

**RESOLUTION NO. R-2017-75**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BASTROP, TEXAS, APPROVING AND ADOPTING THE FINANCIAL MANAGEMENT POLICY; MAKING VARIOUS PROVISIONS RELATED TO THE SUBJECT; REPEALING ANY RESOLUTIONS IN CONFLICT; AND ESTABLISHING AN EFFECTIVE DATE.**

**WHEREAS**, it is the responsibility of local government to ensure that public funds are managed in a prudent and financially sound manner; and

**WHEREAS**, financial policies provide guidelines for managing risk and assisting the City in complying with established public management best practices, while ensuring compliance with federal, state and local laws and reporting requirements; and

**WHEREAS**, the City finds it necessary to adopt a Financial Management Policy annually as part of the budget process.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF BASTROP, TEXAS:**

**SECTION 1:** That the City Council hereby approves and adopts the Financial Management Policy attached hereto as Exhibit A and made a part hereof by this reference.

**SECTION 2:** Any prior resolution of the City Council in conflict with the provisions contained in this resolution are hereby repealed and revoked.

**SECTION 3:** Should any part of this resolution be held to be invalid for any reason, the remainder shall not be affected thereby, and such remaining portions are hereby declared to be severable.

**SECTION 4:** This resolution shall take effect immediately from and after its passage, and it is duly resolved.

**DULY RESOLVED AND ADOPTED** by the City Council of the City of Bastrop, Texas on the 26<sup>th</sup> day of September, 2017.

**CITY OF BASTROP, TEXAS**


**APPROVED:**

  
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Connie B. Schroeder, Mayor

**ATTEST:**

  
\_\_\_\_\_  
Ann Franklin, City Secretary

**APPROVED AS TO FORM:**

  
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Joseph J. Gorfida, Jr.  
Interim City Attorney

# City of Bastrop

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## Financial Management Policies

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## TABLE OF CONTENTS

- I. PURPOSE STATEMENT**
- II. ACCOUNTING, AUDITING AND FINANCIAL REPORTING**
  - A. Accounting
  - B. Funds
  - C. External Auditing
  - D. External Auditors Responsible to City Council
  - E. External Auditors Rotation
  - F. External Financial Reporting
- III. INTERNAL CONTROLS**
  - A. Written Procedures
  - B. Internal Audit
  - C. Department Managers Responsible
- IV. OPERATING BUDGET**
  - A. Preparation
  - B. Balanced Budgets
  - C. Planning
  - D. Reporting
  - E. Control
  - F. Performance Measures and Productivity Indicators
- V. CAPITAL BUDGET**
  - A. Preparation
  - B. Appropriation
  - C. Control
  - D. Alternate Resources
  - E. Debt Financing
  - F. Reporting
- VI. REVENUE MANANGEMENT**
  - A. Simplicity
  - B. Certainty
  - C. Equity
  - D. Administration
  - E. Revenue Adequacy
  - F. Cost/Benefit of Abatement
  - G. Diversification and Stability
  - H. Non-Recurring Revenues
  - I. Property Tax Revenues
  - J. User-Based Fees
  - K. General and Administrative Charges

- L. Utility Rates
- M. Interest Income
- N. Revenue Monitoring

**VII. EXPENDITURE CONTROL**

- A. Appropriations
- B. Vacancy Savings and Contingency Account
- C. Contingency Account Expenditures
- D. Central Control
- E. Purchasing Control
- F. Professional Services
- G. Prompt Payment

**VIII. ASSET MANAGEMENT**

- A. Investments
- B. Cash Management
- C. Investment Performance
- D. Fixed Assets and Inventory

**IX. FINANCIAL CONDITON AND RESERVES**

- A. No Operating Deficits
- B. Operating Reserves
- C. Risk Management Program
- D. Loss Financing
- E. Enterprise Fund Self-Sufficiency
- F. Hotel Occupancy Tax Fund

**X. DEBT MANAGEMENT**

- A. Self-Supporting Debt
- B. Analysis of Financing Alternatives
- C. Voter Authorization

**XI. STAFFING AND TRAINING**

- A. Adequate Staffing
- B. Training

**XII. GRANTS FINANCIAL MANAGEMENT**

- A. Grant Solicitation
- B. Responsibility

**XIII. ANNUAL REVIEW AND REPORTING**

- A. Annual Review
- B. Reporting

## I. PURPOSE STATEMENT

The overriding goal of the Financial Management Policies is to enable the city to achieve a long-term stable and positive financial condition while conducting its operations consistent with the Council-Manager form of government established in the City Charter. The watchwords of the city's financial management include integrity, prudent stewardship, planning, accountability, and full disclosure.

