

CITY OF SUGAR LAND

FINANCIAL MANAGEMENT POLICY STATEMENTS

- I. ***Accounting, Auditing and Financial/Fiscal Reporting and Monitoring:*** Maintain accounting practices that conform to generally accepted accounting principles and comply with prevailing federal, state, and local statutes and regulations. Prepare and present regular reports that analyze and evaluate the City's financial performance and economic condition.
- II. ***Financial Consultants:*** The City will employ the assistance of qualified financial advisors and consultants as needed in the administration and management of the City's financial functions. These areas include but are not limited to audit services, debt administration, delinquent tax collections, and financial modeling. The principal factors in the selection of these consultants will be experience/expertise, ability to perform the services, references, and methodology, to name a few. In no case should price be allowed to serve as the sole criterion for the selection.
- III. ***Budget and Long Range Financial Planning:*** Establish guidelines for budgeting to help ensure a financially sound City and establish a long-range financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets.
- IV. ***Revenues:*** Design, maintain and administer a revenue stream that will assure reliable, equitable, diversified and sufficient revenue streams to support desired City services.
- V. ***Expenditures (non-capital)*** Identify and set priorities for services; establish appropriate service levels and administer the expenditure of available resources to help ensure fiscal stability and the effective and efficient delivery of services.
- VI. ***Fund Balance/Ending Balances:*** Maintain the fund balance and retained earnings of the various operating funds at levels sufficient to protect the City's creditworthiness as well as its financial position during emergencies.
- VII. ***Capital Expenditures and Improvements:*** Annually review and monitor the state of the City's capital equipment and infrastructure, setting priorities for its replacement and renovation based on needs, funding alternatives, and availability of resources.
- VIII. ***Debt:*** Establish guidelines for debt financing that will provide needed facilities, land, capital equipment and infrastructure improvements while minimizing the impact of debt payments on current revenues as well as minimize reliance on debt.
- IX. ***Cash Management/Investments:*** Invest the City's operating cash to ensure its absolute safety of principal, provide for the necessary liquidity needs of the City, and to optimize yield.
- X. ***Grants:*** Seek, apply for and effectively administer federal, state and local grants, which support the City's current priorities and policy objectives.

I. ACCOUNTING, AUDITING AND FINANCIAL REPORTING

Maintain accounting practices that conform to generally accepted accounting principles and comply with prevailing federal, state, and local statutes and regulations. Prepare and present regular reports that analyze and evaluate the City's financial performance and economic condition.

A. *Accounting Practices and Principles*

The City will maintain accounting practices that conform to generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB), the authoritative standard setting body for units of local government. All city financial documents, except monthly interim financial reports, including official statements accompanying debt issues, Comprehensive Annual Financial Reports and continuing disclosure statements will meet standards. Monthly interim financial reports are on a cash basis and will be reported as budgeted. At year-end the general ledger and financials will be converted to GAAP and GASB.

B. *Financial and Management Reports*

1. Interim Financial Reports will be provided monthly to management and City Council that explain key economic and fiscal developments and note significant deviations from the budget. (CIP reporting under Capital Improvements) These reports will be reviewed monthly with the City Manager and provided to City Council by the end of each month for the prior month.
2. Quarterly reports on the status of the City's Strategic Projects will be provided to the City Manager and made available to the City Council. The reports will include project scope and work plan as well as comment on noteworthy activity.
3. Quarterly, departments will report on program measures and/or indicators as compared to target and last year to Finance. Reporting to City Management will be on an exception basis.

C. *Annual Audit*

Pursuant to State Statute, the City shall have its records and accounts audited annually and shall have an annual financial statement prepared based on the audit. The audit shall be performed by a certified public accounting (CPA) firm, licensed to practice in the State of Texas. The annual financial statement, including the auditor's opinion, shall be filed within 120 days after the last day of the City's fiscal year. The audit firm shall provide a management letter to the City prior to the filing of the audit. The audit firm shall also provide a Single Audit of Federal and State grants, when necessary. An official Comprehensive Annual Financial Report (CAFR) shall be issued no later than six (6) months following the end of the fiscal year. The Chief Financial Officer (or equivalent) shall be responsible for establishing a process to ensure timely resolution of audit recommendations.

D. *Finance/Audit Committee*

The City Council shall designate a Finance/Audit Committee. The role of the committee is to review and guide financial policy and strategic financial issues as needed and determined by the City Manager or City Council. The Finance/Audit Committee will also serve as the audit committee. The Finance/Audit Committee responsibilities related to the audit will include but not be limited to:

1. Overview of the planning and timeline of the audit and risk assessment.
2. Final audit review, results, findings, management letter as well as major audit adjustments.
3. Meet as soon as practical and appropriate after final audit review to assess the status of issues addressed in the management letter, if warranted.

4. Meet during the course of the audit regarding any major issues/concerns/findings that may arise.
- E. *Annual Financial Disclosure*
As required by the Securities and Exchange Commission (SEC) Rule 15c2-12, the City, with support of the City's financial advisor, will provide certain annual financial information to various information repositories through disclosure documents or set of documents that include the necessary information. This will include any periodic material event notices as required by the SEC.
- F. *Signature of Checks*
All City checks shall have two signatures. Three persons shall be authorized to sign checks: the City Manager, the Chief Financial Officer (or equivalent), and the Chief Accountant. Signatures shall be affixed on all City checks via facsimile signatures, either with a signature plate used with a check-signing machine or with a secure laser check printing system. Component units check signers are officers elected by the board. Component unit's checks shall also have two signatures.
- G. *Compliance with Council Policy Statements*
The Financial Management Policy Statements will be reviewed bi-annually and updated, revised or refined as deemed necessary. Policy statements adopted by City Council are guidelines, and occasionally exceptions may be appropriate and required. Exceptions to stated policies will be specifically identified and the need for the exception will be documented and explained to City Council and/or the City Manager.

