

Exhibit A

City of West University Place

COMPREHENSIVE FINANCIAL MANAGEMENT POLICY

January 9, 2023

FINANCIAL MANAGEMENT POLICY

To establish and document a policy framework for fiscal decision making, the City Manager will develop and maintain a comprehensive set of Financial Management Policy Statements. The aim of these policies is to ensure that financial resources are properly managed to meet the present and future needs of the citizens of West University Place. Specifically, this policy framework mandates the pursuit of the following fiscal objectives:

- I. *Revenues:* Maintain and administer a revenue system that will ensure a reliable, equitable, diversified, and sufficient revenue stream to support desired City services.
- II. *Expenditures:* Ensure fiscal stability, and the effective and efficient delivery of services, through the identification of necessary services, the establishment of appropriate service levels, and the careful administration of the expenditure of available resources.
- III. *Fund Balance/Working Capital:* Maintain the unassigned fund balance and working capital of the various operating funds at levels sufficient to protect the City's creditworthiness, along with its financial positions, from unforeseeable emergencies.
- IV. *Capital Assets and Improvements:* Evaluate the condition of the City's capital assets, and set priorities for the addition, replacement, and renovation of such assets based on needs, funding alternatives, and availability of resources.
- V. *Debt Management:* Establish guidelines for debt financing that will provide needed capital equipment and infrastructure improvements while minimizing the impact of debt payments on current revenues.
- VI. *Grants:* Provide a process for seeking and administering federal, state, and foundation grants-in-aid that address the City's current priorities and policy objectives.
- VII. *Fiscal Monitoring:* Provide, as directed by the City Charter, Article VII, Section 7.11, monthly reports to City Council on the financial condition of the City.
- VIII. *Accounting, Auditing, and Financial Reporting:* Comply with prevailing federal, state, and local statutes and regulations, as well as current professional principles and practices.
- IX. *Cash Management:* Maintain the City's cash to ensure the safety of principal, meet the liquidity needs of the City, and achieve the highest-possible yield in compliance with the Public Funds Investment Act (Chapter 2256 of the Local Government Code) and the City's Investment Policy, as approved annually by the City Council.

- X. *Internal Controls:* Establish and maintain an internal control structure designed to provide reasonable assurance that City assets are safeguarded and that the possibilities for material errors in the City's financial records are minimized.

- XI. *Budgeting and Long-Range Financial Planning:* Provide budgeting guidelines to ensure a financially sound City, along with a long-range financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets.

I. REVENUES

Maintain and administer a revenue system that will ensure a 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 that adversely impact that source.

B. User Fees

For services that benefit specific users, the City shall establish and collect fees to recover the costs of those services. Where feasible and desirable, the City shall seek to recover full direct and indirect costs; however, ultimately, the City Council shall approve the established fees and appropriate cost recovery level. User fees shall be reviewed annually (at a minimum) to calculate their full cost recovery levels, compare them to the current fee structure, and recommend adjustments where necessary.

C. Property Tax Revenues/Tax Burden

The City shall endeavor to reduce its reliance on property tax revenues by revenue diversification and implementation of user fees and other alternative revenue sources. The City shall strive to minimize the property tax burden on West University Place citizens.

D. User Fees for Enterprise Funds

The City's goal for enterprise funds (such as for water and sewer, and for solid waste) is to be self-supporting. As a result, utility rates and user fees for enterprise funds shall be set at levels sufficient to cover operating expenditures, meet debt obligations, provide additional funding for capital improvements, and provide adequate levels of working capital to meet reserve requirements.

E. Indirect Cost Chargebacks

The goal of indirect cost chargebacks is to reimburse costs paid by the General Fund for services utilized in support of the enterprise funds. This prevents duplication of services and additional costs to the taxpayer and ratepayer. Where appropriate, the enterprise funds shall pay the General Fund for direct services rendered.

F. Revenue Estimates for Budgeting

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 in revenues.

