

**CITY OF MONT BELVIEU  
CITY COUNCIL POLICY**

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Approved By  
City Council: October 14, 2004  
Reviewed By: Bryan Easum

<b>TITLE: Financial Management &amp; Budgetary Policy</b>
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**Introduction**

This, the Financial and Budgetary Policy of the City of Mont Belvieu, Texas, sets forth the basic framework for fiscal management of the City. This policy was developed within the guidelines and provisions of the Texas Local Government Code as applicable to a Type A general law municipality.

**Purpose**

The purpose of formally adopting a budgetary and financial management policy is; 1) to express a commitment to the highest standards of financial reporting; and, 2) to express a commitment of both staff and Council to sound long-term financial planning and practices in order to ensure long-term financial stability and a healthy financial position of the City.

**I. Basis of Accounting**

- A) Generally Accepted Accounting Principles - The City's finances shall be accounted for in accordance with generally accepted accounting principles (G.A.A.P.) as established by the Governmental Accounting Standards Board.
- B) Fund Types and Funds - The accounts of the City are organized and operated on the basis of funds and account groups.
  - a. Funds that are classified as Governmental Funds are the General Fund, Special Revenue funds, Debt Service fund(s) and Capital Project funds. Governmental Funds utilize the modified accrual basis of accounting when accounting for the revenues and expenses of these funds. This means that revenues are accrued and expenditures are recognized when the related fund liability is incurred, if measurable, except for principal and interest on long-term debt, which is recognized when the debt payment is due.
  - b. The City has four (4) funds that are classified as Proprietary type funds. Three are sub-categorized as Enterprise Funds. They are; 1) the Golf Course Fund, 2) the Recreation Center Fund, and, 3) the Public Utility Fund. One is recognized as an Internal Service Fund (the Health Service Fund). Enterprise funds and internal service funds record revenue when it is earned and expenses are recorded at the time liabilities are incurred.

**II. Annual Budget**

- A) Budget Officer - The Mayor is designated to serve as the Budget Officer for the City.
- B) Fiscal Year - The fiscal/budget year of the City of Mont Belvieu shall begin October 1<sup>st</sup> of each calendar year and will end on September 30<sup>th</sup> of the following year.
- C) Budget Preparation - The City Budget shall be prepared in accordance with all applicable laws of the State of Texas. Each year the Budget Officer shall present the proposed budget for the next fiscal year to the City Council no later than sixty (60) days prior to the end of the fiscal year. The

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**Annual Budget (Continued)**

budget shall be comprehensive in nature and address all operating funds of the City, including governmental funds and proprietary funds.

- D) Lapse of Annual Appropriations - All appropriations shall lapse at fiscal year-end, September 30<sup>th</sup>, each year. Under the City's budgetary process, outstanding encumbrances are reported as a reservation of fund balance. Encumbrances outstanding at the end of the fiscal year are carried forward to the subsequent fiscal year so that obligated, but unspent budgeted funds may be matched with the expenditure of funds.
- E) Balanced Budget – It shall be expected that each year the budget of each fund shall be balanced. This means that total resources available, including prior-year ending resources plus projected revenues, shall be equal to or greater than the projected expenditures for the coming year. In a case where a deficit fund balance does occur; a) the Budget Officer shall explain the reasons why any budgeted fund is budgeted to have a deficit posture, b) the goal shall be to adjust revenues and/or expenses so that the deficit is eliminated in no more than two (2) budget years, with the exception of the Public Utility Fund.
- F) Cost Accounting and Budget - It shall be the policy of the City to allocate all direct costs that may be reasonably allocated, and budget according to the various funds, to the extent practical. This includes such items as utility costs, fuel costs, vehicle lease charges, maintenance costs, overhead manpower and insurance fees. The cost of group insurance and workman's compensation costs shall be aggregated and accounted for as a "combined service" cost in each fund in order to provide a more complete perspective of the overall cost of these outlays.
- G) Maintenance of Plant and Equipment - The operating budget will provide adequately for the maintenance of the City's infrastructure, buildings, operating plants, and equipment. Deferral of such costs on a long-term basis will not be an acceptable policy to use in an effort to balance the budget. A Fixed Asset Replacement Fund (F.A.R.F.) will be funded and/ or financed as the primary means of funding the replacement of the City's capital assets. Large, very expensive assets such as new sewer plants, buildings, lift stations, water and sewer lines, as well as replacements of water and sewer lines, and other large infrastructure assets will not be provided for in the F.A.R.F. These major capital improvements will normally be funded through the issuance of long-term debt.
- H) Accountability for City Property – The Finance Department shall maintain a complete and accurate recording of the assets of the City. Such inventory shall account for "Controlled Property" assets (see Capitalization Policy) as well as "Capitalized Assets." Further, whenever an asset is destroyed, retired, or otherwise removed from service, such items shall not be disposed of or sold without Council's having declared the item(s) "surplus property."

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**Annual Budget (Continued)**

- I) Presentation of Final Budget Document - The final budget document shall be produced and distributed no later than ninety (90) days following the date of the budget's adoption by the Council.

