Appendix

Glossary of Terms
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Midyear Funding Request Policy
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Fund Balance Policy
## GLOSSARY OF TERMS

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<th>Term</th>
<th>Definition</th>
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<tr>
<td><strong>ACCRUAL BASIS OF ACCOUNTING</strong></td>
<td>The method of accounting under which debits and credits are recorded at the time they are incurred. The accrual basis of accounting is used for Enterprise Funds such as the Water and Sewer Fund.</td>
</tr>
<tr>
<td><strong>AD VALOREM</strong></td>
<td>Latin term meaning “from the value”. It is used to refer to property taxes.</td>
</tr>
<tr>
<td><strong>AD VALOREM TAXES _ CURRENT</strong></td>
<td>Taxes on real and personal property, except motor vehicles. Calculated by multiplying the assessed value by the mill levy.</td>
</tr>
<tr>
<td><strong>AD VALOREM TAXES _ DELINQUENT</strong></td>
<td>Property taxes that are not paid by either December 20th or June 20th. Kansas statutes allows property owners the right to pay half their tax on December 20th and the second half on June 20th.</td>
</tr>
<tr>
<td><strong>APPRAISED VALUE</strong></td>
<td>An amount determined by the County Appraiser’s office as to what a property is worth. In Kansas, property is appraised at 100% of market value.</td>
</tr>
<tr>
<td><strong>AQUATIC PROGRAMS</strong></td>
<td>All fees collected for programs conducted at the outdoor and indoor aquatic centers in Fund 211, the Recreation Fund.</td>
</tr>
<tr>
<td><strong>ASSESSED VALUATION</strong></td>
<td>A valuation set upon real estate or other property by the County Assessor and the State as a basis for levying ad valorem property taxes. In Kansas, the percentages are: Residential (11.5%); Commercial (30%); and Personal (20%).</td>
</tr>
<tr>
<td><strong>BONDS</strong></td>
<td>Debt instruments representing a promise to pay a specified amount of money at a specified time and at a specified periodic interest rate. Bonds are used to finance major capital projects or adverse judgments.</td>
</tr>
<tr>
<td><strong>BUDGET</strong></td>
<td>A financial plan for a specified period of time of the governmental operation that matches all planned revenues and expenditures with the services provided to the residents of the city.</td>
</tr>
<tr>
<td><strong>BUDGET MESSAGE</strong></td>
<td>A general outline of the proposed budget which includes comments regarding the financial status of the government at the time of the message and recommendations regarding the financial policy for the coming period.</td>
</tr>
<tr>
<td><strong>BUILDING RENTAL</strong></td>
<td>All fees collected for the use of community centers and outdoor park shelters in Fund 211, the Recreation Fund.</td>
</tr>
<tr>
<td><strong>CAPITAL IMPROVEMENT PROGRAM (CIP)</strong></td>
<td>A multi-year plan for capital expenditures needed to maintain and expand the public infrastructure. It projects the infrastructure needs for a set number of years and is updated annually to reflect the latest priorities, cost estimates, or changing financial strategies.</td>
</tr>
<tr>
<td><strong>CAPITAL IMPROVEMENTS</strong></td>
<td>Expenditures related to the acquisition, expansion or rehabilitation of an element of the City’s infrastructure.</td>
</tr>
<tr>
<td><strong>CAPITAL OUTLAY</strong></td>
<td>Equipment valued at more than $1,000 and having a useful life of more than one year.</td>
</tr>
<tr>
<td>Term</td>
<td>Description</td>
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<td>-------------------------------------------</td>
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</tr>
<tr>
<td>CASH BASIS RESERVE</td>
<td>An amount of funds set aside to insure that sufficient cash is available to pay principal and interest payments in case the receipt of property taxes is delayed in Fund 301, the Bond and Interest Fund.</td>
</tr>
<tr>
<td>CLASS ENROLLMENT</td>
<td>Revenue collected for providing class instruction in Fund 211, the Recreation Fund.</td>
</tr>
<tr>
<td>COMMISSION / POSTAGE</td>
<td>Expenses related to bond issuance including attorney fees, printing fees, and financial advising in Fund 301, the Bond and Interest Fund.</td>
</tr>
<tr>
<td>COMMODITIES</td>
<td>Consumable goods, such as office supplies, that are used by the City.</td>
</tr>
<tr>
<td>CONCESSIONS</td>
<td>Revenues generated from the sale of concession products at parks and recreation facilities in Fund 211, the Recreation Fund.</td>
</tr>
<tr>
<td>CONTRACTUAL SERVICES</td>
<td>Services provided to the City by firms, individuals, or other City departments.</td>
</tr>
<tr>
<td>DEBT SERVICE</td>
<td>Payment of interest and principal on an obligation resulting from the issuance of bonds.</td>
</tr>
<tr>
<td>ENTERPRISE FUNDS</td>
<td>Funds which are accounted for in a manner similar to a private business enterprise. Usually the governmental entity intends for enterprise funds to fully recover their costs through user fees.</td>
</tr>
<tr>
<td>EXPENDITURES</td>
<td>Current cash operating expenses and encumbrances.</td>
</tr>
<tr>
<td>EXTRA PICKUPS, MISCELLANEOUS</td>
<td>Fees for service to the University of Kansas, polycart rental fees, and revenue from the sale of collected newspaper and cardboard in Fund 502, the Solid Waste Fund.</td>
</tr>
<tr>
<td>FARE BOX RECEIPTS</td>
<td>Fares collected from transit system users placed in Fund 210, the Public Transportation Fund.</td>
</tr>
<tr>
<td>FEES</td>
<td>Revenues collected for Adult and Youth Sports Programs as well as fees for programs and classes at the Nature Center in Fund 211, the Recreation Fund.</td>
</tr>
<tr>
<td>FIELD RENT</td>
<td>Fees collected from rental of ball diamonds, soccer fields, and multipurpose field to the public in Fund 211, the Recreation Fund.</td>
</tr>
<tr>
<td>FISCAL YEAR</td>
<td>A twelve-month period to which the operating budget applies. In the City of Lawrence this period is from January 1 to December 31.</td>
</tr>
<tr>
<td>FRANCHISE FEES</td>
<td>An amount charged to a utility in exchange for the rights to provide utility services within the City and to operate within the public right-of-way.</td>
</tr>
<tr>
<td>FUND</td>
<td>An independent governmental accounting entity with a self-balancing group of accounts including assets, liabilities, and fund balances.</td>
</tr>
</tbody>
</table>
## Glossary of Terms