II. FINANCIAL CONSULTANTS

The City will employ qualified financial advisors and consultants as needed in the administration and management of the City's financial functions. These areas include but are not limited to audit services, debt administration, delinquent tax collection attorney, and financial modeling. The principal factors in the selection of these consultants will be experience/expertise, ability to perform, the services offered, references, and methodology to name a few. In no case should price be allowed to serve as the sole criterion for the selection.

- A. *Selection of Auditors*
1. At least every five years, the City shall request proposals from qualified firms, including the current auditors if their past performance has been satisfactory. The City Council shall select an independent firm of certified public accountants to perform an annual audit of the accounts and records, and render an opinion on the financial statements of the City.
 2. It is the City's preference to rotate auditor firms every five years to ensure that the City's financial statements are reviewed and audited with an objective, impartial, and unbiased point of view. The rotation of the audit firm will be based upon the proposals received, the qualifications of the firm, and the firm's ability to perform a quality audit.

However, if through the proposal and review process, management and the Finance Committee select the current audit firm, then, it is the City's preference that the lead audit partner be rotated as well as the lead reviewer after a maximum of five years.
 3. Annually, the independent auditor will provide a letter of engagement to the City Council for annual audit services.

B. *Arbitrage*

1. The City shall calculate positive/negative arbitrage on each bond issue annually. While the City is responsible to ensure that the records are in order, the calculations made, reporting completed, and filings made, the actual arbitrage calculation and reporting shall be contracted out to a qualified firm.
2. Requests for proposals and statement of qualifications are to be solicited at least every five-years. There is not a requirement for rotation.

C. *Delinquent Tax Collection Attorney*

1. Due to the nature and expertise required, the City shall hire a delinquent tax collection attorney to collect delinquent taxes, represent the City in filing bankruptcy claims, foreclose on real property, seize personal property, and represent the City in court cases and property sales.
2. Requests for proposals and statements of qualifications are to be solicited at least every five-years. There is not a requirement for rotation.

D. *Bond Counsel*

1. Bond Counsel to the City has the role of an independent expert who provides an objective legal opinion concerning the issuance and sale of bonds and other debt instruments. As bond counsel are specialized attorneys who have developed necessary expertise in a broad range of practice areas, the City will always use a consultant for these services. Generally, bonds are not marketable without an opinion of nationally recognized bond counsel stating that the bonds are valid and binding obligations stating the sources of payment and security for the bonds and that the bonds are exempt from State and Federal income taxes.
2. Due to the complexity of the City's financial structure and the benefits that come with the history and knowledge of the City, the contract with Bond Counsel shall be considered evergreen, however with a termination clause.
3. In order to ensure that the City is still receiving services for fair market value, staff will conduct a survey every five years of bond counsel fees and present a comparison and analysis to the City Manager and Finance/Audit Committee.

E. *Financial Advisory Services*

1. The City issues various types of securities to finance its capital improvement program. Debt structuring and issuance requires a comprehensive list of services associated with municipal transactions, including but not limited to: method of sale; analysis of market conditions; size and structure of the issue; preparation of disclosure documents; coordinating rating agency relations; evaluation of and advice on the pricing of securities; assisting with closing and debt management; calculating debt service schedules; and advising on financial management. As financial advisors to governmental entities have developed the necessary expertise in a broad range of services, the City will use a consultant for these services, until such time that the City wishes to bring these services in-house.
2. Due to the complexity of the City's financial structure and the benefits that come with the history and knowledge of the City, the contract with the Financial Advisor shall be considered evergreen, however with a termination clause.

3. In order to ensure that the City is still receiving services for fair market value, staff will conduct a survey every five years of Financial Advisory fees and present a comparison and analysis to the City Manager and Finance/Audit Committee.

F. *Depository Bank*

1. Pursuant to State law, the City of Sugar Land may approve a depository services contract whose term does not exceed five years. There is no requirement for rotation. The City of Sugar Land will select its official banking institution through a formal process based on best value in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available.

III. BUDGET AND LONG RANGE FINANCIAL PLANNING

Establish guidelines for budgeting to ensure a financially sound City and to establish a long-range financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets.

A. *Balanced Budget*

The City Manager shall file annually, a structurally balanced budget for the ensuing fiscal year with City Council pursuant to the prevailing state and local law. A structurally balanced budget is further defined as recurring revenues funding recurring expenditures and adherence to fund balance policies. Deferrals, short-term loans, or one-time sources will be avoided as budget balancing techniques.

B. *Current Funding Basis (Recurring Revenues)*

The City shall budget and operate on a current funding basis. Expenditures shall be budgeted and controlled so as not to exceed current revenues. Recurring expenses will be funded exclusively with recurring revenue sources to facilitate operations on a current funding basis.

