



CITY OF MEADOWS PLACE FINANCIAL MANAGEMENT POLICY STATEMENTS

These Financial Management Policy Statements have been adopted by City Council to provide guidelines to City staff in managing and planning the City's finances.

Adopted by City Council
Resolution No. 2023-06 March 28, 2023

City of Meadows Place Financial Management Policy Statements

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City of Meadows Place

Financial Management Policy Statement

INTRODUCTION

The Financial Management Policy Statements adopted by City Council are an overview of the City's financial policies and provide guidelines to City staff in managing and planning the City's finances. Some policy statements are driven by requirements of state law while others are formally documented through policies and procedures. Statements that are driven by legal requirements will be noted as such.

In some case, exceptions to the policy statements may be appropriate and/or necessary. Exceptions to stated policies will be specifically identified and the need for the exception will be documented and explained to City Council and/or the City Administrator.

Accounting, Auditing & Financial Reporting

Maintain accounting practices that conform to generally accepted accounting principles and comply with prevailing federal, state, and local statutes and regulations. Prepare and present regular reports that analyze and evaluate the City's financial performance and economic condition.

Accounting Practices and Principles

The City will maintain accounting practices that conform to generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB), the authoritative standard setting body for units of local government. All city financial documents, except quarterly financial reports, including Annual Financial Reports shall meet standards. Quarterly interim financial reports are on a cash basis and will be reported as budgeted. At year-end the general ledger and financials will be converted to full accrual basis.

Financial and Management Reports

A Quarterly Financial Report and Investment Report will be provided to City Council, that summarize quarterly investment earnings, revenue and expenditures activity compared to annual budget. These reports will be prepared on a cash basis.

Annual Audit

Pursuant to State Statute, the City 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, licensed to practice in the State of Texas. Although the Texas Local Government Code, Section 103.003 Filing: Public Record requires the annual financial statement including the auditor's opinion on the statement to be filed with the City Secretary within 180 days after the last day of the fiscal year, it is the City's goal to file the audit at the City Council meeting in February. The audit firm shall provide a management letter to the City prior to the filing of the audit. The audit firm shall also provide a Single Audit of Federal and State grants, when necessary. An official Annual Financial Report shall be issued no later than six (6) months following the end of the

fiscal year. The Finance Director (or equivalent) shall be responsible for establishing a process to ensure timely resolution of audit recommendations.

Annual Financial Disclosure

As required by the Securities and Exchange Commission (SEC) Rule 15c2-12, the City, with support of the City's financial advisor and bond counsel, will provide certain annual financial information to various information repositories through disclosure documents or set of documents that include the necessary information. This will include any material event notices to be filed within 10 days of occurrence of the event as required by the 2010 amendments.

Signature of Checks

All checks shall have two signatures. At least four (4) persons shall be authorized to sign checks: the Mayor, City Administrator, City Secretary and a designated Council member. All City checks will have handwritten signatures affixed to each check.

FINANCIAL CONSULTANTS

The City will employ qualified financial advisors and consultants as needed in the administration and management of the City's financial functions. These areas include but are not limited to audit services, debt administration, delinquent tax collection attorney, and financial modeling. The principal factors in the selection of these consultants will be experience/expertise, ability to perform, the services offered, references, and methodology to name a few. In no case should price be allowed to serve as the sole criterion for the selection.

Selection of Auditors

The City shall request proposals from qualified firms periodically, including the current auditors if their past performance has been satisfactory. City Council shall select an independent firm of certified public accountants to perform an annual audit of the accounts and records, and render an opinion on the financial statements of the City.

- It is the City's preference to rotate auditor 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 rotation of the audit firm will be based upon the proposals received, the qualifications of the firm, and the firm's ability to perform a quality audit.
- However, if the current audit firm is retained after five years, then, it is the City's preference that the lead audit partner be rotated as well as the lead reviewer after a maximum of five years.
- Annually, the independent auditor will provide a letter of engagement to the City for annual audit services.

Delinquent Tax Collection Attorney

Due to the nature and expertise required, the City shall hire a delinquent tax collection attorney to collect delinquent taxes, represent the City in filing bankruptcy claims, foreclose on real property, seize personal property, and represent the City in court cases and property sales.

- The City shall contract for a delinquent tax collection attorney either through Fort Bend County in conjunction with the contract for billing and collection of the City's property taxes or shall contract directly with an attorney.
- The City shall review delinquent tax collection services and determine if they choose to contract direct or contract through the County either at the end of a direct contract for delinquent tax services or annually if contracted with Fort Bend County.
- If the City chooses to contract directly for delinquent tax collection services, requests for proposals and statements of qualifications are to be solicited at periodically.
- There is not a requirement for rotation.

Bond Counsel

Bond Counsel to the City has the role of an independent expert who provides an objective legal opinion concerning the issuance and sale of bonds and other debt instruments. As bond counsel are specialized attorneys who have developed necessary expertise in a broad range of practice areas, the City will always use a consultant for these services. Generally, bonds are not marketable without an opinion of nationally recognized bond counsel stating that the bonds are valid and binding obligations 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:

- Prepares and oversees bond proceedings;
- Gets required government approval;
- Ensures that the City meets all the legal requirements and authorization of the bond offering;
- Discloses and analyzes all relevant legal proceedings that may have a bearing on the validity of the offering;
- Interprets relevant regulations and laws and assists in structuring the issue;
- Writes key financing documents.

