



FINANCIAL MANAGEMENT PLAN

Effective April 6, 2009
(Amended 12/5/11)

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PURPOSE

The City of Arlington (City) has a responsibility to provide quality services to its residents, and considers it important to do so in a fiscally responsible fashion designed to keep services and taxes as consistent as possible over time. This Financial Management Plan (Plan) is meant to serve as the framework upon which consistent operations may be built and sustained, that guides responsible use of municipal resources, and contributes to the City's overall financial health.

This Financial Management Plan serves three main purposes:

1. It draws together in single document the City's major financial policies.
2. The plan establishes principles to guide both staff and Council members to make consistent and informed financial decisions.
3. The plan provides guidelines for ensuring and maintaining an appropriate level of funds, unreserved and reserved, to sustain the financial integrity of the City.

The objectives of this Financial Plan are:

- To provide both short term and long term future financial stability by ensuring adequate funding for providing services needed by the community;
- To protect the City Council's policy-making ability by ensuring that important policy decisions are not controlled by financial problems or emergencies;
- Prevent financial difficulties in the future;
- To provide sound principles to guide the decisions of the City Council and Administration;
- To employ revenue policies which prevent undue or unbalanced reliance on certain revenues, distribute the cost of municipal services fairly, and provide adequate funding to operate desired programs;
- To provide essential public facilities and prevent deterioration of the City's public facilities and infrastructure;
- To protect and enhance the City's credit rating and prevent default on any municipal debt;
- To create a document that City staff and Council Members can refer to during financial planning, budget preparation and other financial management issues.

REVENUE POLICY

The City of Arlington is committed to managing public revenues in a manner that provides maximum service value to the community and ensures a diversified and stable revenue system. The most important revenue policy guidelines established by the City Council are for the two major sources of city revenue: property taxes and fees/charges.

PROPERTY TAXES

Besides Local Government Aid, property tax payments comprise the largest source of municipal revenues. It is beneficial for residents and for the City to keep tax rates low and consistent from year to year. The City will strive to proactively avoid large increases in property taxes. Property taxes will not be increased without exploring all other alternatives, including:

- Full range of policy options (debt management, fees and charges, cost allocation, use of reserves, and expenditure cuts).
- Options for a 0% tax levy dollar increase.
- Budget consideration will be given to staying within the amount of revenue generated by increased market value with no increase in the tax rate.

If, after exhausting these alternatives, an increase is required, the goal of the City will be to keep any property tax rate increase at or below the prevailing inflation rate. City services will be funded to the maximum extent possible by increases in market valuation, (i.e., new tax base growth and valuation increase).

Possible factors for considering an increase in property tax include:

- Long-term protection of the City's infrastructure.
- Meeting legal mandates imposed by outside agencies.
- Maintaining adequate fund balance and reserve funds sufficient to the City's Fund Balance/Reserve Policy.
- Funding City development and redevelopment projects that will clearly result in future tax base increases. The expenditures of development and redevelopment funds must be in accordance with a defined strategy as shown in the City's Comprehensive Plan, Capital Improvement Plan, and other Council documents.

Property tax increases to meet other purposes will be based on the following criteria:

- A clear expression of community need.
- The existence of community partnerships willing to share resources.

- Establishment of clearly defined objectives and measurements of success-including appropriate sunset provisions.

USER FEES AND CHARGES

The City will establish fees and charges for services when the costs of services can be allocated equitably among service users. User fees that support utility enterprise operations or other enterprise operations will be established at a level sufficient to fund operating costs. Enterprise operations will be managed as financially self-supporting services that may generate a fund balance. The City Council may establish fees to fund all or part of the cost of providing other municipal programs and services, such as the community center, recreation programs and building inspections.

The City Council will review service fees and charges annually to ensure that rates keep pace with the cost of providing the services, or a percentage of the total cost of the service to be recovered by service fees. The City Council will determine if an increase in service fees is warranted based on increases in the direct and indirect costs required to provide the service. When establishing user fees, research on the comparison of the amount of similar fees charged in other communities should be conducted.

