

City of Arlington Financial Policies

Accounting, Budgeting, and Financial Reporting

1. The City will maintain its accounting records in accordance with state and federal laws and regulations. The City will report its financial condition and results of operations in accordance with generally accepted accounting principles as set forth by the Governmental Accounting Standards Board.

In Compliance: Yes	Comments: FY 2021 Annual Comprehensive Financial Report issued June 7, 2022, with an unmodified “clean” opinion.
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2. An independent certified public accounting firm will annually perform the City’s financial and compliance audits in accordance with required applicable laws, regulations, and standards. The audit reports (and management letters, if issued) will be issued no later than 6 months following the fiscal year end.

In Compliance: No	Comments: FY 2021 Annual Comprehensive Financial Report was presented to Finance and Audit Committee on June 28, 2022, with report out to City Council the same day. The report was issued later than the 6-month requirement due to the implementation of a new financial system/ERP, a significant turnover of senior staff in Accounting, and Covid-related issues and absences. The audit was completed and submitted within the required deadline of 9 months to the Federal Audit Clearinghouse. The FY 2022 report is on-track to be submitted by the usual deadline.
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3. The audit opinion will be presented as part of the Annual Financial Report and will be issued no later than 6 months following fiscal year end.

In Compliance: Yes	Comments: Audit opinion included in FY 2021 Annual Comprehensive Financial Report.
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Budget and Financial Planning

1. The City shall prepare an Annual Operating budget and submit it to the City Council in August, providing adequate time for Council’s consideration prior to approval and adoption by Sept. 15th and in accordance with V.T.C.A, Local Government Code, Sections 102.001 et seq.

In Compliance: Yes	Comments: The FY 2022 Proposed Budget was presented to Council on Aug. 3 rd and adopted by two readings of the ordinance on Sept. 7 th and 14 th .
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2. The Annual Operating Budget shall be prepared such that recurring revenues plus net operating transfers will be sufficient to support recurring expenditures.

In Compliance: Yes	Comments: The FY 2022 Budget balanced with recurring revenues and net operating transfers supporting recurring expenditures in all funds.
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3. Budgets are adopted at the fund level and expenditures from all operating funds shall not exceed the budgeted appropriations (as amended) for these funds. Internal service funds are considered an exception, where available balances are a result of expenditures that were lower than adopted and budgeted in prior years.

In Compliance: Yes	Comments: Expenditures under budget in all funds in FY 2021, except the Fleet Services fund, which is an internal service fund and thus exempt as described above.
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4. A Budget Analysis Report (BAR) will be prepared quarterly and presented to Council or made available on the City's website. The BAR will include estimated year-end revenue and expenditures for operating funds, as well as business plan progress. The 3rd Quarter BAR will be presented as part of the proposed annual operating budget.

In Compliance: Yes	Comments: Budget Analysis Reports are completed quarterly. The 1 st Quarter BAR was presented to Council at the Spring Planning Session in April. The 2 nd Quarter BAR is available on the City's website. The 3 rd Quarter BAR is included in the proposed budget document. The 4 th Quarter BAR will be available on the website and presented to the Finance and Audit Committee in February.
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5. Maintenance and replacement funding will be prioritized each year to ensure that capital facilities and equipment are sufficiently maintained to avoid service disruptions.

In Compliance: Yes	Comments: In FY 2022, funding is available in the Asset Management department budget as well as the Capital Budget.
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6. Operating expenditures resulting from the Capital Improvement Program will be prioritized each year.

In Compliance: Yes	Comments: In FY 2022, funding was approved to open new Parks facilities.
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7. Charges for services and other revenues will be annually examined by the responsible department and adjusted as deemed necessary to respond to cost increases or any other changing circumstances. The City shall revise user fees and charges when necessary, as part of the budget process.

In Compliance: Yes	Comments: Departments are responsible for reviewing and adjusting fees in their purview annually. Fee increases are included as part of the annual budget process.
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8. A 5-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.