The purpose of the Financial Management Policies is to provide guidelines for the financial management staff in planning and directing the city's day-to-day financial affairs and in developing recommendations to the City Manager.

The scope of the policies spans accounting, auditing, financial reporting, internal controls, operating and capital budgeting, revenue management, cash management, expenditure control and debt management.

## II. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

- A. **ACCOUNTING** – The City of Bastrop finances shall be accounted for in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board. The fiscal year of the City shall begin on October first of each calendar year and shall end on September thirtieth of the following calendar year. This fiscal year shall also be established as the accounting and budget year. Governmental fund types use the modified accrual basis of accounting, revenues are recognized when susceptible to accrue (i.e., when they are measurable and available. Expenditures are recognized when the related funds liability is incurred, if measurable, except for principle and interest on general long-term debt, which are recorded when due.

Proprietary fund types are accounted for on a full accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred

- B. **FUNDS** – Self-balancing groups of accounts are used to account for city financial transactions in accordance with generally accepted accounting principles. Each fund is created for a specific purpose except for the General Fund, which is used to account for all transactions not accounted for in other funds. Governmental funds are used to account for the government's general government activities and include the General, Special Revenue, Debt Service and Capital Project funds.
- C. **EXTERNAL AUDITING** – The city will be audited annually by outside independent auditors. The auditors must be a CPA firm of national reputation, and must demonstrate that they have the breadth and depth of staff to conduct the city's audit in accordance with generally accepted auditing standards, generally accepted government auditing standards, and contractual requirements. The auditors' report on the city's financial statements including any federal grant single audits will be completed within 120 days of the city's

fiscal year end, and the auditors' management letter will be presented to the city staff within 150 days after the city's fiscal year end. An interim management letter will be issued prior to this date if any materially significant internal control weaknesses are discovered. The city staff and auditors will jointly review the management letter with the City Council within 60 days of its receipt by the staff.

- D. EXTERNAL AUDITORS RESPONSIBLE TO CITY COUNCIL** - The external auditors are accountable to the City Council and will have access to direct communication with the City Council if the city staff is unresponsive to auditor recommendations or if the auditors consider such communication necessary to fulfill their legal and professional responsibilities.
- E. EXTERNAL AUDITOR ROTATION** – The city will not require external auditor rotation, but will circulate requests for proposal for audit services periodically, normally at five-year intervals or less.
- F. EXTERNAL FINANCIAL REPORTING** – The city will prepare and publish a Comprehensive Annual Financial Report (CAFR). The CAFR will be prepared in accordance with generally accepted accounting principles, and may be presented annually to the Government Finance Officers Association (GFOA) for evaluation and possibly awarding of the Certification of Achievement for Excellence in Financial Reporting. The CAFR will be published and presented to the City Council within 180 days after the end of the fiscal year. City staffing and auditor availability limitations may preclude such timely reporting. In such case, the Chief Financial Officer will inform the City Manager and the City Manager will inform the City Council of the delay and the reasons therefore.

### **III. INTERNAL CONTROLS**

- A. WRITTEN POLICIES & PROCEDURES** – The Finance Department is responsible for developing city-wide written policies & procedures on accounting, cash handling, and other financial matters. The Policies will be reviewed by the City Manager and approved by the City Council. The procedures will only need approval by the City Manager.

The Finance Department will assist department managers as needed in tailoring these written procedures to fit each department's requirements.

- B. INTERNAL AUDIT** – The Finance Department may conduct reviews of the departments to determine if the departments are following the written procedures as they apply to the departments.

Finance will also review the written policies and procedures on accounting, cash handling and other financial matters. Based on these reviews Finance will recommend internal control improvements as needed.

- C. **DEPARTMENT MANAGERS RESPONSIBLE** – Each department manager is responsible to the City Manager to ensure that good internal controls are followed throughout his or her department, that all guidelines on accounting and internal controls are implemented, and that all independent and internal control recommendations are addressed.