NON-RECURRING REVENUES

Several revenue sources, such as inter-fund transfers, one-time grants, court fines and other non-recurring revenues are outside of direct City control and must be relied upon conservatively. The City Administrator shall insure that the budget preparation process includes an evaluation of all major non-recurring revenues, in order to minimize reliance on unpredictable revenues for on-going operating costs.

CASH AND INVESTMENT POLICY

Effective management of cash maximizes the resources available to fund programs, services, and capital improvements. Sound investments, as allowed by state law, enable the City to make efficient use of available public resources which are not immediately needed for operations. Proceeds from investments also generate a predictable source of annual interest revenue for the City.

INVESTMENTS

A. Policy

It is the City's policy to invest available funds that will not be expended for a reasonable period of time in safe, low risk investments as prescribed in this policy consistent with Minnesota Statute 118A and other applicable laws and regulations. Funds will be invested in a manner that attains a market rate of return while preserving and protecting the capital of the overall portfolio.

The primary objectives of investment activities are:

- Safety: Investments will be made in a manner that preserves the capital in the City's overall portfolio, which mitigates credit risk and interest rate risk.
- Liquidity: The investment portfolio must remain sufficiently liquid to meet all operating costs that may be reasonably anticipated. The portfolio must be structured so that securities mature concurrent with cash needs to meet anticipated demands.
- Diversification of investment instruments: The investment portfolio must be diversified to reduce the exposure to risk of loss.
- Diversification of maturity dates: Investment maturity dates should vary in order to ensure that the City will have money available when it needs it.
- Yield: The investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraint and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

B. Types of Investments

The City of Arlington will invest in the following instruments as allowed by Minnesota Statutes: United States Treasury obligations, Federal Agency issues, Repurchase Agreements, Certificates of Deposit, Commercial Paper—prime, Bankers Acceptance—prime, Money Market funds investing exclusively in U.S. government and agency issues

C. Timing of Investments

The City Administrator will determine, based on cash flow projects, the amounts and the maturities of investments. At least two (2) official depositories will be contacted for a quote before an investment decision will be made. The quotes will be solicited and kept on file by the City Administrator. One of the depositories contacted will be the local institution.

D. Delegation of Authority

The City Council will delegate the authority for making the investment decision to the City Administrator. The City Administrator's decisions will be based on this policy.

E. Local Financial Institutions

Local financial institutions will receive preference for City deposits if the interest income offer of the local institution is no lower than ¼% below the offer of the next most favored institution outside the local area. This comparison will take into account all costs, fees, and other charges, and the actual net yield to the City from each offer will be used for this comparison. The City will strive to maintain at least 20% of its investments locally.

F. Reporting

The City Council will receive a summary on City investments on a semi-annual financial basis. This report will indicate the amounts, rate of return, purchase date and maturity date of all investments on hand. It will also identify each investment by institution and type.

G. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of and management of the investment program. Employees and investment officials must disclose any material interest in financial institutions with which they conduct business or that could be related to the performance of the investment portfolio.

CASH

A. Management Policies

The City will analyze its cash flow needs on a regular basis to determine the amount of funds available to be invested. The City Council will adopt a resolution annually designating depositories and designating the Mayor, City Administrator and the Deputy Clerk (two signatures needed) as the officials with authority to open and close municipal accounts.

B. Cash Management Procedures

The City Administrator, or designee, will be responsible for scheduling the disbursement, collection and deposit of all funds to determining the amount of funds available to be invested. The City will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

OPERATING BUDGET POLICY

The City's Operating Budget establishes an annual plan for funding the costs of municipal programs and services. The Operating Budget includes the general and special revenue funds. Budgeting policies are designed to promote a long-term perspective required to maintain a constant level of services by ensuring stable revenues and an efficient allocation of those revenues among City services. Enterprise operations are budgeted in separate Enterprise Funds.

