

CITY OF SUNRISE BEACH VILLAGE
ORDINANCE NUMBER 397
FINANCIAL MANAGEMENT POLICY

AN ORDINANCE OF THE CITY OF SUNRISE BEACH VILLAGE ESTABLISHING A FINANCIAL MANAGEMENT POLICY; UPDATING TO CORRESPOND WITH CURRENT LAW AND CITY ORGANIZATION, RECORDING CURRENT PRACTICES AS NECESSARY FOR CLARIFICATION OF INTENT; AND PROVIDING FOR OPEN MEETINGS, SEVERABILITY AND RELATED MATTERS.

Whereas, The City of Sunrise Beach has an important responsibility to its citizens to account for public funds, manage municipal finances wisely, manage growth, and plan the adequate funding of services desired by the public, including the provision and maintenance of public facilities. The city needs to ensure that it is capable of adequately funding and providing those local government services needed by the community.

Whereas, recent amendments to Chapter 2256, Tex. Gov't Code, establish certain requirements which requires the City of Sunrise Beach Village, Texas to annually review and adopt an investment policy by rule, order, ordinance, or resolution; and

Whereas, the City has certain obligations under State law related to the management of City finances and has established certain routines to comply with State laws and to satisfy the needs of the City and City Council.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF SUNRISE BEACH VILLAGE, LLANO COUNTY, TEXAS: THAT THIS FINANCIAL MANAGEMENT POLICY BE ADOPTED.

I. Rationale for Financial management policy

In the interest of fiscal accountability, transparency and control, the City believes it advisable to formally adopt a Financial Management Policy. Rationale for this action includes the following:

- 1) ***Institutionalize good financial management practices.*** Formal policies usually outlive their creators, and, thus, promote stability and continuity. They also prevent the need to re-invent responses to recurring issues.
- 2) ***Clarify and crystallize strategic intent for financial management.*** Financial policies define a shared understanding of how the organization will develop its financial practices and manage its resources to provide the best value to the community.
- 3) ***Define boundaries.*** Financial policies define limits on the actions staff may take. The policy framework provides the boundaries within which staff can innovate to realize the organization's strategic intent.
- 4) ***Bond agency:*** Achieve good bond ratings and thereby reduce the cost of borrowing.

- 5) **Promote long-term and strategic thinking.** The strategic intent of a good financial policy necessarily demands a long-term perspective from the organization.
- 6) **Manage risks to financial condition.** A key component of governance accountability is not to incur excessive risk in the pursuit of public goals. Financial policies identify important risks to a sound financial condition.
- 7) **Adopt public management best practices.** The Government Finance Officers Association (GFOA), through its officially adopted Best Practices endorsement of National Advisory Council on State and Local Budgeting (NACSLB) budget practices and the GFOA Distinguished Budget Presentation Award Program, has recognized financial policies as an essential part of public financial management.

II. STATEMENT OF PURPOSE

The City of Sunrise Beach Village has an important responsibility to its citizens to carefully account for public funds, manage municipal finances wisely, manage growth, and plan the adequate funding of services desired by the public, including the provision and maintenance of public facilities and infrastructure. The City needs to ensure that it is capable of adequately funding and providing those local government services needed by the community. The following Financial Management Policy is designed to establish guidelines for the fiscal stability of the City. The watchwords of the City's financial management include integrity, prudent stewardship, planning, accountability, and full disclosure. The scope of these policies generally spans, among other issues, accounting, auditing, financial reporting, internal controls, operating and capital budgeting, revenue management, cash and investment management, expenditure control, asset management, debt management, and planning concepts, to:

- 1) demonstrate to the citizens of the City of Sunrise Beach Village, the investment community, and the bond rating agencies that the City is committed to strong fiscal management.
- 2) provide precedents for future policymakers and financial managers on common financial goals and strategies.
- 3) maintain operational continuity in the face of periodic changes in the makeup of the governing body and amidst general staff turnovers.
- 4) present fairly and with full disclosure the financial position and results of the financial operations of the City in conformity to Generally Accepted Accounting Principles (GAAP); and
- 5) determine and demonstrate compliance with finance-related legal and contractual issues in accordance with provisions of the Texas Local Government Code and other pertinent legal documents and mandates.

The City Council will annually review and approve the Financial Management Policy as part of the budget process.

III. FORM OF GOVERNMENT

The governing body of the City is a mayor-council format, which is composed of five councilmembers and a mayor elected at large. The governing body enacts local legislation, adopts budgets,

determines policies, executes the laws, and administers the government of the City. The governing body shall operate in accordance with Texas Local Government Code Chapter 22.

The City shall appoint a qualified Auditor to conduct a monthly financial assessment. In addition, the City shall appoint an Independent External Auditor, holding a CPA qualification, to conduct an annual in-depth audit.

