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# City of Richardson

## Financial Policies

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### **I. Introduction**

The City of Richardson financial policies set forth the basic framework for the fiscal management of the City. These policies were developed within the parameters established by applicable provisions of the Texas Local Government Code and the City of Richardson City Charter. The policies are intended to assist the City Council and City staff in evaluating current activities and proposals for future programs. The policies are to be reviewed on an annual basis and modified to accommodate changing circumstances or conditions.

### **II. Annual Budget (Charter Requirements)**

- A. The fiscal year of the City of Richardson shall begin on October 1 of each calendar year and will end on September 30 of the following calendar year. The fiscal year will also be established as the accounting and budget year.
- B. The City Manager, prior to August 15<sup>th</sup> of each year, shall prepare and submit to the City Secretary, the annual budget covering the next fiscal year which shall contain the following information:
  1. Outline the proposed financial policies for the next fiscal year with explanations of any changes from previous years in expenditures and any major changes of policy and a complete statement regarding the financial condition of the City.
  2. An estimate of all revenue from taxes and other sources, including the present tax structure rates and property evaluations for the ensuing year.
  3. A carefully itemized list of proposed expenditures by fund, service type and object of expenditures for the budget year, as compared to actual expenses of the last ended fiscal year, and estimated expenses for the current year compared to adopted budget.
  4. A description of all outstanding bonded indebtedness of the City.
  5. A statement proposing any capital expenditures deemed necessary for undertaking during the next budget year and recommended provision for financing.
  6. A projection of revenues and expenditures together with a list of capital projects which should be considered within the next five succeeding years.
- C. A public hearing shall be conducted by the Council, allowing interested citizens to express their opinions concerning items of expenditures or revenues. The notice of hearing shall be published in the official newspaper of the City of Richardson not less than 10 days or more than 30 days before the hearing.
- D. Following the public hearing, the Council shall analyze the budget, making any additions or deletions which they feel appropriate, and shall, by ordinance, adopt the budget by a majority vote.

- E. On final adoption, the budget shall be in effect for the budget year. Final adoption of the budget by the Council shall constitute the official appropriations for the current year and shall constitute the basis of the official levy of the property tax. Under conditions which may arise the Council may amend or change the budget to provide for any additional expense.

### **III. Basis of Accounting and Budgeting**

- A. The City of Richardson finances shall be accounted for in accordance with generally accepted accounting principles as established by industry practice and applicable governing Accounting Standards Boards.
  - 1. The financial transactions of the City of Richardson are accounted for and recorded in individual funds. These funds account for revenues and expenditures according to their intended purpose and are used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. 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.
  - 2. 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 collectable within the current period or soon enough thereafter to pay liabilities of the current period. Substantially all material revenues are considered to be susceptible to accrual. A thirty-day availability period is used for revenue recognition for all governmental fund type revenues, except fines and forfeitures which are accrued using a forty-five day availability period. Expenditures are recognized when the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, which are recorded when due. Compensated absences, claims, and judgments are recorded when the obligations are expected to be paid with current available financial resources.
  - 3. The City of Richardson utilizes encumbrance accounting for its fund types, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.
  - 4. The 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.
- B. The budgets shall be prepared and adopted on a cash basis for all governmental funds and modified accrual basis for proprietary funds. The capital projects funds adopt project-length budgets at the time of their presentation. Annual appropriations lapse at fiscal year end for operating and debt service funds. Under the City's budgetary process, outstanding encumbrances are classified as restricted, committed, or assigned fund balance, depending on the government's resources.

## **IV. Budget Administration**

- A. All expenditures of the City of Richardson shall be made in accordance with the annual budget. Budgetary control is maintained at the individual expenditure account level by the review of all requisitions of estimated purchase amounts prior to the release of purchase orders to vendors.
- B. The following represents the City of Richardson budget amendment policy delineating responsibility and authority for the amendment process. Transfers between expenditure accounts in one department may occur with the approval of the Budget Officer. Transfers between operating departments may occur with the approval of the City Manager's Office. Transfers between funds must be accomplished by budget amendment approved by the City Council. Budget amendments calling for new fund appropriations must also be approved by the City Council. As a matter of course, continuous budget monitoring requires that deviations from expected amounts of revenue and/or expenditures be noted and estimates revised, if necessary, to avoid financial distress. Budget amendments are thus considered prudent financial management techniques and are deemed to fulfill the requirements of City Charter, Article 11, Section 11.09 for budget amendment justification.

