

**City of Sedgwick  
City Council Meeting  
May 15, 2024**

**TO: Mayor and City Council**

**SUBJECT: Fund Reserves Policy**

**INITIATED BY: Administration**

**AGENDA: New Business**

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**Recommendation:** Approve resolutions 05152024C.

**Background:** In 2021, the governing body informally agreed on fund reserve level guidelines based on input from a consultant. Today, staff is recommending the adoption of a formal policy with revised reserve levels. The development of a formal policy aims to establish responsible reserve limits on City funds to maintain the strong financial standing of the City. This policy will be utilized in future budget developments to help guide city leaders through decision making of expenditures and capital improvement projects.

2021 Recommended Minimum Reserve Levels:

- General Fund: 25% of Fund Expenditures
- Employee Benefits: 15% of Fund Expenditures
- Bonds & Interest: 2.5% of Fund Expenditures
- Water/Wastewater: 25% of Fund Expenditures

2024 Proposed Reserve Levels:

- General Fund: 15% of Fund Expenditures
- Employee Benefits: 15% of Fund Expenditures
- Bonds & Interest: 10% of Fund Expenditures
- Water/Wastewater: 10% of Fund Expenditures

**Analysis:** The policy being proposed today would address reserve levels for the general fund, employee benefits fund, bond and interest fund, and the enterprise funds of water and wastewater. The limitations of this policy are lower than what was discussed in 2021 with the consultant and better align with industry standards developed by the Government Finance Officers Association.

**Financial Considerations:** The adoption of a formal policy will allow the city to maintain adequate funding within its account and be better prepared for times of economic downturn.

**Recommendations/Actions:** It is recommended that the City Council approve resolution 05152024C as presented.

**Attachment:** Resolution 05152024C

## RESOLUTION 05152024C

### A RESOLUTION ESTABLISHING A POLICY FOR FUND RESERVES CITY OF SEDGWICK, KANSAS

**WHEREAS**, city government has an important responsibility to its citizens to carefully account for public funds, manage municipal finances wisely and maintain adequate fund reserves in case of unforeseen events; and

**WHEREAS**, the City of Sedgwick (“City”) strives to maintain a balanced budget while protecting against future budget shortfalls that could potentially harm the growth and development of the City; and

**WHEREAS**, the City recognizes the importance of complying with guidelines of the Government Finance Officers Association (GFOA) and national credit rating agencies pertaining to fund reserves to maintain the City’s strong economic standing and high credit rating; and

**WHEREAS**, a fund reserve policy will provide structure and financial flexibility while reducing financial risk to the City; and

**WHEREAS**, a fund reserve policy should reflect local circumstances and ensure the continued financial health of the City:

**NOW, THEREFORE**, be it resolved by the Governing Body of the City of Sedgwick, Kansas:

**Section 1. Policy Objectives.** The objective of this policy is to establish responsible reserve limits on City funds to maintain the strong financial standing of the City. The intent is to ensure that adequate reserves exist to fund operations by providing sufficient working capital. The policy allows the City to maintain financial flexibility in the event of unforeseen shortfalls from municipal revenue sources, protect against uncollected taxes, and reduce the effects of cutbacks in distributions from the state and federal governments.

GFOA recommends governments maintain a fund balance of no less than 5 percent to 15 percent of revenues, or one to two months of operating expenditures. In addition, during credit reviews, national rating agencies pay close attention to the condition of the general fund and the potential volatility of revenue supporting annual expenditures. Credit rating agencies favor policies that explicitly designate one to two months of operating expenditures for reserve.

**Section 2. General Fund.** The general fund is the primary operating fund of the City that accounts for the majority of City operating revenues and expenditures. The City should budget for current-year general fund revenues to be sufficient to finance current-year expenditures.

Due to the volatility of some of the major revenue sources, the City shall maintain a minimum unreserved general fund reserve of 15 percent of the actual expenditures.

If the general fund balance becomes non-compliant with the adopted parameters, budgeted revenues will be greater than budgeted expenditures in subsequent years to bring the general fund balance into compliance with this policy.

**Section 3. Employee Benefits Fund.** The City shall maintain a reserve of 15 percent of actual expenditures.

**Section 4. Bond and Interest Fund.** The City shall maintain a reserve of 10 percent of actual expenditures, less inter-fund transfers which are included in the transferring fund's expenditures.

**Section 5. Wastewater Fund.** The City shall maintain a wastewater fund reserve of 10 percent of actual expenditures.

**Section 6. Water Fund.** The City shall maintain a reserve of 10 percent of actual expenditures.

**Section 7. Responsibility for Policy.** The primary responsibility for maintaining and complying with this policy rests with the City Administrator. The City Administrator shall

- a. Identify and monitor the predictability and volatility of revenue and expenditure streams and the likelihood of meeting the targeted ending cash reserves covered under the provisions of this policy.
- b. Ensure the targeted cash reserves do not "build" over the course of the annual budgeting process.

**ADOPTED BY THE GOVERNING BODY** of the City of Sedgwick, Kansas this 15<sup>th</sup> day of May, 2024.

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Bryan Chapman, Mayor

ATTEST:

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Shelia Agee, City Clerk

SEAL