

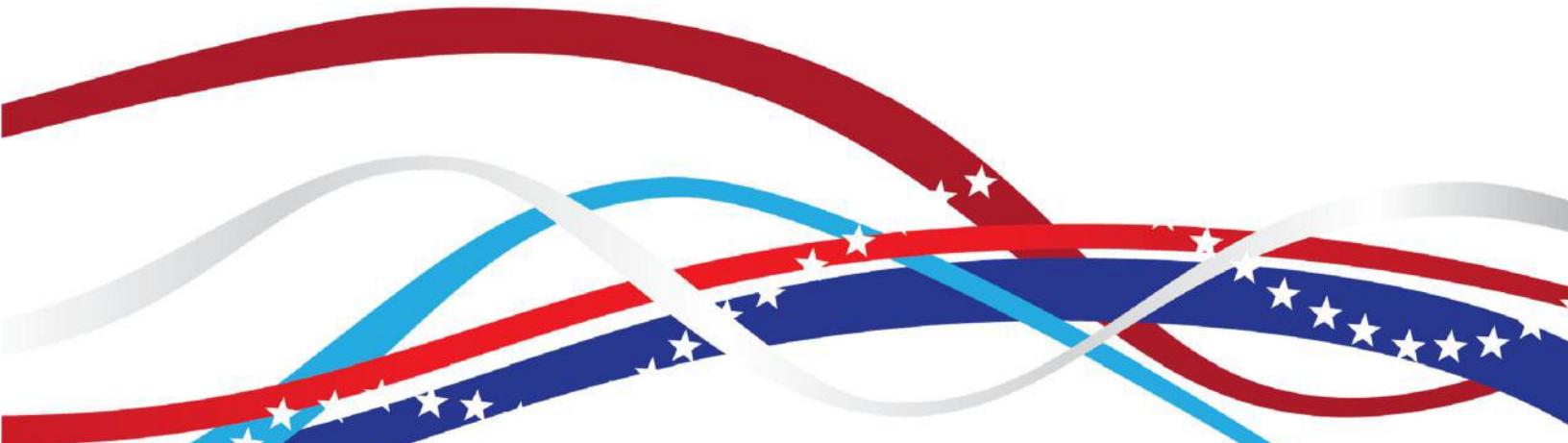


COMPREHENSIVE FINANCIAL MANAGEMENT POLICY STATEMENTS

Approved: May 11th 2021

Available to view online:

<http://www.earlytx.net/Departments/Administration/Finance>





CONTENTS

ARTICLE 1 GENERAL	8
Sec. 1.1 Purpose	8
Sec. 1.2 Objectives.....	8
ARTICLE 2 ACCOUNTING, AUDITING, AND FINANCIAL REPORTING	9
Sec. 2.1 Accounting Practices and Principles.....	9
Sec. 2.2 Financial Management Reporting.....	9
Sec. 2.3 Annual Audit.....	10
Sec. 2.4 Signature of Checks.....	10
Sec. 2.5 Updates and Revisions	10
Article 3 BUDGET AND LONG-RANGE FINANCIAL PLANNING.....	11
Sec. 3.1 Balanced Budget.....	11
Sec. 3.2 Current Funding Basis (Recurring Revenues)	11
Sec. 3.3 Use of Non-Recurring Revenues.....	11
Sec. 3.4 Tax Rate.....	11
Sec. 3.5 Pay As You Go Capital Projects	12
Sec. 3.6 Revenue Estimating for Budgeting.....	12
Sec. 3.7 Budget Preparation.....	12
Sec. 3.8 Budget Management	13
Sec. 3.9 Amended Budget	13
Sec. 3.10 Performance Measurement.....	14
Sec. 3.11 Operating Deficits	14
Sec. 3.12 Long-Range Financial Plans	15
Article 4 Revenues	16
Sec. 4.1 Balance Diversification	16
Sec. 4.2 General Fund	16
Sec. 4.3 Enterprise Funds	17
Sec. 4.4 One-Time/Unpredictable Revenue Sources	17
Sec. 4.5 Revenue Collection	18



Comprehensive Financial Management Policy Statements

Sec. 4.6	Write-off of Uncollectible Receivables	18
Sec. 4.7	Bond Revenue Coverage Requirements	18
Article 5	Expenditures	19
Sec. 5.1	Maintenance of Capital Assets.....	19
Sec. 5.2	Periodic Program/Services Reviews	19
Sec. 5.3	Purchasing Policy	19
Sec. 5.4	Basic Goals	19
Sec. 5.5	General Guidelines.....	20
Sec. 5.6	Conflicts of Interest.....	20
Sec. 5.7	Shared Purchasing	20
Sec. 5.8	Surplus Property	21
Sec. 5.9	Full and Open Competition.....	21
Sec. 5.10	Local Buying.....	22
Sec. 5.11	Planning	22
Sec. 5.12	Overdrafts Prohibited	22
Sec. 5.13	Buying Proper Quality	23
Sec. 5.14	Bribery.....	23
Sec. 5.15	Sales Tax.....	23
Sec. 5.16	Public Access	24
Sec. 5.17	Endorsements.....	24
Sec. 5.18	Personal Purchases	24
Sec. 5.19	Value engineering.....	24
Sec. 5.20	Bid List.....	24
Sec. 5.21	Purchase Order.....	25
Sec. 5.22	Purchasing Procedures.....	25
Sec. 5.23	Sealed Bid Procedure (Texas Local Government Code)	29
Sec. 5.24	Request for Qualification.....	30
Sec. 5.25	Request for Proposal for Construction, Rehabilitation or Repairs.....	33
Sec. 5.26	Request for Proposal Procedure for Technology	36
Sec. 5.27	Emergency Purchases Procedure.....	37

Sec. 5.28	Open Purchase Orders	37
Sec. 5.29	Purchase of Used Equipment	38
Sec. 5.30	Disposal of Surplus Goods	38
Article 6	RESERVES.....	40
Sec. 6.1	General Fund Unrestricted Fund Balance.....	40
Sec. 6.2	Tourism Fund (CVB)	40
Sec. 6.3	Early Municipal Development District Fund (EMDD).....	41
Sec. 6.4	Utility Enterprise Funds/Unreserved Working Capital	41
Sec. 6.5	Other Enterprise Funds/Unreserved Working Capital.....	42
Sec. 6.6	Debt Service Fund Unreserved Fund Balance	43
Sec. 6.7	General Equipment Fund	43
Sec. 6.8	Fund Balance Classification	43
ARTICLE 7 CAPITAL EXPENDITURES AND IMPROVEMENTS.....	45	
Sec. 7.1	Capitalization Threshold for Tangible Capital Assets.....	45
Sec. 7.2	<i>Five-Year Capital Improvement Plan (CIP)</i>	45
Sec. 7.3	Infrastructure Evaluation and Replacement/Rehabilitation	46
Sec. 7.4	Replacement of Capital Assets on a Regular Schedule.....	47
Sec. 7.5	Capital Expenditure Financing	47
Sec. 7.6	Pay-As-You-Go Capital Improvements.....	47
Sec. 7.7	Capital Improvements/Project Reporting.....	47
ARTICLE 8 DEBT.....	49	
Sec. 8.1	Objectives	49
Sec. 8.2	Use of Debt Financing	49
Sec. 8.3	Affordability.....	50
Sec.8.4	Types of Long-Term Debt	50
Sec. 8.5	Debt Structures	52
Sec. 8.6	Debt Refunding.....	53
Sec. 8.7	Interest Earnings on Debt Proceeds.....	54
Sec. 8.8	Bond Elections.....	54
Sec. 8.9	Sale Process.....	54

<i>Sec. 8.10</i>	Underwriting Syndicates	55
<i>Sec. 8.11</i>	Bond Ratings	55
<i>Sec. 8.12</i>	Use of Debt-Financed Property.....	55
<i>Sec. 8.13</i>	<i>Covenant Compliance</i>	56
<i>Sec. 8.14</i>	Arbitrage Rebate Monitoring and Reporting	56
<i>Sec. 8.15</i>	Post-Issuance Compliance	57
<i>Sec. 8.16</i>	Lease/Purchase Agreements	57
ARTICLE 9 CASH MANAGEMENT AND INVESTMENTS	58	
<i>Sec. 9.1</i>	Investment Management.....	58
<i>Sec. 9.2</i>	Investment Strategy.....	59
<i>Sec. 9.3</i>	Interest Income	59
<i>Sec. 9.4</i>	Arbitrage Investments.....	59
<i>Sec. 9.5</i>	Depository.....	59
<i>Sec. 9.6</i>	Collateralization of Deposits.....	59
ARTICLE 10 GRANTS AND INTERGOVERNMENTAL REVENUES	61	
<i>Sec. 10.1</i>	Grant Guidelines.....	61
<i>Sec. 10.2</i>	Grant Review Process	61
<i>Sec. 10.3</i>	Budgeting for Grant Expenditures	62
<i>Sec. 10.4</i>	Grant Termination and/or Reduced Grant Funding	62
ARTICLE 11 FINANCIAL CONSULTANTS	63	
<i>Sec. 11.1</i>	Selection of Auditors.....	63
<i>Sec. 11.2</i>	Arbitrage	63
<i>Sec. 11.3</i>	Delinquent Tax Collection Attorney	64
<i>Sec. 11.4</i>	Bond Counsel.....	64
<i>Sec. 11.5</i>	Financial Advisory Services.....	64
<i>Sec. 11.6</i>	Depository Bank	65
ARTICLE 12 CASH HANDLING PROCEDURES	66	
<i>Sec. 12.1</i>	Procedures	66
<i>Sec. 12.2</i>	General Controls:.....	66
<i>Sec. 12.3</i>	Security Controls – Cash Drawers, Safes & Lock Boxes:	68



Comprehensive Financial Management Policy Statements

Sec. 12.4	Petty Cash Funds	69
Sec. 12.5	Petty Cash Reimbursement Procedures.....	70
Sec. 12.6	Cash Advanced for Purchases Made with Petty Cash.....	71
Sec. 12.7	Petty Cash Restrictions	71
Sec. 12.8	Processing Checks, Money Orders, and Bank Drafts	72
Sec. 12.9	Counterfeit Cash and Foreign Currency	73
Sec. 12.10	Cash Loss.....	74
Sec. 12.11	Large Cash Transactions.....	74
Sec. 12.12	Segregation of Duties.....	75
Sec. 12.13	Credit Cards.....	75
Sec. 12.14	NSF Checks, Bank Drafts, & Web Payments.....	76
Sec. 12.15	Responsibilities.....	76
ARTICLE 13 INVESTMENT POLICY	78
Sec. 13.1	Scope	78
Sec. 13.2	Objectives	79
Sec. 13.3	Delegation of Authority.....	79
Sec. 13.4	Standard of Care.....	79
Sec. 13.5	Ethics and Conflicts Of Interest.....	80
Sec. 13.6	Accounting/Reporting.....	81
Sec. 13.7	Internal Controls.....	82
Sec. 13.8	Diversification.....	82
Sec. 13.9	Cash Flow Analysis.....	84
Sec. 13.10	Authorized Investments	84
Sec. 13.11	Prohibited Investing.....	86
Sec. 13.12	Eligible Institutions	86
Sec. 13.13	Security Purchases/Trades	88
Sec. 13.14	Collateralization Requirements	89
Sec. 13.15	Investment Training.....	89
Sec. 13.16	INVESTMENT POLICY CONCLUSION	90



Comprehensive Financial Management Policy Statements

ARTICLE 14 INVESTMENT STRATEGY.....	95
ARTICLE 15 INVESTMENT PURCHASING PROCEDURAL CONTROLS.....	93
Sec. 15.1 INVESTMENT PURCHASING PROCEDURAL CONTROLS.....	93
ARTICLE 16 LIST OF QUALIFIED INSTITUTIONS.....	95
Sec. 16.1 List of Qualified Institutions	95
ARTICLE 17 TRAINING SEMINAR SPONSORS.....	96
ARTICLE 18 *RESERVED*	
ARTICLE 19 *RESERVED*	
ARTICLE 20 *RESERVED*	
ARTICLE 21 *RESERVED*	
ARTICLE 22 ADDENDUMS.....	98



ARTICLE 1 GENERAL

Sec. 1.1 Purpose

The Comprehensive Financial Management Policy Statements assembles all of the City's financial policies into one document. These statements are the tools used to ensure that the city is financially able to meet its current and future service needs. The individual statements contained herein serve as guidelines for both the financial planning and internal financial management of the City.

Municipal resources must be wisely used to ensure adequate funding for the services, public facilities, and infrastructure necessary to meet immediate and long-term needs. These policy statements safeguard the fiscal stability required to achieve the City's objectives and ensure long-term financial health.

Sec. 1.2 Objectives

- A. To guide City Council and management policy decisions that have significant fiscal impact.
- B. To employ balanced revenue policies that provide adequate funding for services and service levels.
- C. To maintain appropriate financial capacity for present and future needs.
- D. To maintain sufficient reserves so as to maintain service levels during periods of economic downturn.
- E. To promote sound financial management by providing accurate and timely information on the City's financial condition.
- F. To protect the City's credit rating and provide for adequate resources to meet the provisions of the City's debt obligations on all municipal debt.
- G. To ensure the legal use of financial resources through an effective system of internal controls.



Comprehensive Financial Management Policy Statements

- H. To promote cooperation and coordination with other governments and the private sector in financing and delivery of services.



ARTICLE 2 ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

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

Sec. 2.1 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 monthly interim financial reports, will meet these standards. This includes official statements accompanying debt issues, Comprehensive Annual Financial Reports and continuing disclosures statements. Monthly interim financial reports will be on a cash basis and will be reported as budgeted. At year-end, the general ledger and financials will be converted to GAAP and GASB.

Sec. 2.2 Financial Management Reporting

- A. Interim Financial Reports will be provided monthly to management and City Council that explain key economic and fiscal developments and note significant deviations from the budget. These reports will be distributed monthly by the end of each month for the prior month.
- B. Departments will report on program measures and indicators as compared to target and last year to the Finance Department. A report will be submitted to the City Administrator and City Council, highlighting significant variations.



Sec. 2.3 Annual Audit

The City Council shall cause an annual audit to be made of the books and accounts of each and every fund and department of the City. A complete audit in accordance with standards set by the American Institute of Certified Public Accountants shall be made at the end of each fiscal year by an Independent Certified Public Accountant who shall be selected by the City Council. The audit report shall be reviewed by the audit committee. The audit committee will consist of the Mayor, City Attorney, City Administrator, Director of Economic Development, City Secretary, and a Citizen board member. The audit report shall be filed with the City Council, presented at a City Council meeting, and shall be available for public inspection.

Sec. 2.4 Signature of Checks

All checks shall have two authorized signatures. Signatures may be affixed on all City checks via facsimile signatures, either with a signature plate used with a check signing machine or with a secure laser check printing system.

Sec. 2.5 Updates and Revisions

The Financial Management Policy Statements will be reviewed bi-annually and updated, revised or refined as deemed necessary. Policy statements adopted by City Council are guidelines, and occasionally exceptions may be appropriate and required. Exceptions will be identified, documented, and approved by the City Council before exception is granted.

Article 3

BUDGET AND LONG-RANGE FINANCIAL PLANNING

These guidelines for budgeting will help 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.

Sec. 3.1 Balanced Budget

The City Administrator shall file annually, a structurally balanced budget for the ensuing fiscal year with City Council pursuant to the prevailing state and local law. A structurally balanced budget is further defined as recurring revenues funding recurring expenditures and adherence to fund balance policies. Short-term loans will be avoided as budget balancing techniques.

Sec. 3.2 Current Funding Basis (Recurring Revenues)

The City shall budget and operate on a current funding basis. Recurring 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 basis.

Sec. 3.3 Use of Non-Recurring Revenues

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

Sec. 3.4 Tax Rate

The City Administrator will recommend a tax rate that the City finances require in order to operate efficiently, yet effectively, and pay its debt.



Sec. 3.5 Pay As You Go Capital Projects

The transfer from the City's General Fund and the City's Utility Fund to fund pay-as-you-go capital projects will be budgeted when financially feasible and when projects are identified as needed. The transfer will be based on the financial health of each fund with the long-term goal of adequately funding rehabilitation and providing infrastructure to accommodate future growth.

Sec. 3.6 Revenue Estimating for Budgeting

- A. In order to protect the City from revenue shortfalls and to maintain a stable level of service, the City shall use a conservative, objective, reasonable and analytical approach when preparing revenue estimates. The process shall include historical collection rates, trends, and probable economic changes. This approach is intended to reduce the likelihood of actual revenues falling short of budget estimates and should avoid mid-year service changes.
- B. The City, whenever possible, will seek outside sources of revenue, such as federal, state, and local grants, in order to leverage local dollars.

Sec. 3.7 Budget Preparation

- A. Department Directors have primary responsibility for formulating budget proposals. New or expanded services should support City Council goals, City Administrator priority direction and department goals. The City Administrator and Departments are charged with implementing the goals and priorities once they are approved.
- B. All competing requests for City resources will be weighed within the formal annual budget process.
- C. Actions on items that come up through-out the year with significant financial impacts should be withheld until they can be made in the full

context of the annual budget process and long-range plan, unless unforeseen circumstances present themselves.

- D.** The Budget will be presented in a way that clearly communicates to the public the City's proposed level of services and capital projects planned for the coming year.

