

ATTACHMENT #5

CITY OF GONZALES
PROCUREMENT POLICIES
AND PROCEDURES

CITY OF GONZALES
FISCAL AND BUDGETARY POLICY STATEMENTS

I. STATEMENT OF PURPOSE

The intent of the following Fiscal and Budgetary Policy Statements are to enable the City to achieve a long-term stable and positive financial condition. The watchwords of the City's financial management include integrity, stewardship, planning, accountability, and full disclosure.

The more specific purpose is to provide guidelines in planning and directing the City's day-to-day financial affairs and in developing recommendations to the City Manager and City Council.

The scope of these policies generally cover the following areas: accounting, auditing, financial reporting, internal controls, operating and capital budgeting, revenue management, cash and investment management, expenditure control, debt management, and planning concepts.

The City Council will annually review and approve the Fiscal and Budgetary Policy Statements as part of the budget process.

II. ACCOUNTING, AUDITING AND FINANCIAL REPORTING

ACCOUNTING. The City is solely responsible for the reporting of its financial affairs, both internally and externally. The Director of Finance is the City's Chief Fiscal Officer and is responsible for establishing the Chart of Accounts and for properly recording financial transactions.

AUDITING: In conformance with the City's Charter and according to the provisions of the Texas Local Government Code, Title 4, Chapter 103, The City will be audited annually by an outside independent accountants ("auditor"). The auditor must be a CPA firm of regional reputation and must demonstrate that it has the breadth and depth of staff to conduct the City's audit in accordance with generally accepted auditing standards and contractual requirements. The auditor must be registered as a partnership or corporation of certified public accountants, holding a license under Texas Occupational Code, Title 5, Chapter 90, capable of demonstrating that it has sufficient staff which will enable it to conduct the City's Charter and applicable state and federal laws. The auditor's report on the City's financial statement should be completed within 120 days of the City's fiscal year end, and the auditor will jointly review the management letter with the Council within 30 days of its receipt by staff. The goal of the external audit field work will be in late March with a goal completing by mid-June of each year.

In conjunction with the review the Director of Finance shall respond in writing to the City Manager and City Council regarding the auditor's Management Letter, addressing the issues contained therein. Council shall schedule its formal acceptance of the Auditor's Report. The auditor is retained by and is accountable directly to the City Council and will have access to direct communication with the City Council if the City Staff is unresponsive to auditor recommendations or if the auditor considers such communication necessary to fulfill its legal and professional responsibilities.

BASIS OF ACCOUNTING AND BUDGETING. The City's finances shall be accounted for in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board.

The accounts of the City are organized and operated on the basis of funds and account groups. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with the legal and managerial requirements. Account groups are a reporting

device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. Governmental funds are used to account for the government's general government activities and include the General, Special Revenue, Debt Service, and Capital Project Funds.

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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. Substantially all revenues are considered to be susceptible to accrual. Ad valorem, sales, franchise and tax revenues recorded in the General Fund, ad valorem tax revenues recorded in the Debt Service Fund and hotel/motel tax revenues in the Special Revenue Hotel/Motel Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues (except earnings on investments) are recorded as revenues when received in cash because they are generally not measurable until actual received. Investment earnings are recorded as earned since they are measurable and available. Expenditures are recognized when the related fund liability is incurred, if measurable, except for principal and interest on general long-term debt, which is recorded when due, and compensated absences, which are recorded when payable from currently available financial resources.

The City's 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.

The City's annual budgets shall be prepared and adopted on a basis consistent with the generally accepted accounting principles for all governmental and proprietary funds except the capital projects funds, which adopt project-length budgets. Depreciation of fixed assets is recognized in proprietary fund budgets. All annual appropriations lapse at fiscal year end. Under the City's budgetary process, outstanding encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities since the commitments will be re-appropriated and honored the subsequent fiscal year.

FINANCIAL REPORTING. Upon completion and acceptance of the annual audit by the City's auditors, the City shall prepare a comprehensive annual financial report (CAFR). The CAFR will be prepared annually to the Government Financial Officers Association (GFOA) for evaluation and awarding of the Certificate of Achievement for Excellence in Financial Reporting. The CAFR should be presented to the City Council within 120 calendar days of the City's fiscal year end. There will be times with new auditing standards and reporting requirements that the CAFR would be delayed. In such case, the Director of Finance will inform the City Manager and the City Manager will inform the City Council of the delay and the reasons therefore.