<table>
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<tr>
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<tbody>
<tr>
<td><strong>Fund Balance</strong></td>
<td>The excess of fund’s assets over its liabilities and reserves.</td>
</tr>
<tr>
<td><strong>General Fund</strong></td>
<td>The general operating fund accounts for the revenues and expenditures associated with all services traditionally associated with local governments, except for those services that are required to be accounted for in some other fund.</td>
</tr>
<tr>
<td><strong>General Obligation Bond</strong></td>
<td>Long-term debt payable from the full faith and credit of the City. Typically such bonds are payable from property taxes.</td>
</tr>
<tr>
<td><strong>General Obligation Bond - Principal</strong></td>
<td>The money owed as long-term debt payable from the full faith and credit of the City.</td>
</tr>
<tr>
<td><strong>General Obligation Bond - Interest</strong></td>
<td>The charge for issuing long-term debt payable from the full faith and credit of the City.</td>
</tr>
<tr>
<td><strong>Goal</strong></td>
<td>A statement of broad direction, purpose, or intent based on the needs of the community.</td>
</tr>
<tr>
<td><strong>Grants</strong></td>
<td>Contributions or gifts of cash or other assets from another governmental unit (typically state or federal) to be used or expended for a specified purpose, activity, or facility.</td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td>The physical assets of the city (e.g. streets, water/sewer lines, public buildings, and parks).</td>
</tr>
<tr>
<td><strong>Interest on Investments</strong></td>
<td>Revenue received from the purchase of securities including certificates of deposit, treasury notes and federal agency notes.</td>
</tr>
<tr>
<td><strong>Interfund Transfer</strong></td>
<td>Transfer of resources between funds that are not recorded as revenues to the fund receiving or expenditures to the fund providing.</td>
</tr>
<tr>
<td><strong>Intergovernmental Revenue</strong></td>
<td>Grants or distributions received from other governments including distributions from the countywide sales tax as well as statutory transfers from the State.</td>
</tr>
<tr>
<td><strong>LAVTR</strong></td>
<td>“Local Ad Valorem Tax Reduction”. Revenues received from the State to help reduce local property taxes.</td>
</tr>
<tr>
<td><strong>Line Item</strong></td>
<td>An individual expenditure category listing in the budget (personal services, commodities, contractual services, etc.)</td>
</tr>
<tr>
<td><strong>MILL Levy</strong></td>
<td>The tax rate to apply when calculating property taxes. A mill represents 1/10 of 1 cent. The mill levy is typically expressed as an amount per $1000 of assessed valuation, (i.e., a mill levy of 1.00 would result in a tax of $1.00 per each $1,000 in assessed valuation.)</td>
</tr>
<tr>
<td><strong>Modified Accrual Basis of Accounting</strong></td>
<td>Under this method of accounting, revenues are recognized when they are both measurable and available within a certain time period. Expenditures, other than interest on long-term debt, are recorded as liabilities when incurred. The General Fund and Special Revenue Funds follow this method of accounting.</td>
</tr>
<tr>
<td><strong>Payment-in-Lieu-of Taxes</strong></td>
<td>An amount charged enterprise operations equivalent to the City property taxes that would be due on a plant or equipment if the enterprise operations were for profit companies.</td>
</tr>
<tr>
<td><strong>Personal Services</strong></td>