IV. BUDGET DEVELOPMENT POLICY STATEMENT

A. Fund Types

The following understanding of fund types are useful in budget development and reserve fund discussions:

- 1) **General Fund** – the primary fund used by a government entity. This fund is used to record all resource inflows and outflows that are not associated with any other funds. The money flowing into a general fund is usually derived from a variety of taxes, such as income taxes, sales taxes, use taxes, and lodging taxes (depending on the level of government). The activities being paid for through the general fund constitute the core administrative and operational tasks of the government entity.
- 2) **Enterprise Fund** - a self-supporting government fund that sells goods and services to the public for a fee. These funds are a good way to assure the long-term sustainability of a variety of government-owned infrastructure systems, since they do not require allocations of tax proceeds from the general fund.
- 3) **Special Revenue** – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
- 4) **Capital Improvement Program Funds** – Capital Improvement Program funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.
- 5) **Debt Service Fund** – Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
- 6) **Internal Service Fund** - a fund used in governmental accounting to track goods or services shifted between departments on a cost reimbursement basis.

B. Preparation

Budgeting is an essential element of the financial planning, control, and evaluation process of municipal government. The "Operating Budget" is the City's annual financial operating plan. The budget includes all the operating departments of the City. It also includes the debt service funds, all capital improvement program funds, all enterprise funds, and the internal service funds. The Comptroller prepares the budget, with the cooperation of all departments, under the direction of the Mayor who is the budget officer. The Mayor then transmits the document to the City Council.

1. **Proposed Budget:** The Mayor shall submit to the City Council a proposed budget no later than the 2nd week of June. Such budget shall provide a complete financial plan for the fiscal year:
 - a. A budget message, explanatory of the budget, shall contain an outline of the proposed financial objectives of the City for the fiscal year, set forth the reasons for changes from the previous year in expenditure and revenue items, and explain any proposed major changes in financial policy.
 - b. The budget shall include four basic segments for review and evaluation: (1) personnel costs, (2) base budget for operations and maintenance costs, (3) revenues, and (4) reserve budget.
 - c. The budget shall utilize a standard chart of accounts for ease of use and presentation.
 - d. The budget review process shall include the City Council and all key department heads participation in the development of each of the five segments of the proposed budget. The mayor should begin the process with in-depth discussions with key department heads most familiar with key operations of the city.
2. **Adoption:** The budget and all supporting schedules (once adopted in final form) shall be filed with the City Secretary, be submitted to the City Council, and shall be a public record. The City Secretary shall make a copy available to any resident of the City, upon request and shall be prominently posted on the city's website.

At a meeting of the City Council, the City Council shall fix the time and place of a public hearing on the budget and a separate hearing on the proposed tax rate. The rules and schedules for such hearings are dependent upon the proposed tax rate relative to the current tax rate. The City Council should carefully consider the required schedules and act accordingly. For clarity, the deadlines for budget and tax rate processes are provided by the Texas Municipal League (TML) in the attachments to this ordinance. These attachments are required to be updated annually as part of this ordinance's annual review and approval process.:

- 1) Attachment 1 – *Current Annual Budget and Tax Deadlines When the Tax Rate **Exceeds** the Voter-Approval Rate*
- 2) Attachment 2 – *Current Annual Budget and Tax Deadlines When the Tax Rate **Does Not Exceed** the Voter-Approval Rate*

C. **Balanced Budget**

The Operating Budget will be balanced with current revenues, exclusive of beginning resources greater than or equal to current expenditures/expenses. Excess balances may be used for capital outlay, other non-recurring expenditures, or increasing reserve fund balances.

D. **Planning**

The budget process will be coordinated to identify major policy issues for City Council consideration several months prior to the budget approval date so that proper decision analysis can be performed. Additionally, long-range planning will be performed such that revenues and

expenses/expenditures for the next three years are projected and updated annually, examining their diversity and stability, in conjunction with other guidelines and using an objective analytical projection process.

E. Reporting

Monthly financial reports will be prepared to enable the department heads to manage their budgets and to enable the City Comptroller to monitor and control the budget as authorized by the City Council. Monthly summary financial reports will be presented to the City Council. Such reports will be in a format appropriate to enable the City Council to understand the total budget picture.

F. Avoidance of Operating Deficits

If at any time during the fiscal year, an operating deficit is projected, the Governing Body shall take immediate corrective action.

G. 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 continue service levels.

H. Purchasing

The City shall make every effort to maximize any discounts offered by creditors/vendors. Vendors with balances due to the City will have payments due the vendor offset against the amount due the City. The City will follow state law, including Chapter 252 of the Texas Local Government Code concerning the amount of the purchase requiring formal bidding procedures and approval by the City Council. For purchases where competitive bidding is not required, the City shall obtain the most favorable terms and pricing possible.

In addition, annually, the City shall require elected officials and staff to participate in a brief training program on related party transactions and Nepotism. In addition, newly hired staff shall participate in the same training as part of their on-boarding process.

I. Reserves and Contingency Funds

The City will maintain minimum fund balances and/or working capital balances as stated in Section VIII.B. of this policy.

