



Legislation Details (With Text)

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Title: Sponsor: Mayor Quinton Lucas
 COMMITTEE SUBSTITUTE

Amending Chapter 2, Code of Ordinances, by repealing Section 2-1954 entitled “Fund balance and reserve policy” and enacting in lieu thereof a section of like number and subject matter; and directing the City Manager to require compliance with City partner agency policies for all relevant City contracts entered into or renewed.

Sponsors: Quinton Lucas, Andrea Bough

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| 1/9/2025 | 2 | Council | Move to Amend | Pass |
| 1/9/2025 | 2 | Council | Move to Advance | Pass |
| 1/9/2025 | 2 | Council | Passed as Substituted as Amended | Pass |
| 12/19/2024 | 1 | Council | Held on Docket | |
| 12/17/2024 | 1 | Finance, Governance and Public Safety Committee | Adv and Do Pass as Cmte Sub, Debate | Pass |
| 12/12/2024 | 1 | Council | referred | |

[COMMITTEE SUBSTITUTE FOR]ORDINANCE NO. 241071, AS AMENDED

Sponsor: Mayor Quinton Lucas
COMMITTEE SUBSTITUTE

Amending Chapter 2, Code of Ordinances, by repealing Section 2-1954 entitled “Fund balance and reserve policy” and enacting in lieu thereof a section of like number and subject matter; and directing the City Manager to require compliance with City partner agency policies for all relevant City contracts entered into or renewed.

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 expenditure growth exceeding revenue growth in the General Fund; and

WHEREAS, the City Council desires to maintain a prudent level of financial reserves to guard its

citizens against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures, such as those seen in 2020 and 2021; and

WHEREAS, maintaining a strong fund balance can be critical in weathering an economic downturn, emergency capital repairs, or volatile revenue or unexpected expenditure; and

WHEREAS, fund balance is a focal point of credit rating agencies and investors; when governments maintain more fund balance, they are viewed more favorably and can achieve lower borrowing costs; and

WHEREAS, the Government Finance Officers Association (GFOA) recommends, at a minimum, no less than two months of regular general fund operating revenues or regular general fund operating expenditures for reserves and that local governments undertake a risk-based review of required reserves; and

WHEREAS, the City's regular general fund, special revenue funds, proprietary funds, debt service funds, capital projects funds, and partner agency reserve funds may from time to time exceed the required minimum floor for each respective fund; and

WHEREAS, strong fiscal policy can guide expenditures of respective revenue funds when a balance above the required minimum floor exists; and

WHEREAS, the City Council desires to promulgate a fiscally prudent set of requirements for the expenditures of fund balances above the required minimum floor in respective accounts to ensure the City's ongoing ability to meet future fiscal challenges while providing for proper expenditure of taxpayer funds on behalf of residents and taxpayers alike; NOW, THEREFORE,

BE IT ORDAINED BY THE COUNCIL OF KANSAS CITY:

Section 1. That Chapter 2, Code of Ordinances, is hereby amended by repealing Section 2-1954 entitled "Fund balance and reserve policy" and enacting in lieu thereof a section of like number and subject matter 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 requirements of the 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 non-spendable and restricted 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 in accordance with GASB Statement No. 54.
- (5) To establish procedures for use of fund balances or reserves if above recommended levels.

(e) *Glossary.*

- (1) *Fund balance/reserves.* Accumulated operating surpluses and deficits less an allowance for encumbrances or contractual obligations. At fiscal year end, the GAAP basis financial statements will reflect fund balance as the difference between a fund's assets plus deferred outflows of resources and its liabilities plus deferred inflows of resources.
- (2) *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.
- (3) *Nonspendable fund balance.* Amounts that are not in spendable form (e.g. inventories, receivables, advances, etc.).
- (4) *Restricted fund balance.* Amounts that can only be spent for specific purposes as stipulated by external resource providers such as grantors, bondholders, contributors, laws or regulations of other governments, or through constitutional provisions or enabling legislation.
- (5) *Committed fund balance.* Amounts that can only be used for specific purposes pursuant to constraints imposed by a formal action of the city council.
- (6) *Assigned fund balance.* Amounts intended to be used by the city for specific purposes as delegated to the director of finance - including for the purpose of preventing the General Fund from ending the fiscal year with a negative unassigned fund balance. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted, committed, or unassigned to reflect that resources in these funds are to be used for the purpose of that fund.

