

City of Corsicana, Texas

Financial Policy



December 14, 2020

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Introduction

These financial policies are within the parameters established by applicable provisions of the Texas Local Government Code and the City of Corsicana Charter, which comply with established public management best practices.

Purpose

The purpose of financial management and budgetary policies is to provide sound guidelines in planning the City's financial future. Adherence to these policies helps ensure long-term financial stability and healthy financial position and demonstrates to the citizens that the City is committed to a strong fiscal operation.

Financial Reporting

A Comprehensive Annual Financial Report (CAFR) shall be prepared at the end of each fiscal year. The report shall be prepared in accordance with generally accepted accounting principles (GAAP) and shall include a report from an independent certified public accounting firm designated by City Council. The report shall be made available for public inspection and shall become a part of the records of the City. The results of the audit will be presented to the City Council no later than March 31 of the following year.

The Director of Finance will generate and submit to the City Manager at least quarterly a report covering the financial condition of the City. This report will compare actual revenues and expenditures to budgeted amounts for major funds. It shall include investment reporting.

Basis of Accounting

The City uses the modified accrual basis of accounting for governmental funds. Revenues, under the modified accrual basis of accounting, are recognized when susceptible to accrual, which is when they are measurable and available. Ad valorem sales and franchise taxes are accounted for using the modified accrual basis along with interest income. Most other revenues are recognized when received. Accrual basis of accounting shall be used for the Utility Operating, Sanitation and EMS Funds

Expenditures are recognized when the related fund liability is incurred, if measurable, except for principal and interest on general long-term debt, which are recorded when due.

Operating and Budgetary Policies

- A. *Budget Preparation* – The City Budget shall be prepared in accordance with all applicable Charter requirements and State laws. The goal each year shall be to present the Proposed Budget to Council on or before the first regularly scheduled meeting in August, and for the final approval of the budget to be ready for Council action no later than the second regularly scheduled meeting in September. The Budget shall be comprehensive in nature and address all operating funds of the City, including governmental funds, proprietary funds, internal service funds, and expendable trust funds.
- B. *Balanced Budget* – It shall be expected that each year the budget of each fund shall be balanced. This means that total resources available, including prior year-ending resources plus projected revenues, shall be equal to or greater than the projected expenditures for the

coming year. In a case where a deficit fund balance does occur, the goal shall be to adjust revenues and/or expenses so that the deficit is eliminated in no more than two budget years. Use of prior year-ending balances and other reserves to balance operations will be disclosed in the document with the underlying rationale.

- C. Public Hearings, Availability of Budget to Public – It shall be the policy of the City to hold the public hearing required by State law on the Proposed Budget at a duly advertised public meeting. Copies of the Proposed Budget shall be available for public inspection at any time after the initial Proposed Budget is submitted to Council.
- D. Cost Accounting and Budget – It shall be the policy of the City to allocate all direct costs and budget according to the various funds and departments to the extent practical. This includes such items as utility costs, fuel costs, vehicle lease charges, insurance fees, and other overhead costs.
- E. Franchise Fee & Overhead Fee to Enterprise Funds – It shall be budgetary policy that each enterprise fund shall pay to the General Fund a franchise fee. This charge shall be set at three percent (3.0%) of each enterprise fund's gross revenues as compensatory costs associated with maintenance of the City's streets and right-of-ways. Additionally, an administrative fee shall be levied to these funds of such an amount as to reimburse and be construed as a reimbursement payment for general administrative overhead, including management, accounting, legal and personnel services, engineering and other costs (such as road maintenance not covered by franchise fees). From an accounting perspective, such fee shall be based upon a formula that reasonably represents the costs experienced by the General Fund and shall be treated as a fund operating transfer. The City Manager may choose to forego this policy based on the cash flow of a fund.
- F. Budget Projections for Revenues and Expenditures – The City will estimate revenues and expenditures on an objective and reasonable, yet conservative basis.
- G. Maintenance of Property and Equipment – The operating budget will provide revenues sufficient for adequate maintenance and replacement of capital plants, buildings, infrastructure and equipment. Deferral of such costs on a long-term continued basis would not be an acceptable policy to use in balancing the budget.
- H. Budget Adjustments – The City Manager is authorized to make intra-departmental and inter-departmental fund transfers within a fund during the fiscal year as becomes necessary in order to avoid the over-expenditure of a particular object code or department.
- I. Budget Amendments – Amendments will be made as needed, or on a semi-annual or annual basis for internal monitoring purposes and to aid the management and Council in financial planning.
- J. Investments – Investments shall be managed in accordance with the Investment Policy. Investments shall comply with federal, state and local laws.
- K. Cash Management – The City's cash flow will be managed to maximize the cash available to invest.
- L. Fixed Assets – The City shall be managed with the City's Capitalization policy.
- M. Appraisal Procedures – The City will use due caution in the analysis of any incentives that are used to encourage development. The City will periodically review the tax abatement policy and perform routine audits on companies receiving tax abatements to verify compliance with conditions of the abatement.

