

RESOLUTION NO. 3915

A RESOLUTION ESTABLISHING FISCAL POLICY FOR THE CITY AND THE CRITERIA AND GUIDELINES TO BE USED IN DEVELOPING LONG-RANGE FINANCIAL PLANS AND ANNUAL OPERATING, MAINTENANCE AND CAPITAL IMPROVEMENT PROGRAMS; RESCINDING RESOLUTION NOS. 2367 and 2380.

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 funding of services and improvements; and

WHEREAS, the City of Overland Park adopts long-range financial plans, annual operating budgets, and maintenance and capital improvements programs which must be structured by ability to pay in order to maintain fiscal stability; and

WHEREAS, it is deemed in the best interest of the City to adopt in resolution form the criteria and guidelines to provide the structure of continuing fiscal stability, reduce financial risk and maintain adequate contingency assets for present and future requirements;

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

SECTION 1. PURPOSE AND DEFINITIONS.

Purpose:

The purpose of this fiscal policy is to establish the criteria and guidelines to be used in developing long-range (five-year) financial plans, annual operating budgets, and maintenance and capital improvements programs for Governing Body consideration. Implementation of this policy is designed to:

1. Provide clear direction to the city staff about the policies of the Governing Body, and about the scope and level of City services and capital improvements desired.
2. Ensure that the Governing Body is informed about the fiscal capacity of the City to undertake capital, maintenance or operating program activities before making decisions on such activities.
3. Provide for a balanced municipal revenue structure which is dependable and responsive to economic conditions, while continuing to limit the City's reliance on property tax when possible.
4. Provide investors interested in Overland Park bonds with a clear picture of the financial condition of the City and the security of their investment which will improve and maintain Overland Park's bond ratings.
5. Provide the lead-time required to plan and schedule public improvements.

6. Advise the public as to the need for City financial and service actions to maintain public confidence in the City's credibility.

Operations Defined:

As used in this policy, Operations include the services performed as part of the reoccurring, routine work of the City. Operating expenditures include personnel costs, minor commodities, contractual services, equipment and routine annual maintenance used in order to provide day-to-day City Operations.

Maintenance Defined:

As used in this policy, Maintenance includes significant work performed to City infrastructure and facilities as part of the City's five-year Maintenance program. The City's Maintenance program includes both major and preventive Maintenance projects.

Major Maintenance includes renovation of, large-scale repairs to, and in-kind replacement of existing City-owned assets. Preventive Maintenance includes projects and programs to protect and significantly extend an asset's useful life.

Routine Annual Work or Repairs to Equipment would be defined as an Operating Expense. Replacement of Infrastructure or Facilities which would result in increased capacity would be defined as a Capital Improvement.

Capital Improvements Defined:

As used in this policy, a Capital Improvement is the construction or acquisition of a public facility or infrastructure needed to carry out the adopted goals and objectives of the City. Capital expenditures are long-term in nature and have a long-term life.

Generally, equipment, infrastructure or facilities with less than a five-year usable life and with a current value of under \$100,000 will be acquired through the City's Operating budget.

SECTION 2. FINANCIAL PLANNING POLICIES

Balanced Budget and Budgetary Basis:

1. The budget adopted by the Governing Body shall be balanced so that estimated expenditures do not exceed estimated revenues available for appropriation. State budget law prohibits a budget which projects spending in excess of available resources.
2. The City's budget is prepared on the modified accrual basis for all funds, including government and proprietary funds, and assumes that prior years' ending cash balances may be utilized to balance the budget.
3. The use of non-reoccurring revenues, including fund balance, to finance on-going expenses should be avoided. The City shall pay the full cost of current services with

current revenues. However, reserves may be used on a short-term basis to offset the impact of economic downturns.

Long-Range Financial Planning:

1. Five-Year Financial Forecast

The City shall develop and maintain long-range fiscal planning and budgeting systems which anticipate underlying economic changes and provide for planned, orderly year-to-year changes to City taxes, service levels, and responses to unanticipated events to help avoid municipal service disruptions.

a. The City Manager shall semiannually prepare for the Governing Body a Long-Range (Five-Year) Revenue and Expenditure Forecast. The Forecast shall be updated during the development of the Capital Improvement and Maintenance programs and the annual Operating budget. Such Forecast shall be used by the Governing Body in reviewing proposed Capital, Maintenance and Operating program requests to ensure long-term fiscal sustainability.

b. Financial Standards

The five-year financial Forecast shall include financial standards established and reviewed periodically by the Governing Body. The financial standards shall be used as guidelines in reviewing proposed Capital, Maintenance and Operating program requests to determine long-term fiscal sustainability.