In Compliance: Yes	Comments: The 5-year Financial Forecast was presented to Council at the Spring Council Planning Session on April 5, 2022.
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9. A formal water rate study will be conducted when any one of the following criteria has been met in the water fund:
- The cumulative change in system revenue requirements since the last study is 20% or greater;
 - Capital expenditures for any one function (i.e. treatment, transmission, storage, customer service, etc.) change by 20% of total capital costs;
 - The customer base changes materially due to annexation, changes in wholesale or other large customers, or other similar circumstances such that revisions to existing customer class definitions or cost allocations are required to preserve cost-of-service based rates;
 - new contracts for service to major customers (5 percent or more of total system usage) and new or substantially modified contracts for wholesale service from other public entities are signed; or
 - The City's policies change in such a way that a revised rate structure is necessary to meet stated objectives.

In Compliance: Yes	Comments: The Water Department is currently conducting a formal rate study with a consulting firm.
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Procurement

1. The primary governing authority for the City of Arlington's Procurement Policy shall be the City's Charter in conjunction with Local Government Code Chapter 252, Purchasing and Contracting Authority of Municipalities.

In Compliance: Yes	Comments: Procurement staff facilitates and reviews all purchases that fall under TLGC 252 per Policy.
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2. All procurement activity shall be governed by the Purchasing Manual, in accordance with applicable state and local government codes.

In Compliance: Yes	Comments: Manual will be updated to reflect changes made to Policy.
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3. Professional and consulting contracts anticipated to be greater than \$50,000 shall be governed by the Purchasing Manual, through the Finance Department and must have City Council approval before executed.

In Compliance: Yes	Comments: Staff is working to amend the Purchasing Policy to include Professional Services with the anticipated goal to begin in FY 2023.
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4. The City Manager or designee has the authority to approve a Request for Proposal process for estimated expenditures below \$1,000,000 for the length of the initial term of the contract.

In Compliance: Yes	Comments: Staff is working to amend the Purchasing Policy to include this provision with the anticipated start date of FY 2023.
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Investments

1. The governing authority for the City of Arlington's Investment Policy shall be Chapter 2256 of the Texas Government Code, cited as the Public Funds Investment Act and Chapter 2257 of the Texas Government Code, cited as the Collateral for Public Funds.

In Compliance: Yes	Comments: Investments comply with Ch. 2256.
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2. Investments shall be made in conformance with the City's Investment Policy, with the primary objectives of:
 - Safety – preservation of capital in the investment portfolio;
 - Liquidity – portfolio remain sufficiently liquid to meet operating requirements;
 - Yield – goal of rate of return of exceeding TexPool fund

In Compliance: Yes	Comments: All investments were secure, incurring no losses while meeting all City cashflow needs.
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3. The Investment Policy shall be approved by City Council each fiscal year.

In Compliance: Yes	Comments: Policy was approved September 14, 2021, for FY 2022
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Grants

1. The City shall seek a fair share of available State and Federal financial support unless conditions attached to that assistance are contrary to the City's best interests. Prior to applying for and accepting intergovernmental aid, the City will examine the matching requirements so that the source and availability of these funds may be determined before grant application is made and that the application complies with City Administrative Policy #4.

In Compliance: Yes	Comments: Grant matching requirements are considered as part of the budget process. No grant match requests were received for the FY 2022 budget.
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2. All grants and other federal and state funds shall be managed to comply with the laws, regulations, and guidance of the grantor, and all gifts and donations shall be managed and expended according to the wishes and instructions of the donor.

In Compliance: Yes	Comments: FY 2021 Single Audit complete by required due date of June 30, 2022.
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Property Tax Collection

1. The City shall contract with the County for collections and encourage the Tax Assessor-Collector to follow an aggressive policy of collecting property tax revenues.

In Compliance: Yes	Comments: The County continues to collect greater than 94% of all current year collections while pursuing delinquent collections.
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2. The City shall contract with the Tarrant Appraisal District (TAD), as required by state statute, for appraisal services of all property (real, business, and mineral). The City will also work with TAD on the economic development incentives including, but not limited to, abatements, Ch 380, TIRZ, PIDs, MMDs, etc.

