



Financial Policies

PURPOSE:

To establish guidelines and procedures for accounting and auditing; financial planning; budgeting and budget transfers; revenues; operating and debt reserves; personnel; purchasing and fixed assets; debt management and investment and cash management.

A. GENERAL

1. The City will operate on a fiscal year which begins on October 1 and ends on September 30.
2. The City will conduct its financial affairs in conformity with state and federal laws. These Financial Policies shall be approved by City Council and reviewed on an annual basis as a part of the budget development process.

B. ACCOUNTING, AUDITING AND FINANCIAL PLANNING

1. The Finance Department maintains records on a basis consistent with generally accepted accounting principles (GAAP) including standards for local government accounting, as determined by GASB and GFOA.
2. Regular monthly and annual financial reports are issued summarizing financial activity. The monthly financial reports are provided to City Council and departments. The Chief Financial Officer includes the quarterly financial reports on the regular City Council agenda. The proposed budget document may serve as the report for the third quarter of the fiscal year, as it reflects the City's current financial status and expected year end fiscal condition(s).
3. A financial audit is performed annually by an independent public accounting firm, and an official opinion and annual financial report is published and issued.
 - a. Annually, City Council will accept the audited Comprehensive Annual Financial Report for the prior fiscal year.
 - b. The document shall satisfy all criteria of the Government Financial Officers Association's Certificate of Achievement for Excellence in Financial Reporting Program.
4. Full disclosure is provided in the annual financial and budget reports and bond representations.

C. BUDGETING

1. The City budgets resources on a fiscal year which begins October 1 and ends the following September 30.
2. The Finance Department develops an internal budget calendar and provides all pertinent resources to department and City Management necessary to develop the proposed budget.
3. A structurally balanced proposed budget will be prepared and distributed to City Council in accordance with the City charter and the fund balance requirement set forth in these financial policies.
4. In accordance with section 9.02 of the City Charter, the proposed budget document shall include:
 - a. A budget message
 - b. Fund balance schedules that include expected revenue and expenditures for all funds
 - c. An analysis of property valuations and tax rates for the last five years
 - d. Revenue estimates
 - e. Operating expenditures by department and expense category (delineated below)
 - f. Debt service costs (delineating principal and interest) by issuance and a description of outstanding debt issuances
 - g. A statement of expenditures for debt proceeds
 - h. Descriptions of departments functions and mission
 - i. Performance measures for each department – workload, efficiency and effectiveness
 - j. Descriptions and cost analysis of program changes
 - k. Description of capital projects included for funding in the proposed budget
 - l. A list of authorized positions by department and division (where appropriate)
 - m. The budget and tax ordinances adopted by Council
5. City Council will adopt the tax rate and budget by ordinance in accordance with the City charter and to allow sufficient time to send out property tax statements.
6. Appropriations as approved by the City Council are incorporated into the City's financial software by the Finance Department.
 - a. The following general expenditure categories are used to appropriate funds annually:
 - i. Employee expenditures
 - ii. Operations expenditures
 - iii. Capital expenditures
 - iv. Debt Service expenditures
 - v. Contingencies
 - vi. Interfund Transfers
 - b. Detailed expenditures by line item and by department (divisions where appropriate) are maintained by the Finance Department.

- c. Annually, the budget will be developed for each department at the division level to better represent their organization structures. However, the budget approved by City Council will appropriate funds at the department level and fiscal control shall occur at this level.
- d. Appropriations in the Capital Project Funds are made on a project basis across multiple fiscal years rather than on a single fiscal year basis and are carried forward until the projects are completed.
- e. Appropriations in the grants and donations funds (including CDBG, HOME, the Grant Fund, EARIP/HCP and the Special Revenue Fund) are made on a program year basis and/or by project rather than on a City fiscal year basis.

