

# CITY OF KENNEDALE



## FINANCIAL MANAGMENT POLICY

ORIGINALLY ADOPTED BY CITY COUNCIL: JUNE 10, 2004

## **PREFACE**

A Financial Management Policy provides guidelines to enable the City staff to achieve a long-term, stable financial condition, while conducting daily operations and providing services that are consistent with the Council-Manager form of government established in the City Charter.

It is our intent to bring forth this policy to Council for review at least annually. In order to demonstrate that review, it will be custom practice for the governing board of a municipality to adopt a resolution to make the review an official public record.

## **SUBSEQUENT REVIEW & ADOPTION**

DECEMBER 11, 2008

NOVEMBER 5, 2009

OCTOBER 14, 2010

NOVEMBER 17, 2011

OCTOBER 3, 2012

OCTOBER 1, 2013

OCTOBER 13, 2014

OCTOBER 19, 2015

## I. PURPOSE

The City of Kennedale's financial policies set forth the basic framework for the fiscal management of the City. These policies were developed within the parameters established by applicable provisions of the Texas Local Government Code and the City of Kennedale Charter. The policies are intended to assist the City Council and City staff in evaluating current activities and proposals for future programs. The policies are to be reviewed on an annual basis and modified to accommodate changing circumstances or conditions.

## II. ANNUAL BUDGET (CHARTER REQUIREMENTS)

- A. Fiscal Year – The fiscal year shall begin on the first day of October (1<sup>st</sup>) and end on the last day of the following September (30<sup>th</sup>). The fiscal year will also be established as both the accounting and budget year.
- B. Submission – The City Manager, on or before the first day of August (1<sup>st</sup>) of each year, shall prepare and submit to the City Council an annual proposed budget (generally during an workshop or retreat) for the ensuing fiscal year designed to meet the goals and objectives of the City Council. It must contain the following:
- 1) Budget Message shall explain the budget both in fiscal terms and in terms of work programs for the ensuing fiscal year. It shall outline the proposed financial policies of the City and shall include a forecast of a five-year estimate of revenues and expenditures, as well as an effect on taxation;
  - 2) Comparative figures for the estimated income and expenditures for the ensuing fiscal year compared to the combination of: actual income and expenditures through, the latest complete accounting period that information is available for at the commencement of budget preparation, and the estimated income and expenditures for the incomplete portion of the current fiscal year. FOR EXAMPLE: for upcoming FY15/16 budget, comparative should display FY13/14 actual, FY14/15 through May (assuming budget is prepared at this time), FY14/15 year-end estimate, and FY15-16 proposed budget;
  - 3) Proposed Expenditures of each office, department or function;
  - 4) Schedule of debt service requirements due on all outstanding indebtedness and on any proposed debt;
  - 5) Source or basis of the estimates;
  - 6) Balanced budget in which the total of the proposed expenditures shall not exceed the total estimated income and the balance of available funds; and

- 7) Other information as may be required by the Council or deemed desirable by the City Manager.
- C. Public Hearing – Shall be conducted by the Council, allowing interested citizens to express their opinions concerning items of expenditures and/or revenues. The notice of hearing shall be published in the official newspaper of the City of Kennedale not less than ten (10) or more than 30 days before the hearing.
- D. Adoption – Following the public hearing, the Council shall further analyze the proposed budget, making any additions or deletions which it feels appropriate, and shall by ordinance, with or without amendment, adopt the budget before the first (Oct 1<sup>st</sup>) day of the ensuing fiscal year by a majority vote. On final adoption, the budget shall be in effect for the budget year and shall constitute the official appropriations for the current year and the basis of the official levy of the property tax. Should the Council take no final action before the first (1<sup>st</sup>) day of the ensuing fiscal year, the amounts appropriated for the current fiscal year shall be deemed adopted on a month to month basis.

