



Unified Government of Wyandotte County
and Kansas City, Kansas

Commission Resolution:
R-35-18
Adopted: 07/26/2018

Special Revenue Funds Operating Reserve Policy

I. Authority:

The Mayor and the Board of Commissioners are responsible for legislation, policy formulation, and overall direction setting of the government. This includes the approval of financial policies which establish and direct the operations of Unified Government (UG). The County Administrator is responsible for carrying out the policy directives of the UG Board of Commissioners and managing the day-to-day operations of the executive departments, including the Finance Department. This policy shall be administered on behalf of the County Administrator by the Chief Financial Officer and the Budget Director.

II. Purpose:

The Unified Government desires to maintain a prudent level of financial resources to guard its stakeholders against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures. In addition, this policy is intended to document the appropriate Reserve level to protect the Unified Government's credit worthiness. The Special Revenue Operating Fund Reserves are accumulated and maintained in governmental funds in order to provide stability and flexibility to respond to unexpected adversity and/or opportunities.

This policy establishes the amounts the UG will strive to maintain in its Special Revenue Operating Funds Reserves, how the Reserves will be funded, and the conditions under which Reserves may be used.

III. Applicability and Scope:

This policy shall apply to all special revenue operating governmental funds that receive property tax revenue, assess a fee directly to residents, or include operational expenditures restricted for specific use by local, state and federal laws. Funds not meeting any of these criteria do not have a minimum Reserve requirement. The specific funds sought to meet compliance with this policy are detailed in the policy section.

IV. Policy:

A. Reserve Levels - The Unified Government will maintain a range for the minimum level of Fund Balance (per the annual CAFR on a modified accrual basis of accounting) in the Special Revenue Operating Funds equivalent to the percentages by respective Fund listed below of regular, on-going operating expenditures (including transfers out).

The following is a list of the applicable special revenue and debt service funds with the range of minimum level of Reserves established by this policy, presented as a

percentage of on-going operating expenditures (including transfer out):

- UG Clerk Technology 5-10% of expenditures
- County Treasurer Technology 5-10% of expenditures
- Court Trustee 8-12% of expenditures
- Developmental Disabilities 10-15% of expenditures
- Elections 10-15% of expenditures
- Health Department 10-15% of expenditures
- Jail Commissary 8-12% of expenditures
- Library District 10-15% of expenditures
- Mental Health 10-15% of expenditures
- Register of Deeds Technology 5-10% of expenditures
- Special Dedicated Sales Tax 5-10% of expenditures
- Special Assets Fund 5-10% of expenditures
- Special Programs for Elderly 10-15% of expenditures
- Special Wyandotte 911 5-10% of expenditures
- Special Alcohol 5-10% of expenditures
- Special Parks & Recreation 3-5% of expenditures
- Special Street & Highway 3-5% of expenditures
- Tourism & Convention 3-5% of expenditures
- Environmental Trust 10-15% of expenditures
- Debt Service funds 5-10% of expenditures

- B. Compliance** - The UG will measure its compliance with this policy as of December 31st each year, as soon as practical after final year-end account information becomes available as part of the annual financial audit. During the course of the year the Finance Department shall closely monitor the UG's revenues and expenditures to ensure Reserves are not used beyond any planned. For the purposes of this policy, current year's actual expenditures will exclude significant Non-Recurring (one-time) Items.

If, based on staff's analysis and forecasting, the target level of Reserves is not being met or are likely to not be met at some point within a five-year time horizon, then during the annual budget process, Fund Balance levels will be provided to the Mayor and Board of Commissioners. Should the projected year-end Fund Balance be below the minimum Reserve amount established by this policy, a plan to replenish the Reserve would be established based on the requirements outlined in this policy.

- C. Cash Balance** - To provide liquidity adequate to meet the demands of government services provision including unanticipated reductions in revenues or unplanned expenditure increases, Cash Balances will be maintained and managed through the Pooled Cash method in such a way as to minimize short-term borrowing. This reduces overall cost to taxpayers by minimizing interest expense. The above established Reserves are intended to support this effort and counterbalance the revenue and/or tax collection cycle.

- D. Funding the Reserve** - Funding of Special Revenue Operating Reserve targets will generally come from excess revenues over expenditures or one-time revenues.
- E. Conditions for Use of Reserves** - It is the intent of the Unified Government to limit use of Special Revenue Operating Reserves to address unanticipated, Non-Recurring (one-time) needs. Reserves shall not normally be applied to recurring annual operating expenditures. Reserves may, however, be used to allow time for the Unified Government to restructure its operations in a deliberate manner (as might be required in an economic downturn), but such use will only take place in the context of an adopted long-term financial plan.
- F. Authority over Reserves** - The UG Board of Commissioners may authorize the use of Reserves. The Finance Department will regularly report both current and projected Reserve levels to the UG Board of Commissioners.
- G. Fund Balance Classification** - The Unified Government desires to establish a fund balance classification policy consistent with the needs of the Unified Government, and in a manner consistent with governmental accounting standards. The following classifications serve to enhance the usefulness of fund balance information. It shall be the policy to reduce restricted fund balance first, followed by unrestricted fund balance. For unrestricted fund balance, committed amounts should be reduced first, followed by assigned amounts, followed by unassigned amounts.