Depository Bank

Pursuant to State law (Local Government Code Chapter 105), the City of Meadows Place may approve a depository services contract whose term does not exceed five years. There is no requirement for rotation. The City of Meadows Place will select its official banking institution through a formal process at least every five years, based on best value in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available. The City will allow selection of out-of-city depository as long as the depository has a place of business in Texas. Depository accounts may only be opened by employees with authority specifically granted in the depository agreements approved by City Council.

BUDGET AND LONG-RANGE FINANCIAL PLANNING

Establish guidelines for budgeting to ensure a financially sound City and to establish a long-range financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets.

Balanced Budget

The Mayor shall file annually, a balanced budget for the ensuing fiscal year with City Council in compliance with state law.

In addition, it is expected that the annual operating budget will be structurally balanced. A structurally balanced budget is further defined as recurring revenues funding recurring expenditures and adherence to fund balance policies. Deferrals, short-term loans, or one-time sources will be avoided as budget balancing techniques. If economic conditions dictate that the Mayor file a structurally imbalanced budget, it shall be accompanied by a plan to return the budget to structural balance.

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 to facilitate operations on a current funding

Use of Non-Recurring Revenues

Non-recurring revenue sources, such as a one-time revenue remittance or fund balance in excess of policy should only be 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.

The following expenditures are considered non-recurring for budgetary purposes:

- Capital improvement project funding.
- Capital Expenditures

The following revenues are considered non-recurring in the definition of a structurally balanced budget:

- Grant Revenues
- Reimbursements for One Time Items

Property Taxes

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent February 1 of the following year, after which late fees are assessed. An enforceable lien on property can also be applied on delinquent accounts. Property values are determined by Fort Bend Central Appraisal District. The appraisal district will provide certified assessed values to the City by July 30th which the City will use to propose the tax rate for the following year. Taxes are collected by the Fort Bend County Tax Office on behalf of the City.

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 Administrator will present a tax rate that the City finances require in order to operate efficiently, yet effectively, and meets City Council's expectations of services provided and service levels. The following shall be taken into account in managing growth in the average tax bill: property revaluation, tax rate adjustments and/or changes to the residential homestead exemption.

- **No-New Revenue Tax Rate** - The no-new revenue tax rate is defined by the State of Texas as the tax rate that raises the same amount of total tax revenue in the current year as the prior year's tax rate for properties taxed in both years. The no-new revenue rate is calculated based on a formula mandated by the state truth in taxation laws, and excludes new property value. Depending on valuation changes, the effective tax rate may be higher or lower than the prior year's tax rate and generate the same amount of total property tax levy. The only increase in tax revenue is from new value added to the tax roll since the prior year.
- **Voter-Approval Tax Rate** - The voter-approval tax rate is the highest tax rate that a taxing unit may adopt without being subject to an election. If the proposed tax rate will result in a 3.5% increase in taxes collected from prior year, an election must be ordered. For Cities under 30,000 persons the voter-approval rate only triggers that a petition for election can be made. If the proposed tax rate would result in an 8% increase in taxes, an election calling for voter approval would be automatically ordered.
- **De Minimis Tax Rate** - The De Minimis Tax rate applies to cities under 30,000 persons. The rate equals the sum of the no-new revenue tax rate for maintenance and operations (M&O portion) and the rate that would impose an additional \$500,000 in ad valorem revenue.

Homestead Exemption

Annually the City shall review the homestead exemption and any recommended change in the homestead exemption shall be presented to Council for approval prior to March 1, in order for the exemption change to take effect in the current tax year.

The total exemption percentage granted shall not exceed the state limitation. The current homestead exemption within the City of Meadows Place is 20%.

Over-Age Exemptions and Disabled Persons Exemption

Annually the City shall review the over-age and disabled persons exemption. Any change to the over-age and disabled persons exemption shall be presented to Council for approval prior to March 1, in order for the exemption change to take effect in the current tax year.

Currently, the City grants a \$30,000 over-age exemption and disabled persons exemption each year when economic and financial conditions allow.

Sales Tax

As sales tax revenue fluctuates due to changes in economic conditions, the City shall endeavor through long-term strategies to mitigate its reliance on sales tax revenues for funding recurring operating expenditures

Revenue Estimating for Budgeting

In order to protect the City from revenue shortfalls and 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. This approach should reduce the likelihood of actual revenues falling short of budget estimates and should avoid mid-year service changes.

The City will anticipate neither drought nor wet conditions. Adjustments to utility rates shall be made based on revenue requirements over a multi-year forecast for the utility fund.

Employee Compensation

When funding is available, the proposed budget may include an amount to cover a cost of living adjustment. The City does not base salary increases on performance or merit except due to change in job duty or promotion. Periodically the City will assess salaries based on salary surveys from neighboring cities.

The City's compensation plan shall be approved by City Council. All employees shall be paid within the approved budget and established salary ranges.

Budget Management

The budget is adopted by City Council through one reading of an ordinance. Upon approval, the budget can be either amended or adjusted based on the level of changes needed.

- **Amendment** - an increase or decrease to the overall appropriation in the fund or capital project. Must be approved by City Council through one reading of an ordinance.
- **Adjustment** - a reallocation of funds without changing the total operating fund budget.

Intradepartmental Budget Transfer/Adjustment (Resolution 2020-63)

After the City operating budget has been formally adopted by City Council, all funds contained in any non-salary or benefits account will be eligible for an intradepartmental budget transfer or budget adjustment. The City Administrator or designee(s) can approve intradepartmental transfer of funds between budget accounts within a Department as long as the department budget remains unchanged.

