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Financial Management Policy Statements

FY10 DRAFT

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FINANCIAL MANAGEMENT POLICY STATEMENTS FY2009-2010 DRAFT

* Identifies sections to be evaluated for inclusion within a Budget Policies Document

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To establish and document a policy framework for fiscal decision-making, the City Manager will develop and maintain a comprehensive set of Financial Management Policy Statements. The aim of these policies is to ensure that financial resources are properly managed to meet the present and future needs of the citizens of Fort Worth. Specifically this policy framework mandates the pursuit of the following fiscal objectives:

I. *Revenues:* Design, maintain, and administer a revenue system that will assure a reliable, equitable, diversified, and sufficient revenue stream to support desired City services.

II. *Expenditures:* Ensure fiscal stability and the effective and efficient delivery of services, through the identification of necessary services, establishment of appropriate service levels, and careful administration of the expenditure of available resource.

III. *Fund Balance/Retained Earnings:* Maintain the fund balance and retained earnings of the various operating funds at levels sufficient to protect the City's creditworthiness as well as its financial position from emergencies.

IV. *Capital Expenditures and Improvements:* Review and monitor the state of the City's capital assets, setting priorities for the addition, replacement, and renovation of such assets based on needs, funding alternatives, and availability of resources.

V. *Debt:* Establish guidelines for debt financing that will provide needed capital equipment and infrastructure improvements while minimizing the impact of debt payments on current revenues.

VI. *Investments:* Invest the City's cash in such a manner so as to ensure the safety of principal and interest, to meet the liquidity needs of the City, and to achieve the highest reasonable market yield

VII. *Intergovernmental Relations:* Coordinate efforts with other governmental agencies to achieve common policy objectives, share the cost of providing governmental services on an equitable basis and support favorable legislation at the state and federal level.

VIII. *Grants:* Seek, apply for and effectively administer federal, state, and foundation grants-in-aid, which address the City's current priorities and policy objectives.

IX. *Economic Development:* Initiate, encourage, and participate in economic development efforts to create job opportunities and strengthen the local economy.

X. *Fiscal Monitoring:* Prepare and present regular reports that analyze, evaluate, and forecast the City's financial performance and economic condition.

XI. *Financial Consultants:* Seek out and employ the assistance of qualified financial advisors and consultants as needed in the management and administration of the City’s financial functions.

XII. *Accounting, Auditing and Financial Reporting:* Comply with prevailing federal, state, and local statutes and regulations, as well as current professional principles and practices.

XIII. *Retirement System:* Ensure that the Employees' Retirement Fund is adequately funded and operated for the exclusive benefit of the participants and their beneficiaries.

XIV. *Internal Controls*: Establish and maintain an internal control structure designed to provide reasonable assurance that City assets are safeguarded and that the possibilities for material errors in the City's financial records are minimized.

XV. *E-Commerce*: To fully utilize available technologies to expedite cash payments and receipts, enhance employee productivity, and provide customer satisfaction.

I.
REVENUES

To design, maintain, and administer a revenue system that will assure a reliable, equitable, diversified, and sufficient revenue stream to support desired City services.

A. *Balance and Diversification in Revenue Sources*

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

B. *User Fees*

For services that benefit specific users, the City shall establish and collect fees to recover the costs of those services. The City Council shall determine the appropriate cost recovery level and establish the fees. Where feasible and desirable, the City shall seek to recover full direct and indirect costs. User fees shall be reviewed on a regular basis to calculate their full cost recovery levels, to compare them to the current fee structure, and to recommend adjustments where necessary.

C. *Property Tax Revenues/Tax Burden*

The City shall endeavor to reduce its reliance on property tax revenues by revenue diversification, implementation of user fees, and economic development. The City shall also strive to minimize the property tax burden on Fort Worth citizens.

D. *Utility/Enterprise Funds User Fees*

It is the intention of the City that all utilities and enterprise funds be self-supporting. As a result, utility rates and enterprise funds user fees shall be set at levels sufficient to cover operating expenditures, meet debt obligations, provide additional funding for capital improvements, and provide adequate levels of working capital. The City shall seek to eliminate all forms of subsidization to utility/enterprise funds from the General Fund.

E. *Administrative Services Charges*

The City shall establish a method to determine annually the administrative services charges due the General Fund from enterprise funds for overhead and staff support. Where appropriate, the enterprise funds shall pay the General Fund for direct services rendered.

F. *Revenue Estimates for Budgeting*

In order to maintain a stable level of services, the City shall use a conservative, objective, and, analytical approach when preparing revenue estimates. The process shall include analysis of probable economic changes and their impacts on revenues, historical collection rates, and trends in revenues. This approach should reduce the likelihood of actual revenues falling short of budget estimates during the year and should avoid mid-year service reductions.

G. *Revenue Collection and Administration*

The City shall maintain high collection rates for all revenues by keeping the revenue system as simple as possible in order to facilitate payment. In addition, since revenue should exceed the cost of producing it, the City shall strive to control and reduce administrative costs. The City shall pursue to the full extent allowed by state law all delinquent taxpayers and others overdue in payments to the City

H. *Write-Off of Uncollectible Accounts*

The City shall monitor payments due to the City (accounts receivable) and periodically write-off accounts where collection efforts have been exhausted and/or collection efforts are not feasible or cost-effective.

I. * *Revenues from Gas Well Development Leases* (M&C G-14767, April 26, 2005; M&C G-15715, May 8, 2007; M&C G-16013, January 8, 2008; July 21, 2009 M&C G-16632)

1. Trust

a. The City shall establish a Trust Fund that will be structured and governed in such a manner to achieve maximum investment flexibility, maximum investment protection, and professional investment management. The trust will be managed to ensure the long-term preservation and growth of the trust principal.

b. The trust will be managed by a corporate trustee appointed by the City Council in accordance with the City Charter and the State Local Government Code. A nine member citizen Trust Advisory Council, serving in Places 1 through 9, will be appointed by the City Council, each member serving two year staggered terms. The Chair and Vice Chair shall be appointed by the Mayor. Members of the Trust Advisory Council will be empowered to make fund management decisions and recommendations; members shall be excluded from making specific expenditure decisions. Trust Advisory Council members shall serve as financial guardians of the trust ensuring fiscal stability, monitoring fund performance, and determining the amount of funds available for disbursement annually. Members shall have experience in perpetual fund management, knowledge of financial control systems and procedures, and the ability to evaluate the effectiveness of allocation and investment decisions. The Trust Advisory Council will hold a minimum of four meetings per year and will issue an annual financial report within 90 days of the conclusion of the City's fiscal year.

c. The trust instrument may be substantively amended upon the approval of a super majority vote of the City Council. Prior to such vote the City Council shall notify the Trust Advisory Council of the proposed amendment, convene a joint meeting with the Trust Advisory Council within 30 days of the notice, hold three public hearings, convene a subsequent meeting with the Trust Advisory Council within 30 days of the third public hearing. Any vote to substantively amend the trust instrument shall occur six or more months after the initial notice to the Trust Advisory Council.

