



**REPUBLIC**  
M I S S O U R I

# FINANCIAL POLICIES

TO LEAD THE CITY'S EFFORTS TOWARDS  
FINANCIAL SUSTAINABILITY

APPROVED BY CITY COUNCIL

*December \_\_\_\_\_ 2020*





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# **1 ACCOUNTING, AUDITING AND FINANCIAL REPORTING POLICIES**

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## **1.1 ACCOUNTING POLICY**

This policy is intended to promote organized financial planning, budgeting, and accounting to assure disclosure of all financial transactions and to facilitate financial management and accountability by departments through financial reporting.

## **1.2 FINANCIAL POLICY UPDATE**

This policy will be reviewed and updated every two years or sooner if necessary.

## **1.3 FINANCIAL REPORTING**

The City will do the following to fulfill its financial reporting responsibilities:

- A. The fiscal year of the City is set by Ordinance in Article I, Section 135.010 which states “the fiscal year for the City of Republic shall begin January first (1st) of each year and all City budgets, audits and other statutory requirements shall be prepared on a January fiscal year and all required matters concerning same be required to use such dates for those statutory and other necessary purposes.”
- B. The City will use generally accepted accounting principles (GAAP) in all financial records and transactions. These principles are monitored and updated by the Governmental Accounting Standards Board (GASB).
- C. Establish a chart of accounts and maintain an accounting system to provide all the data needed to allow for the timely preparation of financial statements for the entire City in conformity with generally accepted accounting principles (GAAP).
- D. Prepare and publish monthly financial and operating reports to facilitate management, policy, and appropriate decisions by administration and elected officials as well as informing the Citizens of the finances of the City.

## **1.4 AUDIT**

The City will do the following to fulfill its audit responsibilities:

- A. The City’s Charter requires an independent financial audit under Article III, Section 3.10. This independent financial audit shall be performed by a certified public accounting firm, which will issue an opinion on the fair presentation of the annual financial statements in accordance with GAAP and a management letter detailing recommendations for improvement of the accounting systems and internal financial controls.

If the City receives more than \$750,000 in federal grant funds in a fiscal year, the City will have a Single Audit (formerly known as the OMB A-133 Audit).

- B. The independent auditor of the City, chosen by a request for qualifications and approved by the Council, should be contracted for a 5-year term to ensure the best competitive quotes in the selection process.
- C. Auditor selection. The City is encouraged to rotate auditors. The City should consider not renewing an auditor contract for more than two terms (maximum of 10 years).

## **1.5 CAPITAL ASSET ACCOUNTING POLICY**

The Capital Asset Policy is aimed to record and report monetary amounts associated with fixed asset acquisitions, transfers, and dispositions. In order to maintain adequate accountability and control over the City's capital assets and to report appropriate financial information, capital acquisitions (purchases or donations) of \$5,000 or more with a useful life of at least one (1) year will be recorded in the Fixed Asset Ledger and booked to the General Ledger. Certain assets will be added for management purposes regardless of cost. Items which cost less than \$5,000 and/or have a life of less than one year will be expensed upon acquisition. Repairs to assets that extend the useful life will be capitalized.

## **1.6 INTERNAL ACCOUNTING CONTROLS**

Accounting controls comprise the plan of organization and all the methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

The Finance Director and Administration are responsible for designing appropriate controls for the departments and the departments are responsible for implementation. Testing of the controls will be the responsibility of the external auditor and finance personnel. The cost of internal control should not exceed the benefits expected to be derived. Also, internal controls may become inadequate as conditions change requiring review and modification. Internal controls should be reviewed every two years and updated if necessary.

### ***Basic Elements of Accounting Control:***

- A. Financial Software Systems – procedures designed to provide control over the modification and maintenance of computer software; control over the use of and changes to the data contained in the software; access limitations for check writing and bank information.
- B. Segregation of Duties – procedures to detect errors and irregularities should be performed by persons other than those who are able to perpetrate them.
- C. Execution of Transactions – there is reasonable assurance that transactions are executed as authorized.
- D. Recording of Transactions – to permit preparation of financial statements. Transactions are recorded in the proper period, amounts, and classification.
- E. Access to Assets – both direct physical access and indirect access through preparation/processing of documents that authorize the use or disposition of assets be limited to authorized personnel.
- F. Comparison of Recorded Accountability with Assets – comparison of actual assets with the recorded accountability, such as bank reconciliations and physical inventory.



