

ORDINANCE NO. 096-048

AN ORDINANCE OF THE TOWN OF ADDISON, TEXAS, AMENDING CHAPTER 2, ADMINISTRATION, OF THE CODE OF ORDINANCES, TOWN OF ADDISON, TEXAS, PROVIDING FOR THE ADOPTION OF FINANCIAL POLICIES FOR THE TOWN OF ADDISON; PROVIDING FOR REPEAL; PROVIDING FOR SEVERABILITY; AND PROVIDING FOR PENALTIES.

BE IT ORDAINED BY THE CITY COUNCIL OF THE TOWN OF ADDISON, TEXAS:

SECTION 1. That the Code of Ordinances, Town of Addison, Texas, is hereby amended by adding an article, to be numbered Article IX, which article shall read as follows:

Article IX, Financial Policies

INTRODUCTION

The Town of Addison, Texas financial policies set forth the basic framework for the fiscal management of the Town. These policies were developed within the parameters established by applicable provisions of the Texas Local Government Code and the Town of Addison City Charter. The policies are intended to assist the City council and City staff in evaluating current activities and proposals for future programs. The policies are to be reviewed on an annual basis and modified to accommodate changing circumstances or conditions.

ANNUAL BUDGET(Charter Requirements*)

- 1*. The fiscal year of the Town of Addison shall begin on October 1 of each calendar year and will end on September 30 of the following calendar year. The fiscal year will also be established as the accounting and budget year.
- 2*. The City Manager, prior to August first of each year, shall prepare and submit to the City Secretary, the annual budget covering the next fiscal year which shall contain the following information:

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- a. The City Manager's budget message shall outline the proposed financial policies for the next fiscal year with explanations of any changes from previous years in expenditures and any major changes of policy and a complete statement regarding the financial condition of the Town.
 - b. An estimate of all revenue from taxes and other sources, including the present tax structure rates and property evaluations for the ensuing year.
 - c. A carefully itemized list of proposed expenses by office, department, agency, and project for the budget year, as compared to actual expenses of the last ended fiscal year, and estimated expenses for the current year compared to adopted budget.
 - d. A description of all outstanding bonded indebtedness of the Town.
 - e. A statement proposing any capital expenditures deemed necessary for undertaking during the next budget year and recommended provision for financing.
 - f. A list of capital projects which should be undertaken within the next five succeeding years.
 - g. A five year financial plan for the General fund.
- 3*. The City Manager's budget should assume, for each fund, operating revenues which are equal to, or exceed operating expenditures. The City Manager's budget message shall explain the reasons for any fund which reflects operating expenditures exceeding operating revenues.
- 4*. At least one public hearing shall be conducted before the Council, allowing interested citizens to express their opinions concerning items of expenditures, giving their reasons for wishing to increase or decrease any items of expense. The notice of hearing shall be published in the official newspaper of the Town not less than 15 days or more than 30 days following date of notice.
- 5*. Following the public hearing, the Council shall analyze the budget, making any additions or deletions which they feel appropriate, and shall, at least three days prior to the beginning of the next fiscal year, adopt the budget by a favorable majority vote. If the Council fails to adopt the budget, the City shall continue to operate under the existing budget until such time as the Council adopts a budget for the ensuing fiscal year.
- 6*. On final adoption, the budget shall be in effect for the budget year. Final adoption of the budget by the Council shall constitute the official appropriations for the current year and shall constitute the basis of the official levy of the property tax. Under conditions which may arise the Council may amend or change the budget to provide for any additional expense.
7. The annual budget document shall be published in a format which satisfies all criteria established by the Government Finance Officers Association's Distinguished Budget Program. The final budget document shall be published no later than ninety days following the date of the budget's adoption by the Council.