All intradepartmental budget transfers will be tracked and recorded and a report of those transfers will be available upon request from City Council.

Interdepartment Budget Adjustment

Any budget adjustment that requires a transfer of funds between departments or that involves salary or benefit budget accounts will require formal adoption from City Council. Budget adjustments will not result in a change in overall fund budget.

Budget Amendments

In order to preserve projected fund balances/ ending balances based on projected revenues and expenditures for the current fiscal year, City Council will amend the annual operating budget for all funds, excluding capital improvements funds, as set forth in the projections. City Council will amend the current fiscal year budget to projections annually through adoption of an ordinance amending the budget.

Contracts or purchases presented for City Council approval shall identify the budgeted amount for the item within the current approved budget. A budget amendment by City Council is only necessary if the total appropriation for the fund is increased. This could occur under, but is not limited to, the following situations:

- The budgeted appropriation will be exceeded at the fund level prior to year end.
- Acceptance of a grant that was not included in the annual budget.
- Appropriation from fund balances for items that were not budgeted.
- A donation or sponsorship that exceeds estimated revenues and cannot be absorbed in contingency funding.

To streamline the process, budget amendments are to be considered by City Council on an as-needed basis and then formally adopted by ordinance periodically. Each budget ordinance shall summarize and include all budget amendments approved by City Council for affected funds since the last ordinance was approved.

At year end, the annual operating budget will be amended by ordinance through projections and will reflect adjustments that were approved by the City Administrator.

Capital Projects Budget Amendments

As capital projects are budgeted on a project length basis and not a fiscal year basis, a project budget needs approval of a budget amendment when one of the following applies:

- Increase to project funding with a corresponding increase in revenues
- Inter-local Agreements
- Award of a grant to enhance or expand the project
- Reallocation of funding from one capital project to another, except:
 - When splitting funding for a project into multiple projects for tracking purposes when the total amount budgeted for the overall project does not change, or

- When allocating additional funds from CIP fund balance to a project to accommodate a change order, as long as the additional funding needed does not exceed \$50,000, and the change order does not need approval from City Council nor materially change the scope of the project.
- Increase to project funding from the Capital Projects Fund Balance
- Reduction to project budgets as discussed below
 - Capital Project budgets shall be amended (reduced) when construction bids come in significantly under estimates, project estimates shall be adjusted to reflect the construction bid plus a sufficient contingency and other project needs, and the remaining budget shall be reduced as necessary to reflect savings. When a project is funded from the issuance of debt, if the debt has not been sold at the time of the budget reduction, the revenue budget for bond proceeds shall be reduced accordingly.

Operating Deficits

The City shall take corrective actions if at any time during the fiscal year expenditure and revenue estimates are such that an operating deficit is projected at year end. The following are possible corrective actions:

- Deferral of capital purchases
- Expenditure reductions
- Hiring freezes
- Freeze merit increases
- Use of fund balance
- Increase fees
- Lay-off employees

Short-term loans shall be avoided to balance the budget.

The use of fund balance, which is a one-time revenue source, may be used to fund an annual operating deficit, only with a subsequent approval of a plan to replenish the fund balance if it is brought down below policy level.

Forecast of Revenues and Expenditures

A forecast of revenues and expenditures shall be prepared in conjunction with the annual budget process for the following funds:

- General Fund
- Water/Wastewater Utility Fund
- Debt Service Fund
- Economic Development Corporation
- Five-Year Capital Improvement Program

The forecast assesses 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. The forecast will be used to identify anticipated financial issues so that a plan can be developed to correct anticipated issues before they become reality.

REVENUES AND OTHER RESOURCES

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, which may adversely impact that source. The Finance Officer and City Administrator shall document the various revenue sources of the City and how those revenues are derived and estimated.

Property Taxes

- Property taxes are collected by Fort Bend County Tax Office on behalf of the City.
- The taxes collected each week are deposited the following Friday into the City's investment account.
- The majority of tax revenue is received during December and January of the fiscal year.
- Periodically a funds transfer is made from the investment account in which property taxes are deposited to the City checking account providing resources to pay the City's bills and payroll.
- Monthly a funds transfer is made from the investment account in which property taxes are deposited to the City bond debt service account for any taxes received for debt service.

Sales Tax Revenue

- Monthly, the Economic Development Corporation will be allocated their percentage of the actual monthly sales tax remittances.
- Of the remaining monthly amount available to the City, funds will be allocated to General Fund operations, based upon the budgeted sales tax for operations, to ensure operating expenditures are funded.

Administrative Services Charges

The City shall determine annually the administrative services charges due to the General Fund from the enterprise funds for overhead and staff support using a cost allocation model.

User Fees – General Fund

The City shall design, maintain, and administer a revenue system that will assure a reliable, equitable, diversified and sufficient revenue stream to support desired City services.

- For services that benefit specific users the City shall establish and collect fees to recover the costs of those services.
- Where services provide a general public benefit, the City shall finance those services through General revenue streams.

Utility Charges

Water, wastewater and surface water charges are billed in arrears, as customer meters are read monthly for the previous month's water usage. At year end, revenues are accrued to adjust revenues to full accrual basis but during the year, revenues are recorded on a modified accrual basis (when billed).

