

ORDINANCE NO. 191040

Amending Chapter 2, Code of Ordinances, entitled "Administration," by repealing Section 2-1954, Fund balance and reserve policy, and enacting in lieu thereof a new section of like number and subject matter.

WHEREAS, the City first adopted its fund balance and reserve policy in 2011 via Committee Substitute for Ordinance No. 110183; and

WHEREAS, the existing fund balance and reserve policy set a fund balance goal of two months' of operating expenditures for the General Fund; and

WHEREAS, through sound financial management and planning, the City has exceeded its fund balance goal for the General Fund; and

WHEREAS, the Finance Department recommends an update to the Fund Balance and Reserve Policy including an additional reserve amount to cover potential increases in pension and healthcare costs and a plan to address "excess" fund balance, among other changes; NOW, THEREFORE,

BE IT ORDAINED BY THE COUNCIL OF KANSAS CITY:

Section 1. That Chapter 2, Code of Ordinances of the City of Kansas City, Missouri, entitled "Administration" is hereby amended by repealing Section 2-1954, Fund balance and reserve policy, and enacting in lieu thereof a new section of like number and subject matter, to read as follows:

Sec. 2-1954. Fund balance and reserve policy.

(a) *Policy.*

- (1) It is the policy of the city to maintain its various fund balances and financial reserves at levels sufficient to pay obligations when due, address emergencies, cover temporary revenue shortfalls, provide stability throughout economic cycles and to protect the city's creditworthiness in accordance with applicable federal, state and local laws, and established best governmental practices.
- (2) The city's fund balance and reserve policy is the city's official guideline for use by city staff in conjunction with the city's budgeting and financial planning efforts. The policy shall be reviewed on an annual basis by the director of finance and any modifications made thereto must be approved by the city council.

(b) *Authority.* Under the authority granted by the state Constitution and the city Charter, the city council is authorized to direct the financial affairs of the city. It is the

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city council's intent to responsibly use this authority in order to fulfill the service objectives of the city and its agencies. Management responsibility for the city's fund balances is hereby delegated to the director of finance.

(c) *Scope.* This fund balance and reserve policy shall be inclusive of all funds of the city. The policy incorporates recommended best practices of the Government Finance Officers Association (GFOA) and Governmental Accounting Standards Board (GASB), as amended over time.

(d) *Objectives.*

- (1) To establish appropriate fund balance and/or reserve levels for each fund or fund type, after accounting for the "nonspendable" portions of the respective funds.
- (2) To set guidelines for each fund or fund type's fund balance and/or reserve levels.
- (3) To determine procedures for necessary replenishment of fund balances or reserves if drawn below recommended levels.
- (4) To establish financial reporting guidelines for amounts designated as fund balances and/or reserves.

(e) *Glossary.*

- (1) *Assigned fund balance.* Amounts that are constrained by the city's intent to be used for specific purposes but are neither restricted nor committed will be classified as "assigned" fund balance. The intent will be identified by a city official to whom the governing body has delegated the authority to assign amounts for specific purposes.
- (2) *Committed fund balance.* Amounts that can only be used for specific purposes pursuant to constraints imposed by a formal action of the city council will be classified as "committed" fund balance.
- (3) *Nonspendable fund balance.* Amounts that cannot be spent because they are not in spendable form (e.g. inventories, receivables, advances, etc.) or are legally and/or contractually required to be maintained intact will be classified as "nonspendable" fund balance.
- (4) *Restricted fund balance.* Amounts that are bound by externally imposed restrictions by creditors, grantors, contributors, laws or regulations of other governments or through constitutional provisions or enabling legislation will be classified as "restricted" fund balance.

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- (5) *Unassigned fund balance.* Represents the remaining amount of fund balance which has not been classified as nonspendable, restricted, committed or assigned.

(f) *Guidelines.*

- (1) *General fund.* The general fund is the main operating fund of the city and accounts for all financial transactions not accounted for in other funds. The general operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are financed through revenues received by the general fund.

- a. Committed fund balance. The committed fund balance will include the following amounts:

1. Encumbrances. Those encumbrances imposed by ordinance of the city council.
2. Re-appropriations of unexpended and unencumbered appropriations and the re-estimation of uncollected revenues as authorized by ordinance of the city council.
3. Emergency reserve (floor). The emergency reserve portion of committed fund balance shall not be less than one month of general fund operating expenditures and is available to address one-time operational emergencies, unexpected revenue reductions and/or unanticipated expenditure requirements occurring within a fiscal year. Funds may only be withdrawn from this emergency reserve prior to fiscal year end, if the fund's budgeted contingency is exhausted, the Pension Funding, Legal Claims, and Healthcare Reserve is exhausted, the countercyclical reserve is exhausted, and the withdrawal is needed to prevent the fund from ending the fiscal year with a negative unassigned fund balance. An ordinance appropriating funds from the emergency reserve shall include language stating the city council is waiving the fund balance and reserve policy for a use of the emergency reserve.
4. Fund balance replenishment. Once the emergency reserve has initially been fully funded, if the emergency reserve should fall below its floor, the director of finance or budget officer will prepare and present to the city council a plan to replenish the emergency reserve. The city council must approve and adopt, within 12 months after the emergency reserve first falls below its floor, a plan which establishes a

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timeframe to restore the reserve to, at minimum, its floor level.