## **V. Financial Reporting**

- A. Following the conclusion of the fiscal year, the City of Richardson Director of Finance shall cause to be prepared a Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting and financial reporting principles established by industry practice and statements issued by the Governmental Accounting Standards Board. The document shall also satisfy all criteria of the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting Program.
- B. The CAFR shall show the status of the city's finances on the basis of generally accepted accounting principles (GAAP). The CAFR shall show fund revenues and expenditures on both a GAAP basis and budget basis for comparison purposes. In most cases this reporting conforms to the way the city prepares its budget. Differences in format are acknowledged through reconciliations. Liabilities for post-employment benefits and compensated absences (accrued but unused sick and vacation leave) are not reflected in the budget but are accounted for in the CAFR's government-wide financial statements. The government-wide financial statements modify the presentation of the governmental funds by presenting their results in the same manner as proprietary funds.
- C. Included as part of the Comprehensive Annual Financial Report shall be the results of the annual audit prepared by independent certified public accountants designated by the City Council.
- D. Each fiscal year, the Director of Finance will analyze accounts receivable balances and, if necessary, write off uncollectible accounts in accordance with applicable statutes after review by the City Manager or his designee.
- E. The City Manager's Office shall, within sixty days following the conclusion of each calendar quarter, issue a report to the Council reflecting the City's financial condition for that quarter. The quarterly report format shall be consistent with the format of the annual budget document. The preliminary budget may serve as the report for the third quarter of the year, as it reflects the City's current financial status and expected year end posture.

## **VI. Revenues**

- A. To protect the City of Richardson's financial integrity, the City will maintain a diversified and stable revenue system to shelter it from fluctuations in any particular revenue source.
- B. For every annual budget, the City of Richardson shall levy two property tax rates: operation/maintenance and debt service. The debt service levy shall be sufficient for meeting all principal and interest payments associated with the City's outstanding debt for that budget year. The debt service levy and related debt service expenditures shall be accounted for in the Debt Service fund. The operation and maintenance levy shall be accounted for in the General Fund. A portion may be assigned for special purposes (i.e. Street Maintenance Fund).
- C. The City of Richardson will maintain a policy of levying the lowest tax rate on the broadest tax base. Mandated exemptions will be provided to home owners, senior citizens, and disabled citizens. On an annual basis during the budget process, City Council will review the exemption for senior citizens and disabled persons with a goal to maintain a tax benefit of approximately 30% of the average home value.
- D. The City of Richardson will establish user charges and fees at a level that attempts to recover the full cost of providing the service.
  - 1. User fees, particularly utility rates, should identify the relative costs of serving different classes of customers.
  - 2. The City of Richardson will make every reasonable attempt to ensure accurate measurement of variables impacting taxes and fees (e.g. verification of business sales tax payments, verification of appraisal district property values, accuracy of water meters, etc.)
- E. The City of Richardson will attempt to maximize the application of its financial resources by obtaining supplementary funding through agreements with other public and private agencies for the provision of public services or the construction of capital improvements. The City of Richardson will consider market rates and charges levied by other public and private organizations for similar services in establishing tax rates, fees and charges.
- F. When developing the annual budget, the City Manager shall project revenues from every source based on actual collections from the preceding year and estimated collections of the current fiscal year, while considering known circumstances which will impact revenues for the new fiscal year. The revenue projections for each fund should be made conservatively so that total actual fund revenues exceed budgeted projections.

## **VII. Operating Expenditures**

- A. Operating expenditures shall be accounted, reported, and budgeted for in the following major categories:
  - 1. Personal Services
  - 2. Professional Services
  - 3. Maintenance
  - 4. Contracts
  - 5. Supplies
  - 6. Capital