G. Revenue Collection and Administration

The City shall maintain high collection rates for all revenues by keeping the revenue system as simple as possible in order to facilitate payment. In addition, since revenue should exceed the cost of producing it, the City shall strive to control and reduce administrative costs. The City shall pursue, to the full extent allowed by state law, all delinquent taxpayers and others who are overdue in payments to the City.

H. Write-Off of Uncollectible Accounts

The City shall monitor payments due to the City (accounts receivable) and annually write-off accounts where collection efforts have been exhausted and/or collection efforts are not feasible or cost-effective. It is important to note that any uncollectible amounts removed from the City's software system are still debts owed the City, subject to applicable statutes of limitations, if any.

I. Use of One-Time Revenues

One-time revenues, such as the sale of fixed assets, gifts/donations and grants, should only be used to fund non-recurring expenditures for the specific designated purpose, if stipulated.

II. EXPENDITURES

Ensure fiscal stability, and the effective and efficient delivery of services, through the identification of necessary services, the establishment of appropriate service levels, and the careful administration of the expenditure of available resources.

A. Current Funding Basis

The City shall operate on a current funding basis. Expenditures shall be budgeted and controlled so as not to exceed current revenues plus the planned use of the fund balance accumulated through prior-year savings (the Fund Balance/Working Capital Policy Statements shall guide the use of the fund balance).

B. Avoidance of 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 at the fund level (i.e., projected expenditures in excess of projected revenues) is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or use of the fund balance within the Fund Balance/Working Capital Policy. Expenditure deferrals into the following fiscal year, short-term loans, or use of one-time revenue sources should be avoided to balance the budget.

C. Maintenance of Capital Assets

Within the resources available each fiscal year, the City shall strive to maintain capital assets and infrastructure at a sufficient level to protect the City's investment in order to minimize future replacement and maintenance costs, and to continue service levels.

D. Periodic Program Reviews

The City shall strive to undertake periodic staff and third-party reviews of City programs for both efficiency and effectiveness. If a program is determined to be inefficient and/or ineffective, staff will discuss options for the program with Council.

E. Purchasing

The City shall conduct its purchasing and procurement functions efficiently and effectively, fully complying with applicable state laws, City ordinances, and the City Purchasing Policy. Staff shall make every effort to maximize discounts and capitalize on savings available through competitive bidding and "best value" purchasing.

III. FUND BALANCE/WORKING CAPITAL

Maintain the unassigned fund balance and working capital of the various operating funds at levels sufficient to protect the City's creditworthiness, along with its financial positions from unforeseeable emergencies.

Definitions

Fund Equity – A fund's equity is generally the difference between its assets and its liabilities.

Fund Balance – An accounting distinction is made between the portions of fund equity that are either spendable or non-spendable. These are classified in five categories:

1. Non-spendable fund balance – Includes amounts that are not in a spendable form or that are required to be maintained intact. Examples are inventory or permanent funds.
2. Restricted fund balance – Includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants, court security, and child safety fees.
3. Committed fund balance – Includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the constraint originally.
4. Assigned fund balance – Comprises amounts intended to be used by the City for specific purposes. Intent can be expressed by City Council or by an official or body to which the City Council has delegated the authority. In governmental funds other than the General Fund, the assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
5. Unassigned fund balance – This is the residual classification of the General Fund, and it includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

Working Capital – A financial metric that represents the operating liquidity available to an organization or governmental entity. Net Working Capital is calculated as current assets minus current liabilities.

A. General Fund's Unassigned Fund Balance

The City shall strive to maintain the General Fund's unassigned fund balance at 20% of the current year's budget appropriation for operations of the General Fund. If the unassigned fund balance falls below the goal or has a deficiency, the City will report the deficiency as part of the General Fund as committed. The deficiency will be reported in the City's financial statements.

B. Working Capital of Enterprise Operating Funds

In enterprise operating funds, the City shall strive to maintain positive working capital to provide sufficient reserves for emergencies and revenue shortfalls. Specifically, in the Water and Sewer Enterprise Fund, an operating reserve will be established and maintained at 10% of the current year's budget appropriation for operations of the Water and Sewer Fund, which is defined as the total budget less debt service and capital project expenditures.