### **III. BASIS OF ACCOUNTING & BUDGETING**

- A. Accounting – The City of Kennedale finances shall be accounted for in accordance with generally accepted accounting principles as established by industry practice and applicable governing Accounting Standards Boards.
  - 1) The financial transactions of the City of Kennedale are accounted for and recorded in individual funds. These funds account for revenues and expenditures according to their intended purpose and are used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Governmental funds are used to account for the City's general government activities and include the General, Special Revenue, Internal, Debt Service and Capital Project funds.
  - 2) Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to pay liabilities of the current period. Substantially all material revenues are considered to be susceptible to accrual. A thirty-day availability period is used for revenue recognition for all governmental fund type revenues, to include fines and forfeitures. Expenditures are recognized when the related fund liability is incurred, if measurable, except for un-matured principal and interest on general long-term debt, which are recorded when due.

Compensated absences, claims, and judgments are recorded when the obligations are expected to be paid with current available financial resources.

- 3) The City of Kennedale does not utilize encumbrance accounting for operating use at year-end.
  - 4) The Proprietary fund types are accounted for on a flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.
- B. The budgets shall be prepared and adopted on a cash basis for all governmental funds and modified accrual basis for proprietary funds. The capital projects funds adopt project-length budgets at the time of their presentation. Annual appropriations lapse at fiscal year-end for operating and debt service funds.

#### **IV. BUDGET ADMINISTRATION**

- A. All expenditures of the City of Kennedale shall be made in accordance with the annual budget. Budgetary control is maintained at the individual expenditure account level by each department head through the review of all requisitions.
- B. The following represents the City of Kennedale budget amendment policy delineating responsibility and authority for the amendment process. Transfers between expenditure accounts in one department may occur with the approval of the Department Head and Director of Finance. Transfers between operating departments may occur with the approval of the City Manager's Office. Transfers between funds must be accomplished by budget amendment approved by the City Council. Budget amendments calling for new fund appropriations must also be approved by the City Council. Should the City Council decide a budget amendment is necessary, the amendment is adopted in ordinance format, and the necessary budgetary changes are then made.
- C. As a matter of course, continuous budget monitoring requires that deviations from expected amounts of revenue and/or expenditures be noted and estimates revised, if necessary, to avoid financial distress. Budget amendments are thus considered prudent financial management techniques and are deemed to fulfill the requirements of City Charter.

#### **V. FINANCIAL REPORTING**

- A. Following the conclusion of the fiscal year, the Director of Finance shall cause to be prepared a Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting and financial reporting principles established by industry practice

and statements issued by the Governmental Accounting Standards Board (GASB). The document shall also satisfy all criteria of the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting Program.

- B. The CAFR shall show the status of the city's finances on the basis of generally accepted accounting principles (GAAP). The CAFR shall show fund revenues and expenditures on both a GAAP basis and budget basis for comparison purposes. In most cases, this reporting conforms to the way the city prepares its budget. Differences in format are acknowledged through reconciliations. Liabilities for post-employment benefits and compensated absences (accrued but unused sick and vacation leave) are not reflected in the budget, but are accounted for in the CAFR's government-wide financial statements. The government-wide financial statements modify the presentation of the governmental funds by presenting their results in the same manner as proprietary funds.
- C. Included as part of the CAFR shall be the results of the annual audit prepared by independent certified public accountants designated by the City Council.
- D. Each fiscal year, the Director of Finance will analyze accounts receivable balances and, if necessary, write off uncollectible accounts in accordance with applicable statutes after review by the City Manager or his designee.
- E. The City Manager shall present a monthly financial report and such additional information as may be required by the City Council. All income and expenses for the preceding month and for the year to date shall be shown and compared to the fiscal budget. These reports will be prepared by the Finance Department and distributed to and reviewed by each department head. Information obtained from financial reports and other operating reports is to be used by department heads to monitor and control the budget as authorized by the City Manager.
- F. The auditor's report on City's financial statements shall be completed and submitted to the City Council within one hundred twenty (120) days after the City's fiscal year end.

## **VI. REVENUES**

- A. To protect the City of Kennedale's financial integrity, the City will maintain a diversified and stable revenue system to shelter it from fluctuations in any particular revenue source.
  - 1) 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.
  - 2) The City will strive to understand its revenue sources and predict the reliability of revenue streams. City will enact consistent collection policies so that management

may reasonably rely upon the certainty that revenues will materialize according to budgets, plans, and programs.