In Compliance: Yes	Comments: The City and TAD have worked together regarding the appraisals and economic development incentives. The City attends monthly meetings with TAD.
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3. The City shall contract with a third party for the collection of delinquent property tax. The collection fee shall be determined by the competitive process but will not exceed 20%.

In Compliance: Yes	Comments: The City has contracted with Linebarger to continue pursuing delinquent collection with a 15% collection fee
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4. Finance will monitor collection efforts by the County and third party, and report results to Council as part of the Budget Analysis Report.

In Compliance: Yes	Comments: The City monitors collections on a monthly basis. Results are reported to Council as part of the Budget Analysis report which is available on the City's website.
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Self-Insurance & Retirement Funds

1. All retirement and self-insurance funds will be examined annually to ensure that adequate balances are maintained. Unfunded actuarial liabilities in a retirement program are to be amortized in accordance with GASB and actuarial requirements. The self-insurance program for workers' compensation and self-insurance programs shall be funded at the Actuarial Central Estimated confidence level.

In Compliance: Yes	Comments: Reviewed at least annually as part of most recent financial audit, actuarial report(s), internal management reports, and budget reporting.
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2. The funding status of all self-insurance funds will be reported annually.

In Compliance: Yes	Comments: Included in most recent Annual Comprehensive Financial Report footnotes.
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3. Full-time employee retirement funds will be administered by Texas Municipal Retirement System (TMRS). Contributions will be made, at a minimum, in the amount determined by TMRS.

In Compliance: Yes	Comments: Reviewed at least annually; contributions updated in system for most recent fiscal year based on TMRS correspondence.
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Fund Balance and Reserves

1. The City will maintain general fund reserves equivalent to 15% of recurring annual general fund expenditures. Reserves will be calculated and presented as combined, with the source footnoted.

In Compliance: Yes	Comments: For FY 2022, the City's reserves total 20.0% of recurring General Fund expenditures, which is \$13.21 million in excess of the 15% requirement.
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2. The Business Continuity Reserve for budget stabilization shall be maintained to provide financial stability for the General Fund during an economic downturn, separate from General Fund reserves.

In Compliance: Yes	Comments: The current balance Business Continuity Reserve is \$4,062,075.
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3. The City will maintain reserves in the Water Utilities Fund, Storm Water Utility Fund and Street Maintenance Fund equal to a minimum of 60 days of operating and maintenance expenses (excluding debt).

In Compliance: Yes	Comments: For FY 2022, the Water Utilities Fund's reserves total 61.4 days of operating and maintenance expenses (excluding debt), which is \$0.45 million in excess of the minimum of 60 days. Operating reserves in the Street Maintenance Fund and Storm Water Utility fund are \$3,420,902 and \$980,104 respectively, which represents 60 days of expenses in those funds excluding debt and one-time expenses.
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4. The City will maintain a Rate Stabilization Fund to assist in offsetting temporary increases to the budget and increases from mid-year settle-ups from Trinity River Authority (TRA) and Tarrant Regional Water District (TRWD). The fund shall not exceed 5% of the total Water Utilities expenditure budget. Use of this Fund will be authorized as part of the annual operating budget.

In Compliance: Yes	Comments: For FY 2022, Rate Stabilization Fund balance is currently 5% of the total Water Utilities expenditure budget.
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5. The City's general fund unassigned ending balance may only be used for one-time purchases like capital equipment.

In Compliance: Yes	Comments: Prior year balance in the amount of \$64.83M was used in the FY 2022 budget for one-time purchases.
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6. All governmental and proprietary funds will have positive cash balances.

In Compliance: Yes	Comments: All funds reported positive cash balances as of 9/30/21.
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7. The fund balance in the debt service fund shall be maintained at a minimum level of 4.0% of annual debt service expenditures and a maximum level of 10%.

