

## City of Bellaire

### COMPREHENSIVE FINANCIAL MANAGEMENT POLICY STATEMENTS

Comprehensive Financial Management Policy Statement (CFMPS) assembles all of the City's financial policies in one document. Financial policies are statements of principles or goals adopted by the governing body. Bellaire's CFMPS provides guidelines for operational and long range planning, ensuring that the City is financially able to meet its immediate and long-term service objectives. The City intends for this document to guide its fiscal management and will make best efforts to comply.

- I. **Accounting, Auditing and Financial/Fiscal Reporting and Monitoring:** Maintain accounting practices that conform to generally accepted accounting principles and comply with prevailing federal, state, and local statutes and regulations. Prepare and present regular reports that analyze and evaluate the City's financial performance and economic condition.
- II. **Financial Consultants:** The City will employ the assistance of qualified financial advisors and consultants as needed in the administration and management of the City's financial functions. These areas include but are not limited to audit services, debt administration, and delinquent tax collections. The principal factors in the selection of these consultants will include experience/expertise, ability to perform the services, references, methodology and price.
- III. **Budget and Long Range Financial Planning:** Establish guidelines for budgeting to ensure a financially sound City and establish a long-range financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets.
- IV. **Revenues and Resources:** Maintain a balanced and diverse revenue stream that minimizes the City's exposure to economic cycles and risk.
- V. **User Fees:** Design, maintain, and administer a fee structure for fee-based services that will assure a reliable, equitable, diversified and sufficient revenue stream to support desired City services.
- VI. **Expenditures and Services (non-capital):** Identify and set priorities for services, establish appropriate service levels and administer the expenditure of available resources to help ensure fiscal stability and the effective and efficient delivery of services.
- VII. **Fund Balance/Working Capital:** Maintain the fund balance and net assets of the various operating funds at levels sufficient to protect the City's creditworthiness as well as its ability to withstand emergencies or economic fluctuations.
- VIII. **Capital Expenditures and Improvements:** Annually review and monitor the state of the City's capital equipment and infrastructure, setting priorities for its replacement and renovation based on needs, funding alternatives, and availability of resources.

- IX. **Debt:** Establish guidelines for debt financing that will minimize the impact of debt payments on current revenues and protect the City's creditworthiness.
- X. **Cash Management/Investments:** Invest the City's operating cash in a manner that will ensure its absolute safety of principal, provide for the necessary liquidity needs of the City, and optimize yield relative to those constraints.
- XI. **Grants:** Seek, apply for and effectively administer federal, state and local grants, to support the City's priorities and policy objectives.

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

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

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

The City will maintain accounting practices that conform to generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB), the authoritative standard setting body for units of local government. All city financial documents, except monthly interim financial reports, including official statements accompanying debt issues, Comprehensive Annual Financial Reports and continuing disclosure statements will meet standards. Monthly interim financial reports are on a modified accrual basis and will be reported as budgeted. At year-end the general ledger and financials will be converted to full accrual basis.

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

Monthly Financial Reports will be prepared and reviewed by the City Manager and will be made available for the City Council and public review.

Quarterly reports will be prepared and presented to the City Council that explain key economic and fiscal developments, note significant deviations from the budget, report on the status of the City's strategic and capital improvement projects, and when required, outline any remedial actions necessary to maintain the City's financial position.

### **C. Annual Audit**

Pursuant to State law, the City shall have its records and accounts audited annually and shall have an annual financial statement prepared based on the audit and filed with the City Clerk within 180 days after the last day of the fiscal year. The audit shall be performed by a certified public accounting (CPA) firm, licensed to practice in the State of Texas. The audit firm shall provide a management letter to the City prior to the filing of the audit. The audit firm shall also provide a Single Audit of Federal and State grants, when necessary. An official Comprehensive Annual Financial Report (CAFR) shall be issued no later than six (6) months following the end of the fiscal year. The Chief Financial Officer shall be responsible for establishing a process to ensure timely resolution of audit recommendations.

### **D. Audit Finance Board (Chapter 2, Article VII, Division 3, Sec. 2-120 Audit Finance Board)**

The Mayor shall appoint three council members and the City Council shall appoint a citizen member to serve on the Audit Finance Board. The role of the board is to advise the city council concerning audits of the city and any auditing matters as may be referred to it by the Chief Financial Officer of the City and/or the City Council. The Audit Finance Board shall be responsible for the following:

- Recommending an auditor to city council during those years in which an auditor must be appointed by the City.
- Reviewing the audit of the city prior to submission to the city council

- Assisting the auditor and city staff with the presentation of the audit to city council
- Providing a communication link between the auditor and city council regarding any major issues/concerns/findings that may arise.