<td>Cost of wages, salaries, retirement, and other fringe benefits for City employees.</td>
</tr>
<tr>
<td>GLOSSARY OF TERMS</td>
<td></td>
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<tr>
<td>------------------</td>
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</tr>
<tr>
<td>PROGRAM</td>
<td>A group of related activities performed by one or more organizational unit for the purpose of accomplishing a function for which the City is responsible.</td>
</tr>
<tr>
<td>RESERVES</td>
<td>An account used to indicate that a portion of a fund balance is restricted or set aside for emergencies or unforeseen expenditures not otherwise budgeted for.</td>
</tr>
<tr>
<td>REVENUE</td>
<td>Income for the fiscal year. The major categories of revenue include taxes, state shared revenues, fees and charges, interest on investments, and fines and forfeits.</td>
</tr>
<tr>
<td>REVENUE BONDS</td>
<td>Long-term debt payable from a designated revenue source such as water revenue or sales tax revenue.</td>
</tr>
<tr>
<td>ROLL OFF</td>
<td>Fees for roll-off services including container charges, delivery and pick up fees, as well as landfill charges in Fund 502, the Solid Waste Fund.</td>
</tr>
<tr>
<td>SANITATION SERVICE CHARGE</td>
<td>Normal solid waste collection fees for industrial and commercial dumpster services and residential solid waste collection in Fund 502, the Solid Waste.</td>
</tr>
<tr>
<td>SPECIAL ASSESSMENTS</td>
<td>Property taxes incurred by property owners within a designated area for improvements that benefit the area. A majority of the affected property owners must approve the formation of the benefit district.</td>
</tr>
<tr>
<td>SPECIAL POPULATIONS</td>
<td>Fees collected for recreation programs provided for special needs populations in Fund 211, the Recreation Fund.</td>
</tr>
<tr>
<td>STATE GRANTS</td>
<td>Moneys received through the Kansas Department of Health and Environment Solid Waste Implementation Grant awarded on a project specific basis in Fund 502, the Solid Waste Fund.</td>
</tr>
<tr>
<td>STATE-SHARED REVENUES</td>
<td>Revenues levied and collected by the State but shared on a predetermined basis with local governments.</td>
</tr>
<tr>
<td>TAX LEVY</td>
<td>The total amount to be raised by general property taxes for the purposes specified in the approved city budget.</td>
</tr>
<tr>
<td>TAX RATE</td>
<td>The amount of tax levied for each $1,000 of assessed valuation.</td>
</tr>
<tr>
<td>USER FEES</td>
<td>The payment of a fee for direct receipt of a public service by the party benefiting from the service.</td>
</tr>
<tr>
<td>WATER AND SEWER CHARGES</td>
<td>The charge to customers receiving water and sewer services provided by the city's treatment, distribution, and collection systems that pays for operational and capital costs in Fund 501, the Water and Wastewater Fund.</td>
</tr>
<tr>
<td>WATER TAPS</td>
<td>Charges paid, according to size of connection, by developers / property owners for connection to the city's existing water mains in Fund 501, the Water and Wastewater Fund.</td>
</tr>
<tr>
<td>WATER MAIN EXTENSIONS</td>
<td>Charges for materials, labor, and equipment related to the extension of the city's water distribution system (up to and including twelve inch water mains), typically paid by developers and/or property owners in Fund 501, the Water and Wastewater Fund.</td>
</tr>
<tr>
<td>DEVELOPMENT CHARGES</td>
<td>Charges levied at the time building permits are required, to help offset the costs for increased capacity in the water and/or wastewater systems in Fund 501, the Water and Wastewater Fund.</td>
</tr>
</tbody>
</table>
1.0 **Scope**