## **2 BUDGET AND PLANNING POLICIES**

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### **2.1 BUDGETARY POLICY**

The City's Charter in Article VII (Ord. No. 18-49, 1-8-2019), along with RSMo Sections 67.010 to 67.040 specify, the requirements that shall be included in the annual budget.

In addition to the established budget requirements, the following general budget policies will be established through this fiscal policy and guide the annual budgeting process.

- A. Maintain an appropriate level of general government services funded from current revenues.
- B. Maintain the unrestricted fund balance at a minimum level equivalent to a range of 120-180-day operating budget as originally adopted for any given year.
- C. Maintain competitive salaries while addressing the need for priority service improvements to the community.

### **2.2 BALANCED BUDGET**

The City strives to develop a financial plan that protects the long-term financial health of the City and continued delivery of services by ensuring that the reliability of the funding sources are matched to support the duration of the expenditure.

The City shall annually adopt by ordinance a balanced budget where operating revenues are equal to, or exceed, operating expenditures. Fund balance should not be considered a source of funds for base operating expenditures/expenses. Any increase in expenses, decrease in revenues, or combination of the two that would result in a budget imbalance will require budget revision, rather than spending unappropriated surpluses or designated reserves to support on-going operations. Any year end operating surpluses will revert to unappropriated balances for use in maintaining reserve levels set by policy and the balance will be available for capital projects and/or "one-time only" operating expenditures in accordance to the fund reserve policy. Nothing in this policy shall prohibit the use of operating revenues for capital expenditures/expenses.

### **2.3 BUDGET CALENDAR**

The budget preparation calendar is crucial for the successful preparation and execution of the City's annual budget. The calendar defines the timeline for the budget and indicates major and minor milestones for all parties involved.

The City budgets resources for all funds on a fiscal year basis, which begins January 1<sup>st</sup> and ends on December 31<sup>st</sup>.

The City will conduct budget workshops and distribute draft budgets to Council in October preceding the fiscal year.

The City shall adopt the budget as required under the City's Charter and Ordinances, and Section 67.030, RSMo.

## **2.4 BUDGETARY CONTROL AND MANAGEMENT**

A budget control system ensures that actual expenditures do not exceed budgeted expenditures as set forth in the budget. Regular reporting of actual versus budgeted revenues and expenditures is essential to a budgetary control system and allows the City to take corrective action if actual numbers vary significantly from budgeted numbers.

Operating budget control is maintained at the department level by funds. Department Directors are given broad authority to control their budgets and make changes indicated to meet program objectives and performance goals. All capital projects are controlled at the project level. In no case may total expenditures of a department or fund exceed that which is appropriated by the Council without a specific recommendation by the City Administrator or his designee and the approval of City Council.

Department directors are provided enough authority and flexibility to make budget transfers in order to facilitate the achievement of assigned objectives and to respond to changing needs. Within that flexibility, the following budget controls have been implemented and will be adhered to by all departments:

- A. Department directors are responsible for informing the City Administrator or designee who shall then inform the Mayor and Council of material transfers within and between cost or revenue categories. Material transfers between expense categories will be defined as \$20,000 and will be reported in the Budget Amendment process.
- B. Budget transfers from personnel accounts to other operating accounts can only be made for the purpose of supporting one-time costs.
- C. Budget transfers within and from equipment/capital accounts can only be made for the purpose of supporting other one-time costs and must not result in increased replacement of operating costs in subsequent fiscal years.
- D. Departments may not exceed their approved full-time equivalent position count or take actions that would exceed their approved full-time equivalent position count without approval of the City Administrator and through the budget amendment process if the costs exceed the budgeted amount. This does not prohibit departments from eliminating FTE positions in the year with the approval of the City Administrator.
- E. All budgetary appropriations shall lapse at the end of the budget year to the extent that they have not been expended or lawfully encumbered.