#### E. Annual Financial Disclosure

As required by the Securities and Exchange Commission (SEC) Rule 15c2-12, the City, with support of the City's financial advisor and bond counsel, will provide certain annual financial information to various information repositories through disclosure documents that include the necessary information within six months of fiscal year end. The City will also provide timely notices, not in excess of ten business days after the occurrence of a material event as defined in Rule 15c2-12, paragraph (b)(5)(i)(c).

#### F. Signature of Checks

All checks shall have two signatures. Three persons shall be authorized to sign checks: the City Manager, the Chief Financial Officer, and the Assistant City Manager. Signatures shall be affixed to all City checks via facsimile signatures, made with a secure laser check printing system, or through handwritten signatures affixed to each check.

#### G. Compliance with Council Policy Statements

Policy statements adopted by City Council are guidelines, and occasionally exceptions may be appropriate and required. Exceptions to stated policies will be specifically identified and the need for the exception will be documented and explained to City Council and/or the City Manager.

## II. FINANCIAL CONSULTANTS

The City will employ the assistance of qualified financial advisors and consultants as needed in the administration and management of the City's financial functions. These areas include but are not limited to audit services, debt administration, and delinquent tax collections. The principal factors in the selection of these consultants will include experience/expertise, ability to perform the services, references, methodology and price.

#### A. Selection of Auditors

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

- It is the City's preference to rotate auditor firms every five years to ensure that the City's financial statements are reviewed and audited from an objective, impartial, and unbiased point of view. The rotation of the audit firm will be based upon the proposals received, the qualifications of the firm, the firm's ability to perform a quality audit and price.

- However, if through the proposal and review process, management and the Audit Finance Board select the current audit firm, then, it is the City's preference that the lead audit partner be rotated as well as the lead reviewer after a maximum of five years.
- Annually, the independent auditor will provide a letter of engagement to the City Council for annual audit services.

#### B. Arbitrage

Arbitrage calculation and reporting shall be contracted out to a qualified firm.

- The Chief Financial Officer and the Arbitrage Consultant shall complete a risk assessment of positive arbitrage on each bond issue annually to determine the necessity for a calculation of positive/negative arbitrage in the current year.
- All bond issues, in accordance with arbitrage regulations, shall have each fifth year and final arbitrage calculations completed.

#### C. Delinquent Tax Collection Attorney

Due to the nature of services and expertise required, the City shall hire a delinquent tax collection attorney to collect delinquent taxes, represent the City in filing bankruptcy claims, foreclose on real property, seize personal property, and represent the City in court cases and property sales.

- If the City chooses to contract directly for delinquent tax collection services, requests for proposals or statements of qualifications are to be solicited at least every five years.
- The City may contract with the same firm used previously if based on the review process, it is determined it offers the best value.

#### D. Bond Counsel

Bond Counsel to the City has the role of an expert who provides an objective legal opinion concerning the issuance and sale of bonds and other debt instruments. As bond counsel are specialized attorneys who have developed necessary expertise in a broad range of practice areas, the City will always contract such counsel for these services. Generally, bonds are not marketable without an opinion of bond counsel stating that the bonds are valid and binding obligations, stating the sources of payment and security for the bonds and that the bonds are exempt from State and Federal income taxes.

- Due to the complexity of the City's financial structure and the benefits that come with a working historical knowledge of the City, the City prefers to use the same bond counsel for many years.
- His/her contract will be considered annually.
- In order to ensure that the City is still receiving services for fair market value, staff will conduct a survey every five years of bond counsel fees and present a comparison and analysis to the City Manager.

#### E. Financial Advisory Services

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

- As financial advisors to governmental entities have developed the necessary expertise in a broad range of services, the City will use a consultant for these services.
- Due to the complexity of the City's financial structure and the benefits that come with a working, historical knowledge of the City, the contract with the Financial Advisor shall be considered evergreen, however with a termination clause.
- In order to ensure that the City is still receiving services for fair market value, staff will conduct a survey every five years of Financial Advisory fees and present a comparison and analysis to the City Manager.

