

1 **RESOLUTION NO. 9512**

2 **A RESOLUTION** introduced by Councilmember Dobler updating a policy for reserve
3 balances for the City of Topeka and repealing Resolution No. 8824.

4 **WHEREAS**, the city government has an important responsibility to its citizens to
5 carefully account for public funds, to manage municipal finances wisely and to plan the
6 adequate allocation of services; and

7 **WHEREAS**, it is important for the city government to have reserves that can make
8 up temporary shortfalls in revenues and cover unexpected expenditures; and

9 **WHEREAS**, it is important to maintain good standing with rating agencies as an
10 adequate level of reserves is a sign of creditworthiness because it enhances a
11 governments ability to repay debt on time and in full; and

12 **WHEREAS**, it is important to ensure cash availability during portions of the year
13 when the City typically sees lower levels of cash due to timing of major revenues; and

14 **WHEREAS**, if the reserve falls below the minimum reserve level, the City Manager
15 will prepare a plan for consideration by the governing body to rebuild the reserve during
16 the next budgeting cycle.

17 **NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNING BODY OF THE**
18 **CITY OF TOPEKA, KANSAS, THAT:**

19 **SECTION ONE:** The Governing Body of the City hereby adopts the reserve policy
20 as set forth herein.

21 Purpose of Policy:

22 The Purpose of the Reserve Policy is to provide guidelines to the Governing Body and
23 staff for establishing, maintaining and performing an annual review of the minimum and
24 target reserves. A minimum reserve policy is generally considered a prudent and
25 conservative fiscal policy to deal with unforeseen situations and long-term financial
26 planning.

27 Fund Balance is also an important indicator of the City’s financial position. Fund Balance
28 is the difference between assets and liabilities in governmental funds. Maintaining
29 reserves is considered a prudent management practice. Adequate fund balances are
30 maintained to allow the City to continue providing services to the community in case of
31 unexpected emergencies or requirement and/or economic downturns. The following
32 classifications apply to fund balance in the City’s governmental funds as defined by
33 Governmental Accounting Standards Board (“GASB”) no. 54:

35	<u>CLASSIFICATIONS</u>	<u>NATURE OF RESTRICTION</u>
36	Non-spendable	Cannot be readily converted to cash
37	Restricted	Externally imposed restrictions
38	Committed	Governing Body imposed commitment
39	Assigned	City Manager assigned purpose/intent
40	Unassigned	Residual balance not otherwise restricted

41 In the case of Proprietary funds (Enterprise and Internal Service Funds), Generally
 42 Accepted Accounting Principles (“GAAP”) does not permit the reporting of reserves on
 43 the face of City financial statements. However, this does not preclude the City from
 44 setting policies to accumulate financial resources for prudent financial management of its
 45 proprietary fund operations.

46 Since proprietary funds may include both long-term capital assets and long-term liabilities,
 47 the most comparable measure of liquid financial resources that is similar to fund balance
 48 in proprietary funds is net working capital. Working capital is defined as the difference
 49 between current unrestricted assets and current liabilities. Net working capital, like fund
 50 balance, excludes long-term assets and long-term liabilities.

51 Use of Reserves

52 The City will avoid the use of reserves for recurring operating expenditures, unless a
 53 determination has been made that available balances are in excess of required guidelines
 54 and that plans have been established to address any future operating budget shortfalls.

55 Approval of the Governing Body shall be required in circumstances when reserve funds
 56 will be used to:

- 57 • Provide resources to make up for temporarily decreased revenues, such as
- 58 reductions in state grants.
- 59 • Provide temporary resources in the event of an economic downturn while
- 60 expenditure reductions are implemented.
- 61 • Provide resources in the event of a settlement rising from a claim or judgement.
- 62 • Fund one-time capital investments.

63 The City Manager shall notify the Governing Body in circumstances when reserve funds
 64 will be used to:

- 65 • Provide resources to meet emergency situations in case of disasters.
- 66 • Provide resources to fund obligations required by contract or state law (e.g.
- 67 wages).