d. To the extent not in conflict with any other common law or any other statutes applicable to the Trust Fund, the trustee shall retain all powers granted to trustees by the Texas Trust Code, and particularly is to have the power to invest and reinvest the trust estate in accordance with the goals and stipulations of the governing trust instrument.

e. The determined percentage of bonus and royalty revenue from various sources are to be held in a consolidated account which will be divided into different sub-accounts and such other sub accounts that may be approved by the City Council including, but not be limited to, the Aviation Endowment Fund, the Park System Endowment Fund, the Nature Center Endowment Fund, and the Water and Sewer Fund.

f. The goal of the Trust Fund is to produce income from investments and be a long-term source of revenue for the benefit of both present and future citizens of Fort Worth. The trustee, in close cooperation with the Trust Advisory Council, will recommend to the City Council distribution procedures for the different funds of the trust consistent with the goal to preserve, as well as increase, the principal of the trust. The amount of income available to be distributed each year from a particular fund of the trust shall be determined by the trustee and the Trust Advisory Council by July 1 of each year and shall be based on a spending rule which allows for reasonable growth of the principal. In the event that investment regulations prohibit the intended growth and expansion of the trust, a provision for dissolution of the trust will be incorporated into the initial trust instrument. Dissolution of the Trust will first require a determination and recommendation of the Corporate Trustee and the Trust Advisory Council.

2. Amendment of the Public Funds Investment Act

During the 81st Legislative Session~~ amendment of~~, the Public Funds Investment Act (State of Texas Local Government Code Chapter 2256) ~~shall be~~was successfully pursued in order to maximize investment flexibility. Amendments to the Act ~~shall be~~were consistent with the Uniform Prudent Management of Institutional Funds Act (State of Texas Property Code Chapter 163.005). ~~Should such an amendment not be approved and effective by December 31, 2009, further attempts to amend the Act shall occur during the 82nd Legislative Session in the year 2011. If such attempts to amend the act are unsuccessful by December 31, 2011, then the City Council may dissolve the Trust as dictated by the terms of the Trust Agreement.~~

3. Ad Valorem Tax Revenue Management *(suspended per Resolution 3784-9-2009 for Fiscal Years 2009 and 2010)*

The ad valorem receipts on mineral valuations will be allocated to the general fund. An amount equal to 50% of the maintenance and operations levy receipts in excess of $3.27 million will be invested in the Trust, and an amount equal to 50% of the maintenance and operations levy receipts in excess of $3.27 million will be expended on one-time program initiatives and capital improvement projects in accordance with the eligible expenditure criteria included in the Gas Well Revenues Distribution Policy and in accordance with an annual capital plan. The ad valorem tax revenue will be allocated in accordance with Truth in Taxation Laws, Bond Covenants, and the State of Texas Local Government Code.

4. Bonus and Royalty Revenue Management

a. Water and Sewer Fund

Bonus ~~and~~ , royalty and other natural gas related fee revenue derived from Water and Sewer assets, including pipeline easements and license agreements, will be allocated in the following manner, subject to compliance with the Master Ordinance No.10968 and, upon appropriate action by the City Council declaring a surplus in the Water and Sewer Fund on an annual basis in accordance with state law.

Funds from Water and Sewer property and park land located in and around Lake Worth (except the Nature Center and Refuge) shall be designated for qualified expenditures in the development and execution of the 2007 Lake Worth Capital Improvement Implementation Plan, until such time as the plan projects are completed.

All other revenue derived from Water and Sewer assets will be ~~appropriated~~ ~~50~~allocated as follows unless a surplus is declared for the purpose of funding other City projects:

i. Fifty percent to Water and Sewer capital projects fund.

ii. Twenty-five percent of the revenues will be allocated to the Fort Worth Permanent Fund; and

iii. Twenty-five percent of the revenues will be allocated to the Utility Street Reconstruction Capital Improvement Projects Fund.

b. Parks Bonuses

Bonus revenues from gas well leases associated with park land will be recorded in the Parks and Community Services Department Capital Improvements Fund and will be designated for use for capital improvements at the park where the gas well leases are located (well parks).

c. Federal/State Restricted Park Royalties and Fees

Royalties and other fees received from gas well leases or license agreements associated with park land that has federal and/or state restrictions for proceeds to be spent within the park system, except for the Nature Center, shall be allocated 50 percent to the Citywide Park Capital Improvement Projects Fund and 50 percent to the Fort Worth Permanent Fund – Park System Endowment Fund.

d. Fort Worth Nature Center and Refuge

Bonus revenues from gas well leases associated with the Nature Center will be allocated first to establish the Fort Worth Permanent Fund – Nature Center with $10 million. Any remaining bonus funds will be allocated 50 percent to Nature Center Capital Improvement Program to implement the Nature Center Master Plan and 50 percent to the Citywide Park Capital Improvement Projects Fund. All royalties received from gas well leases associated with the Nature Center will be allocated as follows:

- 25 percent to the Nature Center Capital Improvement Program
- 25 percent to the Park-System Capital Improvement Program
- 50 percent to the Park-System Endowment

Once a total of $62 million, as adjusted with the Consumer Price Index to reflect the actual implementation schedule, in bonus, royalty and fee revenue, has been allocated to the Fort Worth Permanent Fund – Nature Center and the Nature Center Capital Improvement Program, 50 percent of the subsequent revenues will be allocated to Citywide Park Capital Improvement Projects Fund and 50 percent to the Fort Worth Permanent Fund-Park System Endowment Fund.

~~d.~~e. Municipal Golf Fund

Bonus ~~and~~ , royalty and other natural gas related fee revenue derived from designated golf course ~~park~~ property, including pipeline easements and license agreements, will be allocated in the following manner:

i. Fifty percent of the revenue will be used to retire existing debt in the Municipal Golf Fund and upon retirement of all debt, the revenue will be applied to the reserve fund balance until such time that the required fund policy reserve of 10 percent in excess of the annual operating budget is achieved; and

ii. Fifty percent of the revenue will be used to cash fund golf capital improvement projects.

f. Municipal Airports Fund

Bonus ~~and~~ , royalty and other natural gas related fee revenue derived from airport property, including pipeline easements and license agreements, will be recorded in the Municipal Airports Fund and will be allocated in the following manner:

i. Fifty percent of the revenue will fund aviation capital improvement projects; and

ii. Fifty percent of the revenue will be allocated to the Fort Worth Permanent Fund-Aviation Endowment Fund.

g. Pipelines in Public Rights of Way

Revenue derived from pipeline easements and license agreements in the public rights of way will be deposited to the General Fund to offset the staff costs associated with reviewing and managing the pipeline locations in relation to other utilities.

~~g.~~h. Local Development Corporations or Housing Finance Corporation Properties

All gas-related revenues derived from property held by Local Development Corporations or the Housing Finance Corporation shall be deposited to separate accounts to support lawful activities of such corporations per the policies and oversight of their respective governing boards.

~~h.~~i. All Other Revenue

~~Bonuses~~Except as noted in prior sections, all other revenue from bonuses, royalties and fees from gas well leases, pipelines or related activities located on all other City property~~, including but not limited to landfills, general City facilities and street rights-of-way,~~ will be allocated as follows:

i. Fifty percent of the revenue will be allocated to the Capital Projects Reserve Fund; and

ii. Fifty percent of the revenue will be allocated to the Fort Worth Permanent Fund.