C. Use of Fund Balance/Working Capital

Fund balance/working capital shall be used only for emergencies, non-recurring expenditures, or major capital purchases that cannot be accommodated through current-year savings. Should such use reduce the balance below the appropriate level set as the objective for that fund, then restoration recommendations will accompany the decision to utilize said remaining balance.

D. Working Capital of Internal Service Funds

1. Vehicle Replacement Fund

The Vehicle Replacement Fund reserve will be maintained based upon a lifecycle or useful life replacement plan to ensure the adequate fund balance required for the systematic replacement of fleet vehicles. The fund balance shall not be less than 20% of the total gross capital assets of the Vehicle Replacement Fund.

2. Technology Management Fund

The Technology Management Fund reserve will be maintained based upon a lifecycle or useful life replacement plan to ensure the adequate fund balance required for the systematic replacement of technology. The fund balance shall not be less than 20% of the current year's budget appropriation for operations of the Technology Management Fund.

3. Asset Replacement Fund

The Asset Replacement Fund reserve will be maintained based upon a lifecycle or useful life replacement plan to ensure the adequate fund balance required for the systematic replacement of assets. The fund balance shall not be less than 20% of the total gross capital assets of the Asset Replacement Fund.

4. 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. The fund balance shall not be less than 20% of the current year's budget appropriations for operations of the Employee Benefits Fund.

5. Human Resources Services Fund

The Human Resources Services Fund reserve shall be maintained at 20% of the current year's budget appropriation for operations of the Human Resources Services Fund.

E. Debt Service Fund(s)

The City shall maintain the debt service fund(s) balance at 10% of the annual debt service requirements or a fund balance reserve as required by bond ordinances, whichever is greater.

Unassigned fund balance exceeding the target set by policy, otherwise known as surplus, should be used for one-time expenditures. A surplus in the unassigned fund balance is considered a one-time revenue source and should not be used to fund recurring operational needs. Surplus unassigned fund balance in the General Fund may be transferred to the Capital Reserve Fund. If the unassigned fund balance falls below the target, the City will reduce recurring expenditures to eliminate any structural deficit for such period as necessary until the unassigned fund balance meets the minimum balance as required by this Policy. The City shall make reasonable efforts to fully replenish the fund balance within three years of a deficit onset.

When multiple categories of fund balances are available for an expenditure, the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds. As an example, a construction project may be funded partly by a grant, with funds set aside by the City Council and an unassigned fund balance.

The Finance Director is responsible for monitoring and reporting the City's fund balances. The City Manager is responsible for making recommendations to City Council on the use of fund balance surpluses during the Annual Budget process.

IV. CAPITAL ASSETS AND IMPROVEMENTS

Evaluate the condition of the City's capital assets, and set priorities for the addition, replacement, and renovation of such assets based on needs, funding alternatives, and availability of resources.

A. Capital Improvements Planning

The City shall annually review the needs for capital improvements and equipment, the current status of the City's infrastructure, replacement and renovation needs, and potential new projects. All projects, ongoing and proposed, shall be prioritized based on an analysis of current needs and resource availability. For every capital project, all operation, maintenance, and replacement costs shall be fully identified.

B. Replacement of Capital Assets on a Regular Schedule

The City shall annually prepare a schedule for the replacement of its non-infrastructure capital assets. The Vehicle Replacement Fund and Asset Replacement Fund have been established to purchase non-infrastructure capital assets. This may be used as a sinking fund to purchase vehicles and assets valued above \$5,000. Within the resources available each fiscal year, the City shall replace these assets based on estimated life, repair costs, and replacement costs.