Sec. 3.8 Budget Management

The City Council shall delegate authority to the City Administrator in managing the budget after it is formally adopted by City Council. The City Administrator may further delegate levels of authority for the daily operations of the budget. Expenditures/expenses are legally adopted by the fund level. Expenditures/expenses should not exceed the adopted budget, plus subsequent changes approved by the City Council.

Transfers between funds must gain formal approval by the City Council through the budget process or subsequent approval by the City Council.

Sec. 3.9 Amended Budget

In order to preserve fund balances/ending balances based on projected revenues and expenditures/expenses for the current fiscal year, the City Council may periodically amend the budget during the year as needed. Under provisions of Texas State law and the City's operating procedures, the operating budget may be adjusted or amended. If the amendment will create a new line item, or increase total overall spending, before passing the order to amend the budget, the City Council must declare a need based on an unplanned event. The ordinance should explain the unplanned event, and show the revenue or expenditure items affected.

Sec. 3.10 Performance Measurement

Performance measures will be utilized and reported in department budgets. The City will maintain a measurement system that reports trends and comparisons to targets and previous year as a management tool to monitor and improve service delivery.

Sec. 3.11 Operating Deficits

A. The City shall take immediate corrective action if at any time during the fiscal year expenditure and revenue estimates are such that "net income" is lower than budgeted. Corrective actions include:

- Deferral of capital equipment purchases
- Deferral of pay-as-you go capital improvements
- Expenditure reductions
- Deferral of certain positions
- Hiring freezes
- Freeze merit increases
- Use of fund balance
- Use of volunteers
- Increase fees
- Reduce work hours with subsequent reduction in pay
- Eliminate positions which may require laying-off employees if there are no other vacant positions for which they are qualified.

B. Short-term loans as a means to balance the budget shall be avoided.

C. 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 by City Council of a plan to replenish the fund balance if it is brought down below policy level. Reserve requirements are addressed in Section V.

Sec. 3.12 Long-Range Financial Plans

- A. The City shall develop and maintain a five-year Financial Forecast and Capital Improvement Plan (CIP) for each major operating fund, in conjunction with the annual budget process.
- B. The forecast should enable current services and current service levels provided to be sustained over the forecast period. Operating impacts from completed capital improvement projects in the City's Five-Year CIP shall be included in the forecast. Commitments/obligations already made that require future financial resources shall also be included.
- C. The forecasts should identify the impact to property taxes and utility rates.
- D. Major financial decisions should be made in the context of the Long-Range Plan. 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 a change in the level of revenue.



Article 4 Revenues

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

Sec. 4.1 Balance Diversification

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.

Sec. 4.2 General Fund

- A. 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 recover the costs of those services through property and sales taxes.
- B. At a minimum, the City will strive to cover direct costs.
- C. User fees should be reviewed, at a minimum every two years and adjusted to avoid sharp changes.
- D. Factors in setting fees shall include but not be limited to market and competitive pricing, effect of demand for services, and impact on users, which may result in recovering something less than direct, indirect, and overhead costs.
- E. The City may set a different fee for residents versus non-residents.



- F. All user fees should be adopted by City Ordinance and included in the Annual Fee Schedule.

Sec. 4.3 Enterprise Funds

- A. Utility rates and other Enterprise Fund user fees shall be set at levels sufficient to cover operating expenditures (direct and indirect), meet debt obligations and debt service coverage, provide funding for capital improvements, and provide adequate levels of working capital.
- B. The City may set a different fee for residents versus non-residents.
- C. The Five-Year Financial Plan (rate model) and proposed operating budget shall serve as the basis for rate change considerations.
- D. When necessary, the Five-Year Financial Plan (rate model) will be built around smaller rate increases annually versus higher rate increases periodically.
- E. Utility rates will be reviewed annually by the City Council.
- F. All rates should be adopted by City Ordinance and included in the Annual Fee Schedule.

Sec. 4.4 One-Time/Unpredictable Revenue Sources

- A. One-time, unpredictable revenue sources should not be used for ongoing expenses or expenditures.
- B. One-time, unpredictable revenue sources will be used for one-time purchases such as increase in fund balance requirements, capital equipment purchases, capital improvements, etc.



Sec. 4.5 Revenue Collection

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.

Revenues actually received will be compared to budgeted revenues by the Director of Finance and any variances considered to be material will be investigated. This process will be summarized in the monthly financial report. (See Financial and Management Reporting)

Sec. 4.6 Write-off of Uncollectible Receivables

(excludes property taxes, court fines and warrants)

A. Receivables shall be considered for write-off as follows:

- State statute authorizing the release or extinguishment, in whole or in part, of any indebtedness, liability, or obligation, if applicable.
- Accounts outstanding and identified as uncollectible, and where all attempts to collect have been taken.

B. Accounts shall be written-off annually near fiscal year-end. Upon approval, accounts can be forwarded to a credit reporting agency.

C. The write-off of uncollected accounts is a bookkeeping entry only and does not release the debtor from any debt owed to the City.

Sec. 4.7 Bond Revenue Coverage Requirements

The City shall meet the required legal revenue coverage requirements as set forth in all bond rate covenants.



Article 5 **Expenditures**

The City will 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.

Sec. 5.1 Maintenance of Capital Assets

Within the resources available each fiscal year, the City shall maintain capital assets and infrastructure at sufficient level to protect the City's investment, to minimize future replacement and maintenance costs, and to maintain service levels.

Sec. 5.2 Periodic Program/Services Reviews

The City Administrator and staff shall undertake periodic reviews of City programs and services for both efficiency and effectiveness. 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.

Sec. 5.3 Purchasing Policy

This policy has been designed to insure that all City departments meet Federal and Texas state law as well as the policies set by the City Council with regard to the expenditure of public funds. Specific state procurement laws that are followed include, but are not limited to, Texas Local Government Code 252 and 271. Government Code 2253, 2254, and 2269. When federal and/or state funds are awarded to, or used by the City of Early, additional federal or state rules as required will be adhered to. The City of Early adopts Federal procurement policies and procedures in 2 CFR 200.317-2 CFR 200.327 and Appendix II to Part 200 as an addendum to this procurement policy and will adhere to these policies and procedures, and updates as needed when procurement actions are to be funded with federal funds. If these policies are adhered to, the City should receive the maximum value for each public dollar spent.



Comprehensive Financial Management Policy Statements



Comprehensive Financial Management Policy Statements

Sec. 5.4 Basic Goals

The basic goals of the City's purchasing program are:

- A. To comply with the legal requirements of public purchasing.
- B. To assure vendors that impartial and equal treatment will be afforded all who wish to do business with the city.
- C. To receive maximum value for each public dollar spent.
- D. To provide City departments the required goods and services at the time and place needed in the proper quantity and quality.
- E. To purchase only goods and services for which funds have been approved and not previously encumbered.

If the procedures and guidelines established are followed, each department should efficiently manage, control and plan their available resources to meet present and future departmental needs and help the City meet these goals.

Sec. 5.5 General Guidelines

These general guidelines should be considered administrative rules and regulations and are to be adhered to as closely as possible for all departments in the procurement of goods and services.

Sec. 5.6 Conflicts of Interest

No employee, officer, or agent must participate in the selection, award, or administration of a contract if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or



agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract.

Sec. 5.7 Shared Purchasing

Whenever it is allowable and permitted by law, in an effort to promote cost-effective use of shared services it is encouraged to enter into state or local intergovernmental agreements for the procurement or use of common or shared goods and services.



Sec. 5.8 Surplus Property

Whenever such use is feasible and reduces project cost it is in the best interest of the City of Early that surplus property from state and federal sources should be obtained or purchased in lieu of purchasing new equipment.

Sec. 5.9 Full and Open Competition

All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, and invitations for bids or requests for proposals must be excluded from competing for such procurements. Some of the situations considered to be restrictive of competition include but are not limited to:

- A. Placing unreasonable requirements on firms in order for them to qualify to do business;
- B. Requiring unnecessary experience and excessive bonding;
- C. Noncompetitive pricing practices between firms or between affiliated companies;
- D. Noncompetitive contracts to consultants that are on retainer contracts;
- E. Organizational conflicts of interest;
- F. Specifying only a "brand name" product instead of allowing "an equal" product to be offered and describing the performance or other relevant requirements of the procurement; and
- G. Any arbitrary action in the procurement process

Sec. 5.10 Local Buying

It is the desire of the city to purchase from Early, Texas vendors whenever possible. This can be accomplished by ensuring that local vendors who have goods or services available which are needed by the city are included in the competitive shopping process, which will precede most purchases. The city has a responsibility to its residents, however, to ensure that the maximum value is obtained for each public dollar spent. It is assumed that local vendors who wish to do business with the city will offer the lowest possible quote for the item being purchased. This policy is only carried out when applicable according to state and federal laws. On federally funded projects local geographical preferences in the evaluation of bids or proposals is prohibited unless federal statutes expressly mandate or encourage geographic preference.

Sec. 5.11 Planning

Planning for purchases should be done on both a short term and a long-term basis. Small orders and last-minute purchases should be minimized; thereby, increasing the capability of each department to purchase its goods and services in larger quantities in order to obtain the maximum discounts possible and maintains a sufficient warehouse of goods and supplies. Planning will also cut down on the number of trips required to obtain materials, reduce work delays due to "last minute" purchases, and minimize the amount of clerical and supervisory time spent on documenting purchases.

Sec. 5.12 Overdrafts Prohibited

No purchases will be authorized which would overdraft a budgetary account. Department Heads who are contemplating a purchase that will exceed a budgetary account should contact the City Administrator and City Secretary to ensure that provision is made for the necessary budget allocation or transfer prior to initiating the purchase.

Sec. 5.13 Buying Proper Quality

Quality and service are just as important as price, and it is the duty of the requisitioning department, as well as, the person making the purchase, to secure the best quality for the purchase intended. Quality buying is the buying of goods or services that will meet, but not exceed, the requirements for which they are intended. In some instances, the primary consideration is durability. With other purchases, it may be a question of immediate availability, ease of installation, frequency of repair or efficiency of operation that must be given primary consideration. In the case of motor vehicles and other capital expenditures, departments may want to investigate life cycle costs or EPA mileage ratings to compare bids, as opposed to utilizing the price as the criterion for determining the lowest responsible bidder. It is the responsibility of each Department Head to become familiar enough with the available equipment to determine the appropriate quality required in order to assist in the development of specifications.

Sec. 5.14 Bribery

Bribery in any form represents malfeasance in office and means that public funds are being mismanaged. Bribery by vendors in order to secure favorable consideration is seldom attempted. Vendors will usually attempt to secure favoritism by offering gifts or providing entertainment to City officials. Attempts to influence decisions regarding the expenditures of public funds may be directed against any employee who has influence over the selection of vendors. The acceptance of a gift or entertainment from a vendor or potential bidder, which exceeds a value of \$50.00 will be considered a bribe and may result in appropriate disciplinary action, up to and including dismissal.

Sec. 5.15 Sales Tax

The city is exempt from paying all local and state sales taxes or Federal Excise taxes. The City Secretary can provide the necessary exemption documents to any vendor upon request.

Sec. 5.16 Public Access

All specifications, bid documents, purchase orders and supporting documents are public records and will be made available to citizens, vendors, or the media, upon request.

Sec. 5.17 Endorsements

It is City policy not to endorse or in any way permit an employee's name, position or the City's name to be used and advertised as supporting a product or vendor.

Sec. 5.18 Personal Purchases

Purchases for employees by the City are prohibited. City employees are also prohibited from using the City's name or the employee's position to obtain special consideration in personal purchases. Employees using the City's name or their position to obtain such consideration will be subject to disciplinary action, up to and including dismissal.

Sec. 5.19 Value engineering

Valued engineering is preferred in construction projects and should be included as a clause in contracts of sufficient size to offer reasonable opportunities of cost reduction.

Sec. 5.20 Bid List

Potential bidders may be placed on a "bid list" after filing a request in writing at City Hall. The request should be typewritten, on company letterhead, and should specify what goods and/or services it can supply. Bidders who fail to respond to two consecutive bid invitations will be removed from the bid list.



Sec. 5.21 Purchase Order

The city purchase order form must be completed and signed under the procedures established in these policies. In order to insure expeditious processing of purchase orders, it is important that the requisitioning department have all information accurately documented when requesting a purchase order.

A purchase order is a contract between the city and a vendor. The contract is not binding until it is accepted by the vendor. The issuance of purchase orders by unauthorized individuals will not be recognized by the city and payment of these obligations will not be approved. Unauthorized purchases are classified as personal expenses.

Purchase orders are classified as either "original" or "confirming", based on whether or not the vendor has previously been notified of the city's intent to purchase goods or services from him. Confirming purchase orders are used to prevent double purchasing of the same item.

Sec. 5.22 Purchasing Procedures

This section establishes policies regulating the degree of formality to be followed in the purchase of goods and services, depending on the costs of the items to be purchased. The splitting of purchases into smaller orders to avoid these requirements is strictly prohibited and will result in appropriate disciplinary action.



Comprehensive Financial Management Policy Statements

The following shows a summary of approval requirements for purchases.

Dollar Limits	Procurements	Requirements
Under \$100	No Purchase Order number is required	Approval for the expenditure must be made by the Department Head
\$100 up to \$1,500	Purchase Order is required	Approval for the expenditure must be made by the Department Head
\$1,500 up to \$25,000	Increase competitively shopped PO required	Prior Approval of the Department Head and City Administrator
\$25,000 up to \$50,000	Within City Administrator's approval	Three informal sealed competitive quotes. Department Head to schedule a public opening date and time.
\$50,000 and above	In excess of the informal quote/bid limit	Formal solicitations, which includes public notices, required unless exempted. Council approval required.

Purchase under \$100.00

Purchases under this amount do not require a purchase order, but should be approved by the Department Head. Receipts from these purchases will be signed by the purchaser and a reason for the purchase should accompany the receipt. This receipt should be submitted to the City Secretary.

Purchases from \$100.00 to \$1,500.00

The Department Head must obtain a purchase order number through the purchase order procurement software in order to make purchases in this price range. Should a situation exist such as a utility emergency or equipment breakdown where the Department Head must make a purchase prior to obtaining a purchase order, the same Department Head will be responsible for completing the purchase order request process before the end of the next business day. It is the responsibility, however, of each Department head to insure complete control over this segment of the purchasing process. Department Heads should designate employees who will be allowed to make purchases and provide internal control procedures to insure that all purchases are for legitimate public purposes. Monthly

statements from vendors should be reconciled, and all purchases accounted for.

The Department Head shall submit the invoice or receipt for the purchase to the accounting department. The invoices or receipts should be originals and must be signed and given an account code by the Department Head.

Purchases from \$1,500.00 to \$25,000.00

With the purchase of more than \$1,500.00 but less than \$25,000.00 a purchase requisition must be submitted by the Department Head for approval by the City Administrator before an order is placed with a vendor. The requesting department shall competitively shop to insure that vendors, which the City deals with are maintaining competitive pricing and appropriate quality. The department may find it convenient to occasionally use the telephone or email quotation, even though items required are below the amounts necessary to trigger this procurement process. If used, these quotations shall be submitted to the accounting department with the purchase requisition. The Department Head is responsible for requesting a purchase order number through the purchase order procurement software and identify the account code for which the acquisition will be made from. The approved purchase requisition will then be issued a numbered purchase order to the vendor.

Purchases from \$25,000.00 to \$50,000.00

Purchase requisitions for goods or services having a value of \$25,000.00 to \$50,000.00 must be submitted for approval by the City Administrator prior to placing an order with a vendor. Before submitting a purchase requisition, the Department Head must obtain a minimum of three written informal and sealed quotations for the goods or services required. The Department Head shall establish a time and place in which the bids will be opened. The purchaser shall contact at least two disadvantaged businesses on a rotating basis, based on information provided by the office of Small Business Assistance of the Texas Department of Commerce. If the list fails to identify a disadvantaged business in Brown County, the City is exempt from this requirement. The purchase requisition requesting the purchase from the lowest responsible bidder shall then be forwarded to the City Administrator,



who will check to insure that the quotations have been completed correctly and that funds are available in the appropriate account. If the Department Head is unable to secure three quotations, a notation explaining why less than three qualified vendors were available shall be made on the purchase order and forwarded to the City Secretary. When seeking three written quotes, the practice of "auctioneering" should be avoided by refusing to disclose to a vendor the price quoted by competitors. The approved purchase requisition is then forwarded to the City Secretary for issuance of a numbered purchase order to the vendor.

Procedure over \$50,000.00

State law requires formal, written and sealed competitive bids on all purchases or contracts calling for an expenditure of more than \$50,000.00. This includes installment payments and lease-purchases, if the payments will total more than \$50,000.00 with the following exceptions:

A. Emergencies

- Cases of "public calamity", where it is necessary to act at once to help citizens or preserve city property.
- Cases of public health or safety or citizens.
- Unforeseen damage to public property, machinery, or equipment.

B. Purchases of personal or professional services.

C. Work done and paid for day by day, as the work progresses.

D. Purchases of land and right-of-way.

E. Cases where there is only one supplier.



In addition, Texas Government Code prohibits competitive bidding for the services of any licensed architect, optometrist, physician, surgeon, CPA or professional engineer.

If purchases over \$50,000.00 are purchased from an approved procurement method, the city is exempt from competitive bidding.

