

# **FINANCIAL STRUCTURE, POLICIES, AND PRACTICES**

## **INTRODUCTION**

The City of Garland financial structure, policies, and practices set forth in this section form the basic framework for the fiscal management of the City. They were developed within the parameters established by applicable provisions of the Texas Local Government Code, Garland City Charter, City Council Policies, City Manager Directives, and Generally Accepted Accounting Practices (GAAP). These various components of the City's financial framework are outlined below and include the following:

- (I)** Financial (Fund) Structure
- (II)** Garland City Charter – Article VIII. Budget
  - Sec. 1. Fiscal Year
  - Sec. 2. Preparation and Submission of Budget
  - Sec. 3. Budget Form
  - Sec. 4. Budget a Public Record
  - Sec. 5. Publication and Notice of Public Hearing
  - Sec. 6. Hearing and Adoption of Budget
  - Sec. 7. Budget Establishes Appropriations and Amount to Be Raised by Taxation
  - Sec. 8. Amendment and Supplemental Budget
  - Sec. 9. Defect Shall Not Invalidate Tax Levy
- (III)** City Council Financial Policy
  - (1) Operating Condition (multi-year forecast, rates, insurance...)
  - (2) Debt Management
  - (3) Financial Condition (fund balance requirements)
  - (4) Asset Maintenance (Capital Improvement Program, facilities master plan...)
  - (5) Accounting, Auditing, and Financial Reporting
- (IV)** Balanced Budget – Defined
- (V)** Basis of Budgeting and Accounting
- (VI)** Revenue Management – City Manager Directive
- (VII)** Performance Measurement
- (VIII)** General and Administrative Allocation Methodology
- (IX)** Support Service Funds Allocation Methodology
- (X)** Listing of Other Charter Provisions and Directives

## (I) FINANCIAL (FUND) STRUCTURE

The City's financial structure is organized by cost centers referred to as funds. These funds are further subdivided into smaller cost centers (departments and organizations within the fund). Each fund is a separate entity for control, budgeting/accounting, and reporting purposes. The two types of funds utilized are Governmental and Proprietary. Governmental Funds account for general governmental activities, and Proprietary Funds capture the costs of the business-type operations of the City.

Governmental Funds			Proprietary Funds	
General Fund	Debt Service Fund	Special Revenue Funds	Enterprise Funds	Internal Service Funds
SafeLight Garland Public Health/Immuniz. Grant Infrastructure		Hotel/Motel Tax Housing Grants Public Safety Grants Narcotic Seizure Stimulus Grants	Electric Water Wastewater Env. Waste Svcs. Stormwater Mgmt. Firewheel Heliport Rec. Performance	Information Technology Customer Service Facilities Management Fleet Services Equipment Replacement Warehouse Insurance Funds IT Replacement IT Project

### Governmental Funds

**General Fund:** The General Fund is the principal operating fund of the City. All general tax revenues not allocated by law or contractual agreement to another fund are accounted for in this fund. Basic municipal services such as City administration, police and fire protection, health services, parks and recreation, and libraries are included in the General Fund.

**Debt Service Fund:** The Debt Service Fund is used to account for resources designated for principal and interest payments on the City's outstanding debt.

**Special Revenue Funds:** Special Revenue Funds are used to account for general revenue sources that are restricted to specific purposes. The Special Revenue Funds include the Hotel/Motel Tax Fund and Grant Funds.

## **Proprietary Funds**

***Enterprise Funds:*** Enterprise Funds account for municipal operations that are financed and operated in a manner similar to private business. The intent is that the cost of providing goods or services be financed primarily through user charges. The City's Enterprise Funds include the various utility funds, Firewheel Golf Fund, Heliport Fund, and Recreation Performance Fund.

***Internal Service Funds:*** Internal Service Funds are used to account for the financing of services provided by one department to other departments in the City. The costs of providing these services are recovered through user fees and cost allocation methodologies. The Internal Service Funds are the Group Health Insurance Fund, Self Insurance Fund, Long Term Disability (LTD) Fund, Customer Service Fund, Facilities Management Fund, Fleet Services Fund, Equipment Replacement Fund, Information Technology Fund, IT Replacement Fund, IT Project Fund, and Warehouse Fund.

## **Capital Improvement Program Funds**

***Capital Project Funds:*** Capital Project Funds account for the acquisition and construction of capital facilities and specialized equipment and are multi-year in nature since projects often span fiscal years.

## **Funds Not Appropriated in the Annual Budget**

The City's financial structure includes several funds that are used to segregate monies which are restricted or reserved for future use. While these funds are included in the City's Consolidated Annual Financial Report (CAFR), they are not included in the Budget. The monies kept in these funds are appropriated when they are transferred to another City fund for expenditure.