In Compliance: Yes	Comments: Fund balance was 6.8% of expenditures in FY 2021
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8. The fund balance in the Water Utility Interest and Sinking Fund and Storm Water Interest and Sinking Fund shall be maintained to ensure debt service payments.

In Compliance: Yes	Comments: Both Funds had cash above the FY 2021 debt service. Water has 2.43x coverage in net revenues / debt service. Stormwater has 3.97x coverage in total revenues / debt service.
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9. The Water Utility Debt Service Reserve and Storm Water Debt Service Reserve shall be maintained in accordance with the covenants of the outstanding debt issues.

In Compliance: Yes	Comments: Water DS Reserve met bond covenants with 3.67x revenues / annual debt service. Storm Water had a coverage of 3.97x revenues vs maximum debt service expenditures greater than the required 1.25x by the bond covenants that require a DS Reserve.
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Debt Management

1. Debt financing which includes permanent improvement bonds, revenue bonds, certificates of obligation, lease/purchase agreements and other obligations allowed under Texas law shall be used to acquire or construct land and improvements that cannot be funded by current revenues. The term of debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed 30 years. An exception will be made if refunding Section 334 debt (venue) to the State maximum is determined to be necessary or advantageous.

In Compliance: Yes	Comments: All debt financings have met this standard.
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2. Interest earned on bond funds will be determined on an allocation basis and deposited to its respective fund to be used for approved projects. Interest earnings are considered appropriated when allocated.

In Compliance: Yes	Comments: Interest is calculated and appropriated on a monthly basis.
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3. Debt will not be used to fund current operating expenditures.

In Compliance: Yes	Comments: No debt was used for current operating expenditures.
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4. Each year the City will adopt a capital improvement plan. The plan will recommend specific funding of projects for the current fiscal year and will identify projects for further consideration in years two through five.

In Compliance: Yes	Comments: The most recent CIP was adopted March 22, 2022.
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5. The City will obtain a rating from at least one nationally recognized bond-rating agency on all issues being sold on the public market. Required information will be presented to the rating agency(s) at least annually to maintain ratings on outstanding debt.

In Compliance: Yes	Comments: The City met with Moody's (Aa1), S&P (AAA), and Fitch (AAA) in April 2022.
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6. All professional service providers shall be selected in accordance with the City's Procurement policy.

In Compliance: Yes	Comments: All providers selected were in accordance with the policy.
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- An advance or current refunding of outstanding debt shall only be considered when present value savings of at least 3.0% of the principal amount of the refunded bonds are produced, unless a debt restructuring, or bond covenant revisions are necessary. Savings from refundings are expected to be distributed evenly over the life of the refunded bonds.

In Compliance: Yes	Comments: No refundings have been identified that produced enough savings, so no refunding has occurred.
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- The City shall obtain a clear opinion from qualified legal counsel that the City is not liable for the payment of principal and/or interest in the event of default by a conduit borrower. If no such opinion can be obtained, the conduit borrower will be required to purchase insurance or a letter of credit in the City's name in the event of default. Examples of a conduit issuer are special authorities, tax-increment financing districts, public improvement districts, or industrial development issuers.

In Compliance: Yes	Comments: Bracewell continues to be the City's Bond Counsel. They have issued opinions on every issuance.
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- It is the City's priority to fund capital expenditures with cash or voter approved debt. However, non-voter approved debt may be used for capital expenditures or risk management funding as an alternative to lease/purchase or other financing options if the capital expenditure is:

- Urgent;
- Necessary to prevent an economic loss to the City;
- Revenue generating and expected to cover debt service out of the revenue source;

In Compliance: Yes	Comments: The City continues to limit the issuance of COs. The last CO issuance was in FY 2020.
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Debt Management – Ratio Targets

- The ratio of tax-supported debt to total taxable assessed valuation shall not exceed 2.0%. This excludes debt of overlapping jurisdictions. The City shall structure its bond issuance to achieve and maintain a debt-to-assessed-value of 2.0% or less.