5. Expenditure Criteria

Expenditures for gas well revenues derived from lease bonus and royalties, ad valorem tax revenues, and distributions from the permanent funds shall be appropriated for one time program initiatives and capital projects which meet one or more of the program and project criteria listed below:

a. To expend on capital projects with a minimum 10-year useful life;

b. To provide matching grant funds to leverage funds for capital projects;

c. To expend on technology with a minimum 5-year useful life;

d. To contribute toward an equipment/fleet revolving replacement fund;

e. To expend on capital equipment with a minimum 10-year useful life; and

f. To fund one-time community-wide economic and neighborhood development initiatives and projects.

g. To fund labor and materials associated with production, distribution and establishment activities for trees on public property (including schools and Counties.);

h. To periodically transfer unrestricted gas lease revenues to the General Fund to offset budgeted administrative costs in Planning and Development and the Finance Department for the leasing program. The allocation of the cost among gas revenue funds will be proportional to revenue collected in all funds, including the permanent funds, during that reporting period.

i. To replenish the fund balance, if necessary, in any designated City fund, to meet the minimum requirements established for that fund.

A sunset review of this Gas Well Revenue Distribution Policy shall be conducted in June 2014 or five years after any future policy amendments, whichever comes later.

J. * *DFW Airport Car Rental Revenue Sharing*

~~Revenues~~All revenues derived from the DFW Airport car rental revenue sharing ~~are first committed~~shall be dedicated to ~~repayment of the Fort Worth Convention Center (FWCC) debt service not fully met by the 2 percent local option Hotel Occupancy Tax. Revenues in excess of the FWCC debt requirements will be allocated for arts programming (30 percent) and repair, maintenance, and capital~~facility improvements of the Fort Worth Convention Center and the Will Rogers Memorial Center~~ (70 percent)~~.

K. *Water and Sewer Payment-In-Lieu-of-Taxes (PILOT)*

The Water and Sewer Operating Fund shall make a Payment-In-Lieu-of-Taxes (PILOT) to the General Fund to offset the ad valorem taxes lost due to the non-profit status of the Water and Sewer System. The PILOT shall be calculated by applying the effective property tax rate to the net book value of the applicable assets. Assets subject to PILOT shall be limited to the assets classified as Plant and Property allocated to the retail portion of the Water and Sewer Systems.

An example of the PILOT calculation:

(Plant Assets – Accumulated Depreciation + Work in Progress) * Current Tax Rate

The Plant Assets are defined as the retail portion of audited plant and property assets of the utility as represented in the Fixed Assets Inventory and the Retail Cost of Service Rate Models. The Accumulated Depreciation is defined as the audited accumulated depreciation directly applied to the Plant Assets. The Work in Progress is defined as all audited Capital Project Expenditures not included in the Fixed Assets Inventory. The values used to complete the most recently available Comprehensive Annual Financial Report shall be used to determine the value of Plant Assets, Accumulated Depreciation and Work in Progress. The PILOT will be treated as a transfer to the General Fund from the Water and Sewer Fund, provided that the Water and Sewer Operating Fund balance shall remain in excess of the reserve requirements for Operating and Debt Service Funds. The transfer shall not exceed the PILOT calculation described above in any given year.

For the purposes of revenue recovery, the amount of the PILOT will be included in annual retail cost of service studies performed by the Water Department and included in the annual operating budget. The PILOT shall be treated as an operating expense of the Water and Sewer System. One twelfth of the budgeted PILOT transfer amount shall be transferred to the General Fund monthly.

~~K.~~* L. *Use of One-time Revenues*

The City shall discourage the use of one-time revenues for ongoing expenditures.

~~L~~* M. *Use of Unpredictable Revenues*

The City shall exercise caution with the use of unpredictable revenues for ongoing expenditures.

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II.
EXPENDITURES

To ensure fiscal stability and the effective and efficient delivery of services, through the identification of necessary services, establishment of appropriate service levels, and careful administration of the expenditure of available resources.

A. *Current Funding Basis*

The City shall operate on a current funding basis. Expenditures shall be budgeted and controlled so as not to exceed current revenues plus the planned use of fund balance accumulated through prior year savings. (The Fund Balance/Retained Earnings Policy Statements shall guide the use of fund balance.)

B. *Avoidance of Operating Deficits*

The City shall take immediate corrective actions if at any time during the fiscal year expenditure and revenue re-estimates are such that an operating deficit (i.e., projected expenditures in excess of projected revenues) is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or use of fund balance within the Fund Balance/Retained Earnings Policy. Expenditure deferrals into the following fiscal year, short-term loans, or use of one-time revenue sources shall be avoided to balance the budget.

C. *Maintenance of Capital Assets*

Within the resources available each fiscal year, the City shall strive to maintain capital assets and infrastructure at a sufficient level to protect the City's investment, to minimize future replacement and maintenance costs, and to continue service levels.

D. *Periodic Program Reviews*

The City Manager shall strive to undertake periodic staff and third-party reviews of City programs for both efficiency and effectiveness. As appropriate, the privatization and contracting of services with other governmental agencies or private entities will be evaluated as alternative approaches to service delivery. Programs that are determined to be inefficient and/or ineffective shall be reduced in scope or eliminated.

E. *Purchasing*

The City shall conduct its purchasing and procurement functions efficiently and effectively, fully complying with applicable State laws and City ordinances. Staff shall make every effort to maximize discounts and capitalize on savings available through competitive bidding and “best value” purchasing.

III.

FUND BALANCE/RETAINED EARNINGS

To maintain the fund balance and retained earnings of the various operating funds at levels sufficient to protect the City's creditworthiness as well as its financial positions from unforeseeable emergencies.

A. *General Fund Unreserved Fund Balance*

The City shall strive to maintain the General Fund unreserved fund balance at 10 percent of the current year's budget appropriation for operations and maintenance. After completion of the annual audit, if the unreserved fund balance exceeds 10 percent, the excess must be specifically designated for subsequent year expenditures or transferred to the Capital Projects Reserve Fund (The use of the Capital Projects Reserve Fund shall be guided by the Capital Expenditures and Improvements Policy Statements.)

B. *Retained Earnings of Enterprise Operating Funds*

In enterprise operating funds, the City shall strive to maintain positive retained earnings positions to provide sufficient reserves for emergencies and revenue shortfalls. Specifically, in the Water and Sewer Enterprise Fund, an operating reserve will be established and maintained at 20 percent of the current year's budget appropriation for operation and maintenance, which is defined as the total budget less debt service and capital project expenditures.

C. *Use of Fund Balance/Retained Earnings*

Fund Balance/Retained Earnings shall be used only for emergencies, non-recurring expenditures, or major capital purchases that cannot be accommodated through current year savings. Should such use reduce the balance below the appropriate level set as the objective for that fund, restoration recommendations will accompany the decision to utilize said balance.

D. *Retained Earnings of Internal Service Funds*

The City shall not regularly maintain positive retained earnings in excess of 20 percent of the current year's operation and maintenance expense in an internal service fund. Normally, when an internal service fund's retained earnings exceed 20 percent, the City shall reduce the charges for services provided by the internal service fund to other City operating funds.