Sec. 5.23 Sealed Bid Procedure (Texas Local Government Code) over \$50,000

- A.** The Department Head and/or the Purchasing Agent shall develop specifications
 - for the purchase of goods and services, based upon standards appropriate to meet the City's need. The specifications are forwarded to the City Administrator for approval and placement on the City Council Agenda. The City Council shall authorize seeking bids for the goods or services described.
- B.** Public Notice of the time and place the bid will be opened must be published in
 - the official newspaper once a week for two consecutive weeks prior to the time set for bid opening, with the date of first publication at least 14 days before bid opening date.
- C.** The Purchasing Agent shall mail or deliver an invitation to bid form to potential
 - bidders at least two weeks prior to the time of the public bid opening.
- D.** All bids received shall be filed unopened.
- E.** On the date designated in the public notice the bid shall be opened and read
 - aloud at a public meeting.

F. The Purchasing Agent shall prepare a written tabulation of the bids received and

- draft a memorandum to the City Administrator indicating his and the Department Head's recommendation for award. The City Council will award the bid to the lowest responsible bidder at a public meeting.
 - i. The City Council has the right to reject any and all bids.
 - ii. Ties are decided by lot, under rules established by the City Council, except when one bidder is a local vendor then the City shall award to local vendor.

G. If required by law, the successful bidder must execute a good and sufficient bond in the full amount of contract, by a surety company authorized to do business in the state.

Sec. 5.24 Request for Qualification

(Texas Local Government Code 2254 Subchapter A, Brooks Act, and Uniform Guidance 2 CFR 200.318)

The request for qualification is used for the selection of firms, for state and/or federally funded projects, that provide engineering, architecture, surveying and mapping services, construction management, and program management services for a specific project through a fair and competitive process that ensures the project is completed on time and within budget. The process was developed to comply with Texas Government Code Chapter 2254, Subchapter A, Brooks Act, and 23 CFR Part 172 if federal highway funds are to be used. When State and local procurement laws, regulations, policies, or procedures are in conflict with applicable Federal laws and regulations, a contracting agency shall comply with Federal requirements to be eligible for Federal-aid reimbursement of the associated costs of the services incurred following FHWA authorization, as specified in 2 CFR 200.102(c).

City Council authorized City staff to prepare and implement a pre-



Comprehensive Financial Management Policy Statements

qualifying and selection process for engineering firms to be utilized for each capital project completed by the city.

City of Early Administrator, Assistant Administrator and an expert(s) in the field of subject to be qualified will participate in a process to qualify and select engineering firms for future capital projects. That process will conclude with a ranking of the most highly qualified provider of services that has demonstrate competence and qualified to perform the scope of work outline in the RFQ. The procedure shall be led by the City Administrator and commence as outlined below:

- A. Requirements of Request for Qualifications (RFQ): The RFQ must include the scope of work, qualifications, responsibilities, and deliverables. Clearly define the evaluation criteria, scoring weight for assigned criteria. The RFQ will include the criteria used for evaluation, ranking, and selection of consultants to perform engineering and design related services must assess the demonstrated competence and qualifications for the type of professional services solicited. These qualifications-based factors may include, but are not limited to, technical approach (e.g., project understanding, innovative concepts or alternatives, quality control procedures), work experience, specialized expertise, professional licensure, staff capabilities, workload capacity, and past performance. Price shall not be used as a factor in the evaluation, ranking, and selection phase. All price or cost related items which include, but are not limited to, cost proposals, direct salaries/wage rates, indirect cost rates, and other direct costs are prohibited from being used as evaluation criteria. The RFQ can not include any state or local hiring preferences
- B. A Disadvantaged Business Enterprise (DBE) goal will need to be set by TxDOT, the city will need to forward the RFQ and Scope of Work to TxDOT three (3) weeks prior to advertising RFQ, and include TxDOT established goal in the RFQ.
- C. The RFQ will be posted on the City website to allow firms to evaluate if they want to submit their statement of qualifications (SOQ)



Comprehensive Financial Management Policy Statements

D. Prior to the committee evaluating firms the City Administrator will confirm that all firms submitting a statement of qualifications (SOQ) and providing engineering and design-related services are administratively qualified with an effective rate by the SOQ deadline specified in the Solicitation; or be determined eligible by TxDOT's PEPS Division, Business Operations Center - Administrative Qualification Group to use the federal safe harbor rate, by the SOQ deadline specified in this solicitation. Requirements are summarized on TxDOT's website, which includes a list of firms and their administrative qualification status. The website is found at the following location: <http://www.txdot.gov/business/consultants/architectural-engineering-surveying/getting-started/administrative-qualification.html>

E. Prior to the committee evaluating firms the City Administrator will confirm that all firms submitting a statement of qualifications (SOQ) furnish evidence of compliance with the assigned DBE goal, or evidence of a good faith effort acceptable to the city to meet the assigned goal in the established by TxDOT. TxDOT maintains the Texas Unified Certification Program Disadvantaged Business Enterprise (TUCP DBE) Directory, which lists businesses alphabetically and by work category.

F. The committee will only score and rank all firms that meet the requirements in 5 and 6. Scores of all firms shall be based on the information provided in the SOQs and the criteria set forth in the Request for Qualifications (RFQ).

G. All members of the committee will complete an Engineering Score Sheet that is included in the RFQ. From the proposal evaluation and any subsequent discussions which may have been conducted, the contracting agency shall rank most highly qualified firms.

H. Upon completion of the score sheets the City Administrator shall tally the scores and open a discussion as to the results. The firm that scored the highest shall be ranked the highest will be considered the



Comprehensive Financial Management Policy Statements

most highly qualified firm.

- I. Prior to negotiating with the selected firm, the city will develop a cost estimate to be used during negotiations.
- I. Upon determining which firm is the most highly qualified, the City Administrator will prepare and forward a firm ranking recommendation to the City Secretary along with the engineering score sheets to be included with the permanent file for the project.
- K. Negotiation of Reasonable Costs: The City Administrator will begin his negotiation reasonable costs with the highest rank firm. If negotiations are successful, the City Administrator will notify the City Secretary. The City shall not base compensation for professional services on a cost plus a percentage of cost or on a percentage of construction cost, if federal funds are involved.
- L. If a satisfactory contract cannot be negotiated with highest rank firm. The City Administrator will terminate negotiation in writing. The City must then start negotiation with the next highest qualified provider and attempt to negotiate a contract for a fair and reasonable price.
- M. Once negotiations are complete, a contract will be placed on the next available Council agenda for consideration.

Variations from these procedures may take place with written approval from the City and the approving state agency.

Sec. 5.25 Request for Proposal for Construction, Rehabilitation or Repairs

In accordance with Section 2269.151 Texas Government Code and City requirements. The City of Early will evaluate proposals according to the process and criteria listed below. The City of Early reserves the right to consider all other pertinent factors in addition to the proposal in making its final decision. Each of the criteria has been assigned an appropriate weight by the City of Early.



Comprehensive Financial Management Policy Statements

Following an analysis and valuation of the proposals, ranking of the proponents will be made based upon the evaluation criteria. In the event of a tie in the rankings, the City of Early will break the tie based upon the City of Early's

determination of which Proposal will provide the best value to the City of Early. Subjective judgment on the part of the City of Early is implicit in the criteria evaluation process. The evaluation process permits placing technical considerations above total price. The City of Early reserves the right to award to other than the entity with the lowest proposed price. After opening and ranking, award may be made on the basis of the original proposal as is, without discussion, clarification or modification, or the City of Early may discuss with the selected proponent, offers for cost adjustment and other elements of the proposal.

A. Any proposal may be considered unacceptable if the City of Early determines it fails to provide adequate technical and price information as specified in this Instruction to Proponents.

B. Evaluation Criteria: The proposals submitted in response to this RFP will be reviewed by a committee assembled by the City of Early. This committee will evaluate the proposals based on but not limited to the following criteria:

C. Cost Proposal Form – Exhibit 2 (35 Points) Labeled Tab 4

- The owner will consider the total Base contract cost as part of its evaluation.
 - i.** The owner will have the right to evaluate proposals in a way most advantageous to the City including, acceptance of alternates, if applicable, in any order or combination unless otherwise specifically provided in the proposal documents.
- The proponent submitting the lowest proposed amount will receive the highest number of points in this category and the proponent submitting the highest proposed amount will receive the lowest number of points awarded in this category.

D. Relevant Experience – (35 Points) Labeled Tab 5

- Experience as a general contractor with specific experience in facilities construction and renovation projects of the same or similar type, size, nature and class as the project being proposed. Consideration will be given to the number of years of the proponent has been in business.
- List up to five representative projects (dollar value and/or scope/size) who may be contacted to discuss offertory's experience on projects of similar size and scope. Include the project name, architect, cost



Comprehensive Financial Management Policy Statements

of the project and the contact person (include phone number). Consideration will only be given to projects which are occupied or substantially complete. Municipality and renovation projects may receive greater consideration.

E. Plan and Schedule – (25 Points) Labeled Tab 6

- Represent a potential plan and schedule for performing the work.
 - i. Baseline Schedule – Provide a proposed baseline schedule in spreadsheet form for this work defining critical path.
 - ii. Schedule Strategies – Provide strategies which are included in the proposal to minimize delays and areas for possible time savings.

F. Financial Capacity to perform the work – (5 Points) Labeled Tab 7

- Provide evidence of financial capability and stability which must be appropriate to the size and scope of this project.
- List bank references, including contact name and title, address and phone of contact person.
- **Total Points Possible.....100**

G. Presentations/Interviews: After an initial review and compilation process, the City may ask for a presentation/interview of services from selected companies or individual to clarify and to develop a comprehensive assessment of the submissions.

H. Other Considerations: The City reserves the right to consider historical information and facts, whether gained from the proposal, references, or any other source, in the evaluation process, including submitter's past working or business relationship with the City, if any. The City further reserves the right to consider a submitter's background, personnel, experience, financial and other references, management practices, exceptions to the RFP or subsequent contract, and any working relationships, past or present, a submitter may have with its other clients.

I. Proposed Project Schedule

DATE	MILESTONE
	RFP – Posted
	Pre-Proposal Meeting with Site Visit (time & address listed on Page 1)
	Deadline for questions and requests for clarification (Addenda)
	Competitive Sealed Proposals (CSP) submission deadline
	Approval & Award of Contract by City Council

Sec. 5.26 Request for Proposal Procedure for Technology

The competitive sealed proposal procedure may be used for high technology procurements. "High technology procurements" means the procurement of equipment, goods, or services of a highly technical nature, including:

- A. Data processing equipment and software
- B. Telecommunications equipment and radio and microwave systems
- C. Electronic distributed control systems
- D. Technical services related to items listed

The public notice shall be made in the same manner as provided in the sealed bid procedure. The request for proposal shall specify the relative importance of price and other evaluation factors. The proposals shall be opened so as to avoid disclosure of contents to the competing offertory;



however, all proposals shall be opened for public inspection after the award of contract (excluding trade secrets and confidential information). Negotiations with offertory may be conducted after submission of proposals and prior to award of contract for the purpose of obtaining the best and final offer for the city.

Sec. 5.27 Emergency Purchases Procedure

A. Amount of \$50,000.00 or less

An emergency is defined for this purpose as a situation requiring prompt action before the next council meeting in order to save life or public property, to protect public health or safety, or to deal with a situation that could not, with proper care and diligence, have been foreseen beforehand.

- In a bonafide emergency, the user must make every reasonable attempt as many of the purchasing procedures as possible. The Department Head for all purchases made must obtain requisitions, purchase orders, and administrative approval prior to the purchase.

B. Amounts over \$50,000.00

State law prevails in such instance—see Chapter D. The City Council has sole discretion to declare such a situation to be an emergency.

Sec. 5.28 Open Purchase Orders

Open purchase orders are for long term contracts for goods or services awarded after receiving competitive bids. The purchase order remains open for a period of up to one year to purchase the goods or services specified on an "as needed" basis. Examples of open purchase orders include: construction materials such as rock, concrete and asphalt; trees and other landscaping materials; automotive supplies such as tires and batteries; hardware; and office supplies frequently or routinely utilized by the City.

Sec. 5.29 Purchase of Used Equipment

New equipment is to be preferred over used equipment. However, there are situations when the purchase of used equipment should be considered. These include:

- A. When price is of prime importance and the difference in cost between new and used equipment is significant.
- B. When equipment will be used infrequently, for a limited time or for training or auxiliary operations.
- C. When better delivery is essential and used equipment meeting the city's need is more readily available.
- D. The purchase of used equipment requires careful shopping, and the requisitioning department should make every effort to secure a minimum warranty or guarantee that the equipment will perform as needed and that service or replacement parts are reasonably available.

Sec. 5.30 Disposal of Surplus Goods

Goods become obsolete or they wear out. Occasionally it turns out they are overstocked. Changing technology, accumulation of "waste", and fulfillment of the "useful" life of goods make the activity of handling surplus inevitable. The city is interested in full realization of the value of goods it purchases.

The city policy is aimed at making sure all surplus is disposed of to the economic advantage of the city.



Competitive bidding on surplus, obsolete or usable goods is required. This may be achieved through sealed bids, auction, or open market sales. The disposal of all goods requires the approval of the City Council, except for obvious scrap materials such as obsolete meters, scrap metal or tires, which may be disposed of at the discretion of the Director of Public Works with prior approval of the City Administrator.

Goods that go through a competitive form of marketing the sale that do not sell can be determined scrap or salvage and disposed as such with prior City Administrator approval.

- A. Budget - The City Administrator, in coordination with each department head is responsible for ensuring that total expenses in each fund do not exceed the adopted annual budget.
- B. Budget Capital Items - If the bid received for a capital item varies from the budgeted amount by \$20,000 or more, any savings cannot be reallocated to new capital items without Council approval. In addition, the City Administrator will report to Council any expenditure that varies by more than \$20,000.
- C. Contracts and Change Orders – Contracts and related change orders must follow the City Purchasing Policies and State Law. In accordance with State Law, change orders are limited to 25% of the total contract amount. Change orders greater than \$50,000 require the same Council approvals as the original contracts.



Comprehensive Financial Management Policy Statements



Comprehensive Financial Management Policy Statements

Article 6 RESERVES

The City will maintain the fund balance and working capital of the various operating funds at levels within the revenue constraints of the city to sufficient to protect the City's credit worthiness as well as its financial position during emergencies or economic fluctuations. In addition, the City may accumulate Fund Balances for a specific purpose and for unexpected financial opportunities.

Sec. 6.1 General Fund Unrestricted Fund Balance

- A. The City will work towards establishing and maintaining the General Fund restricted fund balance of no less than \$25,000, and will evaluate this policy from time to time to determine if this should be increased.
- B. Excess fund balance levels may be used to fund emergencies, nonrecurring expenditures or major capital purchases that cannot be accommodated through the current year's budgeted revenues with Council approval. The cash operating reserve is derived by dividing the total cash equivalents balance by recurring operating expenses.
- C. Funds accumulated for a specific purpose should be identified as such in the City's Financial Statements.
- D. Methods used to replenish fund balances that fall below required levels include an increase in property tax revenues and a decrease in budgeted expenses as economic conditions allow. The City should seek to replenish fund balance levels within 1 to 2 years of use.

Sec. 6.2 Tourism Fund (CVB)

- A. The City will work towards establishing and maintaining the CVB Fund restricted fund balance of no less than \$5,000, and will evaluate this policy from time to time to determine if this should be increased.



Comprehensive Financial Management Policy Statements

- B. Excess fund balance levels may be used to fund emergencies, nonrecurring expenditures or major capital purchases that cannot be



accommodated through the current year's budgeted revenues with Council approval.

- C. The cash operating reserve is derived by dividing the total cash equivalents balance by recurring operating expenses. Funds accumulated for a specific purpose should be identified as such in the City's Financial Statements.

Sec. 6.3 Early Municipal Development District Fund (EMDD)

- A. The City will work towards establishing and maintaining the EMDD Fund restricted fund balance of no less than \$50,000, and will evaluate this policy from time to time to determine if this should be increased.
- B. Excess fund balance levels may be used to fund emergencies, nonrecurring expenditures or major capital purchases that cannot be accommodated through the current year's budgeted revenues with Board and Council approval.
- C. The cash operating reserve is derived by dividing the total cash equivalents balance by recurring operating expenses. Funds accumulated for a specific purpose should be identified as such in the EMDD's Financial Statements.

Sec. 6.4 Utility Enterprise Funds/Unreserved Working Capital

- A. The City will work towards establishing and maintaining the Utility Enterprise Funds restricted fund balance of no less than \$25,000 per Utility Fund, and will evaluate this policy from time to time to determine if this should be increased.
- B. Excess fund balance levels may be used to fund emergencies, nonrecurring expenditures or major capital purchases that cannot be accommodated through the current year's budgeted revenues with Council approval. Should such use reduce balances below the level established as the objective for that fund, restoration recommendations will accompany the request/decision to utilize said balances.



- C. Funds accumulated for a specific purpose should be identified as such in the City's Financial Statements.
- D. Methods used to replenish fund balances that fall below required levels include an increase in rates and a decrease in budgeted expenses as economic conditions allow. The City should seek to replenish fund balance levels within 1 to 2 years of use.
- E. The City shall not use proceeds or reserves from an Enterprise fund except for expenditures within the purpose of the fund, unless those expenditures have been approved for other purposes as part of the adopted budget or with prior council approval.
- F. Any other Enterprise fund transfers, advances, or formal loans outside of the normal budget process, will require an amendment to the previously adopted budget.
- G. A transfer is defined as movement of funds with no obligation or repayment. An advance on the other hand has an obligation to be repaid, but with no specific terms. A formal loan would carry an obligation to be repaid with specific terms.

