

General Financial and Budgetary Policies

City of Abilene, Kansas

February 2011

Accounting, Auditing, Financial Reporting Policy

- A. The City will establish and maintain accounting records in such a manner that reports may be issued on a basis consistent with Kansas State Law, and each year the City Commission shall adopt a resolution waiving the requirement that financial reports be prepared to Generally Accepting Accounting Principle (GAAP) standards. The City elects to use the cash basis and statutory basis of accounting.
- B. The City will contract for an annual independent audit of City accounting records. The audit shall be conducted in accordance with the Federal Single Audit Act, if required, and shall provide an opinion on the City's Annual Financial Statements.
- C. The City will comply with all financial reporting requirements set forth in Kansas law.
- D. The City will identify and implement less formal methods than the annual budget documents and the audited financial reports to provide important financial data to the citizens of the community. Efforts will be made to provide these "popular reports" via print and electronic media.
- E. The City Manager will provide the City Commission with a year-end summary (unaudited) financial report within sixty days of the end of the fiscal year. Interim updates on financial condition shall also be provided to the City Commission throughout the fiscal year. The City Manager shall provide Key Revenue, Fund Balance and other explanatory reports and updates to the City Commission at finance study sessions to be held in February, May and November of each year. Additional updated information shall also be provided as needed during the annual budget process.

Capital Improvement Program

- A. The City shall establish a five-year Capital Improvement Program (CIP) to guide decision-making on public improvements and expenditures. The CIP provides a mechanism for scheduling public physical improvements over a number of years. It establishes the City's priorities for public projects based on available financial resources and project criteria.
- B. The CIP shall be updated annually following analysis of year-end financial reports, and prior to the adoption of the City's annual operating budget.
- C. The City shall use a portion of its annual budgeted revenues for "pay-as-you-go" capital investments. Mill levy proceeds, sales taxes, user fees or other local revenues may be dedicated for capital improvements.

- D. In 2009, the City Commission voted to increase the City's mill levy by five mills for the purpose of accomplishing significant street improvements. The proceeds from that mill levy increase shall, when possible, be directed to arterial or main trafficway projects, either directly, or through the Bond and Interest fund to make debt service payments on such projects.
- E. The City will maintain its physical assets at a level adequate to protect its capital investment and to minimize future maintenance and replacement costs. The CIP and operating budget will provide for the major renovation and orderly replacement of buildings, facilities, and equipment from current revenues where possible.
- F. City staff, in making CIP recommendations to the City Commission, shall use the following criteria in evaluating projects:
- Capital investment projects which preserve existing infrastructure and maintain basic public services;
 - Capital projects which implement a component of an approved City plan;
 - Projects which specifically replace or renovate an essential, but obsolete, facility;
 - Projects which reduce the cost of operations, maintenance or energy consumption;
 - Projects identified as addressing important public health and safety issues;
 - Projects mandated by the federal or state government; and
 - Projects which are funded, in whole or in part, by leveraged or partnership funding, including grants, private funds, or other outside funding source.
- G. The five-year CIP as approved annually shall contain the following sections:
1. A listing of preliminarily approved capital projects, including estimated cost and funding source by years, which have undergone review for costs and benefits and have identified funding expected to be available for the project.
 2. A separate listing of potential capital projects which require significant additional information (i.e., concept design, feasibility report, cost estimates, funding source analysis, etc.) before they can be formally considered for approval and placement in a specific year in the CIP. This section shall be titled "Projects for Further Review."
 3. A separate listing of projects for which adequate information exists as to planning, estimated costs, benefits, etc. and which the City Commission agrees would be desirable projects for the community in the future, but for which an adequate and appropriate funding mechanism has not yet been determined as available. This section shall be titled "Projects Identified but Unfunded".

Cash Management Policy

- A. The City will maintain one primary checking account. Other checking accounts may be used when required by bond covenants, grant programs, or specialized activities such as the Health Insurance or Flexible Spending employee benefit accounts. All checking accounts must be approved by the City Manager and Director of Finance.
- B. Petty cash funds may be established with the approval of the City Commission.
- C. All checking and petty cash funds shall be balanced monthly. Reconciliations shall be maintained for review by the independent auditors on an annual or non-routine basis.
- D. The City will establish and maintain an investment policy. This policy shall set guidelines on safety, liquidity, maturities, allowed investments, diversification, safekeeping, and other issues related to the investment of the City's financial assets.