## **2.5 BUDGET DOCUMENT**

RSMo 67.010 outlines requirements of the annual budget. The City will include the following in the budget document to be approved by Council:

- A. A budget message describing the important features of the budget and major changes from the preceding year.
- B. Estimated revenues to be received from all sources for the budget year, with a comparative statement of actual or estimated revenues for the 2 years next preceding, itemized by year, fund, and source.



- C. Proposed expenditures for each department and other classification for the budget year, together with a comparative statement of actual or estimated expenditures for the next 2 years proceeding, itemized by year, fund, activity, and object.
- D. The amount required for the payment of interest, amortization, and redemption charges on the debt of the City.
- E. A general budget summary.

## **2.6 BUDGET AMENDMENTS**

The Council under Article VII of the Charter and RSMo Section 67.010-67.050 has the power to change appropriations after the budget has been adopted by Ordinance.

## **2.7 STRATEGIC AND FINANCIAL PLANNING**

The City will develop an annual budget in accordance with the policies and priorities set forth in the comprehensive plan, capital improvement program, long-term financial plan, needs of the community, and federal and state laws. Program and project priorities and service levels will be established by the aforementioned plans.



## **3 CASH MANAGEMENT AND INVESTMENT POLICIES**

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### **3.1 DEPOSIT OF FUNDS**

This policy is intended to ensure accurate, efficient, timely and consistent processing of all funds received by the City.

The finance department shall manage the receipt and deposit of City funds in the following manner:

- A. Cash/checks shall be delivered to the finance department daily for deposit. Any department that is unable to bring the funds to the finance department will need to make arrangements for the funds to be picked up by finance staff.
- B. Assure that the monies are allocated to the correct revenue accounts.
- C. Assure that the documentation accompanying the deposit is accurate.
- D. Cash/checks shall be deposited into the city's banking institution daily. Funds that come in after the daily deposit will be secured in the City vault.

### **3.2 INTERNAL CASH CONTROL**

This policy is intended to provide effective internal cash control for the safekeeping and effective processing of all funds received by the City.

It is the policy of the City for all money collected by an employee of the City to transfer those funds to the Finance Department as defined in the Deposit of Funds policy.

The Finance Department will establish standard internal controls that are to be followed by departments responsible for cash management and that focus on the following listed controls:

- A. Segregation of duties – authorization, recordation, custodian functions and reconciliation.
- B. Daily processing – daily cash/collection total reconciled and to subsequent deposit.
- C. Timely deposit of funds received – daily processing procedures including inter-department transportation and daily deposit to designated depositories.
- D. Reconciliation to the general ledger and other supporting accounting ledgers performed in a timely manner.
- E. Physical security procedures during work hours and non-working hours for all funds received and cash drawers maintained.
- F. The use of automated system resources where practical to provide better processing and reconciliation support as well as providing a more efficient and effective manner to manage receipts.

### **3.3 INVESTMENT POLICY**

This policy applies to the investment of all operating funds of the City of Republic, including financing proceeds

### **Pooling of Funds**

Except for cash in certain restricted and special funds, the City of Republic will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds on their respective participation and in accordance with generally accepted accounting principles.

### **External Management of Funds**

Investment through external programs, facilities and professionals operating in a manner consistent with this policy will constitute compliance.

#### **3.3.1 Delegation of Authority**

Authority to manage the investment program is granted to the Finance Director, hereinafter referred to as investment officer and derived from Missouri Revised Statute 30.270. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with the established written procedures and internal controls for the operation of the investment program consistent with this investment policy.

- A. Procedures should include reference to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

#### **3.3.2 General Objectives**

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

- A. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

1. Credit Risk

The City of Republic will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City of Republic will do business.
- Diversifying the portfolio so that potential losses on individual securities will be minimized.

2. Interest Rate Risk

The City of Republic will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities.

B. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in bank deposits or repurchase agreements that offer same-day liquidity for short-term funds.

C. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

**3.3.3 Prudence**

- A. All participants in the investment process shall act responsibly as custodians of the public trust.
- B. The standard of prudence to be applied by the personnel of the Investment Division is the “prudent investor” rule, which states, “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probably safety of their capital as well as the probable income to be derived.”

**3.3.4 Ethics and Conflicts of Interest**

- A. Officers and employees involved in the investment process shall refrain from any personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.
- B. Employees and investment officials shall disclose to the City Administrator any material interests in financial institutions with which they conduct business.
- C. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.
- D. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the City of Republic.

### 3.3.5 Investment Transactions

#### A. Authorized Financial Dealers and Institutions

A list will be maintained of financial institutions authorized to provide investment transactions. In addition, a list also will be maintained of approved security broker/dealers selected by credit worthiness as determined by the investment officer and approved by the governing body. These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements.
- Proof of Financial Industry Regulatory Authority (FINRA) certification.
- Proof of state registration.
- Completed broker/dealer questionnaire.
- Certification of having read and understood and agreeing to comply with the City of Republic’s investment policy.

#### B. Internal Controls

- 1.) The Finance Director is responsible for establishing and maintaining an internal control structure that will be reviewed annually with the City of Republic’s independent auditor.
- 2.) The internal control structure shall be designed to ensure that the assets of the City of Republic are protected from loss, theft or misuse and to provide reasonable assurances that these objectives are met.
- 3.) The concept of reasonable assurance recognizes that (1) the cost of the control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgements by management.
- 4.) The internal controls shall address the following points:
  - a. Control of collusion.
  - b. Separations of transaction authority from accounting and record keeping
  - c. Custodial safekeeping.
  - d. Avoidance of physical delivery securities.
  - e. Clear delegation of authority to subordinate staff members.
  - f. Written confirmation of transactions for investment and wire transfers.
  - g. Development of a wire transfer agreement with the lead bank and third-party custodian.

#### C. Delivery vs. Payment

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in eligible financial institutions prior to the release of funds. All securities shall be perfected in the name of the account of the City of Republic and shall be held by a third-party custodian as evidenced by safekeeping receipts.

### 3.3.6 Suitable and Authorized Instruments

#### A. Investment types

In accordance with and subject to restrictions imposed by current statutes, the following list represents the entire range of investments that the City of Republic will consider, and which shall be authorized for the investments of funds by the City of Republic.

- 1.) **Governmental and Agency Debt** – those securities issued by and or guaranteed by the Federal Government or an Agency or Instrumentality of the Federal Government:
  - a. **United States Treasury Securities.** The City of Republic may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.
  - b. **United States Agency Securities.** The City of Republic may invest in obligations issued or guaranteed by any agency of the United States Government as described in 3.3.6 (B).
- 2.) **Fixed Income Investments secured by the FDIC insurance and/or Collateral:**
  - a. **Repurchase Agreements.** The City of Republic may invest in contractual agreements between the City of Republic and commercial banks or primary government securities dealers. The purchaser in a repurchase agreement (repo) enters into a contractual agreement to purchase U.S. Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices.
  - b. **Collateralized Public Deposits (Certificates of Deposit).** Instruments issued by financial institutions which state that specified sums have been deposited for specific periods of time and at specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as dictated by State statute.

#### B. Security Selection

The Following list represents the entire range of United States Agency Securities that the City of Republic will consider, and which shall be authorized for the investment of funds by the City of Republic. Additionally, the following definitions and guidelines should be used in purchasing the instruments:

- U.S. Govt. Agency Coupon and Zero-Coupon securities. Bullet coupon bonds with no embedded options with maturities of five (5) years or less.
- U.S. Govt. Agency Discount Notes. Purchased at a discount with maximum maturities of one (1) year.
- U.S. Govt. Agency Callable Securities. Restricted to securities callable at par only with final maturities of five (5) years or less.

- U.S. Govt. Agency Step-up Securities. The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new higher fixed term. Restricted to securities with final maturities of five (5) years or less.

