from either an internal audit or from the outside independent audit should be reviewed and addressed by the department Director as quickly as possible.

#### **XV. STAFFING**

The City's goal as an employer is to attract and retain quality employees who provide superior, friendly services to our community in an effective and efficient manner.

- A. **Adequate staffing** - Staffing levels will be adequate for the fiscal functions of the City to operate effectively. Additional staffing requests will be presented in conjunction with the annual budgeting process. Unforeseen vacancies for existing positions will be filled at the direction of the City Manager.
- B. **Cost of Living Adjustments (COLA)** – In order to sustain employee compensation levels within the competitive job market, the City may fund an annual COLA for all regular employees. The COLA will be based on the Employment Cost Index (ECI) one (1) year percentage change for the period ending June 30<sup>th</sup>, as found on the Bureau of Labor Statistics website. This proposed COLA will be presented each year during the budget process for City Council review and approval.



- C. **Pay for Performance (MERIT)** – The City Council may fund a merit bonus/incentive program to aid in retaining quality employees and to reward those employees for productivity and job performance. This program will be funded annually if approved by City Council with available resources. This program will be based on performance during the review period. The City Manager will determine a “City-wide pool” amount or percentage to be used to fund the program if approved by the City Council.
- D. **Training & Credentials** – The City will support the continuing education efforts of the staff in areas where additional certifications may be earned or work related courses will lead to additional or improved services to the citizens of the City. It is understood that staff will be expected to pass on any information or teaching garnered from City sponsored seminars, conferences and related education efforts and share with fellow employees. The City will also support efforts and involvements which result in meeting standards and receiving exemplary recitations on behalf of the City or of its personnel.