The City's financial standards shall include targets established and periodically reviewed by the Governing Body regarding percentage of expenditures during the five-year planning period to be allocated to Operations, Maintenance and Capital Improvements.

2. Five-Year Capital Improvements Program

It shall be the policy of the City to identify and set priorities among the Capital Improvement needs of the community and to develop a schedule for making these Improvements in accordance with the fiscal capacity of the City to do so. The Capital Improvements program shall propose projects over the ensuing five years.

a. Review - The City Manager shall annually provide to the Governing Body an updated five-year Capital Improvements program for budget planning purposes.

b. Contents - The Capital Improvements program shall include:

i. A clear summary of its contents.

- ii. A list of all Capital Improvements proposed for the ensuing five-year period along with appropriate supporting material for each project, prepared in accordance with a process approved by the Governing Body.
 - iii. Cost estimates, methods of financing and recommended time schedules for each Improvement.
 - iv. The estimated annual cost of operating and maintaining the facilities to be constructed or acquired.
 - v. A statement on the fiscal capacity of the City to undertake these improvements and the impact the five-year program will have on the City's goals and objectives, Operating budget and fiscal policy.
- c. Administration -The City Manager shall designate an administrative officer of the City who shall be responsible for preparation, supervision and coordination of the Capital Improvements program and its implementation.
 - d. Capital Expenditures Budgeted - Current year Capital expenditures (first year of the updated five-year Capital Improvements program) shall be included in the proposed budget for the ensuing fiscal year following its approval by the Governing Body.
 - e. Self-Supporting Activities - A clear distinction shall be made between general purpose government Capital Improvements and the enterprise activities intended to be self-supporting. All projects proposed to be self-supported must demonstrate their ability to develop sufficient revenue to meet the expected expenditures.

3. Maintenance

It shall be the policy of the City to identify and set priorities among the Maintenance needs of the community and to develop a schedule for making these Improvements in accordance with the fiscal capacity of the City to do so. The Maintenance program shall propose projects over the ensuing five years.

- a. Review - The City Manager shall annually provide to the Governing Body an updated five-year Maintenance program for budget planning purposes.
- b. Contents - The Maintenance program shall include:
 - i. A clear summary of its contents.
 - ii. A list of all Major and Preventive Maintenance projects proposed for the ensuing five-year period along with appropriate supporting material of each project, prepared in accordance with a process approved by the Governing Body.

- iii. Cost estimates, methods of financing and recommended time schedules for each project.
 - iv. The estimated annual impact of Maintenance projects.
 - v. A statement on the fiscal capacity of the City to undertake these projects and the impact the five-year program will have on the City's goals and objectives, Operating budget, and fiscal policy.
- c. Administration -The City Manager shall designate an administrative officer of the City who shall be responsible for preparation, supervision and coordination of the Maintenance program and its implementation.
 - d. Maintenance Expenditures Budgeted - Current year Major Maintenance expenditures (first year of the updated five-year Maintenance program) shall be included in the proposed budget for the ensuing fiscal year following its approval by the Governing Body.

Asset Inventory

The City shall annually inventory Capital assets in order to verify the location and assess the condition of City assets. Information from such inventory shall be used to assist in determining a prudent, orderly replacement of City-owned assets through the Operating budget and Capital Improvements program.

SECTION 3. REVENUE POLICIES.

Revenue:

The City shall maintain a diverse revenue structure which is dependable and responsive to economic conditions. The City shall pursue a partnership with taxpayers to encourage sharing of public services costs in a fair and equitable manner.

1. Property Tax

The City shall attempt to limit its reliance on ad valorem property tax revenue.

2. Sales Tax

Retail sales and compensating use taxes shall constitute the principal revenue sources for the City's Operating budget.

3. User Fees and Charges

The City shall pursue the use of appropriate fees for services rendered when prudent, equitable and pursuant with City policy and goals. The City will establish fees and charges based on cost of service, community benefit and cost recovery guidelines. When

possible, fees will be reviewed and revised annually to avoid significant adjustments in any single year.

4. Funds From Other Agencies

The City shall seek to partner with other intergovernmental agencies to share operational services, facilities and equipment-related costs when prudent and beneficial to City taxpayers. The City shall seek sustainable intergovernmental funding to support on-going Operational and Maintenance expenses.

The City shall aggressively seek funds from federal, state, county and other agencies for use in implementing the City's Capital Improvement program, and shall normally give priority to those projects which maximize the use of such funds in meeting the objectives of the Capital Improvements program.