The operating budget should describe the major goals to be achieved from year to year, along with the services and programs to be delivered for the level of funding provided. Because the operating budget provides the foundation for policy decisions about the level of services to be provided and the cost of government, the process to develop and implement the operating budget provides for public input and review.

It is the responsibility of the City Administrator to submit a balanced budget that provides for all current expenditures with current revenues, matching ongoing operating expenses with the appropriate source of ongoing revenues, except in emergency situations or in the event of unforeseen needs.

The City will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' budgets.

The budget will provide for adequate maintenance city facilities and equipment, and for their orderly replacement.

The budget plan for the City's Water, Sewer and Electric Utility will be self-supporting, budgeting for the depreciation costs of property, plant, and equipment, in addition to operating expenses. Utility fees and other rates for service will be reviewed and adjusted annually to ensure adequate funding for operating and capital expenses.

The City Administrator will coordinate the development of the Capital Improvement Plan with the development of the operating budget. Operating costs associated with new capital improvements will be tracked for each project and included in future budget forecasts.

The impact on the operating budget from any new programs or activities being proposed should be minimized by providing funding with newly created revenues whenever possible.

The City Administrator will insure that a budgetary control system is in place to adhere to the adopted budget, and will provide regular monthly reports comparing actual revenues and expenditures to the budgeted amounts.

FUND BALANCE/RESERVE POLICY

Maintaining adequate fund reserves promotes the long-term City's long-term financial stability, provides funding for unanticipated expenditures or unforeseen emergencies, and provides working capital for current operating needs thereby avoiding the need for short-term borrowing.

PURPOSE

The purpose of this policy is to establish specific guidelines the City of Arlington will use to maintain an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids are received in the second half of the City's fiscal year.

The purpose of this policy is to also establish specific guidelines the City of Arlington will use to classify fund balances into a categories based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in these funds can be spent.

CLASSIFICATION OF FUND BALANCE/PROCEDURES

1. Non-spendable

- This category includes fund balance that cannot be spent because it is either (i) not in spendable form or (ii) is legally or contractually required to be maintained intact. Examples include inventories and prepaid amounts.

2. Restricted

- Fund balance should be reported as restricted when constraints placed on those resources are either (i) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (ii) imposed by law through constitutional provisions or enabling legislation.

3. Committed

- Fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to commit those amounts.
- The City's highest level of decision making authority (City Council) will annually or as deemed necessary commit specific revenue sources for specified purposes by resolution. This formal action must occur prior to the end of the reporting period, however, the amount to be subject to the constraint, may be determined in the subsequent period.
- To remove the constraint on specified use of committed resources the City Council shall pass a resolution

4. Assigned

- Amounts that are constrained by the government’s intent to use for specified purposes, but are neither restricted nor committed. Assigned fund balance in the General fund includes amounts that are intended to be used for specific purposes.
- The City Council has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the City Administrator.

5. Unassigned

- Unassigned fund balance represents the residual classification for the General fund. Includes amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General fund. The General fund should be the only fund that reports a positive unassigned fund balance amount.
 - i. The City will maintain an unrestricted fund balance in the General fund of an amount not less than 40% of the next year’s budgeted expenditures of the General fund. This will assist in maintaining an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids are received in the second half of the City’s fiscal year.
 - ii. Unrestricted fund balance can be “spent down” if there is an anticipated budget shortfall in excess of \$125,000
 - iii. If spending unrestricted fund balance in designated circumstances has reduced unrestricted fund balance to a point below the minimum targeted level, as noted above, the replenishment will be funded by budget surplus (funding source) within 3-5 years (period over which replenishment will occur).

6. Enterprise Funds

- It is the goal of the enterprise funds to cover the costs of operations, including depreciation, so as to maintain a financially healthy enterprise. The City will maintain reserves in the Enterprise Funds at a minimum level sufficient to provide adequate working capital for current expenditure needs. Generally the City shall strive for a minimum of 6 months (50%) operating cash in these funds. Annual utility rate reviews will be made in regard to projected expenses and capital improvements. The City Council will, on an annual basis, establish rates in accordance to operating cost recovery and the projected capital improvements.