The Finance Department will prepare internal financial reports, sufficient to plan, monitor, and control the City's financial affairs. Internal reporting objectives are addressed throughout these policies.

III. OPERATING BUDGET

PREPARATION. Budgeting is an essential element of the financial planning, control, and evaluation process of municipal government. The City's "operating budget" is the City's annual financial operating plan. It comprises governmental and proprietary funds, special revenue funds, and the debt service fund. The City's Capital Budget includes the General Capital Project Fund which includes projects for the life of each project.

The budget is prepared by the Director of Finance with the contribution and cooperation of all City departments, and is submitted to the City Manager who makes any necessary changes and transmits the

document to the City Council. The budget should be presented to the City Council no later than forty-five (45) days prior to the fiscal year end, and should be enacted by the City Council prior to the fiscal year end. The City Council shall set the legal and required public hearings.

The budget shall include four basic segments for review and evaluation. These segments are: (1) Personnel Costs, (2) Base Budget for Operations and Maintenance Costs, (3) Decision Packages for Capital and Other Non-capital Projects (i.e., new or expanded programs), and (4) Revenues. The operating budgets are subdivided by personnel costs, consumable supplies, contract services, capital outlays and transfers. The operating budgets are presented by line-item with comparative data to two prior years of actual audited financial data. In addition, the budget is presented with current year end estimates compared to current budget with variances. There shall be supplementary documents to reconcile new operating expenses or programs to the budget.

Revenues shall be summarized and scheduled with comparative and trend analysis for presentation. The Director of Finance shall calculate and prepare a statement of probable income for the City from property taxes supporting the General Fund operating budget and to fund the next year's debt requirements. A Combined Budget Summary with scheduled Interfund transfers will be included in the budget presented to the City Council. The Fund Balances will be identified as to restricted and unrestricted.

A copy of the proposed budget shall be filed with the City Secretary when it is submitted to the City Council in accordance with the provisions of the City Charter.

BALANCED BUDGET. The operating budget should be balanced with current revenues, exclusive of beginning resources, greater than or equal to current expenditures/expenses. One-time revenue sources (i.e. Fund Balances) may be used for one-time expenditures.

PLANNING. The budget process will be coordinated so as to identify major policy issues for City Council consideration several months prior to the budget approval date so that proper decision analysis can be made. Additionally, long range planning will be performed such that revenues for the next three years will be projected and updated annually, examining their diversity and stability in conjunction with other guidelines and using an objective analytical projection process.

REPORTING. Periodic financial reports will be prepared to enable the Department Managers to manage their budgets and to enable the Director of Finance to monitor and control the budget as authorized by the City Manager.

Summary financial reports will be presented to the City Council quarterly within 30 days after the end of each quarter. Such reports will be formatted in such a way as to enable the City Council to understand the big picture budget status.

IV. REVENUE MANAGEMENT

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

SIMPLICITY. The City, where possible and without sacrificing accuracy, will strive to keep the revenue system simple in order to reduce compliance costs for the taxpayer or service recipient. A corresponding decrease in the City's costs for collection and a reduction in avoidance to pay will thus result. The City will avoid nuisance taxes or charges as revenues sources.

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.

EQUITY. The City shall require that there be a balance in the revenue system; i.e., the revenue base will have the characteristics of fairness and neutrality as it applies to cost of service, willingness to pay, and ability to pay.

ADMINISTRATION. The benefits of revenue will exceed the cost of producing the revenue. The cost of collection will be reviewed annually for cost effectiveness as a part of the indirect cost and cost of services analysis.

DIVERSIFICATION AND STABILITY. In order to protect from fluctuations in a revenue source due to fluctuations in the economy and variations in weather, a diversified revenue course will be pursued and maintained as a stable source of income. A balance between elastic and inelastic sources of revenues also achieves this stability.

CONSERVATIVE ESTIMATION OF REVENUE. In order to mitigate the effects of fluctuations in a revenue source due to fluctuations in the economy and variations in weather, all revenues will be budgeted at 95-98% of anticipated revenues with the exception of property tax and Interfund transfers. Revenue analysis is ongoing but for the budget process all sources of revenue are to be detailed and scheduled and reviewed at all levels of management.

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

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 a part of such caution.

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.

PROPERTY TAX REVENUES. All real and business personal property located within the City shall be valued at 100% of the fair market value for any given year based on the current appraisal supplied to the City by the Gonzales Central Appraisal District. Reappraisal and reassessment shall be done regularly as required by State law.