V. REVENUE MANAGEMENT

A. Optimum Characteristics

The City will strive for the following optimum characteristics in its revenue system:

1. **Simplicity:** The City, where possible and without sacrificing accuracy, will strive to keep the revenue system simple to reduce compliance costs. The City will avoid nuisance taxes or charges as revenue sources.
2. **Certainty:** A knowledge and understanding of revenue sources increases the reliability of the revenue system. The City will understand its revenue sources and enact consistent collection policies to provide assurances that the revenue base will materialize according to budgets and plans.
3. **Equity:** The City shall make every effort to maintain equity in its revenue system structure (i.e., the City shall seek to minimize or eliminate all forms of subsidy between entities, funds, services, and utilities).
4. **Administration:** The benefits of a revenue source shall exceed the cost of levying and collecting that revenue. The cost of collection will be reviewed annually for cost effectiveness.

B. Other Considerations

The following considerations and issues will guide the City in its revenue policies concerning specific sources of funds:

1. **Cost/Benefit of Abatement:** The City will use due caution in the analysis of any tax or fee incentives that are used to encourage development. Ideally, a cost/benefit (fiscal impact) analysis will be performed as part of such caution.
2. **Non-Recurring Revenues:** One-time or non-recurring revenues will not be used to finance current on-going operations. Non-recurring revenues should be used only for one-time expenditures such as long-lived capital needs. They will not be used for budget balancing purposes.
3. **Property Tax Revenues:** All real and business property located within the City shall be valued at 100 percent of its fair market value for any given year based on the current appraisal supplied to the City by the Llano Central Appraisal District. A 99.5 percent collection rate shall serve each year as a goal for tax collections. All delinquent taxes shall be aggressively pursued each year by the City's independent tax attorney contractor as per the contract with the City. Tax accounts with delinquency greater than 150 days shall be submitted for collection to the independent tax attorney contractor. A penalty shall be assessed on all delinquent property taxes, which shall include all court costs as well as an amount for compensation of the attorney, as permitted by State law, and in accordance with the attorney's contract with the City.
4. **Interest Income:** Interest earned from investment of available monies, whether pooled or not, will be distributed to the funds in accordance with the equity balance of the fund from which monies were provided for investment.
5. **User-Based Fees and Service Charges:** For services with a user fee or charge, those fees will offset the direct and indirect costs of that service where possible. Fees will be reviewed annually during the budget cycle to ensure that fees provide adequate coverage of costs of services. The appropriate department will review and recommend any changes to the proposed budget. Fees for any service that do not fully cover costs shall be based on

community and/or individualized benefits as determined and approved by City Council resolution.

6. **Enterprise Fund Rates:** The City will review and adopt utility rates, as needed, which will generate revenues required to fully cover current operating and maintenance expenses, meet the legal restrictions of all applicable bond covenants, and provide for an adequate level of working capital.

Additionally, enterprise activity rates will include transfers to the General Fund as follows:

- a. **General and Administrative Charges:** Administrative costs will be charged to all funds for services of general overhead, such as administration, finance, personnel, engineering, legal counsel, and other costs, as appropriate. The charges will be determined through an indirect cost allocation following accepted practices and procedures.
7. **Grants:** Any potential grants will be examined for matching requirements. Generally, these revenue sources should be used for capital improvements that are consistent with the Capital Improvement Program for which operating and maintenance costs have been included in the Operating Budget or for special programs associated specifically with the grant.
8. **Revenue Monitoring:** Actual revenues received will be regularly compared to budgeted revenues and any variances will be investigated. This process will be summarized in the appropriate periodic report.

VI. EXPENDITURE CONTROL

A. Appropriations

The City Comptroller may, at any time, with the consent of the Mayor, transfer any unencumbered appropriation from one line item to another line item within the same department, provided however, that no unencumbered appropriation may be transferred from one department or fund to another except upon the express approval of the City Council.

B. Amendments to the Budget

The budget may be amended by using the following criteria for evaluation of requests. The following questions must be answered by the appropriate department head prior to submittal to the City Council for approval and shall be included as a part of the agenda packet:

1. Is the request necessary?
2. Why was the item not budgeted in the normal budget process?
3. Why can a transfer not be made within the department?

In addition, the following conditions must be met:

1. The City Comptroller certifies that there are available revenues more than those estimated in the budget or that unreserved/unencumbered fund balance is available; and
2. The City Council approves the budget amendment.

C. Accountability

Department heads will be responsible and accountable for the budget of their respective departments and capital improvement program projects under their supervision. Each department head will prepare his/her budget with diligent effort and foresight to provide the citizens of Sunrise Beach Village with the most cost efficient and effective services. Each department head will review the budgeted expenditures to determine if the level of service, as determined by the City Council, can be maintained with the budgeted funds.