7. Except for capital projects, grants and federal entitlement programs (CDBG), unused appropriations, including any encumbrances lapse at the end of each fiscal year.
8. Departments are accountable for not exceeding their annual budgetary appropriations.
9. Budget Transfer and Amendment Process
 - a. In the Adopted Budget document, appropriations are approved by City Council at the Department and/or fund level within a certain expenditure category.
 - b. Throughout the fiscal year, departments and or funds may have a business need to transfer allocation from one category to the other. The City Manager has the discretion to approve budget transfers between expenditure allocation(s), as long as the departmental budget or Fund budget does not increase/decrease.
 - c. Budget transfer forms will be made available to departments that will circulate through the Chief Financial Officer prior to being submitted to the City Manager for consideration and approval.
 - d. If the departmental and/or fund budget(s) need to be increased/decreased (amended), City Council approval will be required.

D. LONG TERM FINANCIAL PLANNING

1. The City of New Braunfels prepares and presents a long range, five year financial forecast which: a) updates reserve and expenditure projections for the next five years; b) projects debt service requirements and potential capacity over the five year period, including operating costs associated with all projects; c) projects revenue and expenses for each year in the period; and d) describes strategic issues that present the City with challenges and opportunities for the future.

E. RESERVES

1. The City of New Braunfels will maintain an operating reserve for use in the event of unanticipated, extraordinary expenditures and/or the loss of a major revenue source. In the General Fund, the operating reserve and specified contingencies shall be established at a minimum of twenty-five (25) percent of the General Fund budgeted expenditures for the current fiscal year. The City Council may establish a higher reserve target than twenty-five (25) percent if it is determined there are benefits to do so. That target is established during the budget development process and incorporated into the Proposed Budget document.

2. For all Special Revenue Funds, the City shall strive to maintain reserves equal to ten (10) percent of the budgeted annual expenditures.
3. For all Enterprise Funds, the City shall strive to maintain reserves equal to twenty-five (25) percent of the budgeted annual expenditures. These funds can only be appropriated by City Council.
4. Capital project funds' reserves (contingencies) will be established by project, not by fund and will manage on a project by project basis.
5. The City will maintain a balance in the Debt Service Fund equal to not less than ten (10) percent of the principal and interest payments on outstanding debt for each fiscal year. These funds can only be appropriated by City Council.
6. The City's Self Insurance Fund shall strive to maintain a balance equal to 90-120 days of claim expenditures. These funds can only be appropriated by City Council.

7.

F. PERSONNEL

1. At no time shall the number of regular employees on the payroll in each department exceed the total number of positions authorized by City Council. All personnel actions shall always be in strict conformance with applicable federal, state and City policies.
2. The City Manager may institute a freeze during the fiscal year on hiring, promotions and transfers.
3. City Council shall annually approve all authorized regular (full time, part time and seasonal) positions through the annual budget adoption process. Any subsequent additions or deletions to the total number of positions requires City Council approval. The City Manager approves reclassifications of positions.
4. The City Manager is authorized to adjust compensation, of any City employee, including appointees, when in his discretion an adjustment needs to be made to hire or retain qualified personnel. The City Manager is authorized to hire temporary employees when needed and if sufficient funds are available within the adopted budget. The intent of this section is to provide the ability to hire and retain qualified personnel.
5. The City maintains written Personnel Policies.

G. PURCHASING, CONTRACTING AND FIXED ASSETS

1. The City maintains internal purchasing policies that ensure that purchasing is done in accordance with City Charter and Local Government Code. Staff complies with additional state and federal statute(s) required by grants/alternative funding sources.