### **Special Revenue Funds:**

- Impact Fees Fund – Streets
- Impact Fees Fund – Water
- Substandard Perimeter Road Fund
- Other Housing Assistance Fund (Villages of Eastgate)
- Tax Increment Fund – Downtown
- Tax Increment Fund – Interstate 30
- Tax Collection Fund

The financial structure also includes GAAP funds that are used to record entries that are unique to the preparation of the year-end CAFR and do not impact budgeted revenues or expenditures.

Other component units included in the CAFR but not the City's budget include the Garland Housing Finance Corporation, Garland Health Facilities Development Corporation, and Garland Economic Development Authority.

**(II) CITY OF GARLAND CHARTER – ARTICLE VIII. BUDGET**

**Sec. 1. Fiscal year.**

The fiscal year for the City government shall begin on the first day of October and shall end on the last day of September of each calendar year. The fiscal year shall constitute the budget and the accounting year.

**Sec. 2. Preparation and submission of budget.**

Prior to the 15th day of August in each year, the City Manager shall prepare, file with the City Secretary, and furnish to each member of the Council, a carefully itemized budget outlining anticipated receipts and proposed expenditures of the City, showing as definitely as possible, appropriations desired for each project and operation for the next succeeding fiscal year, comparing the same with the budget for the then-current fiscal year, and stating the actual receipts and expenditures of the current year. The proposed budget shall also contain a complete detailed statement of all bonds issued and certificates of obligation and notes outstanding of the City and of each of the funds administered by it and an estimate of the rate of tax required for the ensuing fiscal year.

**Sec. 3. Budget form.**

At the head of the budget there shall appear a summary of the budget, in such a manner as to present to taxpayers a simple and clear summary of the detailed estimates of the budget. The City Manager shall at the same time submit a budget message explaining the need for the requested appropriations and stating what pending capital projects, if any, will likely require the issuance of bonds or warrants. Each employee, officer, board and department shall furnish the City Manager such information as may be required by him for the proper preparation of each budget.

**Sec. 4. Budget a public record.**

The budget and budget message and all supporting schedules shall be a public record in the Office of the City Secretary open to public inspection by anyone.

**Sec. 5. Publication and notice of public hearing.**

At the meeting of the Council at which the budget and budget message are submitted, the Council shall determine the place and time of the public hearing on the budget and cause to be published in a newspaper having a general circulation in Garland a notice of the place and time, which shall not be less than three (3) days nor more than fourteen (14) days after date of publication. The public hearing on the budget shall be held prior to the 15th day of September.

**Sec. 6. Hearing and adoption of budget.**

At the time advertised or at any time to which such public hearing shall be adjourned, the Council shall hold a public hearing on the budget as submitted, at which all interested persons shall be given an opportunity to be heard for or against the estimates or any item therein. After the conclusion of such public hearing, the Council may make such changes, if any, in the budget as in their judgment the law warrants and the best interests of the taxpayers of the City demand.

The budget, as amended, if there be changes, may then be adopted by a favorable vote of at least five (5) members of the Council.

If no final action has been taken by the Council on or prior to the 20th day of September, the budget as submitted for the succeeding fiscal year shall be deemed to have been finally adopted by the Council.

**Sec. 7. Budget establishes appropriations and amount to be raised by taxation.**

From the effective date of the budget the amount stated therein as the amount to be raised by taxation shall constitute a determination of the amount of the levy for the purposes of the City in the corresponding tax year and the several amounts stated therein as proposed expenditures shall thereby be and become appropriated to the several objects and purposes therein stated, but unused appropriations for any item may be transferred and used for any other item required for the accomplishment of the same general purpose.

When recommended by the City Manager and in the discretion of Council, the budget may contain a reasonable sum set aside as an unallocated reserve fund to meet unexpected and unforeseen contingencies in current operating costs of any budget project.

**Sec. 8. Amendment and supplemental budget.**

In case of public necessity, expenditures to meet unusual unforeseen conditions, which could not, by reasonable, diligent thought and attention, have been included in the original budget, may from time to time be authorized by the affirmative vote of at least five (5) of the members of the Council as amendments or supplements to the original budget. Such supplement and amendment shall be filed with the original budget.

**Sec. 9. Defect shall not invalidate tax levy.**

Defects in the form or preparation of the budget or the failure to perform any procedural requirement shall not invalidate any tax levy or the tax roll.

**(III) CITY COUNCIL FINANCIAL POLICY (FIN-04)**

**Policy**

The City of Garland shall maintain an operating position in all governmental funds such that annual expenditures shall not exceed annual resources, including fund balance.

The City of Garland shall maintain an operating position in all proprietary funds such that annual expenses shall not exceed annual resources, including retained earnings.

The City shall protect the physical assets of the City to ensure the value, integrity, and utility of these major investments of the City's resources.