BASIS OF ACCOUNTING AND BUDGETING

1. The Town's finances shall be accounted for in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board.
 - a. The accounts of the Town are organized and operated on the basis of funds and account groups. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. Governmental funds are used to account for the government's general government activities and include the General, Special Revenue, Debt Service and Capital Project funds.
 - b. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Substantially all revenues are considered to be susceptible to accrual. Ad valorem, sales, hotel, franchise and tax revenues recorded in the General fund and ad valorem tax revenues recorded in the Debt Service fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues (except earnings on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Expenditures are recognized when the related fund liability is incurred, if measurable, except for principal and interest on general long-term debt, which are recorded when due, and compensated absences, which are recorded when payable from currently available financial resources.
 - c. The Town utilizes encumbrance accounting for its Governmental fund types, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.
 - d. The Town's Proprietary fund types are accounted for on a flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.
2. The Town's annual budgets shall be prepared and adopted on a basis consistent with generally accepted accounting principles for all governmental and proprietary funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year end. Under the Town's budgetary process, outstanding encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities since the commitments will be reappropriated and honored the subsequent fiscal year.

BUDGET ADMINISTRATION

1. All expenses of the Town shall be made in accordance with the adopted annual budget. The department level is the legal level of control enacted by the town Charter. Budgetary control is maintained at the individual expenditure account level by the review of all requisitions of estimated purchase amounts prior to the release of purchase orders to vendors.
2. The following represents the Town's budget amendment policy delineating responsibility and authority for the amendment process. Transfers between expenditure accounts in one department may occur with the approval of the finance director. Transfers between operating departments may occur with the approval of the city manager and finance director provided that a department's total budget is not changed by more than five percent. Transfers between funds or transfers between departments which change a department's total budget by more than five percent, must be accomplished by budget amendment approved by the City Council. Budget amendments calling for new fund appropriations must also be approved by the City Council.

FINANCIAL REPORTING

1. Following the conclusion of the fiscal year, the Town's Finance Director shall cause to be prepared a Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting and financial reporting principles established by the Governmental Accounting Standards Board. The document shall also satisfy all criteria of the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting Program.
2. The CAFR shall show the status of the city's finances on the basis of generally accepted accounting principles (GAAP). The CAFR shall show fund revenues and expenditures on both a GAAP basis and budget basis for comparison purposes. In all but two cases this reporting conforms to the way the city prepares its budget. Compensated absences (accrued but unused sick leave) are not reflected in the budget but are accounted for in the CAFR's long-term debt account group. Depreciation expense is not shown in the budget's proprietary funds, although the full purchase price of equipment and capital improvements are reflected as uses of working capital.
3. Included as part of the Comprehensive Annual Financial Report shall be the results of the annual audit prepared by independent certified public accountants designated by the City Council.
4. The Finance Director shall within sixty days following the conclusion of each calendar quarter, issue a report to the Council reflecting the Town's financial condition for that quarter. The quarterly report format shall be consistent with the format of the annual budget document.

REVENUES

1. To protect the Town's financial integrity, the Town will maintain a diversified and stable revenue system to shelter it from fluctuations in any one revenue source. Recognizing that sales tax is a volatile, unpredictable source of revenue, the Town will attempt to reduce its dependence on sales tax revenue.
2. For every annual budget, the Town shall levy two property tax rates: operation/maintenance and debt service. The debt service levy shall be sufficient for meeting all principal and interest payments associated with the Town's outstanding general obligation debt for that budget year. The debt service levy and related debt service expenditures shall be accounted for in the Debt Service fund. The operation and maintenance levy shall be accounted for in the General fund. The operation and maintenance levy shall not exceed the eight percent (8%) roll-back rate as defined by the State of Texas Property Tax Code.
3. The Town will maintain a policy of levying the lowest tax rate on the broadest tax base. Minimal exemptions will be provided to home owners, senior citizens, and disabled veterans. The Town will not provide tax abatements to encourage development.
4. The Town will establish user charges and fees at a level which attempts to recover the full cost of providing the service.
 - a. User fees, particularly utility rates, should identify the relative costs of serving different classes of customers.
 - b. Where possible, utility rates should be designed to reduce peak (hour and day) demands on the utility systems.
 - c. The Town will make every reasonable attempt to ensure accurate measurement of variables impacting taxes and fees (e.g. verification of business sales tax payments, verification of appraisal district property values, accuracy of water meters).
5. The Town will attempt to maximize the application of its financial resources by obtaining supplementary funding through agreements with other public and private agencies for the provision of public services or the construction of capital improvements.
6. The Town will consider market rates and charges levied by other public and private organizations for similar services in establishing tax rates, fees and charges.
7. When developing the annual budget, the City Manager shall project revenues from every source based on actual collections from the preceding year and estimated collections of the current fiscal year, while taking into account known circumstances which will impact revenues for the new fiscal year. The revenue projections for each fund should be made conservatively so that total actual fund revenues exceed budgeted projections.