- N. Depositories – The City Council, having given due consideration to all of its options and taking into consideration the best interest of the municipality, hereby authorized the consideration of applications and depositories not doing business within the City of Corsicana, Texas so long as that bank maintains a business location within the state of Texas.
- O. Purchasing – All purchases should be in accordance with the City's purchasing policies as defined in the Purchasing Manual.
- P. Prompt Payments – All invoices approved for payment by the proper City authority shall be paid by the Finance Department within thirty (30) calendar days of receipt in accordance with the State of Texas Civil Statutes.

Minimum Fund Balance and Sinking Funds

The City will establish and maintain a level of financial resources and reserves to meet future planning obligations and unplanned contingencies; and protect against reducing service levels or raising taxes and fees because of temporary shortfalls or unpredicted one-time expenditures. The City should establish reserves for replacement of facilities and equipment.

- A. Minimum Fund Balances – It shall be the long-term goal of the City to maintain a fund balance in the General Fund equal to twenty-five (25.0%) of the operating budget. The City will appropriate at least \$100,000 or one percent (1.0%) of each year's General Fund operating budget to a fund balance until the identified goal is met.

For enterprise funds, the goal shall be to attain a working capital position equal to twenty-five percent (25.0%) of the operating budget while maintaining a minimum working capital position of no less than seven percent (7.0%) of the annual operating budget appropriation. The City will allocate one percent (1.0%) of each year's budget operating budget appropriation in each enterprise fund toward the working capital position until the identified goal is met. Additionally, the Sanitation System Fund shall set aside a reserve appropriation of its estimated landfill closure costs annually to a budgetary reserve account until reserved funds are set aside and reserved to the extent of ten percent (10.0%) of the estimated landfill closure costs.

In order to alleviate the potential for undue hardship during austere times when such reserve appropriation(s) would cause unjustified hardship to municipal operations, the requirement for a budgetary reserve may be suspended.

- B. Revenue Bond Reserve Account – It shall be the policy of the City to always be in compliance with the requirements of all ordinances creating the Revenue Bond Reserve Account(s). If revenue bond reserve is not capitalized as part of a bond issue, the City will allocate such reserves over the sixty (60) months made available in its bond covenants to build the reserve to the required balance.
- C. Revenue Bond Debt Service Accounts – It shall be the policy of the City to always comply with the requirements of all ordinances creating the Revenue Bond Debt Service Account(s). Monthly transfers are to be made to these account each year in accordance with the bond ordinance. There should be sufficient funds in the account(s) to meet the total principal and interest payments.
- D. General Obligation Bond Debt Service Account – It shall be the policy of the City to always be in strict compliance with the requirements of the ordinances creating the General Obligation Bond Debt Service Account. Taxes shall be distributed to this account monthly

as received. The balance in the account must be adequate to cover semi-annual payments when due. There should be sufficient funds in the account to meet the total semiannual principal and interest payments when due.