### **C. Investment Restrictions and Prohibited Transactions**

To provide for the safety and liquidity of the City of Republic's funds, the investment portfolio will be subject to the following restrictions:

- Borrowing for investment purposes ("Leverage") is prohibited.
- Instruments known as variable rate demand notes, floaters, inverse floaters, leveraged floaters, and equity-linked securities are not permitted. Investment in any instrument, which is commonly considered a "derivative" instrument (e.g. options, futures, swaps, caps, floors, and collars), is prohibited.
- Contracting to sell securities not yet acquired in order to purchase other securities for purpose of speculating on developments or trends in the market is prohibited.

### **D. Collateralization**

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. The market value (including accrued interest) of the collateral should be at least 100%.

For certificates of deposit, the market value of collateral must be at least 100% or greater of the amount of certificates of deposits plus demand deposits with the depository, less the amount, if any, which is insured by the Federal Deposit Insurance Corporation, or the National Credit Unions Share Insurance Fund.

All securities, which serve as collateral against the deposits of a depository institution, must be safekept at a non-affiliated custodial facility. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish the necessary custodial receipts with five business days from the settlement date.

The City of Republic shall have a depository contract and pledge agreement with each safekeeping bank will comply with the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 (FIRREA). This will ensure that the City of Republic's security interest in collateral pledged to secure deposits is enforceable against the receiver of a failed financial institution.

### **E. Repurchase Agreements**

These securities for which repurchase agreements will be transacted will be limited to U.S. Treasury and government agency securities that are eligible to be delivered via the Federal Reserve Fedwire book entry system. Securities will be delivered to the City of Republic's designated Custodial Agent. Funds and securities will be transferred on a delivery vs. payment basis.

### 3.3.7 Investment Parameters

#### A. Diversification

The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

- U.S. treasuries and securities having principal and/or interest guaranteed by the U.S. government.....100%
- Collateralized time and demand deposits.....100%
- US Government agencies, and government sponsored enterprises.....no more than 70%
- Collateralization repurchase agreements.....no more than 50%
- U.S. Government agency callable securities.....no more than 50%

#### B. Maximum Maturities

To the extent possible, the City of Republic shall attempt to match its investments with anticipated cash flow requirements. Investments in repurchase agreements shall mature and become payable not more than ninety days (90) from the date of purchase. The City of Republic shall adopt weighted maturity limitations that should not exceed three (3) years and is consistent with the investment objectives.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as in bank deposits or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

### 3.3.8 Reporting

#### A. Methods

The investment officer shall prepare an investment report on a monthly basis, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the City of Republic to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the governing body of the City of Republic. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration (in accordance with Government Accounting Standards Board (GASB) 31 requirements.) [Note, this is only an annual requirement]



- Listing of investments by maturity date.
- Percentage of the total portfolio which each type of investment represents.

**B. Performance Standards**

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks may be established against which portfolio performance shall be compared on a regular basis.

**C. Marking to Market**

The market value of the portfolio shall be calculated both monthly and quarterly and a statement of the market value of the portfolio shall be issued at least annually to the governing body of the City of Republic. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

### **3.3.9 Policy Considerations**

**Exemption**

Any investment currently held that does not meet the guidelines of this policy shall be exempt from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.



## **4 CAPITAL ASSET POLICIES**

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Capital assets shall be approved through the budget and must be included in the 5-Year capital improvement program. The Finance Director will send out a notice to proceed during the budget year. Capital purchases shall be delayed until the second half of the budget year to ensure revenue targets and budgetary compliance. Capital assets with dedicated revenues or funding sources may be purchased early in the budget year with Finance Director approval. Exceptions to this policy can be made on a case by case basis with City Administrator or Finance Director approval.



## 5 DEBT POLICIES

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### 5.1 INCURRING DEBT

- 5.1.1 The City will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues.
- 5.1.2 The City will not use long-term debt for current operations or normal maintenance.
- 5.1.3 Indebtedness beyond City's annual appropriations is limited by Sections 95.115 and 95.120 of the Missouri Revised Statutes to 10% of the assessed value of taxable tangible property and subject to voter approval. The City may, subject to voter approval, incur additional debt for certain infrastructural improvements as described in Section 95.125 of the Missouri Revised Statutes up to another 10% of the assessed value of taxable tangible property. All financing including debt issuances and capital leases are coordinated through the Finance Department and require City Administrator and Council approval.
- 5.1.4 Annually, in conjunction with the Capital Improvement Plan, a five-year budget will be developed analyzing all anticipated capital expenditures along with existing and anticipated debt service requirements by year and identify associated funding sources. The City shall not incur any additional debt unless and until all five years of such analysis demonstrate the maintenance of the following ratios in addition to the legal limits.

