RESOLUTION NO. 8824

A RESOLUTION INTRODUCED BY INTERIM CITY MANAGER DOUG GERBER ESTABLISHING A POLICY FOR
RESERVE BALANCES FOR THE CITY OF TOPEKA.

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

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

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

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

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

NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNING BODY OF THE CITY OF TOPEKA,
KANSAS, AS FOLLOWS:

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

Purpose of Policy:

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

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

<table>
<thead>
<tr>
<th>CLASSIFICATIONS</th>
<th>NATURE OF RESTRICTION</th>
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<tbody>
<tr>
<td>Non-spendable</td>
<td>Cannot be readily converted to cash</td>
</tr>
<tr>
<td>Restricted</td>
<td>Externally imposed restrictions</td>
</tr>
<tr>
<td>Committed</td>
<td>Governing Body imposed commitment</td>
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</table>
Assigned City Manager assigned purpose/intent

Unassigned Residual balance not otherwise restricted

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

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

Use of Reserves

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

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

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

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

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

Authority of Reserves

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

Replenishment of Reserves

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

The City shall maintain a minimum unassigned fund balance equal to fifteen percent (15%) of the General Fund revenues and a target unassigned fund balance of twenty percent (20%) of the General Fund revenues.

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

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

Special Revenue Funds Policy

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

Proprietary Working Capital Policy

Enterprise Days Cash on Hand Policy

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

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

Internal Service Working Capital Policy

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

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

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

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

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

ADOPTED and APPROVED by the Governing Body on November 15, 2016.

CITY OF TOPEKA, KANSAS

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Larry Wolgast, Mayor

ATTEST:

Brenda Younger, City Clerk