C. Capital Expenditure Financing

The City recognizes that there are three basic methods of financing its capital requirements. It can budget the funds from current revenues; it can take the funds from fund balance/working capital, as allowed by the Fund Balance/Working Capital Policy; or it can borrow money through the issuance of debt. Debt financing includes general obligation bonds, revenue bonds, certificates of obligation, lease/purchase agreements, certificates of participation, tax notes, and other obligations permitted to be issued or incurred under Texas law. Guidelines for assuming debt are set forth in the Debt Policy Statements.

V. DEBT

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

The City of West University Place is authorized by federal law, Texas law, and the City Charter to issue long-term debt to finance the cost of permanent public improvements. The process of issuing debt, making debt service payments, and reporting results is regulated by federal and state law. The management of debt proceeds (including investment, appropriation, and spending) is also heavily regulated, and must be addressed to ensure transparency to the public, and responsiveness to oversight and reporting agencies, as well as compliance with internal controls, records requirements, and security for cash proceeds.

A. Use of Debt Financing

Debt financing (including general obligation bonds, revenue bonds, certificates of obligation, certificates of participation, and other debt obligations permitted to be issued or incurred under Texas law) shall only be used to purchase capital assets and equipment that cannot be prudently acquired from either current revenues or fund balance/working capital, and to fund infrastructure improvements and additions. The useful life of the asset or project shall exceed the payout schedule of any debt the City assumes. Debt will not be issued to fund operating expenditures.

B. Assumption of Additional Debt

Prior to issuing debt, the City shall first consider other alternative funding methods, including current revenues, unassigned/unrestricted reserve funds, and grants. The City shall also consider the Fund Balance Policy and liquidity needs. When appropriate, the City may issue short-term obligations that are maturing within the current fiscal year for cash flow management purposes.

The City shall not assume more debt than it retires each year without conducting an objective analysis as to the City's ability to assume and support additional debt service payments. Per Section 7.07 of the City Charter, the City shall limit the total debt secured by ad valorem taxes to an amount not to exceed 5% of the net taxable assessed valuation of property in the City.

C. Debt Types

1. General Obligation Bonds

General Obligation Bonds are backed by the full faith and credit, as well as the ad valorem tax authority of the City, and must be authorized by a vote of the citizens of the city, as prescribed by state law. The City shall use an objective analytical approach to determine whether it can afford to assume new general-purpose debt (such as General Obligation bonds, tax notes, and Certificates of Obligation) beyond what it retires each

year. This process shall take into consideration any potential impact to the City's credit ratings, along with the growth in the City's taxable assessed value and the targeted debt service tax rate. The process shall also examine the direct costs and benefits of the proposed expenditures. The decision on whether or not to assume new debt shall be based on these costs and benefits, the current conditions of the municipal bond market, and the City's ability to "afford" new debt as determined by the aforementioned standards.

2. Certificates of Obligation

Certificates of Obligation may be issued without a public election to finance any public work project or capital improvement, as permitted by state law.

3. Revenue Bonds

Revenue bonds are secured solely by the revenues of an enterprise fund. As a result, the credit markets look at the type of enterprise securing the payment of debt service on the bonds to determine the level of security necessary for the purchase of the bonds. Whether revenue bonds can be secured with gross revenues of the enterprise or net revenues (i.e., those revenues remaining after paying costs of operation and maintenance) is often determined by state law.

As an alternative to issuing revenue bonds, the City may issue Certificates of Obligation or General Obligations, and transfer the annual debt service requirements from the Enterprise Fund (water and sewer, or solid waste) to the Debt Service Fund. Historically, this approach has resulted in interest rate savings due to the City's bond rating.

D. Debt Structure

Generally, the City shall issue bonds with a term life of up to 30 years, but not greater than the useful life of the assets. With respect to the issuance of revenue bonds for a stand-alone or self-supporting project, the term of the debt and debt service structure shall be consistent with the useful life of the project and the revenue-generating capability of the project.

Generally, new General Obligation Bonds or Certificates of Obligation debt will be structured to minimize the tax rate impact to citizens of the city, and revenue bonds will be structured to produce level debt service requirements. There shall be no debt structures, which includes increasing debt service levels in subsequent years, with the exception of the first and second year of a payment schedule. There shall always be at least interest paid in the first fiscal year after a bond sale and principal starting generally no later than the second fiscal year after the bond issue. In the case of a revenue-generating project, principal repayment should begin no later than the first full year after the project has been placed in service.