5. Debt

The City shall limit the use of debt to the financing of projects and equipment through the City's Capital Improvement program. The City shall avoid the use of debt to fund reoccurring Operating expenses.

6. One-Time (Non-reoccurring) and Unpredictable Revenues

The use of non-reoccurring and unpredictable revenues to fund on-going expenditures shall be avoided. On-going expenditures shall be funded with reliable, on-going sources of revenue.

Reserve funds may be used on a short-term basis to fund on-going expenses to offset the impact of unanticipated financial conditions. Reserve funds may also be used to fund emergency response to ensure essential public services are maintained during and after natural and man-made disasters.

SECTION 4. EXPENDITURE POLICIES.

Debt:

The City's debt policy provides framework to ensure the City's debt is issued in accordance with established public policy and managed in a fiscally prudent manner which seeks to maintain current credit ratings, preserve public trust, minimize costs to taxpayers and does not adversely affect future generations. The debt policy shall provide general guidelines for debt issuance and management.

1. The City shall limit the use of debt to the financing of projects and equipment through the City's Capital Improvement program. The City shall avoid the use of debt to fund reoccurring Operating expenses. Debt issuance will be utilized by the City in those cases

where public policy, equity, and efficient use of limited resources favor debt financing over funding with current revenues. Decision criteria shall include the following:

- a. City's current and projected debt position, financial health and economic conditions.
- b. Available alternative financing sources, including use of current revenues and leveraged revenue sources of private and intergovernmental contributions. Projects which include a substantial portion of leveraged financing shall normally be given priority.
- c. Purpose and useful life of the asset. Debt shall be issued in manner in which the term of the debt financing does not exceed the asset's projected life. Debt shall be issued primarily as a financing tool of the City's Capital Improvements program.
 - i. Debt related to Capital Improvements shall normally be issued as general obligation debt for ten or twenty years. The length of the issue is based on type of asset and expected useful life. New facilities and land shall normally be bonded for twenty years. Other Infrastructure or Facility Improvements shall normally be bonded for ten years.
 - ii. Debt for equipment may be bonded for a period of less than ten years, however it shall not be bonded for a period of time longer than the anticipated useful life of the asset.

2. Debt Capacity

Criteria for City Debt Limit

The debt limitation set above is based on review of a number of factors including the following:

- a. Legal General Obligation Bond Limit - The debt pledged as general obligations of the City shall not exceed thirty percent of the assessed valuation as authorized under K.S.A. 10-308.
- b. Rating Agency Criteria – In order to maintain the City's bond ratings, the Chief Financial Officer will monitor reports and financial statements indicating the City's financial position and results of Operations. The Chief Financial Officer will also periodically consult with the City's financial advisor to review municipal bond markets and trends in municipal finance.
- c. City Financial Standards - The City's financial planning standards include several guidelines relating to amount of debt outstanding, including:
 - i. Total Direct Debt Per Capita. The amount of per capita direct-bonded debt issued by the City.

- ii. Percentage of Direct and Overlapping Debt to Market Value of Tangible Property. The City's direct-bonded debt and overlapping debt as a percentage of estimated market valuation of a property.
- iii. Percentage of Debt Service to General Fund Operating Expenditures. The City's annual transfer to the Bond and Interest Fund for debt service cost divided by total Operating Expenditures of the General Fund.
- iv. Mill Levy Equivalent of Bond and Interest Transfer. The mill levy required to replace the General Fund's annual transfer to the Bond and Interest Fund. These monies are used to pay annual principal and interest payment of the City's maturing general obligation debt.

Financial standards and guidelines related to debt are established and reviewed by the Governing Body on a periodic basis.

Reserve or Stabilization Account (Fund Balance Policy)

- 1. Purpose - Sound financial management principles require that prudent levels of funds be retained in order to provide a stable financial base for future fiscal periods, uninterrupted delivery of essential governmental services and tax-rate stability. The City shall maintain adequate unrestricted resources to provide the capacity to provide essential governmental service during and immediately following a disaster, offset significant economic downturns or revenue shortfalls, provide sufficient cash flow for daily financial/operational needs, and secure and maintain investment grade bond ratings.
- 2. Fund Balance Definitions - The term "fund balance" is generally recognized as the difference between a fund's assets and liabilities.

In accordance with Governmental Accounting Standard Board statement number 54 (GASB 54), a fund's balance is classified into up to five categories primarily based on the extent to which restrictions exist regarding use of funds.