7. Capital Project Funds

- The Capital Project Funds (designated as an assigned fund) are used to account for the acquisition or construction of capital facilities and equipment other than those financed by Enterprise Funds. Most of these funds should be assigned for the Capital Improvement Plan or reserved for a specific project. Specific capital improvement funds may be negative because they are waiting funding, but should be zeroed at the

end of the project. Future capital projects must be identified and quantified in the City's Capital Improvement Plan, which should be included in the City's annual budget document.

STABILIZATION ARRANGEMENTS

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

The City will set aside amounts by resolution as deemed necessary that can only be expended when certain specific circumstances exist. The resolution will identify and describe the specific circumstances under which a need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely.

MONITORING AND REPORTING

The City Administrator and Deputy Clerk shall annually prepare the status of fund balances in relation to this policy and present to the City Council in conjunction with the development of the annual budget.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) Committed; 2) Assigned and 3) Unassigned.

A negative residual amount may not be reported for restricted, committed, or assigned fund balances in the General fund.

(Approved 12/5/11)

CAPITAL IMPROVEMENT PLAN (CIP)

A Capital Improvement Plan is a document that realistically projects community needs, outlines means by which those needs can be met, and provides prioritization of those needs.

The capital planning process provides the City with a framework to make decisions regarding current and future community needs considering the community's financial capability. The City is committed to long term capital planning to ensure that expenditures can be made to add or replace capital items when needed, without significant fluctuations in the property tax levy. Capital planning will enable the City to maintain a stable property tax rate, prevent peaks and valleys in its debt retirement program, and establish and thereafter improve its credit rating.

POLICY

The City's capital planning process will include a five-year capital improvement plan with funding sources and repayment revenues for each project and an annual capital budget. The five-year capital improvement plan will be updated annually. The capital improvement plan will identify current and projected costs for all capital items, including such things as facilities, major building repairs, infrastructure improvements and replacements, furniture, fixtures and equipment, vehicles and technology. It will include all purchases with a combined value of \$5,000 or more and a life expectancy of five years or more. Examples of typical capital expenditures include the cost of land acquisition or interest in land; the construction or reconstruction and maintenance of streets, utilities, parks and municipal facilities.

Development of the five-year capital plan will be coordinated with the annual operating budget process, allowing capital expenditures and applicable operating costs for the most current year of the capital plan to be incorporated as part of the City's annual operating budget. The remaining four years of the capital plan will be used to identify and schedule future capital expenditures that may be necessitated by such things as planned development, a growing population, and wear and tear of existing municipal facilities.

Capital budgeting priorities will be determined if they meet some or most of the following criteria:

- a. Mandated project
- b. Maintenance project consistent with approved replacement schedule
- c. Project is directly linked to goals and policies, land use, transportation, parks and trails, and community facility sections of the Comprehensive Plan
- d. Project improves efficiency
- e. Project responds to general public health, safety and welfare
- f. Project leverages state and federal funds
- g. Replacement due to a disaster or loss
- h. Project provides a new service that does not duplicate other public and/or private services
- i. Project does not duplicate other public and/or private facilities.
- j. Other criteria established by the City Council.

The City Council will also evaluate proposed capital improvement projects based on the acceptability of funding sources and the financial impact on the City's tax levy, total debt and utility rate levels.

PROCEDURE

City staff will compile a list of capital projects, estimated costs and recommended schedule for the capital projects. Projects will be prioritized based on the criteria listed above. Staff will identify proposed sources of funding for each proposed project. Recommended funding sources will be clearly stated for each project. The five-year funding program will be analyzed to determine the impact that the proposed debt would have on the City's existing debt. A debt study will be provided summarizing the combined impact of all the existing and proposed debt.

As part of the annual budget process, the City Council will evaluate the proposed CIP and decide on the following:

- Project Prioritization
- Funding Source Acceptability
- Acceptable Financial Impact on Tax Levy, Total Debt, and Utility Rate Levels.