### **III. BUDGET AND LONG RANGE FINANCIAL PLANNING**

Establish guidelines for budgeting to ensure a financially sound City and to establish a long-range financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets.

#### A. Balanced Budget

The City Manager shall file annually with City Council, a structurally balanced budget for the ensuing fiscal year pursuant to the prevailing state and local law. A structurally balanced budget is defined as a budget in which recurring revenues fund recurring expenditures and adherence to fund balance policies. Deferrals, short-term loans, or one-time sources will be avoided as budget balancing techniques. A structurally imbalanced budget proposal shall be accompanied by a plan to return the budget to structural balance and the resulting five year financial forecast that reflects steps to be taken to return the budget to structural balance.

#### B. Current Funding Basis

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

#### C. Use of Non-Recurring Revenues

Non-recurring revenue sources, such as a one-time revenue remittance or fund balance in excess of policy can only be budgeted and used to fund non-recurring expenditures, such as capital purchases or capital improvement projects. This will ensure that recurring expenditures are not funded by non-recurring sources.

#### D. Tax Rate

The City Manager will recommend a tax rate that the City finances require in order to operate efficiently, yet effectively, and pay its debt service for current and anticipated capital projects. The City shall strive to maintain stable, predictable tax revenues that do not fluctuate from year to year.

The tax rate will be adopted by the City Council in full compliance with Truth in Taxation Requirements, Texas Constitution Article VIII, Sec 21 and the Tax Code Chapter 26.

#### E. Revenue Forecasting

In order to protect the City from revenue shortfalls and 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. This approach should reduce the likelihood of actual revenues falling short of budget estimates and should avoid mid-year service changes.

#### F. Avoidance of Operating Deficits

The City shall take immediate corrective actions if at any time during the fiscal year expenditure and revenue projections are such that an operating deficit is projected at year end. Corrective actions in order of precedence are as identified in the Fund Balance Policy adopted by Resolution No. 11-15:

1. Budget amendment from Unassigned Fund Balance in excess of 60 day requirement
2. Reduce transfers to Capital Improvement Fund if project timing allows
3. Defer purchase of capital items
4. Reduce budgeted expenditures
5. Increase fees
6. Use of Minimum Unassigned Fund Balance – 60 Day of Normal Operating Expenditures

Excess fund balance, which is a one-time revenue source, may be used to fund an annual operating deficit only with prior approval of a plan to replenish the fund balance if it is brought down below policy level.

#### G. Five-year Forecast of Revenues and Expenditures

A five-year forecast of revenues and expenditures shall be prepared in conjunction with the annual budget process for the following funds:

- General Fund
- Debt Service Fund
- Enterprise Fund

The forecast assesses long-term financial implications of current and proposed policies, programs, and assumptions that develop appropriate strategies to achieve the City's goals. The forecast will provide an understanding of available funding, evaluate financial risk, assess the likelihood that services can be sustained, assess the level at which capital investment can be made, identify future

commitments and resource demands, and identify the key variables that may cause change in the level of revenue. The forecast will be used to identify anticipated financial issues so that a plan can be developed to correct anticipated issues before they become reality.

#### H. Budget Amendment or Adjustment

Under the provisions of State Law and the City's Code of Ordinances (Art. V. The Budget Sec.2 (d) Annual Budget and Art. VII. Finance Administration Sec.5 Transfer of Appropriations) the budget may be amended or adjusted.

Amendment of the budget involves an addition to or reduction of existing appropriations. At the request of the City Manager, the City Council may by resolution transfer unencumbered appropriation balance from one department to another or increase total appropriations with the identified funding source.

Adjustment of the budget involves a reallocation of existing appropriations between general classifications of expenditures within a department and does not change the budget total. No City Council action is needed as State Law and our Code of Ordinances allows budget adjustments to be done administratively.

## **IV. REVENUES AND RESOURCES**

The City will maintain a balanced and diverse revenue stream that minimizes the City's exposure to economic cycles and risk.

#### A. User Fees

For services that benefit specific users (private/individual or mixed services), the City shall establish and collect fees to recover the cost of those services.

#### B. Property and Sales Tax

Where services provide a general public benefit, the City shall finance those services through property and sales taxes.

#### C. Administrative Services Charges

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

#### D. Enterprise Fund Transfer for funding of Capital Improvement Projects

Annually during the budget and capital improvement development process, the amount to be transferred from the Enterprise Fund for capital funding will be determined and budgeted accordingly.