**III. Budget Administration**

- A) Level of Budgetary Control - All operating and capital expenses of the City shall be made in accordance with the adopted budget. The City Council has established the department level as the legal level of budgetary control by provisions stated in its budget ordinance.
- B) Budgetary Transfers - Budgetary transfers between operating departments and/or funds must be accomplished by budget amendment approved by the City Council. Budget amendments calling for new fund appropriations must be approved by the City Council, as well.
- C) Year-end Encumbrances - In accordance with budget policy, the Director of Finance shall have the authority to increase a department's line item budget by the amount equal to outstanding encumbrances (purchase orders) at year-end (September 30<sup>th</sup>), to be appropriated out of the fund balance.

**IV. Financial Reporting**

- A) Finalized Audit Report - Within one hundred twenty days (120) following the conclusion of the fiscal year, the City's Director of Finance shall cause to be prepared an audit of the City's financial records prepared by independent certified public accountants designated by City Council.
- B) Interim Financial Statements - The Director of Finance shall issue monthly interim financial statements to the Council reflecting the City's financial condition in conformity with the annual budget.

**V. Revenues**

- A) Maintain Diversified Revenue Sources - The City will attempt to maintain diversified and stable revenue sources to shelter it from extreme fluctuations. Recognizing that sales tax is a volatile, unpredictable source of revenue, the City will attempt to reduce its dependence on sales tax revenue.
- B) Property Tax Levy - The City shall levy a property tax rate with two components: 1) maintenance and operations; and, 2) interest and sinking. Property taxes collected from the maintenance and operating levy will be accounted for in the General Fund. The interest and sinking levy shall be sufficient to meet the annual principal and interest requirements associated with the City's

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**V. Revenue (Continued)**

(B. continued)

outstanding general obligation debt for that budget year and will be accounted for in the Interest and Sinking Fund.

- C) User Charges to Recover Full Costs - The City will assess user charges and fees at levels that attempt to recover the full cost of providing the service, with the exception that utility rates shall migrate to the point of full cost recovery over a ten (10) year period, beginning with the 2004-05 fiscal year. The City will charge for fitness and golf memberships and their associated user fees based upon estimated market conditions and user demand.
- D) Budget, Revenue Projections - When developing the annual budget, the Director of Finance shall project revenues from every source based on actual collections for the preceding year(s) and estimated collections of the current fiscal year, while taking into account 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 budget projections.

**VI. Operating Expenditures**

- A) Expense Categories - Operating expenditures shall be accounted for, reported, and budgeted for in the following major categories:
  - a. Personal Services
  - b. Contracts & Services
  - c. Supplies
  - d. Repairs & Maintenance
  - e. Sundry
- B) Staffing - Personal service expenditures will reflect the minimum staffing needed to provide established quality and scope of the City services.
- C) Capitalization Threshold - Existing capital equipment shall be replaced when needed, to ensure optimal City productivity, improve quality of service, or expand the scope of service. The City's capitalization threshold shall be \$5,000/unit.

**VII. Fund Balance**

To protect the City's financial integrity, the City will seek to achieve and maintain a General Fund balance that is no less than 50% of the General Fund's annual operating expenditures within five (5) years, beginning with the 2004-05 fiscal year. We will seek to achieve and maintain a fund balance in the Interest and Sinking Fund of 40% of our highest year's debt service requirements within ten (10) years. For all other funds, the City will strive to reflect an ending fund balance that is no less than 25% of that fund's annual operating expenditures. To satisfy particular needs of the

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**VIII. Fund Balance**

City or of individual funds, ending fund balances may be accumulated which exceed the 50% minimum. Fund balances which exceed the minimum level established for each fund may be appropriated for non-recurring capital projects or programs.

**IX. Debt**

- A) Interest and Sinking Fund – It shall be the policy of the City to always be in strict compliance with all provisions of the covenants stated in the City’s bond ordinances. Taxes shall be distributed to this account as received. The balance in the account must be sufficiently adequate to meet its semi-annual payments.
  
- B) Debt Policy
  - a. The City will limit long-term debt to only those capital projects that cannot be financed from current revenues; or when the City Council determines that debt financing is appropriate, in order to construct or acquire needed capital assets, to spread the cost of such assets to future periods of time that are benefited by the asset’s service.
  - b. The City will not use long-term debt to finance recurring maintenance and operating costs.
  - c. The City will not issue long-term debt for a period longer than the estimated useful life of; a) the capital project funded by the debt or b) the life of the capital equipment being financed.
  - d. The City will seek to structure the maturity of long-term debt so as to level the annual appropriations needed to pay each year’s annual debt service requirements, thereby stabilizing the interest and sinking portion of the City’s property tax rate and the financial obligations of the City.
  - e. Insurance will be obtained, when advisable, to minimize annual debt payments.
  
- C) Arbitrage Rebate Reserves – The City Council is committed to comply, as is required under the Tax Reform Act of 1986, to have annual arbitrage calculations performed and to rebate excess earnings to the United States Treasury resulting from investment earnings on tax-exempt bonds issued after the effective date of the 1986 law. The City shall create an account, when needed, to segregate and reserve its rebate obligation as required by law.

**X. Interest Income**

- A) Distribution of Interest - Interest income shall be distributed on an equitable basis among contributing funds/accounts from which principal was invested. Exceptions to this general policy are:
  - a. Interest earned on general obligation financed capital projects may be transferred to the Interest and Sinking Fund, upon completion of the capital project(s).

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**X. Bond Ratings**

It shall be the City's long-term goal to maintain its general obligation bond rating at Aa3, as rated by Moody's. The City's policy shall be to manage its budget and financial affairs in such a manner as to promote and enhance its bond ratings.