- B. For every annual budget, the City of Kennedale shall levy two property tax rates: operation/maintenance and debt service. The debt service levy shall be sufficient for meeting all principal and interest payments associated with the City's outstanding debt for that budget year. The debt service levy and related debt service expenditures shall be accounted for in the General Debt Service fund. The operation and maintenance levy shall be accounted for in the General Fund.
- 1) The City of Kennedale will maintain a policy of levying the lowest tax rate on the broadest tax base. Mandated exemptions will be provided to home owners, senior citizens and disabled citizens. On an annual basis during the budget process, City Council will review the exemption for senior citizens and disabled persons with a goal to maintain a tax benefit of approximately 30% of the average home value.
  - 2) Property shall be assessed at 100% of the fair market value as appraised by Tarrant Central Appraisal District. Reappraisal and reassessment will be done regularly as required by State law. A 99% collection rate on current assessments and a 1% collection rate on delinquent assessments and penalties will serve as "the goal" for tax collections.
- C. The City of Kennedale will establish user charges and fees at a level that attempts to recover the full cost of providing the service.
- 1) User fees, particularly utility rates, should identify the relative costs of serving different classes of customers.
  - 2) The City will make every reasonable attempt to ensure accurate measurement of variables impacting taxes and fees (e.g. verification of business sales tax payments, verification of appraisal district property values, accuracy of water meters, etc.)
  - 3) The City will strive to maintain equity in the revenue system structure. That is, the City will seek to minimize or eliminate all forms of subsidization among entities, funds, services, utilities, and customers.
- D. The City of Kennedale will attempt to maximize the application of its financial resources by obtaining supplementary funding through agreements with other public and private agencies for the provision of public services or the construction of capital improvements. The City of Kennedale will consider market rates and charges levied by other public and private organizations for similar services in establishing tax rates, fees and charges.

- E. When developing the annual budget, the City Manager shall project revenues from every source based on actual collections from the preceding year and estimated collections of the current fiscal year, while considering known circumstances, which will impact revenues for the new fiscal year. The revenue projections for each fund should be made conservatively so that total actual fund revenues exceed budgeted projections.

**VII. OPERATING EXPENDITURES**

- A. Operating expenditures shall be accounted, reported, and budgeted for in the following major categories:
  - 1) Personnel
  - 2) Supplies
  - 3) Maintenance
  - 4) Sundry
  - 5) Debt
  - 6) Transfers
  - 7) Capital
  - 8) Grants
- B. The annual budget shall appropriate sufficient funds for operating, recurring expenditures necessary to maintain established quality and scope of city services.
- C. The City of Kennedale will constantly examine the methods for providing public services in order to reduce operating, recurring expenditures and/or enhance quality and scope of public services with no increase to cost.
- D. Personnel expenditures will reflect the minimum staffing needed to provide established quality and scope of city services. To attract and retain employees necessary for providing high-quality service, the City shall maintain a compensation and benefit package competitive with the public and, when quantifiable, private service industries.
- E. Supplies expenditures shall be sufficient for ensuring the optimal productivity of City employees.
- F. Maintenance expenditures shall be sufficient for addressing the deterioration of the City's capital assets to ensure the optimal productivity of the capital assets. Maintenance should be conducted to ensure a relatively stable level of maintenance expenditures for every budget year.
- G. Sundry expenditures include fees for attorneys, auditors, consultants and other services that require specialized expertise.