E. Enterprise Fund Transfer to the Debt Service Fund

When debt is issued for Enterprise projects, the amount will be determined and an annual allocation of debt service will be calculated and transferred from the Enterprise Fund to the Debt Service Fund for debt payment.

F. Water/Wastewater Revenue Billings

Water and wastewater revenues are billed in arrears, as customer meters are read monthly for the previous month's water usage. At year end, revenue is accrued to adjust revenues to full accrual basis but during the year, revenues are recorded on a cash basis.

G. Revenue Collections

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

H. Write-off of Uncollectible Receivables (excludes court fines and warrants)

Receivables shall be considered for write-off as follows:

- Undeliverable mail – accounts that remain outstanding for 6 months and all steps have been exhausted
- The release or extinguishment, in whole or in part, of any indebtedness, liability, or obligation as authorized by state law
- Accounts outstanding for 3 years, identified as uncollectible, and all attempts to collect have been taken
- The write-off of uncollected accounts is a bookkeeping entry only and does not release the debtor from any debt owed to the City.

I. Use of One-time or Unpredictable Revenues

The City will use one-time revenue for non-recurring expenditures and will exercise caution with the use of unpredictable revenues for recurring expenditures.

**V. USER FEES**

Design, maintain, and administer a fee structure for fee-based services that will assure a reliable, equitable, diversified and sufficient revenue stream to support desired City services.

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.

1. In determining a charge or fee each department should identify what factors are to be taken into account when pricing services. They should determine whether the City intends to recover the full cost of providing services. If the full cost of a service is not recovered, then an explanation of the department's rationale for this deviation should be provided.
2. The full cost of providing a service should be calculated in order to provide a basis for setting the charge or fee. Full cost incorporates direct and indirect costs, including operations and maintenance, overhead, and charges for the use of capital facilities.
3. Charges and fees should be reviewed and updated periodically based on factors such as the impact of inflation, other cost increases, the adequacy of the coverage of costs, and current competitive rates.
4. User Fees – General Fund
  - a. For services that benefit specific users (private/individual or mixed services), the City shall establish and collect fees to recover the costs of those services. Where services provide a general public benefit, the City shall finance those services through property and sales taxes.
  - b. Costs of Services are defined as full-cost; direct, indirect, and overhead.
  - c. Factors in setting of fees shall include but not be limited to: market and competitive pricing, effect on demand for services, and impact on users, which may result in recovering something less than full cost.
5. User Fees – Enterprise Funds
  - a. Utility rates and other fund user fees shall be set at levels sufficient to cover operating expenditures (direct and indirect), meet debt obligations and debt service coverage, provide pay-as-you-go funding for capital improvements, and provide adequate levels of working capital.
  - b. The City shall seek to eliminate all forms of subsidization to the Enterprise Fund from the General Fund.
  - c. The Five-Year Forecast shall serve as the basis for rate increase considerations.
  - d. If necessary, the Five-Year Forecast shall be built around smaller rate increases annually versus higher rate increases periodically.

Once a fee has been proposed for a particular service, the fee will be compared to market, evaluated for potential effects on users such as low-income households, market demands of service, etc. A fee will then be recommended to the City Manager and City Council based on all information gathered through the fee evaluation.

## **VI. EXPENDITURES AND SERVICES (non-capital)**

Identify and set priorities for services, establish appropriate service levels and administer the expenditure of available resources to help ensure fiscal stability and the effective and efficient delivery of service

### **A. Annual Expenditures**

The City will only propose operating expenditures which can be supported from on-going operating revenues. Before the City undertakes any agreements that would create fixed on-going expenses, the cost implications of such agreements will be fully determined for current and future years. Capital expenditures may be funded from onetime revenues, but the operating budget expenditure impacts of capital expenditures will be reviewed for compliance with this policy provision.

### **B. Departmental Service Plans**

Each department will on a three year cycle prepare a service plan. The service plan will define services, service levels, and describe the resources necessary to provide current (base) level of service. A three year projection of resources needed to provide those services will be prepared. Any anticipated changes in services or service levels will be listed. Every effort shall be made to link services to Council priorities. Service plans developed in a given year will be presented to the City Council prior to the development of the City Manager's proposed annual budget.

### **C. Maintenance of Capital Assets**

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

D. The City will assess administrative services provided by the General Fund to the Enterprise Fund. The cost of the service provided will be budgeted as a transfer to/transfer from each budget year.