This policy shall be reviewed and updated periodically and will be presented to the City Council for approval of any significant changes.

In the following sections, the procedures and guidelines for accomplishing this policy are outlined.

### **Operating Condition**

1. A multi-year financial forecast shall be prepared annually projecting revenues and expenditures for all operating funds. This forecast shall be used as a planning tool in developing the following year's operating budget.
2. Rates, fees, and charges for service shall be reviewed annually and adjusted as necessary to respond to cost increases or other changing circumstances.
3. Activities within enterprise funds shall be budgeted so that revenues support costs of service, satisfy all revenue bond covenants, and provide adequate cash flows.
4. Insurance coverage shall be examined annually to ensure that policy limits are adequate and in compliance with revenue bond covenants.
5. Estimated costs and funding sources shall be identified prior to any project being submitted for Council approval.

### **Debt Management**

1. Debt shall not be used for funding current expenses.
2. Bonds shall be sold only to finance long-term capital projects.
3. A project shall not be financed over a period longer than the estimated life of that project.
4. On all capital projects considered by Council, a disclosure statement shall be included, where appropriate, to identify annual operating costs of each project.
5. The City shall prepare a multi-year Capital Improvement Program (CIP), updated annually, which will meet the anticipated growth requirements of the City. The CIP shall be adopted by the Council as a guide for staff in planning the subsequent year's capital and financing needs.
6. Total tax-supported debt shall be maintained so as not to exceed five percent (5%) of the total assessed valuation of taxable property.

### **Financial Condition**

1. The City shall budget available resources to maintain an ending "fund balance" goal in each fund according to the following definitions and guidelines:
  - a. General Fund – 30 days of budget-based operating expenditures less debt service. "Fund balance" is defined as the unreserved, undesignated portion of total assets minus total liabilities.

- b. Enterprise Funds – 45 days of budget-based operating expenditures including debt service. “Fund balance” is defined as current assets minus current liabilities, excluding non-budgetary adjustments.
  - c. Before the City budgets any resources from “fund balance,” as defined above for the respective fund types, the “working cash” (cash and investment balances) of each fund shall be analyzed to ensure that adequate liquidity is projected to be available for cash flow purposes.
- 2. All Internal Service Funds shall be fully self-supporting to the extent that any retained earnings deficit shall be fully recovered in the subsequent fiscal year through increased charges to benefiting departments.
  - 3. Self insurance reserves shall be actuarially determined and periodically reviewed to evaluate experience and degree of risk assumptions.
  - 4. Council may opt, on an annual basis, to adjust fund balance targets in specific funds to meet short-term economic or other circumstances.

#### **Asset Maintenance**

- 1. In addition to anticipated growth requirements of the City, the multi-year CIP will identify major infrastructure repair and rehabilitation needs.
- 2. The City will prepare and maintain a facilities master plan. This document will serve as a management tool to project space needs including construction and/or modification of facilities.
- 3. Repair, renovation, and maintenance shall be regularly performed to protect the life of the assets and to ensure their safety and utility. A systematic program of routine and preventive maintenance shall be developed based on need identification and prioritization.
- 4. The Annual Operating Budget will provide sufficient funding levels for ongoing maintenance of the infrastructure.

#### **Accounting, Auditing, and Financial Reporting**

- 1. Accounting systems shall produce information that is consistent with generally accepted accounting principles for governmental entities.
- 2. An annual comprehensive audit shall be conducted of all funds by an independent public accounting firm in accordance with Council Policy FIN-02. A policy of full disclosure on every financial report and official statement shall be followed.

3. Year-end net revenues of the combined utility system (Electric, Water, Waste Water) shall be maintained at a level sufficient to cover average annual revenue debt service requirements and maximum year revenue debt service requirements by at least 1.25 times.
4. A condensed year-end Electric Utility financial report shall be prepared and receive widespread circulation to the ratepayers and taxpayers of the City of Garland.

### **Responsibility and Authority**

1. The City Manager shall have accountability to the City Council concerning the financial strategies outlined in this policy.
2. The City Manager is authorized to approve and execute by and on behalf of the City, purchases and/or contracts requiring expenditures up to and including the amount of \$99,999.99. The Purchasing Director, as directed by the City Manager, shall have the authority to purchase or contract for all goods and services needed by any department of the City or by any using agency that derives its support wholly or in part from the City.
3. The City Manager has authority for delegating financial transaction responsibilities to appropriate organizational levels for the efficient operation of the City.

## **(IV) BALANCED BUDGET**

The City of Garland defines a balanced budget as one in which combined projected resources (revenues and fund balances) equal or exceed combined estimated expenditures.