If there are no capital projects planned, then a Capital Improvement Plan and Budget do not need to be completed.

DEBT MANAGEMENT

The use of borrowing and debt is an important and flexible revenue source available to the City. Debt is a tool which allows capital improvements to proceed when needed, in advance of when it would otherwise be possible. It can reduce long-term costs due to inflation, prevent lost opportunities, and equalize the costs of improvements to present and future constituencies. The goal of the City's debt management program is to stabilize the overall debt burden and future tax levy requirement, ensuring that issued debt can be repaid without weakening the City's financial condition.

Debt management is an integral part of the financial management of the City. Adequate resources must be provided for the repayment of debt, and the level of debt incurred by the City must be effectively controlled to amounts that are manageable and within levels that will maintain or enhance the City's credit rating. The goal of the City's debt management program is to stabilize the overall debt burden and future tax levy requirement, ensuring that issued debt can be repaid without weakening the City's financial condition. A debt level which is too high places a financial burden on taxpayers and can create problems for the community's economy as a whole.

POLICY STATEMENT

Wise and prudent use of debt provides fiscal and service advantages. Overuse of debt places a burden on the fiscal resources of the City and its taxpayers. The following guidelines provide a framework and limit on debt utilization:

1. The City will use long-term borrowing for planned capital improvements, and will purchase certain equipment for the City using Equipment Certificates.
2. In evaluating long term debt, the City will consider such things as scheduled improvements, the availability of funds on hand to finance the project, the cost of issuance, the opportunity to bundle multiple projects in the issue, and current market for interest rates.
3. The City will not use long-term debt for current operations.
4. The City will strive to maintain a "pay-as-you-go" capital funding policy, supporting capital spending without use of debt whenever feasible. The City will strive to pay cash for capital projects that can be anticipated and planned for in advance.
5. Bond issues will be structured to ensure that debt is repaid within a period not to exceed the expected useful life of the project.
6. Total general obligation debt shall not exceed debt imposed by State Law.
7. The City may allow inter-fund borrowing which, in effect, enables the City to internally finance the cost of capital expenditures. Inter-fund borrowing will be permitted only in those circumstances in which all of the following conditions are met:

- a. The remaining fund reserve is adequate to meet cash flow needs.
 - b. A schedule will be developed for repayment of the principal amount. Interest costs will be determined using the League of Minnesota Cities' 4M Fund rate as an index.
 - c. The repayment schedule will not exceed 10 years or the useful life of the improvement.
8. When feasible, the City will use refunding mechanisms to reduce interest cost and evaluate the use of debt reserves to lower overall annual debt service where possible.

During the annual budget process, a debt study will be prepared in conjunction with the Capital Improvements Plan to provide information about the City's debt structure.

ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

Consistent application of accounting practices that conform to generally accepted accounting principles and governmental accounting standards ensures public confidence in the integrity of the City's financial condition and provides meaningful information about the City's operations.

POLICY STATEMENT

1. The City's accounting system will maintain records on a basis consistent with generally accepted accounting standards and principles for local government accounting as set forth by the Government Accounting Standards Board (GASB) and in conformance with the State Auditor's requirements per State Statutes.
2. The City will establish and maintain a high standard of accounting practices.
3. The City will follow a policy of full disclosure written in clear and understandable language in all reports on its financial condition.
4. An independent public accounting firm will perform an annual audit and issue an opinion on the City's financial statements.
5. The City Administrator will provide summary monthly financial reports on budget performance will be provided to the City Council.
6. A report summarizing the City's financial position will be provided annually to the Council at the close of the calendar and fiscal year books.
7. The City Council authorizes the Mayor, City Administrator and Deputy Clerk to sign checks disbursing City funds. Checks must include two authorized signatures. The City allows the use of facsimile signatures, but requires that one of the signatures on a check be an original.