- A. For enterprise type funds an overall debt service ratio (annual net operating revenues to annual debt service) of no less than 1.20 in the fund for which the debt would be incurred with a similar outlook beyond the five-year horizon to the maturity shall be maintained.

Example:

Step 1 – Figure Net Operating Income (NOI) – Revenues – Operating Expense

Wastewater Fund \$3,000,000 Revenue - \$1,500,000 Operating Expense = \$1,500,000

Step 2 – Figure Debt Payment Ratio NOI/debt payment from Step 1

Debt payment is \$1,500,000/\$1,200,000 = 1.25 below the threshold.

Debt payment is \$1,500,000/\$1,000,000 = 1.50 above the threshold.

- B. For governmental type funds, the debt schedule shall demonstrate maintenance of the following ratios:
- 1.) Total net governmental funds debt shall be no more than 140% of total governmental funds revenues.

## **5.2 TYPES OF DEBT**

- 5.2.1 Where possible, the City will consider using special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.
- 5.2.2 Subject to the provisions of the law, the City may issue with Council specific approval, general obligation bonds, revenue bonds, special obligation bonds, notes and leases (including certificates of participation). Council's specific approval by Ordinance is required for all debt issued in the name of the City including those initiated by separate boards, commissions, or legislative bodies.
- 5.2.3 Financing of capitalized interest shall only be used when incurred in the connection of construction of revenue producing assets in an enterprise fund.

## **5.3 DEBT TERMS**

- 5.3.1 All debt issued, including the use of a lease-purchase method, will be repaid within a period not to exceed the expected useful lives of the improvements financed by the debt.

## **5.4 DEBT REFINANCING**

- 5.4.1 At least annually in conjunction with the preparation of the budget, capital improvement plan, and debt service requirement schedules, management shall review all outstanding debt in order to determine if any refunding opportunities should be considered. Potential refunding opportunities that would represent a present value savings of 3% or more shall be presented to Council with a recommendation as to the appropriateness and timing considerations of such opportunity from the City Administrator with the assistance of the Finance Director and outside financial and legal advisors. Refunding opportunities would present in years with favorable interest rates. The review would evaluate the cost of refunding in with the interest rate savings to determine the percentage of savings. Due to the cost and time associated with refunding it not usually beneficial to refund under the 3% savings unless such debt is currently callable.
- 5.4.2 For the purpose of refunding, extending and unifying the whole or any part of its valid outstanding bonds, the City may issue refunding bonds not exceeding in amount the principal of the outstanding bonds to be refunded and the accrued interest to the date of such refunding bonds or other legally permissible amount.

## **5.5 BOND COUNSEL & REQUIRED REPORTING**

The City's policy shall be to manage its budget and financial affairs in such a way as to ensure high bond ratings. Towards this end, the City may employ the services of a Municipal Advisor registered with the Securities and Exchange Commission to advise management and council on such matters.

City policy shall be to ensure that all post issuance disclosure and other requirements such as arbitrage liability calculations are adhered to. The use of professional advisors, with specific expertise and experience in these areas, to assist management with these duties is encouraged.

The City will maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus.

## **5.6 VOTE REQUIRED FOR ISSUANCE OF BONDS**

A vote shall be required prior to the issuance of any bonds of the City if required by the State of Missouri Constitution or other applicable law. The proposed issuance shall be approved by the City Administrator and City Council prior to the election for the issuance of bonds.

### **5.6.1 Conduction of Election**

The notice of the Bond Issuance Election and election shall be conducted in a manner consistent with the State of Missouri laws and City Charter.