C. *Use of Non-Recurring Revenues*

Non-recurring revenue sources, such as a one-time revenue remittance or fund balance in excess of policy can only be budgeted/used to fund non-recurring expenditures, such as capital purchases or capital improvement projects. This will ensure that recurring expenditures are not funded by non-recurring sources.

D. *Tax Rate*

The City Manager will recommend a tax rate that the City finances require in order to operate efficiently, yet effectively and pay its debt. As long as the economy allows, our expectation is to maintain the tax rate at \$.30.

E. *Homestead Exemption*

Annually the City Manager shall review the homestead exemption. When the financial health of the City's finances and the economic and market conditions of the local economy justify, the City Manager shall recommend an increase to the homestead exemption to minimize the impact of revaluation on homeowners. In accordance with state statute, a recommended change in the homestead exemption shall be presented to Council for approval prior to July 1. The total exemption percentage granted shall not exceed the state limitation, 20%.

- E. *Over-Age Exemptions and Disabled Persons Exemption*
The City shall grant a \$70,000 over-age exemption and disabled persons exemption each year when economic and financial conditions allow. This amount shall remain stable during the period in which the City is considering adjusting the homestead exemption.
- If a tax freeze were ever implemented for over-age and disabled persons, these exemptions would be reduced to zero.
- F. *Sales Tax*
Sales tax used to fund recurring operations shall be capped at 55%. As sales tax revenue fluctuates due to changes in economic conditions, the City shall endeavor through long-term strategies to reduce its reliance on sales tax revenues for funding recurring operating expenditures. The goal is to maintain sales tax for operations at 50% or less.
- G. *Sales Tax from Incentive Grant Agreements*
1. Sales tax revenues generated from incentive grant agreements will not be used to fund recurring operating expenditures but rather non-recurring capital purchases, economic development projects or capital improvement projects.
 2. As the economic development sales tax is intended for use to promote economic development activities, the City shall strive to fund incentive agreements from economic development sales tax first, then from general fund sales taxes.
 3. The portion of the City's sales tax adopted for property tax reduction shall not be included in the calculation of incentive grants.
- H. *Sales Tax Transfer for Pay-As-You-Go Capital Projects*
To ensure that the City does not become overly reliant on sales tax revenues for operating needs, a transfer from General Fund sales tax to fund pay-as-you-go capital projects will be budgeted at a minimum of 10% of the annual General Fund budgeted sales tax, when it is financially feasible. The long-term goal is to adequately fund rehabilitation.
- I. *Water/Wastewater Transfer for Pay-As-You-Go Capital Projects*
The transfer from the City's Utility Fund to fund pay-as-you-go capital projects will be budgeted at a minimum of \$2,000,000, when financially feasible. It will be based on the financial health of the Utility Fund with the long-term goal of adequately funding rehabilitation.
- J. *Revenue Estimating for Budgeting*
1. In order to protect the City from revenue shortfalls and to maintain a stable level of services, the City shall use a conservative, objective, and analytical approach when preparing revenue estimates. The process shall include analysis of probable economic changes and their impacts on revenues, historical collection rates, and trends. This approach should reduce the likelihood of actual revenues falling short of budget estimates and should avoid mid-year service changes.
 2. The Utility Fund water and wastewater revenues will be budgeted based on the average rainfall/consumption over the last three years. The City will anticipate neither drought nor wet conditions.

K. *Performance and Merit Pool-*

The budget shall include an amount adequate to cover an overall average performance and merit increase as determined annually by the City Manager. This amount will be calculated for each department, based on budgeted salaries for the year, and will be placed in the appropriate budget accounts.

L. *Budget Management*

The City Council shall delegate authority to the City Manager in managing the budget after it is formally adopted by City Council, including the transfer of funds within program, between programs, and between departments. The City Manager may further delegate levels of authority for the daily operation of the budget.

M. *Amended Budget*

In order to preserve projected fund balances/ ending balances based on projected revenues and expenditures for the current fiscal year, City Council will amend the annual budget for all funds, excluding capital improvements funds, as set forth in the projections. City Council will amend the current fiscal year budget annually during the budget process.

N. *Operating Deficits*

The City shall take immediate corrective actions if at any time during the fiscal year expenditure and revenue re-estimates are such that an operating deficit is projected at year-end. Corrective actions in order of precedence are:

- Reduce transfers to the Capital Improvement Fund for pay-as-you-go CIP.
- Deferral of capital purchases
- Expenditure reductions
- Hiring freezes
- Freeze merit increases
- Use of fund balance, including Replacement Fund balances.
- Increase fees
- Lay-off employees

Short-term loans shall be avoided to balance the budget.

The use of fund balance, which is a one-time revenue source, may be used to fund an annual operating deficit, only with a subsequent approval of a plan to replenish the fund balance if it is brought down below policy level.

O. *Five-year Forecast of Revenues and Expenditures*

A five-year forecast of revenues and expenditures shall be prepared in conjunction with the annual budget process for the following funds:

- General Fund
- Debt Service Fund
- Tourism Fund
- Water/Wastewater Utility Enterprise Fund
- Airport Enterprise Fund
- Economic Development Corporations
(Five-Year Capital Improvement Program addressed in Capital Expenditures and Improvements)

The forecast assesses long-term financial implications of current and proposed policies, programs, and assumptions that develop appropriate strategies to achieve the City's goals. The forecast will provide

an understanding of available funding; evaluate financial risk; assess the likelihood that services can be sustained; assess the level at which capital investment can be made; identify future commitments and resource demands; and identify the key variables that may cause change in the level of revenue.