- H. The City of Kennedale will utilize contracted labor for the provision of city services whenever private contractors can perform the established level of service at less expense to the City. The City will regularly evaluate its agreements with private contractors to ensure the established levels of service are performed at the lowest possible cost.
- I. Existing capital equipment shall be replaced when needed to ensure the optimal productivity of City of Kennedale employees. New capital purchases shall be made only to enhance employee productivity, improve quality of service, or expand scope of service.
- J. To assist in controlling the growth of operating expenditures, operating departments will submit their annual budgets to the City Manager within fiscal parameters provided by the City Manager's Office.
- K. All purchases shall be in accordance with City's Purchasing Policy and in accordance with State law.
- L. All invoices will be paid within thirty (30) days of receipt in accordance with State law. Procedures will be used to take advantage of all purchase discounts where considered cost effective. Payments will be processed in order to maximize the city's investable cash.
- M. The City will pursue every opportunity to provide for the public's and City employees' safety. Health insurance coverage and property and casualty insurance coverage will be reviewed annually as to amount of coverage provided and cost effectiveness.
- N. The City will maintain property, liability and workman's compensation coverage through participation in the Texas Municipal League's (TML) Intergovernmental Risk Pool. The Pool maintains reinsurance coverage to protect the Pool in the event of excessive losses.

**XIII. DEBT EXPENDITURES**

- A. The City of Kennedale will issue debt only to fund capital projects, which cannot be supported by current, annual revenues.
- B. The City will strive to maintain a bond coverage ratio of 1.50 times in the Water/Sewer Fund.
- C. To minimize interest payments on issued debt, the City will maintain a rapid debt retirement policy by issuing debt with maximum maturities not exceeding 20 years (i.e., the life of the bonds will not exceed the useful life of the projects financed). Retirement of debt principal will be structured to ensure constant annual debt payments.

- D. The City of Kennedale will attempt to maintain unenhanced, underlying base bond ratings (prior to insurance) of A+ (Standard & Poor's) on its general obligation debt. The City shall continue to seek to enhance its credit quality by frequent contact and visits with the rating agencies and monitoring the current trends and guidance from the agencies.
- E. When needed to minimize annual debt payments, the City of Kennedale will obtain insurance for new debt issues.
- F. In order to minimize the impact of debt issuance on the property tax rate and to assist the City in meeting its arbitrage requirements, the City will consider the sequential sale of bonds for the purpose of financing capital projects.
- G. The City will maintain procedures that comply with arbitrage rebate and other federal requirements. City will attempt, within legal bounds, to adopt strategies, which will minimize the arbitrage rebate of interest earnings on unspent bond proceeds it must pay to the federal government.

**IX. CAPITAL EXPENDITURES**

- A. The City of Kennedale will develop a multi-year plan for capital projects, which identifies all projects likely to be constructed within a five year horizon. The multi-year plan will reflect for each project the likely source of funding and attempt to quantify the project's impact to future operating expenditures.
- B. Capital projects will be constructed to:
  - a. Protect or improve the community's quality of life;
  - b. Protect or enhance the community's economic vitality;
  - c. Support new development; and/or
  - d. Provide significant rehabilitation of City infrastructure for sustained service.
- C. Capital project expenditures will not be authorized by the City Council without identification and commitment of revenue sources sufficient to fund the improvement. Potential funding sources include, but are not limited to, reserve funds, debt issuances, matching fund revenues, user fees, grants, or reallocation of existing capital funds with the recognition that construction of previously authorized capital projects may be delayed or postponed.
- D. Capital Improvement Planning and Programming shall include the following categories for the determination of funding for individual projects: design costs, right-of-way costs,

utility construction/adjustment costs, construction costs, appropriate contingency funds, furnishings and equipment, and direct project administration services provided by City employees or outside forces.

- E. Cost incurred for advanced planning of capital projects may be funded from reimbursement of appropriate debt or operating funds.
- F. The City will intend to maintain adequate funding levels in the developer participation fund to ensure that no City obligation for participation goes unfunded for a period of more than one (1) year.
- G. The City will utilize \$5,000 as its threshold for capital purchases.
- H. To minimize the issuance of debt, the City of Kennedale will attempt to support capital projects with appropriations from operating revenues or excess fund balances (i.e. "pay-as-you-go").

#### **X. UTILITY CAPITAL EXPENDITURES**

- A. The City of Kennedale uses three funding sources for Utility Capital expenditures.
  - 1) Utility rates are designed to provide for a depreciation reserve, which accumulates resources to replace or rehabilitate aging infrastructure.
  - 2) The multi-year financial plan provides debt strategies to finance needed capital items.
  - 3) Annual transfers may be made from utility operations to maintain adequate funding for capital items.