Sec. 6.5 Other Enterprise Funds/Unreserved Working Capital

- A. Excess fund balance levels may be used to fund emergencies, nonrecurring expenditures or major capital purchases that cannot be accommodated through the current year's budgeted revenues with Council approval.
- B. Funds accumulated for a specific purpose should be identified as such.
- C. Methods used to replenish deficit fund balances will be discussed and approved by the City Council.
- D. The City shall not use proceeds or reserves from an Enterprise fund except for expenditures within the purpose of the fund, unless those expenditures have been approved for other purposes as part of the adopted budget.



- E. Any other Enterprise fund transfers, advances, or formal loans outside of the normal budget process, will require a public hearing and an amendment to the previously adopted budget.
- F. A transfer is defined as movement of funds with no obligation or repayment. An advance on the other hand has an obligation to be repaid, but with no specific terms. A formal loan would carry an obligation to be repaid with specific terms.

Sec. 6.6 Debt Service Fund Unreserved Fund Balance

The City shall maintain the Debt Service fund balance reserve as required by bond ordinances or covenants.

Sec. 6.7 General Equipment Fund

The City shall maintain the General Equipment fund by the amount necessary to cover any General Equipment fund debt service payments and shall replenish the fund by depositing the proceeds of surplus and salvaged equipment and vehicle sales into the fund to be used for the purchase of new equipment and vehicles.

Sec. 6.8 Fund Balance Classification

For reporting purposes GASB #54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements will improve financial reporting by providing fund balance categories that will be more easily understood.

- A. Non-spendable - identifying amounts (such as inventory)
- B. Restricted - includes amounts that can only be used for a specific purpose stipulated by the constitution, external resource providers, or through enabling legislation

- C. Committed - includes amounts that can only be used for a specific purpose determined by the City Council
- D. Assigned - includes amounts that can be used for a specific purpose but do not meet the criteria to be classified as "restricted" or "committed"
- E. Unassigned - includes all spendable amounts not contained in other classifications

ARTICLE 7 CAPITAL EXPENDITURES AND IMPROVEMENTS

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

Sec. 7.1 Capitalization Threshold for Tangible Capital Assets

- A. Tangible capital items should be capitalized only if they have an estimated useful life of 2 years or more following the date of acquisition or significantly extend the useful life of the existing asset and cannot be consumed, unduly altered, or materially reduced in value immediately by use and have a cost of not less than \$5,000 for any individual item.
- B. The capitalization threshold of \$5,000 will be applied to individual items rather than to a group of similar items. (i.e.: desks, chairs, etc.)
- C. Accurate inventories of all tangible items will be maintained to ensure proper stewardship of public property.

Sec. 7.2 Five-Year Capital Improvement Plan (CIP)

- A. 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 infrastructure, replacement and renovation needs, and potential new projects. Capital projects are improvements or additions to the City's physical plant/facilities/infrastructure and become a 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, physical plants, etc. Capital costs typically consist of preliminary design, final design, and construction, and may involve the acquisition of land or easements. For purposes of the CIP Plan, a Capital Improvement Project should generally exceed a cost of \$25,000.
- B. For the most part, projects in the CIP should be based upon master plans or developer agreements. This ensures that the City's CIP, which is the



embodiment of the recommendations of these individual planning studies, is responsive to the officially stated direction of the City as contained in the Comprehensive Plan and supporting master plans. Examples of these supporting documents are: Water and Wastewater Plans, Thoroughfare Plan, Parks Master Plan, Trail Plan, Municipal Facilities Plan, etc.

- C. For every project identified in the CIP, 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.
- D. The City Administrator is charged with recommending a Capital Improvement Plan to City Council. The CIP shall be filed and adopted in conjunction with the annual budget.
- E. Annually, through the budget process and at year-end, projects are to be reviewed. For those identified as complete, any remaining funds will close to fund balance. Funds remaining from bond proceeds will only be used in accordance with the legal use of those funds.
- F. Appropriations for capital projects are for the life of the project; therefore, re-appropriation of capital funding for each fiscal year for budgeted projects is not necessary.

Sec. 7.3 Infrastructure Evaluation and Replacement/Rehabilitation

Utilities, 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 as necessary to protect the City's investment, to minimize future replacement and maintenance costs, and to maintain existing levels of service and accommodate growth.

- A.** High priority should be given to replacing/rehabilitating capital improvements prior to the time that they have deteriorated to the point



where they are hazardous, incur high maintenance costs, negatively affect property values, or no longer serve their intended purpose.

- B.** The decision on whether to repair, replace or to rehabilitate an existing capital asset will be based on which alternative is most cost-effective, which would include life-cycle costing, and provides the best value to the City.

Sec. 7.4 Replacement of Capital Assets on a Regular Schedule

(Fleet, Fire Trucks, and High-Tech)

The City shall annually prepare a schedule for the replacement of its fleet, fire trucks, and high technology capital assets. Funding for the replacement of these assets will be accomplished through the annual budget process, within the resources available each fiscal year. A variety of funding options will be explored, including but not limited to cash on hand and lease/purchase, based upon a determination of what would be in the best interest of the City.

Sec. 7.5 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; or funding through the issuance of debt. Types of debt and guidelines for issuing debt are set forth in the Debt Policy Statements.

Sec. 7.6 Pay-As-You-Go Capital Improvements

- A.** 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 Early citizens.
- B.** The City will seek out and use grant funding sources for capital improvements in order to leverage City funding and to minimize property and utility rate impacts.

Sec. 7.7 Capital Improvements/Project Reporting



Comprehensive Financial Management Policy Statements

A summary/status report on the City's various capital projects will be prepared monthly and available to the City Administrator and to City Council.



ARTICLE 8 DEBT

The following guidelines for debt financing will provide needed facilities, land, capital equipment and infrastructure improvements while minimizing the impact of debt payments on current and future revenues.

Sec. 8.1 Objectives

The terms of this Policy are intended to comply with all Texas and Federal Law governing debt, including, but not limited to, Texas law, Internal Revenue Service rules and regulations, United States Securities and Exchange Commission ("SEC") regulations, Municipal Securities Rulemaking Board ("MSRB") regulations, court rulings and existing City debt covenants.

Debt Management shall be conducted with the primary objectives of:

- A. Maintain and/or improve the City's existing credit rating;
- B. Maintain access to capital; and
- C. Minimize borrowing costs.

Sec. 8.2 Use of Debt Financing

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

The City will pay cash for capital improvements within the financial affordability of each fund versus issuing debt when funding capital expenditures and capital improvements, which shall include but not be

limited to sales tax, utility system revenues, developer fees, inter-local agreements, and state and federal grants.

Sec. 8.3 Affordability

The City will not exceed the debt issuance limits described in the Texas Constitution and the Texas Government Code. The City shall use an objective analytical approach to determine whether it can afford to issue general-purpose debt, both ad valorem tax-supported debt, and revenue-supported debt.

The City shall use economic ratios as a tool to assist in providing an objective analytical approach to determine debt capacity for new projects. The City will utilize comparative and median data when made available from the bond rating agencies periodically in order to benchmark debt level ratios. Ratios and selected targets include:

- A. Debt per capita (target less than \$8,500);
- B. Debt as a percent of statutory debt limit;
- C. Net debt as a percent of appraised valuation (target less than 2.50%);
- D. Net debt service payments as a percent of governmental expenditures (target less than 15%); or
- E. Level of overlapping net debt of all local taxing jurisdictions.

Sec.8.4 Types of Long-Term Debt

A. General Obligation Bonds (GO)

General Obligation bonds require voter approval and are secured by a promise to levy ad valorem taxes in an amount necessary to pay annual debt service.

- General Obligation bonds are the most restrictive type of debt that can be issued by a city because the proceeds can only be spent on

specific projects that are contained in the ballot proposition language, each with a separate dollar amount. Each special ballot proposition forms a “contract with the voters” that cannot be changed in the future, and unspent dollars from one ballot proposition cannot be allocated to any other project.

B. 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. Like General Obligation Bonds, COs are secured by a promise to levy taxes but must also be secured by a second revenue stream other than taxes, such as utility system revenues. COs do require the City Council to meet to approve the publication of newspaper notice of intent, which notice must be published at least 46 days before the City Council can approve the COs. Thus, COs do require some lead time and are subject to referendum. CO's can be authorized for a wide variety of different projects in an aggregate dollar amount, and all CO proceeds can be spent on any or none of the authorized purposes approved by City Council. It is the City's policy to utilize Certificates of Obligation to finance public improvements in certain circumstances and only after determining the City's ability to assume additional debt. 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 “emergency” (urgent, unanticipated) conditions require a capital improvement to be funded rapidly.
- 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, and as required by state and federal loan programs.
- The City may issue CO's for projects when there is no other adequate funding source available, the project is determined to be in the best interest of the City, and where a determination is made that waiting



for the next bond referendum or having a bond referendum for a small amount of money or a small number of projects is impractical and where public notice versus a voted bond referendum is deemed acceptable by the City Council.

- The City may issue CO's if it would be more economical to issue Certificates of Obligation rather than issuing revenue bonds; an

C. Revenue Bonds

Revenue bonds are generally payable from a designated source of revenue. They do not require voter approval.

For the City to issue new revenue bonds, revenues, as defined in the ordinance authorizing the revenue bonds in question, shall meet the bond coverage ratio and reserve fund requirements as defined in the ordinance. Annual adjustments to the City's rate structures for Enterprise Funds will be made as necessary to maintain the coverage factor.

D. Tax Notes

Tax Notes do not require voter approval, do not require any form of prior notice to the public, and are not subject to referendum. Tax Notes are secured by a promise to levy taxes and can be used to finance any public work, but must fully mature within 7 years of their issuance. Tax Notes may be used to meet a critical emergency as they can be approved at any meeting of the City Council, or critical capital costs that should not be made subject to referendum.

Sec. 8.5 Debt Structures

The City shall normally issue bonds with a life not to exceed 30 years for general obligation bonds and 40 years for revenue bonds, but in no case longer than the useful life of the asset. This term restriction is not intended to limit the Early Municipal Development Districts ability to fund economic development projects. The City shall seek level or declining debt repayment schedules and shall seek to retire 90% of the total principal outstanding within 20 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 consists 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.

The City will issue debt based on a fixed rate and will limit use of variable-rate debt or debt subject to interest rate reset due to the potential volatility of such instruments. Under certain situations The City will issue debt based on a fixed rate and will limit use of variable-rate debt or debt subject to interest rate reset due to the potential volatility of such instruments. Under certain situations the City may consider issuance of debt subject to periodic rate resets, including a maximum interest rate cap, to lower the cost of borrowing and enhance the marketability. The City will not enter into debt subject to interest rate reset with an acceleration clause.

Generally, tax-exempt debt will be issued. However, the City may consider issuance of taxable debt if approved by the City Council, as recommended and evaluated by the City's bond counsel and financial advisor.

Sec. 8.6 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 or (3) the refunding is combined with a new debt issuance, or (4) other factors presented to the City Council warrants the necessity of the refunding.

If a refunding is undertaken, the City will evaluate:

- A. Issuance costs that will be incurred;
- B. Interest rate at which the refunding bonds can be issued;
- C. Maturity dates of the refunded bonds;
- D. Call date (if any) on the refunded bonds; and
- E. Call premium (if any) on the refunded bonds



Sec. 8.7 Interest Earnings on Debt Proceeds

Debt interest earnings 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. Debt proceeds will be invested in accordance with the City's Investment Policy or as otherwise permitted in the ordinance authorizing the issuance of the debt.

Sec. 8.8 Bond Elections

- A. 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 Plan.
- B. The total dollar amount of bond election propositions recommended to the voters should typically not exceed the City's estimated ability to issue the bonds within a 7-year period.
- C. An analysis showing how the new debt combined with current debt impacts the City's tax rate and debt capacity will accompany every future bond issue proposal.

Sec. 8.9 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 or private placement. In a competitive bidding, the City shall award the bonds based on a true interest costs (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. The City will utilize a negotiated process when the issue is, or contains, a refinancing that is dependent on market/interest rate timing, if the interest rate environment or market/economic factors may affect the bond issue, or if the nature of the debt is unique and requires particular skills from the underwriters involved. A private placement of debt may be utilized and considered under the following circumstances: small issue size and short repayment structure, need

for a specific call feature, non-traditional security and overall cost savings to the City.

Sec. 8.10 Underwriting Syndicates

The City shall attempt to involve qualified and experienced firms, which consistently submit ideas to the City and financial advisors and actively participate in the City's competitive sale and in its negotiated underwritings. In conjunction with the City, the City's financial advisor will assist in discussing and reviewing information to aid the City in determining the structure of its underwriting syndicates, which will be optimal for the type and amount of debt being issued.

Sec. 8.11 Bond Ratings

Full disclosure of operations and open lines of communications shall be maintained with the rating agencies. Credit ratings will be sought from one or more of the nationally recognized municipal bond rating agencies, as recommended by the City's financial advisor.

The City will continually strive to maintain or increase the City's current bond ratings by prudently managing its funds and by reviewing and monitoring financial policies, budgets, forecasts and the financial health of the City.

Sec. 8.12 Use of Debt-Financed Property

Capital improvements and infrastructure financed with debt shall be used for the City's governmental purposes and shall be available to the public on a first-come, first-served basis. The City shall not enter into any contracts relating to the use of debt-financed property (e.g., leases, water sales contracts, sewer service contracts, etc.) without first consulting with the City's bond counsel. Debt-financed property shall not be sold, donated, or disposed of while the related debt remains outstanding and unpaid.



Sec. 8.13 *Covenant Compliance*

The City will comply with all covenants stated in the bond ordinance, including providing for annual disclosure information and providing for material event notices as outlined in each debt offering.

The City will periodically review the requirements of the MSRB and the recommendations of the Government Finance Officers Association (GFOA), including the GFOA recommendation that financial statements be prepared and presented according to generally accepted accounting principles.

The City will remain in compliance with SEC Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within the required timing after the end of each fiscal year.

The City may engage a disclosure agent to aid in the completion and filing of necessary material event notices and annual reports to aid compliance with SEC Rule 15c2-12.

Sec. 8.14 *Arbitrage Rebate Monitoring and Reporting*

Arbitrage is the interest earned on the investment of bond proceeds above the interest paid on the debt. The City will maintain a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirement of the Internal Revenue Service (IRS) regulations. In general, IRS Regulations require that positive arbitrage earnings be rebated back to the government. The recordkeeping shall include tracking project expenditures, interest earned on the bonds, calculating rebate payments, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the outstanding debt. Arbitrage rebate calculations will be performed annually on all debt issues and the liability recorded for any positive arbitrage. Due to the specialized nature of the calculations, the City may choose to engage a rebate analyst to monitor compliance with rebate and yield restriction rules on an annual basis or as needed.

Sec. 8.15 Post-Issuance Compliance

The City acknowledges that as the issuer of debt obligations, it is responsible for post-issuance compliance with respect to certain debt obligations. After debt is issued, and as project expenses are incurred, the City will periodically ensure continued compliance with the guidelines. Corrective action may be required if, for example, it is determined that bond proceeds were not properly expended, the City is not in compliance with the arbitrage requirements imposed by the Code or the City has taken a deliberate action (e.g., sale of bond-financed property) that results in impermissible levels of private business use. If the City determines or is advised that corrective action is necessary with respect to any issue of its obligations, the City will, as may be applicable, in a timely manner take such action as recommended by Bond Counsel. The City shall notify its bond counsel and/or financial advisor prior to the approval of any lease/purchase agreements for the purpose of ensuring that the lease/purchase agreement will not violate the City's prior bond covenants or interfere with the City's future borrowing plans.

Sec. 8.16 Lease/Purchase Agreements

The City will use lease/purchase agreements and/or other obligations permitted to be issued or incurred under State and Local laws as stated in Texas Local Government Code Subtitle C. Chapter 271.005 for the acquisition of equipment when it is cost-effective and provides for attractive terms. All lease purchase agreements must be approved by City Council regardless of the dollar amount.



ARTICLE 9 CASH MANAGEMENT AND INVESTMENTS

The City will maintain cash and investments 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.

Sec. 9.1 Investment Management

- A. All aspects of cash/investment management shall be designed to ensure safety and integrity of the City's financial assets.
- B. Cash/Investment management activities shall be conducted in full compliance with prevailing local, state, and federal regulations. (See City's Investment Policy)
- C. The City will utilize competitive quotes from approved broker/dealers, affording no special advantage to any individual or corporate member of the financial or investment community.
- D. The City will only do business with City authorized broker/dealers and/or financial institutions as approved by Council and who have executed a written certification of their review of the City's Investment Policy.
- E. 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 other such aspects of the program, which necessitate standard setting in pursuit of appropriate prudence and enhanced protection of assets. (See City's Investment Policy)
- F. Investments of the City shall be made with the exercise of judgment and care which persons of prudence, discretion, and intelligence exercise in

the management of their own affairs, not for speculation, but for investment.