D. Reporting

Financial reports will be prepared showing actual expenditures compared to the original budget distributed to the City Council and appropriate departments. The department head will be responsible for reviewing the expenditures and making any spending adjustment that may be required. The following reports will be prepared and presented and/or posted as indicated in the table below (For additional information, see section XVIII – Posting Financial Information Online):

REPORT	INCLUDED IN MONTHLY REPORT TO COUNCIL?	POSTED ON CITY WEBSITE?
1) City Monthly Check Register	Y	N
2) Utility Monthly Check Register	Y	N
3) City Monthly Approved Budget Report	Y	Y
4) Utility Monthly Approved Budget Report	Y	Y
5) City Annual Approved Budget	N	Y
6) Utility Annual Approved Budget	N	Y
7) Current Annual Audit Report	N	Y

REPORT	INCLUDED IN MONTHLY REPORT TO COUNCIL?	POSTED ON CITY WEBSITE?
8) Maintenance & Operations tax revenue and rate for current year and previous two	N	Y
9) Debt service rate for current year and previous two years	N	Y

E. Expenditure Control

Any expenditure over \$50,000 requires City Council approval. Unless otherwise provisioned, budgeted expenditures under \$50,000 are not specifically approved by City Council. However, as part of the Monthly Budget Report, the City Comptroller shall present the city check registers showing disbursements for the month in sufficient detail for the City Council to ascertain the party being paid, the amount dispersed and the nature of the payment.

VII. ADDITIONAL FISCAL MONITORING

Annually, a five-year forecast of revenues and expenditures that includes a discussion of major trends affecting the City’s financial position shall be prepared. The forecast shall also examine critical issues facing the City, economic conditions, and the outlook for the upcoming budget year.

VIII. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

The City shall comply with prevailing local, state, and federal regulations. Its accounting practices and financial reporting shall conform to generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (“GASB”), the American Institute of Certified Public Accountants (“AICPA”), and the Government Finance Officers Association (“GFOA”). The City Council shall select an independent firm of certified public accountants to perform an annual audit of all operations.

IX. RATIOS, RESERVES, AND FINANCIAL STABILITY

A. Operating Reserves/Fund Balances (Consistent with GASB 54)

The purpose of this policy section is to establish guidelines for fund balance. (Please refer to Section IV.A Fund Types for a review of the different types of funds) Unassigned fund balance is an important measure of economic stability. It is essential that the City maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the City’s general operations.

1. **Classifications of Fund Balance:** A fund's equity – commonly referred to as 'fund balance' – is generally the difference between its assets and its liabilities. Fund balance will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used. Committed, assigned, and unassigned fund balance will be considered unrestricted fund balance.
 - a. Non-spendable – amounts that are not in a spendable form or are required to be maintained intact. Examples include inventory and prepaid items.
 - b. Restricted – amounts that can be spent only for specific purposes stipulated by external resource providers such as grantors, bondholders, and higher levels of government through constitutional provisions or enabling legislation.
 - c. Committed – amounts constrained to specific purposes by formal action of City Council. Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the original constraint. Examples include contractual agreements approved by the City Council.
 - d. Assigned – amounts intended to be used by the City for specific purposes. Intent can be expressed by the City Council or by an official or body to whom the City Council delegates the authority. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
 - e. Unassigned – includes all amounts not contained in other classifications. Unassigned amounts are available for any purpose within the General Fund.
2. **Authorization and Action to Commit Fund Balance:** The City Council is the government's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is an ordinance approved by the Council. The ordinance must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made.
3. **Authorization and Action to Assign Fund Balance:** The City Council has authorized the City Comptroller to assign fund balance to reflect the City's intended use of resources. Assignments of fund balance by the City Comptroller do not require formal action by the City Council; however, each assignment must be approved by the Mayor before the item can be presented in the financial statements.
4. **Minimum Unassigned General Fund Balance:** The City will strive to maintain an unassigned fund balance of not less than 180 days of the budgeted operational expenditures in the General Fund. The purpose of this unassigned balance is to protect the City against short-term operating deficits in the General Fund. The unassigned fund balance will be available for the following purposes, only after a justification is provided by the appropriate department head, and its use has been approved by the City Comptroller and City Council:
 - a. Cover revenue shortfalls.
 - b. Cover unanticipated expenditures.

5. **Order of Expenditure of Funds:** When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category – spending those funds first – before moving down to the next category with available funds.
6. **Utility Working Capital and Retained Earnings of Other Operating Funds:** In operating funds other than the General Fund, the City shall strive to maintain a positive retained earnings position to provide sufficient reserves for emergencies and revenue shortfalls. In addition, the minimum reserve balance in utility operating funds will be 180 days of current year budgeted operating expenses.
7. **Use of Fund Balance/Retained Earnings:** Fund Balance/Retained Earnings shall be used only for emergencies, non-recurring expenditures, or major capital purchases that cannot be accommodated through projected current year surplus. Except for use in an emergency, such use shall not reduce the balance below the appropriate level set as the objective for that fund.

B. Liabilities and Receivables

Procedures should be followed to maximize discounts and reduce penalties offered by creditors. Current liabilities will be paid within thirty days of receiving the undisputed invoice. Accounts Receivable procedures will target collection for a maximum of thirty days from service. The City Comptroller will write off uncollectable accounts other than tax liens, that are delinquent for more than 270 days.