A ninety-nine percent (99%) collection rate shall serve each year as a goal for tax collections. All delinquent taxes shall be aggressively pursued with delinquents greater than 150 days being turned over to the Delinquent Tax Attorney in July of each year, and a penalty assessed to compensate the attorney as allowed by State law, and in accordance with the attorney's contract.

USER-BASED FEES. For services associated with a user fee or charge, a fee will offset the direct and indirect costs of that service where possible. There will be an annual review of fees and charges to ensure that fees provide adequate coverage of costs of services. User charges may be classified as "Full Cost Recovery," "Partial Cost Recovery," and "Minimal Cost Recovery," with the supporting tax or rate subsidy identified as where required by City Council policy.

UTILITY RATES. The City will review utility rates annually in order to determine revenue adequacy for covering operational expenditures, meet the legal restrictions of all applicable bond covenants, and provide for an adequate level of working capital needs. This policy does not preclude drawing down cash balances to finance current operations; however, it is best that any extra cash balance be used instead to finance capital projects.

Components of the Utility Rates will include a transfer to the General Fund for an administrative fee for services of general overhead, such as administration, finance, personnel and data processing. This fee will be documented annually through a cost allocation procedure or reviewed through review of rate study.

INTERGOVERNMENTAL REVENUES. The reliance placed on intergovernmental revenues will be eliminated. Any potential grants will be examined for matching requirements. These revenue sources should only be used for capital improvements that are consistent with the Capital Improvement Program.

V. EXPENDITURE CONTROL

APPROPRIATIONS. The level of budgetary control is established at the fund level. When budget adjustments among departments and/or funds necessary, they must be approved by the City Manager. When budget adjustments are required at the Fund level that would change the total budget of revenues or expenditures, then it would require City Council authorization. Budget appropriation amendments at lower levels shall be made in accordance with the applicable administrative procedures and City Charter.

CENTRAL CONTROL. The Department Director without prior authorization of the City Manager shall spend no recognized or significant salary or capital budgetary savings in any Departments.

MAINTENANCE OF CITY VENDORS. Finance Department requires a Form W-9 to be on file for each vendor the City conducts business.

PAYMENTS TO CITY COUNCIL. Each payment to a council member will be at the discretion of the mayor and council.

PURCHASING. All City purchases and contracts over \$50,000 shall conform to a competitive bidding process as set forth in Chapter 252 of the Local Government Code of Texas. Recommendations on purchases and contracts over \$50,000 shall be submitted to the Council by the City Manager for Council approval. Upon Council approval, the City shall confirm the bid award to the successful bidder by means of written City purchase order. The purchase of goods or services by the City totaling \$50,000 or more shall be awarded to the successful bidder by the formal bidding process. Telephone quotes are to be obtained for single item purchases over \$1,000 up to \$10,000. Purchases made over \$10,000 but less than \$50,000 shall require three written quotes or pricing obtained through any interlocal purchasing authority or cooperative. All purchases over \$2,500 are to be pre-approved and pre-authorized by the City Manager. No purchases shall be made from vendors that are not on the approved vendors list as maintained by the Finance Department. Purchase cards are utilized for purchasing of consumable supplies and must comply with the policies and procedures establish for use of purchase cards.

PROMPT PAYMENT. All invoices approved for payment by the proper City authorities shall be paid by the Finance Department within thirty (30) calendar days or receipt in accordance with the provisions of Texas Government Code, Title 10, Chapter 2251.

The Director of Finance shall establish and maintain proper procedures which will enable the City to take advantage of all purchase discounts, when possible, except in the instance where payments can be reasonably and legally delayed in order to maximize the City's investable cash.

RISK MANAGEMENT. The City will aggressively pursue every opportunity to provide for the Public's and City Employees' safety and to minimize the risk of loss of resources through liability claims with an emphasis on safety programs. All reasonable options will be investigated to finance risks. Such options may include risk transfer, risk avoidance, and risk retention. Where risk is retained, reserves will be established based upon actuarial determinations and not be used for purposes other than for financial losses.

VI. ASSET MANAGEMENT

INVESTMENTS. The Director of Finance shall promptly invest all City funds with the Bank Depository in accordance with the provisions of the current Bank Depository Agreement or in any negotiable instrument that the Council has authorized under the provisions of the Public Funds Investment Act of 1987, as amended, and in accordance with the City Council approved Investment Policies.