Sec. 9.2 Investment Strategy

The City of Early maintains a consolidated portfolio in which it pools its funds for investment purposes. The City's investment program seeks to achieve safety of principal, adequate liquidity to meet cash needs, and reasonable yields commensurate with the preservation of principal and liquidity. (See City's Investment Strategy)

Sec. 9.3 Interest Income

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

Sec. 9.4 Arbitrage Investments

Investment on bond proceeds will be made with safety of principal and liquidity in mind, but with a competitive rate of return. If there is positive arbitrage, the rebatable earnings will be sent to the IRS, as necessary.

Sec. 9.5 Depository

The City will select its official bank 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 at a minimum, bid depository services every eight years. The City will review the financial health of the City's depository annually to include but not be limited to earnings, assets, capital, and liquidity.

Sec. 9.6 Collateralization of Deposits

A. The City shall have pledged collateral held at an independent third-party institution and evidenced by a written receipt.

- B. 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.
- C. Substitutions of collateral shall meet the requirements of the collateral agreement. Collateral shall not be released until the replacement collateral has been received, if the release of the collateral should result in the value being under 102 percent of par value.
- D. The pledge of collateral shall comply with the City's investment policy.



ARTICLE 10 GRANTS AND INTERGOVERNMENTAL REVENUES

The City will seek, apply for, and effectively administer federal, state and local grants, which support the City's current priorities and policy objectives. The City should take advantage of opportunities to enhance service delivery through intergovernmental cooperation, shared revenues, and grants.

Sec. 10.1 Grant Guidelines

- A. The City shall apply and facilitate the application for only those grants that are consistent with the objectives and high priorities identified by Council and management.
- B. Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs and services.
- C. 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.

Sec. 10.2 Grant Review Process

- A. A uniform grants pre-application process will be utilized to assure the City has all the information necessary to make a decision regarding a potential grant. Information to be provided should include but not be limited to:
 - The grant being pursued and the use to which it would be placed.
 - The objectives or goals of the City which will be achieved through the use of the grant.
 - The local match required, if any, plus the source of the local match.
 - The increased cost to be locally funded upon termination of the grant.



- B. All grant agreements will be reviewed by the appropriate City staff, including Finance, Legal, HR, and the sponsoring department, to ensure compliance with state, federal, and City regulations.
- C. The City Administrator shall approve all grant submissions and City Council shall approve all grant acceptances over \$50,000.

Sec. 10.3 Budgeting for Grant Expenditures

Annually via the budget process, departments will submit for possible funding, known grant opportunities. These grant opportunities will be prioritized and ranked along with all other supplemental requests. If approved, the expenditure and associated revenue will be appropriated in the Grant Fund. If there are grant opportunities that arise during the year and are received by the City, the budget will be amended via the projections, if the City can fund the local match required.

Sec. 10.4 Grant Termination and/or Reduced Grant Funding

- A. 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 positions, services, or equipment.
- B. The City shall terminate grant-funded programs and associated positions when grant funds are no longer available, and it is determined that the program no longer supports City goals and/or is no longer in the best interest of the City, unless the City has obligated itself through the terms of the grant to maintain the positions, services, or equipment.



ARTICLE 11 FINANCIAL CONSULTANTS

The City will employ qualified financial advisors, bond counsel and consultants as needed in the administration and management of the City's financial function. 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.

Sec. 11.1 Selection of Auditors

At least every eight years, the City shall request proposals from qualified firms, including the current auditors if their past performance has been satisfactory. The 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 eight years at the maximum, 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 through the proposal and review process, management and the Audit Committee select the current audit firm, then, it is the City's preference if feasible that the lead audit partner be rotated as well as the lead reviewer after a maximum of eight years.

Sec. 11.2 Arbitrage

A. The City shall calculate positive/negative arbitrage on each bond issue annually. While the City is responsible to ensure that the records are in order, the calculations made, reporting completed, and filings made, the actual arbitrage calculation and reporting shall be contracted out to a qualified firm.



- B.** Requests for proposals and statement of qualifications are to be solicited at least every seven years. There is not a requirement for rotation.

Sec. 11.3 Delinquent Tax Collection Attorney

- A. Due to the nature and expertise required, the City will rely on the Brown County Appraisal District to 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.
- B. Requests for proposals and statement of qualifications will be solicited in accordance with the policy set by the Brown County Appraisal District.

Sec. 11.4 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 Federal income taxes.

Sec. 11.5 Financial Advisory Services

The City issues various types of securities to finance its capital improvement program. Debt structuring and issuance requires a comprehensive list of services associated with municipal transactions, including but not limited to: method of sale; analysis of market conditions; size and structure of the issue; coordinating rating agency relations; evaluation of and advice on the pricing of securities, assisting with closing and debt management; calculation of debt service schedules; and advising on financial management. As financial advisors to governmental entities have developed the necessary expertise in a broad range of services, when it is



deemed necessary and appropriate the City will use a consultant for these services.

Sec. 11.6 Depository Bank

Pursuant to State law, the City may approve a depository contract whose term does not exceed eight years. There is no requirement for rotation. The City will select its official banking institution through a formal process based on best value in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available.



ARTICLE 12 CASH HANDLING PROCEDURES

Purpose - To provide direction for ensuring proper controls over all revenue sources and payment types by safeguarding, depositing and recording on a daily basis unless otherwise approved in writing from the Finance Department.

Scope - This procedure applies to all staff whose duties involve receiving, handling and/or processing of payments of any type inclusive of cash transactions.

Sec. 12.1 Procedures

For the purposes of these procedures, "cash" will include:

- A. Currency
- B. Checks
- C. Money Orders
- D. Bank Drafts
- E. Web Payments
- F. Credit Card Transactions
- G. Debit Card Transactions

Sec. 12.2 General Controls:

- A. All payments should be deposited and/or processed within 24 hours of receipt
- B. Documentation for each transaction may be generated manually (receipt form) or through the use of a computer that will provide detailed and/or summary information

- C. Where practical, use automated systems (computer or cash register) to increase cash processing efficiency, provide more detailed support for reconciliations and provide an audit trail
- D. Establish a starting cash drawer amount (cash float) requiring daily verification by the cashier responsible
- E. Require collections for each individual cash drawer be reconciled daily, documented, signed off by the responsible cashier and deposited with the Finance department in a timely manner
- F. All transactions will be receipted
- G. Segregate duties between collection and deposit process
- H. Daily reconciliation and counting of receipts should be done in a secure area
- I. Cashier(s) are obligated to report overages and shortages on the daily cash reports. Significant overages or shortages should be brought to the attention of the Director of Finance by both the cashier and the finance department employee that reviews the daily cash report
- J. Revenue reports are prepared by department staff on a daily or weekly basis and submitted to the Finance Department
- K. During the monthly bank reconciliation, the revenue deposited will be reconciled with the revenue recorded in the G/L and any discrepancy will be followed up with the originating department

Sec. 12.3 Security Controls – Cash Drawers, Safes & Lock Boxes:

- A. Access to cash drawers should be limited to the cashier collecting the cash and/or the manager
- B. Assign responsibility to the cashier for ensuring the security of the cash drawer after each use
- C. Where possible, cash drawers should not be visible to the general public
- D. At end of day, ensure cash drawer is locked and secured in a safe
- E. Any un-deposited checks or cash will be stored in a secure facility at the end of each business day
- F. Any “paid” or “received” stamps shall be stored and locked at the end of each business day
- G. Safes must be kept in a secure area and shall be locked at all times when unattended
- H. Only limited staff shall have safe combinations or keys to lock boxes where funds are being locked for safekeeping
- I. Keys to lock boxes must be kept in a secure area

Sec. 12.4 Petty Cash Funds:

Petty cash funds are available for making emergency or immediate purchases of small dollar items that are not routinely carried by departments in their operating supplies inventory. Petty cash funds are not to be commingled with other cash funds. Petty cash funds are to be maintained only for the purpose of providing petty cash as needed, and no department shall possess a petty cash fund without establishing such a fund as outlined herein.

- A. Each petty cash fund must have one, and only one, fund custodian responsible for the disbursement of petty cash. In the absence of the fund custodian, the Department head, or their designee, should make all disbursements from the petty cash fund. Each person with whom the control of petty cash has been entrusted shall be held accountable for: a) making sure that the petty cash fund is properly balanced (cash on hand and vendor receipts equaling the authorized balance), and, b) that a vendor ticket or receipt is on hand for each petty cash disbursement made.
- B. Each petty cash fund should have a set dollar amount of funds to be accounted for. The Finance Department will not process payment authorizations to reimburse petty cash if the request exceeds the established amount of the petty cash fund.
- C. The petty cash fund must be reconciled on a regular basis by the petty cash custodian. A detailed listing of petty cash payouts is to be used as the transmittal document for reimbursement. The petty cash custodian must sign the detailed listing of petty cash payouts, attesting that each entry is properly coded and has full supporting detail attached. A check request for the petty cash amount and all supporting detail should be forwarded to the Finance Department for reimbursement. The Finance Department will review supporting detail, general ledger account codes, and verify that the support documentation agrees with the total amount of the requested reimbursement.



- D. The payment authorization requesting reimbursement of petty cash is to be processed with enough lead-time to prevent the remaining petty cash funds from being depleted prior to the issuance of the reimbursement check. The custodian should retain a copy of the detail listing sent to the Finance Department for reconciliation purposes.
- E. All check payments to reimburse the petty cash fund are to be made payable to the City of Early.
- F. Periodic unannounced counts of petty cash will be made by the Finance Department staff.

Sec. 12. 5 Petty Cash Reimbursement Procedures

- A. A petty cash voucher must be completed to support all disbursements of cash from the petty cash fund.
- B. The petty cash voucher must be completed in its entirety and approved by the Department head or designated employee with signature authority prior to the disbursement of any cash from the custodian.
- C. A receipt ticket must accompany each petty cash voucher in order to qualify for petty cash reimbursement.
- D. An employee that obtains petty cash funds in order to make a purchase must sign each vendor ticket or invoice when the petty cash voucher is submitted to the petty cash custodian. The petty cash custodian will sign the voucher as well when the invoice or ticket is returned, acknowledging and registering that cash has been disbursed from the fund.
- E. The Department head must approve fund reimbursement/disbursement for purchases made by the petty cash custodian.

Sec. 12.6 Cash Advanced for Purchases Made with Petty Cash

- A. When cash is advanced for the purpose of making petty cash purchases, a petty cash disbursement voucher must be issued and it must note that an advance of cash has been made. The person receiving the cash must sign the disbursement voucher as the person receiving funds. The custodian will retain the original copies until proof of purchase is made and the receipt is returned to the custodian. At the time the receipt for purchased goods and any change is returned and verified as correct by the custodian, the custodian will void the original petty cash disbursement voucher and cross reference to a second petty cash disbursement voucher. The custodian will then prepare the second petty cash voucher recognizing a disbursement of funds for the amount of the returned receipt.
- B. Petty cash that is relinquished in advance is not to be held by any employee longer than one business day. Receipts and unused funds must be returned and be reconciled to vouchers within one business day.
- C. Advances for purchases made from the petty cash fund are not to exceed \$20.00. Purchases that exceed \$20.00 should be purchased by normal purchasing procedures. Splitting of purchases to avoid exceeding the \$20.00 limit is considered a violation of this policy.

Sec. 12.7 Petty Cash Restrictions

- A. Loans to employees from the petty cash fund are strictly prohibited.
- B. IOUs for employee's personal use to the petty cash fund are strictly prohibited.
- C. Cashing personal checks for the department head, petty cash custodian or other employees from the petty cash fund is strictly prohibited.



- D. Employees may be reimbursed for sales tax for petty cash purchases if the vendor has not been provided an exemption certificate. It is the responsibility of department heads to ensure that employees are aware of the City's exempt status.
- E. Only one open petty cash voucher per person is allowed at any one time.
- F. Traveling or training expenses, including use of personal vehicle, parking and entertainment, are not to be reimbursed from petty cash. These expenditures should be reimbursed by submitting the proper expense report form to the Finance Department for audit, approval and issuance of a reimbursement check.

Sec. 12.8 Processing Checks, Money Orders, and Bank Drafts

City staff may accept checks only when the check is made payable to the City of Early. Upon receipt of checks, money orders or bank drafts the receiver must:

- A. Ensure the date, amount and payee are correct and that the check is signed by the customer
- B. Stamp the back of the check with the department endorsement showing the City of Early and the department name
- C. For Manual Receipting:
 - Departments without access to automated systems (a cash register or computer) should use pre-numbered official City of Early receipts with triplicate receipts, with the following completed:
 - Prepared by, department of staff taking the payment
 - The payer's name and address
 - Description of the item/service purchased
 - Quantity and unit price if applicable
 - GL account number

- Taxes if applicable
- Type of cash received (e.g. check, cash)
- Total amount of cash received
- Date of receipt of revenue
- The signature of the person receiving the cash

D. The first copy of the receipt along with the payment should be forwarded to the Finance Department for deposit on a daily basis

E. The second copy of the receipt is provided to the customer

F. The third copy will remain with the originating department

G. Departments shall file all receipts in date order for audit purposes

H. If an error is made on a receipt or if the receipt must be cancelled, write "VOID" across the receipt ensuring that the word "VOID" is seen on the receipt including copies. The first copy of the voided receipt should be forwarded to the Finance Department. This receipt is then filed numerically

I. Automated System Receipting:

- If departments have an automated system or cash register, receipting will occur through those means, and the daily revenue reports and payments are sent to the Finance Department daily.

Sec. 12.9 Counterfeit Cash and Foreign Currency

A. Staff shall not take currency which is suspicious, if taken in error, please contact the Director of Finance who will contact the police

B. Foreign Currency will not be accepted



Sec. 12.10 Cash Loss

Staff are expected to take reasonable precautions not to lose funds in their care, and not to accept counterfeit funds. However, during the course of the daily reconciliation of cash to the revenue, shortages can occur. Depending on the value and reason for the cash loss, the following shall occur:

- A. Cash loss identified as a cash shortage includes cash discrepancies due to clerical errors, cash mishandling, loss of deposits, deposit not equal to cash identified at the bank
- B. Cash shortages, which are identified by the department, should be recorded on the revenue sheet with a clear explanation. If the cash shortage is identified by the Finance Department staff or the bank, staff will investigate, notify the department and make the appropriate journal entry to record the shortage
- C. Cash loss as a result of missing funds or theft must be reported directly to the Director of Finance for further investigation. The City Manager and the Director of Finance will determine who should be notified and the actions to be taken. In cases of suspected theft, the police department will be notified.
- D. Large cash losses should be reported to the Director of Finance

Sec. 12.11 Large Cash Transactions:

When clients attend the Customer Service Representatives counter with large cash remittances (greater than \$10,000), the following steps shall be utilized:

- A. In a secured area, the client will be requested to count and sort the cash by denomination and give staff a total of the deposit
- B. Two staff members will then recount and reconcile the cash total given by the client



- C. Once this procedure has been completed a receipt be given

Sec. 12.12 Segregation of Duties:

Persons collecting cash should not have any other responsibilities related to cash handling. Cash receipting functions should also be segregated from cash disbursement functions.

A different person should be involved in each step of the process:

- A. Cash collecting/receipting
- B. Cash depositing
- C. Reconciliation
- D. Billing

If there are not enough people to segregate the collecting, depositing and reconciling functions (a minimum of two staff are required) then mitigating controls should be developed. For example: Increased supervision or job rotation can be alternative controls

Sec. 12.13 Credit Cards

Credit cards shall not be accepted as payments for the following revenue sources:

- A. Any fees or charges collected by the City on behalf of other third party
- B. The service charges associated with the use of credit and debit cards will be charged to the customer.

New requests for acceptance of credit cards must be approved by the Director of Finance, who will review the request and determine if the volume, charges and service requirements are sufficient to warrant the acceptance.

When taking credit cards staff must do the following:

- A.** Check the expiration date on the credit card



- B. Process through a POS machine, using the appropriate payment key (Visa or MC)
- C. Have customer sign the credit card receipt, or key in their PIN in the case of a chip card
- D. Ensure signature matches the card holder signature on the back of the card
- E. Give customer the duplicate copy of the credit card receipt
- F. Place original receipt in a safe place, for daily reconciliation of revenue

Staff must follow the Payment Card Industry Standards (PCI) and all internal City procedures in order to protect the card holder and the City.

Sec. 12.14 NSF Checks, Bank Drafts, & Web Payments

The City is notified of non-sufficient funds through the return of checks, bank drafts, and web payments from the bank. The Finance Department staff will contact the payer that issued the check by phone and subsequent letter for collection of NSF payments. All NSF replacement payments must be made by cash, money order or debit/credit card. All NSF checks, bank drafts, and web payments are subject to a \$25 fee.

Sec. 12.15 Responsibilities

- A. Staff - Staff receiving funds on behalf of the City must adhere to this procedure, and must maintain records for audit
- B. Director of Finance - Establishing an effective internal control system. This includes:
 - Delegating responsibility for cash handling duties
 - Maintaining proper segregation of duties

- Requiring that staff handling cash be properly trained
- Requiring that staff follow all cash handling and depositing procedures
- Reviewing receipts and reconciliations on a regular basis
- Specifying the actions to be taken by management based on the dollar amount and/or frequency of overages and shortages
- Investigating unusual variations in revenue

C. Finance Department Staff

- Monitoring deposits to ensure cash is actually being deposited
- Performing timely bank account reconciliations and investigate any discrepancies between internal records and the bank's records

D. External Auditors

- Reviewing the City's cash management controls as needed



ARTICLE 13 INVESTMENT POLICY

The Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, prescribes that each City is to adopt rules governing its investment practices and to define the authority of the investment officer. The following Investment Policy addresses the methods, procedures, and practices, which must be exercised to ensure effective and judicious fiscal management of the City's funds.