- Utility rates shall be set at levels sufficient to cover operating expenditures (direct and indirect), meet debt obligations and debt service coverage, provide pay-as-you-go funding for capital improvements, and provide adequate levels of working capital.
- The City shall seek to eliminate all forms of subsidization between the General Fund and Enterprise Funds
- The Five-Year Financial Plan shall serve as the basis for rate change considerations.
- If rate increases are necessary, the Five-Year Financial Plan shall be built around smaller rate increases annually versus higher rate increases periodically.

Revenue Collections

The City shall maintain high collection rates for all revenues by monitoring monthly receivables. The City shall follow an aggressive, consistent, yet reasonable approach to collecting revenues to the fullest extent allowed by law for all delinquent taxpayers and others overdue in payments to the City.

- The City shall contract for collection of outstanding receivables when it makes economic sense for the City to do so.
- The City shall write-off of Un-collectible Receivables (excludes court fines and warrants)
- Receivables shall be considered for write-off as follows:
 - i. Undeliverable mail – accounts that remain outstanding for 6 months and all steps have been exhausted
 - ii. State Statute authorizing the release or extinguishment, in whole or in part, of any indebtedness, liability, or obligation, if applicable
 - iii. Utility accounts that are closed and have an outstanding balance after 6 months and all attempts to collect have been taken, will be deemed uncollectible and written off. (Resolution 2022-30)
 - iv. The write-off of uncollected accounts is a bookkeeping entry only and does not release the debtor from any debt owed to the City.
 - v. The City shall estimate uncollectible accounts through an allowance for doubtful accounts in each fund with receivables.

Utility Transfer to the Debt Service Fund for Assumed Water/Wastewater Debt

The Utility Fund shall transfer to the Debt Service fund an amount/percent calculated annually for water/wastewater infrastructure debt assumed by the City.

The goal is to have water/wastewater debt funded by water/wastewater revenues as much as possible within the financial resources of the Utility Fund.

- The City's intent is to fund a transfer amount that equates to 100% of the annual debt service requirements for water/wastewater debt in the Debt Service Fund.
- If the City should assume additional debt in the Debt Service Fund, the annual transfer for water/wastewater infrastructure debt will be reviewed and recalculated, if necessary.

EXPENDITURES AND SERVICES

Operating Expenditures

The City shall identify services, establish appropriate service levels and administer the expenditure of available resources to assure fiscal stability and the effective and efficient delivery of those services.

Departmental Budgets

Departments shall prepare a budget to define their operating objectives. The budget should support provided services.

Annual Program of Services

Annually, as part the budget process, a program of services for each department will be established for the ensuing year. The program of services will include a summary of services and service levels.

Maintenance of Capital Assets

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.

Periodic Program/Service Reviews

The City Administrator and staff shall undertake periodic reviews of City programs and services for both efficiency and effectiveness. Outsourcing and contracting with other governmental agencies and/or the private sector will be evaluated as alternative approaches to service delivery. Programs or services determined to be inefficient and/or ineffective shall be recommended through the annual budget process to be reduced in scope or eliminated.

Outsourcing of City Services

The City provides many municipal services to its citizens covering a wide variety of disciplines. Attempting to perform all of these services in-house could dilute the City's efficiency and not be cost effective. Two of the management tools utilized by the City to maximize efficiency and cost effectiveness are outsourcing and managed competition processes, the mere consideration of which provides economic benefits that flow from competition. The economic benefits of competition include lower costs and improved quality of performance irrespective of whether a given service is ultimately performed in-house or outsourced.

LEASES

Leases are recognized in accordance with Governmental Accounting Standards Board Statement 87 ("GASB 87") which took effect beginning with FY 2021-2022. GASB 87 requires that all leases that finance the right to use an underlying asset should be reported in the City's annual financial statements. The City may be a lessee or a lessor on a lease. Only leases in which the term initially exceeds 12 months are subject to GASB 87. All leases will be identified to determine their materiality and treatment under GASB 87.

The following definitions are to be used to identify the type and materiality of City leases.

- **Lessee** – The City is leasing equipment or other tangible asset from someone. Examples of a lease where the City is a lessee could include copiers, office equipment or vehicles.
 - The initial lease term is greater than 12 months and non-cancellable.
 - The City does not own the asset at the end of the lease.
 - The total of all future lease payments exceeds the City's materiality threshold.
 - Lease will be reported in the annual financial audit as a lease payable (amount of future payments) and an intangible right-to-use lease asset.
- **Lessor** – The City is receiving income by providing the right to use a City asset. Examples of a lease where the City is a lessor could include receiving money for land use or building use.
 - The initial lease term is greater than 12 months and non-cancellable.
 - The total of all future receipts exceeds the City's materiality threshold.
 - Lease will be reported in the annual financial audit as a lease receivable and deferred inflow of resources. Deferred inflow of resources will be recognized as revenue when available.

For leases that do not meet the criteria for valuation under GASB 87, the City will report inflows of cash for lessor leases and outflows of cash for lessee leases.

SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

Subscription-based information technology arrangements ("SBITAs") are to be recognized in accordance with Governmental Accounting Standards Board Statement 96 ("GASB 96") which takes effect beginning with FY 2022-2023. A SBITA is a contract that conveys control of the right to use another party's information technology software for a period of time. GASB 96 requires that a SBITA be reported in the City's annual financial statements as a subscription liability. All City SBITAs will be identified to determine their materiality and treatment under GASB 96.

FUND BALANCE/WORKING CAPITAL

City Council recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the City of Meadows Place (City) and is fiscally advantageous for both the City and the taxpayer. This policy establishes goals and provides guidance concerning the desired level of fund balance maintained by the City to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances.

