



Unified Government of Wyandotte County  
and Kansas City, Kansas

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

## **Enterprise and Internal Service Funds Operating Reserve Policy**

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**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 expenses. In addition, this policy is intended to document the appropriate Reserve level to protect the Unified Government's credit worthiness. The Enterprise Operating and Internal Service Funds Reserves are accumulated and maintained to provide stability and flexibility in response to unexpected adversity and/or opportunities. Aside from ensuring cash availability when revenue collections diminish, the Reserves generate investment income thereby diversifying the government's revenue streams. Finally, a strong reserve policy for these funds can help maintain a stable rate and fee structure.

This policy establishes the amounts the UG will strive to maintain in its Enterprise Operating and Internal Service Funds Reserve, how the Reserve will be funded, and the conditions under which Reserve may be used.

**III. Applicability and Scope:**

This policy shall apply to all enterprise operating and internal service funds under the budgetary and fiscal control of the Mayor and Board of Commissioners.

**IV. Policy:**

**A. Enterprise Funds Operating Reserve Levels** - The Unified Government will maintain a minimum level of Working Capital Reserve in Enterprise funds, by respective fund listed below, equivalent to the percentage of regular, on-going operating expenses (excluding transfers out). [Working Capital is defined in the Definitions section provided below.]

Any fund that is partially subsidized by a General Fund transfer (such as the Stadium – T-Bones and Sunflower Hills Golf Course), will maintain Operating Reserves percentage as specified below, with any unrestricted excess reverting back to the

General Fund at the year-end closing.

The following is a list of the applicable enterprise funds and the minimum level of Operating Reserves (Working Capital) established by this policy, presented as a percentage of on-going operating expenses (excluding transfer out):

- Emergency Medical Services 10-15% of operating expenses
- Public Levee 3-5% of operating expenses
- Sewer System Utility 40-50% of operating expenses
- Stadium – T-Bones 5-8% of operating expenses
- Stormwater Utility 40-50% of operating expenses
- Sunflower Hills Golf Course 5-8% of operating expenses

**B. Self-Insurance Internal Service Funds Reserve Levels** – The Unified Government will maintain a minimum self-insurance reserve in its respective internal service funds. Self-insurance services, such as employee and retiree healthcare related benefits and workers’ compensation benefits, are to be funded at actuarially determined marginally acceptable levels. “Marginally acceptable levels” is an insurance actuarial term that connotes a funding reserve level which the insurance industry has 70 percent confidence that the reserve is adequate to meet funding needs.

**C. Equipment and Vehicle Replacement and other related Internal Service Funds Reserve Levels** – The Unified Government will maintain a minimum level of Net Position in Equipment and Vehicle Replacement and other related internal service funds adequate to spread the cost of replacement evenly over the life of the asset. Funding will come from the UG department users of the fund’s services and will be assessed for their share of the needed reserve based on the replacement cost of the assets they use. Sales of surplus equipment as well as any related damage and insurance recoveries will be credited to the fund. Contributions from each UG operating fund shall be made in accordance with the fund’s pro-rate share of replacement costs.

**D. 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 expenses to ensure Reserves are not used beyond any planned. For the purposes of this policy, current year's actual expenses 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, Working Capital/Reserves levels will be provided to the Mayor and Board of Commissioners. Should the projected year-end Working Capital/Reserves position 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.

**E. Cash Balance** - To provide liquidity adequate to meet the demands of government services provision including unanticipated reductions in revenues or unplanned expenses 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 ratepayers by minimizing interest expense. The above established Reserves are intended to support this effort and counterbalance cycles often experienced in fee and other revenue collections.

**F. Funding the Reserve** - Funding of Enterprise Operating Reserve targets will generally come from excess revenues over expenses or one-time revenues.

Funding of Internal Service Funds Reserve targets will generally come from excess contributions from department users and UG employees over claims and equipment replacement expenses or one-time revenues. Contributions from each department operating fund shall be made in accordance with the fund's pro-rata share of claims and equipment replacement expenses.

**G. Conditions for Use of Reserves** - It is the intent of the Unified Government to limit use of Enterprise Operating and Internal Service Funds Reserves to address unanticipated, Non-Recurring (one-time) needs. Reserves shall not normally be applied to recurring annual operating expenses, with the exception of the equipment replacement and related funds where a major equipment replacement is scheduled for acquisition. 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.

**H. 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.

**I. Net Position Classification** - The Unified Government desires to establish a net position classification policy consistent with the needs of the Unified Government, and in a manner consistent with governmental and financial accounting standards. The following classifications serve to enhance the usefulness of net position information. It shall be the policy to reduce restricted fund balance first, followed by unrestricted fund balance.

*Restricted Net Position*

a) *Non-spendable Balance*: Assets legally or contractually required to be maintained, or are not in spendable form, including capital assets net of related debt. 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 Net Position*

*Unrestricted:* All amounts not included in restricted net position classification.

- J. Replenishment of Reserves** - In the event that Reserves are used resulting in a balance below the established reserves minimum, a plan will be developed and included in the formulation of the five-year forecast presented during the annual budget process.
  - K. Excess of Reserves** - In the event Reserves exceed the minimum balance requirements, at the end of each fiscal year, any excess Reserves may be used in the following ways:
    - 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) Charges for services fee reductions.
    - d) One-time expenses 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 expenses 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 expenses 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. For purposes of this policy, restricted cash and temporary investments is excluded as a current asset.
- 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. Enterprise Fund - Proprietary fund type used to report an activity for which a fee is charged to external users for goods or services. Enterprise funds are used to report the similar functions as business-type activities.
- E. Internal Service Fund - Proprietary fund type used to report an activity for which a fee is charged to external users for goods or services. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Unified Government's various functions. Internal services funds serve several activities, such as self-insurance and equipment and vehicle replacement.
- F. Net Position – The residual of all other elements presented in a statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.
- G. Non-Recurring Item - An expense that has not occurred in the previous two years and is not expected to occur in the following year.
- H. 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 expense is allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

- I. Reserve - Reserve refers only to the portion of Working Capital and net Position that is intended to provide stability and respond to unplanned events or opportunities.
- J. Working Capital – An accounting term defined as current assets less current liabilities in a proprietary fund. Working Capital is used to express the Reserves available in proprietary funds available for use. Working Capital will include long-term cash or cash-equivalent investments, of which are able to be liquidated within five business days. For purposes of this policy, restricted cash and temporary investments is excluded as a current asset.

**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