IV. REVENUES

Design, maintain and administer a revenue system that will assure reliable, equitable, diversified and sufficient revenue stream to support desired City services.

A. *Balance and Diversification in Revenue Sources*

The City shall strive to maintain a balanced and diversified revenue system to protect the City from fluctuations in any one source due to changes in local economic conditions, which may adversely impact that source.

B. *User Fees – General Fund (See User Fee Philosophy/Policy)*

1. For services that benefit specific users, the City shall establish and collect fees to recover the costs of those services. Where services provide a general public benefit, the City shall subsidize those services through property and sales taxes.
2. Costs of Services are defined as full-cost; direct, indirect, and overhead.
3. Factors in setting of fees shall include but not be limited to: market and competitive pricing, effect on demand for services, and impact on users, which may result in recovering something less than full cost.

C. *User Fees – Enterprise Funds*

1. Utility rates and other Enterprise Fund user fees shall be set at levels sufficient to cover operating expenditures (direct and indirect), meet debt obligations and debt service coverage, provide pay-as-you-go funding for capital improvements, and provide adequate levels of working capital.
2. The City shall seek to eliminate all forms of subsidization to Enterprise Funds from the General Fund.
3. The Five-Year Financial Plan shall serve as the basis for rate increase considerations.
4. If necessary, the Five-Year Financial Plan shall be built around smaller rate increases annually versus higher rate increases periodically.

D. *Administrative Services Charges*

The City shall determine annually the administrative services charges due to the General Fund from the Enterprise Funds for overhead and staff support.

E. *Utility Transfer to the Debt Service Fund for Assumed Water/Wastewater Debt*

1. The Utility Enterprise Fund shall transfer to the Debt Service fund an amount/percent calculated annually for water/wastewater infrastructure debt assumed by the City due to annexation and dissolution of municipal utility districts. The goal is have water/wastewater debt funded by water/wastewater revenues as much as possible within the financial resources of the Utility Enterprise Fund. The City's intent is to fund a transfer amount that equates to 80% of the annual debt service requirements for water/wastewater debt in the Debt Service Fund.

2. If the City should assume additional debt from municipal utility districts in the Debt Service Fund, the annual transfer for water/wastewater infrastructure debt will be reviewed and recalculated, if necessary.

F. *Surface Water Funding*

As the annual debt service requirements for assumed water/wastewater debt decline, the Utility Fund shall set aside the difference between the maximum dollar transfer to the Debt Service Fund and the 80% funding needed to support assumed water/wastewater debt in each year. These funds will be set aside for the City's surface water needs.

G. *Airport Property Taxes*

Property taxes collected on taxable property at the Airport will be transferred to the Airport Enterprise Fund to use for operations and development. This will ensure that users paying the property tax will see a direct benefit to the Airport.

H. *Sales Tax Revenue Collections*

1. Monthly, the Economic Development Corporations will be allocated their percentage of the actual monthly sales tax remittances.
2. Of the remaining monthly amount available to the City, funds will be allocated first to General Fund operations, based upon the budgeted sales tax for operations, to ensure operating expenditures are funded. Any remaining funds, up to 100% of the total monthly budget, will be transferred to the Capital Improvement Fund.
3. Each month the City will ensure that the cumulative sales tax for operations is met and will appropriately adjust the transfer to the Capital Improvement Fund as necessary.
4. Actual sales tax revenue received above the amount budgeted on an annual basis and over the fund balance policy will only be used to fund non-recurring expenses or be transferred to the Capital Improvement Fund for pay-as-you-go capital improvement projects.

I. *Sales Tax Revenues from Sale of Aircraft*

Sales/Use tax remitted to the City that is determined to be from the sale/purchase of aircraft at the City's Airport will be transferred to the Airport Fund, excluding the percent allocated to the Economic Development Corporations. The proceeds that are allocated to the Economic Development Corporations will be identified as potential funding for Airport projects that legally meet the requirements of the Corporations.

J. *Water/Wastewater Revenue Billings*

1. The first dollars billed will be allocated to Utility operations based on the monthly water/wastewater revenue budget for operations. .
2. Each month the City will ensure that the cumulative billings for operations are met and will appropriately adjust the transfer to the Utility Capital Improvement Fund as necessary.
3. Actual water/wastewater billings above the amount budgeted for water/wastewater revenue and over policy requirements, on an annual basis will only be used to fund non-recurring expenses or be transferred to the Utility Capital Improvement Fund for pay-as-you go capital improvement projects.

L. *Revenue Collections*

The City shall maintain high collection rates for all revenues by monitoring monthly receivables. The City shall follow an aggressive, consistent, yet reasonable approach to collecting revenues to the fullest extent allowed by law for all delinquent taxpayers and others overdue in payments to the City.

M. *Write-off of Un-collectible Receivables (excludes court fines and warrants)*

3. Receivables shall be considered for write-off as follows:
 - a. Undeliverable mail – accounts that remain outstanding for 6 months and all steps have been exhausted
 - b. State Statute authorizing the release or extinguishment, in whole or in part, of any indebtedness, liability, or obligation, if applicable
 - c. Accounts outstanding for 3 years, identified as uncollectible, and all attempts to collect have been taken
4. The write-off of uncollected accounts is a bookkeeping entry only and does not release the debtor from any debt owed to the City.