Should the budgeted fund balance drop below the minimum identified by the policy below, the City will establish a plan to replenish the balances.

Definitions - Fund Balances

Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund.

GASB Statement 54 distinguishes fund balance classified based on the relative strength of the constraints that control the purposes for which specified amounts can be spent. Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

- **Nonspendable fund balance** – amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).
- **Restricted fund balance** – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants, court fees or donations).
- **Committed fund balance** – amounts that can be used only for the specific purposes determined by a formal action of the Meadows Place City Council. City Council can by adoption of an ordinance prior to end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.
- **Assigned fund balance** – amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the Council or by a designee to whom the governing body delegates the authority. In governmental funds other than the general fund, 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.
- **Unassigned fund balance** – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

Minimum Unassigned General Fund Balances (Resolution 2023-03)

It is the goal of the City to achieve and maintain an unassigned fund balance in the City's general fund of at least seven (7) months of general fund expenditures in any budget year.

Should the City need to utilize reserve funds for a designated emergency situation which results in the unassigned fund balances dropping below the minimum fund balance, the City shall take appropriate action necessary to replenish said reserves back to their minimum fund balance amounts as soon as practical.

If the fund balance exceeds this amount, the amount in excess of policy requirements may be utilized to fund one-time expenditures.

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (e.g., a project is being funded partly by a grant, funds set aside by City Council, and unassigned fund balance), the City will typically use the most restricted category and spend those funds first before moving down to the next category with available funds, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Working Capital of Utility Operating Funds

In enterprise operating funds, specifically the Utility operating fund, the City shall maintain working capital sufficient to provide for reserves for emergencies and revenue shortfalls. Utility Fund will have a ten (10) month reserve of the current year's budget appropriation for recurring operations and maintenance.

The cash equivalent operating reserve is derived by dividing the total cash equivalents balance by recurring operating expenses. (Cash equivalents = Cash + Investments + Accounts Receivable – Accounts Payable – Committed funds)

Use of Fund Balance/Working Capital

Fund Balance/Working Capital shall be used only for emergencies, non-recurring expenditures/ expenses, or major capital purchases that cannot be accommodated through current year savings. Should such use reduce balances below the level established as the minimum for that fund, the request/decision to utilize said balances will include a plan to replenish funds.

Debt Service Funds

The City shall maintain a separate Debt Service Fund for any taxable bonds. This debt service fund shall have a reserve requirement separate from the tax –exempt debt service fund to be defined in the bond documents as bonds are issued.

CAPITAL EXPENDITURES AND IMPROVEMENTS

City staff will review and monitor the state of the City's capital equipment and infrastructure annually, setting priorities for its replacement and renovation based on needs, funding alternatives, and availability of resources.

Capitalization Threshold for Tangible Capital Assets (Resolution 2015-21)

Infrastructure capital items should be capitalized only if they have an estimated useful life of at least two years and an original cost greater than \$2,500. Other capital assets with a total cost of \$1,000 or more will be capitalized. Assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets, engineering fees, and improvements are capitalized as projects are constructed. The costs of maintenance and repairs that add value to the asset or extend the useful life of the existing asset will also be capitalized. Capital assets are depreciated using no salvage value and the straight line method based on estimated useful life.

GASB requires software to be capitalized if criteria described in GASB Statement 51 (Accounting & Financial Reporting for Intangible Assets) is met. Internally developed or contracted development of or off-the-shelf and then modified software should be capitalized given cost & useful life threshold is met. Other licensed software implemented without modification or minimal modification is not capitalized.

Five-Year Capital Improvement Plan (CIP)

The City shall annually prepare a five-year capital improvement plan based on the needs for capital improvements and equipment, the status of the City's infrastructure, replacement and renovation needs, and potential new projects. Capital projects are improvements or additions to the City's physical plant/facilities and become part of the City's asset inventory. Capital projects can be further categorized into land, buildings, improvements other than buildings, and infrastructure, which includes roads, sidewalks, bridges, utility lines, etc. Capital costs typically consist of preliminary design, final design, and construction, and may involve the acquisition of land or easements. For every project identified in the plan, a project scope and project justification will be provided. Also, project costs shall be estimated, funding sources identified and annual operation and maintenance costs computed.

Citizens will be provided opportunities to review the list of CIP projects for the Five-Year Capital Improvement Plan and may suggest additions and/or changes to the plan as appropriate.

The Mayor is charged with presenting a Capital Improvement Plan to City Council. Projects submitted will be reviewed in conjunction with the entire capital improvement program and submitted to City Council for final consideration. The Five-Year Capital Improvement Plan shall be filed and adopted with the annual budget.

The Five-Year CIP shall be limited to the affordability limits identified in the long-range financial plans of the City, taking into consideration pay-as-you go, bond issuances, operating costs, etc.

Projects that cannot be funded in the Five Year CIP will be included in the CIP for future reference as an appendix of unfunded requests.

The City will establish and maintain Capital Project Funds based on various funding sources as identified below:

- **General Capital Projects (non-bond)** - includes projects funded from general fund reserves, grants and other funding sources. Includes rehabilitation of infrastructure to extend its useful life.