In Compliance: Yes	Comments: FY 2021 ratio was 1.47%
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- The ratio of debt service expenditures to total expenditures (general fund operating expenditures and debt service combined) shall not exceed 20%.

In Compliance: Yes	Comments: FY 2021 ratio was 17.62%
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- The ratio of outstanding tax-supported debt to population shall not exceed \$1,265 (as of Feb 2021). The per capita amount will be revised matching CPI growth at least every three years. The new amount shall be presented to Council for approval in conjunction with the Capital Budget.

In Compliance: Yes	Comments: FY 2021 ratio was \$1,118
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- The Finance Department shall prepare an analysis of the impact of proposed tax-supported debt prior to the issuance of the additional debt. The analysis shall project the debt ratios described in numbers 1, 2, and 3 above as well as any other applicable debt ratios. The analysis shall project the debt ratios described above both including and excluding Pension Obligation Bonds as well as any other applicable debt ratios. The ratio limits in numbers 1, 2, and 3 above are exclusive of the Pension Obligation Bonds.

In Compliance: Yes	Comments: All ratios were projected and presented to Council with the FY 2022 CIP on February 22, 2022.
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Disclosure

1. The City is committed to providing continuing disclosure of certain financial and operating data and material event notices as required by Securities and Exchange Commission (SEC) Rule 15c2-12 and state statutes. The Finance Department shall be responsible for the preparation of all disclosure documents and releases required under Rule 15c2-12 and state statutes.

In Compliance: Yes	Comments: All continuing disclosure requirements were met. FY 2021 Disclosure was posted on EMMA on March 31, 2022.
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2. Continuing disclosure will be reviewed by CMO, Financial Advisor, Bond Counsel, and Disclosure Counsel prior to release. The filing shall be issued no later than 6 months following year-end. The filing shall be uploaded to EMMA (Electronic Municipal Market Access website) and the City website.

In Compliance: Yes	Comments: All continuing disclosure requirements were met. FY 2021 Disclosure was posted on EMMA on March 31, 2022, after sign-off by CMO, FA, Bond Counsel, and Disclosure Counsel.
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3. All material event notices (defined by the SEC) shall be filed according to SEC regulations after the occurring event.

In Compliance: Yes	Comments: All material event notices were filed.
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Financial Transparency and External Reviews

1. The City is a recipient of the Texas Comptroller of Public Accounts Transparency Stars program that recognizes local governments for going above and beyond their transparency efforts. The City has been awarded stars for each of the following areas:

- Traditional Finances
- Contracts and Procurement
- Economic Development
- Public Pensions
- Debt Obligations

The City will annually update the website data to maintain the star designations.

In Compliance: Yes	Comments: FY 2021 data complete; FY 2022 data to be updated by 7/31/2022.
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2. As an additional independent confirmation of the quality of the City's financial reports, the City will annually seek to obtain the following awards from the Government Finance Officers Association:

- Certificate of Achievement in Financial Reporting for AFR
- Popular Annual Financial Reporting Award for PAFR
- Distinguished Budget Presentation Award for Annual Budget

In Compliance: Yes	Comments: Received for FY 2020. Applications for FY 2021 submitted 6/2022.
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3. As an additional independent confirmation of the quality of the City's procurement practices, the City will annually seek to obtain the Achievement of Excellence in Procurement Award from the National Procurement Institute.

In Compliance: No	The FY 2021 budget was impacted by pandemic related budget cuts and staff was unable to complete all the training. The Purchasing Division is on track to complete the training and receive the award in FY 2023.
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4. As an additional independent confirmation of the quality of the City's Investment Policy, the City will seek to obtain the Certificate of Distinction from the Government Treasurers' Organization of Texas.

In Compliance: Yes	Comments: Currently the City's Treasurer is the President of GTOT, as well as the official reviewer of Investment Policies for GTOT. Thus, a conflict of interest. The Investment Policy will be submitted to GTOT once the Treasury is no longer President.
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Adopted by City Council on September 13, 2022.