The City Administrator, Director of Finance and City Accountant are designated as the investment officers of the City of Early, Texas, and are responsible for all investment decisions and activities.

Sec. 13.1 Scope

This Policy applies to all investment activities of the City's funds under its control, except those subject to other investment covenants, or excluded by contract. The Investment Policy will govern the activities of the investment officers and designated deputies in their management of all public funds covered by this Investment Policy.

In order to make effective use of the City's resources, all funds shall be pooled for investment purposes, except for those funds required to be accounted for in other accounts as stipulated by applicable laws, bond covenants, contracts or City policy. The pooled funds will include, but are not limited to, the funds of the General Fund, Water Wastewater, Sanitation, Hotel Occupancy Tax Fund, Early Municipal Development District Funds, and Beautification Fund, any investments donated to the City for a particular purpose or under terms of used specified by the donor are outside the scope of this Investment Policy.

This Policy also requires the formal adoption of an Investment Strategy that specifically addresses each of the City's fund groups.

Sec. 13.2 Objectives

The primary objectives, in order of priority, of the City investment activities shall be:

- A. Safety** – Investments shall be undertaken in a manner that seeks to ensure the preservation of principal.
- B. Liquidity** – The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated.
- C. Yield** – The City's investment strategy is conservative. Given this strategy, the benchmark used by the Director of Finance to determine whether market yields are being achieved shall be the 90-day T-bill rate. Return on investment is of least importance compared to the safety and liquidity objectives.

Each investment transaction shall seek to first ensure that principal losses are avoided, whether they are from security defaults or erosion of market value.

Sec. 13.3 Delegation of Authority

The Investment Officers may designate deputies to assist with the management of the investment portfolio.

The Investment Officers or designated deputy shall be responsible for all transactions, compliance with internal controls, and ensuring that all safekeeping, custodial, and collateral duties are in compliance with this investment policy and other applicable laws and regulations.

Sec. 13.4 Standard of Care

Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable

income to be derived. This investment principle shall be applied in the context of managing the overall investment portfolio.

The Investment Officers or designated deputy acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely manner to the City Administrator, and appropriate action is taken to control adverse developments.

Sec. 13.5 Ethics and Conflicts Of Interest

The Investment Officers and designated deputies shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. An individual who has a personal business relationship with a business organization offering to engage in an investment transaction with the City shall file a statement with the Texas Ethics Commission and the City Council disclosing that personal business interest. A disclosure statement will also be filed if the Investment Officers or any designated deputy is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the City.

For the purpose of this section, an individual has a personal business relationship with a business organization if:

- A. The individual owns 10 percent or more of the voting stock or shares of the business organization, or owns \$5,000 or more of the fair market value of the business organizations;
- B. Funds received by the individual from the business organization exceed 10 percent of the individual's gross income for the previous year; or

C. The individual has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the individual.

Sec. 13.6 Accounting/Reporting

The Director of Finance shall, not less than quarterly, prepare and submit to the City Council a written report of investment transactions for all funds covered by this investment policy for the preceding reporting period. The report should:

- A. Describe the investment position of the entity on the date of the report;
- B. Be prepared and signed by the Director of Finance and City Administrator;
- C. Contain a summary statement prepared in compliance with generally accepted accounting principles that states the beginning market values, additions and changes to the market value, ending market value and fully accrued interest for the reporting period;
- D. State the book value and market value of each separately invested asset at the beginning and end of the reporting period by type of asset and fund type invested;
- E. State the maturity date of each separately invested asset that has a maturity date;
- F. State the compliance of the investment portfolio as it relates to the City's Investment
 - Policy, the City's Investment Strategy and the Public Funds Investment Act; and
- G.** The reports should be formally reviewed at least annually by an independent auditor. The method used to monitor the market price of acquired investments is to obtain market rates for the



total portfolio from at least two independent brokers or from a recognized entity that provides a similar service.

Sec. 13.7 Internal Controls

The management of the City of Early, Texas, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objective of an internal control structure is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this policy, we have identified procedural controls for the purchase of investments that is detailed in "Investment Purchasing Procedural Controls" below. Significant internal control structure policies and procedures are beyond the scope of this policy. The Director of Finance shall comply with the City's Internal Control Policies and Procedures at all times.

Sec. 13.8 Diversification

The City will diversify use of investment types and issuers to avoid incurring unreasonable risks inherent in over-investment in specific instruments, individual issuers or maturities.

The investment portfolio shall not exceed the following guidelines without prior approval of the City Administrator:

- A. With the exception of U.S. Treasury securities, Certificates of Deposits, and authorized pools, no more than 50% of the total investment portfolio will be invested in a single investment type. U.S. Treasury securities have no percentage restriction. Certificates of Deposit and authorized pools individually may be no more than 75% of the total investment portfolio.
- B. Investment in any one single U.S. Agency Issue shall not exceed 30% of the total investment portfolio.
- C. Commercial Paper shall not exceed more than 5% of the total investment portfolio.
- D. With the exception of U.S. Treasury securities and Certificates of Deposits, no more than 40% of the total investment portfolio shall be invested with a single issuer. U.S. Treasury securities have no percentage restriction. Certificates of Deposit invested with a single issuer may not exceed 50% of the total portfolio.
- E. Investment with maturities of three years shall be limited to a maximum of 20% of the total portfolio.
- F. The minimum maturity on any individual investment shall be one day (overnight). Maturities will be scheduled to meet liquidity and operating requirements.
- G. The maximum maturity for each investment and the total portfolio will be timed to maturity to meet cash flow needs established by the cash flow analysis. The maximum maturity of any individual investment shall not exceed three (3) years.
- H. The maximum dollar-weighted average maturity of the total investment portfolio is 270 days.

Maturity schedules shall be timed according to anticipated liquidity needs. Investments, from time to time, may be liquidated before maturity for cash-flow purposes. To meet these disbursement schedules, market gains or losses may be required. Any losses for



early maturity liquidation should be minimized, and they should be reported as such to the City Administrator in a timely manner. Actual risk of default shall be minimized by adequate collateralization. Market risk shall be minimized by diversification of investment type and maturity.

The Director of Finance shall routinely monitor the contents of the investment portfolio, the available markets and the relative values of competing instruments, and will adjust the investment portfolio accordingly, keeping in mind the overall objectives of the investments.

Sec. 13.9 Cash Flow Analysis

The Director of Finance will develop and maintain a comprehensive cash flow analysis for all of the City's fund types. The purposes will be to determine liquidity needs and the available funds for investing. The summarized cash flow analysis reports will be provided to the City Council and the City Administrator on a quarterly basis.

Sec. 13.10 Authorized Investments

The following is a list of authorized investments:

- A. Obligations issued, guaranteed, insured by, or backed by the full faith and credit of the United States or its agencies and instrumentalities (i.e., U.S. Treasury and Agency Issues).
- B. Certificates of Deposit, which are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor and are secured by obligations of the United States or its agencies and instrumentalities that have a market value of not less than the principal amount of the certificates.
- C. Fully collateralized repurchase agreements that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities. The

securities purchased by the City must be pledged to the City, held in the City's name and deposited at the time the investment is made with the City's custodial bank. Repurchase agreements can only be placed through primary government securities dealers or financial institutions doing business in Texas. The maximum term for repurchase agreements is ninety (90) days from the date the reverse security repurchase agreement is delivered and securities held as collateral must not mature later than the agreement's expiration date.

- D. Commercial paper with a stated maturity of 270 days or less from the date of issuance. Must be rated not less than A-1 or P-1, or an equivalent, by at least two nationally recognized credit rating agencies or rated by one credit rating agency plus fully secured by an irrevocable letter of credit issued by a domestic bank.
- E. Investment pools that are authorized by Council, invest only in investments approved by the Public Funds Investment Act, have an advisory board and are continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating agency. Investment pools must provide an offering circular, investment transaction confirmations, and monthly reports.
- F. S.E.C. registered no-load money market mutual funds that have a dollar-weighted average stated maturity of ninety (90) days or less and include in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

An investment that requires a minimum rating under this policy does not qualify as an authorized investment during the period the investment does not have the minimum rating. The Director of Finance will take all prudent measures that are consistent with this policy to liquidate an investment that does not have the minimum rating; however, the Director of Finance will not be required to liquidate investments that were authorized investments at the time of purchase.

Sec. 13.11 Prohibited Investing

The Director of Finance is specifically prohibited from investing in:

- A. Structured notes, investments with inverse-floaters, collateralized mortgage obligations, or any other form of derivatives;
- B. Any investment not authorized by this Policy or the Public Funds Investment Act;
- C. Any instrument for which there would not be a ready market for immediate resale;
- D. Any investment pool in which the City would own more than 20% of the market value of the pool;
- E. Highly sophisticated investments not freely conducted in the marketplace e.g., derivatives; and
- F. Any one mutual fund in which the City would own more than 10% of the total assets of the mutual fund.

The Director of Finance is also specifically prohibited from borrowing funds for the purpose of reinvesting the funds to leverage return.

Sec. 13.12 Eligible Institutions

The following financial institutions are eligible for consideration for investment transactions by the Director of Finance:

- A. State or national banks domiciled in the State of Texas.
- B. Savings banks domiciled in the State of Texas.
- C. State or federal credit unions domiciled in the State of Texas.

D. Brokers approved and designated as primary dealers by the Federal Reserve Bank of New York.

E. Secondary or regional brokers who meet the following requirements:

- National Association of Security Dealers certified;
- Carry Texas State Registration;
- Have net capital of \$1 million or more for Delivery Versus Payment investment transactions or net capital of \$50 million or more for Repurchase Agreement transactions; and
- Have at least five (5) years of operation.

F. Local government investment pools, i.e., Texpool, TexSTAR, etc.

G. S.E.C. registered money market mutual funds.

Due to possible conflicts of interest, we feel that it is in the best interest of the City for the City's depository to be ineligible for quote-qualified investment transactions. Other routine investment transactions, not covered in the scope of this policy such as sweep accounts, certificates of deposit, and float interest earnings, would be allowed with the City's depository.

A written copy of the City's investment policy shall be presented to any financial institution offering to engage in an investment transaction with the City. The qualified representative of the financial institution offering to engage in an investment transaction with the City shall execute an Investment Policy Certification substantially to the effect that the financial institution has:

A. Received and reviewed the City's investment policy; and

B. Acknowledged that the financial institution has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the City and the institution that are not authorized by the City's investment policy, except to the extent that



this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.

A list of individual qualified institutions authorized to engage in investment transactions with the

City shall, at least annually, be reviewed, revised, and adopted by the City Council. In the list of "Qualified Institutions" below.

All broker/dealers will have on file, with the City, Trading Authorization Agreements.

Sec. 13.13 Security Purchases/Trades

The City will purchase securities on an "as needed" basis only. The City will determine investment requirements based on cash flow analysis and current cash positions. The City will evaluate all bids given for determination of the securities best suited for the City's requirements.

Security selections and term will be determined in accordance with, (1) safety of principal, (2) cash flow needs, (3) investment-type as a percentage of total investment portfolio and (4) yield. Brokers/dealers are not encouraged to contact the City on currently available securities that the broker/dealers believe are items of interest to the City.

All securities placed will be solicited from no less than three qualified institutions. The Director of Finance will obtain the quotes. All security purchases and trades conducted through the City will be settled with the City's third-party custodial bank. The use of Delivery versus Payment (DVP) for investment transactions/purchases, except with investment pools and money market mutual funds, will be continually used by the Director of Finance at the City's third-party custodian bank.

The Director of Finance, City Accountant, City Administrator, and City Secretary are the only individuals authorized to wire funds for the City. Dual authorization shall be used for all nonrepetitive wire transfers.

The City must approve any Substitution of securities on repurchase agreements. The City will only enter repurchase agreements under the terms of the Public Securities Agreement (PSA) – Master Repurchase Agreement format.

Sec. 13.14 Collateralization Requirements

Consistent with the requirements of the Public Funds Collateral Act, Chapter 2257, Texas Government Code, as amended, the City will require full collateralization of all deposits with depository institutions. In order to anticipate market changes and provide a level of security, the collateralization level will be 102% of market value of principal and accrued interest on the deposits less the amount insured by the Federal Deposit Insurance Corporation. Securities pledged as collateral shall be held in the City's name by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership must be supplied to the City for retention. The City must approve any release and/or substitution of collateral before such action is taken. Collateral shall be reviewed daily to assure that the market value of the securities pledged equals or exceeds the related deposit.

Securities authorized by the Public Funds Collateral Act are acceptable for collateralization purposes.

Private insurance coverage is not an acceptable collateralization form.

Sec. 13.15 Investment Training

The Director of Finance and designated deputies shall attend:

- A.** At least one training session relating to the Director of Finance or designated deputies' responsibilities within 12 months after taking office or assuming duties.



Comprehensive Financial Management Policy Statements

B. Investment training sessions not less than once in a two-year period and receive not less than ten

- (10) ten hours of instruction relating to investment responsibilities.

Training must include education in investment controls, security risks, strategy risks, market risks, diversification of the investment portfolio, and compliance with the Public Funds Investment Act. All training shall be from an independent source on the list of approved training seminar sponsors.

Sec. 13.16 INVESTMENT POLICY CONCLUSION

The Director of Finance and designated deputies will adhere to the investment policy in all investment decisions of the City. The Director of Finance will provide quarterly written reports to the City Administrator and City Council on the investment activity of the City's investment portfolio.

All current investment activity, which does not comply with the above stated policy, will be allowed to mature, and all future investment activity will be negotiated under the terms of the stated policy.

In conjunction with the annual financial audit, a compliance audit will be performed on management controls and adherence to this policy.

An annual review of the Investment Policy and Strategy will be conducted by the Director of Finance. The Investment Policy and Strategy, with any changes, will then be presented for the City Council to review. Formal adoption of the Investment Policy and Strategy will be documented in the minutes of the City Council meeting and the adopting ordinance.



ARTICLE 14 INVESTMENT STRATEGY

The investment strategy of the City of Early, Texas, is adopted to provide investment guidelines that will minimize the risk of loss. In order to make effective use of the City's resources, all monies shall be pooled into one fund, except for those monies required to be accounted for in other accounts as stipulated by applicable laws, bond covenants, contracts or City policy. Investment priorities (in order of importance) are as follows:

- A. Suitability – Any investment allowed by the Investment Policy is suitable. Maturity schedules shall be timed according to anticipated needs.
- B. Safety of Principal – All investments should be of high quality with no perceived default risk.
- C. Liquidity – Local government investment pools and mutual funds shall provide daily liquidity. Fixed maturity investments shall provide liquidity as required by anticipated needs.
- D. Marketability – Investments should have an active and efficient secondary market to enable the City to liquidate investments prior to the maturity for unanticipated cash requirements.
- E. Diversification – The City will diversify use of security types, issuers and maturities. With the exception of U.S. Treasury securities, Certificates of Deposits, and authorized pools, no more than 50% of the total investment portfolio shall be invested in a single security type. U.S. Treasury securities have no percentage restriction. Certificates of Deposit and authorized pools individually may be no more than 75% of the total investment portfolio. With the exception of U.S. Treasury securities and Certificates of Deposits, no more than 40% of the total investment portfolio shall be invested with a single issuer. U.S. Treasury securities have no percentage restriction. Certificates of Deposit invested with

a single issuer may not exceed 50% of the total portfolio. Maturity schedules shall be timed according to anticipated liquidity needs. The maximum dollar-weight average maturity is 270 days.

F. Yield – The City's investment strategy is conservative. The benchmark used by the Director of Finance to determine whether market yields are being achieved shall be the 90-day T-bill rate.



ARTICLE 15 INVESTMENT PURCHASING PROCEDURAL CONTROLS

Sec. 15.1 INVESTMENT PURCHASING PROCEDURAL CONTROLS

Director of Finance analyzes cash flow and determines specific cash flow needs of the City before any current securities mature or any new money is invested.

- A. Director of Finance agrees to type of security (as allowed or as authorized by law, contract, or investment policy), denominations, and duration.
- B. Director of Finance
 - Obtains three (3) net quotes for securities from authorized brokers listed on "LIST OF QUALIFIED INSTITUTIONS";
 - Prepares quote listing with relevant information from the offeror's;
 - Contacts selected offeror with instructions to buy.
- C. Broker faxes, emails or calls Director of Finance with details of the purchase (disc, etc.).
- D. Director of Finance contacts safekeeping with details, and faxes or emails copy of CUSIP to safekeeping for security verification.
- E. Safekeeping compares CUSIP to delivered securities to initiate payment. The purchase of individual securities shall be executed "delivery versus payment" (DVP) through the Federal Reserve System. By so doing, City funds are not released until the City has received, through the Federal Reserve wire, the securities purchased.
- F. A letter is prepared with Director of Finance signature stating all details of the purchase, and sent to the broker.