E. Call Provisions

Call provisions for bond issues shall be made as short as possible, consistent with the lowest interest cost to the City. When possible, all bonds shall be callable only at par.

F. Sale Process

The City will evaluate the best process to result in a sale, either through a negotiated sale or a bid process. The City shall attempt to award the bonds based on a true interest cost (TIC) basis.

G. Timing of Sales

The City may consider using reimbursement resolutions and its cash to initiate certain projects. Consideration should be given to any lost interest earnings on the City's cash compared to the anticipated interest expense associated with the issuance of obligations by the City. This process will improve the City's ability to time its entry into the long-term fixed-rate market, and to manage its debt issuances and debt payments in order to minimize the impact on tax rates and utility rates.

H. Rating Agency Presentations

Full disclosure of operations and open lines of communication shall be made to the rating agencies. City staff shall prepare the necessary materials and presentations to the rating agencies. Credit ratings will be sought from one or more of the nationally recognized municipal bond rating agencies, which are currently Moody's, Standard & Poor's, and Fitch.

I. Continuing Disclosure

The City is committed to providing continuing disclosure of financial and pertinent credit information relevant to the City's outstanding securities, and will abide by the provisions of U.S. Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure. City staff will update financial and pertinent credit information within six months of the end of the City's fiscal year and at such other times as may be indicated by material changes in the City's financial situation.

J. Debt Refunding

The refinancing and/or restructuring of existing debt is used to take advantage of lower interest rates and/or to provide debt relief. The City's financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt.

K. Interest Earnings

Interest earnings received on the investment of bond proceeds shall be used on additional infrastructure projects. Every effort will be made to avoid creating arbitrage to be paid.

L. Proposals from Investment Bankers

Unsolicited proposals should be submitted to the City's Finance Department and the City's financial advisor. City staff will also review these proposals to determine their viability.

M. Underwriting Syndicates

The City attempts to involve qualified and experienced firms that consistently submit ideas to the City, and that actively participate in the City's competitive sales and in conjunction with the

City's financial advisor in its negotiated underwritings. City staff, in conjunction with the City's financial advisor, will recommend the structure of underwriting syndicates that will be effective for the type and amount of debt being issued.

N. Reporting Requirements

The City, with the assistance of the City's financial advisor and bond counsel, will comply with federal requirements and existing bond ordinances to inform the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access (EMMA) website of any and all continuing disclosure documents and annual financial statements. The City will maintain procedures to comply with arbitrage rebates and other federal requirements related to the debt issuance.

O. Bond Reimbursement Resolutions

The City may utilize bond reimbursements as a tool to manage its debt issuances, due to arbitrage requirements and project timing. In doing so, the City will use existing funds to delay bond issuances until a later time when it is more favorable and most beneficial to the City.

VI. GRANTS

Provide a process for seeking and effectively administering federal, state, and foundation grants-in-aid that address the City's current priorities and policy objectives.

A. Grant Guidelines

The City shall apply, and facilitate the application by others, for only those grants that are consistent with the objectives and high-priority needs previously identified by the City Council. The potential for incurring ongoing costs, including the assumption of support for grant-funded positions from local revenues, will be considered prior to applying for a grant.

B. Indirect Costs

The City shall recover full indirect costs unless the funding agency does not permit it. The City may waive or reduce indirect costs, if doing so will significantly increase the effectiveness of the grant.

C. Grant Review

Prior to application, all grants will be reviewed for their funding requirements, revenue source, impact on the current and future operating budgets, and the extent to which they meet the City's policy objectives.

Grant requests will be submitted to the City's Finance Department for the initial review and approval, typically during the annual budget process.