E. *Culture and Tourism Fund Undesignated Fund Balance*

The City shall strive to maintain the Culture and Tourism Fund undesignated fund balance at ~~10~~20 percent of the current year's budget appropriation for operations and maintenance, which is defined as the total budget less the annual transfer to the debt service funds.

F. *Debt Service Funds*

The City shall maintain sufficient reserves in its debt service funds, which shall equal or exceed the requirements dictated by its bond ordinances.

G. *Benefit and Insurance Funds*

The City shall seek to maintain reserves in its benefit and insurance funds at the following levels:

1. Risk Management Fund – 25 percent of projected annual operating expenditures.

2. Worker's Compensation Fund – 25 percent of projected annual operating expenditures.

3. Group Health and Life Insurance Fund – 25 percent of projected annual operating expenditures.

4. Unemployment Compensation Fund – 25 percent of projected annual operating expenditures.

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IV.

CAPITAL EXPENDITURES AND IMPROVEMENTS

To review and monitor the state of the City's capital assets, setting priorities for the addition, replacement, and renovation of such assets based on needs, funding alternatives, and availability of resources.

A. *Capital Improvements Planning*

The City shall review annually the needs for capital improvements and equipment, the current status of the City's infrastructure, replacement and renovation needs, and potential new projects. All projects, ongoing and proposed, shall be prioritized based on an analysis of current needs and resource availability. For every capital project, all operation, maintenance, and replacement costs shall be fully costed.

B. *Replacement of Capital Assets on a Regular Schedule*

The City shall annually prepare a schedule for the replacement of its non-infrastructure capital assets. Within the resources available each fiscal year, the City shall replace these assets according to the aforementioned schedule.

C. *Capital Expenditure Financing*

The City recognizes that there are three basic methods of financing its capital requirements. It can budget the funds from current revenues; it can take the funds from fund balance/retained earnings as allowed by the Fund Balance/Retained Earnings Policy; or it can borrow money through the issuance of debt. Debt financing includes general obligation bonds, revenue bonds, certificates of obligation, lease/purchase agreements, certificates of participation, commercial paper, tax notes, and other obligations permitted to be issued or incurred under Texas law. Guidelines for assuming debt are set forth in the Debt Policy Statements.

D. *Capital Projects Reserve Fund*

A Capital Projects Reserve Fund shall be established and maintained to accumulate reimbursements from other governmental agencies for the prior purchase of real property assets, proceeds from an occasional sale of surplus real property as approved by Council, bonuses and royalties received from gas well leases (as described in "Revenues" Policy Statements, Section I., Revenues from Gas Well Development Leases), and transfers from the General Fund unreserved fund balance. This fund shall only be used to pay for non-routine and one-time expenditures such as land and building purchases, construction and maintenance projects with at least a 10-year life, feasibility, design and engineering studies related to such projects, capital equipment and vehicles with at least a 10-year life, and technology improvements with at least a 5-year life. Expenditures from this Fund shall be aimed at protecting the health and safety of citizens and employees, protecting the existing assets of the City, ensuring public access to City facilities and information, and promoting community-wide economic development.

E. *Demolition Fund*

Generally, proceeds from the sale of surplus real property assets, other than Lake Worth leases, shall be escrowed and designated for paying the costs of demolishing substandard and condemned buildings and for the maintenance of tax foreclosed properties the City maintains as trustee. Exceptions to this general policy shall be approved by the Council prior to the use of these proceeds for other purposes.

F. *Lake Worth Infrastructure Fund*

Proceeds from the sale of Lake Worth leases shall be escrowed and designated for water and wastewater improvements within the area of the City of Fort Worth surrounding and adjoining Lake Worth.

G. *Surplus Bond Funds (M&C G-14441, July 27, 2004)*

A "Restricted Residual Account" shall be established to record and manage surplus project funds. Surplus project funds may remain after the completion of a specific, voter-approved bond project or may result when a bond project is eliminated or modified. Funds in the Restricted Residual Account may be used for projects consistent with the voted purpose of the bonds to:

- Finance cost overruns on bond projects within the same bond proposition.
- Fund emergency projects (as defined in AR C-9)
- Reduce outstanding debt at the end of the bond program
- Fund newly identified projects within the voted purposes of an approved bond proposition only after all voter-approved projects within that same proposition are completed.

V.

DEBT

To establish guidelines for debt financing that will provide needed capital equipment and infrastructure improvements while minimizing the impact of debt payments on current revenues.

A. *Use of Debt Financing*

Debt financing, to include general obligation bonds, revenue bonds, certificates of obligation, certificates of participation, commercial paper, tax notes, lease/purchase agreements, and other obligations permitted to be issued or incurred under Texas law, shall only be used to purchase capital assets and equipment that cannot be prudently acquired from either current revenues or fund balance/retained earnings and to fund infrastructure improvements and additions. The useful life of the asset or project shall exceed the payout schedule of any debt the City assumes.

B. *Assumption of Additional Debt*

The City shall not assume more tax-supported general purpose debt than it retires each year without conducting an objective analysis as to the City's ability to assume and support additional debt service payments. When appropriate, self-supporting revenue bonds shall be considered before general obligation bonds. To the extent permitted by State law, commercial paper may be utilized and/or issued in the City's tax-supported and revenue-supported bond programs in order to: (1) provide appropriation authority for executing contracts on bond-funded projects; (2) provide interim construction financing; and (3) take advantage of lower interest rates in the short-term variable rate market; all of which provide the City with flexibility in timing its entry into the long-term fixed rate market.

C. *Affordability Targets*

1. General Obligation Bonds

The City shall use an objective analytical approach to determine whether it can afford to assume new general purpose debt (General Obligation bonds, tax notes, and Certificates of Obligation) beyond what it retires each year. This process shall take into consideration any potential impact to the City's credit ratings, the growth in the City's taxable assessed value, and the targeted debt service tax rate. The process shall also examine the direct costs and benefits of the proposed expenditures. The decision on whether or not to assume new debt shall be based on these costs and benefits, the current conditions of the municipal bond market, and the City's ability to "afford" new debt as determined by the aforementioned standards.

2. Revenue Bonds

Revenue bonds are secured solely by the revenues of an enterprise fund. As a result, the credit markets look at the type of enterprise securing the payment of debt service on the bonds to determine the level of security necessary for the purchase of the bonds. Whether revenue bonds can be secured with gross revenues of the enterprise or net revenues (i.e., those revenues remaining after paying costs of operation and maintenance) is often determined by state law. Coverage requirements, and the need for and level of reserve funds to provide additional security in support of revenue bonds, are subject to rating agency review and market standards.

Generally, for the City to issue additional water and sewer revenue bonds, net revenues, as defined in the ordinance authorizing the revenue bonds, shall be a minimum of 125% of the average annual debt service and 110% of the debt service for the year in which requirements are scheduled to be the greatest, but should be at least 150% of the annual debt service for financial planning purposes. Annual adjustments to the City's rate structures will be made as necessary to maintain a minimum 150% coverage factor. Exceptions to these standards must be fully explained and justified.