## **(V) BASIS OF BUDGETING AND ACCOUNTING**

The City utilizes the modified accrual basis of accounting for all Governmental Funds, which includes the City's General Fund. Revenues that are measurable and available are accrued at year-end. Measurable can refer to a reasonable estimate, and available means that the revenue will be collected in time to pay for current period expenditures. Revenue accrued at year-end typically includes Ad Valorem Taxes paid within 60 days of year-end, Franchise Fees, special assessments, intergovernmental revenue, Landfill Fees, and Interest Income. Expenditures for Governmental Funds include amounts actually paid and expenditures with invoice dates within the fiscal year.

The City utilizes the accrual basis of accounting for all Proprietary Funds. In keeping with this basis of accounting, utility revenues are recognized when billed rather than when collected. A prorated amount for partial billing cycles is also accrued at year-end. Expenses recognized under the accrual method include amounts actually paid and expenses with invoice dates within the fiscal year.



The budget for all funds is prepared on a modified accrual basis, with budgetary control set at the type-of-expenditure level (personnel, operations, and capital) within each departmental budget. Capital outlay and debt principal are included as budgetary expenses, but depreciation is not a budgeted expense.

Encumbrances (commitments to purchase goods and services) that are open on September 30<sup>th</sup> are recorded as a reservation of fund balance, and the subsequent year's Revised Budget is increased to reflect payment in a future period. Unspent and unencumbered appropriations lapse at fiscal year-end.

## **(VI) REVENUE MANAGEMENT DIRECTIVE**

The City Manager's Revenue Directive designates an appropriate staff person to serve as Revenue Manager for each of the City's sources of income.

Revenue Managers are responsible for the following:

- (1) Knowledge of the legal auspices for each revenue under their oversight.
- (2) Submitting budget estimates based on a documented forecast method.
- (3) Ensuring timely collection.
- (4) Monitoring revenue collection and trends via monthly reports.
- (5) Alerting Management of problems and resolving them as they arise.
- (6) Maintaining accurate Accounts Receivable aging reports.

This system of revenue management helps to ensure that not only expenditures, but also revenues, are closely monitored and maximized. It also places the responsibility for revenue management with those individuals who are in the best position to know and understand trends and outside factors that may influence or affect the City's various revenue streams.

## **(VII) PERFORMANCE MEASUREMENT**

The desire of the City Council and Management to closely measure and monitor the performance of City departments and programs has been addressed through the development of a performance measurement system. Included in the performance measures are indicators of service demand, output, outcomes, effectiveness, and efficiency.

The development and refinement of performance measures are an ongoing process for City departments and the City's Budget staff. The performance measures for each department and service area are included in the Department Detail section of the Annual Budget. In addition, City departments have numerous internal measures, not reflected in the Budget document, for monitoring and management purposes.

## **(VIII) GENERAL AND ADMINISTRATIVE ALLOCATION METHODOLOGY**

Departments within the General Fund provide administrative support for all City operations. Administrative support includes the services provided by Financial Services, Budget, Purchasing, and Human Resources, as well as others. Proprietary Funds are assessed a General and Administrative charge equivalent to 13.25% of their salary and benefits cost in order to recapture a portion of the cost associated with these services.

## **(IX) SUPPORT SERVICE FUNDS ALLOCATION METHODOLOGY**

Support Service Funds are those that provide services to other City departments and funds and then recoup their expenditures through an allocation of costs to the user departments. The Support Service Funds include:

- (1) Customer Service Fund
- (2) Facilities Management Fund
- (3) Information Technology Fund
- (4) Warehouse Fund

The Support Service Allocation Plan utilizes a unique allocation methodology for each area and takes into consideration the actual services provided to each user department. The allocation method for each Support Service is unique and typically involves a combination of multiple factors. For example, expenditures in the Information Technology (IT) Fund are broken down by division or type of service provided. The cost of each service is then allocated to other City funds based on a methodology that best fits the particular type of work being performed.

Other Support Service Funds not included as part of the allocation are Group Health Insurance, Self Insurance, and Fleet Services. These funds recoup their costs through direct charges to user departments rather than through the Allocation Plan.

## **(X) LISTING OF OTHER CHARTER PROVISIONS AND DIRECTIVES**

Provided below is a list of other provisions of the City Charter and additional City Manager Directives that govern the administration of the City's Budget and finances. In order to avoid adding significant length to the Budget document, they are simply listed below. Copies of these documents can be obtained by calling the City of Garland, Budget and Research Department, at 972-205-2511.

- (1) City Charter – Article IX. Collection of Taxes
- (2) City Charter – Article X. Issuance and Sale of Bonds
- (3) City Charter – Article XVII. Miscellaneous Provisions. Sec. 17. Special accounting for certain electric utility funds (Rate Mitigation Fund)
- (4) Capital Improvement Program – Directive
- (5) Equipment Replacement Fund – Directive
- (6) Information Technology Replacement Fund – Directive
- (7) Information Technology Project Fund – Directive
- (8) Capitalization of Expenditures