
I. PURPOSE

To define the City of Midlothian's standardized financial policies and provide basic guidelines for their administration.

II. POLICIES

A. OPERATING BUDGETS

1. At the end of each fiscal year, undesignated fund balances or reserves in the General Fund operating fund shall be at least twenty-five percent (25%) of fund operating expenditures (excluding non-recurring expenditures), or ninety (90) days of total fund operating expenditures for the same fiscal year.
2. The Proprietary Fund (Utility Fund) shall maintain at least sixty (60) days of working capital.
3. Annual estimates of revenue in both the General Fund and Proprietary Fund shall be based on historical trends and a reasonable expectation of growth. A conservative approach shall be observed in estimating revenues in an effort that revenues not be overstated.
4. The adoption of a balanced budget, where current resources (current revenues plus undesignated fund balances) shall be required. Current resources will equal or exceed current expenditures for each individual fund.
5. The City should endeavor to maintain a diversified and stable revenue base in order to prevent overall revenue shortfalls as a result of periodic fluctuations in any one revenue source.
6. The City shall use non-recurring resources and fund balances to fund non-recurring expenditures. Only recurring revenues shall be used to fund recurring expenditures.
7. User charges and rates shall be established at a level related to the cost of providing the services. These charges and rates shall be reviewed periodically in order to determine the appropriate level of funding anticipated to support the various related activities.
8. Rates and fees for water and sewer enterprise activities shall be maintained at levels sufficient to ensure that annual revenues will be available to pay all

direct and indirect costs of the enterprise activities, including costs of operation, capital improvements, maintenance, and principal and interest requirements on outstanding debt, and interest and sinking fund and reserve fund requirements.

9. Provision shall be made in the annual operating budgets and in the appropriation ordinance for a contingency appropriation, to be used in the case of unforeseen items of expenditures. Appropriations for a contingency shall not be more than seven (7) percent of operating fund expenditures. Expenditures from this appropriation shall be made only in case of established emergencies, as authorized by the City Council.
10. The City Council shall not appropriate funds for any new programs or projects without a complete evaluation of current and future cost.
11. City services shall be reviewed annually in order to identify appropriate budget funding necessary for the City to perform in a professional and business-like manner.
12. Annual fixed-dollar budgets are adopted for the General Fund, Utility Fund, 4A, 4B, Conference Center and Senior Citizen Center for the period beginning October 1 and ending September 30 of the following year.
13. All budget appropriations (except for non-appropriated funds) lapse at fiscal year-end (September 30). Any encumbered appropriations shall be reappropriated by the City Manager in the ensuing fiscal year. Such reappropriations shall be subsequently adopted by ordinance by the City Council.
14. The City Manager is authorized to transfer budgeted amounts between departments within any fund. Any revisions that alter the total appropriations of any fund must be approved by the City Council.
15. The City Council shall approve:
 - a) Transfers of available appropriations of expenditures between funds
 - b) Any budget modifications resulting in a net increase in appropriations
 - c) The use of contingency funds
16. Budgets of the Utility Fund (Water and Sewer) shall be self-supporting (i.e., current revenues will equal or exceed current expenditures, excluding depreciation.)

B. CAPITAL EXPENDITURES

Capital expenditures may be classified into two categories. The first category consists of routine capital expenditures included within departmental operating budgets (CEP). The second category is comprised of major capital improvements funded through the issuance of debt (CIP).

1. Routine Capital Expenditures – Funded Through Operating Budgets

- a. Routine capital expenditures shall be included in departmental operating budgets to fund the purchase of new assets or the replacement/upgrade of existing assets. This category includes purchases of vehicles, equipment, machinery, information technology hardware & software, office equipment, furniture, building renovation and construction, water meters, manhole rehabilitation, water/wastewater line rehabilitation, etc.
- c. Capital expenditures shall be for the purchase of new or replacement equipment that exceed \$5,000 and have a useful life of greater than one year.

2. Capital Improvement Program (CIP) – Funded Through Debt Issuance

The Capital Improvement Program funds capital projects through the proceeds from bond issues, interest income, developer contributions and capital recovery fees (impact fees).

- a. Budgets shall be project based rather than fiscal-year based as projects routinely extend beyond fiscal years.
- b. Budget shall remain in effect until the project is complete.
- c. Upon completion of the project(s) for which the bond proceeds were issued, the corresponding capital project is closed. Excess funds remaining in the capital project budget shall be transferred to the debt service fund for the retirement of debt issued to fund the project or applied to additional capital projects authorized by the bond covenants.
- d. Debt issued for street projects or facilities shall be paid through the ad valorem tax rate and other applicable resources. Water and wastewater capital improvements shall be funded through user charges.