- a. Non-Spendable. Assets legally or contractually required to be maintained or not in spendable form, such as inventory or prepaid times. Such constraint is binding until the legal requirement is repealed or the amounts become spendable.
- b. Restricted. 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, law or regulations.
- c. Committed. Assets with a purpose formally imposed by resolution by the Governing Body of the City, binding unless modified or rescinded by the Governing Body.

- d. Assigned. Assets constrained by the express intent of the Governing Body, City Manager 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 total of the last three categories (committed, assigned and unassigned), which includes only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself, is termed the unrestricted fund balance. The unrestricted fund balance serves as a measure of expendable available financial resources.

- 3. Order of Unrestricted Fund Balance Expenditure - For unrestricted fund resources, committed amounts should be reduced first, following by assigned amounts, followed by unassigned amounts.
- 4. General Fund Unrestricted Fund Balance Target - The City's targeted general fund unrestricted fund balance is 30% of the subsequent fiscal year's budgeted Operating and contingency expenditures. The target amount expressed is a goal and may fluctuate from year-to-year in the normal course of Operations. This funding level includes allocations for the following:
 - a. Emergency Response. Provides the financial capacity to ensure the continuation of essential public services during and after emergencies resulting from natural and man-made disasters. This reservation shall be classified as assigned.
 - b. Stabilization. Provides financial resources protecting against the need to reduce service levels or raise taxes due to adverse financial or economic circumstances, and allows the City to take advantage of unplanned extraordinary opportunities. This reservation shall be classified as unassigned.
 - c. Working Capital. Provides funding to ensure adequate resources to deliver essential public services during all periods in the City's annual revenue and expenditure cycle. This reservation shall be classified as unassigned.

The minimum target of the unrestricted fund balance at the end of the five-year financial planning period is 15%.

- 5. Monitoring and Reporting - The City Manager and Chief Financial Officer shall annually prepare a report documenting the status of fund balance in comparison with the target established in this policy, and present information relating to fund balance in conjunction with development of the City's five-year financial forecast and annual Operating budget.
- 6. Replenishment of Unrestricted Fund Balance - If it is anticipated at the completion of any fiscal year that the projected or estimated amount of unrestricted fund balance will be less than the minimum established target, then the City Manager shall prepare and submit in conjunction with the five-year financial plan a plan for the expenditures or expense

reduction and/or revenue increases necessary to restore the minimum target amount within the five-year planning period.

SECTION 5. FINANCIAL ACCOUNTING AND REPORTING.

General Policies

1. The City will adhere to generally accepted accounting practices (GAAP) and pronouncements by the Government Accounting Standards Board (GASB).
2. The City will adhere to a policy of full and open public disclosure of all financial activity and information. The City will strive to provide timely transparent financial information which is easily accessible by the public.

Expenditure Accountability

1. The City will maintain a budgetary control system and will produce interim financial reports that measure actual revenues and expenditures compared to budgeted revenues and expenditures.
 - a. Regular monthly, quarterly and annual reports will present a summary of financial information by major fund and activity type.
 - b. Each year, the City will employ an independent public accounting firm to perform the annual audit.
2. Expenditures will be controlled by appropriate internal controls and procedures for processing invoices for payment. Expenditures will be accounted for in the proper accounts.
3. The City shall maintain a system for monitoring the City's expenditure performance in relation to budget. Periodic reports will provide budget to actual comparisons.
 - a. Department directors will have primary responsibility for ensuring expenditures adhere with the appropriations made through the budget process.
 - b. The Finance Department and City Manager's Office will monitor the City's financial position by cost center, department and fund, including revenues and expenditures, in relation to the adopted budget and most current long-term financial forecast.
4. If adjustments are needed in the City's planned expenditures in order to ensure the City's long-term financial sustainability, the City Manager, at his or her discretion, will:
 - a. administratively adjust annual budget allocations, or
 - b. will provide information to the Governing Body regarding options for expenditures adjustments.

SECTION 6. COORDINATION AND REVIEW.

The staff shall take care to ensure that the provisions of this policy are effectively implemented. Whenever the City Manager determines that there is a conflict between this policy and other more specific Governing Body policies involving the Operating budget, Maintenance or Capital Improvement planning or financing, that conflict shall be brought to the attention of the Finance, Administration and Economic Development Committee for a recommendation to the Governing Body.

The Finance, Administration and Economic Development Committee shall review these rules, procedures and protocols at least once every two years.

RESOLUTION NOS. 2367 and 2380 are hereby rescinded.

ADOPTED by the Governing Body of Overland Park, Kansas, this 5th day of March, 2012.

Carl Gerlach, Mayor

ATTEST:

Marian Cook, City Clerk

APPROVED AS TO FORM:

Michael R. Santos, City Attorney