- G. The broker must verify the letter for understanding and correctness of securities purchased, sign it, and return it to the City of Early.
- H. The investment portfolio and cash flow documents are updated to reflect security transactions. The City Accountant reconciles the investment portfolio with the general ledger daily. The reconciliation is reviewed and approved by the Director of Finance.
- I. Safekeeping receipts are received by a Finance employee who is independent from the initiating or approval of the purchase, and verified with the Daily Balance Report; if correct, the receipts are filed for documentation upon arrival.



ARTICLE 16 LIST OF QUALIFIED INSTITUTIONS

Sec. 16.1 List of Qualified Institutions

A list of institutions that are authorized to engage in investment transactions with the City shall, at least annually, be reviewed, revised, and adopted. The following institutions, listed by type, are authorized for use by the investment officer.

Brokers/Dealers	Local Government Investment Pools	Banking Institutions
None Approved at This Time	None Approved at This Time	None Approved at This Time

This list shall be revised when necessary, throughout the year to account for additions and deletions.



ARTICLE 17 TRAINING SEMINAR SPONSORS

All investment training shall be from an independent source approved by the City Council. The following sponsors are hereby approved:

- A. Government Finance Officers Association (GFOA);
- B. Texas Society of Certified Public Accountants (TSCPA);
- C. Texas Municipal League (TML);
- D. Government Treasurer's Organization of Texas (GTOT);
- E. Sponsors approved by the TSCPA and GFOA, GFOAT, GTOT, to provide CPE credits; or
- F. Other sponsors approved on an individual basis by the Director of Finance.



ARTICLE 22 ADDENDUMS

STATE / FEDERAL PROCUREMENT POLICIES AND PROCEDURES ADDENDUM

The City of Early follows the procurement standards in 2 CFR 200.317 – 2 CFR 200.327 and Appendix II to Part 200 for procurement actions to be funded with Federal funds. All attempts are made to adhere to these policies and procedures and updates are made as needed. The entirety of the language found in 2 CFR 200.317 – 2 CFR 200.327 may not be applicable in all instances, programs, and/or situations. While the entirety of 2 CFR 200 applies to Federally funded programs/projects; this document contains the most current 2 CFR 200.317 – 2 CFR 200.327 language specifically for procurement - with additional policy plan language - available at the adoption of these policies and procedures.

To be consistent with section 2 CFR 200.318 (a) below; should State of Texas applicable codes for local governments include more stringent requirements for certain procurement sections, the more stringent requirement will apply.

22.1 PROCUREMENTS BY STATES

When procuring property and services under a Federal award, a State must follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will comply with §§200.321, 200.322, and 200.323 and ensure that every purchase order or other contract includes any clauses required by §200.327. All other non-Federal entities, including subrecipients of a State, must follow the procurement standards in §§200.318 through 200.327.

22.2 GENERAL PROCUREMENT STANDARDS

- A. The non-Federal entity must have and use documented procurement procedures, consistent with State, local, and tribal laws and regulations and the standards of this section, for the acquisition of property or services required under a Federal award or subaward. The non-Federal entity's documented procurement procedures must conform to the procurement standards identified in §§200.317 through 200.327.



Comprehensive Financial Management Policy Statements

- a. *The City of Early will have available and provide upon request a copy of their adopted local procurement policies.*
- B. Non-Federal entities must maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.
 - a. *The City of Early will ensure contractual reporting and performance requirements specific to a recipient are included in procurement documents; tracked and passed-through, as applicable, to awarded vendors, contractors, subrecipients, beneficiaries and subcontractors.*
- C.
 - a. The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts. No employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a federal award if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract. The officers, employees, and agents of the non-Federal entity may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts. However, non-Federal entities may set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value. The standards of conduct must provide for disciplinary actions to be applied for violations of such standards by officers, employees, or agents of the non-Federal entity.
 - i. *The City of Early will ensure that any employee, officer, or agent of the City who has a conflict of interest (or the appearance of a conflict of interest) will recuse themselves from identification or approval of selected projects or*



Comprehensive Financial Management Policy Statements

planned budget lines; as well as from the selection of a vendor, contractor, subcontractor, subrecipient or beneficiary with whom they may have (or the appearance of) a financial or personal interest. Should an issue arise, it will

be addressed per City of Early Comprehensive Financial Management Policy

- b. If the non-Federal entity has a parent, affiliate, or subsidiary organization that is not a State, local government, or Indian tribe, the non-Federal entity must also maintain written standards of conduct covering organizational conflicts of interest. Organizational conflicts of interest means that because of relationships with a parent company, affiliate, or subsidiary organization, the non-Federal entity is unable or appears to be unable to be impartial in conducting a procurement action involving a related organization.
 - i. The City of Early will document their impartial selection of a project, award or sub-award made to a parent, affiliate or subsidiary organization in a non-competitive manner. Ownership records and potential Conflicts of Interest are reviewed as part of the procurement process and in accordance with State/Local Ethics policy.
- D. The non-Federal entity's procedures must avoid acquisition of unnecessary or duplicative items. Consideration should be given to consolidating or breaking out procurements to obtain a more economical purchase. Where appropriate, an analysis will be made of lease versus purchase alternatives, and any other appropriate analysis to determine the most economical approach.
 - a. The City of Early will analyze expected procurements and needs via an Independent Cost Analysis (where feasible/applicable) and internal resources analysis and look to break out procurements in a way to reduce unnecessary or duplicative items; as well as provide opportunity for small businesses or Historically Underutilized



Comprehensive Financial Management Policy Statements

Businesses (HUBs) to participate in a procurement, while also ensuring that proper procurement methods for the estimated size of the project are followed. The City of Early would review commodity codes and vendors to ensure uniform purchases and utilization of standard purchase agreements where possible.

- E. To foster greater economy and efficiency, and in accordance with efforts to promote cost-effective use of shared services across the

Federal Government, the non-Federal entity is encouraged to enter into state and local intergovernmental agreements or inter-entity agreements where appropriate for procurement or use of common or shared goods and services. Competition requirements will be met with documented procurement actions using strategic sourcing, shared services, and other similar procurement arrangements.

- F. The non-Federal entity is encouraged to use Federal excess and surplus property in lieu of purchasing new equipment and property whenever such use is feasible and reduces project costs.

- G. The Non-Federal entity is encouraged to use value engineering clauses in contracts for construction projects of sufficient size to offer reasonable opportunities for cost reductions. Value engineering is a systematic and creative analysis of each contract item or task to ensure that its essential function is provided at the overall lower cost.

- H. The non-Federal entity must award contracts only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. Consideration will be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources. See also §200.214.

- I. The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: Rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.



Comprehensive Financial Management Policy Statements

- a. The City of Early will maintain records documenting the history of each procurement – indicating compliance with federal, state and local procurement regulations.
- J. For time-and-materials type contracts, the City of Early will document their decision to follow this type of contract; the ceiling price for the project/contract; methods for tracking materials expenditures for reimbursement with percent caps above estimated pricing; methods for tracking actual labor hours (similar to Certified Payroll or Force Account within acceptable variance amounts.
 - a. The Non-Federal entity may use a time-and-materials type contract only after a determination that no other contract is suitable and if the contract includes a ceiling price that the contractor exceeds at its own risk. Time-and-materials type contract means a contract whose cost to a non-Federal entity is the sum of:
 - i. The actual cost of materials; and
 - ii. Direct labor hours charged at fixed hourly rates that reflect wages, general and administrative expenses, and profit.
 - b. Since this formula generates an open-ended contract price, a time-and-materials contract provides no positive profit incentive to the contractor for cost control or labor efficiency. Therefore, each contract must set a ceiling price that the contractor exceeds at its own risk. Further, the non-Federal entity awarding such a contract must assert a high degree of oversight in order to obtain reasonable assurance that the contractor is using efficient methods and effective cost controls.
- K. The Non-Federal entity alone must be responsible, in accordance with good administrative practice and sound business judgment, for the settlement of all contractual and administrative issues arising out of procurements. These issues include, but are not limited to, source evaluation, protests, disputes, and claims. These standards do not relieve the non-Federal entity of any contractual responsibilities under its



Comprehensive Financial Management Policy Statements

contracts. The Federal awarding agency will not substitute its judgment for that of the non-Federal entity unless the matter is primarily a federal concern. Violations of law will be referred to the local, state, or Federal authority having proper jurisdiction.

[85 FR 49543, Aug. 13, 2020, as amended at 86 FR 10440, Feb. 22, 2021]

22.3 COMPETITION

The City of Early will comply with all the regulations within this section as well as with applicable State/Local procurement requirements. Documentation will be maintained that demonstrates all stages and compliance with applicable procurement regulations.

- A. All procurement transactions for the acquisition of property or services required under a Federal award must be conducted in a manner providing full and open competition consistent with the standards of this section and §200.320.
- B. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, or invitations for bids or requests for proposals must be excluded from competing for such procurements. Some of the situations considered to be restrictive of competition include but are not limited to:
 - a. Placing unreasonable requirements on firms in order for them to qualify to do business;
 - b. Requiring unnecessary experience and excessive bonding;
 - c. Noncompetitive pricing practices between firms or between affiliated companies;
 - d. Noncompetitive contracts to consultants that are on retainer contracts;

Comprehensive Financial Management Policy Statements

- e. Organizational conflicts of interest;
- f. Specifying only a "brand name" product instead of allowing "an equal" product to be offered and describing the performance or other relevant requirements of the procurement; and
- g. Any arbitrary action in the procurement process.

C. The Non-Federal entity must conduct procurements in a manner that prohibits the use of statutorily or administratively imposed state, local, or tribal geographical preferences in the evaluation of bids or proposals, except in those cases where applicable Federal statutes expressly mandate or encourage geographic preference. Nothing in this section preempts state licensing laws. When contracting for architectural and engineering (A/E) services, geographic location may be a selection criterion provided its application leaves an appropriate number of qualified firms, given the nature and size of the project, to compete for the contract.

D. The Non-Federal entity must have written procedures for procurement transactions. These procedures must ensure that all solicitations.

- a. Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. Such description must not, in competitive procurements, contain features which unduly restrict competition. The description may include a statement of the qualitative nature of the material, product or service to be procured and, when necessary, must set forth those minimum essential characteristics and standards to which it must conform if it is to satisfy its intended use. Detailed product specifications should be avoided if at all possible. When it is impractical or uneconomical to make a clear and accurate description of the technical requirements, a "brand name or equivalent" description may be used as a means to define the performance or other salient requirements of procurement. The specific features of the named brand which must be met by offers must be clearly stated; and



- b. Identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.
- E. The Non-Federal entity must ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition. Also, the non-Federal entity must not preclude potential bidders from qualifying during the solicitation period.
- F. Noncompetitive procurements can only be awarded in accordance with §200.320(c).

22.4 METHODS AND PROCUREMENT TO BE FOLLOWED

The non-Federal entity must have and use documented procurement procedures, consistent with the standards of this section and §§200.317, 200.318, and 200.319 for any of the following methods of procurement used for the acquisition of property or services required under a Federal award or sub-award.

- A. **Informal procurement methods.** When the value of the procurement for property or services under a federal award does not exceed the *simplified acquisition threshold (SAT)*, as defined in §200.1, or a lower threshold established by a non-Federal entity, formal procurement methods are not required. The non-Federal entity may use informal procurement methods to expedite the completion of its transactions and minimize the associated administrative burden and cost. The informal methods used for procurement of property or services at or below the SAT include:
 - a. **Micro-purchases—(i) Distribution.** The acquisition of supplies or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold (See the definition of *micro-purchase* in §200.1). To the maximum extent practicable, the non-Federal entity should distribute micro-purchases equitably among qualified suppliers.
 - b. **Micro-purchase awards.** Micro-purchases may be awarded without soliciting competitive price or rate quotations if the non-Federal entity



Comprehensive Financial Management Policy Statements

considers the price to be reasonable based on research, experience, purchase history or other information and documents it files accordingly. Purchase cards can be used for micro-purchases if procedures are documented and approved by the non-Federal entity.

- c. **Micro-purchase thresholds.** The non-Federal entity is responsible for determining and documenting an appropriate micro-purchase threshold based on internal controls, an evaluation of risk, and its documented procurement procedures. The micro-purchase threshold used by the non-Federal entity must be authorized or not prohibited under State, local, or tribal laws or regulations. Non-Federal entities may establish a threshold higher than the Federal threshold established in the Federal Acquisition Regulations (FAR) (<https://www.ecfr.gov/current/title-48/chapter-1/subchapter-A/part-2/subpart-2.1>) in accordance with paragraphs (a)(1)(iv) and (v) of this section.
- d. **Non-Federal entity increase to the micro-purchase threshold up to \$50,000.** Non-Federal entities may establish a threshold higher than the micro-purchase threshold identified in the FAR in accordance with the requirements of this section. The non-Federal entity may self-certify a threshold up to \$50,000 on an annual basis and must maintain documentation to be made available to the Federal awarding agency and auditors in accordance with §200.334. The self-certification must include a justification, clear identification of the threshold, and supporting documentation of any of the following:
 - i. A qualification as a low-risk auditee, in accordance with the criteria in §200.520 for the most recent audit;
 - ii. An annual internal institutional risk assessment to identify, mitigate, and manage financial risks; or,
 - iii. For public institutions, a higher threshold consistent with State law.

Comprehensive Financial Management Policy Statements

- e. Non-Federal entity increases to the micro-purchase threshold over \$50,000. Micro-purchase thresholds higher than \$50,000 must be approved by the cognizant agency for indirect costs. The non-federal entity must submit a request with the requirements included in paragraph (a)(1)(iv) of this section. The increased threshold is valid until there is a change in status in which the justification was approved.
- f. **Small purchases**—(i) Small purchase procedures. The acquisition of property or services, the aggregate dollar amount of which is higher than the micro-purchase threshold but does not exceed the simplified acquisition threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources as determined appropriate by the non-Federal entity.
 - i. **Simplified acquisition thresholds.** The non-Federal entity is responsible for determining an appropriate simplified acquisition threshold based on internal controls, an evaluation of risk and its documented procurement procedures which must not exceed the threshold established in the FAR. When applicable, a lower simplified acquisition threshold used by the non-Federal entity must be authorized or not prohibited under State, local, or tribal laws or regulations.

B. **Formal procurement methods.** When the value of the procurement for property or services under a Federal financial assistance award exceeds the SAT, or a lower threshold established by a non-Federal entity, formal procurement methods are required. Formal procurement methods require following documented procedures. Formal procurement methods also require public advertising unless a non-competitive procurement can be used in accordance with §200.319 or paragraph (c) of this section. The following formal methods of procurement are used for procurement of property or services above the simplified acquisition threshold or a value below the simplified acquisition threshold the non-Federal entity determines to be appropriate:

- a. **Sealed bids.** A procurement method in which bids are publicly solicited and a firm fixed-price contract (lump sum or unit price) is



Comprehensive Financial Management Policy Statements

awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bids method is the preferred method for procuring construction, if the conditions.

- i. In order for sealed bidding to be feasible, the following conditions should be present:
 1. A complete, adequate, and realistic specification or purchase description is available;
 2. Two or more responsible bidders are willing and able to compete effectively for the business; and
 3. The procurement lends itself to a firm fixed price contract and the selection of the successful bidder can be made principally on the basis of price.
- ii. If sealed bids are used, the following requirements apply:
 1. Bids must be solicited from an adequate number of qualified sources, providing them sufficient response time prior to the date set for opening the bids, for local, and tribal governments, the invitation for bids must be publicly advertised;
 2. The invitation for bids, which will include any specifications and pertinent attachments, must define the items or services in order for the bidder to properly respond;
 3. All bids will be opened at the time and place prescribed in the invitation for bids, and for local and tribal governments, the bids must be opened publicly;
 4. A firm fixed price contract award will be made in writing to the lowest responsive and responsible bidder. Where specified in bidding documents, factors such as



Comprehensive Financial Management Policy Statements

discounts, transportation cost, and life cycle costs must be considered in determining which bid is lowest. Payment discounts will only be used to determine the low bid when prior experience indicates that such discounts are usually taken advantage of; and

5. Any or all bids may be rejected if there is a sound documented reason.
- b. **Proposals.** A procurement method in which either a fixed price or cost-reimbursement type contract is awarded. Proposals are generally used when conditions are not appropriate for the use of sealed bids. They are awarded in accordance with the following requirements:
 - i. Requests for proposals must be publicized and identify all evaluation factors and their relative importance. Proposals must be solicited from an adequate number of qualified offerors. Any response to publicized requests for proposals must be considered to the maximum extent practical;
 - ii. The non-Federal entity must have a written method for conducting technical evaluations of the proposals received and making selections;
 - iii. Contracts must be awarded to the responsible offeror whose proposal is most advantageous to the non-Federal entity, with price and other factors considered; and
 - iv. The non-Federal entity may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby offeror's qualifications are evaluated and the most qualified offeror is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types



Comprehensive Financial Management Policy Statements

of services though A/E firms that are a potential source to perform the proposed effort.

c. **Noncompetitive procurement.** There are specific circumstances in which noncompetitive procurement can be used. Noncompetitive procurement can only be awarded if one or more of the following circumstances apply:

- i. The acquisition of property or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold (see paragraph (A)(a) of this section);
- ii. The item is available only from a single source;
- iii. The public exigency or emergency for the requirement will not permit a delay resulting from publicizing a competitive solicitation;
- iv. The Federal awarding agency or pass-through entity expressly authorizes a noncompetitive procurement in response to a written request from the non-Federal entity; or
- v. After solicitation of a number of sources, competition is determined inadequate.