Debt Management Policy

- A. The City will confine long-term borrowing to capital improvements which have an extended service life to the community.
- B. The City will use short-term debt (up to four years maturity) for bond anticipation purposes or for the purposes of financing capital improvements for which it is not practicable to rely on cash financing, and for which long-term bonds are not deemed to be appropriate.
- C. The City will follow a policy of full disclosure on every financial report, including but not limited to, preliminary and official statements used to evaluate the City's financial condition for bond rating or investment purposes.
- D. General Obligation (G.O.) debt may be used for enterprise activities, providing the specific enterprise fund makes the debt service payments on the bonds.
- E. G.O. bonds (City at-large portion) will normally be issued with a maturity not to exceed ten years. The City Commission may designate specific projects in the Capital Improvement Program for extended financing periods, not to exceed fifteen years, due to the size, scope, life, or developmental impact of the project. The Benefit District (i.e., not at-large) portion of any Special Assessment bonds shall not normally exceed fifteen years. Revenue bonds or G.O. bonds for which enterprise revenue has been pledged will be issued with a maturity not to exceed twenty years.
- F. G.O. and revenue bonds shall be issued with approximately level debt service payments.
- G. The City will apply for a bond rating from Standard and Poor's (S&P) Public Finance for every bond issue, and make all reasonable efforts necessary to maintain the City's bond rating and seek upgrades when financial conditions merit.

- H. The City shall retain a qualified Financial Advisor and qualified Bond Counsel to advise the City and assist in protecting its interest when any municipal bonds or temporary financing are to be issued by the City or a subsidiary entity.

Fund Balance

- A. The City recognizes the need to maintain appropriate fund balances to secure and maintain investment-grade credit ratings, meet seasonal requirements in cash flow, and reduce susceptibility to negative impacts from emergency or unanticipated expenditures or revenue shortfalls.
- B. To meet these requirements, the City will adopt an annual budget that will provide for an undesignated fund balance reserve in each of the City's budgeted funds, in accordance with the following guidelines:
 - 1. General Fund - A fund balance reserve of not less than 15% or more than 25% of anticipated current year revenues for the fund.
 - 2. Bond and Interest Fund - A fund balance of not less than 10 % of the anticipated General Obligation debt bond and interest payment for the upcoming budget year, including any special assessment-paid debt, but excluding debt planned for repayment by enterprise funding or other City funds. However, in cases of significant exposure to special assessment payment delinquencies, the City may establish higher fund balance to mitigate impacts of potential delinquencies.
 - 3. Other Budgeted Funds - Fund balance reserves shall be planned for and maintained as needed, based on the volatility and reliability of the revenue mix for the funds, as well as the predictability and degree to which expenditures in the fund are controllable.
- C. In May or June of each year, prior to the presentation of the proposed budget, the City Manager shall recommend to the City Commission specific fund balance targets for each budgeted fund, based on guidelines established above. Upon acceptance by the City Commission, those targets shall be used in the upcoming budget planning, as well as financial reporting for the next year.
- D. Fund balance reserves shall generally be shown as appropriations in the City budget, but shall be designated separately in the budget and staff financial reports.
- E. The City Manager shall provide the City Commission with a year-end fund balance reserve report within sixty days following the end of the fiscal year. This preliminary report shall provide results for each budgeted fund compared to its established fund balance target, as well as staff analysis of revenue or expenditure occurrences accounting for any variance. If a fund balance at year-end failed to meet its established target, the City Manager shall prepare and recommend a plan designed to address the shortfall. If a fund balance at year-end exceeds the established target, as well as the current budget estimate, the City Commission may consider development of a plan for use of the unanticipated available funds in accordance with the following guidelines:

1. General Fund

- One-time expenditures which do not substantially increase recurring operating costs;
- Newly identified or previously unfunded capital improvement projects or equipment, considered in light of the full capital improvement program;
- Shifting of capital projects from bond or lease financing to “pay-as-you-go” financing to reduce future debt service costs;
- Start-up expenditures for new programs undertaken at mid-year, provided that such action is considered in the context of revenue expectations and expenditure obligations in future budget years; and
- Transfers to Capital Improvement or Equipment Reserve Funds.

2. Bond and Interest Fund

If the year-end Bond and Interest Fund balances exceed the target as well as current budget estimates, the allocation of mill levy/property tax to that fund should be adjusted for the next budget year to bring the fund balance reserves in line with the established targets.

3. Other Budgeted Funds

If the year-end fund balances in any fund exceed the target fund balance and current budget estimate, the City Manager shall provide analysis and impact evaluation of the excess balances. The City Commission will take into account any unanticipated available funds when considering capital purchases, one-time program needs, or in the setting of user fees.

Investment Policy

A. Scope.

This investment policy applies to the investment activities of the City of Abilene for all of the funds entrusted to its care, including bond proceeds and building funds.

B. Objectives.

1. Safety of principal. The first and primary objective for each investment transaction is to insure that capital losses are avoided.