At the end of each fiscal year a report on investment performance will be provided to the City Council. In conjunction with the financial reports presented to Council, the Director of Finance shall prepare and provide a written recapitulation of the City's investment portfolio to the Council, detailing each City investment instrument with its rate of return and maturity date.

CASH MANAGEMENT. The City's cash flow will be managed to maximize the cash available to invest. Such cash management will entail the centralization of cash collections, where feasible, including property tax payments, utility bills, building and related permits and licenses, and other collection offices as appropriate.

All checks shall bear the signatures of two authorized administrative employees or one authorized administrative employee and the Mayor. If available, the Finance Department shall use a facsimile check-signing machine, bearing the signatures of two (2) authorized administrative employees one of which must be the Director of Finance. On any one check that exceeds an amount of \$1,500 or more, it shall bare the initial of an authorized check signer.

FIXED ASSETS AND INVENTORY. These assets will be reasonably safeguarded and properly accounted for, and prudently insured. A fixed asset of the City shall be defined as a purchased or otherwise acquired piece of equipment, vehicle, furniture, fixture, capital improvement, addition to existing capital investments, land or building, with the cost or value of such acquisition being \$5,000 or more with an expected life greater than one year.

Responsibility for safeguarding of the City's fixed assets lies with the Department Director in whose department the fixed asset is assigned. The Finance Department shall supervise the marking of fixed assets with City numbered property tags and shall maintain the permanent records of the City's fixed assets including description, cost, department of responsibility, date of acquisition, depreciation and expected useful life. The Finance Department shall also perform an annual inventory of assets using random sampling at the department level. The Director of Finance or his or her designee agent in the presence of designated department personnel from the department of responsibility shall perform such inventory. The Finance Department has implied rights and responsibilities to audit all fixed assets of any department of the City.

VII. CAPITAL BUDGET AND PROGRAM

PREPARATION. The City's capital budget will include all general and proprietary capital project funds and all capital resources. The budget will be prepared annually on a fiscal year basis as capital projects are undertaken. Capital Project Funds allocated for projects not completed in a single fiscal year will carry over from year to year until the project is completed.

The Budget Officer with the involvement of all required City departments will prepare the capital budget.

CONTROL. All capital project expenditures must be appropriated in the capital budget. The Finance Department must certify the availability of resources so any appropriation can be made before a capital project contract is presented to Council for approval.

PROGRAM PLANNING. The capital budget will be taken from capital improvement program plans for future years. The planning time must be at least five years. The replacement and maintenance for capital items should also be projected for the next five years. Future maintenance and operational costs will be considered so that these costs can be included in the operating budget.

FINANCING PROGRAMS. Where applicable, assessments, impact fees, pro-rata charges, or other fees should be used to fund capital projects that have primary benefit to specific, identifiable property owners.

Recognizing that long-term debt is usually a more expensive financing method, alternative-financing sources will be explored before debt is issued. When debt is issued, it will be used to acquire major assets with expected lives that equal or exceed the average life of the debt issue. The exceptions to this requirement are the traditional costs of marketing and issuing debt, capitalized labor for design and construction of capital projects, and small component parts which are attached to major equipment purchases.

INFRASTRUCTURE MAINTENANCE. The City recognizes that deferred maintenance increases future capital costs. Therefore, a portion of the General Fund and Utility Fund Budgets should be set aside each year to maintain the quality of the City's Infrastructure where deemed appropriate and within fiscal constraints.

Replacement schedules should be developed in order to anticipate this inevitable ongoing obsolescence of infrastructure.

In addition to infrastructure maintenance, the City will plan for the replacement of other assets such as vehicles and equipment by establishing replacement schedules as needed.

VIII. FINANCIAL CONDITIONS, RESERVES, AND STABILITY RATIOS

OPERATIONAL COVERAGE. The City will strive to maintain a balanced budget whereby projected current revenues will equal projected current expenditures. Reserve balances (Fund Balances) may be utilized as one-time sources that would allow revenue and expenditures to be unequal.

Deferrals, short-term loans, or one-time sources will be avoided as budget balancing techniques. Reserves will be used only for emergencies or non-recurring expenditures, except when balances can be reduced because their levels exceed guideline minimums.