(7) *Unassigned fund balance.* Represents the remaining amount of fund balance in the General Fund which has not been classified as nonspendable, restricted, committed or assigned.

(8) *Special revenue funds.* Account for specific revenues that are legally restricted to expenditures for specified purposes.

(f) *Guidelines.*

(1) *Annual financial reporting.* Financial reporting for fund balance will be handled pursuant to GASB Statement No. 54 and in accordance with generally accepted accounting principles (GAAP).

(2) *General Fund*

(A) *Minimum unassigned reserve.* The city shall maintain an unassigned General Fund reserve of not less than seventeen percent (17%) and not more than twenty-five percent (25%) of General Fund operating expenditures.

(B) *Use of reserves above 25%.* Reserves above 25% can be accessed only during the annual budget process, the quarterly budget analysis process pursuant to Section 2-1956, or if a state of emergency is declared pursuant to Section 50-155. In response to a request for use of reserves in this category, the Director of Finance will review the five year forecast and report on the anticipated impact of the use of reserves being considered. Reserves in this category can only be used for the following non-recurring purposes:

(i) To offset the loss or reduction in a major revenue source.

(ii) To provide necessary departmental appropriations as identified and reported in the quarterly budget analysis process pursuant to Section 2-1956.

(iii) To make additional contributions toward employee pension, other post-employment benefits (OPEB), or healthcare liabilities or establish specific reserves related thereto.

(iv) To establish and maintain a self-insurance reserve as may be recommended by the City's Risk Management Committee.

(v) To fund capital improvement projects or capital maintenance projects which have been determined to be a priority based on the scores established pursuant to the Capital Asset Scoring Policy (Section 2-1957, Code of Ordinances) but have not yet been funded.

(vi) To reduce planned borrowing for approved projects in the most recent Five-Year Financial Plan.

(vii) To prepay outstanding debt.

(viii) To set aside resources for existing unfunded mandates (i.e., Climate Action Plan,

Americans with Disabilities Act consent decree, etc.).

(C) *Use of reserves above 17% and below 25%.*

- (i) Reserves in this category are not flexible and should only be used to offset revenue shortfalls and extraordinary expenditure demands. In response to a request for the use of reserves in this category, the Director of Finance will provide an update to the five-year forecast reflective of the latest economic conditions providing a long-term outlook of the fiscal health of the General Fund and anticipated impact of the use of reserves being considered.

(D) *Use of reserves below 17%.* Reserves below 17% should ideally never be used and only when responding to severe economic crisis or state of emergency.

- (3) *Replenishment of reserves.* Any use of reserves below the 25% target should be accompanied by a replenishment plan. The director of finance will prepare and present to the city council a plan to replenish the reserve. The city council must approve and adopt a plan within 12 months after the reserve is estimated to fall below 25%, which establishes a time frame to restore the reserve to, at minimum, 25%.

(4) *Special Revenue Funds.*

- (A) Special revenue fund reserves should be completely exhausted before the General Fund is used to cover negative special revenue fund reserve balances. Reserves for certain special revenue funds will be maintained to protect against economic volatility.

- (B) The following special revenue funds support departments or essential operations/services and shall maintain the following reserve levels:

- (i) *Parks Sales Tax Fund.* The Parks Sales Tax Fund shall maintain a minimum reserve of sixteen percent (16%). Amounts above 16% may be used for capital maintenance in accordance with an adopted five-year capital improvement plan for the Parks and Recreation Department or extraordinary operational emergency of the Parks and Recreation Department.

- (ii) *Health Fund.* The Health Fund shall maintain a minimum reserve of eight percent (8%). Amounts above 8% may be used for extraordinary operational emergency of the Health Department. The Health Fund reserve target is lower because of statutory protection against revenue shortfall.

- (iii) *Street Maintenance Fund.* The Street Maintenance Fund shall maintain a minimum reserve of eight percent (8%). Amounts above 8% may be used for extraordinary operational emergencies consistent with the purposes of the fund including capital improvement projects or capital maintenance projects which have been determined to be a priority based on the scores established pursuant to an appropriate capital asset scoring policy but have not yet been funded.

- (iv) *Convention and Tourism Fund.* The Convention and Tourism Fund shall maintain a minimum reserve of sixteen percent (16%). Amounts above 16% may

be used for capital maintenance in accordance with an adopted five-year capital improvement plan for the Convention and Entertainment Facilities Department or an extraordinary operational emergency of the Convention and Entertainment Facilities Department.