- E. Arbitrage Rebate Reserves – The City is required under the Tax Reform Act of 1986 to perform annual arbitrage calculations and to rebate excess earnings to the United States Treasury resulting from investment earnings on tax-exempt bonds issued after the effective date of the 1986 law. The City shall create an account, when needed, to segregate and reserve rebate obligations as required by law.

Long Term Debt Policies

- A. Disclosure and Bond Ratings – The City shall maintain good communications with the major bond rating agencies concerning the City's financial condition and shall follow a policy of full disclosure in every financial report and official bond statement. The City will maintain sound fiscal management practices to preserve and improve current bond ratings.
- B. Capital Improvement Plan – Major capital improvements will normally be funded through the issuance of long-term debt, as opposed to being funded via appropriations in the operating budget. Each year there will be an effort to include some capital items needed by operating funds out of operating revenues. The City shall utilize the most beneficial method of financing capital projects.

C. Debt Policies

1. The City will limit long-term debt to only those capital projects that cannot be financed from current revenues.
2. The City will not use long-term debt to finance recurring maintenance and operating costs.
3. The City will not issue long-term debt for a period longer than the estimated useful life of a) the capital project funded by the debt, or b) the life of the capital equipment being financed.
4. The City will seek to minimize the maturity of long-term debt, qualified by the objectives of the long-term debt plan and the financial abilities of the City.
5. The general policy of the City shall be to sell bonds on the basis of competitive bids for new money issues and in accordance with applicable laws and regulations.
6. Coverage requirements are defined as the amount of system net revenue available to pay average annual debt service. Bond coverage requirements shall be no less than 1.25 times the current debt service.
7. The City shall exhibit a willingness to raise the revenue to fully fund the debt necessary to implement the adopted capital improvement plan and to maintain the City's bond rating.

Revenue Policies

- A. Water and Wastewater Rates and Other Fees for Services – Water and wastewater fees shall be set so that water and sewer revenue will pay for expenses of the Utility Operating Fund. It is the policy of the City that the Utility Operating Fund and other enterprise funds not be subsidized by property tax revenue. Water and sewer rates shall be comprised of a

fixed and variable portion. Emphasis will be made to not place undue reliance on the variable portion of the rate structure.

- B. Interest Income – Interest income shall be distributed on an equitable basis to the funds/ accounts from which the principal was invested. Exceptions to this general policy are:
 - 1. Interest earned on General Obligation Capital Projects Fund may accrue to the General Obligation Debt Service Fund;
 - 2. Interest earned on the Revenue Bond Reserve Accounts, Revenue Bond Debt Service and Revenue Bond Operating Accounts may accrue to the Utility Operating Fund and Sanitation Fund, respectively.
- C. Budgeting for Revenues – The City will review and revise annually all user charges, licenses and fees. The goal shall be that such charges shall be related to the cost of providing the service. To the extent possible, such user charges shall pay for the cost of the service and be charged to those who most directly benefit from the service. Budgeted revenues shall be based upon historical information and other forecasting methods for revenue projections.
- D. Use of Fund Balance – The City may utilize excess fund balance for capital expenditures or for non-recurring expenditures.
- E. Collection of Charges – The City will follow a policy of collecting, on a timely basis, all fees, charges, taxes and other revenue properly due to the City. The City will follow an aggressive policy of collecting all delinquencies due to the City.

Internal Controls

Written procedures, wherever possible, will be established and maintained by the Director of Finance for all functions involving cash handling and/or accounting throughout the City. Each department manager is responsible to ensure that good internal controls are followed throughout the department, that all Finance Department directives or internal controls are implemented and that all independent auditor internal control recommendations are addressed.

Policy Revision/Updates:

December 17, 2018, Resolution #4109

December 9, 2019, Resolution #4189

December 14, 2020, Resolution #4283

Connie Standridge, City Manager