

City of Alpine

Financial Policy

The City has an important responsibility to its citizens to carefully account for public funds, prudently manage municipal finances, and to plan for the adequate funding of services desired by the public. These financial policies enable the City to achieve a long – term stable and positive financial condition by exercising integrity, prudence, responsible stewardship, planning, accountability, and full and continuous disclosure.

A. REVENUES

Property Tax: All taxable property within the City is subject to the assessment, levy, and collection by the City of a continuing, direct annual ad valorem tax. The ad valorem tax is sufficient to provide payment of principal and interest on all ad valorem tax debt and for operations and maintenance costs as allowed by V.T.C.A. Tax Code § 302.001 (c). An average collection rate of at least 98 percent of current levy shall be maintained.

Sales Tax: The State imposes a 6.25 percent sale and use tax on all retail sales, leases and rentals of most goods, as well as taxable services (a list of taxable services is provided on the State Comptrollers website). Local taxing jurisdictions (cities, counties, special purpose districts and transit authorities) can also impose up to 2 percent sales and use tax for a maximum combined rate of 8.25 percent. The City of Alpine imposes 1.5 percent and Brewster County imposes the other .5 percent for a total of 2 percent. Collection and enforcement of the City’s sales tax is handled through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax to the City on a monthly basis, after deduction of a two percent service fee.

Donations/Contributions: Donations from individuals and/or groups are managed in accordance with intended use and restrictions. Assets donated or dedicated to the city are managed as directed by City Council. Assets are to be recorded at estimated fair market value at time of transfer.

Interest Earnings: Investments are managed in accordance with the City of Alpine Investment Policy.

Grants: The City applies for grants that are consistent with the objectives and high priority needs identifies by the City Council. The potential for incurring ongoing costs, including the assumption of support for grant funded positions from local revenue, will be considered prior to applying for a grant. The City recovers indirect costs whenever possible. All grant applications are reviewed for their cash match requirements, their potential impact on the operating budget, and the extent to which they meet City policies. Funding sources for local matches will be identified prior to the application process. The City terminates grant funded programs and associated positions when grant funds expire unless an alternate funding source is identified.

Hotel/Motel Occupancy Tax: Hotel/Motel Occupancy tax is 13 percent of the cost of a room night for hotels, motels, bread and breakfasts, and AirBnb’s within the City. There is an amount of six percent that is remitted to the State of Texas and seven percent that is remitted to the City. Hotel/Motel taxes are allocated in accordance with Chapter 90, Article III, Section 90-86 – 90-98 of the City Ordinances. A detailed allocation is provided in the Operating Budget. Changes to this allocation must be approved by City Council.

Enterprise Funds: Enterprise funds are self – supporting from their own source rates, fees, and charges. Cost recovery includes direct operating and maintenance expense, indirect cost recovery, in – lieu of transfers to the General Fund for property taxes and franchise fee payments, capital expenditures and debt service payments, where appropriate. Rate models are maintained to identify all sources and uses of funds and provide a 10-year planning tool for rate setting. Rate increases are proposed for consideration to City Council during the annual budget process.

Collections: The City utilizes a collection firm to collect delinquent property tax revenues. City Council reviews annual the progress of collections.

Other Revenue Collections: The City monitors and minimizes administrative costs necessary to generate revenues. Delinquent accounts and insufficient checks are turned over to an outside collections agency for collection. As collections are made, the collection agency remits the payments (net of fees) to the City. If insufficient checks are uncollectable, they are returned to the City and turned over to the District Attorney’s office for collection. Collection efforts for overdue payments are pursued to the fullest extent of the law.

B. EXPENDITURES

The City operates on a current funding basis. Expenditures are budgeted and controlled so as not to exceed an amount equal to current revenues plus the planned use of appropriable net position accumulated through prior years savings. (Appropriable net position is guided by the Appropriable Net position policy in section C.)

City staff and City management review expenditures on a monthly basis, at a minimum, to ensure that expenditures track budget projections. If at any time operating deficit exists or is projected, corrective action will be recommended. Corrective action may include, but is not limited to, a hiring freeze, expenditure reductions, fee increases, or use of fund balance. Expenditure deferrals to the following fiscal year, short-term loan, or use of one-time revenue sources will be avoided as attempts to balance the budget.

Purchasing

Purchasing functions include two important aspects:

1. The control aspect or commitment to full compliance with State purchasing statutes, which serve to maintain the public’s confidence and trust in all contracting activities.
2. The service commitment of the Finance Department to each City Department.