### **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 capitalize on savings available through competitive processes and "best value" purchasing.

## **VII. FUND BALANCE/WORKING CAPITAL**

Maintain the fund balance and net assets of the various operating funds at levels sufficient to protect the City's creditworthiness as well as its ability to withstand emergencies or economic fluctuations. (City of Bellaire Fund Balance Policy)

A. The City will strive to maintain in the General Fund a minimum unassigned fund balance equal to 60 days of normal operating expenditures. This amount is projected each year at the end of the fiscal year, recognizing that fund balance levels can fluctuate from month to month in normal course of operations. During each budget process, the level of unassigned fund balance will be reviewed and if

based on current economic and financial conditions a change is determined to be in the best interest of the City, it will be proposed during the budget process for City Council approval.

B. The City will strive to maintain working capital sufficient to provide for reserves for emergencies and revenue shortfalls in the Enterprise Fund. The reserve will be a minimum of 60 days of normal operating expenditures in funds that have major infrastructure or assets. Funds without major infrastructure or assets will have no minimum balance requirement.

C. Debt Service Funds

The City shall maintain sufficient reserves in its Debt Service Fund, which shall equal or exceed the requirements dictated by its bond ordinances.

## **VIII. CAPITAL EXPENDITURES AND IMPROVEMENTS**

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

A. Capitalization Threshold for Tangible Capital Assets

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

The capitalization threshold of \$10,000 will be applied to individual items rather than to a group of similar items. (i.e.: desks, chairs, etc.)

Computer software, regardless of cost, will not be capitalized.

B. Five-Year Capital Improvement Plan (CIP)

The City shall annually prepare a five-year capital improvement plan based on the needs for capital improvements and equipment, the status of the City's infrastructure, replacement and renovation needs, and potential new projects. For every project identified in the plan, a project scope and project justification will be provided. Also, project costs shall be estimated, funding sources identified and annual operation and maintenance costs computed.

Citizens, Parks and Recreation Advisory Board and the Planning and Zoning Commission will be provided opportunities to review the list of CIP projects for the Five-Year Capital Improvement Plan and may suggest additions and/or changes to the plan as appropriate before it is presented to City Council. Pursuant to the City Charter, the Planning & Zoning Commission makes recommendations to the City Manager and the City Council on the City's Five-Year Capital Improvement Plan.

The City Manager is charged with recommending a Capital Improvement Plan to City Council. Projects submitted, either by staff, through a neighborhood or citizen request, or through joint

participation, will be reviewed in conjunction with the entire capital improvement program and submitted to City Council for final consideration. The Five-Year Capital Improvement Plan shall be filed and adopted with the annual budget.

The Five-Year CIP shall be limited to the affordability limits identified in the long-range financial plans of the City, taking into consideration available cash, bond issuances, operating costs, etc.

Projects that are requested but cannot be funded in the Five Year CIP may be included in the CIP for future reference as an appendix of unfunded requests.

Annually, through the budget process and at year-end, projects are to be reviewed and if identified as complete will be closed by Finance and any remaining funds closed to fund balance, which can then be re-appropriated during the next fiscal year capital budget. Funds remaining from bond proceeds will only be used in accordance with the legal use of those funds.

Appropriations for capital projects are for the life of the project; therefore re-appropriation of capital funding for budgeted projects will not be necessary.

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

The City shall annually prepare a schedule for the replacement of its fleet and high technology capital assets. Funding for the replacement of these assets will be accomplished through the use of an annual depreciation structure charged to each participating fund at 100% of annual depreciation based on lifecycle or useful life of the asset. Within the resources available each fiscal year, the City shall replace these assets according to the Vehicle and Equipment and Technology Replacement Policies.

#### D. Capital Expenditure Financing

The City recognizes that there are three basic methods of financing its capital requirements: Funding from current revenues; funding from fund balance as allowed by the Fund Balance Policy; or funding through the issuance of debt. Types of debt and guidelines for issuing debt are set forth in the Debt Policy Statements, below.

#### E. Capital Improvements/Project Reporting

Capital project status reports shall be updated monthly and included in each quarterly reporting by the City Manager to the City Council.

## **IX. DEBT**

Establish guidelines for debt financing that will minimize the impact of debt payments on current revenues and protect the City's creditworthiness.