C. Capital Improvement Program and Debt Service Funds

1. Monies in the Capital Improvement Program Funds will be used in a timely manner. Balances will be used to generate interest income to offset construction costs.
2. Revenues in the Water Department Debt Service Fund are stable, based exclusively on rate revenues. Reserves in the Water Department Debt Service Fund are designed to provide funding to pay interest and principal obligations on current debt.
3. Revenue obligations will maintain debt coverage ratios as specified by the bond covenants, if any.

X. INTERNAL CONTROL POLICY STATEMENT

A. Written Procedures

Whenever possible, written procedures will be established and maintained by the City Comptroller for all functions involving cash handling and/or accounting throughout the City. These procedures will embrace the general concepts of fiscal responsibility set forth in this policy statement. Written procedures to be developed.

B. Department Head Responsibilities

Each department head is responsible for ensuring that good internal controls are followed throughout his or her department, that all Finance Department directives or internal controls

are implemented, and that all independent auditor internal control recommendations are addressed.

C. Revenue/Cash Handling

The City recognizes the need for guidelines for collecting, receipting, and control of legal tender received by the City to provide reasonable internal control for safeguarding of the City's assets. Guidelines are contained in the Procedure Manual, currently under development.

XI. SALARY AND BENEFIT BENCHMARKING

A. Salary Benchmarking

At minimum intervals of every two years, the City shall conduct salary and benefit benchmarking surveys for each city staff position. The survey is intended to ensure that the city remains competitive in salary and benefits for each position. The survey shall consider the scope and responsibility of each position, the size of benchmarked peer cities, and geographic location of benchmarked peer cities. Additional comparison data may be used as deemed appropriate by the city council. The survey shall become public information, available to all employees and taxpayers.

B. Operations Manual

City staff will develop and maintain a procedures manual to ensure proper implementation and maintenance of the City's Financial Ordinance. This is currently under development.

XII. CAPITAL IMPROVEMENT PROGRAM POLICY

A. Statement of Purpose

Effective financial management of the City's resources requires that the budgetary plan for any one fiscal year be consistent with intermediate and long-range plans. As capital acquisitions and programs usually require a consistent application of effort and funds over a span of years, a capital improvement program and budget, as well as annual revenue and expenditure operating budgets, should be developed and presented to the City Council for approval and adoption.

Capital expenditures may generally be defined as those used to purchase land or equipment and/or to construct facilities or other improvements that are expected to provide services over a considerable period. In contrast, current or operating expenditures are generally those for an item or service that is used for a short time. Moreover, capital expenditures are usually relatively large when compared with items in the annual Operating Budget. Capital budgeting, therefore, is based upon distinctions between expenditures that have only short-term or current benefits and those that have long-term benefits.

The City's Capital Improvement Program is a ten-year plan, which identifies projected capital expenditures necessary to accomplish the City's long-range objectives. As such, it sets forth each project, item, or other contemplated expenditure in which the City is to have a part and

specifies the resources or funds estimated to be required and available to finance the projected expenditures. The City's Capital Budget is a plan of proposed capital expenditures, and the means of financing the same, for the current fiscal year.

The City's Ten-Year Capital Improvement Program is also categorized by the following types of capital improvements:

1. **Water System CIP:** Includes expenses for the replacement, expansion, acquisition, and/or construction of water infrastructure improvements.
2. **Road & Drainage CIP:** Includes expenditures for the replacement, expansion, acquisition, and/or construction of streets, roadside walking paths, right-of-way improvements, signals, transportation, and/or drainage improvements.
3. **Parks & Recreation CIP:** Includes expenditures for capital improvements for city parks, waterways, docks, and recreation areas.
4. **General City Infrastructure CIP:** Includes expenses for replacement, expansion, acquisition and/or construction of city owned facilities (excluding those associated with other CIP categories), such as city buildings, and the city entrance boulevard and monument.

The following policy statements guide the development and implementation of the City's Ten-Year Capital Improvement Program:

1. Capital expenditures will be made pursuant to the adopted Ten-Year Capital Improvement Program and the current fiscal year's Capital Budget.
2. Estimated cost and funding will be identified for each proposed capital expenditure prior to its submission to the City Council for inclusion in the Capital Improvement Program.
3. Intergovernmental assistance or grants-in-aid will be sought and used to finance only those capital expenditures and improvements, which are consistent with the adopted Capital Improvement Program.
4. At the end of each fiscal year, the Capital Improvement Program will be reviewed, and an additional year will be added to replace the year just completed. During such annual review, priorities may be revised, with new capital expenditures and improvements added as justified, and other capital expenditures no longer justified being eliminated.
5. Recurrent capital expenditures for replacement, expansion and/or acquisition of plant, equipment, and/or motor vehicles will be financed from funds available and appropriated in the City's annual Operating Budget.
6. Non-recurrent capital expenditures for public improvements having a relatively larger cost and longer useful life, and which require additional funding over and beyond the City's annual Operating Budget, may be financed through the issuance or creation of appropriate long-term debt that coincides with the projected life of the improvement.
7. Any proceeds derived from the sale of the City-owned land will be specifically designated for CIP projects.