V. EXPENDITURES

Identify services, establish appropriate service levels and administer the expenditure of available resources to assure fiscal stability and the effective and efficient delivery of those services.

A. *Annual Program of Services*

Annually, as part the budget process, a program of services for each program will be established for the ensuing year. The program of services will include a brief description of services provided, service levels/standards, resources, as well as key ratios and other measures to monitor the performance effectiveness and efficiency of the program.

B. *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 maintain service levels.

C. *Periodic Program/Service Reviews*

The City Manager and staff shall undertake periodic reviews of City programs and services for both efficiency and effectiveness. Outsourcing and contracting with other governmental agencies and/or the private sector will be evaluated as alternative approaches to service delivery. Programs or services determined to be inefficient and/or ineffective shall be recommended through the annual budget process to be reduced in scope or eliminated.

D. *Outsourcing of City Services*

The City provides many municipal services to its citizens covering a wide variety of disciplines. Attempting to perform all of these services in-house would seriously dilute the City's efficiency and not be cost effective. Two of the management tools utilized by the City to maximize efficiency and cost effectiveness are outsourcing and managed competition processes, the mere consideration of

which provides economic benefits that flow from competition. The economic benefits of competition include lower costs and improved quality of performance irrespective of whether a given service is ultimately performed in-house or outsourced. Outsourcing decisions are based on the annual categorization of all services as either “strategic” (always performed in-house), “bid-out” (always outsourced) or “discretionary” (contracted either to an in-house department or through a managed competition process) as part of the Business Plan process. (See Outsourcing Policy)

VI. FUND BALANCE/WORKING CAPITAL

Maintain the fund balance and working capital of the various operating funds at levels sufficient to protect the City’s creditworthiness as well as its financial position during emergencies or economic fluctuations.

A. *General Fund Unreserved Fund Balance*

The City shall maintain the General Fund unreserved fund balance equivalent to three months of normal recurring operating costs, based on current year expenditures. If the fund balance exceeds this amount, funding non-recurring expenditures in the following fiscal year may be used to draw down the balance.

For governmental funds that do not have their own fund balance policy below, the minimum fund balance shall be calculated according to the general fund reserve policy.

B. *Working Capital of Enterprise Operating Funds*

In enterprise operating funds, the City shall maintain working capital sufficient to provide for reserves for emergencies and revenue shortfalls, specifically in the Utility System and Airport Enterprise Funds. Enterprise funds without major infrastructure or assets will have no minimum balance requirement. A cash operating reserve will be established and maintained as follows:

1. Utility Fund - 25% of the current year's budget appropriation for recurring operations and maintenance.
2. Airport Fund - 15% of the current year's budget appropriation for recurring operations and maintenance.
3. The cash operating reserve is derived by dividing the total cash equivalents balance by recurring operating expenses.

C. *Use of Fund Balance/Working Capital*

Fund Balance/Working Capital shall be used only for emergencies, non-recurring expenditures/expenses, or major capital purchases that cannot be accommodated through current year savings. Should such use reduce balances below the level established as the objective for that fund, restoration recommendations will accompany the request/decision to utilize said balances.

D. *Debt Service Funds*

The City shall maintain the debt service fund balance at 15% of annual debt service requirements OR a fund balance reserve as required by bond ordinances, whichever is greater.

E. *Internal Service Funds*

a. Property Insurance Fund

The Property Insurance Fund accounts for uninsured and deductible claims for the City's property and liability insurance. Claims cannot be reasonably predicted and budgeted for; as such the fund will maintain a balance that approximates the prior average annual expense for the last three years, excluding extra-ordinary expenses in the fund.

b. Fleet Replacement Fund

The Fleet Replacement Fund reserve will be maintained based upon a lifecycle or useful life replacement plan to ensure adequate fund balance required for systematic replacement of fleet vehicles. Fund Balance will be the accumulated depreciation but in no case not less than 10% of the total inventory asset value.

c. High-Technology Replacement Fund

The High Technology Replacement Fund reserve will be maintained based upon a lifecycle or useful life replacement plan to ensure adequate fund balance required for systematic replacement of technology. Fund Balance will be the accumulated depreciation but in no case not less than 10% of the total inventory asset value.

d. Employee Benefits Fund

The Employee Benefits Fund is funded through City and employee contributions. Estimated costs shall be determined during each budget year and the contributions adjusted accordingly. There is no minimum balance for this fund.

F. *Economic Development Corporations*

As sales tax revenue fluctuates due to changes in economic conditions, the SLDC and SL4B shall maintain an unreserved fund balance no less than 10% of budgeted sales tax revenues.

VII. CAPITAL EXPENDITURES AND IMPROVEMENTS

Annually review and monitor the state of the City's capital equipment and infrastructure, setting priorities for its replacement and renovation based on needs, funding alternatives, and availability of resources.

A. *Capitalization Threshold for Tangible Capital Assets*

1. Tangible capital items should be capitalized only if they have an estimated useful life of at least two years following the date of acquisition or significantly extend the useful life of the existing asset and cannot be consumed, unduly altered, or materially reduced in value immediately by use and has a cost of not less than \$5,000 for any individual item.
2. The capitalization threshold of \$5,000 will be applied to individual items rather than to a group of similar items. (ie: desks, chairs, etc.)
3. Computer software, regardless of cost, will not be capitalized.
4. To maintain adequate control over non-capitalized tangible items, items costing \$1,000 to \$4,999 will be monitored and tracked through the City's financial software system.