#### **XI. FUND TRANSFERS**

- A. Fund transfers may occur when surplus fund balances are used to support non-recurring capital expenses or when needed to satisfy debt service obligations.
- B. Fund transfers are used to pay for the following types of costs:
  - 1) Administrative - Transfer from Water/Sewer Fund (Proprietary Fund) and Economic Development Corporation Fund (Component Unit) to reimburse the General Fund for recurring support costs, such as personnel, materials, etc.
  - 2) Payment In Lieu Of Taxes (PILOT) – Transfer from Water/Sewer Fund (Proprietary Fund) to the Street Improvement Fund (General Fund) to pay franchise fees. These are otherwise known as right-of-way fees.

## XII. FUND BALANCE

- A. The annual budget shall be presented to Council, with each fund reflecting minimum ending fund balances as follows:
- |  |                                |
|--|--------------------------------|
| 1) General Fund                          | 25% of Expenditures            |
| 2) General Debt Service Fund             | 10% of Expenditures            |
| 3) Water/Sewer Fund (Working Capital)    | 25% of Expenditures            |
| 4) Water/Sewer Debt Service Fund         | Compliance With Bond Covenants |
| 5) Economic Development Corporation Fund | 25% of Expenditures            |
- B. Fund balances, which exceed the minimum level established for each fund, may be appropriated for non-recurring capital projects or programs.
- C. The City of Kennedale will exercise diligence in avoiding the appropriation of fund balance for recurring operating expenditures. In the event that fund balance is appropriated for recurring operating expenditures to meet the needs of the community, the budget document shall include an explanation of the circumstances requiring the appropriation, and the methods to be used to arrest the future use of fund balance for operating expenditures.
- D. For financial statement purposes, all governmental fund balances will be classified as follows:
- 1) Non-spendable - Amounts that cannot be spent; legally or contractually required to be maintained.
  - 2) Restricted - Amounts that have external enforceable legal restrictions.
  - 3) Committed - Amounts that can only be used for specific purposes as directed through formal action of the City Council. Amounts can only be changed or revoked through similar formal action of the Council.
  - 4) Assigned - Amounts intended to be used for specific purposes as designated by management.
  - 5) Unassigned - Remaining amounts that have not met the criteria for non-spendable, restricted, committed or assigned.
- E. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

### **XIII. LONG-TERM FINANCIAL PLAN**

The City of Kennedale will adopt the annual budget in the context of a long-term financial plan, or other multi-year budget analysis. The long-term financial plans will establish assumptions for revenues, expenditures and changes to fund balances over a five year horizon. The assumptions will be evaluated periodically as part of the budget development process.

### **XIV. CASH MANAGEMENT & INTERNAL CONTROLS**

- A. Written Procedures - The Director of Finance is responsible for developing written guidelines on accounting, cash handling, segregation of duties, and other financial matters, which will be approved by the City Manager. The Finance Department will assist department heads as needed in tailoring such guidelines to fit each department's requirements, as well as periodically review staffing and training to ensure adequacy.
- B. Department Heads' Responsibility - Each department head is responsible to the City Manager to ensure that proper internal controls are followed throughout his or her department to safeguard City funds, that all guidelines on accounting and internal controls are implemented, and that all independent auditor control recommendations are addressed.
- C. Cash – City cash shall be deposited on a daily basis in all instances. At no time shall cash be collected and warrant less frequent deposits.
- D. Investments - The City's investment portfolio shall be managed in accordance with the Public Funds Investment Act and the City's Investment Policy. The timing and amount of cash needs and availability shall be systematically projected in order to maximize interest earnings from investments. As per state law, the Director of Finance will issue quarterly reports on investment activity to the City Council. Each report will be issued within thirty (30) days from the end of the quarter.
- E. Capital Assets and Inventory - Such assets will be reasonably safeguarded and properly accounted for and prudently insured. The capital asset inventory will be updated regularly.

### **XV. ANNUAL REVIEW**

The Director of Finance shall, at a minimum, submit proposed amendments of this policy to the City Council annually.