

Ordinance No. _____

Amending Chapter 2, Code of Ordinances, by repealing Section 2-1954 relating to the City's fund balance and reserve policy and enacting in lieu thereof one new section of like number and subject.

WHEREAS, the City has a thorough annual budget process, including quarterly budget analysis, and five-year business planning cycle during which Council, City staff, and residents have the opportunity to shape how the City spends taxpayer resources; and,

WHEREAS, the City currently has a structural imbalance driven by transfers out of our General Fund; and,

WHEREAS, one-time recovery resources, which helped address our budget imbalances, will soon be exhausted; and,

WHEREAS, maintaining a healthy General Fund Balance is critical for our ability to address emergencies, provide stability through economic cycles, and protect the City's creditworthiness; and,

WHEREAS, it is a best practice to make any appropriations of the unassigned fund balance in the following fiscal year's budget;

WHEREAS, the City Council is seeking efforts to be more intentional in our budgeting processes, as evidenced by Resolution No. 220394, which was passed on May 26, 2022 and directed City staff to evaluate Priority-Based Budgeting; NOW THEREFORE,

BE IT ORDAINED BY THE COUNCIL OF KANSAS CITY:

Section 1. That Chapter 2, Code of Ordinances of the City of Kansas City, Missouri, is hereby amended by repealing Section 2-1954 relating to the City's fund balance and reserve policy and enacting in lieu thereof one new section of like number and subject, to read as follows:

Sec. 2-1954. - Fund balance and reserve policy.

(a) *Policy.*

(1) It is the policy of the city to maintain its various fund balances and financial reserves at levels sufficient to pay obligations when due, address emergencies, cover temporary revenue shortfalls, provide stability throughout economic cycles and to protect the city's creditworthiness in accordance with applicable federal, state and local laws, and established best governmental practices.

(2) The city's fund balance and reserve policy is the city's official guideline for use by city staff in conjunction with the city's budgeting and financial planning efforts. The policy shall be reviewed on an annual basis by the director of finance and any modifications made thereto must be approved by the city council.

(b) *Authority.* Under the authority granted by the state Constitution and the city Charter, the city council is authorized to direct the financial affairs of the city. It is the city council's intent to responsibly use this authority in order to fulfill the service objectives of the city and its agencies. Management responsibility for the city's fund balances is hereby delegated to the director of finance.

(c) *Scope.* This fund balance and reserve policy shall be inclusive of all funds of the city. The policy incorporates recommended best practices of the Government Finance Officers Association (GFOA) and Governmental Accounting Standards Board (GASB), as amended over time.

(d) *Objectives.*

- (1) To establish appropriate fund balance and/or reserve levels for each fund or fund type, after accounting for the "nonspendable" portions of the respective funds.
- (2) To set guidelines for each fund or fund type's fund balance and/or reserve levels.
- (3) To determine procedures for replenishment of fund balances or reserves if drawn below recommended levels, if necessary.
- (4) To establish financial reporting guidelines for amounts designated as fund balances and/or reserves.

(e) *Glossary.*

(1) *Assigned fund balance.* Amounts that are constrained by the city's intent to be used for specific purposes but are neither restricted nor committed will be classified as "Assigned" fund balance. The intent will be identified by a city official to whom the governing body has delegated the authority to assign amounts for specific purposes.

(2) *Committed fund balance.* Amounts that can only be used for specific purposes pursuant to constraints imposed by a formal action of the city council will be classified as "Committed" fund balance.

(3) *Nonspendable fund balance.* Amounts that cannot be spent because they are not spendable form (e.g. inventories, receivables, advances, etc.) or are legally and/or contractually required to be maintained intact will be classified as "Nonspendable" fund balance.

(4) *Restricted fund balance.* Amounts that are bound by externally imposed restrictions by creditors, grantors, contributors, laws or regulations of other governments or through constitutional provisions or enabling legislation will be classified as "Restricted" fund balance.

(5) *Unassigned fund balance.* Represents the remaining amount of fund balance which has not been classified as non-spendable, restricted, committed or assigned.

(f) *Guidelines.*

(1) *General fund.* The general fund is the main operating fund of the city and accounts for all financial transactions not accounted for in other funds. The general operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are financed through revenues received by the general fund.

a. *Committed general fund balance.* The committed general fund balance will include the following amounts:

1. Encumbrances. Those encumbrances imposed by ordinance of the city council.
2. Re-appropriations of unexpended and unencumbered appropriations and the re-estimation of uncollected revenues as authorized by ordinance of the city council.
3. Emergency reserve (floor). The emergency reserve portion of committed fund balance shall not be less than one month of general fund operating expenditures.
4. The emergency reserve is available to address one-time operational emergencies, unexpected revenue reductions and/or unanticipated expenditure requirements occurring within a fiscal year. Funds may be withdrawn from this emergency reserve when an emergency has been recognized by ordinance prior to fiscal year end, the fund's budgeted contingency is exhausted, the countercyclical reserve has been exhausted, and the withdrawal is needed to prevent the fund from ending the fiscal year with a negative unassigned fund balance. An ordinance appropriating funds from the emergency reserve shall include language stating the city council is waiving the fund balance and reserve policy for a use of the emergency reserve.

b. *Assigned general fund balance.* The assigned fund balance will include the following amounts:

1. *Encumbrances.* Those encumbrances authorized by department directors or the manager of procurement services.
2. *Countercyclical reserve (ceiling).* The countercyclical reserve, when combined with the emergency reserve, shall not be greater than two months of general fund operating expenditures.
 - (i) The countercyclical reserve may be established by the director of finance in the maximum amount described above for varying purposes including, but not limited to: reserves for tax increment financing, debt service stabilization, interest rate risk, capital maintenance, swap termination payments, legal claims, and disaster recovery.