Purchasing Methods

1. Routine Purchases – Departments may issue purchase orders for all allowable purchases on behalf of the City of Alpine. Purchases must include all necessary documentation to process. Documentation includes, but not limited to, quotes, purchase orders, invoices, tear sheets, contracts, copies of minutes, City reimbursement/travel forms, and all authorized signatures.
 - a. Purchases over \$500 are required to be reviewed and approved by the Finance Director to ensure appropriate funds are available.
 - b. Purchases over \$2,500 are required to be reviewed and approved by the City Manager and Finance Director to ensure appropriate funds are available.
 - c. Departments may make purchases for which there is an approved budget and when the item does not require technical or administrative review by specific departments (i.e. computer hardware and software, radio equipment, telecommunication equipment, fleet vehicle/equipment supplies and services, printing/ reproduction services).
2. Petty Cash Purchases – Purchases using Petty Cash are subject to the same rules and documentation as other City purchases. Additional information regarding petty cash purchases may be found in the Petty Cash Policy.
3. Credit Card Purchases– Purchases using City issued credit cards are subject to the same rules and documentation as other City purchases.
4. The City of Alpine will follow the State of Texas Purchasing and Procurement laws that pertain to cities competitive bidding procedures under V.T.C.A. Local Government Code Chapter 252.
5. The City Manager shall obtain prior authorization for payment of any bill or obligation owed by the City that has not been previously approved in the City’s budget.
6. Emergency Purchases – An emergency is defined as a disruption, which may vitally affect the public health, welfare or safety (i.e. flood, bombing, tornado, etc.). Department supervisors or designees may purchase goods or services and then follow up later with purchases orders describing the emergency along with an invoice(s) indicating the receipt of goods or services.
When an emergency has been declared that qualifies for reimbursement under the Federal Emergency Management Agency (FEMA), the Finance Department will be notified. The Finance Department will assign the emergency subsidiary accounts and apply all purchases under the appropriate accounts. Department heads are responsible for including the appropriate emergency subsidiary account for any items directly related to the emergency.

Additional information regarding purchases may be found in the Purchasing Policy.

C. Financial Conditions, Reserves, and Stability Ratios

Fund Balance Net Position – when fund resources exceed uses, the result is fund balance accumulations for governmental funds and net position for proprietary funds. Reserves are maintained in fund balances/net position, at levels sufficient to protect the City’s creditworthiness and to provide contingency funds in the event of emergency and/or unforeseen cash outlays. City Council may create reserves by taking action to set funds aside for a specific purpose or according to legal restrictions on the use of assets. Designation of fund balance/reserves are made when the appropriate level of management requests an amount, purpose, and timeframe for the designation. Designations are not authoritative and may not be reallocated at any time. Reserves require City Council action to reallocate.

Reserve accounts will be implemented over a two (2), three (3) year, or five (5) year period. The first year 1/12 of the annual revenue will be moved to the reserve account from each established fund. Funds will be transferred in February of each year, if permitted. In years two (2), three (3), four (4), and five (5) the same 1/12 of the annual revenue will be moved. The following years the reserve account will be maintained at the established percentage.

1. General Fund – City targets an unrestricted fund balance in an amount equal to at least 10 percent of the regular General Fund operating revenues to meet unanticipated contingencies and fluctuations in revenue.
 - a. GF – Contingency reserve – the City targets to maintain a three (3) percent (of the annual revenue) contingency fund for emergency purchases.
2. Water/ Wastewater/ Solid Waste Funds – the City targets appropriate net position in the Water and Wastewater funds in the amount equal to 15 percent of regular operating revenues. A rate model shall be established and reviewed in order to properly project revenues, operating and capital disbursements, debt service requirements, and transfers in/out. The model determines the rate necessary to yield the targeted ending balance and possible future rate increases.
 - a. The City targets to set aside 2 percent of the annual revenue from Water and Wastewater annually for capital infrastructure improvements.
 - b. The City targets to set aside 2 percent of the annual revenue from Solid Waste annually for the purpose of covering the City’s landfill sites when solid waste is no longer accepted and to perform certain maintenance and monitoring functions at the site.
3. Gas Funds – the City targets appropriate net position in the Gas funds in the amount equal to 15 percent of regular operating revenues. A rate model shall be established and reviewed in order to properly project revenues, operating and capital disbursements, debt service requirements, and transfers in/out. The model determines the rate necessary to yield the targeted ending balance and possible future rate increases.
 - a. The City targets to set aside 2 percent of the annual revenue from the Gas funds for the purpose of capital improvements.
4. Airport Fund – City targets appropriate net position in the Airport fund in the amount equal to 10 percent of the regular operating revenues to meet capital project needs.

5. HOT Fund – the City targets to set aside 2 percent of the annual revenue from HOT funds for the purpose of capital improvements.
6. Interest and Sinking – the City targets appropriable net position in the Interest and Sinking in an amount equal to 2 percent of regular operating revenues.

Self – Insurance Health Fund – the City’s health insurance plan is a self – insured under Texas Municipal League IEBP. The City purchases stop loss coverage on an individual and aggregate basis in the event that costs exceed a certain threshold. Funding for the health plan is derived from charges to departments on a per employee basis. The City provides health coverage to all full time employee. Employees are provided an opportunity to purchase health insurance coverage for their dependents. Employees contribute to the health insurance plan through payroll deductions for dependent coverage.

Investments – The City’s principal investment objectives are:

1. Compliance – with all Federal, State, and other legal requirements (includes but is not limited to Chapter 2256 “Public Funds Investment Act” as amended and Chapter 2257 “Public Funds Collateral Act” as amended, of the Texas Government Code.)
2. Safety – Preservation of capital and protection of investment principal.
3. Liquidity – Maintenance of sufficient liquidity to meet anticipated disbursements and cash flows.
4. Diversification – Maintenance of diversity in market sector and maturity to minimize risk in a particular sector.
5. Yield – Attainment of a market rate of return equal to or higher than the benchmark performance established by the Investment Committee.

