

I. OBJECTIVES.

The City of Roeland Park has an important responsibility to its citizens to carefully account for public funds, to manage municipal finances wisely and to plan the adequate funding of services and improvement. It is prudent to establish guidelines to provide the structure of continuing fiscal stability, reduce financial risk and maintain adequate contingency assets for present and future requirements. It is the policy of the Governing Body to maintain prudent reserve amounts in City funds in order to maintain working capital, fund capital asset replacement, and fund debt retirement. The appropriate amount of reserves for a given fund varies by entity due to differences in cash flow, revenue and expenditure volatility, services provided, and statutory considerations. In developing this policy, the City Council reviewed and considered information provided by the Government Finance Officers Association.

The purpose of this Policy is to establish a target and minimum levels of unreserved fund balance to be maintained in the General Fund beginning with the budget for Fiscal Year 2012

II. SCOPE. Fiscal stability is an important factor for all cities to mitigate current and future risks and to ensure long-term financial planning. Sound fiscal management practices include the discipline of maintaining adequate reserve funds for known and unknown contingencies.

A. Such contingencies and occurrences may include, but are not limited to:

1. Cash flow requirements
2. Economic uncertainties including downturns in the local, state or national economies
3. Local emergencies and disasters
4. Loss of major revenue sources
5. Unanticipated operating or capital expenditures
6. Uninsured losses
7. Future capital projects
8. Vehicle and equipment replacement
9. Capital asset and infrastructure repair and replacement
10. Pay outstanding debt. (ie, B&I Fund)
11. Meet debt reserve covenants/requirements

B. In addition, minimum levels of reserves are important to:

1. Insulate the city from actions of the state that may result in a reduction of revenues
2. Demonstrate creditworthiness to bond rating agencies and the financial community
3. Promote both short and long term financial planning and stabilization

C. The policy shall apply to the following funds:

1. General Fund
2. Debt Service (Bond & Interest) Fund
3. Equipment/Building Reserve Fund

III. DEFINITIONS.

The following words when used in connection with this policy shall have the meanings ascribed to them herein:

- A. **CAPITAL EQUIPMENT:** Any items purchased at a unit cost consistent with a capitalization amount of \$5,000 and greater with a useful life of more than 3 years. Also includes improvements which increase the value or extend the useful life of equipment.

- B. **DEBT SERVICE FUND:** Accounts for the payment of principal and interest on the City's general obligation bonds.
- C. **GENERAL FUND:** The primary operating fund of the City that accounts for the majority of City operating revenues and expenditures.
- D. **EQUIPMENT/BUILDING RESERVE FUND:** Account created to aggregate reserves that will be used to purchase equipment and repair/upgrade city buildings.
- E. **RESERVES:** The difference between the current assets and the current liabilities of a City fund.

IV. PROVISIONS.

- A. **General Fund** The City will strive to maintain total General Fund discretionary reserves equal to two (2) Months (16.6 percent) of annual General Fund operating expenses or 16.6 percent of budgeted General Fund revenues (not including cash carry forward funds) for that same year whichever is greater.
 - 1. The Reserves will be further subdivided into "traffic light" increments:
 - a. **Red** – Between 1 month (8.3 percent) and 2 months (16.6 percent) of annual General Fund operating expenses- no further use of reserves should be made except in dire emergencies or where almost immediate replenishment is assured. Further, priority should be given to increase reserve levels.
 - b. **Yellow** - Between 2 Months (16.6 percent) and 3Months (24.9 percent) of annual General Fund operating expenses - caution should be exercised in the use of reserves and only for one-time costs. In addition, consideration should be given to increase reserve levels should resources become available.
 - c. **Green** – greater than 3 months (24.9 percent) of annual General Fund operating expenses - under normal economic times adequate reserve levels have been achieved. Additional resources may not need to be set aside at this time for economic uncertainties but used to further other City goals. Roeland Park's budget has a high dependency on sales tax revenues which may be directly impacted by economic upturns and downturns. In uncertain economic times in which the possibility exists for a significant fluctuation in revenues it is prudent to consider general fund reserves as a percentage of revenue or expenditures above the targets outlined in the green category.

Additionally, an annual target of 30 percent of revenues should be considered if there is a desire for the City to aspire to a Triple A level status for bonding as determined by bond rating agencies.

Fund balance, created as a result of actual revenue and expenditure deviations from the budget, will be used to achieve and maintain the City's reserve goals and to balance the next year's budget. Reliance upon fund balance for budget balancing will be managed judiciously, taking into account its volatility and past actual activity.

- B. **Debt Service (Bond & Interest) Fund** The City will maintain a reserve in the City's Debt Service Fund between 10% and 15% of the annual principal interest amounts due on outstanding bonds and temporary notes. Debt shall be primarily used to finance capital projects with a realitvely long life expectancy i.e. seven (7) years or greater. Debt shall be issued in such a sway so that the term of the financing does not exceed the useful life of the asset.

Any Debt Service Fund reserve amounts in excess of 15% can only be used to reduce the amount of outstanding debt, reserved for future debt service payments or to reduce the debt service property tax levy.

- C. Equipment / Building Reserve Fund:** The City will fund Capital Asset Replacement and Debt Retirement at an amount necessary to finance the acquisition of new equipment needed in the following year; and to finance needed future replacements and acquisitions by setting aside a reserve amount for those purchases.
- D. Maintenance Reserves for Facilities**

The City will maintain a Maintenance Reserves for Facilities equal to approximately 2 – 4 percent of the replacement value of all City owned capital building assets including but not limited to the Community Center, City Hall, Aquatics Center, Public Works Building, Park equipment and shelters. Minor build repair and replacement of items will be taken from their departmental budget whenever possible. Minor repair or replacement is defined as items that are routine expenditures and typically under \$5,000. The Maintenance Reserves for Facilities will be for major building repair and replacement of items. Major repair or replacement is defined as items are more one time in nature and typically expenditures over \$5,000.

V. PROCEDURES.

Staff shall monitor the reserve amounts for the funds listed in this policy on a quarterly basis.

If the reserve amount for any of these funds falls below the minimum target amount, the City Administrator shall submit a recommended plan to the Governing Body (within 90 days of notification from the Finance Director) to rebuild the reserve amount for the given fund or funds to the minimum target amount.

The budgeted reserves must begin to be restored in the next budget process following their use. Budgets reserves and fund balance requirements should be restored to policy standards within three years (budget cycles) after use of reserves.

VI. RESPONSIBILITY FOR ENFORCEMENT.

The City Administrator shall be responsible to the Governing Body for enforcement of this policy. The Finance Director shall assist in the implementation of this policy.