Generally, for the City to issue additional stormwater revenue bonds, gross revenues, as defined in the ordinance authorizing the revenue bonds, shall be at least of 150% of the maximum annual debt service, however net revenues (after operations and maintenance expenses) should be at least 150% of the annual debt service for financial planning purposes. Annual adjustments to the City's rate structures will be made as necessary to maintain a minimum 150% coverage factor using net revenues.

Revenue bonds that may be issued to finance improvements for other enterprise fund activities (e.g., airports or convention center facilities) will necessitate the consideration of coverage and reserve fund requirements unique to the enterprise fund, such that the revenue bonds will be creditworthy and marketable.

3. <u>Certificates of Obligation</u>

Certificates of Obligation may be issued without a public election to finance any public work project or capital improvement, as permitted by State law. However, it is the policy of the City to utilize Certificates of Obligation to finance public improvements only in special circumstances and only after determining the City’s ability to assume additional debt based on the standards identified above. Those special circumstances in which Certificates might be issued include, but are not limited to, situations where:

- Cost overruns on a general obligation bond-financed capital improvement have occurred;
- “Emergency” conditions require a capital improvement to be funded rapidly;
- Financial opportunities unexpectedly arise to leverage funds from other entities and reduce the City’s capital cost for a community improvement;
- A capital improvement is a revenue-producing facility, but due to the nature of the project or the time it takes for the facility to become operational and produce revenues, the improvement may not generate sufficient revenues throughout the life of the improvement to support the indebtedness secured solely by the revenues to be produced by the improvement;

- It would be more economical to issue Certificates of Obligation rather than issuing revenue bonds; and

- The timing of the construction of a capital improvement and the expense of calling a bond election for a single proposition would, in the opinion of staff and with the approval of the Council, warrant the issuance of Certificates of Obligation to finance the capital improvement.

D. *Debt Structure*

Generally, the City shall issue bonds with an average life of approximately 10.5 years for general obligation bonds and approximately 12.0 years for revenue bonds. The structure should approximate level principal on general obligation bonds and level debt service for revenue bonds. With respect to the issuance of revenue bonds for a stand-alone or self-supporting project, the term of the debt and debt service structure shall be consistent with the useful life of the project and the revenue-generating capability of the project.

There shall be no debt structures, which include increasing debt service levels in subsequent years, with the exception of the first and second year of a payment schedule. There shall be no "balloon" bond repayment schedules, which consist of low annual payments and one large payment of the balance due at the end of the term. There shall always be at least interest paid in the first fiscal year after a bond sale and principal starting generally no later than the second fiscal year after the bond issue. In the case of a revenue generating project, principal repayment should begin no later than the first full year after the project has been placed in service. Normally, there shall be no capitalized interest included in the debt structure unless there are no historical reserves upon which to draw. The outstanding general obligation debt and revenue debt of the City may each be comprised of a variable rate component (including commercial paper and auction rate bonds) not to exceed 25% of each such category of debt.

E. *Call Provisions*

Call provisions for bond issues shall be made as short as possible consistent with the lowest interest cost to the City. When possible, all bonds shall be callable only at par.

F. *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 shall attempt to 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 that the NIC basis can satisfactorily determine the lowest and best bid.

G. *Timing of Sales*

The City may use the cash received through the issuance of notes pursuant to, or the appropriation authority that may be available in accordance with the commercial paper programs to begin capital projects approved under those programs. The City may also consider using reimbursement resolutions and its cash to initiate certain projects. Consideration should be given to any lost interest earnings on the City's cash compared to the anticipated interest expense associated with the issuance of obligations by the City. This process will improve the City's ability to time its entry into the long-term fixed rate market and to manage its debt issuances and debt payments in order to minimize the impact on tax rates and utility rates.

H. *Rating Agencies Presentations*

Full disclosure of operations and open lines of communication shall be made to the rating agencies. City staff shall prepare the necessary materials and presentation to the rating agencies. Credit ratings will be sought from one or more of the nationally recognized municipal bond rating agencies, currently Moody's, Standard & Poor’s, and Fitch.

I. *Continuing Disclosure*

The City is committed to providing continuing disclosure of financial and pertinent credit information relevant to the City's outstanding securities and will abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure. City staff will undertake to update financial and pertinent credit information within six months of the end of the City’s fiscal year and at such other times as may be indicated by material changes in the City’s financial situation.

J. *Debt Refunding*

City staff shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. As a general rule, the present value savings of a particular advance refunding (i.e., bonds that are paid off on a date that is more than 90 days after the date the refunding bonds are issued) should exceed 3.5% of the par amount of the refunded maturities.

K. *Interest Earnings*

Interest earnings received on the investment of bond proceeds shall be used to assist in paying the interest due on bond issues, to the extent permitted by law.

L. *Lease/Purchase Agreements*

Over the lifetime of a lease, the total cost to the City will generally be higher than purchasing the asset outright. As a result, the use of lease/purchase agreements and certificates of participation in the acquisition of vehicles, equipment, and other capital assets shall generally be avoided, particularly if smaller quantities of the capital asset(s) can be purchased on a "pay-as-you-go" basis.

M. *Proposals from Investment Bankers*

The City welcomes ideas and suggestions from investment bankers and will seek to reward those firms which submit unique and innovative ideas by involving them in negotiated underwritings. Unsolicited proposals should be submitted to City’s Financial Management Services Department. City staff will review to determine the viability of proposals.

N. *Underwriting Syndicates*

The City attempts to involve qualified and experienced firms, which consistently submit ideas to the City and actively participate in the City's competitive sales in its negotiated underwritings. City staff will recommend the structure of underwriting syndicates, which will be effective for the type and amount of debt being issued. The City will consider its M/WBE goals in structuring syndicates.

O. *Interest Rate Swaps*

The City will consider the utilization of interest rate swap transactions only as they relate to the City's debt management program and not as an investment instrument. As a result, any swap transaction should not impair the outstanding bond rating of the City or negatively affect the amount of credit enhancement capacity available to the City. The City is always open to innovative ideas and proposals; however, before a commitment is made on a transaction, the proposed transaction as well as any variations from the following guidelines shall be fully explained and justified to the Council.

1. The Transaction

- Will comply with all applicable outstanding bond ordinance and insurance covenants.
- Will be a market transaction for which competing quotes can be obtained at the discretion of the City staff.
- Will include a market termination provision with third party involvement.
- Will produce a material economic benefit not attainable through the use of conventional debt instruments.
- Will introduce no leverage in order to produce an economic benefit.
- Will not impair the utilization of outstanding call features on outstanding bonds.
- Will be structured to minimize any basis risk, tax-law risk and credit risk to the City.
- Will not cause the total amount of swap transactions as measured on a fair market value basis to exceed 40 percent (40%) of the outstanding indebtedness of a particular fund.

2. The Counterparty

- Shall pay all costs associated with the transaction. All fees and expenses paid by the counterparty to third parties will be disclosed in writing to the City.
- Shall have a rating at the time of execution that is at least equal to that of the City's indebtedness against which the transaction is to be entered, or must provide for the purchase of credit enhancement to enhance the proposed transaction's rating to that of such City indebtedness.
- Shall consider downgrade protection, when possible and cost effective.