#### A. Use of Debt Financing

Debt financing, to include general obligation bonds, revenue bonds, certificates of obligations, lease/purchase agreements, and other obligations permitted to be issued or incurred under Texas

law, shall only be used to acquire capital assets and refinance existing debt obligations. In deliberations to issue debt, the City will first consider whether it is prudent to finance such assets from other available sources including current revenues or fund balance. Such deliberations will consider the effect on the City's fund balance policy and liquidity, particularly in the context of prudent financial management and credit rating implications. When possible, the City will pay cash for capital expenditures and improvements within the financial affordability of each fund versus issuing debt. Debt maturing beyond the current fiscal year will not be used to fund current operating expenditures. The City, when appropriate, may issue short-term obligations maturing within the current fiscal year for cash flow management purposes.

## B. Debt Financing

### 1. Affordability

The City shall use an objective analytical approach to determine whether it can afford to issue new general-purpose debt, both General Obligation bonds and Certificates of Obligation. This process shall compare standards of affordability to the current values for the City. For tax-backed debt, such standards of affordability may include debt per capita, debt as a percent of taxable value, taxable value per capita, and tax rate. The process shall also examine the direct costs and benefits of the proposed expenditures. The decision on whether or not to issue new debt shall be based on these costs and benefits, current conditions of the municipal bond market, City's ability to "afford" new debt as determined by the aforementioned standards and a review of the project's cash requirements as determined by the project's proposed timeline.

### 2. Debt Capacity

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

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

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

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

Factors that will be included in the annual debt capacity determination shall include:

- Existing debt obligations
- Evaluation of revenue and expenditure trends
- Debt per capita
- Debt to assessed value ratio
- Taxable value per capita
- Statutory or constitutional requirements
- Market factors such as interest rates, credit ratings or market status

#### C. General Obligation Bonds (GO)

General Obligation bonds require voter approval except refunding bonds.

1. General Obligation bonds must be issued to accomplish projects identified in the bond referendum and associated material.
2. General Obligation bonds must be issued for projects that are in accordance with the wording in the bond propositions.

#### D. Certificates of Obligation and Tax Notes

Certificates of Obligation may be issued without voter approval to finance any public works project or capital improvement, as permitted by State law. Should the City's capital funding evaluation support the issuance of Certificate of Obligations, they shall be issued only after determining the City's ability to assume additional debt based on the standards identified above.

Circumstances in which Certificates or Tax Notes might be issued include, but are not limited to the following:

- The City may issue CO's when there is insufficient funding on a general obligation bond-financed capital improvement;
- The City may issue CO's when "emergency" (urgent, unanticipated) conditions require a capital improvement to be funded rapidly;
- The City may issue CO's for projects when there is no other funding source available and the project is determined to be in the best interest of the City.
- The City may issue CO's or Tax Notes for projects to comply with regulatory mandates.

#### E. Revenue Bonds

For the City to issue revenue bonds, revenues, as defined in the ordinance authorizing the revenue bonds in question shall be established and maintained to provide debt service coverage at least to comply fully with all bond covenants. Annual adjustments to the City's rate structures for enterprise funds shall be considered during the budget process and will be made as necessary to maintain the coverage factor. The City may choose to maintain target coverage margins in excess of legal requirements under bond covenants.

#### F. Debt Structures

The City shall normally issue bonds with a life not to exceed 25 years for general obligation bonds and revenue bonds, but in no case longer than the useful life of the asset.

1. The City shall seek level or declining debt repayment schedules.
2. The City shall seek to retire its debt with as short an average life as possible.
3. There should be no debt structures that include increasing debt service levels in years beyond the first and second year, except as special situations may warrant.
4. 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.
5. There shall always be at least interest paid in the first fiscal year after a bond sale and principal payments starting generally no later than the second fiscal year after the bond issue.

#### G. Refunding

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

#### H. Interest Earnings on Debt Proceeds

The expenditure of interest earnings on debt issued will be limited to funding changes to the bond financed Capital Improvement Plan in compliance with the voted propositions, cost overruns on bond projects, or be applied to debt service payments on the bonds issued.

#### I. Bond Elections

Timing of general obligation bond elections shall generally be determined by the inventory of current authorized, unissued bonds remaining to be sold and the Five-Year Capital Improvement Program. The total dollar amount of bond election propositions recommended to the voters may not exceed the City's estimated ability to issue the bonds within a 10-year period.