OPERATING EXPENDITURES

1. Operating expenditures shall be accounted, reported, and budgeted for in the following major categories:
 - a. Operating, Recurring Expenditures
 - i. Personal Services
 - ii. Supplies
 - iii. Maintenance
 - iv. Contractual Services
 - v. Capital Replacement / Lease
 - b. Operating, Non-Recurring Expenditures
 - i. Capital Equipment
2. The annual budget shall appropriate sufficient funds for operating, recurring expenditures necessary to maintain established (i.e. status quo) quality and scope of city services.
3. The Town will constantly examine the methods for providing public services in order to reduce operating, recurring expenditures and/or enhance quality and scope of public services with no increase to cost.
4. Personal service expenditures will reflect the minimum staffing needed to provide established quality and scope of city services. To attract and retain employees necessary for providing high-quality service, the Town shall maintain a compensation and benefit package competitive with the public and, when quantifiable, private service industries.
5. Supply expenditures shall be sufficient for ensuring the optimal productivity of Town employees.
6. Maintenance expenditures shall be sufficient for addressing the deterioration of the Town's capital assets to ensure the optimal productivity of the capital assets. Maintenance should be conducted to ensure a relatively stable level of maintenance expenditures for every budget year.
7. The Town will utilize contracted labor for the provision of city services whenever private contractors can perform the established level of service at less expense to the Town. The Town will regularly evaluate its agreements with private contractors to ensure the established levels of service are performed at the least expense to the Town.
8. Existing capital equipment shall be replaced when needed to ensure the optimal productivity of Town employees. Existing capital equipment in excess of \$5,000 will be amortized by charges to the departments using the equipment. The amortization charges will be sufficient for replacing the capital equipment at the end of its expected useful life. The amortization charges and application of those funds will be accounted for in a separate Capital Replacement Fund.
9. Expenditures for additional capital equipment shall be made only to enhance employee productivity, improve quality of service, or expand scope of service.

OPERATING EXPENDITURES (CONTINUED)

10. To assist in controlling the growth of operating expenditures, operating departments within the General fund will submit their annual budgets to the City Manager within a ceiling calculated by the Finance Director from the General fund's Long-Term Financial Plan. Projected expenditures which exceed the ceiling must be submitted as separate Expanded Levels of Service requests. The City Manager will recommend the ELS requests to the Council which will vote on the requests separate from the operating budget.

FUND BALANCE

1. The annual budget shall be presented to Council with each fund reflecting an ending fund balance which is no less than 25% of that fund's annual operating expenditures. To satisfy the particular needs of individual funds, ending fund balances may be established which exceed the 25% minimum.
2. Fund balance which exceeds the minimum level established for each fund may be appropriated for non-recurring capital projects or programs.
3. The Town will exercise diligence in avoiding the appropriation of fund balance for recurring operating expenditures. In the event fund balance is appropriated for recurring operating expenditures to meet the needs of the Addison community, the budget document shall include an explanation of the circumstances requiring the appropriation and the methods to be used to arrest the future use of fund balance for operating expenditures.