- **General Capital Projects (tax-exempt bond funds)** - supported by proceeds of tax exempt bonds that are to be repaid from property taxes and interest earned thereon; projects funded from this source must be consistent with the uses identified in the bond documents.
- **Taxable Bonds Capital Projects** - supported by proceeds of taxable bonds that are to be repaid from sources other than property taxes. Utility Enterprise CIP (non-bond) - includes projects funded from revenues of the utility system. Includes rehabilitation of infrastructure to extend its useful life. Revenues are budgeted as a transfer from the Utility System Operating fund.
- **Utility Enterprise CIP (bond funds)** - supported by proceeds of tax-exempt bonds that are to be repaid from enterprise utility revenue sources. Bonds payable are recognized in the Utility Enterprise Fund as long term liabilities.

Annually, through the budget process and at year-end, projects are to be reviewed and if identified as complete will be closed and any remaining funds closed to the CIP fund balance, which can then be re-appropriated during the next fiscal year capital budget. Funds remaining from bond proceeds will only be used in accordance with the legal use of those funds.

Appropriations for capital projects are for the life of the project; therefore re-appropriation of capital funding for budgeted projects will not be necessary.

- Infrastructure Evaluation and Replacement/Rehabilitation Water, wastewater, drainage, street lighting, streets and sidewalks, municipal facilities, and other infrastructure are fundamental and essential functions for public health and safety, environmental protections and the economic well-being of the City. As a result, the City's CIP should be focused on ensuring that infrastructure is replaced or rehabilitated as necessary to protect the City's investment, to minimize future replacement and maintenance costs, extend the useful life of the asset, and to maintain existing levels of service and accommodate growth.
- Infrastructure will be replaced or rehabilitated at the end of its useable service life if it is financially feasible to do so.
- If upgrades are warranted to meet current design standards, a cost/benefit analysis will be performed.

Joint Capital Improvement Projects

The City will establish guidelines for City participation in Joint Capital Improvement Projects with community based organizations that would either add to or enhance the City's Five-Year Capital Improvement Plan.

The projects must benefit the general public for the City's participation in these type projects. The request will be reviewed, verified to ensure the request meets the criteria set forth in the policy, and prioritized in conjunction with the entire capital improvement program.

Replacement of Capital Assets on a Regular Schedule (Fleet and Technology)

The City shall review the replacement of its fleet and high technology capital assets. Funding for the replacement of these assets will be accomplished within the resources available each fiscal year.

Capital Expenditure Financing

The City recognizes that there are three basic methods of financing its capital requirements: Funding from current revenues; funding from fund balance/working capital as allowed by the Fund Balance/Working Capital Policy; or funding through the issuance of debt. Types of debt and guidelines for issuing debt are set forth in the Debt Policy Statements.

Pay-As-You-Go Capital Improvements

- The City will pay cash for capital improvements within the financial affordability of each fund versus issuing debt when funding capital improvements and capital purchases. This will reduce/minimize the property tax and utility rate impacts on Meadows Place residents.
- Pay-as-you-go projects shall be budgeted based on funding available in the section on Revenues.
- Unless CIP balances are sufficient to pre-fund pay-as-you-go projects, scheduling of pay-as-you-go capital improvement projects shall coincide with the collection and accumulation of system revenues. CIP projects shall be initially scheduled based on the budgeted accumulation of funding. CIP projects funded by pay-as-you-go funding must receive approval from the Finance Officer and City Administrator before they begin, to ensure funding is available.

Capital Projects Management

Capital project status reports shall be reported to the City Council during the course of a project.

- **Project Close Out** - A project will be closed once the original scope of the stated project has been completed as determined by Engineering and the City.
- **Remaining Funds** - Funds left in a project after completion shall be closed out and fall to the CIP fund balance.
- **Annual rehabilitation projects** - unused funds budgeted for annual rehabilitation and repairs will close out at the end of each fiscal year if not encumbered.

DEBT

Guidelines are established for debt financing that will provide needed facilities, land, capital equipment and infrastructure improvements while minimizing the impact of debt payments on current and future revenues.

Use of Debt Financing

Debt financing, to include general obligation bonds, revenue bonds, certificates of obligations, certificates of participation, lease/purchase agreements, and other obligations permitted to be issued or incurred under Texas law, shall only be used to purchase capital assets that cannot be prudently acquired from either current revenues or fund balance/working capital and to fund infrastructure improvements and additions. Debt will not be used to fund current operating expenditures.

The City will pay cash when possible for capital improvements within the financial affordability of each fund versus issuing debt when funding capital expenditures and capital improvements. Projects that are rehabilitative in nature shall be earmarked for funding from cash instead of debt when possible. (This is not intended to include reconstruction projects that significantly extend the useful life of an asset.) Cash sources include, but are not limited to general fund sales tax, utility revenues, economic development corporation funding, developer fees, inter-local agreements, and state and federal grants.

Affordability

The City shall use an objective analytical approach to determine whether it can afford to issue new general-purpose debt, both General Obligation bonds and Certificates of Obligation. This process shall compare City accepted standards of affordability to the current values for the City. These standards may include debt per capita, debt as a percent of taxable value, taxable value per capita, and tax rate. The process shall also examine the direct costs and benefits of the proposed expenditures. In addition, the analysis will evaluate the capacity within the General Fund to take on the operating expenditures associated with the completion of the proposed capital improvements. When a project will have a significant impact on the operating budget, the tax rate shall be shifted from debt service to maintenance & operations to support the increased expenditures. Further debt capacity shall be evaluated based on the remaining debt service tax capacity. The decision on whether or not to issue new debt shall be based on these costs and benefits, current conditions of the municipal bond market, City's ability to "afford" new debt, and the City's desire to take on debt as determined by the aforementioned standards.