#### IV. OPERATING BUDGET

- A. **PREPARATION** – The city’s “operating budget” is the city’s annual financial operating plan. It consists of governmental and proprietary funds, including the general obligation debt service fund. The budget is prepared by the City Manager with the assistance of the Chief Financial Officer and cooperation of all city departments. The City Manager transmits the document to the City Council. The budget should be enacted by the City Council prior to the fiscal year beginning. The operating budget may be submitted to the GFOA annually for evaluation and possible awarding of the Award for Distinguished Budget Presentation.
- B. **BALANCED BUDGETS** – An operating budget will be balanced, with current revenues, inclusive of beginning resources, greater than or equal to current operating expenditures/expenses.
- C. **PLANNING** – The budget process will begin with each Department Director submitting Expanded Level of Service (ELS) forms accompanied by a summary form ranking their requests by priority. The Chief Financial Officer will use the current budget as a base line and enter all ELS requests into the accounting system. Meetings are scheduled with the City Manager, Chief Financial Officer and Department Directors, to review their draft budgets. A summary of this draft budget is presented to City Council by the City Manager, at a Budget workshop. There will be several more Council budget workshops as the City Manager and staff work through estimating revenue and making the necessary expense cuts to prepare a balanced budget for final approval.
- D. **REPORTING** – Periodic financial reports are available within INCODE to enable the department managers to manage their budgets and to enable the Finance Department to monitor and control the budget as approved by the City Council. Summary monthly financial reports will be presented to the City Council within 45 days after the end of each month, if council meetings do not interfere with reporting requirement. Such reports will include current year revenue and expenditure budgets and year-to-date actual figures for all major funds.
- E. **CONTROL** – Operating Expenditure Control is addressed in another section of the Policies.
- F. **PERFORMANCE MEASURES** – Where appropriate, performance measures and productivity indicators will be used as guidelines and reviewed for efficiency and effectiveness. This information will be included in the annual budgeting process.



## V. CAPITAL BUDGET

- A. **PREPARATION** – The city’s capital budget will be included in the city’s operating budget. The capital budget will be prepared by the City Manager with assistance from the Finance Department and involvement of all required city departments.
- B. **APPROPRIATION** – An appropriation for a capital expenditure shall continue in force until the purpose for which it was made has been accomplished or abandoned
- C. **CONTROL** – All capital project expenditures must be appropriated in the capital budget. Finance must certify the availability of resources so an appropriation can be made before a capital project contract is presented by the City Manager to the City Council for approval.
- D. **ALTERNATE RESOURCES** – Where applicable, assessments, impact fees, or other user-based fees should be used to fund capital projects which have a primary benefit to certain property owners.
- E. **DEBT FINANCING** – Recognizing that debt is usually a more expensive financing method, alternative financing sources will be explored before debt is issued. When debt is issued, it will be used to acquire major assets with expected lives that equal or exceed the average life of the debt issue. The exceptions to this requirement are the traditional costs of marketing and issuing the debt, capitalized labor for design and construction of capital projects, and small component parts which are attached to major equipment purchases.
- F. **REPORTING** – Financial reports will be available to enable the department managers to manage their capital budgets and to enable the finance department to monitor the capital budget as authorized by the City Manager.

## VI. REVENUE MANAGEMENT

- A. **SIMPLICITY** – The city will strive to keep the revenue system simple which will result in a decrease of compliance costs for the taxpayer or service recipient and a corresponding decrease in avoidance to pay.
- B. **CERTAINTY** – An understanding of the revenue source increases the reliability of the revenue system. The city will try to understand its revenue sources, and enact consistent collection policies so that assurances can be provided that the revenue base will materialize according to budgets and plans.
- C. **EQUITY** – The city will strive to maintain equity in the revenue system structure. It is recognized that public policy decisions may lead to subsidies in certain circumstances, e.g., Over 65 property tax exemptions.