- B. The annual budget shall appropriate sufficient funds for operating, recurring expenditures necessary to maintain established quality and scope of city services.
- C. The City of Richardson will constantly examine the methods for providing public services in order to reduce operating, recurring expenditures and/or enhance quality and scope of public services with no increase to cost.
- D. Personal service expenditures will reflect the minimum staffing needed to provide established quality and scope of city services. To attract and retain employees necessary for providing high-quality service, the City shall maintain a compensation and benefit package competitive with the public and, when quantifiable, private service industries.
- E. Professional services include fees for attorneys, auditors, consultants and other services that require specialized expertise.
- F. Maintenance expenditures shall be sufficient for addressing the deterioration of the City's capital assets to ensure the optimal productivity of the capital assets. Maintenance should be conducted to ensure a relatively stable level of maintenance expenditures for every budget year.
- G. The City of Richardson will utilize contracted labor for the provision of city services whenever private contractors can perform the established level of service at less expense to the City. The City will regularly evaluate its agreements with private contractors to ensure the established levels of service are performed at the lowest possible cost.
- H. Supply expenditures shall be sufficient for ensuring the optimal productivity of City employees.
- I. Existing capital equipment shall be replaced when needed to ensure the optimal productivity of City of Richardson employees.
- J. Expenditures for capital equipment shall be made only to enhance employee productivity, improve quality of service, or expand scope of service.
- K. To assist in controlling the growth of operating expenditures, operating departments will submit their annual budgets to the City Manager within fiscal parameters provided by the City Manager's Office.

**VIII. Fund Balance**

- A. The annual budget shall be presented to Council, with each fund reflecting minimum ending fund balances as follows:
 

General Fund	60 days of expenditures
General Debt Service Fund	30 days of expenditures
Water and Sewer Fund	90 days of expenditures
Utility Debt Service	Compliance with bond covenants
Golf Fund	30 days of expenditures, building towards 60 days
Solid Waste Fund	60 days of expenditures, building towards 90 days
- B. Fund balances, which exceed the minimum level established for each fund may be appropriated for non-recurring capital projects or programs.
- C. The City of Richardson will exercise diligence in avoiding the appropriation of fund balance for recurring operating expenditures. In the event fund balance is appropriated for recurring operating expenditures to meet the needs of the community, the budget document shall include an explanation of the circumstances requiring the appropriation and the methods to be used to arrest the future use of fund balance for operating expenditures.

D. For financial statement purposes, all governmental fund balances will be classified as follows:

Nonspendable – amounts that cannot be spent; legally or contractually required to be maintained.

Restricted – amounts that have external enforceable legal restrictions.

Committed – amounts that can only be used for specific purposes as directed through formal action of the City Council. Amounts can only be changed or revoked through similar formal action of the Council.

Assigned – amounts intended to be used for specific purposes as designated by management.

Unassigned – remaining amounts that have not met the criteria for restricted, committed, or assigned.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

E. The Rate Stabilization Fund (RSF) was established in Fiscal Year 1996-97 for the Water and Sewer Utility Fund. The fund provides a source of funds which can be used to address serious and unexpected conditions that may arise, such as adverse weather conditions which seriously alter expected revenue amounts. In addition, the fund alleviates the need for sudden and unexpected rate increases, allowing the City to implement needed rate increases in a phased and orderly manner. The RSF is a sub-fund of the Water and Sewer Utility Fund and shall be maintained at a targeted level of \$1,700,000. If monies from the RSF are transferred to operating working capital fund balances, RSF funds will be restored to the targeted level as soon as practical. Decisions involving the use of the RSF shall be at the discretion of the City Manager and reported in normal budgeting and financial reporting formats throughout the fiscal year.

## **IX. Fund Transfers**

- A. Fund transfers may occur when surplus fund balances are used to support non-recurring capital expenses or when needed to satisfy debt service obligations.
- B. Fund transfers are used to pay for general and administrative costs in the General Fund and to charge franchise fees to Proprietary Funds.

## **X. Debt Expenditures**

- A. The City of Richardson will issue debt only to fund capital projects, which cannot be supported by current, annual revenues.
- B. To minimize interest payments on issued debt, the City will maintain a rapid debt retirement policy by issuing debt with maximum maturities not exceeding 20 years. Retirement of debt principal will be structured to ensure constant annual debt payments.
- C. The City of Richardson will attempt to maintain base bond ratings (prior to insurance) of Aa2 (Moody's Investors Service) and AA+ (Standard & Poor's) on its general obligation debt. The City shall continue to seek to enhance its credit quality by frequent contact and visits with the rating agencies, and monitoring the current trends and guidance from the agencies.
- D. When needed to minimize annual debt payments, the City of Richardson will obtain insurance for new debt issues.

- E. In order to minimize the impact of debt issuance on the property tax rate and to assist the City in meeting its arbitrage requirements, the City will consider the sequential sale of bonds for the purpose of financing capital projects.