2. All purchases of fixed assets with a value of \$5,000 or more will be placed on the City inventory.
3. The City will maintain these assets at a level adequate to protect the City's capital investments and to minimize future maintenance and replacement costs by:
 - a. Developing and maintaining strategies for the identification and financing of capital improvement projects; and
 - b. Providing for adequate maintenance of capital plant and equipment replacement in the annual operating budget.
 - c. The City shall strive to maintain reserves for vehicle replacement, computer replacement, facilities maintenance and parks maintenance.
4. Where possible, items in good, safe, useable condition will be placed in surplus to be used to supplement expenditures for new budgeted capital purchases or to supply needed unbudgeted new and replacement equipment.
5. The City Manager has the authority to declare items with a value of no greater than \$5,000 as surplus and/or salvage for auctioning purposes.
6. Information Technology staff will review and approve all purchases of information and communication technology to ensure compatibility with the City's existing voice and data infrastructure and to protect that infrastructure from viruses and other threats.
6. Any asset seized by forfeiture will be accepted by the City Council and placed into the City inventory, before any expenditure of City budgeted funds is made for or in relation to the asset.
7. The City Manager and his designee(s), at his direction, are authorized to sign or release easements, permits, licenses and change orders; to sign interlocal agreements of less than \$25,000; to sign documents authorizing the payment of funds, and to expend public funds as authorized by state law unless otherwise authorized by the City Council; to settle paving assessment, weed mowing, demolition, and other disputes based on legal questions of whether the assessments are enforceable or other extenuating factual circumstances. The intent of this section is to provide the ability to conduct daily affairs of the City, which involves numerous decisions of a routine nature.

H. DEBT MANAGEMENT

1. The City will not use long term debt for current operations.
2. The City will adhere to the following when it finds it necessary to issue debt instruments:
 - a. Average weighted general obligation bond maturities will not exceed twenty (20) years.
 - b. The term of any debt issuance will not exceed the useful life of the capital project, facility or equipment for which the borrowing is intended.

- c. Debt service for all funds in any year will not exceed twenty-five (25) percent of the total annual operating budgets across all other funds;
- d. The City will maintain a balance in the debt service fund equal to not less than ten (10) percent (approximately) of the principal and interest payments on outstanding debt for each fiscal year for all debt not requiring an earnings coverage, unless approved by City Council;
- e. Interest earnings on debt service fund balances will be used to make debt service payments or support reserve requirements;

3. The City maintains written procedures to ensure compliance with federal tax covenants regarding arbitrage, private business use, record retention, etc.

4. The City does not have a debt limit from the perspective of the total amount that can be issued under current Texas law. However, Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 in population limits the City's total tax rate to \$2.50 per \$100 assessed valuation. The Texas Attorney General has further adopted an administrative policy that generally prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from a \$1.50 maximum tax rate calculated at 90 percent collection. This \$1.50 is part of the overall \$2.50 limit.

5. The City will consider opportunities to refund existing debt issuances if the savings on the current principal and interest payments over the remaining life of the debt.

I. INVESTMENTS

- 1. In accordance with the Public Funds Investment Act, the City maintains a written Investment Policy adopted by City Council and reviewed annually.
- 2. The City's investment portfolio shall be managed in accordance with the Public Funds Investment Act and the City's Investment Policy.

J. PROMPT PAYMENT

- 1. All invoices approved for payment by the proper City authorities shall be paid by the Finance Department within thirty (30) calendar days of receipt in accordance with the provisions of Article 601f, Section 2 of the State of Texas Civil Statutes.
- 2. The Chief Financial Officer shall establish and maintain procedures, which will enable the City to take advantage of all purchase discounts, when possible, except in the instance where payments can be reasonably and legally delayed to maximize the City's investable cash.

K. CASH MANAGEMENT AND INTERNAL CONTROLS

- 1. Written guidelines on cash handling, segregation of duties, and other financial matters shall be maintained.

- a. The City shall maintain an internal control matrix document that illustrates effective separation of duties.
 - b. The City shall conduct periodic self-assessments of all internal control and cash handling procedures.
2. Each department director shall ensure that departmental procedures are adequate to safeguard City funds.
 - a. Federal Award programs such as the Community Development Block Program shall be administered in accordance with all 2 CFR part 200 requirement. Specifically, staff requires that any subrecipients of federal award dollars have financial systems in place for proper tracking.
3. Staffing and training shall be reviewed periodically to ensure adequacy.
4. Daily deposits shall be performed unless amounts collected warrant less frequent deposits.

Revision Dates

1. December 10, 2018