- Shall not assign the swap contract without the consent of the City.

- Shall clearly explain the impact on the transaction of the counterparty's bankruptcy.

3. Analysis

- Swap proposals submitted by investment firms for consideration by the City shall include a clear analysis, which identifies both the potential benefits and risks associated with the proposed transaction.

- The City will produce an analysis of various interest rate market fluctuations at periodic intervals to demonstrate the impact of interest rate market movements.

- The City's cost of the transaction and any anticipated future costs will be included in any cost/benefit analysis.

- The City will monitor the results of an adopted swap transaction throughout its life and may recommend termination when substantial economic benefit would accrue to the City upon termination.

4. Legal

- The documentation of the swap shall be in the form of an International Swaps and Derivatives Association, Inc., Master Agreement with schedules and annexes, commonly referred to as an ISDA document set.

- The swap, whenever possible, shall be transacted under Texas law and jurisdiction.

- Approval of the transaction must be obtained from the State Attorney General, to the extent required by Texas law.

5. Disclosure

- Disclosure of the terms of the swap will be made in accordance with then prevailing industry standards.

6. Reporting

- In order to comply with State statutes, the governing body of the City shall appoint an officer of the City to provide an annual written report to the governing body of the City which discusses the following items:

- The terms of the outstanding interest rate management transactions.

- The fair value of each interest rate management transaction.

- The value of any collateral posted to or by the City under the interest rate management transactions with each counterparty at year's end, and the cash flows of each interest rate management transaction.

- Identify the counterparties to each interest rate management transaction, any guarantor of such counterparties, and the credit ratings of each counterparty and guarantor.

- Determine whether the continuation of any swap transactions under the agreement would comply with the City's financial management policy statements.

P. *Synthetic Advanced Refundings*

The City may consider synthetic advance refundings when they produce a material economic benefit and will in no way impair the outstanding bond rating of the City.

1. The present value savings of any proposed transaction must be quantifiable, exceed 7 percent (7%) of the par amount of the refunded maturities, and not be based on projections.

2. Proposals submitted by investment firms for consideration by the City shall identify and address not only the benefits of the proposed transaction, but the potential negative impacts as well.

3. Additional transaction costs such as bond counsel, trustee, and financial/swap advisor shall be included in the savings calculation required above.

4. The City shall produce an analysis of the implications of paying a forward premium versus waiting to the current call date of the bonds.

5. Approval of the transaction must be obtained from the State Attorney General, to the extent required by Texas law.

VI.

INVESTMENTS

To invest the City's cash in such a manner so as to ensure the safety of principal and interest, to meet the liquidity needs of the City, and to achieve the highest reasonable market yield.

A. *Cash Management Policy (M&C G-9552, March 12, 1992)*

Subject to approval by the City Manager and the Director of Finance, the City Treasurer is both authorized and required to promulgate a written Statement of Cash Management Rules and Regulations governing the City's cash management and investment activities (exclusive of the investment activities of the Employees' Retirement Fund), and to institute and administer such specific procedures and criteria as may be necessary to ensure compliance with the City's cash management policy and the Public Funds Investment Act (Texas Government Code Chapter 2256). Specifically, this policy mandates the pursuit of the following overall goals and objectives:

1. All aspects of cash management operations shall be designed to ensure the safety and integrity of the City's financial assets.

2. Cash management activities shall be conducted in full compliance with prevailing local, state, and federal regulations. Furthermore, such activities shall be designed to adhere to guidelines, standards, and practices promulgated by such professional organizations as the American Institute of Certified Public Accountants (AICPA), the Governmental Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA).

3. Operating within appropriately established administrative and procedural parameters, the City shall aggressively pursue optimum financial rewards, while simultaneously controlling its related expenditures. Therefore, cash management functions that engender interaction with outside financial intermediaries shall be conducted in the best financial and administrative interests of the City. In pursuit of these interests, the City will utilize competitive bidding practices wherever practicable, affording no special financial advantage to any individual or corporate member of the financial or investment community.

4. The City shall design and enforce written standards and guidelines relating to a variety of cash management issues, such as the eligibility or selection of various financial intermediaries and counterparties, documentation and safekeeping requirements; philosophical and operational aspects of the investment function; and such other functional and administrative aspects of the cash management program which necessitate standard setting in pursuit of appropriate prudence, enhanced protection of assets or procedural improvements.

5. Investments of the City, or of funds held in its possession in a fiduciary capacity, shall be made with the exercise of that judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived.

B. *Investment Strategy (M&C G-11199, August 21, 1995 - Modified March 31, 1997)*

The City of Fort Worth maintains a Consolidated Portfolio in which it pools its funds for investment purposes. The City's cash management program seeks to achieve four objectives in this order of priority: safety of principal, adequate liquidity to meet daily cash needs, diversification, and finally a reasonable yield commensurate with the preservation of principal and liquidity. The following investment strategy has been designed to accomplish these objectives:

1. The City invests in "money market instruments," high credit quality, highly liquid investments with maturities of one year or less, and in intermediate-term securities of high credit quality with maturities no greater than five years. The City will only invest in those securities specified in its "List of Eligible Investments". These include U.S. Treasury Bills and Notes, high quality obligations of certain U.S. agencies and instrumentalities, and AAA-rated local government investment pools and no-load money market mutual funds. Any securities not on this list will not be eligible investments.

2. At all times, the City shall maintain a cash position sufficient to meet daily liquidity requirements. This will be accomplished by maintaining approximately 15 percent of the total portfolio in money market funds, local government investment pools, bank accounts, and/or overnight repurchase agreements. The City shall also position some investments to provide liquidity for certain predictable obligations such as debt service payments.

3. The City shall not exceed a weighted average maturity of two years for the Consolidated Portfolio. The City shall strive to maintain this weighted average maturity by investing funds according to the following general maturity diversification guidelines:

Maturity	**Cash**	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**
Day Range	**0**	**1-365**	**365-730**	**730-1095**	**1095-1460**	**1460-1825**
% Portfolio	**15**	**28**	**14.25**	**14.25**	**14.25**	**14.25**

There may be times when the City has more or less of its funds in any one maturity cell due to cash flow needs, prevailing market conditions, and other factors. The maturity diversification schedule serves as a general guideline for making investment decisions. In this way, the portfolio will be able to take advantage of rising interest rates by re-investing maturing securities at higher yields. In falling rate environments, it will profit from having investments that were made at higher interest rates.

Following this discipline ensures that the City will always have sufficient cash available for daily needs, preserves its principal and encourage diversification in multiple maturity areas, short-term or long-term. In this manner, the Consolidated Portfolio will endeavor to earn a competitive market yield without assuming unacceptable risk.

C. *Interest Earnings*

Interest earned from investments shall be distributed to the operating, internal service, and other City funds from which the money was provided, with the exception that interest earnings received on the investment of bond proceeds shall be attributed and allocated to those debt service funds responsible for paying the principal and interest due on the particular bond issue.