Debt Capacity

Debt capacity calculations for long-term planning shall assume market rates for the average annual interest costs at the time the capacity is determined. The analysis shall not assume future refunding of any outstanding bonds and shall consider both debt service requirements on current and proposed debt.

For property tax supported debt, maximum capacity shall be determined by an amount of annual debt service that the City can absorb within the proposed tax rate allocation for debt based on assumed growth in assessed valuation.

For revenue debt, maximum capacity shall be determined by the amount of annual debt service that the City can absorb within a proposed rate structure that has been reviewed with City Council and which can support the proposed debt within the additional bonds test as defined in the revenue bond covenants. The City shall not

exceed debt capacity as defined through bond covenants or fall below bond coverage ratios for additional revenue bonds.

Factors that will be included in a debt capacity determination shall include:

- Existing debt obligations
- Evaluation of revenue and expenditure trends
- Various measures of debt burden on the community
- Debt per capita
- Debt to assessed value ratio
- Taxable value per capita
- Statutory or constitutional requirements
- Market factors such as interest rates, credit ratings or market status

Certificates of Obligation

Certificates of Obligation may be issued without voter approval to finance any public works project or capital improvement, as permitted by State law. However, it is the policy of the City to utilize Certificates of Obligation to finance public improvements in certain circumstances and only after determining the City's ability to assume additional debt based on the standards identified above.

Circumstances in which Certificates might be issued include, but are not limited to the following:

- The City may issue CO's when there is insufficient funding on a general obligation bond-financed capital improvement;
- The City may issue CO's when conditions require a capital improvement to be funded rapidly rather than waiting for a GO bond election;
- The City may issue CO's for projects when the City can leverage dollars from others to reduce the City's capital cost for a community improvement;
- The City may issue CO's for projects when there is no other funding source available and the project is determined to be in the best interest of the City.
- The City may issue CO's if it would be more economical to issue Certificates of Obligation rather than issuing revenue bonds; and
- The City may issue CO's for projects for which the City will be reimbursed by Developer (principal plus interest).

General Obligation Bonds (GO)

General Obligation bonds require voter approval. When the list of unfunded projects contains projects that the City Council wishes to fund but cannot afford, then the City will consider taking a GO Bond Proposition(s) to the voters.

- Bond Elections:
 - Timing of general obligation bond elections shall be determined by the inventory of current authorized, unissued bonds remaining to be sold and the Five-Year Capital Improvement Program
 - The total dollar amount of bond election propositions recommended to the voters may not exceed the City's estimated ability to issue the bonds within a seven year period after the election passes.
 - An analysis showing how the new debt combined with current debt impacts the City's tax rate and debt capacity will accompany every bond issue proposal. The analysis will also include the estimated impact on the operations and maintenance portion of the tax rate.

- General Obligation bonds must be issued to accomplish projects identified in the bond referendum and associated material.
- General Obligation bonds must be issued for projects that are consistent with the wording in the bond.

Revenue Bonds

For the City to issue new revenue bonds, revenues shall be set pursuant to the direction of the City's bond counsel. Annual adjustments to the City's rate structures for enterprise funds will be made as necessary to maintain the coverage factor.

When the City issues CO's for utility fund projects, the City shall prepare a five year financial plan to ensure that the utility fund maintains appropriate reserves and coverage without overly burdening rates and user fees.

Debt Structures

- The City shall normally issue bonds with a life not to exceed 25 years for general obligation bonds and 25 years for revenue bonds, but in no case longer than the useful life of the asset.
- The City shall seek level or declining debt repayment schedules and shall seek to retire 50% of the total principal outstanding within 10 years of the year of issuance.
- There should be no debt structures that include increasing debt service levels in subsequent years, with the first and second year of a bond payout schedule the exception or as special situations may warrant.
- There shall be no "balloon" bond repayment schedules, which consist of low annual payments and one large payment of the balance due at the end of the term.
- There shall always be at least interest paid in the first fiscal year after a bond sale and principal payments starting generally no later than the second fiscal year after the bond issue.
- Normally, there shall be no capitalized interest included in the debt structure except for debt issuances reimbursing developers for infrastructure, which shall not exceed 2 years of capitalized interest.

Debt Refunding

The City's financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. As a general rule, the net present value savings of a particular refunding should exceed 3.0% of the refunded maturities unless (1) a debt restructuring is necessary or (2) bond covenant revisions are necessary to facilitate the ability to provide services or to issue additional debt.

Interest Earnings and Remaining Bond Proceeds

Interest earnings on bond proceeds will be limited to funding changes to the bond financed Capital Improvement Plan in compliance with the voted propositions, cost overruns on bond projects, or be applied to debt service payments on the bonds issued. Issued but unspent bond proceeds may be appropriated for projects consistent with the ballot language after completion of projects identified in the approved bond propositions.

Sale Process

The City shall use a competitive bidding process in the sale of debt unless the nature of the issue warrants a negotiated sale. The City will utilize a negotiated process when the issue is, or contains, a refinancing that is dependent on market/interest rate timing. The City shall award the bonds based on a true interest cost (TIC)

basis. However, the City may award bonds based on a net interest cost (NIC) basis as long as the financial advisor agrees that the NIC basis can satisfactorily determine the lowest and best bid.