8. Any proposed CIP project must be consistent with the City's Comprehensive Long-Range Planning document to be considered for approval.

B. Development of Capital Improvement Program

Although simple in theory, capital expenditure and public investment decision-making is not very simple in practice. Many of the benefits of a capital project or expenditure are often of an intangible nature and are not readily quantifiable; their value is common or social, involving the whole municipality; and usually is not easily ascertainable in monetary terms. This factor of common value and the lack of quantifiable benefits are the very reasons many such projects or activities are assumed by the public sector.

The City's Ten-Year Capital Improvement Program consists of a comprehensive listing of carefully selected and coordinated capital improvements and expenditures which have been identified as necessary to accomplish the City's long-range objectives and work program and which the City can afford to implement. Development of the Capital Improvement Program is an annual process which includes identifying an inventory of needed projects, developing appropriate financing plans, and obtaining City Council and community input to establish project priorities.

Development of the Capital Improvement Program begins in March of each fiscal year when City department heads are required to submit to the City Comptroller an inventory of capital improvements and expenditures contemplated for the next ten fiscal years. This inventory is generally based on the expenditure's urgency, capital and operating costs, a general assessment of projected benefits, and the expenditure's contribution to the accomplishment of the City's long-range objectives and work program. Requests for consideration of capital improvements and expenditures often originate with diverse groups, including the City's operating departments and administrative staff, Citizens for Community Action Association (CCAA), City Council, and interested citizens.

Following development of the initial inventory of contemplated capital expenditures, the Finance Department staff conducts a preliminary economic and financial evaluation of the requested improvements and expenditures. This evaluation includes an assessment of the City's fiscal capacity for the ensuing ten-year period for the purpose of establishing as accurately as possible the funds which will be available for proposed capital expenditures during each year of the Capital Improvement Program and for ensuring that additional funds for increased operating expenses will be available, if necessary.

During the City's annual budget preparation process, the initial inventory of contemplated capital expenditures is evaluated and ranked by the City Council. The ultimate objective of this process is the development of a practical Ten-Year Capital Improvement Program that is both financially possible and acceptable to the community. Additionally, at the end of each fiscal year, the Capital Improvement Program is again reviewed, and the development process starts over. Priorities may be revised, with new capital improvements and expenditures added to the Capital Improvement Program, as necessary, while others, which are no longer justified, are eliminated. Each year an additional year is added to replace the year just completed, ensuring that the Capital Improvement Program will always cover a full ten-year period. With this development process, a long-range capital program is always available and current, but with only one year thereof actually committed as a part of the City's Capital Budget for the ensuing fiscal year.

XIII. RELATIONSHIP OF CAPITAL BUDGET TO ANNUAL OPERATING BUDGET

During development of the City's Capital Improvement Program and Capital Budget, an evaluation of how capital expenditure decisions will affect annual operations and the City's Operating Budget must be made. Such an evaluation for recurrent capital expenditures for plant, equipment, and motor vehicles is usually not difficult, as the appropriations for such recurrent expenditures generally represent a relatively consistent proportion or percentage of the City's annual Operating Budget and can be financed on a "pay-as-you-go" basis from operating funds.

Evaluating the impact of large, non-recurrent capital expenditures on the City's Operating Budget and annual operations is more difficult, as such expenditures generally require additional funding over and beyond the fiscal capacity of the City's annual Operating Budget. However, evaluation of such non-recurrent capital expenditures is also more critical to the financial health and stability of the City for the following reasons:

1. Due to their relatively larger cost and longer life, capital expenditures for long-range public improvements may have to be financed on a "pay-as-you-use" basis through the issuance of long-term debt that coincides with the projected life of the improvement.
2. Such capital expenditures, therefore, may require a consistent application of effort and funds over a span of years.
3. The political and economic impacts of investments in long-range capital improvements extend far into the future.
4. Decisions to invest in long-range capital improvements are often irreversible, except at considerable financial and managerial costs to the City.
5. Such capital investment decisions may significantly alter or influence the City's ability to grow and prosper.

XIV. DEBT POLICY STATEMENT

The use of debt financing for long-term capital improvement programs is based upon a pay-as-you-use method of financing. In its purest theoretical form, pay-as-you-use financing means that every long-term capital improvement is financed by serial debt issues with maturities arranged so that the retirement of debt coincides with the depreciation or projected life of the improvement. Under this method of financing, the interest and debt retirement charges paid by each generation of taxpayers should coincide with their use of the physical assets or improvements and parallel the productivity of the social investment in the improvement.

In contrast to what often occurs under pay-as-you-go (or pay-as-you-acquire) financing, under pay-as-you-use, each user group pays for its own use and enjoyment of capital improvements, and desirable or urgently needed capital improvements need not be delayed until sufficient funds can be accumulated. Additionally, no one is forced to provide free goods for a future generation of users or taxpayers or to contribute toward improvements for a city in which he or she will not live, nor will new members of the community enjoy the use of improvements without having contributed to their financing. In practice, the City uses a mix of these two basic methods to finance its capital assets, with pay-as-you-go financing used for recurrent capital expenditures, and with long-term, non-recurrent capital expenditures financed on a pay-as-you-use basis.