OPERATING RESERVES/FUND BALANCES. The General Fund balance should be at least **15%** of the General Fund annual expenditures. This percentage is the equivalent of 55 days of expenditures (little less than 2 mos.). Debt Service Fund reserves are maintained at a level to support interest and principal payments in the event of a delay in property tax collections. The City should set aside resources to fund a reserve for years of decline and/or fund capital out of current funds for projects that would have otherwise been funded by debt funding.

The Utility Fund working capital should be maintained at a minimum of 20-25% of the total operating expenditures or the equivalent of 75 days.

LIABILITIES AND RECEIVABLES. Procedures will be taken so as to maximize discounts offered by creditors. Current liabilities will be paid within 30 days of receiving the invoice. Accounts Receivable procedures will target for a maximum of 30 days from service and collection notices will be sent out monthly on all past due accounts. The Director of Finance is authorized to write-off bad debt and uncollectable utility accounts that are delinquent for more than 360 days, if the proper delinquency procedures have been followed. The Director of Finance will put in place initiatives to facilitate collection of accounts that are in arrears. Collection services may be utilized as needed to collect on delinquent accounts as needed. The Finance

Director will report to Council on the status of all outstanding accounts and attempts to collect them at least twice each fiscal year.

IX. TREASURY AND DEBT MANAGEMENT

CASH MANAGEMENT. Periodic review of cash flow position will be performed to determine performance of cash management and investment policies. A detailed policy structure will be followed with respect to Cash/Treasury Management. The underlying theme will be that idle cash will be invested with the intent to 1) safeguard assets, 2) maintain liquidity, and 3) maximum return. Where legally permitted, pooling of investments will be done.

The City will adhere to the investments authorized through the Public Funds Investment Act of 1987, as amended, and will additionally establish comprehensive Investment Policies and Guidelines. Such policies will clarify acceptable investment securities, brokers, terms, and other pertinent investment information.

TYPES OF DEBT. Long-term debt will not be used for operating purposes, and the life of a bond will not exceed the useful life of a project financed by that bond issue.

When appropriate, and as approved by Council Policy, self-supporting revenues will pay debt service in lieu of tax revenues.

ANALYSIS OF FINANCING ALTERNATIVES. The City will explore all financing alternatives in addition to long-term debt including leasing, grants, and other aid, developer contributions, impact fees, and use of reserves of current monies. Operating capital lease finance options may be exercised to minimize budget and operating impact.

DISCLOSURE. Full disclosure 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, will aid in the production of Offering Statements, and will take responsibility for the accuracy of all financial information released.

FEDERAL REQUIREMENTS. The City will maintain procedures to comply with arbitrage rebate and other Federal requirements.

DEBT STRUCTURE. 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.

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.

DEBT ISSUANCE. It is the City's desire and preference to use a competitive bidding process in the sale of bonds. However, the City also recognizes that in some instances a negotiated bid will be of greater advantage. The decision to pursue a negotiated bid will be made by the City Council upon advice of the Financial Advisor.

DEBT LIMITS. The debt to operations component of the tax rate should not exceed 30%. This initiative is to be evaluated based on the ever changing diversity of the City's revenue sources. The Director of Finance will evaluate the debt margins of the City on annual basis and consult with the City's financial advisors for confirmation.

X. INTERNAL CONTROLS

WRITTEN PROCEDURES. Whenever possible, written procedures will be established and maintained by the Director of Finance 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.

DEPARTMENT DIRECTOR'S RESPONSIBILITY. Each Department Director is responsible to ensure 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.

XI. STAFFING AND TRAINING

ADEQUATE STAFFING. Staffing levels will be maintained at an adequate level for the fiscal functions of the City to operate effectively and shall be used only to address temporary or seasonal demands that require excessive hours. Workload shedding alternatives will be explored before adding staff.

TRAINING. The City will support the continuing education efforts of all financial staff including the investment in time and materials for maintaining a current perspective concerning financial issues. Staff will be held accountable for communicating, teaching, and sharing with other staff members all information and training materials acquired from seminars, conferences, and related education efforts.

AWARDS, CREDENTIALS, RECOGNITION. The City will support efforts and involvement that result in meeting standards and receiving exemplary recitations on behalf of the City's fiscal policies, practices, processes, products, and personnel.

The City will strive to maintain a high level of excellence in its accounting policies and practices as it prepares its CAFR. The CAFR will be presented to the Government Finance Officers Association for review of qualifications necessary to obtain the Certificate of Achievement for Excellence in Financial Reporting. Additionally, the City will submit its annual budget to GFOA for consideration for Distinguished Budget Award.