

**RESOLUTION NO. 2016-16**

A RESOLUTION OF THE GOVERNING BODY OF THE CITY OF BALDWIN CITY MODIFYING THE UTILITY FUND BALANCE AND RESERVE POLICY.

**WHEREAS**, fund balance measures the net financial resources available to finance expenditures of future periods; and

**WHEREAS**, rating agencies examine fund balance when considering the overall economic health and credit quality of the City; and

**WHEREAS**, maintaining an adequate amount of reserves to protect the City's ability to provide reliable electric, water, and sewer service during period of cost uncertainties, reductions in sales due to weather or a sluggish economy, volatile energy prices, and rising capital improvement costs while maintaining stable rates; and


**WHEREAS**, it is important for utilities to maintain the financial flexibility to smooth rate increases and stagger rate adjustments for customers of the utility.

**NOW, THEREFORE, BE IT RESOLVED** by the Governing Body of the City of Baldwin City, Kansas, that:

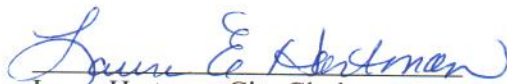
Section 1. The City adopts the Modified Utility Fund Balance and Reserve Policy as attached.

**ADOPTED AND APPROVED** by the Governing Body of the City of Baldwin City, Kansas on August 15, 2016.

APPROVED:

  
Marilyn Pearce, Mayor

ATTEST:

  
Laura Hartman, City Clerk

# CITY OF BALDWIN CITY, KS

## Utility Fund Balance and Reserve Policy

*Fund balance measures the net financial resources available to finance expenditures of future periods. Rating agencies examine fund balance when considering the overall economic health and credit quality of the City. Maintaining an adequate amount of reserves protect the City's ability to provide reliable electric, water and sewer service during periods of cost uncertainties, reductions in sales due to weather or a sluggish economy, volatile energy prices, and rising capital improvement costs while maintaining stable rates. It is important for utilities to maintain the financial flexibility to smooth rate increases and stagger rate adjustments for customers of the utility.*

This policy shall address the minimum cash reserve requirements for the City's non-franchised enterprise funds which include electric, water, sewer, and refuse. The City may hold more money than the established minimum cash guidelines based on an assessment of uncertainties and other financial policies such as:

- Financial risk facing the systems
- Rate setting policies
- Variability in costs
- Debt policies
- Future capital improvements needed

The adequacy of the guidelines may be reviewed internally each year, and if appropriate, revised guidelines may be adopted. The cash reserve calculation shall be updated every year as part of the budget process. Any changes in expenses, debt and capital improvements will impact the cash reserve minimum.

### **Methodology:**

The methodology used to calculate minimum cash reserves for each system is based on certain assumptions related to direct costs, other operating expenditures, capital improvements, and large unexpected emergency expenditures. The goal of this fund balance policy is to ensure the following reserve thresholds are met:

- 25% of annual operating budget for the subsequent year in unreserved, unencumbered fund balance.
- 100% of the two subsequent year's budgeted/estimated debt service transfers. (The debt service transfer for the first subsequent year will be budgeted as part of the annual budget. The second subsequent year will be estimated based on debt service requirements less transfers from other funds.)
- 100% of the two subsequent years estimated capital improvement expenditures.

It is the goal of the City's utility to maintain at least 25% of its annual operating costs in unreserved, unencumbered fund balance. The ability of each utility to pay the debt service on all debt type obligations being critical, the debt service of the utility for the

next two years will also be set aside. In addition, this reserve policy also is intended to protect the approved capital improvement expenses by including a provision that the next two years of budgeted capital improvement expenditures also be set aside unless those improvements are meant to be paid by bond proceeds. For example, if the utility's annual operating expenses are \$2,000,000, debt service is scheduled at \$250,000 per year for the next two years and the last approved budget contains a total of \$100,000 in the capital improvement budget in the next two budget years, the goal of this policy is to maintain cash reserves in the amount of \$1,100,000 which would meet the operating threshold of 25% of the annual operating expenses, budgeted debt service for two years and two years of capital improvement expenses.

The above methodology attempts to quantify the minimum amount of cash the City should keep in reserve for each utility. The above minimum cash reserve calculation considers the utility's requirement "in total" and is not intended to represent the amount or limit for events occurring in each individual category.

**Other Policy Matters:**

- a. If certain events occur that results in any utility's cash reserves falling below the above minimum cash reserve levels, the City shall take action to restore the cash reserves to the minimum levels over not more than the subsequent five years. These action may include a number of options, including:
  1. Rate Adjustments
  2. Cost Reductions
  3. Issuance of bonds to fund capital improvement programs
  4. Modification of the assumptions used to determine the cash reserve levels
- b. The City shall maintain Debt Service Reserves for any utility according to the requirements as outlined in the bonding documents at any time that bonds are issued for capital projects and for which the debt service shall be paid from the revenues of the utility.
- c. Any unreserved Fund Balance in excess of the amounts set forth above shall be available for transfer. The actual amount of transfer shall be annually recommended by the Finance Director with the approval of the City Administrator. Due diligence shall be taken to leave sufficient funds available to cover anticipated expenditures at the beginning of the following year. It shall be the goal of City staff to maintain the threshold reserves as stated above. If that is not possible, the City Administrator shall make such recommendations to return the reserves to the stated levels as soon as possible.
- d. Funding which has been transferred into the utility system Reserve Funds shall be available for use in acquisition of equipment and capital projects as outlined in the five year Capital Improvement Plan. Funds may also be made available for use during unanticipated emergencies and disasters. In accordance with the State of Kansas' cash basis law, all reserve funds will be budgeted in such a way as to allow the reserve funds to be accessed with full budget authority by the State.

- e. Outside assistance from engineers or other professionals may occasionally be required in order to set future utility rates. These rates will be brought to City Council for approval via ordinance. However, the fund balance thresholds set by this policy shall be incorporated into any proposed rate structure put forth by the City Administrator or outside consultants.

Adopted by the Governing Body of the City of Baldwin City on 08-15, 2016.