For those grants with greater complexity, funding requirements or future ongoing obligations, prior to application, staff will seek approval from City Council on pursuing the grant application. In certain situations, if the deadline for a grant application does not allow for discussion with City Council prior to the application deadline, staff, with the approval of the City Manager, may apply for the grant and then bring it back for City Council's approval at the earliest feasible time.

D. Grant Award

All grant awards above \$50,000, or those needing a budget amendment, will go before City Council for approval.

E. Grant Program Termination

The City shall terminate grant-funded programs and associated positions when grant funds are no longer available, unless alternate funding is identified prior to the expiration of the grant.

VII. FISCAL MONITORING

Provide, as directed by the City Charter, Article VII, Section 7.11, monthly reports to City Council on the financial condition of the City.

A. Financial Status and Performance Reports

The Finance Director shall provide monthly reports to City Council showing the annual amount budgeted, the amount realized the preceding month, and the amount realized in the fiscal year to the report date.

B. Annual Policy Review

The Financial Management Policy and investment policies of the City shall be reviewed annually by finance staff, and any changes will be presented to the City Manager for review before being presented to City Council for approval.

VIII. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

Comply with prevailing federal, state, and local statutes and regulations, as well as current professional principles and practices.

A. Conformance to Accounting Principles and Recommended Practices

The City's accounting practices and financial reporting shall conform to Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants (AICPA), and the Government Finance Officers Association (GFOA).

B. Signature of Checks

All checks shall have two signatures. Signatures shall be affixed to all City checks via facsimile signatures, made with a secure laser check printing system or through handwritten signatures affixed to each check.

C. Annual Audit

The City Council 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 that is licensed to practice in the State of Texas. The annual financial statement, including the auditor's opinion on the statement, should be filed with the City Secretary within 180 days after the last day of the fiscal year. The audit firm shall also provide a Single Audit Report of federal and state grants, when necessary. An official Annual Comprehensive Financial Report (ACFR) shall be issued no later than six months following the end of the fiscal year. The Finance Director shall be responsible for establishing a process to ensure timely resolution of audit recommendations.

D. Financial Consultants

The City shall seek out and employ the assistance of qualified financial advisors and consultants as needed in the management and administration of the City's financial functions. Financial advisors and consultants providing professional services as defined by Texas Government Code 2254 and Local Government Code 252.022 are exempt from competitive bidding requirements.

The professional service provider shall be selected using requests for qualifications and based upon demonstrated expertise relative to the scope of work to be performed. Examples of services provided by financial advisors and consultants include but are not limited to investments, debt administration, financial accounting systems, program evaluation, and financial impact modeling.

Independent Auditors

In regards to the audit, it is important that the auditors remain independent. To emphasize independence from management, the City has established a practice of the City Council appointing the auditor, and the auditor reporting to the City Council the final report, along with any findings.

Every five years, the City shall request proposals from all qualified firms through a Request for Proposal (RFP) process, including the current auditors if their past performance has been satisfactory. City Council shall approve the selection of an independent firm of certified public accountants to perform an annual audit of the books of account, records, and transactions – and then to render an opinion on the Financial Statement and Single Audit Report, and report the results and recommendations to the City Council.

It is the City's preference, but not a requirement, to rotate audit 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 selection of the audit firm will be based upon the proposals received, the reputation and qualifications of the firm, and the firm's ability to perform a quality audit.

If through the RFP solicitation and review process, management recommends the current audit firm for another engagement term, then, under the Sarbanes-Oxley Act of 2002, the lead audit partner, along with the lead reviewer, must be rotated after a maximum of five years.

Annually, the independent auditor will provide a letter of engagement to the City for annual audit services.

Arbitrage Consultants

Arbitrage occurs when tax-exempt bond proceeds are invested in higher-yielding taxable securities, resulting in a profit. While the City is responsible to ensure that records are in order, and that the calculations are made, and the reporting and filings are completed, the actual arbitrage calculation and reporting shall be contracted out to a qualified firm.

The Finance Director and the Arbitrage Consultant shall complete a risk assessment of positive arbitrage on each bond issue annually to determine the necessity for a calculation of positive/negative arbitrage in the current year.