C. DEBT MANAGEMENT – (see separate policy for more detailed information)

1. Long-term debt shall not be incurred to finance current operations. Short-term debt may be used to fund purchases of machinery, equipment and vehicles.
2. When any debt is issued to finance capital improvements, the City shall retire the debt within a period not to exceed the expected useful life of the projects or improvements being financed.

D. FINANCIAL REPORTING

1. An annual independent financial audit shall be performed by a properly licensed independent public accounting firm, and results of this audit will be presented to the City Council.
2. The City will issue requests for proposal to choose an auditor for a period not to exceed five years, unless otherwise approved by the City Council.
3. Timely interim financial reports will be produced for department managers for internal purposes. Financial statements shall be prepared and submitted to the City Council on at least a quarterly basis.

E. PURCHASING – (see separate policy for more detailed information)

1. The Director of Finance shall be responsible for maintaining written purchasing procedures. These administrative procedures must be approved by the City Manager and adopted by City Council.
2. Lease purchase agreements shall only be used to finance capital items with a useful life of at least three years.
3. Preference may be given to local businesses if the purchase meets Texas Local Government Code Statutes. All purchases must adhere to the guidelines outlined in the Purchasing Policy Manual.
4. The City will enter into inter-local agreements, when advantageous to the City, with entities such as the State of Texas Procurement and Supply Services (TPASS), Houston Galveston Area Council (HGAC), Ellis County, Tarrant County, and the Best Southwest Purchasing Cooperative (BSPC).

F. CASH AND INVESTMENTS

1. The City will enter into a depository agreement with one or more banks for a specified period of time and specified fees for banking services. The term

of each depository agreement shall not exceed five years, and must be approved by the City Council.

2. The City's first and foremost investment objective shall be safety of principal. To meet this objective, the city will seek to obtain a competitive, or market rate-of-return on investments, consistent with the City's investment policy.

G. GENERAL POLICIES

1. The City will evaluate privatization of services which will either maintain or improve the existing quality of services, while at the same time minimizing the cost of the service to the public. An example of service to evaluate for privatization is solid waste collection.
2. The city will cautiously evaluate the granting of tax exemptions and / or abatements, which shift tax burdens, and may also eventually raise the overall tax rate.
3. Delinquent EMS charges that have been deemed uncollectible are written off and reconciled monthly in strict accordance with policies previously established and adopted by the City Council under Agenda Item 2005-373. In part, these policies give the Finance Director administrative authority to waive balances and charges for all EMS patients living within the city limits and Emergency Service District in excess of payments received from the patient's insurance provider. Or in the event an In-District patient does not have insurance the entire balance is deemed uncollectible and written off.
4. Delinquent accounts receivables (including but not limited to out of district EMS, water/sewer and municipal court) that have an outstanding balance of three years or more and have been processed by a collection agency shall be written off when deemed uncollectible by the collection agency and the Finance Director. Although the accounts will be written off on the books and financial statements; these records will be retained in the various billing software applications for possible collection subsequent to the write off date. At fiscal year end the city will estimate an allowance for uncollectible accounts which will be recorded for financial reporting purposes.

III. DEFINITIONS

APPROPRIATION - An authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes. An appropriation is limited by the time it may be expended.

BALANCED BUDGET - A budget adopted by the legislative body and authorized by ordinance where the proposed expenditures are equal to or less than the proposed revenues.

CAPITAL EQUIPMENT - Equipment purchases that exceed \$5,000 and have a useful life of greater than one year.

FUND - An accounting entity that has a set of self-balancing accounts and that records all financial transactions for specific activities or government functions. Eight commonly used funds in public accounting are: general fund, special revenue funds, debt service funds, capital project funds, enterprise funds, trust and agency funds, internal service funds, and special assessment funds.

FUND BALANCE - The excess of assets over liabilities.

GENERAL FUND (GF) - Fund that accounts for most of the financial resources of the government. General Fund revenues include property taxes, licenses and permits, local taxes, service charges and other types of revenue. This fund usually includes most of the basic operating services, such as fire and police protection, finance, data processing, park and recreation, libraries, public works, and general administration.

PROPRIETARY FUND TYPES - Sometimes referred to as income determination or commercial-type funds, the classification used to account for a government's ongoing organizations and activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses and transfers relating to the government's business and quasi-business activities are accounted for through proprietary funds. The GAAP uses are generally those applicable to similar businesses in the private sector and the measurement focus is on determination of net income, financial position and changes in financial position. Where GASB has issued pronouncements applicable to those entities and activities, they should be guided by these pronouncements.

IV. APPROVALS:



Chris Dick, CPA, Finance Director



Don Hastings, City Manager