68

69 Authority of Reserves

70 The Governing Body may authorize the use of reserves. The Department of
71 Administrative and Financial Services will regularly report reserve levels in quarterly
72 statements and will report year-end projected reserve levels by the third quarter of each
73 year.

74 Replenishment of Reserves

75 In the event that reserves are used resulting in a balance below the minimum as outlined
76 in this policy for the various funds, a plan will be developed by the City Manager and such
77 plan will be included in the formulation of the five-year forecast presented during the
78 annual budget process to replenish reserve levels.

79 Governmental Fund Balance Policy

80 The City shall maintain a minimum unassigned fund balance equal to fifteen percent
81 (15%) of the General Fund revenues and a target unassigned fund balance of twenty
82 percent (20%) of the General Fund revenues. In the event that the unassigned fund
83 balance exceeds twenty percent (20%) at the end of the fiscal year, those excess funds
84 shall be moved to the Unassigned Reserve Fund.

85 The City shall maintain a minimum restricted fund balance equal to ten percent (10%) of
86 the Debt Service Fund revenues.

87 The City shall maintain a minimum restricted fund balance equal to ten percent (10%) of
88 the Motor Fuel Tax Fund revenues.

89 Special Revenue Funds Policy

90 The City shall maintain a minimum restricted reserve equal to ten percent (10%) of the
91 Special Liability Fund revenues.

92 Proprietary Working Capital Policy

93 *Enterprise Days Cash on Hand Policy*

94 The City shall maintain a minimum days cash on hand for the Combined Utilities Fund.
95 The days cash on hand policy will be equal to 185 days cash on hand as defined by any
96 rating agency then rating the City's Combined Utility fund. This reserve will be maintained
97 in order to provide continuity through extreme events, deal with normal cash fluctuations
98 throughout the year, and maintain rate stability and funding capital investments.

99 The City shall maintain a minimum working capital reserve for the Parking Fund. The
100 working capital reserve will be equal to 10% of the annual parking fund revenues.

101 *Internal Service Working Capital Policy*

102 The City shall maintain a minimum working capital for the Self Insurance Health Fund
103 equal to a 95% confidence level, that funding will be sufficient to pay all losses and
104 corresponding claim expenses. The 95% confidence level shall come from prior year run
105 out claims. In addition, the City shall also maintain minimum working capital equal to 25%
106 of current year expected annual claims and settlement expenses.

107 The City shall maintain a minimum working capital for other Self Insurance funds equal
108 to a 95% confidence level that funding will be sufficient to pay all losses and
109 corresponding claim expenses.

110 The City shall maintain a minimum working capital for other Internal Service Funds that
111 provide services to other City departments at a level equal to 10% of expected revenues.

112 Unassigned Reserve Fund Policy.

113 Funding requests must be considered separately by the Policy & Finance Committee
114 before consideration separately by the Governing Body. Funding requests can be made
115 throughout the year. Unassigned Reserve Fund shall be used in one or a combination of
116 the following ways:

- 117 • Equipment replacement.
- 118 • Capital projects that could be done without bonding.
- 119 • Emergencies or disaster recovery.
- 120 • Other Capital items recommended by staff.

121 Excess unreserved balance

122 In the event that the unreserved balance exceeds the minimum or target balance
123 requirements in the General Fund, Special Revenue Funds, Debt Service Funds, and
124 Enterprise Funds at the end of the fiscal year, the excess may be used in one or a
125 combination of the following ways with authorization from the Governing Body:

- 126 • Debt reduction.
- 127 • One-time expenditures that do not increase recurring operating costs that cannot
128 be funded through current revenues. Emphasis will be placed on one-time uses
129 that reduce future operating costs.
- 130 • Establishment of or increase in reserves for risk management programs,
131 equipment replacement, capital projects, emergencies, or disaster recovery.
- 132 • Fund accrued liabilities, including but not limited to other post-employment
133 benefits.
- 134 • Increase the balance of the reserve levels if known that a future draw down could
135 occur.