(v) *Public Mass Transportation Fund.* The Public Mass Transportation Fund shall maintain a minimum reserve of eight percent (8%). Amounts above 8% may be used for extraordinary operational emergencies consistent with the purposes of the fund.

(vi) *Fee-Based Funds.* Funds with a primary revenue source comprised of fees (e.g., Development Services, Golf, Parking, Municipal Court fee funds) shall maintain a minimum reserve of eight percent (8%). Amounts above 8% may be used for extraordinary operational emergencies consistent with the purposes of the fund.

(C) Special revenue funds not specifically listed have no minimum reserve target.

(5) *Proprietary funds.* Each proprietary fund shall strive to maintain an unassigned fund balance equal to, at minimum, two 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.

(6) *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 annual budget ordinance shall contain an appropriation of two percent of the estimated capital improvements sales tax fund revenues as a contingent appropriation for capital grant matches and project cost overruns. Contingency funds will be considered for capital improvement projects or capital maintenance projects which have been determined to be a priority based on the scores established pursuant to the Capital Asset Scoring Policy (Section 2-1957, Code of Ordinances).

(7) *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.

- (8) *Claims and workers compensation funds.* The claims and workers compensation funds are used to cover general liability claims, automobile liability, fire coverage, public official liability claims, and workers' compensation claims on city employees. The city shall seek to establish and maintain a self-insurance reserve as recommended by the City's Risk Management Committee.
- (9) *City partner agencies.* The following City partner agencies shall maintain minimum fund balance requirements as described in this subsection. To the extent City partner agencies are not in compliance with the stated minimum fund balance requirements, the City Manager shall require the agency to develop and implement a plan of compliance as a condition of contract renewal or renegotiation. Additional funding requests above those required by state statute, City Charter, or Code of Ordinances will not be honored for partner agencies with reserves which exceed the fund balance target.
- (A) *Starlight Theater Association of Kansas City, Inc.* The Starlight Theater Association shall maintain a fund balance of no less than seventeen percent (17%) of operating expenditures.
- (B) *National WWI Museum and Memorial.* The National WWI Museum and Memorial shall maintain a fund balance of no less than seventeen percent (17%) of operating expenditures.
- (C) *Convention and Visitors Bureau (VisitKC).* Any not-for-profit organization contracting with the City to serve as a promotional, convention, visitors and tourist center pursuant to RSMo. § 92.336 shall maintain a fund balance of no less than seventeen percent (17%) of operating expenditures.
- (D) *Friends of the Zoo.* Friends of the Zoo shall maintain a fund balance of no less than seventeen percent (17%) of operating expenditures.
- (E) *Kansas City Museum Foundation.* The Kansas City Museum Foundation shall maintain a fund balance of no less than seventeen percent (17%) of operating expenditures.
- (F) *Kansas City Area Transportation Authority.* The Kansas City Area Transportation Authority shall maintain a fund balance of no less than seventeen percent (17%) of operating expenditures.
- (G) *Kansas City Streetcar Authority.* The Kansas City Streetcar Authority shall maintain a fund balance of no less than seventeen percent (17%) of operating expenditures.
- (H) *Kansas City Pet Project/Kansas City Campus for Animal Care.* The Kansas City Pet Project/Kansas City Campus for Animal Care shall maintain a fund balance of no less than seventeen percent (17%) of operating expenditures.
- (I) *American Jazz Museum.* The American Jazz Museum shall maintain a fund balance of no less than seventeen percent (17%) of operating expenditures.

- (J) *Negro Leagues Baseball Museum*. The Negro Leagues Baseball Museum shall maintain a fund balance of no less than seventeen percent (17%) of operating expenditures.
- (K) *Economic Development Corporation*. The Economic Development Corporation shall maintain a fund balance of no less than seventeen percent (17%) of operating expenditures.
- (L) *Black Archives of Mid-America*. The Black Archives of Mid-America shall maintain a fund balance of no less than seventeen percent (17%) of operating expenditures.
- (10) *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. Any organization contracting with the City pursuant to RSMO Section 92.336 shall maintain funding subject to contractual agreements with the City. For waivers related to the startup costs of recurring programs, this policy shall only be waived if the program will be supported by a commensurate increase in revenue or a decrease in expenditures.

Section 2. That the City Manager is hereby directed to require compliance with Code Section 2-1954(f) (9), City partner agencies, in all relevant contracts entered into or renewed after the effective date of this Ordinance.

Approved as to form:

Samuel Miller
Assistant City Attorney