- D. ADMINISTRATION** – The benefits of revenue will exceed the cost of producing the revenue. The cost of collection will be reviewed annually for cost effectiveness as a part of the indirect cost, and cost of services analysis.
- E. REVENUE ADEQUACY** – The city will require that there be a balance in the revenue system. That is, the revenue base will have the characteristic of fairness and neutrality as it applies to cost of service, willingness to pay, and ability to pay.
- F. COST/BENEFIT OF ABATEMENT** – The city will use due caution in the analysis of any tax, fee, or water and wastewater incentives that are used to encourage development. A cost/benefit (fiscal impact) analysis will be performed as a part of such analysis and presented to the appropriate entity considering using such incentive.
- G. DIVERSIFICATION AND STABILITY** – In order to protect the government from fluctuations in revenue source due to fluctuations in the economy, and variations in weather (in the case of water and wastewater), a diversified revenue system will be sought.
- H. NON-RECURRING REVENUES** – One-time revenues will not be used for ongoing operations. Non-recurring revenues will be used only for non-recurring expenditures. Care will be taken not to use these revenues for budget balancing purposes.
- I. PROPERTY TAX REVENUES** – Property shall be assessed at 100% of the fair market value as appraised by the Bastrop Central Appraisal District. Reappraisal and reassessment shall be done regularly as required by State law. A 97% collection rate will serve as a minimum goal for tax collection, with the delinquency rate of 4% or less. The 97% rate is calculated by dividing total current year tax collections for a fiscal year by the total tax levy for the fiscal year.
- All delinquent taxes will be aggressively pursued by being turned over to an attorney, and a penalty assessed to compensate the attorney as allowed by State law, and in accordance with the attorney's contract.
- J. USER-BASED FEES** – For services associated with a user fee or charge, the direct and indirect costs of that service will be offset by a fee where possible. There will be an annual review of fees and charges to ensure that fees provide adequate coverage of costs and services.
- K. GENERAL AND ADMINISTRATIVE CHARGES** – A method will be maintained whereby the General Fund can impose a charge to the enterprise/ proprietary funds for general and administrative services (indirect costs) performed on the funds' behalf. The details will be documented and said information will be maintained in the Finance Department.
- L. UTILITY RATES** – The city will strive to review utility rates annually and, if necessary, adopt new rates to generate revenues required to fully cover operating expenditures, meet the legal restrictions of all applicable bond covenants, and provide for an adequate level of

working capital needs. This policy does not preclude drawing down cash balances to finance current operations. However, it is best that any extra cash balance be used instead to finance capital projects.

**M. INTEREST INCOME** – Interest earned from investment of available monies that are pooled will be distributed to the funds monthly in accordance with the claim on cash balance of the fund from which monies were provided to be invested.

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

## **VII. EXPENDITURE CONTROL**

**A. APPROPRIATIONS** – The level of budgetary control is the department level budget in all Funds. Transfers between expenditure accounts within a department may occur with the approval of the Chief Financial Officer. City Manager approval is required if transferring from a personnel or capital accounts within a department. When budget adjustments (i.e., amendments), are required between departments and/or funds, these must be approved by the City Council through an Ordinance

**B. VACANCY SAVINGS AND CONTINGENCY ACCOUNT** – The General Fund Contingency Account will be budgeted at a minimal amount (\$35,000). The contingency account balance for expenditures may be increased quarterly by the amount of available vacancy savings.

**C. CONTINGENCY ACCOUNT EXPENDITURES** – The City Council must approve all contingency account expenditures over \$50,000. The City Manager must approve all other contingency account expenditures.

**D. CENTRAL CONTROL** – Significant vacancy (salary) and capital budgetary savings in any department will be centrally controlled by the City Manager.

**E. PURCHASING CONTROL**– All purchases shall be made in accordance with the city's Purchasing Policy. Authorization levels for appropriations previously approved by the City Council are as follows: below Directors \$1,000 (Directors can request to have this amount raised by submitting a written request to the Finance Department), for Directors up to \$9,999, for Chief Financial Officer up to \$14,999, and with any purchases exceeding \$15,000 to be approved by the City Manager.

**F. PROFESSIONAL SERVICES** – Professional services will generally be processed through a request for proposals process, except for smaller contracts. The City Manager may execute any professional services contract less than \$50,000 provided there is an appropriation for such contract.

**G. PROMPT PAYMENT** – All invoices will be paid within 30 days of receipt in accordance with the prompt payment requirements of State law. Procedures will be used to take advantage of all purchase discounts where considered cost effective. However, payments will also be reasonably delayed in order to maximize the city's investable cash, where such delay does not violate the agreed upon terms.

## **VIII. ASSET MANAGEMENT**

**A. INVESTMENTS** – The city's investment practices will be conducted in accordance with the City Council approved Investment Policies.

**B. CASH MANAGEMENT** – The timing and amount of cash needs and availability shall be systematically projected in order to maximize interest earnings from investments.

**C. INVESTMENT PERFORMANCE** – A quarterly report on investment performance will be provided by the Chief Financial Officer to the City Council.

**D. FIXED ASSETS AND INVENTORY** – These assets will be reasonably safeguarded properly accounted for, and prudently insured. The City will perform an annual inventory of all assets with a value greater than \$1,000.

## **IX. FINANCIAL CONDITION AND RESERVES**

**A. NO OPERATING DEFICITS** – Current expenditures should be paid with current revenues. Deferrals, short-term loans, or one-time sources should be avoided as budget balancing technique. Reserves will be used only for emergencies on non-recurring expenditures, except when balances can be reduced because their levels exceed guideline minimums.