FUND TRANSFERS

1. With the exceptions noted below, there will be no operating transfers between funds. Any costs incurred by one fund to support the operations of another, shall be charged directly to the fund. (For example, actual hours worked by General fund employees for Hotel fund events.)
2. Fund transfers may occur when surplus fund balances are used to support non-recurring capital expenses or when needed to satisfy debt service obligations.

DEBT EXPENDITURES

1. The Town will issue debt only to fund capital projects which cannot be supported by current, annual revenues.
2. To minimize interest payments on issued debt, the Town will maintain a rapid debt retirement policy by issuing debt with maximum maturities not exceeding fifteen (15) years. Retirement of debt principal will be structured to ensure constant annual debt payments.

3. The Town will attempt to maintain base bond ratings (prior to insurance) of A1 (Moody's Investors Service) and A+ (Standard & Poor's) on its general obligation debt.
4. When needed to minimize annual debt payments, the Town will obtain insurance for new debt issues.

CAPITAL PROJECT EXPENDITURES

1. The Town will develop a multi-year plan for capital projects which identifies all projects likely to be constructed within a five year horizon. The multi-year plan will reflect for each project the likely source of funding and attempt to quantify the project's impact to future operating expenditures.
2. Capital projects will be constructed to:
 - a. Protect or improve the community's quality of life.
 - b. Protect or enhance the community's economic vitality.
 - c. Support and service new development.
3. To minimize the issuance of debt, the Town will attempt to support capital projects with appropriations from operating revenues or excess fund balances (i.e. "pay-as-you-go").

UTILITY CAPITAL EXPENDITURES

1. The Town will design utility rates sufficient for funding a depreciation reserve which will accumulate resources to replace or rehabilitate aging infrastructure which no longer can be serviced by regular maintenance. Attempts should be made to fund the reserve at a level approximate to annual depreciation of assets as reported in the Town's annual Comprehensive Annual Financial Report.

LONG-TERM FINANCIAL PLANS

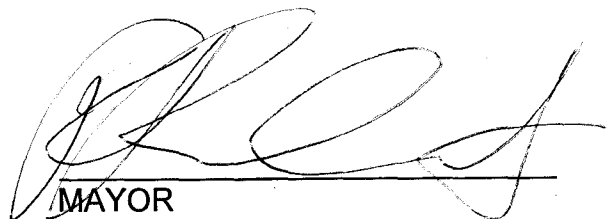
1. The Town will adopt every annual budget in context of a long-term financial plan for the General Fund. Financial plans for other funds may be developed as needed.
2. The General fund long-term plan will establish assumptions for revenues, expenditures and changes to fund balance over a five year horizon. The assumptions will be evaluated each year as part of the budget development process.

SECTION 2. That all ordinances of the City in conflict with the provisions of this ordinance be, and the same are hereby repealed and all other ordinances of the City not in conflict with the provisions of this ordinance shall remain in full force and effect.

SECTION 3. That should any paragraph, sentence, subdivision, clause, phrase or section of this ordinance be adjudged or be held to be unconstitutional, illegal or invalid, the same shall not affect the validity of this ordinance as a whole or any part or provision thereof other than the part so decided to be invalid, illegal, or unconstitutional. atutes and the zoning ordinance of the Town of Addison, Texas, and all the legal requirements, conditions and prerequisites having been complied with, the case having come before the City Council of Addison, Texas, after all legal notices, requirements, conditions and prerequisites having been complied with; and

SECTION 4. That any person, firm, or corporation violating any of the provisions or terms of this ordinance shall be subject to the same penalty as provided for in Code of Ordinances, as heretofore amended, and upon conviction shall be punished by a fine set in accordance with Chapter 1, General Provisions, Section 1.10, General penalty for violations of Code; continuing violations, of the Code of Ordinances for the Town of Addison.

DULY PASSED BY THE CITY COUNCIL OF THE TOWN OF ADDISON,
TEXAS, on this the 24th day of September, 1996.


MAYOR

ATTEST:


CITY SECRETARY

PUBLISHED ON: _____
OFFICE OF THE CITY SECRETARY

4-4-97

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