- b. Assigned fund balance. The assigned fund balance will include the following amounts:
1. Encumbrances. Those encumbrances authorized by department directors or the manager of procurement services.
 2. Countercyclical reserve. The countercyclical reserve, when combined with the emergency reserve, shall not be greater than two months of general fund operating expenditures.
 - (i) The countercyclical reserve may be established by the director of finance in the maximum amount described above for varying purposes including, but not limited to: reserves for tax increment financing, debt service stabilization, interest rate risk, capital maintenance, swap termination payments, legal claims, and disaster recovery.
 - (ii) The director of finance may authorize the use of the countercyclical reserve when the withdrawal is needed to prevent the fund from ending the fiscal year with a negative unassigned fund balance.
 3. Pension Funding, Legal Claims, and Healthcare Reserve. An additional three and one-third percent of operating expenditures shall be established by the director of finance as a Pension Funding, Legal Claims, and Healthcare Reserve which reserve shall be used to address increased funding requirements as a result of fluctuations in the annual Actuarially Determined Contribution (ADC) minimum funding requirement for the City's four pension plans as well as to cover unforeseen legal claims and healthcare costs.
 4. Fund balance replenishment. Once the countercyclical reserve and the Pension Funding, Legal Claims, and Healthcare Reserve have initially been fully funded at one month of operating expenditures and three and one-third percent of operating expenditures, respectively, the director of finance or budget officer will include, in the next succeeding five year financial plan, a strategy to replenish

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the countercyclical and the Pension Funding, Legal Claims, and Healthcare Reserve within five years.

- c. The total committed plus assigned fund balance shall be no more than twenty percent of operating expenditures.
 - d. Unassigned fund balance. Any fund balance amount in excess of the non-spendable, restricted, committed and assigned portions of fund balance is by definition unassigned general fund balance and shall be considered excess. Unassigned fund balance may be appropriated in the following fiscal year's submitted budget for uses including, but not limited to, the following:
 - (i) Prepayment of principal and interest on city debt;
 - (ii) Offsets to temporary revenue reductions from local, state, and federal sources;
 - (iii) One-time expenditures that do not increase recurring operating costs;
 - (iv) Establishment of or increase in assigned reserves;
 - (v) Start-up expenditures for new programs.
- (2) *Proprietary funds.* Each proprietary fund (Airport, Water, Sanitary Sewer and Storm Sewer) shall maintain an unassigned fund balance equal to, at minimum, two months' worth of operating costs, or as defined in the respective bond ordinances for that fund. For the purposes of this calculation, the current fiscal year budget shall be the budget as originally adopted by ordinance in March for the subsequent fiscal year. This reservation of fund balance shall be in addition to all other required reservations including, but not limited to, amounts reserved for debt service and/or amounts reserved for renewal and replacement of long lived assets.
- (3) *Special revenue funds.* Special revenue funds are used to account for the proceeds of specific revenue sources (other than certain capital projects and expendable trusts) that are legally restricted to expenditure for specified purposes. Any assignment of fund balance within the special revenue funds represents the city's efforts to cover specific risks associated with debt service stabilization, capital maintenance, or disaster recovery.
- (4) *Capital projects funds.* The capital projects funds account for resources used for the acquisition of capital facilities, except those financed by the proprietary funds and those budgeted in the general or special revenue

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funds, when resources are derived exclusively from the direct revenues for the fund and do not involve long-term borrowing. The city council, by ordinance, may elect to commit a portion of its capital projects funds' balances to a general project contingency, capital maintenance or replacement reserve. All remaining restricted fund balance in the capital projects funds will be re-appropriated in the following year for eligible construction and renovation projects. Any assignment of fund balance within the capital projects funds represents the city's efforts to cover specific risks associated with debt service stabilization, capital maintenance, or disaster recovery.

- (5) *Debt service funds.* The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. The city shall maintain sufficient reserves in its debt service funds, which shall equal or exceed the requirements dictated by its bond ordinances. Funds restricted for debt service are monies held as required by a bond indenture or similar agreement and maintained either by the city or by a trustee. Any assignment of fund balance within the debt service funds represents the city's efforts to cover specific risks associated with debt service stabilization or disaster recovery.

- (6) *Waiving recommended levels.* The city council may waive, by ordinance, the requirement to maintain reserves at the recommended levels if it finds that it is in the best interests of the city.

Approved as to form and legality:

Matthew Gigliotti
Assistant City Attorney