B. *Five-Year Capital Improvement Plan (CIP)*

1. The City shall annually prepare a five-year capital improvement plan based on the needs for capital improvements and equipment, the status of the City's infrastructure, replacement and

renovation needs, and potential new projects. Capital projects are improvements or additions to the City's physical plant/facilities and become part of the City's asset inventory. Capital projects can be further categorized into land, buildings, improvements other than buildings, and infrastructure, which includes roads, sidewalks, bridges, utility lines, etc. Capital costs typically consist of preliminary design, final design, and construction, and may involve the acquisition of land or easements. For every project identified in the plan, a project scope and project justification will be provided. Also, project costs shall be estimated, funding sources identified and annual operation and maintenance costs computed.

2. Citizens, Parks Board and the Planning and Zoning Commission will be provided opportunities to review the list of CIP projects for the Five-Year Capital Improvement Plan and may suggest additions and/or changes to the plan as appropriate. Pursuant to the City Charter, the Planning & Zoning Commission makes recommendations to the City Manager and the City Council on the City's Five-Year Capital Improvement Plan.
5. The City Manager is charged with recommending a Capital Improvement Plan to City Council. Projects submitted, either by staff, through a neighborhood or citizen request, or through joint participation, will be reviewed in conjunction with the entire capital improvement program and submitted to City Council for final consideration. The Five-Year Capital Improvement Plan shall be filed and adopted with the annual budget.
6. The Five-Year CIP shall be limited to the affordability limits identified in the long-range financial plans of the City, taking into consideration pay-as-you go, bond issuances, operating costs, etc.
7. Annually, through the budget process and at year-end, projects are to be reviewed and if identified as complete will be closed by Finance and any remaining funds closed to fund balance, which can then be re-appropriated during the next fiscal year capital budget. Funds remaining from bond proceeds will only be used in accordance with the legal use of those funds.
8. Appropriations for capital projects are for the life of the project; therefore re-appropriation of capital funding for budgeted projects will not be necessary.

C. *Infrastructure Evaluation and Replacement/Rehabilitation*

Water, wastewater, drainage, street lighting, streets and sidewalks, municipal facilities, and other infrastructure are fundamental and essential functions for public health and safety, environmental protections and the economic well being of the City. As a result, the City's CIP should be focused on ensuring that infrastructure is replaced as necessary to protect the City's investment, to minimize future replacement and maintenance costs, and to maintain existing levels of service and accommodate growth.

1. Infrastructure will be replaced at the end of its useable service life.
2. If upgrades are warranted to meet current design standards, a cost/benefit analysis will be performed. (See Infrastructure Evaluation Policy)

D. *Community Redevelopment Projects*

A Community Redevelopment Project is a capital project approved, funded, and implemented within an identified neighborhood for the purpose of upgrading public infrastructure to an established standard without regard to the remaining serviceable life of the infrastructure. Requests will be reviewed and prioritized in conjunction with the entire capital improvement program and within the City's financial ability for pay-as-you-go funding, not to exceed ½ of one percent of the total City

operating budget. There will be a dollar for dollar match to City funds from non-City third-party sources. (See Capital Improvement Projects for Community Redevelopment Policy)

E. *Joint Capital Improvement Projects*

The City will establish guidelines for City participation in Joint Capital Improvement Projects with community based organizations that would either add to or enhance the City's Five-Year Capital Improvement Plan (See Joint Capital Improvement Policy)

The projects must benefit the general public and not more than \$100,000 will be set aside annually for the City's participation in these type projects, funded through the Sugar Land 4B Corporation. The request will be reviewed, verified to ensure the request meets the criteria set forth in the policy, and prioritized in conjunction with the entire capital improvement program and within the financial ability of the Sugar Land 4B Corporation.

F. *Replacement of Capital Assets on a Regular Schedule (Fleet and High-Technology)*

The City shall annually prepare a schedule for the replacement of its fleet and high technology capital assets. Funding for the replacement of these assets will be accomplished through the use of an annual depreciation rate structure charged to each participating fund at 100% of annual the depreciation based on lifecycle or useful life of the asset. Within the resources available each fiscal year, the City shall replace these assets according to the aforementioned schedule and criteria/guidelines established for each fund.

G. *Capital Expenditure Financing*

The City recognizes that there are three basic methods of financing its capital requirements: Funding from current revenues; funding from fund balance/working capital as allowed by the Fund Balance/Working Capital Policy; or funding through the issuance of debt. Types of debt and guidelines for issuing debt are set forth in the Debt Policy Statements.

H. *Pay-As-You-Go Capital Improvements*

1. The City will pay cash for capital improvements within the financial affordability of each fund versus issuing debt when funding capital improvements and capital purchases. This will reduce/minimize the property tax and utility rate impacts on Sugar Land citizens.
2. General Fund pay-as-you-go shall be budgeted with a target of 10% of annual budgeted sales tax and the Utility Fund pay-as-you-go shall be budgeted with a target of 2% of the prior year's water/wastewater revenues, when financially feasible. (See Budget Policies)
3. Implementation and schedule of pay-as-you-go capital improvement projects shall coincide with the collection and accumulation of sales tax and system revenues. CIP projects shall be initially scheduled based on the budgeted accumulation of funding. CIP projects shall not commence prior to the funds being received.