Underwriting Syndicates

In response to the MSRB Rule G-17, which recognizes that the motivations of an underwriter may not be consistent with the best interest of the City, the City shall refer underwriters to its Municipal Advisor to review potential refunding opportunities. The City's municipal advisor is prohibited from underwriting the City's bonds while under contract with the City for municipal advisory services, and for a period of one year after termination of the municipal advisory contract.

The City will consider the recommendation of the Municipal Advisor when engaging one or more firm to underwrite a negotiated bond transaction.

Rating Agency Presentations

Full disclosure of operations and open lines of communications shall be maintained with the rating agencies. City staff, with the assistance of financial advisors, shall prepare the necessary materials and presentation to the rating agencies. Credit ratings will be sought from one or more of the nationally recognized municipal bond rating agencies, currently Standard & Poor's and Fitch Inc., as recommended by the City's municipal advisor.

Bond Ratings

The City will prudently manage the General, Economic Development Corporation and Enterprise Funds and attempt to issue and structure debt to help maintain or increase the current bond ratings.

Lease/Purchase Agreements

The City may use lease/purchase agreements for capital items when it is cost-efficient and provides for more attractive terms than issuance of bonds.

CASH MANAGEMENT AND INVESTMENTS

To maintain the City's cash in such a manner so as to ensure the absolute safety of principal, to meet the liquidity needs of the City, and to achieve the highest possible yield in compliance with the Public Funds Investment Act (Chapter 2256 of the Local Government Code or equivalent provision) and the City's Investment Policy & Strategy, as adopted annually by City Council.

Investment Management

Investment Policy

All aspects of cash/investment management shall be designed to ensure 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. Please reference the City's Investment Policy as adopted annually by City Council.

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

Investment Strategy

The City of Meadows Place will invest its funds separate of one another, so that investment yields can be allocated directly to each fund. 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. Refer to the City's Investment Strategy as adopted by City Council annually for detail.

Committed or Project Funds

The City of Meadows Place will seek to invest committed funds or project funds separate from City General or Enterprise (Utility) funds. This plan will give a level of transparency for Council to be aware of available funds.

Interest Income

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

Arbitrage Investments and Reporting

The City's investment position as it relates to arbitrage is as follows: Investments on bond proceeds will be made with safety of principal and liquidity in mind, but with a competitive rate of return. Investment of bond proceeds will be clearly tracked and investment earnings recorded for arbitrage purposes.

Depository

The City of Meadows Place will select its official bank depository through a formal bidding process in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available. The City will request applications for depository services at least every five (5) years in accordance with Texas Local Government Code Chapter 105. The City will allow the selection of an out-of-city depository as long as it has a place of business in Texas. The request for application notice for depository services will include a newspaper of general circulation in the city and a financial publication of general circulation in the state (business section of a regional newspaper). Only officials authorized by the City Council through the depository contract may open accounts in the name of the City or its component units.

Collateralization of Deposits

The City of Meadows Place shall have pledged collateral held at an independent third-party institution and evidenced by a written receipt, Public Funds Collateral Act (subchapter B of Ch. 2257 of Texas Local Government Code).

The value of the pledged collateral should be marked to market monthly and shall be at least 102 percent of par or market value of the investments, whichever is greater.

Substitutions of collateral shall meet the requirements of the collateral agreement and have prior written approval. Collateral shall not be released until the replacement collateral has been received.

The pledge of collateral shall comply with the City's Investment Policy.

Method of Payment of Obligations

The City of Meadows Place permits the following payment methods from funds held by the depository.

- **Checks** - Checks will require two (2) hand written signatures affixed to the check. The signatories will be authorized by City Council and will include the Mayor, City Administrator, City Secretary and at least one council member. Checks presented for payment to the depository should be compared to an issued check file submitted by the City for Payee Positive Pay prior to being honored. Any checks that do not match the list are not paid and the City is alerted.
- **EFT** - The City may pay vendors and employees by an electronic funds transfer by uploading a file to the depository for payment. The uploaded file must be approved by an authorized City employee. The approving party must be different from the employee who uploaded the electronic funds transfer file.
- **ACH Bank Draft** - Certain vendors will be allowed to draft funds from the depository. These vendors may include credit card companies who assess monthly fees, auto-pay accounts, utility companies, credit card vendors, retirement system, or state court fees. ACH bank drafts will be flagged by the depository and require approval by an authorized City employee prior to payment. If the ACH bank draft is expected to be a recurring payment, then a rule will be created for the vendor that a draft will be permitted up to a given amount. Any draft amount greater than the amount in the rule will be flagged and require approval by an authorized City employee.

GRANTS

The City will seek, apply for, and effectively administer federal, state and local grants, which support the City's current priorities and policy objectives.

Grant Guidelines

The City shall apply and facilitate the application for only those grants that are consistent with the objectives and high priority needs identified by Council and City staff.

Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs.

The potential for incurring ongoing costs, to include assumptions of support for grant-funded positions from local revenues, will be considered prior to applying for a grant.

Grant Review and Acceptance

All grant submittals shall be reviewed for their cash match requirements, their potential impact on the operating budget, and the extent to which they meet the City's goals. If there is a cash match requirement, the source of funding shall be identified prior to application.

All grants awarded to the City of Meadows Place must be submitted to City Council for consideration and approval. If the funding is not already included in the annual budget, the budget shall be amended to reflect revenues and expenditures associated with the grant.

Grant Termination and/or Reduced Grant Funding

In the event of reduced grant funding, City resources will be substituted only after all program priorities and alternatives are considered during the budget process, unless the City is obligated through the terms of the grant to maintain the program.