This policy applies to the cash management and investment activities of the City of Lawrence, Kansas, except for the debt service funds, reserve funds and other financial assets held by various fiscal agents and trustees as provided by the appropriate bond ordinance shall not be subject to this policy but shall be administered according to the requirements of the respective Ordinances. The financial assets of all other funds shall be administered in accordance with the provisions of this policy.

2.0 **Authority**

Responsibility for the management of the City’s investment portfolio is delegated to the Director of Finance by the City Manager. The Director of Finance hereby establishes written procedures and policies for the operation of the cash management and investment program. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Finance who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

3.0 **Objectives**

The cash investments of the City of Lawrence shall be undertaken in a manner that seeks to maximize investment income while ensuring the preservation of capital in the portfolio. To attain this objective, diversification is required so that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. The investment portfolio shall be designed to attain at a minimum, a market-average rate of return throughout budgetary and economic cycles, taking into account the City’s investment risk constraints and the cash flow characteristics of the portfolio.

4.0 **Prudence**

The standard of prudence to be used by investment officials shall be the “prudent person”, 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 probable safety of their capital as well as the probable income to be derived” and shall be applied in the context of managing the entire portfolio.
5.0 **Legal Authority and Limitations on Investment Instruments**

All investments purchased under this policy shall be governed by K.S.A. 12-1675, et seq. and all revisions thereto, as may be made by the Kansas Legislature. Below is a summary of acceptable investments under the current law:

1. **Collateralized Public Deposits (Negotiable Certificates of Deposit)** -- Instruments issued by banks or savings & loans that state specified sums have been deposited for specified periods of time and at specified rates of interest. Certificates of deposit are required to be backed by acceptable collateral securities as dictated by Kansas Statutes.

2. **Repurchases Agreements**--Contractual agreements between the City and commercial banks, trust companies, state or federally chartered savings and loan associations of federally chartered savings banks. The repurchase agreement (repo) issuer received cash and, in turn, provides securities to the City as collateral for the cash. There exists a contractual agreement for the City to resell the securities back to the issuer on a specific future date, at the original purchase price, plus a negotiated interest payment.

3. **U. S. Treasury bills or notes**--These obligations must mature within six months from date of purchase and are guaranteed as to principal by the United States government.

4. **Temporary notes of the City of Lawrence.**

5. **Commercial bank savings accounts.**

Other types of investments may be added to this list as changes to the statutes governing such investments are revised.
6.0 **Contracts with Financial Institutions**

The City of Lawrence may invest funds with depositories having offices located in the City of Lawrence as provided by K.S.A. 9-1401. All depositories of the City of Lawrence shall execute a contract bi-annually with the City of Lawrence which shall designate the requirements of serving as a depository for the City, including collateralization of City funds invested at such depository and the related safekeeping requirements of the pledged securities. The City shall have a separate contract with the “operating bank” which will execute a contract once every three years in accordance with the practice of bidding banking services every three years.

1. Safekeeping of Securities--Collateral for certificates of deposits and repurchase agreements will be registered in the City’s name. The Finance Director will hold all safekeeping receipts of pledged securities used as collateral for certificates of deposits and repurchase agreements. A third party institution will hold pledged securities in trust on behalf of the City’s financial institution.

Safekeeping receipts of pledged securities may be “Faxed” to the City in order to accommodate timely and legal investment transactions. The financial institution will mail the original safekeeping receipt of pledged securities on the day the facsimile is sent.

2. Collateralization--The City requires full collateralization of all City investments other than obligations of the United State government as stated in the State statute. The City will not allow the use of FDIC coverage as part of the calculation of full collateralization. Peak period agreements permitted under K.S.A. 9-1403 as amended, will not be accepted by the City and are not included as part of the depository contracts with the financial institutions.

The City will accept as collateral for certificates of deposit securities as listed in K.S.A. 9-1403. Collateral underlying repurchase agreements is limited to obligations of the U.S. government and its agencies.

The Finance Director will weekly monitor the adequacy of collateralization. The City requires monthly reports with market values of pledged securities from all financial institutions with which the City has certificates of deposits or repurchase agreements.

7.0 **Investment Liquidity**

The City’s demand for cash shall be projected using reliable cash forecasting techniques. To ensure liquidity, the appropriate maturity date and investment option available will be chosen.
1. Repurchase agreements--The maximum maturity for repurchase agreements shall be 91 days. Repurchase agreements will normally be used when Certificates of Deposits for less than 91 days are not used, or when the rates offered on the repurchase agreements are greater than those offered on 91 day CDs.

2. General City Funds--The maximum maturity for City investments shall be one year. The Investment Review Committee will monitor the maturity level and recommend changes as appropriate.

3. Bond & Interest Fund--No investment shall have a maturity exceeding the next principal and /or interest payment date unless the obligation is fully funded.

8.0 **Investment Return Objectives**

Consistent with State law, the City shall seek to optimize return on investments within the constraints of this policy.