Restricted Fund Balance

- a) *Non-spendable Balance*: Assets legally or contractually required to be maintained, or are not in spendable form. Such constraint is binding until the legal requirement is repealed or the amounts become spendable.
- b) *Restricted Balance*: Assets with externally imposed constraints, such as those mandated by creditors, grantors and contributors, or laws and regulations. Such constraint is binding unless modified or rescinded by the applicable external body, laws, or regulations.

Unrestricted Fund Balance

- c) *Committed*: Assets with a purpose formally imposed by resolution by the Governing Body of the Unified Government, binding unless modified or rescinded by the Governing Body.
- d) *Assigned*: Assets constrained by the government's intent as expressed by the Governing Body, County Administrator or designee. Encumbrances shall be considered as assigned, unless they specifically meet the requirements to be committed or restricted.
- e) *Unassigned*: All amounts not included in other fund balance classifications. The

general fund shall be the only fund to report positive unassigned fund balance. All other governmental funds may report negative unassigned fund balance.

- H. Assigning Fund Balance** - The County Administrator and Chief Financial Officer, collectively, are hereby authorized to assign Fund Balance for specific purposes in accordance with the intent and actions of the Board of Commissioners.
 - I. Replenishment of Reserves** - In the event that Reserves are used resulting in a balance below the established reserve minimum ranges, a plan will be developed and included in the formulation of the five-year forecast presented during the annual budget process.
 - J. Excess of Reserves** - In the event Reserves exceed the minimum range balance requirements, at the end of each fiscal year, any excess Reserves may be used in the following ways, within the use of funds required by local, state or federal laws:
 - a) Fund accrued liabilities, including but not limited to debt service, workers' compensation benefits, pension, employee health benefits and other post-employment benefits as directed and approved within the long-term financial plan and the annual budget resolution. Priority will be given to those items that relieve budget or financial operating pressure in future periods;
 - b) Appropriated to lower the amount of outstanding general obligation bonds, temporary notes or contributions needed to fund capital projects in the UG's CMIP;
 - c) Property tax mill rate and/or charges for services fee reductions.
 - d) 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; or
 - e) Start-up expenditures for new programs, provided that such action is approved by the Board of Commissioners and is considered in the context of multi-year projections of revenue and expenditures as prepared by the Finance Department.
 - I. Periodic Review of the Targets** - Compliance with this section will be reviewed in conjunction with the annual budget process. At a minimum, during the annual budget process staff shall review the current and five-year projected Reserves to ensure that they are appropriate given the economic and financial risk factors the Unified Government is subject to.
- V. Quality Control and Quality Assurance:**

It is the responsibility of the Budget Director to ensure the presence of procedures that provide sufficient guidance to affected Unified Government personnel to fulfill the intent of this policy.

These policies will be reviewed at least annually and updated on an as-needed basis.

VI. Metrics:

To be developed and managed accordingly.

VII. Definitions and Acronyms:

- A. Capital Maintenance and Improvement Plan (CMIP) - A plan that describes the capital projects and associated funding sources the Unified Government intends to undertake in the current year plus five additional future years, including the acquisition or construction of capital facilities, equipment and assets, and the maintenance thereof.
- B. Cash Balance - The sum of cash and Cash Equivalents of an accounting fund.
- C. Cash Equivalent - In the context of cash flows reporting, short-term, highly liquid investments that are both 1) readily convertible to known amounts of cash and 2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. For this purpose, "original maturity" means maturity as of the date the investment is acquired.
- D. Fund Balance (CAFR) - Fund Balance is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in a governmental fund as reported in the Comprehensive Annual Financial Report (CAFR).
- E. Fund Balance (Budgetary) – Fund Balance for Budgetary Purposes begins with the beginning of the year unencumbered fund balance as reported in the CAFR's Schedule of Budgetary Accounts, Budget and Actual Budgetary Basis (non-GAAP) for the respective fund, plus revenues less all expenditures recorded on a cash basis for the respective fiscal year.
- F. Non-Recurring Item - An expenditure that has not occurred in the previous two years and is not expected to occur in the following year.
- G. Pooled Cash - The sum of unrestricted cash and investments of several accounting funds that are consolidated for cash management and investment purposes. Investment income or expenditure is allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.
- H. Reserve - Reserve refers only to the portion of Fund Balance that is intended to provide stability and respond to unplanned events or opportunities.

- I. Special Revenue Fund - Governmental fund type used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purpose other than debt service or capital projects and exclusive of resources held in trust for individuals, private organizations, or other governments.
- J. Unrestricted Fund Balance - The difference between total Fund Balance in a governmental fund and its nonspendable and restricted components.

VIII. Related Documents and References:

- A. Capital Asset and Equipment Investment and Management Policy
- B. Long-Term Financial Planning Policy
- C. Operating and Capital Budget Policy
- D. County Administrator policies as applicable