- (ii) The director of finance may authorize the use of the countercyclical reserve when the withdrawal is needed to prevent the fund from ending the fiscal year with a negative unassigned fund balance.

3. *Unassigned general fund balance.* Any amount in excess of the non-spendable, restricted, committed and assigned portions of fund balance is by definition unassigned general fund balance. If necessary, all or a portion of unassigned fund balance may only be appropriated in the following fiscal year's budget or in connection with the quarterly budget analysis process pursuant to Section 2-1956 of the Code of Ordinances of Kansas City, Missouri ~~for uses including~~ unless there is a commensurate revenue increase or decrease in another general fund obligation or a state of emergency is declared pursuant to Section 50-155 of the Code of Ordinances of the City of Kansas City, Missouri. Uses of unassigned general fund balance may include, but are not limited to, the following:

- (i) Prepayment of principal and interest on city debt;
- (ii) Offsets to temporary revenue reductions from local, state, and federal sources;
- (iii) One-time expenditures that do not increase recurring operating costs;
- (iv) Establishment of or increase in assigned reserves;
- ~~;(v)~~ (v) Start-up expenditures for new programs.

4. *General fund balance replenishment.* Once the emergency reserve has initially been fully funded, if the emergency reserve should fall below its floor, the director of finance or budget officer will prepare and present to the city council a plan to replenish the emergency reserve. The city council must approve and adopt a plan within 12 months after the emergency reserve first falls below its floor, which establishes a time frame to restore the reserve to, at minimum, its floor level.

(2) *Proprietary funds.* Each proprietary fund shall strive to maintain an unassigned fund balance equal to, at minimum, two ~~month's~~ months' worth of operating costs, as defined in the respective bond ordinances for that fund. For the purposes of this calculation, the current fiscal year budget shall be the budget as originally adopted by ordinance in March for the subsequent fiscal year. This reservation of fund balance shall be in addition to all other required reservations including, but not limited to, amounts reserved for debt service and/or amounts reserved for renewal and replacement of long lived assets.

- a. *Water fund.* The water fund accounts for activities of the city's water distribution system. Revenues are derived mainly from water service and installation charges.
- b. *Kansas City airports fund.* The Kansas City airports fund accounts for the operations of the city's two airports: Kansas City International Airport (KCI) and the Charles B. Wheeler Downtown Airport. Revenues are derived principally from hangar and terminal building rental, landing fees, and parking.
- c. *Sewer fund.* The sewer fund accounts for the activities of the wastewater collection and treatment system. Revenues are derived primarily from sewer users' service charges and fees.
- d. *Enterprise funds.* These funds account for the proceeds from a special facility bond issue and the related lease agreement for the aircraft maintenance and overhaul base located at the Kansas City International Airport.

(3) *Special revenue funds.* Special revenue funds are used to account for the proceeds of specific revenue sources (other than certain capital projects and expendable trusts) that are legally restricted to expenditure for specified purposes. No specific reservation of fund balance is created by virtue of enactment of this policy. The amount of any reservation of fund balance shall be governed by the legal authority underlying the creation of the individual funds.

(4) *Capital projects funds.* The capital projects funds account for resources used for the acquisition of capital facilities, except those financed by the proprietary funds and those budgeted in the general or special revenue funds, when resources are derived exclusively from the direct revenues for the fund and do not involve long-term borrowing. The city council, by ordinance, may elect to commit or assign a portion of its capital projects funds' balances to a general project contingency, capital maintenance or replacement reserve. All remaining restricted fund balance in the capital projects funds will be re-appropriated in the following year for eligible construction and renovation projects. No specific reserve requirements are established for capital projects funds; however, at a minimum, the fiscal year end unreserved fund balance, and estimated revenues for the ensuing fiscal year must be sufficient to meet all outstanding fund encumbrances.

(5) *Debt service funds.* The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. The city shall maintain sufficient reserves in its debt service funds, which shall equal or exceed the requirements dictated by its bond ordinances. Funds restricted for debt service are monies held as required by a bond indenture or similar agreement and maintained either by the city or by a trustee. Any assignment of fund balance within the debt service funds represents the city's efforts to cover specific risks associated with business interruption, interest rates, swap termination, counterparties and difference in basis.

(6) *Claims and workers compensation funds.* The claims and workers compensation funds are used to cover general liability claims, automobile liability, fire, and extended coverage on city vehicles, public official liability claims, and workers' compensation claims on both police department and city employees. The city shall seek to build and maintain reserves in its claims and workers compensation funds in amounts equivalent to at least one times annual projected claims exposure.

(7) *Waiving recommended levels.* The city council may waive, by ordinance, the requirement to maintain reserves at the recommended levels if it finds that it is in the best interests of the city.

(g) *Financial reporting.* In the city's fund financial statements, governmental and proprietary funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Encumbrances outstanding at year end are reported as commitments or assignments of fund balances because they do not constitute expenditures or liabilities. Such encumbrances serve as authorizations for expenditures in the subsequent year. Commitments of fund balances represent tentative plans for future use of financial resources that are subject to change.

(h) *Allocations outside annual budget process.* Except in the case of a state of emergency, declared pursuant to Section 50-155 of the Code of Ordinances of the City of Kansas City, Missouri, allocations from the Unappropriated General Fund Balance outside of the annual budget process or quarterly budget analysis process as defined in Section 2-1956 of the Code of Ordinances shall only be made if the allocation is accompanied by a commensurate increase in revenue or a decrease in another General Fund obligation.

_____ Approved as to form and legality:

_____ Assistant City Attorney