## **XI. Capital Project Expenditures**

- A. The City of Richardson will develop a multi-year plan for capital projects which identifies all projects likely to be constructed within a five year horizon. The multi-year plan will reflect for each project the likely source of funding and attempt to quantify the project's impact to future operating expenditures.
- B. Capital projects will be constructed to:
  - 1) Protect or improve the community's quality of life.
  - 2) Protect or enhance the community's economic vitality.
  - 3) Support new development.
  - 4) Provide significant rehabilitation of City infrastructure for sustained service.
- C. Capital project expenditures will not be authorized by the City Council without identification and commitment of revenue sources sufficient to fund the improvement. Potential funding sources include, but are not limited to, reserve funds, debt issuances, matching fund revenues, user fees, grants, or reallocation of existing capital funds with the recognition that construction of previously authorized capital projects may be delayed or postponed.
- D. Capital Improvement Planning and Programming shall include the following categories for the determination of funding for individual projects: design costs, right-of-way costs, utility construction/adjustment costs, construction costs, appropriate contingency funds, furnishings and equipment, and direct project administration services provided by City employees or outside forces.
- E. Cost incurred for advanced planning of capital projects may be funded from reimbursement of appropriate debt or operating funds.
- F. The City will intend to maintain adequate funding levels in the developer participation fund to ensure that no City obligation for participation goes unfunded for a period of more than one (1) year.
- G. To minimize the issuance of debt, the City of Richardson will attempt to support capital projects with appropriations from operating revenues or excess fund balances (i.e. "pay-as-you-go").

## **XII. Utility Capital Expenditures**

- A. The City of Richardson uses three funding sources for Utility Capital expenditures. Utility rates are designed to provide for a depreciation reserve which accumulates resources to replace or rehabilitate aging infrastructure. In addition, the multi-year financial plan provides debt strategies to finance needed capital items. Thirdly, annual transfers are made to capital rehabilitation and renewal projects from utility operations to maintain adequate funding for capital items.
- B. Inasmuch as roads and other infrastructure components are essential to extending utility service, revenues in excess of anticipated current year needs will be reserved for future road improvements and related infrastructure projects at year-end. This will assure that infrastructure costs are funded along with utility projects.

### **XIII. Long-term Financial Plan**

- A. The City of Richardson will adopt the annual budget in the context of a long-term financial plan, or other multi-year budget analysis.
- B. The long-term financial plans will establish assumptions for revenues, expenditures and changes to fund balances over a five year horizon. The assumptions will be evaluated periodically as part of the budget development process.

### **XIV. Cash Management and Internal Controls**

- A. Written guidelines on cash handling, accounting, segregation of duties, and other financial matters shall be maintained.
- B. Each department director shall ensure that departmental procedures are adequate to safeguard City funds.
- C. Staffing and training shall be reviewed periodically to ensure adequacy.
- D. Daily deposits of City cash shall be performed unless amounts collected warrant less frequent deposits, as determined by the Finance Department.
- E. The timing and amount of cash needs and availability shall be systematically projected in order to maximize interest earnings from investments.
- F. The City's investment portfolio shall be managed in accordance with the Public Funds Investment Act and the City's Investment Policy.
- G. The City shall conduct periodic reviews of Internal Controls and Cash Handling Procedures.

### **XV. Internal Audit**

- A. The function of internal audit shall be an assignment of the City Manager's Office. The administrative support may occur through directly assigned personnel or contractual professional services.
- B. The City will annually identify appropriate operations and practices to be reviewed in developing an annual Internal Audit Workplan. Other projects may be added or amended as needs arise.
- C. Reviews of operation on the identified topics will be conducted, examining for all fiduciary and financial controls, compliance, risk minimization, and general operational integrity.
- D. Recommendations and findings will be submitted for each workplan element, with the City Manager's Office responsible for implementation of proposed improvements.

### **XVI. Revisions**

- Resolution No. 96-03 dated February 5, 1996
- Resolution No. 97-23 dated November 24, 1997
- Resolution No. 98-24 dated December 14, 1998
- Resolution No. 03-05 dated January 27, 2003
- Resolution No. 03-19 dated September 8, 2003
- Resolution No. 05-28 dated December 19, 2005
- Resolution No. 11-22 dated August 8, 2011