22.5 CONTRACTING WITH SMALL AND MINORITY BUSINESSES, WOMEN'S BUSINESS ENTERPRISES AND LABOR SURPLUS AREA FIRMS

- A. The Non-Federal entity must take all necessary affirmative steps to assure that minority businesses, women's business enterprises, and labor surplus area firms are used when possible.
- B. Affirmative steps must include:



Comprehensive Financial Management Policy Statements

- a. Placing qualified small and minority businesses and women's business enterprises on solicitation lists;
- b. Assuring that small and minority businesses, and women's business enterprises are solicited whenever they are potential sources;
- c. Dividing total requirements, when economically feasible, into smaller tasks or quantities to permit maximum participation by small and minority businesses, and women's business enterprises;
- d. Establishing delivery schedules, where the requirement permits, which encourage participation by small and minority businesses, and women's business enterprises;
- e. Using the services and assistance, as appropriate, of such organizations as the Small Business Administration and the Minority Business Development Agency of the Department of Commerce; and
- f. Requiring the prime contractor, if subcontracts are to be let, to take the affirmative steps listed in paragraphs (b)(1) through (5) of this section.

22.6 DOMESTIC PREFERENCES AND PROCUREMENTS

- A. As appropriate and to the extent consistent with law, the non-Federal entity should, to the greatest extent practicable under a Federal award, provide a preference for the purchase, acquisition, or use of goods, products, or materials produced in the United States (including but not limited to iron, aluminum, steel, cement, and other manufactured products). The requirements of this section must be included in all subawards including all contracts and purchase orders for work or products under this award.
- B. For purposes of this section:



Comprehensive Financial Management Policy Statements

- a. "Produced in the United States" means, for iron and steel products, that all manufacturing processes, from the initial melting stage through the application of coatings, occurred in the United States.
- b. "Manufactured products" means items and construction materials composed in whole or in part of non-ferrous metals such as aluminum; plastics and polymer-based products such as polyvinyl chloride pipe; aggregates such as concrete; glass, including optical fiber; and lumber.

22.7 PROCUREMENT OF RECOVERED MATERIALS

A non-Federal entity that is a state agency or agency of a political subdivision of a state and its contractors must comply with section 6002 of the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act. The requirements of Section 6002 include procuring only items designated in guidelines of the Environmental Protection Agency (EPA) at 40 CFR part 247 that contain the highest percentage of recovered materials practicable, consistent with maintaining a satisfactory level of competition, where the purchase price of the item exceeds \$10,000 or the value of the quantity acquired during the preceding fiscal year exceeded \$10,000; procuring solid waste management services in a manner that maximizes energy and resource recovery; and establishing an affirmative procurement program for procurement of recovered materials identified in the EPA guidelines.

22.8 CONTACT COST AND PRICE

- A. The non-Federal entity must perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the non-Federal entity must make independent estimates before receiving bids or proposals.
- B. The non-Federal entity must negotiate profit as a separate element of the price for each contract in which there is no price competition and, in all cases, where cost analysis is performed. To establish a fair and reasonable



Comprehensive Financial Management Policy Statements

profit, consideration must be given to the complexity of the work to be performed, the risk borne by the contractor, the contractor's investment, the amount of subcontracting, the quality of its record of past performance, and industry profit rates in the surrounding geographical area for similar work.

- C. Costs or prices based on estimated costs for contracts under the Federal award are allowable only to the extent that costs incurred or cost estimates included in negotiated prices would be allowable for the non-Federal entity under subpart E of this part. The non-Federal entity may reference its own cost principles that comply with the Federal cost principles.
- D. The cost plus a percentage of cost and percentage of construction cost methods of contracting must not be used.

22.9 FEDERAL AWARDING AGENCY OR PASS-THROUGH ENTITY REVIEW

- A. The Non-Federal entity must make available, upon request of the Federal awarding agency or pass-through entity, technical specifications on proposed procurements where the Federal awarding agency or pass-through entity believes such review is needed to ensure that the item or service specified is the one being proposed for acquisition. This review generally will take place prior to the time the specification is incorporated into a solicitation document. However, if the non-Federal entity desires to have the review accomplished after a solicitation has been developed, the Federal awarding agency or pass-through entity may still review the specifications, with such review usually limited to the technical aspects of the proposed purchase.
- B. The Non-Federal entity must make available upon request, for the Federal awarding agency or pass-through entity pre-procurement review, procurement documents, such as requests for proposals or invitations for bids, or independent cost estimates, when:
 - a. The non-Federal entity's procurement procedures or operation fails to comply with the procurement standards in this part;



Comprehensive Financial Management Policy Statements

- b. The procurement is expected to exceed the Simplified Acquisition Threshold and is to be awarded without competition or only one bid or offer is received in response to a solicitation;
- c. The procurement, which is expected to exceed the Simplified Acquisition Threshold, specifies a "brand name" product;
- d. The proposed contract is more than the Simplified Acquisition Threshold and is to be awarded to other than the apparent low bidder under a sealed bid procurement; or
- e. A proposed contract modification changes the scope of a contract or increases the contract amount by more than the Simplified Acquisition Threshold.

C. The Non-Federal entity is exempt from the pre-procurement review in paragraph (b) of this section if the Federal awarding agency or pass-through entity determines that its procurement systems comply with the standards of this part.

- a. The non-Federal entity may request that its procurement system be reviewed by the Federal awarding agency or pass-through entity to determine whether its system meets these standards in order for its system to be certified. Generally, these reviews must occur where there is continuous high-dollar funding, and third-party contracts are awarded on a regular basis;
- b. The non-Federal entity may self-certify its procurement system. Such self-certification must not limit the Federal awarding agency's right to survey the system. Under a self-certification procedure, the Federal awarding agency may rely on written assurances from the non-Federal entity that it is complying with these standards. The non-Federal entity must cite specific policies, procedures, regulations, or standards as being in compliance with these requirements and have its system available for review.



22.10 BONDING REQUIREMENTS

For construction or facility improvement contracts or subcontracts exceeding the Simplified Acquisition Threshold, the Federal awarding agency or pass-through entity may accept the bonding policy and requirements of the non-Federal entity provided that the Federal awarding agency or pass-through entity has made a determination that the Federal interest is adequately protected. If such a determination has not been made, the minimum requirements must be as follows:

- A. A bid guarantee from each bidder equivalent to five percent of the bid price. The "bid guarantee" must consist of a firm commitment such as a bid bond, certified check, or other negotiable instrument accompanying a bid as assurance that the bidder will, upon acceptance of the bid, execute such contractual documents as may be required within the time specified.
- B. A performance bond on the part of the contractor for 100 percent of the contract price. A "performance bond" is one executed in connection with a contract to secure fulfillment of all the contractor's requirements under such contract.
- C. A payment bond on the part of the contractor for 100 percent of the contract price. A "payment bond" is one executed in connection with a contract to assure payment as required by law of all persons supplying labor and material in the execution of the work provided for in the contract.

22.11 CONTRACT PROVISIONS

The non-Federal entity's contracts must contain the applicable provisions described in Appendix II to this part.

Appendix II to Part 200 - Contract Provisions for Non-Federal Entity Contracts Under Federal Awards

In addition to other provisions required by the Federal agency or non-Federal entity, all contracts made by the non-Federal entity under the Federal award must contain provisions covering the following, as applicable.

- A. Contracts for more than the simplified acquisition threshold, which is the inflation adjusted amount determined by the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council (Councils) as



Comprehensive Financial Management Policy Statements

authorized by [41 U.S.C. 1908](#), must address administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as appropriate.

- B. All contracts in excess of \$10,000 must address termination for cause and for convenience by the non-Federal entity including the manner by which it will be affected and the basis for settlement.
- C. Equal Employment Opportunity. Except as otherwise provided under [41 CFR Part 60](#), all contracts that meet the definition of "federally assisted construction contract" in [41 CFR Part 60-1.3](#) must include the equal opportunity clause provided under [41 CFR 60-1.4\(b\)](#), in accordance with [Executive Order 11246](#), "Equal Employment Opportunity" ([30 FR 12319](#), 12935, [3 CFR Part, 1964-1965 Comp.](#), p. 339), as amended by [Executive Order 11375](#), "Amending [Executive Order 11246](#) Relating to Equal Employment Opportunity," and implementing regulations at [41 CFR part 60](#), "Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor."
- D. [Davis-Bacon Act](#), as amended ([40 U.S.C. 3141-3148](#)). When required by Federal program legislation, all prime construction contracts in excess of \$2,000 awarded by non-Federal entities must include a provision for compliance with the [Davis-Bacon Act](#) ([40 U.S.C. 3141-3144](#), and [3146-3148](#)) as supplemented by Department of Labor regulations ([29 CFR Part 5](#), "Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction"). In accordance with the statute, contractors must be required to pay wages to laborers and mechanics at a rate not less than the prevailing wages specified in a wage determination made by the Secretary of Labor. In addition, contractors must be required to pay wages not less than once a week. The non-Federal entity must place a copy of the current prevailing wage determination issued by the Department of Labor in each solicitation. The decision to award a contract or subcontract must be conditioned upon the acceptance of the wage determination. The non-Federal entity must report all suspected or reported violations to the Federal awarding agency. The contracts must also include a provision for compliance with the Copeland "Anti-Kickback" Act ([40 U.S.C. 3145](#)), as supplemented by Department of Labor regulations ([29 CFR Part 3](#), "Contractors and Subcontractors on Public Building or Public Work Financed



Comprehensive Financial Management Policy Statements

in Whole or in Part by Loans or Grants from the United States"). The Act provides that each contractor or subrecipient must be prohibited from inducing, by any means, any person employed in the construction, completion, or repair of public work, to give up any part of the compensation to which he or she is otherwise entitled. The non-Federal entity must report all suspected or reported violations to the Federal awarding agency.

- E. Contract Work Hours and Safety Standards Act ([40 U.S.C. 3701-3708](#)). Where applicable, all contracts awarded by the non-Federal entity in excess of \$100,000 that involve the employment of mechanics or laborers must include a provision for compliance with [40 U.S.C. 3702](#) and [3704](#), as supplemented by Department of Labor regulations ([29 CFR Part 5](#)). Under [40 U.S.C. 3702](#) of the Act, each contractor must be required to compute the wages of every mechanic and laborer on the basis of a standard work week of 40 hours. Work in excess of the standard work week is permissible provided that the worker is compensated at a rate of not less than one and a half times the basic rate of pay for all hours worked in excess of 40 hours in the work week. The requirements of [40 U.S.C. 3704](#) are applicable to construction work and provide that no laborer or mechanic must be required to work in surroundings or under working conditions which are unsanitary, hazardous or dangerous. These requirements do not apply to the purchases of supplies or materials or articles ordinarily available on the open market, or contracts for transportation or transmission of intelligence.
- F. Rights to Inventions Made Under a Contract or Agreement. If the Federal award meets the definition of "funding agreement" under [37 CFR § 401.2](#) (a) and the recipient or subrecipient wishes to enter into a contract with a small business firm or nonprofit organization regarding the substitution of parties, assignment or performance of experimental, developmental, or research work under that "funding agreement," the recipient or subrecipient must comply with the requirements of [37 CFR Part 401](#), "Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Grants, Contracts and Cooperative Agreements," and any implementing regulations issued by the awarding agency.



Comprehensive Financial Management Policy Statements

- G. Clean Air Act ([42 U.S.C. 7401-7671q](#)) and the Federal Water Pollution Control Act ([33 U.S.C. 1251-1387](#)), as amended - Contracts and subgrants of amounts in excess of \$150,000 must contain a provision that requires the non-Federal award to agree to comply with all applicable standards, orders or regulations issued pursuant to the Clean Air Act ([42 U.S.C. 7401-7671q](#)) and the Federal Water Pollution Control Act as amended ([33 U.S.C. 1251-1387](#)). Violations must be reported to the Federal awarding agency and the Regional Office of the Environmental Protection Agency (EPA).
- H. Debarment and Suspension (Executive Orders 12549 and 12689) - A contract award (see [2 CFR 180.220](#)) must not be made to parties listed on the governmentwide exclusions in the System for Award Management (SAM), in accordance with the OMB guidelines at [2 CFR 180](#) that implement Executive Orders 12549 ([3 CFR part 1986](#) Comp., p. 189) and 12689 ([3 CFR part 1989](#) Comp., p. 235), "Debarment and Suspension." SAM Exclusions contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority other than [Executive Order 12549](#).
 - a. All prime vendors, contractors, and subcontractors must be verified that they are registered and active through the SAM.com website prior to any formal action authorizing the award of the contract which is being paid with ARPA funds. The City/County must follow the requirements of the RFP and/or if the City/County determines it is in their best interest, a "conditional award" requiring registration and active status on SAM.gov could be utilized prior to formal action of executing a contract.
 - b. All prime vendors, contractors and subcontractors that enter into a subcontractor agreement after the date of the initial award, will also be responsible to ensure lower-tier contractors are not excluded or disqualified.
- I. Byrd Anti-Lobbying Amendment ([31 U.S.C. 1352](#)) - Contractors that apply or bid for an award exceeding \$100,000 must file the required certification. Each tier certifies to the tier above that it will not and has not used Federal appropriated funds to pay any person or organization for influencing or



Comprehensive Financial Management Policy Statements

attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any Federal contract, grant or any other award covered by [31 U.S.C. 1352](#). Each tier must also disclose any lobbying with non-Federal funds that takes place in connection with obtaining any Federal award. Such disclosures are forwarded from tier to tier up to the non-Federal award.

- J. See § 200.323* Procurement of Recovered Materials
- K. See § 200.216** Prohibition on certain telecommunications and video surveillance services or equipment
- L. See § 200.322*** Domestic preferences for procurements

22.12 PROCUREMENT OF RECOVERED MATERIALS

A non-Federal entity that is a state agency or agency of a political subdivision of a state and its contractors must comply with section 6002 of the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act. The requirements of Section 6002 include procuring only items designated in guidelines of the Environmental Protection Agency (EPA) at [40 CFR part 247](#) that contain the highest percentage of recovered materials practicable, consistent with maintaining a satisfactory level of competition, where the purchase price of the item exceeds \$10,000 or the value of the quantity acquired during the preceding fiscal year exceeded \$10,000; procuring solid waste management services in a manner that maximizes energy and resource recovery; and establishing an affirmative procurement program for procurement of recovered materials identified in the EPA guidelines.

22.13 PROBITION ON CERTAIN TELECOMMUNICATIONS AND VIDEO SURVEILLANCE SERVICES OR EQUIPMENT

- A. Recipients and sub recipients are prohibited from obligating or expending loan or grant funds to:
 - a. Procure or obtain;
 - b. Extend or renew a contract to procure or obtain; or



Comprehensive Financial Management Policy Statements

- c. Enter into a contract (or extend or renew a contract) to procure or obtain equipment, services, or systems that uses covered telecommunications equipment or services as a substantial or essential component of any system, or as critical technology as part of any system. As described in Public Law 115-232, section 889, covered telecommunications equipment is telecommunications equipment produced by Huawei Technologies Company or ZTE Corporation (or any subsidiary or affiliate of such entities).
 - i. For the purpose of public safety, security of government facilities, physical security surveillance of critical infrastructure, and other national security purposes, video surveillance and telecommunications equipment produced by Hytera Communications Corporation, Hangzhou Hikvision Digital Technology Company, or Dahua Technology Company (or any subsidiary or affiliate of such entities).
 - ii. Telecommunications or video surveillance services provided by such entities or using such equipment.
 - iii. Telecommunications or video surveillance equipment or services produced or provided by an entity that the Secretary of Defense, in consultation with the Director of the National Intelligence or the Director of the Federal Bureau of Investigation, reasonably believes to be an entity owned or controlled by, or otherwise connected to, the government of a covered foreign country.
- B. In implementing the prohibition under Public Law 115-232, section 889, subsection (f), paragraph (1), heads of executive agencies administering loan, grant, or subsidy programs shall prioritize available funding and technical support to assist affected businesses, institutions and organizations as is reasonably necessary for those affected entities to transition from covered communications equipment and services, to procure replacement equipment and services, and to ensure that communications service to users and customers is sustained.
- C. See Public Law 115-232, section 889 for additional information.



D. See also [§ 200.471](#).

22.13 DOMESTIC PREFERENCES FOR PROCUREMENTS

- A. As appropriate and to the extent consistent with law, the non-Federal entity should, to the greatest extent practicable under a Federal award, provide a preference for the purchase, acquisition, or use of goods, products, or materials produced in the United States (including but not limited to iron, aluminum, steel, cement, and other manufactured products). The requirements of this section must be included in all subawards including all contracts and purchase orders for work or products under this award.
- B. For purposes of this section:
 - a. "Produced in the United States" means, for iron and steel products, that all manufacturing processes, from the initial melting stage through the application of coatings, occurred in the United States.
 - b. "Manufactured products" means items and construction materials composed in whole or in part of non-ferrous metals such as aluminum; plastics and polymer-based products such as polyvinyl chloride pipe; aggregates such as concrete; glass, including optical fiber; and lumber.

These Policies and Procedures have been reviewed and adapted as applicable by legal or otherwise authorized representatives of the City of Early and are thereby approved for adoption through the City Council on.