### **5.6.2 Debt Statement**

Prior to the adoption of an ordinance calling or providing for the holding of an election at which any question of incurring indebtedness shall be submitted, the Finance Director shall prepare and submit to the City Clerk a special debt statement which contains the following:

- A. The aggregate principal amount of all outstanding bonds and notes of the City.
- B. The amount of existing net indebtedness.
- C. The amount of new indebtedness after the issuance of the bonds authorized by such bond ordinance.
- D. The assessed valuation of taxable tangible property within the City as shown on the lasted completed assessment from the county.
- E. The aggregate principal amount of bonds and notes which the City may issue pursuant to law.

This debt statement, after approval by a majority of City Council, shall be published with the notice of the bond election.

## **5.7 DEBT PROCEEDS**

Any debt proceeds on hand shall be invested in accordance with the City's investment policies and the debt instrument until such funds are required.



## 6 RESERVE AND FUND BALANCE POLICIES

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### 6.1 OPERATING RESERVE POLICY

Need for an operating reserve policy: The City of Republic is subject to certain risks outside of its control. Due to these risks a risk assessment was performed. The highest risks are natural disasters, but other risks should be considered even if considered not as probable.

Risk Assessment – the following threats have been identified as possible (though not all are highly probable): economic downturn (loss of sales revenue), natural disasters (tornados, ice storms, and fires because of drought), civil unrest/influx of civilians (influx of civilians if earthquake in Eastern Missouri, national political issues leading to protests), pandemic.

Definition: Fund Balance is generally the difference between its assets and its liabilities. An accounting distinction is made between the portion of fund balance that is spendable and nonspendable.

For the purpose of determining the fund balance for the operating reserve, there are five categories of fund balance:

- 1) Non-spendable fund balance – includes amounts that are not in a spendable form or are required to be maintained intact. An example is inventory.
- 2) Restricted fund balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include court bonds and customer deposits.
- 3) Committed fund balance – includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- 4) Assigned fund balance – comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balances represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- 5) Unassigned fund balance – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

The operating reserve is to be maintained in the unassigned fund balance. In the case of an emergency, Council through the budget process can reallocate the use of committed funds (example police equipment reserve) to unassigned funds.

**6.1.1 Sample Operating Reserve Calculation from 2021 Budget:**

General Fund	Total Budgeted Expenses 2021	Operating Reserve Calculation Expenses 2021 (minus transfers and capital expenses)
Administration	\$2,482,381.10	\$1,802,049.87
Court	\$226,110.74	\$194,578.29
Police	\$2,505,031.05	\$2,187,923.62
Community Development	\$673,928.27	\$597,841.91
Fire Department	\$2,014,615.42	\$1,657,733.53
Animal Control	\$180,926.15	\$160,561.64
<b>Totals</b>	<b>\$8,082,992.73</b>	<b>\$6,600,688.86</b>
120 Day Minimum Unrestricted Fund Balance		\$2,176,908.00
180 Day Minimum Unrestricted Fund Balance		\$3,265,362.00
2019 Ending Fund Unrestricted Cash Balance		\$3,906,270.69

**6.2 GENERAL FUND – OPERATING RESERVE FUND BALANCE**

- A. The General Fund shall maintain a minimum unassigned fund balance of 27% as an operating reserve.
- B. Reserve requirements set each year based on the total operating budget and debt financing of the General Fund. Admin transfers, capital, and equipment costs will be excluded.
- C. This calculation will be presented in the budget presentation.
- D. Reaching a 180 day operating reserve will allow for the following in the budgeting process:
  - a. Budget capital purchases out of the unassigned fund balance instead of financing.
  - b. Set funds above the 50% reserve threshold into reserve accounts to save for specific future capital projects.
  - c. Pay off citywide debt out of the unassigned fund balance.
  - d. There is no negative action for a fund balance over 50%, it just allows the City to use additional funds for the three purposes listed above.
- E. If an emergency arises that triggers a drop in the operating reserve unassigned fund, the City should strive to replenish the reserve to the minimum balance within one to three years of use. The length of time would be determined by the event that triggered the emergency use of funds.