D. *Designated Investment Committee*

Upon Council adoption of the Cash Management Policy and the promulgation of the Statement of Cash Management Rules and Regulations, a Cash Management Task Force comprised of the Assistant City Manager over Finance, the Finance Department Director, the City Treasurer, and other City staff as deemed appropriate by the City Manager is established. This group serves as the City's designated investment committee required under the State Public Funds Investment Act. The Task Force will regularly examine and evaluate the City's cash management and investment activities and recommend revisions to operational rules and regulations, the Cash Management Policy, and the Investment Strategy. Modifications to the administrative rules and regulations will be submitted to the City Manager for approval. Amendments to the Cash Management Policy and/or Investment Strategy will be presented to the Council for adoption. According to State statute, the Investment Policy and Strategy will be reviewed and adopted by Council at least annually.

E. *Investment Portfolio Rating*

The City will strive to maintain the highest possible portfolio rating. The City will manage its cash according to procedures and strategies to maintain such a rating.

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VII.
INTERGOVERNMENTAL RELATIONS

To coordinate efforts with other governmental agencies to achieve common policy objectives, share the cost of providing government services on an equitable basis, and support favorable legislation at the state and federal levels.

A. *Interlocal Cooperation in Delivering Services*

In order to promote the effective and efficient delivery of services, the City shall actively seek to work with other local jurisdictions in joint purchasing consortia, sharing facilities, sharing equitably the costs of service delivery, and developing joint programs to improve service to its citizens.

B. *Legislative Program*

The City shall cooperate with other jurisdictions to actively oppose any state or federal regulation or proposal that mandates additional City programs or services and does not provide the funding to implement them. Conversely, as appropriate, the City shall support legislative initiatives that provide more funds for priority local programs.

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VIII.
GRANTS

To seek, apply for and effectively administer federal, state and foundation grants-in-aid that address the City's current priorities and policy objectives.

A. *Grant Guidelines*

The City shall apply, and facilitate the application by others, for only those grants that are consistent with the objectives and high priority needs previously identified by Council. The potential for incurring ongoing costs, to include the assumption of support for grant-funded positions from local revenues, will be considered prior to applying for a grant.

B. *Indirect Costs*

The City shall recover full indirect costs unless the funding agency does not permit it. The City may waive or reduce indirect costs if doing so will significantly increase the effectiveness of the grant.

C. *Grant Review*

All grant submittals shall be reviewed for their cash match requirements, their potential impact on the operating budget, and the extent to which they meet the City's policy objectives. Departments shall seek Council approval prior to submission of a grant application. Should time constraints under the grant program make this impossible, the department shall obtain approval to submit an application from the appropriate Assistant City Manager and then, at the earliest feasible time, seek formal Council approval. If there are cash match requirements, the source of funding shall be identified prior to application. An annual report on the status of grant programs and their effectiveness shall also be prepared.

D. *Grant Program Termination*

The City shall terminate grant-funded programs and associated positions when grant funds are no longer available unless alternate funding is identified.

IX.
ECONOMIC DEVELOPMENT

Initiate, encourage, and participate in economic development efforts to create job opportunities and strengthen the local economy.

A. *Positive Business Environment*

The City shall endeavor, through its regulatory and administrative functions, to provide a positive business environment in which local businesses can grow, flourish and create jobs. The Council and City staff will be sensitive to the needs, concerns and issues facing local businesses.

B. *Commitment to Business Expansion, Diversification, and Job Creation*

The City shall encourage and participate in economic development efforts to expand Fort Worth's economy and tax base and to increase local employment. These efforts shall not only focus on newly developing areas but on "central city" areas, the Central Business District, and other established sections of Fort Worth where development can generate additional jobs and other economic benefits. The "central city" is defined, by the Council, as the area within Interstate Loop 820 consisting of:

- All Community Development Block Grant (CDBG)–eligible census block groups; and
- All state-designated enterprise zones within Interstate Loop 820; and
- All census block groups that are contiguous by 75 percent or more of their perimeter to CDBG-eligible block groups or enterprise zones.

C. *Tax Abatements*

The City shall follow a tax abatement policy (adopted October 17, 2006, M&C G-15458) to encourage investment and development throughout Fort Worth. The City shall use due caution in the analysis of any tax incentives used to encourage development. Factors considered in evaluating proposed abatements for development include the location of the project, its size, the number of temporary and permanent jobs created, the costs and benefits for the City and its impact on Fort Worth's economy. Tax abatement contracts may contain certain conditions to the receipt, both initially and throughout the term of the contract, of the abatement. The City will annually review tax abatement contracts to ensure the community is receiving promised benefits, and the Council may seek to modify, re-negotiate, or terminate an abatement contract if it is determined that the firm receiving the abatement has failed to keep its part of the agreement.

D. *Increase Non-residential Share of Tax Base*

The City's economic development program shall seek to expand the non-residential share of the tax base to decrease the tax burden on residential homeowners.

E. *Coordinate Efforts with Other Jurisdictions*

The City's economic development program shall encourage close cooperation with other local jurisdictions, chambers of commerce, and groups interested in promoting the economic well being of this area.

F. *Use of Other Incentives*

The City shall use enterprise zones, tax increment reinvestment zones, or other incentives as allowed by law to encourage new investment and business expansion in target areas as designated by resolution of the Council. Petitions presented to the City Council seeking the creation of a tax increment reinvestment zone shall be considered by the City Council in a manner consistent with applicable Texas law and the City of Fort Worth Policy, Guidelines, and Procedures for Tax Increment Reinvestment Zones (adopted February 28, 2006, M&C G-15100).. The City shall also coordinate with state and federal agencies on offering any incentive programs they may provide for potential economic expansion. The factors used to evaluate possible recipients of any incentives shall include those listed in C. Tax Abatements. Economic development incentive agreements involving tax abatements or grants of public funds shall be subject to prior review and approval of the Council**.**

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X.

FISCAL MONITORING

To prepare and present regular reports that analyze, evaluate, and forecast the City's financial performance and economic condition.

A. *Financial Status and Performance Reports*

Monthly reports comparing expenditures and revenues to current budget, projecting expenditures and revenues through the end of the year, noting the status of fund balances to include dollar amounts and percentages, and outlining any remedial actions necessary to maintain the City's financial position shall be prepared for review by the City Manager and the Council.

B. *Five-year Forecast of Revenues and Expenditures*

A five-year forecast of revenues and expenditures, to include a discussion of major trends affecting the City's financial position, shall be prepared in anticipation of the annual budget process. The forecast shall also examine critical issues facing the City, economic conditions, and the outlook for the upcoming budget year. The document shall incorporate elements of the International City Management Association financial trend monitoring system to provide further insight into the City's financial position and to alert the Council to potential problem areas requiring attention.

C. *Status Reports on Capital Projects*

A summary report on the contracts awarded, capital projects completed and status of the City's various capital programs will be prepared at least quarterly and presented to the City Manager and Council.

D. *Compliance with Council Policy Statements*

The Financial Management Policy Statements will be reviewed annually by the Council and updated, revised or refined as deemed necessary. Policy statements adopted by the Council are guidelines, and occasionally, exceptions may be appropriate and required. However, exceptions to stated policies will be specifically identified, and the need for the exception will be documented and fully explained.