**B. OPERATING RESERVES** – Failure to meet these standards will be disclosed to the City Council as soon as the situation is recognized and a plan to replenish the ending resources over a reasonable time frame shall be adopted.

1. The General Fund ending fund balance will be maintained at an amount up to three months' worth of estimated expenditures or at a level of 25% of budgeted operating expenditures.
2. The Enterprise/ Proprietary Funds will be maintained at a minimum level of 35% of budgeted operating expenditures.
3. Fund balances which exceed the minimum level established for each fund may be appropriated for non-recurring capital projects.

**C. RISK MANAGEMENT PROGRAM** – The city will aggressively pursue every opportunity to provide for the public's and city employees' safety and to manage its risks.

**D. LOSS FINANCING** – All reasonable options will be investigated to finance losses. Such options may include risk transfer, insurance and risk retention. Where risk is retained, reserves will be established based on a calculation of incurred but not reported claims, and actuarial determinations and such reserves will not be used for any purpose other than for financing losses.

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

**F. HOTEL OCCUPANCY TAX FUND** – This fund has a long-term effect on the City's economy and the reserve level needs to be sufficient to allow the fund to operate if a down turn in the economy occurred. Sufficient level of reserves should be a minimum of one year of expenditures to allow the City to ensure continuity of the organizations promoting tourism. Policy makers will need to determine priorities and funding levels should the economic downturn be expected to exceed the current adopted budget plus one-year reserves.

## **X. DEBT MANAGEMENT**

**A. SELF-SUPPORTING DEBT** – When appropriate, self-supporting revenues will pay debt service in lieu of tax revenues.

**B. ANALYSIS OF FINANCING ALTERNATIVES** – The city will explore all financing alternatives in addition to long-term debt including leasing, grants and other aid, developer contributions, impact fees, and use of reserves or current monies.

**C. VOTER AUTHORIZATION** – The city shall obtain voter authorization before issuing General Obligation Bonds as required by law. Voter authorization is not required for the issuance of Revenue Bonds and Certificates of Obligation. However, the city may elect to obtain voter authorization for Revenue Bonds.

**D. BOND DEBT** – The City of Bastrop will attempt to maintain base bond ratings of AA2(Moody's Investors Service) and AA (Standard & Poor's) on its general obligation debt. In an attempt to keep the debt service tax rate flat, retirement of debt principal will be structured to ensure constant annual debt payments when possible.

**E. IRS COMPLIANCE** – The City will have a written policy for monitoring compliance with IRS laws and regulations for tax exempt debt.

**XI. STAFFING AND TRAINING**

- A. ADEQUATE STAFFING** – Staffing levels will be adequate for the fiscal functions of the city to function effectively. Overtime shall be used only to address temporary or seasonal demands that require excessive hours. Workload scheduling alternatives will be explored before adding staff.
  
- B. TRAINING** – The city will support the continuing education efforts of all financial staff including the investment in time and materials for maintaining a current perspective concerning financial issues. Staff will be held accountable for communicating, teaching, and sharing with other staff members all information and training materials acquired from seminars, conferences, and related education efforts.

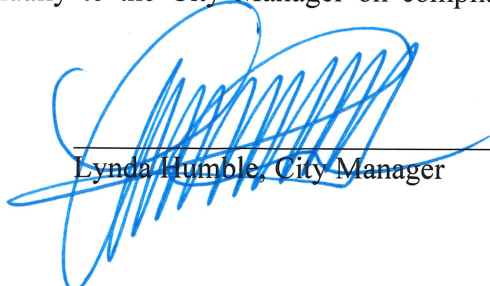
**XII. GRANTS FINANCIAL MANAGEMENT**

- A. GRANT SOLICITATION** – The City Manager will be informed about available grants by the departments. The City Council will have final approval over which grants are applied for. The grants should be cost beneficial and meet the city’s objectives.
  
- B. RESPONSIBILITY** – Departments will oversee the day to day operations of grant programs, will monitor performance and compliance, and will also keep the Finance Department informed of significant grant-related plans and activities. Finance Department staff members will serve as liaisons with grantor financial management personnel, will prepare invoices, and will keep the books of account for all grants.

**XIII. ANNUAL REVIEW AND REPORTING**

- A.** These Policies will be reviewed administratively by the City Manager at least annually, prior to preparation of the operating budget.
- B.** The Chief Financial Officer will report annually to the City Manager on compliance with these policies.

  
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Tracy Waldron, CFO

  
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Lynda Humble, City Manager

History

- Previously Approved 9/23/14
- Previously Approved 10/25/16
- Previously Approved 5/9/17