XV. DEBT POLICIES FOR LONG-TERM CAPITAL IMPROVEMENTS

The following policy statements govern the City's use of debt to finance long-term, non-recurrent capital improvements:

1. Recurrent capital expenditures for replacement, expansion and/or acquisition of plant, equipment and/or motor vehicles will be financed on a pay-as-you-go basis from funds available and appropriated in the City's annual Operating Budget. In certain limited circumstances, short-term debt or lease-purchase options may be considered for such items.
2. Only long-term, non-recurrent capital expenditures for public improvements having a relatively larger cost and longer useful life, and which require additional funding over and beyond the fiscal capacity of the City's annual Operating Budget, will be financed through the issuance or creation of debt.
3. Long-term, non-recurrent capital improvements will not be debt-financed for periods exceeding the projected useful life of the improvement.
4. Revenue sources that will be used to pay long-term debt will be conservatively projected to ensure that such debt is adequately and soundly financed.
5. Long-term debt will be used to finance non-recurrent capital expenditures or improvements only when it has been determined that the estimated flow of benefits to be derived over the useful life of the improvement exceeds the principal cost of the improvement, plus interest. Such determination will be based on the improvement's urgency, capital and operating costs, a general assessment of projected benefits, both direct and indirect, and the improvement's contribution to the accomplishment of the City's long-range objectives and work program.
6. The City's total general obligation debt will not exceed five percent of its net taxable valuation.
7. The City will use special assessment revenue bonds or other self-supporting bonds where possible and appropriate to finance long-term, non-recurrent capital improvements, rather than use General Obligation Bonds.
8. The City will establish and maintain effective communications with bond rating agencies to keep them informed of its financial condition.
9. The City will comply with its annual continuing disclosure obligations pursuant to SEC Rule 15c2-12.

A. Types of Debt

Before bonded long-term debt is issued, the impact of debt service on the total annual fixed costs will be analyzed.

1. **General Obligation Bonds (GO's):** General Obligation Bonds will be used only to fund capital assets of the general government and are not to be used to fund operating needs of the City. General Obligation Bonds are backed by the full faith and credit of the City as well as the ad valorem tax authority of the City. The term of a bond issue will not exceed the useful life of the asset(s) funded by the bond issue and will generally be limited to no more than thirty years. General Obligation Bonds must be authorized by a vote of the citizens of the City of Sunrise Beach Village.

2. **Revenue Bonds (RB's):** Revenue Bonds will be issued to provide for the capital needs of any activities where the capital requirements are necessary for continuation or expansion of a service which produces a revenue and for which the asset may reasonably be expected to provide for a revenue stream to fund the term of the debt service requirements. The obligation may not exceed the useful life of the asset(s) to be funded by the bond issue and will generally be limited to no more than thirty years.
3. **Certificates of Obligation, Contract Obligations:** Certificates of Obligation or Contract Obligations will be used to fund capital requirements, which are not otherwise covered under either Revenue Bonds or General Obligation Bonds. Debt service for Certificates of Obligation or Contract Obligations may be either from general revenues, backed by a specific revenue stream, or by a combination of both. Generally, Contract Obligations will be used to fund capital assets where full bond issues are not warranted because of the cost of the asset(s) to be funded through the instrument. The term of the obligation may not exceed the useful life of the asset(s) to be funded by the proceeds of the debt issue and will generally be limited to no more than twenty years.
4. **Method of Sale:** The City will use a competitive bidding process in the sale of bonds unless the nature of the issue warrants a negotiated bid. In situations where a competitive bidding process is not elected, the City will publicly present the reasons why a negotiated process is being utilized, as well as will oversee, with the advice of the financial advisor, the selection of the underwriter or direct purchaser.
5. **Bidding Parameters:** The notice of sale will be carefully constructed to ensure the best possible bid for the City, considering the existing market conditions and other prevailing factors. Parameters to be examined include:
 - a. Limits between lowest and highest coupons;
 - b. Coupon requirements relative to the yield curve;
 - c. Method of underwriter compensation, discount or premium coupons;
 - d. Use of TIC vs. NIC;
 - e. Use of bond insurance;
 - f. Deep discount bonds;
 - g. Variable rate bonds; and
 - h. Call provisions.

B. Refinancing Current Debt

If interest rates are significantly lower than rates utilized in the City's current debt instruments, staff will evaluate and pursue the refinancing of the City's existing debt. When bond covenants allow, consideration will be given in such circumstances as to the amount of interest cost savings, current and future debt service requirements, and bond maturity dates. An annual review should be conducted and documented as an indication that the City has evaluated the opportunity to refinance.

C. Bond Ratings

When considering a new debt issuance, staff will pursue the upgrade of its bond ratings by the major rating agencies.