I. *Capital Improvements/Project Reporting*

A summary/status report not only on capital projects completed but also on the entire City's various capital projects will be prepared quarterly and presented to the City Manager and available to City Council.

VIII. DEBT

Establish guidelines for debt financing that will provide needed facilities, land, capital equipment and infrastructure improvements while minimizing the impact of debt payments on current and future revenues.

A. *Use of Debt Financing*

Debt financing, to include general obligation bonds, revenue bonds, certificates of obligations, certificates of participation, lease/purchase agreements, and other obligations permitted to be issued or incurred under Texas law, shall only be used to purchase capital assets that cannot be prudently acquired from either current revenues or fund balance/working capital and to fund infrastructure improvements and additions. Debt will not be used to fund current operating expenditures.

The City will pay cash for capital improvements within the financial affordability of each fund versus issuing debt when funding capital expenditures and capital improvements, which shall include but not be limited to sales tax, utility system revenues, developer fees, inter-local agreements, and state and federal grants.

B. *Debt Financing*

1. Affordability

The City shall use an objective analytical approach to determine whether it can afford to issue new general-purpose debt, both General Obligation bonds and Certificates of Obligation. This process shall compare City accepted standards of affordability to the current values for the City. These standards may include debt per capita, debt as a percent of taxable value, taxable value per capita, and tax rate. The process shall also examine the direct costs and benefits of the proposed expenditures. The decision on whether or not to issue new debt shall be based on these costs and benefits, current conditions of the municipal bond market, and City's ability to "afford" new debt as determined by the aforementioned standards.

2. General Obligation Bonds (GO)

General Obligation bonds require voter approval

- a. General Obligation bonds must be issued to accomplish projects identified in the bond referendum and associated material.
- b. General Obligation bonds must be issued for projects that are in accordance with the wording in the bond propositions.

3. Certificates of Obligation

Certificates of Obligation may be issued without voter approval to finance any public works project or capital improvement, as permitted by State law. However, it is the policy of the City to utilize Certificates of Obligation to finance public improvements in certain circumstances and only after determining the City's ability to assume additional debt based on the standards identified above. Circumstances in which Certificates might be issued include, but are not limited to the following:

- a. The City may issue CO's when there is insufficient funding on a general obligation bond-financed capital improvement;
- b. The City may issue CO's when "emergency" (urgent, unanticipated) conditions require a capital improvement to be funded rapidly;

- c. The City may issue CO's for projects when the City can leverage dollars from others to reduce the City's capital cost for a community improvement;
- d. The City may issue CO's for projects when there is no other funding source available and the project is determined to be in the best interest of the City.
- e. The City may issue CO's if it would be more economical to issue Certificates of Obligation rather than issuing revenue bonds; and
- f. The City may issue CO's for projects for which the City will be reimbursed by Developer (principal plus interest)

4. Revenue Bonds

For the City to issue new revenue bonds, revenues, as defined in the ordinance authorizing the revenue bonds in question, shall be a minimum of 125% of the average annual debt service and 110% of the debt service for the year in which debt requirements are scheduled to be the greatest. Annual adjustments to the City's rate structures for Enterprise Funds will be made as necessary to maintain the coverage factor.

The City has typically issued CO's for Airport Improvements; however the City will calculate bond coverage requirements and prepare a five-year financial plan as if the Airport issues revenue bonds.

C. *Debt Structures*

The City shall normally issue bonds with a life not to exceed 25 years for general obligation bonds and 25 years for revenue bonds, but in no case longer than the useful life of the asset. The City shall seek level or declining debt repayment schedules and shall seek to retire 50% of the total principal outstanding within 10 years of the year of issuance. There should be no debt structures that include increasing debt service levels in subsequent years, with the first and second year of a bond payout schedule the exception or as special situations may warrant. There shall be no "balloon" bond repayment schedules, which consist of low annual payments and one large payment of the balance due at the end of the term. There shall always be at least interest paid in the first fiscal year after a bond sale and principal payments starting generally no later than the second fiscal year after the bond issue. Normally, there shall be no capitalized interest included in the debt structure except for debt issuances reimbursing developers for infrastructure, which shall not exceed 2 years of capitalized interest.

D. *Debt Refunding*

The City's financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. As a general rule, the net present value savings of a particular refunding should exceed 3.0% of the refunded maturities unless (1) a debt restructuring is necessary or (2) bond covenant revisions are necessary to facilitate the ability to provide services or to issue additional debt.

E. *Interest Earnings on Debt Proceeds*

Debt interest earnings will be limited to funding changes to the bond financed Capital Improvement Plan in compliance with the voted propositions, cost overruns on bond projects, or be applied to debt service payments on the bonds issued.

F. *Bond Elections*

1. Timing of general obligation bond elections shall be determined by the inventory of current authorized, unissued bonds remaining to be sold and the Five-Year Capital Improvement Program
2. The total dollar amount of bond election propositions recommended to the voters may not exceed the City's estimated ability to issue the bonds within a 7-year period.
3. An analysis showing how the new debt combined with current debt impacts the City's tax rate and debt capacity will accompany every future bond issue proposal

G. *Sale Process*

The City shall use a competitive bidding process in the sale of debt unless the nature of the issue warrants a negotiated sale. The City will utilize a negotiated process when the issue is, or contains, a refinancing that is dependant on market/interest rate timing. The City shall award the bonds based on a true interest cost (TIC) basis. However, the City may award bonds based on a net interest cost (NIC) basis as long as the financial advisor agrees that the NIC basis can satisfactorily determine the lowest and best bid.