2. The City of Abilene cash management portfolio shall be designed with the objective of maximizing net earnings, consistent with constraints imposed by safety objectives, cash flow considerations, state laws, and City priorities.
3. All investments shall be made in accordance with Kansas law.

C. Delegation of Authority.

Management responsibility for the investment program is hereby delegated to the Director of Finance who shall establish procedures for the operation of the investment program, consistent with this investment policy, and subject to the approval of the City Manager. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Finance. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

D. Prudence.

The standard of prudence to be used by investment officials shall be the “prudent person” and shall be applied in the context of managing the overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual securities credit risk or market price change, provided deviations for expectations are reported in a timely fashion and appropriate action is taken to avoid adverse developments.

E. Internal Controls.

The Director of Finance shall establish a system of internal controls with respect to investment activities in cooperation with the City’s auditor. The controls shall be designed to provide reasonable assurances against losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City of Abilene, Kansas. Internal controls shall be so designed as to achieve the above listed objectives without being unduly burdensome on the organization.

F. Allowed Investments.

The Director of Finance may invest in any investment allowed under Kansas law applicable to the City of Abilene at the time the investment is made. These include, as of the effective date of the policy, the following:

1. Negotiable Order of Withdrawal (NOW) accounts, Pass Book savings accounts, money market accounts in designated Depository Banks;
2. Temporary notes or no-fund warrants issued by the City of Abilene;

3. Certificates of Deposit in banks, savings banks, and savings and loans organized under the laws of the United States or incorporated under the laws of the State of Kansas, having a main office within the State of Kansas and which have main or branch office located within the City of Abilene;
4. United States Treasury bills or notes;
5. Municipal Investment Pool for the State of Kansas; and
6. Repurchase agreements.

G. Maturities.

Assets of the City of Abilene may be invested in instruments whose maturities do not exceed four years.

H. Risk and Diversification.

The goal of diversification is to reduce the extent of losses due to having an unbalanced portfolio in terms of maturities, instrument type, and issuers. Therefore, portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector.

Liquidity, free of market risk, shall be assured through practices insuring that the next disbursement date and payroll date are covered through maturing investments, marketable U.S. Treasury Bills, the Daily Municipal Investment Pool, or money market accounts.

Default risk shall be minimized by requiring that all security purchases occur on a delivery vs. payment basis, and that all securities are adequately collateralized.

Risk of market price volatility shall be controlled through the adoption of a “buy and hold” strategy whereby the City holds each investment to maturity, coupled with maintenance of an adequate liquidity position to insure the ability to meet normal anticipated cash flow needs. When advantageous, it is allowable to sell investments to realize a gain due to price fluctuations; however, such transactions shall not be a part of the normal course of business.

I. Collateralization, Safekeeping and Custody.

1. Deposits and Repurchase Agreements.

Collateralization shall be required on all deposits and repurchase agreements. Collateral pledged must meet state statute requirements, and must be held by the Federal Reserve Bank, the Federal Home Loan Bank in Topeka, or by a third party custodian pursuant to an adopted tri-party custody agreement. The City of Abilene shall enter into a Security Agreement for Deposits with the depository bank for all deposits. The City will receive deposit advice for the pledged securities from the Federal Reserve Bank, or a joint custody receipt from the third party custodian. The maximum Federal Insurance provided for account customers can be considered a part of the institution’s pledge collateral.

Collateralization shall be maintained at 100% of the market value of principal and accrued interest at all times, including peak periods. At the end of each month, the depository bank will provide the market value of each pledged security to the City.

In the event a third party custodian is used, such custodian shall not have an ownership relationship or affiliation with the depository bank.

Pledged collateral shall not be released until an acceptable repledging of collateral is made by the depository bank and confirmed to the Director of Finance or their designee in the event of a transfer of collateral.

2. Investments. (*Treasury and Agency securities*)

Collateralization of investments shall be by the actual investment instrument.

All securities owned by the City of Abilene must be perfected in the name of the City of Abilene, and held by the City or its authorized safekeeping agent. All investments of the City of Abilene shall be issued as required by this policy.

The City will enter into a safekeeping agreement with a safekeeping agent whereby all investments are held in the City's account in the City's name by the safekeeping agent.

By state statute, all Municipal Investment Pool accounts shall be exempt from providing safekeeping receipts or written confirmation. The Director of Finance, or designee, may receive verbal confirmation by phone following Municipal Investment pool guidelines.

J. Interest Earnings.

The Director of Finance will designate which funds are to receive interest earnings. Interest earnings will be credited to those funds based on average of the balance on the first day of the month and the cash balance on the last day of the month. This distribution may be manually adjusted if, in the Director's judgment, there are obvious interfund inequities.