All bond issues in accordance with arbitrage regulations shall have each fifth-year and final-arbitrage calculations completed.

Bond Counsel

The Bond Counsel provides the City with legal opinions and services concerning the issuance and sale of bonds and other debt instruments. Generally, bonds are not marketable without an opinion of a nationally recognized bond counsel stating that the bonds are valid and binding

obligations, and also stating the sources of payment and security for the bonds, and that the bonds are exempt from state and federal income taxes (if applicable).

Bond Counsel is responsible for the following tasks in a transaction:

1. Preparation of ballot propositions, ordinances, and notices to call a bond election
2. Submission of documents to the state Attorney General for approval
3. Preparation and oversight of bond proceedings
4. Assurance that the City meets all legal requirements and authorization of the bond offering
5. Interpretation of relevant regulations and laws, and assists in structuring the issue
6. Writing of key financing documents.

To ensure that the City is still receiving services for fair market value, staff will conduct a review every five years of bond counsel fees, and will present a comparison and analysis to the City Manager.

Municipal Advisor

The Government Finance Officers Association (GFOA) recommends that issuers hire a Municipal Advisor prior to the undertaking of debt financing, unless the issuer has sufficient in-house expertise and access to current bond market information.

Debt structuring and issuance require 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; coordination of rating agency relations; evaluation of, and advice on, the pricing of securities; assistance with closing and debt management; calculation of debt service schedules; and provision of recommendations on the management of the City's finances, including evaluation of debt structures and refinancing opportunities.

While retaining the services of a Municipal Advisor, the City shall post an IRMA Exemption Letter on the City's website. The Independent Registered Municipal Advisor (IRMA) Exemption Letter states that the City has retained an IRMA and that the City will rely on the advice of the Municipal Advisor in the issuance of municipal securities.

The Municipal Advisor must be registered with the U.S. Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board as a Municipal Advisor. Since municipal advisors to governmental entities have developed the necessary expertise in a broad range of services, the City will use a consultant for these services.

To ensure that the City is still receiving services for fair market value, staff will conduct a survey every five years of Municipal Advisory fees, and present a comparison and analysis to the City Manager.

While a Municipal Advisor plays a key role on the financing team, it is important to note that the City remains in control of the decision-making process necessary for the issuance and sale of the bonds or for the implementation of the financing.

The selected Municipal Advisor shall not be permitted to serve as underwriter on any bond transactions while serving in the Municipal Advisor role. Upon termination of the Municipal Advisor contract, a period of at least one year must pass before the firm may be engaged as an underwriter on any bond transaction for the City.

IX. CASH MANAGEMENT

Maintain the City's cash to ensure the safety of principal, meet the liquidity needs of the City, and achieve the highest-possible yield in compliance with the Public Funds Investment Act (Chapter 2256 of the Local Government Code) and the City's Investment Policy, as approved annually by the City Council.

A. Investment Policy

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

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, as well as safekeeping requirements, collateral requirements, delivery vs. payment requirements, weighted average maturity requirements, and such other aspects of the program that necessitate standard setting in pursuit of appropriate prudence and enhanced protection of assets.

B. Investment Strategy

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. For more details, refer to the City's Investment Policy as adopted by City Council annually.

C. Interest Income

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

D. Depository Bank

The City will select its official bank depository through a formal bidding process 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.

E. Collateralization of Deposits

Securities pledged as collateral will be held in the City's name by an independent third party with whom the City has a current custodial agreement. The collateralization level will be one hundred and two percent (102%) of the total value of principal plus accrued interest on the

deposits, less an amount insured by the U.S. Federal Deposit Insurance Corporation (FDIC). The City's depository bank monitors the required collateral, and makes necessary adjustments to increase or decrease it. The pledge of collateral shall comply with the City's Investment Policy.

X. INTERNAL CONTROLS

Establish and maintain an internal control structure designed to provide reasonable assurance that City assets are safeguarded and that the possibilities for material errors in the City's financial records are minimized.