PURCHASING POLICY

The City Council is designated to serve as the City's purchasing agent and is authorized to develop procedures and internal controls providing for the proper disbursement of public funds. The City will strive to obtain goods, materials, supplies, and equipment at the lowest price and best value for taxpayer dollars using reasonable efforts that promote efficiency and accountability for the disbursement of public funds. The City will also take steps to maximize revenues from the sale of unneeded City property or equipment.

PURCHASING AGENT

The City Administrator shall be the chief purchasing agent of the City. The City Administrator is responsible for the city-wide purchasing function and shall have the authority to delegate powers to the City Department Heads and Supervisors for purchasing items within their respective budgets. All such authorized persons are required to coordinate their purchasing with the chief purchasing agent for reporting to the City Council. The City Administrator is responsible for insuring that purchases are reported to the City Council for approval, ratification and/or confirmation. In the City Administrators' absence, the Deputy clerk shall serve as the chief purchasing agent.

PURCHASING

Purchases estimated to cost less than \$1,000 may be made on the open market at the most convenient location, provided that whenever volume or quantity purchases are considered, Department Heads are encouraged to seek quotations. Department heads are also encouraged to buy locally wherever possible or practical.

For purchases estimated to cost more than \$1,000 but less than \$100,000, the City will seek at least two written quotes that will be maintained on file for a period of one year after receipt. The City will maintain documentation for a period of one year of its efforts to obtain two written quotes. The City may purchase goods, materials, supplies and equipment off the State of Minnesota contract, or another cooperative purchasing agreement, as an alternative means of complying with competitive bidding requirements.

The City will require competitive bidding on the sale, purchase, or rental of supplies, materials, or equipment and on contracts for the construction, alteration, repair or maintenance of real or personal property estimated to exceed \$100,000. For local improvement projects that are paid for with special assessments, the competitive bidding process must be used if the estimated cost of the contract exceeds \$50,000.

SERVICE PROVIDERS AND CONSULTANTS

The City Council will annually approve service providers and consultants who have been approved to provide services to the City. Such service providers and consultants may be designated to provide services for up to three years. At least every three years, the City will

evaluate the performance and cost of professional services received and determine if the City will renew a service agreement or seek written proposals from service providers and consultants.

EMERGENCY PURCHASING

The City may waive competitive bidding requirements to contract for purchase of goods, equipment, materials and services following the declaration of a local emergency, in accordance with Minnesota's Emergency Management Act, or other circumstances where an immediate threat to life, public health, and safety exists. The City Administrator will submit a written report detailing the emergency and the nature of emergency purchases to be approved by the City Council.

ENVIRONMENTAL PURCHASING

The City supports and recognizes sustainable practices focusing on cost savings and energy use reductions, including those pertaining to purchasing. Therefore, the City shall to the extent possible and practicable purchase only EnergyStar certified equipment and appliances. In addition, whenever possible, the City shall only purchase paper containing at least 30% post-consumer recycled content. (Approved 3/21/11)

SALE OR DISPOSAL OF CITY EQUIPMENT

The City Council will determine the appropriate method of selling or disposing of unneeded City property, which may include advertising the sale of the equipment, auctioning or providing for the equipment to be auctioned, or trading in existing City equipment when purchasing new equipment. Under no condition will unneeded City equipment be sold to a City officer. A City employee may purchase City equipment only when it is sold through an auction or a sealed bid process in which the equipment is sold to the highest responsible bidder. If the expected selling price of the equipment is more than \$100,000, the City will follow competitive bidding requirements.

PURCHASE OR SALE OF REAL ESTATE

The City may retain a real estate agent to assist with land transactions. The City will not sell property to a city councilmember or staff.

PURCHASING LIMITS

The City Administrator shall have the authority to authorize and/or approve purchases up to \$3,500 based on appropriations contained in the city budgets. Department Heads shall have the authority to authorize and/or approve purchases up to \$1,000 based on appropriations contained in their specific functional areas (departments) of responsibility, subject to the approval of the City Administrator.

All expenditures for travel and training need prior approval by the City Administrator. The City Administrator or Deputy Clerk shall verify that the budget has authorized the expenditure and that sufficient funds are available.