An analysis showing how the new debt combined with current debt impacts the City's tax rate and debt capacity will accompany every future bond issue proposal.

#### J. Sale Process

The City shall use a competitive bidding process in the sale of debt unless the nature of the issue warrants a negotiated sale. The City may utilize a negotiated process when the issue is, or contains, a refinancing that is dependent on market/interest rate timing. The City may issue certain issues as direct placements to state or federal agencies. Except for direct placements to state or federal agencies, the City shall award the bonds based on a true interest cost (TIC) basis.

#### K. Rating Agency Presentations

Full disclosure of operations and open lines of communications shall be maintained with the rating agencies. City staff, with the assistance of financial advisors, shall prepare the necessary materials and presentation to the rating agencies. Credit ratings will be sought from one or more of the

nationally recognized municipal bond rating agencies, currently Moody's Investor Services, Standard & Poor's, and Fitch Inc., as recommended by the City's financial advisor.

L. Bond Ratings

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

M. Lease/Purchase Agreements

The City will use lease/purchase agreements when it is cost-efficient and provides for more attractive terms than other alternatives.

N. The City will comply with its continuing disclosure obligations to inform the Municipal Securities Rulemaking Board through the EMMA website (Electronic Municipal Market Access) of any and all continuing disclosure documents and annual financial statements.

## **X. CASH MANAGEMENT AND INVESTMENTS**

Invest the City's operating cash in a manner that will ensure its absolute safety of principal, provide for the necessary liquidity needs of the City, and optimize yield relative to those constraints.

A. Investment Management

1. All aspects of cash/investment management shall be designed to ensure safety and integrity of the City's financial assets.
2. Cash/Investment management activities shall be conducted in full compliance with prevailing local, state, and federal regulations. (See City Investment Policy and Investment Strategy)
3. The City will utilize competitive bidding practices wherever practical, affording no special advantage to any individual or corporate member of the financial or investment community.
4. The City will only do business with City authorized, as approved by the City Council, broker/dealers and/or financial institutions and who have executed a written certification of their review of the City's Investment Policy.
5. The City shall design and establish policies relating to a variety of cash/investment management issues, such as the eligibility and selection of various broker/dealers, safekeeping requirements, collateral requirements, delivery versus payment requirements, weighted average maturity requirements and such other aspects of the program, which necessitate standard setting in pursuit of appropriate prudence and enhanced protection of assets. (See Investment Policy)
6. Investments of the City shall be made with the exercise of judgment and care which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment.

#### B. Investment Strategy

The City of Bellaire maintains a consolidated portfolio in which it pools its funds for investment purposes. The City's investment program seeks to achieve safety of principal, adequate liquidity to meet cash needs, and reasonable yield commensurate with the preservation of principal and liquidity. Refer to the City's Investment Strategy as adopted by City Council annually for detail.

#### C. Interest Income

Interest earned from investments shall be distributed to the funds from which the funds were provided.

#### D. Arbitrage Investments and Reporting

The City's investment position as it relates to arbitrage is as follows: Investments on bond proceeds will be made with safety of principal and liquidity in mind, but with a competitive rate of return. Bond proceeds will be invested in separate instruments and not commingled with other investment purchases. Arbitrage rebate calculations will be performed as required on all debt issues and funds set aside annually for any positive arbitrage. Arbitrage will be rebated to the Internal Revenue Service, as necessary.

#### E. Depository

The City of Bellaire will select its official bank depository through a formal bidding process in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available. The City will at a minimum, bid depository services every five years.

#### F. Collateralization of Deposits

1. The City of Bellaire shall have pledged collateral held at an independent third-party institution and evidenced by a written receipt.
2. The value of the pledged collateral should be marked to market monthly and shall be at least 103 percent of par or market value of the investments, whichever is greater.
3. Substitutions of collateral shall meet the requirements of the collateral agreement and have prior written approval. Collateral shall not be released until the replacement collateral has been received.
4. The pledge of collateral shall comply with the City's Investment Policy.

### **XI. GRANTS**

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

#### A. Grant Guidelines

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

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

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

#### B. Grant 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 goals. If there is a cash match requirement, the source of funding shall be identified prior to application.

The City Manager shall approve all grant submissions and City Council shall approve all grant acceptances over \$25,000 and any grant acceptance regardless of the dollar amount if a budget adjustment is required.

#### C. Grant Termination and/or Reduced Grant Funding

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

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