**6.3 PARKS & REC FUND, WATER FUND, WASTEWATER FUND, STREET FUND**

- A. Minimum assigned fund balance – 90 day operating reserve required.
- B. In addition, the enterprise funds will establish a capital replacement reserve. An annual allocation to the capital replacement reserve will be budgeted through the budget process and will be determined by the current master plans and capital improvement plans.

## **6.4 CAPITAL FUNDS**

- A. Minimum assigned fund balance -25% of the required total of debt payments of the year.
- B. Capital Improvement Sales Tax Fund
  - 1.) No reserve required
- C. Stormwater Capital Fund
  - 1) No reserve required

## **6.5 DEBT SERVICE FUNDS**

The City shall maintain sufficient reserves in the debt service fund, which equals or exceed the reserves required by bond ordinances.





## **7 REVENUE POLICIES**

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### **7.1 DIVERSIFICATION OF REVENUE**

Sales tax is the primary source of revenue for the City and the General Fund. It is a major source of revenue for capital improvements and law enforcement.

When a new revenue source or a change in fees is considered, the effect of this change will have on the balance of the revenue structure shall be considered. The City will continue to look for sources of revenue to improve the diversification in the revenue structure.

### **7.2 CHARGES FOR MUNICIPAL SERVICES**

The City charges fees for municipal services that are voluntary in nature and benefit specific individuals. The most efficient use of City resources is achieved when the fee for these services pays for the cost of providing the service. When determining the charges for municipal services, the goal is to maximize cost recovery consistent with City Council direction. The following guidelines shall be used in evaluation of fees:

- A. The Finance Department shall review charges for municipal services annual. There shall be one citywide fee schedule. The schedule will be approved in conjunction to the annual budget each year.
- B. Any efficiencies achieved in the delivery of services shall be accompanied by a reduction in the fee for providing the service. The review process shall not provide an automatic mechanism for passing along inefficiencies that may exist in the system.
- C. Recommended fee changes are presented to the Finance Department and City Administration during the budget process. The recommended cost recovery is 100%, except for animal control expenses and credit card fees.
- D. Changes related to ordinance violations may be adjusted annual as necessary to maintain full cost recovery.
- E. Proposed changes to fees will be available for public review during the budget process.

### **7.3 NON-RECURRING REVENUE**

Generally, annual revenue of the City can be classified as either recurring or non-recurring. Examples of recurring revenue are sales tax, real property tax and fees for services. Although the level of revenue may be subject to economic conditions, it is relatively certain to be available at some level from year to year. One-time revenue (or non-recurring revenue) may be generated from grants, refunding of debt, the sale of fixed assets, carryover funds or other sources. This revenue may be available for more than one year but is not considered a permanent source of funding.

In order to ensure the City is able to provide a consistent level of services, and to avoid disruptive effects on the community, the use of non-recurring or one-time revenue should generally be limited to non-recurring expenses. Examples of proper use of this revenue are land acquisitions, major capital

purchase, and startup costs for new programs. Grant applications should be based on meeting the City's needs, not just the availability of grant funds. Many capital expenditures are funded by a dedicated tax. In these cases, the proposed expenditures will be reviewed to confirm it is on the list of voter-approved projects and meets the intent of the tax.

#### **7.4 USE OF UNPREDICTABLE REVENUES**

Sales tax is a major revenue source for the City's general fund. Sales tax revenue is dependent on such factors as the local and national economy, energy prices, the availability of local retail opportunities, and the impact of non-taxed online sales. Because of this volatility, the Finance Department will monitor sales tax very closely. Each month, the revenue will be compared to the budget estimate and reported to the City Administrator and City Council. Variances over 5% will be researched to determine if the differences are related to the timing of collections or a decrease in retail activity. If sales tax revenue exhibits a consistent downward or flat trend, the Finance Department will analyze the total General Fund revenue and expense and report to the City Administrator. Departments may be asked to limit expenses for the remainder of the fiscal year and/or other actions may be initiated. The General Fund operating reserve may also be utilized to cover a revenue shortfall with City Administrator and Council approval.