A. Proper Authorizations

Procedures shall be designed, implemented, and maintained to ensure that financial transactions and activities are properly reviewed and authorized.

B. Separation of Duties

Job duties will be adequately separated, as much as possible for a city the size of West University Place, to reduce to an acceptable level the opportunities for any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of assigned duties.

C. Proper Recording

Procedures shall be developed and maintained that will ensure that financial transactions and events are properly recorded, and that all financial reports may be relied upon as being accurate, complete, and up to date.

D. Access to Assets and Records

Procedures shall be designed and maintained to ensure that adequate safeguards exist over the access to, and use of, financial assets and records.

E. Independent Checks

Independent checks and audits will be made on staff performance to ensure compliance with established procedures and proper valuation of recorded amounts.

F. Costs and Benefits

Internal control systems and procedures must have apparent benefits in terms of reducing and/or preventing losses. The cost of implementing and maintaining any control system should be evaluated against the expected benefits to be derived from that system.

XI.

BUDGETING AND LONG-RANGE FINANCIAL PLANNING

Provide budgeting guidelines to ensure a financially sound City, along with 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, along with the City Council, shall annually file a budget for the ensuing fiscal year that is in compliance with state law and Section 7.03 of the City Charter. In addition, it is expected that the annual operating budget will be structurally balanced, meaning that revenues and the appropriated fund balance equal or exceed expenditures. Generally, the fund balance should not be a recognized budgeted revenue to support ongoing operations in the annual budget. The fund balance may be budgeted to fund one-time expenses such as capital projects. The fund balance may be drawn upon for cash flow needs, and may be used as revenue without amending the budget if other revenue sources, in total, fall short of the estimate used in the adopted budget. In this case, ending reserves may be lower than beginning reserves and below the reserve requirement. Except in these instances, fund balance reserves may be appropriated only by budget amendment.

B. Current Funding Basis (Recurring Revenues)

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

C. Non-Recurring Revenues

Non-recurring revenue sources, such as a one-time revenue remittance or a fund balance that is more than policy, should 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. Property Tax Rate

By law, the City must levy a tax rate sufficient to generate revenues that will meet outstanding debt obligations, net of outside funding sources (transfers from other funds). The City Manager will recommend a budget based on property tax revenues that City finances require to operate efficiently, yet effectively, and that meets the City Council's expectations of services provided and service levels.

E. Budget Preparation

Department Directors have primary responsibility for formulating budget proposals. New or expanded services should support City Council goals, City Manager priority direction, and department goals. Departments are charged with implementing them once they are approved.

Actions on items that come up throughout the year with significant financial impacts should be withheld until they can be made in the full context of the annual budget process and long-range plan, unless unforeseen circumstances present themselves.

Annually, the City will seek to obtain the Government Finance Officers Association's Distinguished Budget Presentation Award. The budget will be presented in a way that not only meets the criteria of this award, but that also clearly communicates the budget to the public.

F. Budget Management, Including City Manager's Budget Transfer Authority

As provided by Article VII of the City Charter, the City Council shall adopt and enforce an annual budget in accordance with state law, to the extent that the Charter is consistent with state law. The City Council hereby authorizes the City Manager to transfer funds within any department and to transfer funds between departments within a fund – provided, however, the budget transfer authority of the City Manager is limited to \$50,000 for transfers between departments and is limited to \$50,000 between projects in the capital improvement projects fund. The City Council must approve any budget transfer that increases or decreases the appropriation for any fund.

G. Long-Range Financial Plans

The City shall develop and maintain a multi-year financial forecast for each major operating fund, in conjunction with the annual budget process. Major operating funds are:

- General Fund
- Debt Service Fund
- Water/Sewer Utility Fund
- Solid Waste Fund

The forecast should enable current services to be sustained over the forecast period. Operating impacts from completed capital improvement projects (CIPs) in the City's Five-Year CIP shall be included in the forecast. Commitments/obligations already made that require future financial resources shall also be included.

The forecast should assess 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.