H. *Underwriting Syndicates*

The City attempts to involve qualified and experienced firms, which consistently submit ideas to the City and financial advisors and actively participate in the City's competitive sales in its negotiated underwritings. In conjunction with the City's financial advisor, City staff will recommend the structure of underwriting syndicates, which will be effective for the type and amount of debt being issued.

I. *Rating Agency Presentations*

Full disclosure of operations and open lines of communications shall be maintained with the rating agencies. City staff, with the assistance of financial advisors, shall prepare the necessary materials and presentation to the rating agencies. Credit ratings will be sought from one or more of the nationally recognized municipal bond rating agencies, currently Moody's Investor Services, Standard & Poor's, and Fitch Inc., as recommended by the City's financial advisor.

J. *Bond Ratings*

The City will prudently manage the General, Economic Development Corporations, and Enterprise Funds and attempt to issue and structure debt to help maintain or increase the current bond ratings.

K. *Lease/Purchase Agreements*

The City will use lease/purchase agreements when it is cost-efficient and provides for more attractive terms.

IX. CASH MANAGEMENT AND INVESTMENTS

To maintain the City's cash in such a manner so as to ensure the absolute safety of principal, to meet the liquidity needs of the City, and to achieve the highest possible yield.

A. *Investment Management*

1. All aspects of cash/investment management shall be designed to ensure safety and integrity of the City's financial assets.
2. Cash/Investment management activities shall be conducted in full compliance with prevailing local, state, and federal regulations. (See City Investment Policy and Strategy)

3. The City will utilize competitive bidding practices wherever practical, affording no special advantage to any individual or corporate member of the financial or investment community.
4. The City will only do business with City authorized broker/dealers and/or financial institutions as approved by Council and who have executed a written certification of their review of the City's Investment Policy.
5. The City shall design and establish policies relating to a variety of cash/investment management issues, such as the eligibility and selection of various broker/dealers, safekeeping requirements, collateral requirements, delivery versus payment requirements, weighted average maturity requirements and such other aspects of the program, which necessitate standard setting in pursuit of appropriate prudence and enhanced protection of assets. (See Investment Policy)
6. Investments of the City shall be made with the exercise of judgment and care which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment.

B. *Investment Strategy*

The City of Sugar Land maintains a consolidated portfolio in which it pools its funds for investment purposes. The City's investment program seeks to achieve safety of principal, adequate liquidity to meet cash needs, and reasonable yield commensurate with the preservation of principal and liquidity. Refer to the City's Investment Strategy as adopted by City Council annually for detail.

C. *Interest Income*

Interest earned from investments shall be distributed to the funds from which the funds were provided.

D. *Arbitrage Investments and Reporting*

The City's investment position as it relates to arbitrage is as follows: Investments on bond proceeds will be made with safety of principal and liquidity in mind, but with a competitive rate of return. Bond proceeds will be invested in separate instruments and not commingled with other investment purchases. Arbitrage rebate calculations will be performed annually on all debt issues and funds set aside annually for any positive arbitrage. Arbitrage will be rebated to the IRS, as necessary.

E. *Depository*

The City of Sugar Land will select its official bank depository through a formal bidding process in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available. The City will at a minimum, bid depository services every five years.

F. *Collateralization of Deposits*

1. The City of Sugar Land shall have pledged collateral held at an independent third-party institution and evidenced by a written receipt.
2. The value of the pledged collateral should be marked to market monthly and shall be at least 102 percent of par or market value of the investments, whichever is greater.
3. Substitutions of collateral shall meet the requirements of the collateral agreement and have prior written approval. Collateral shall not be released until the replacement collateral has been received.
4. The pledge of collateral shall comply with the City's Investment Policy.

X. GRANTS

The City will seek, apply for, and effectively administer federal, state and local grants, which support the City's current priorities and policy objectives.

A. *Grant Guidelines*

1. The City shall apply and facilitate the application for only those grants that are consistent with the objectives and high priority needs identified by Council and City Management.
2. Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs.
3. The potential for incurring ongoing costs, to include assumptions of support for grant-funded positions from local revenues, will be considered prior to applying for a grant.

B. *Grant Review*

1. All grant submittals shall be reviewed for their cash match requirements, their potential impact on the operating budget, and the extent to which they meet the City's goals. If there is a cash match requirement, the source of funding shall be identified prior to application. (Refer to City's Inter-Departmental Grant Policy)
2. The City Manager shall approve all grant submissions and City Council shall approve all grant acceptances over \$25,000 and any grant acceptance no matter the dollar amount if a budget adjustment is required.

C. *Grant Termination and/or Reduced Grant Funding*

1. In the event of reduced grant funding, City resources will be substituted only after all program priorities and alternatives are considered during the budget process, unless the City is obligated through the terms of the grant to maintain the positions.
2. The City shall terminate grant-funded programs and associated positions when grant funds are no longer available, and it is determined that the program no longer supports City goals and/or is no longer in the best interest of the City, unless the City has obligated itself through the terms of the grant to maintain the positions.