D. Analysis of Financing Alternatives

Staff will explore alternatives to the issuance of debt for capital acquisitions and construction projects. These alternatives may include but are not limited to following: grants in aid, use of reserves, use of current revenues, contributions from developers and others, leases, and impact fees. Consideration of market factors, such as the tax-exempt qualification, minimum tax alternative, and so forth, will be given during the structuring of long-term debt instruments.

E. Disclosure

Full disclosure of operations will be made to the bond rating agencies and other users of financial information. The City staff, with the assistance of financial advisors and bond counsel, will prepare the necessary materials for presentation to the rating agencies, aid in the production of Offering Statements, and take responsibility for the accuracy of all financial information released.

- a. Federal Requirements – The City will maintain procedures to comply with arbitrage rebate and other Federal requirements. Procedures to comply with IRS arbitrage requirements are included with this policy as Appendix D.
- b. Debt Structuring – The City will issue bonds with an average life of thirty years or less, not to exceed the life of the asset(s) acquired.

The structure should approximate level debt service unless operational matters dictate otherwise or, if market conditions indicate, a potential savings could result from modifying the level payment stream.

XVI. INVESTMENTS

The City's idle cash shall be invested in such a manner to ensure the absolute safety of principal and interest, to meet the liquidity needs of the City, and to achieve the highest possible yield. Interest earned from investment shall be distributed to the operating, internal service, and other City funds from which the money was provided. Cash forecasting models and procedures will be employed to maximize the amount of investment funds.

All investment activity will be in accordance with the City's investment policy which is approved and filed under a separate ordinance. See City Investment Ordinance 251.1 and Resolution 264 (TEXCLASS authorization)

XVII. XVI. INTERGOVERNMENTAL RELATIONS, GRANTS, AND ECONOMIC DEVELOPMENT

A. Intergovernmental Relations

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

1. **Interlocal Cooperation in Delivery Services:** To promote the effective and efficient delivery of services, the City shall work with other local jurisdictions to share on an equitable basis the costs of services, to share facilities, and to develop joint programs to improve service to its citizens.
2. **Legislative Program:** The City shall cooperate with other jurisdictions to actively oppose any state or federal regulation or proposal that mandates additional City programs or services and does not provide the funding for implementation.

B. Grants

The City shall seek, apply for, obtain, and effectively administer federal, state, and foundation grants that address the City's current and future priorities and policy objectives.

1. **Grant Guidelines:** The City shall seek, apply for, and obtain those grants that are consistent with priority needs and objectives identified by the Council.
2. **Indirect Costs:** The City shall recover indirect costs to the maximum amount allowed by the funding source. The City may waive or reduce indirect costs if doing so significantly increases the effectiveness of the grant.
3. **Grant Review:** The City shall review all grant submittals for the following: 1) their cash or in-kind matching requirements; 2) their potential impact on the operating budget, including obligations by the City to fund programs on an ongoing basis, even after the grant funding is terminated; and 3) the extent to which they meet the City's policy objectives. If there are cash match requirements, the source of funding shall be identified and approved prior to application.
4. **Documentation:** The City will take all steps necessary to ensure that proper supporting documentation is obtained to support the allowable activities completed under each grant program. The records will be obtained and retained according to the specific grant program.
5. **Grant Program Termination:** The City shall terminate grant-funded programs and associated positions, including personnel, financial obligations, and assets as directed by the City Council when grant funds are no longer available unless alternate funding is identified.
6. **Grant Compliance:** The City shall always be compliant with a grant's terms and conditions.

C. Economic Development

The City shall initiate, encourage, and participate in economic development efforts to create job opportunities and strengthen the local economy and tax base.

1. **Commitment to Expansion and Diversification:** The City shall encourage and participate in economic development efforts to expand City of Sunrise Beach Village economy and tax base, increase local employment, and invest when there is a defined specific long-term return.


2. **Tax Abatements:** The City may develop a tax abatement policy to encourage commercial and/or industrial growth and development throughout the City. The City shall balance the long-term benefits of tax abatements with the short-term loss of tax revenues prior to the granting of the abatement. Factors considered in evaluating proposed abatements for development include the location of the project, its size, the number of temporary and permanent jobs created, the costs and benefits for the City, and its impact on the City's economy.
3. **Increase Non-Residential Share of Tax Base:** The City's economic development program shall seek to expand the non-residential share of the tax base to decrease the tax burden on residential homeowners.
4. **Coordinate Efforts with Other Jurisdictions:** The City's economic development program shall encourage close cooperation with other local jurisdictions to promote the economic wellbeing of this area.

XVIII. POSTING FINANCIAL INFORMATION ONLINE

A. Posting Rationale

To demonstrate accountability and transparency, the City shall make financial information of the highest quality readily accessible to citizens and other interested parties. The City's web site is especially well suited for this purpose. Reports required to be posted online are identified in **Section VI.D -Reporting**.


Jamie Crumpler City Secretary


Chellie Stewart Mayor