K. Authorizing Depositories, Institutions, and Broker/Dealers.

Kansas law provides that City funds may be deposited (in checking, money market accounts, certificates of deposit and other similar "deposits) in those institutions designated by resolution as an authorized depository. This is further limited by the requirement that funds may not be deposited in institutions that do not have a main office within the State of Kansas unless satisfactory arrangements cannot be negotiated with an institution with a main office within the State of Kansas.

This limitation does not apply to the purchase of investments such as Treasury and Agency securities. Investment services, consisting of the purchase of Treasury securities, Agency securities, or other investments as may be permitted shall be limited to the following:

1. Any State or Nationally Chartered Bank authorized as a depository, whether or not said institution has a main office within the State of Kansas; and
2. The Federal Reserve Bank of Kansas City, Missouri.

The Director of Finance may establish additional information requirements as deemed necessary to assure the safety of the City's investments, and shall maintain a list of financial institutions who have been qualified to provide services to the City of Abilene.

L. Bank Services.

Periodically, as deemed necessary, the City of Abilene may invite proposals from financial institutions located within the City, for the purpose of providing comprehensive bank services, including checking and money market accounts, safekeeping as well as other services as may be deemed necessary. The participating institutions will be evaluated with procedures established by the Director of Finance and City Manager.

M. Reporting and Evaluation.

At the end of each calendar quarter, the Director of Finance shall prepare and submit to the City Manager a report outlining the quarter's investment activity. Such report shall contain sufficient information to evaluate the performance of the investment program and verify that investment officials have acted in accordance with the investment policy and written investment procedures.

Operating Budget

- A. In accordance with Kansas law, the City Manager shall be responsible for the preparation of the annual City budget. A proposed budget for the following fiscal year (beginning January 1) shall be submitted for City Commission review and discussion on or before July 1st each year, along with a calendar for timely consideration and approval of the budget by August 15th, as required by Kansas law.
- B. The annual budget must be balanced for all budgeted funds. Total anticipated revenues plus the portion of anticipated reserves in excess of the established fund balance target (or in accordance with a fund balance target plan) must equal total estimated expenditures.
- C. Funds may be added to or removed from the budget with approval of the City Commission as requirements change. In general, any continuing operations of the City shall be accounted for through budgeted funds. Non-budgeted funds are used for construction projects authorized through the issuance of debt, for trust and agency activities, for activities funded by State and Federal Grants that are not of a continuing nature, and for special purpose reserve funds.
- D. All budgets will be adopted on a cash basis as modified to include as expenditures for the fiscal year, expenditures incurred but not paid, and purchase commitments. Revenues will be recognized at the time payment is received, whether or not it was billed or due in another period.

- E. All appropriations lapse at year-end except for encumbered appropriations, which are carried forward into the next fiscal year as reservations of fund balance.
- F. The budget shall be adopted at the fund level. Expenditures may not exceed the fund's budget without approval from the City Commission. When appropriated, the budget for a fund may be republished to reflect changes deemed necessary and appropriate by the City Commission.
- G. Department budgets will also be specified during the annual budget. The City Manager may authorize transfers of authorizations between departments within the same fund and transfers of authorizations between line items within a department.
- H. The City will include an amount in the General Fund budget (i.e., a line item for contingencies) for unforeseen operating expenditures or revenue shortfalls. The amount of the contingency will be set between \$100,000 and \$200,000. All planned expenditures from the General Fund contingency line item shall be approved in advance by the City Commission.
- I. The budget will provide for adequate maintenance of capital equipment and facilities and for their orderly replacement, in conjunction with the adopted multi-year Capital Improvement Program.
- J. The City will maintain a budgetary control system to monitor compliance with the budget.
- K. Enterprise funds shall be self-supporting.

Revenue Policy

- A. The City will follow an aggressive policy of collecting all revenues properly owed to the City government.
- B. The City will review user fees and charges periodically, and the City Manager shall make recommendations for any adjustments on the basis of that review to the City Commission.
- C. The City will attempt to maintain a diversified and stable revenue system to shelter it from short-run fluctuations in any one revenue source. The revenue mix should combine elastic and inelastic revenue sources to minimize the effect of an economic downturn.
- D. The City will set fees and user charges for each Enterprise Fund, at a level which fully supports the total direct and indirect cost of the activity. Enterprise operations include: water utility, wastewater utility, recycling, and storm drainage utility.
- E. Recognizing that the public good may be better served by setting some fees at less than 100% of an activity's cost, fees and user charges for certain non-enterprise services and programs may be set a level which only provide partial user fee funding of activity costs.