The City has a formal written investment policy that is reviewed annually and approved by City Council. The Investment Committee meets annually to monitor investment policies and results. Written reports are provided to Council on a quarterly basis.

Retirement Plans – Each qualified employee is included in the City’s retirement plan – Texas Municipal Retirement System. TMRS is a statewide agent multiple -employee retirement system that provides pension benefits through a nontraditional joint contributory, defined contribution plan. The City does not maintain accounting records, hold the investments or administer the fund. Funds are appropriated annually to meet the actuarially determined funding levels of the plan. The City also provides qualified volunteer firefighters with retirement through the Texas Emergency Services Retirement System. TESRS maintains accounting records, holds investments and administers the fund.

Inventories – Inventories in Enterprise funds consist of expendable supplies held for consumption. Inventories are valued at cost using the average cost method of valuation and when issued, it is accounted for using the consumption method. The targeted inventory turnover ratio is set at 2 times. Therefore, if an inventory item is not sold and replaced 2 times during a year, it is evaluated to determine if there is sufficient need to keep the item in stock.

D. Budget Appropriation/Control

Budget controls are designed to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the General Fund are included in the annual appropriated budget. Financial plans are adopted for capital program funds. The City follows all State, Federal, and Charter guidelines in the development of the City's budget.

A budget amendment/supplement must be approved by City Council, if actual expenditures will exceed total budget. Fund appropriations of the City Council are allocated to programs, offices, departments, divisions, and projects by the City Manager.

The City's budget is adopted annually. Each department develops and maintains a mission to implement City Council goals and objectives. Performance benchmarks and activity measures are developed as part of the budget process that measure and track actual performance to budget benchmarks. When performance measures are developed, resources necessary to achieve the performance are estimated and submitted to the City Manager for review and modification.

The City Manager submits to City Council a proposed operating budget and capital program for the upcoming fiscal year. Public hearings are conducted to obtain taxpayer comments, and budget is legally enacted through passage of an ordinance by the City Council.

Control of expenditures is accomplished administratively through City Council adopted budget ordinances. Departmental budgets are reviewed monthly with management. The Finance Department prepares the monthly Revenues/Expense report to advise the City Manager and City Council.

E. Accounting, Auditing, and Financial Reporting

Basis of Accounting - The Financial states of the City conform to generally accepted accounting principles (GAAP) of the Governmental Accounting Standards Board (GASB) and recommended practices adopted by Government Finance Officers Association (GFOA).

Additional information regarding accounting procedures may be found in the Accounting Policy.

Internal Control - The City is responsible for establishing and maintaining an internal control structure designed to provide reasonable, but not absolute, assurance that the assets of the City are protected from loss, theft, or misuse.

External Auditing – The City is audited annually by outside independent auditors. The auditors must be a CPA firm that has the breadth and depth of staff to conduct the City's audit in accordance with GAAP and contractual requirements. The auditor's report on the City's financial statements must be completed in sufficient time such that it may be presented to the City Council at a Council meeting in March following the fiscal year end.

F. Capital Assets

Capital Improvement Projects – Within the resources available each fiscal year, the City shall maintain capital assets and infrastructure at a sufficient level to protect the City’s investment to minimize future replacement and maintenance costs, and to maintain service levels. As part of the annual budget process, the City reviews a projected five – year need for capital improvements and equipment, the current status of the City’s infrastructure, replacement and renovation needs, and potential new projects. When projects are contemplated, related costs such as operations and maintenance costs are evaluated along with capital expenditures to assess affordability prior to proposal of the projects. All operation and maintenance costs are required to be included in any capital project proposal. All projects, ongoing and proposed, will be prioritized based on an analysis of current needs and resource availability. Capital project appropriations are approved on a project length basis.

Capital Project Funds are used to accumulate resources to construct, install, or purchase new assets. They also enhance or improve existing facilities. Capital Projects must have a cost of \$50,000 or more and generally have a life of five or more years. Capital summaries include the projects and funds necessary over the next five years as part of the overall long-term capital planning. Major sources of funding for capital projects are contributions from operating funds, debt issuance, Federal and State grants, and surpluses in fund balances/net position.

Project costs are capitalized and added to the City’s Fixed Assets. If a project does not meet the criteria for capitalization, the costs will be treated as operating expenses and expensed as incurred.

Fixed assets are reported in the Government Wide Financial Statements and the proprietary fund statements. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated assets are recorded at the estimated fair value on the date of donation.

Capital Replacement Policy – The City shall annually prepare a schedule for the replacement of its non-infrastructure capital assets and replace those assets within the resources available each fiscal year.

Financing – the City utilizes any of three basic methods for financing capital projects:

1. Funds may be budgeted from current revenues.
2. Purchases may be financed through surplus unreserved/undesignated fund balance.
3. Debt may be issued. (Items financed with debt must have useful lives that are less than the maturity of the debt).