XI.
FINANCIAL CONSULTANTS

To seek out and employ the assistance of qualified financial advisors and consultants as needed in the management and administration of the City's financial functions.

Advisors and consultants shall be selected using objective questionnaires and requests for qualifications/proposals based upon demonstrated expertise relative to the scope of work to be performed and appropriately competitive fees. These areas include but are not limited to investments, debt administration, financial accounting systems, program evaluation, and financial impact modeling.

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XII.

ACCOUNTING, AUDITING AND FINANCIAL REPORTING

Accounting, Auditing and Financial Reporting: Comply with prevailing federal, state, and local statutes and regulations, as well as current professional principles and practices.

A. *Conformance to Accounting Principles and Recommended Practices*

The City's accounting practices and financial reporting shall conform to Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants (AICPA), and the Government Finance Officers Association (GFOA).

B. *Popular Reporting*

In addition to issuing a Comprehensive Annual Financial Report (CAFR) in conformity with GAAP, the City may supplement its CAFR with a simpler, "popular" report designed to assist those citizens who need or desire a less detailed overview of the City's financial activities. This report should be issued no later than six months after the close of the fiscal year.

C. *Selection of Auditors*

Every five years, the City shall request proposals from all qualified firms, including the current auditors if their past performance has been satisfactory, and the Council shall approve the selection of an independent firm of certified public accountants to perform an annual audit of the books of account, records and transactions, opining of the Comprehensive Annual Financial Report and Single Audit Report and reporting the results and recommendations to the Council.

D. *Audit Completion*

The City seeks to have its CAFR and Single Audit Report audited and available within 180 days and 270 days respectively after the close of its previous fiscal year, which ends September 30. In the event the presentation of the CAFR and Single Audit is delayed beyond the first Council meeting in April, the City Manager shall provide a report on the status of the audit and the expected completion date of the CAFR and Single Audit to the City Council at its first meeting in April.

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XIII.

RETIREMENT SYSTEM

A. To ensure that the Employees' Retirement Fund is adequately funded and operated for the exclusive benefit of the participants and their beneficiaries:

~~A.~~1. *Benefit Improvements*

The Board of Trustees of the Employees' Retirement Fund (Retirement Fund) shall certify to the Council ~~–~~the actuarial impact of any proposed benefit improvements or changes in contribution levels. The City Council (City) will also obtain an independent actuary who will certify to the Council the actuarial impact of any proposed benefit improvements or changes in contribution levels.

~~B~~2. *Qualified Plan*

The City and the Retirement Fund will maintain the qualified status of the Retirement System. As deemed necessary from time to time, the City and/or the Retirement Fund will request a "determination letter" from the IRS relative to whether or not the City's retirement system conforms to the Internal Revenue Code in order to assure the tax-exempt status of the income earned on the Retirement Fund's investments, the retiree pension payments, and the accrued benefits for active employees.

~~C~~3. *Funding Level*

In accordance with Article 16, Section 66 of the Texas Constitution which charges the City and the Retirement Fund with the responsibility for ensuring that accrued benefits are not reduced or impaired. The City shall continue to monitor contribution levels of both the City and employees, along with retirement benefits, to ensure that the Retirement Fund is sufficiently funded and benefits can be paid as they become due. If funding levels are insufficient, staff will update the City Council of the deficiency and make recommendations for corrective action.

~~D~~4. *City Manager's Proposed Budget*

The City Manager will provide assumptions included in the City Manager's Proposed Budget, such as compensation increases, retirement contributions, and any changes in staffing to the City's selected actuarial firm. The actuarial firm will determine the actuarial impact of assumptions included in the City Manager's Proposed Budget on the Employees' Retirement Fund. The City Manager will present the City Council with the results of the actuarial analysis, prior to the adoption of the budget and communicate the results of the actuarial study to the Employees' Retirement Fund's actuary.

B. To ensure that the Health Fund is adequately funded and operated for the exclusive benefit of eligible employees, retirees, and beneficiaries:

1. *Benefit Improvements*

Staff shall routinely present to the City Council the actuarial impact of any proposed benefit improvements or changes. The City Council will also obtain an independent actuary who will certify to the Council the actuarial impact of any proposed benefit improvements or changes.

2. *Funding Level*

The City shall continue to monitor retiree healthcare benefits, to ensure that the Health Fund is sufficiently funded and City Council-approved benefits can be paid according to the approved benefit program. If funding levels are insufficient, staff will update the City Council of the deficiency and make recommendations for corrective action.

3. *City Manager's Proposed Budget*

The City Manager will provide assumptions included in the City Manager's Proposed Budget related to the actuarially determined Annual Required Contribution (ARC) and the period of time necessary to fully fund the ARC in accordance with Governmental Standards Accounting Board Statement 45 (GASB 45).

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XIV.

INTERNAL CONTROLS

To establish and maintain an internal control structure designed to provide reasonable assurance that City assets are safeguarded and that the possibilities for material errors in the City's financial records are minimized.

A. *Proper Authorizations*

Procedures shall be designed, implemented and maintained to ensure that financial transactions and activities are properly reviewed and authorized.

B. *Separation of Duties*

Job duties will be adequately separated to reduce to an acceptable level the opportunities for any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of assigned duties.

C. *Proper Recording*

Procedures shall be developed and maintained that will ensure financial transactions and events are properly recorded, and that all financial reports may be relied upon as accurate, complete and up-to-date.

D. *Access to Assets and Records*

Procedures shall be designed and maintained to ensure that adequate safeguards exist over the access to and use of financial assets and records.

E. *Independent Checks*

Independent checks and audits will be made on staff performance to ensure compliance with established procedures and proper valuation of recorded amounts.

F. *Costs and Benefits*

Internal control systems and procedures must have an apparent benefit in terms of reducing and/or preventing losses. The cost of implementing and maintaining any control system should be evaluated against the expected benefits to be derived from that system.

XV.
E-COMMERCE

To fully utilize available technologies to expedite cash payments and receipts, enhance employee productivity, and provide customer satisfaction.

A. *Fully Integrated Financial Systems*

All E-Commerce systems and procedures must fully and transparently integrate with the City's financial and accounting systems, its depository bank systems, and any other City information system which interfaces with an E-Commerce system.

B. *Emerging Technologies*

The City will work closely with its depository bank and other financial partners to evaluate and implement the standard industry accepted technologies that prove to be efficient and effective in pursuit of the City's E-Commerce goals.

C. *Vendor E-Payments*

The City will actively migrate vendor payments from paper checks to other forms of payment, including but not limited to: 1) Automated Clearing House (ACH) payments; 2) Wire transfers; and 3) Procurement Card payments.

D. *Direct Deposits*

The City will actively migrate payroll payments from paper checks, to electronic formats, including but not limited to: 1) Direct deposits and 2) Electronic pay cards.

E. *Internet Payment Options*

Working with its depository bank and other financial partners, the City will seek to develop and implement internet payment options of best practices which will allow customers and citizens to pay bills due the City conveniently and securely.

F. *Information Security*

The City will employ security measures consistent with best practice and the City's information security policy to ensure the integrity and confidentiality of customer and citizen data that is stored or is a component of transactions utilizing the City's information technology infrastructure or that of its service providers.

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