9.0 **Bidding Procedures**

Investment bids will be taken by the Director of Finance or person designated by the Director of Finance at times when investments of idle funds would be in the best interest of the City or as required by federal regulations regarding arbitrage rebate on bond proceeds. Such bids requests will be made orally and confirmed in writing with the investment instrument and related collateral being forwarded to the City no later than 24 hours after bids are taken.

10.0 **Investment Limitation Per Institution**

In order to protect the City from the failure of any one financial institution, the City shall not invest more than 30% of idle funds with any one institution. The 30% limitation does not apply to U.S. Treasury obligations held in safekeeping by an institution on behalf of the City. These obligations are backed by the U.S. Government and do not require collateral as described in section 6.0(2). The 30% limitation shall be determined prior to the bids. If an institution goes over the 30% limitation after the bids have been awarded, no further bids will be accepted from the financial institution until sufficient maturities have occurred to reduce their share of the portfolio to under 30%.
11.0 Investment Review Committee

The City Manager shall appoint an investment review committee. The Committee shall consist of one person from the City Manager’s Office, one person from the Finance Department not directly involved with the day to day investing of public funds, and the City Clerk. This Committee shall meet at least quarterly to review the investment reports from the Finance Department and to review earnings of idle funds. The Committee shall make a report to the City Manager within fourteen days after each meeting. Any irresponsible or illegal acts shall be reported immediately and confidentially to the City Manager.

12.0 Daily Cash Management Practices and Policies

It is the policy of the City of Lawrence Finance Department that all departments collecting cash receipts, whether in cash or other forms of payment, must turn in such receipts to the Finance Department on a daily basis together with records required to verify the accuracy of such collections. No receipts will be held overnight at any location for any reason. All receipts shall be deposited daily by the Department of Finance. Investment of any idle funds will be made in accordance with section 5.0 of this policy. Any violation of this section of this policy by any employee of the City may result in disciplinary action.

13.0 Separate Provisions of Policy and Conflicts with Kansas Laws

The above policies shall remain in full force and effect until revoked by the City Commission. If, after adoption of this policy, there is any conflict of this policy with Kansas laws and/or statutes current law shall dictate.
CITY OF LAWRENCE
GOVERNMENTAL ACCOUNTING POLICY

1.0 Policy

The City of Lawrence has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. Financial statements are presented after applying memorandum adjustments, where applicable, to record accrued revenue, inventories, property and equipment and related depreciation resulting in financial statements presented on a modified accrual or accrual basis of accounting, as appropriate.

Accounting and Reporting Capabilities:

A governmental system, such as the City of Lawrence, is charged with the duties of reporting and fully disclosing its financial position and financial results of operation in conformity with generally accepted accounting principles. Further, such an entity must demonstrate compliance with finance-related legal and contractual provisions within the system’s financial activities.

2.0 Fund Accounting Systems

The City of Lawrence is organized and operates on a fund basis. In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restriction, or limitations.

The following types of funds comprise the financial activities of the City:

1. Governmental Funds
   A. General Fund - to account for all unrestricted resources except those required to be accounted for in another fund.
   
   B. Special Revenue Funds - to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.
   
   C. Capital Project Funds - to account for financial resources segregated for the acquisition of major capital facilities (other than those financed by Enterprise Funds).
   
   D. Debt Service Funds - to account for the accumulation of resources for and the payment of, interest and principal and related costs, on general long-term debt, and the financing of special assessments which are general obligations of the City.
2. Proprietary Funds
   
   A. Enterprise Funds - to account for operations that are financed and operated in a manner similar to private business enterprises where the stated intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

   B. Internal Service Funds - to account for the financing of goods and services provided by one department to other departments of the City on a cost reimbursement basis.

3.0 Basis of Accounting

   All governmental and fiduciary funds are reported on the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual, that is when they become both measurable and available to finance expenditures of the fiscal period. Expenditures are recognized when the related liability is current (the encumbrance method of accounting). Interest on unmatured general long-term debt is recognized when due.

   The enterprise funds are reported on the accrual basis of accounting.

3.1 Budgetary Accounting

   The accounting principles employed by the City in its budgetary accounting and reporting differ from those used to present financial statements in accordance with generally accepted accounting principles due to the inclusion of encumbrances and reimbursements with expenditures in the budgetary basis statement. For enterprise funds, depreciation and bad debt is not budgeted, while debt principal payments are budgeted.

4.0 General Long-Term Account Group

   This account, which is not a fund, provides a place to record long-term debt of the City. Long-term debt for proprietary funds are recorded in those funds and not in the general long-term debt account group.

5.0 General Fixed Assets Account Group

   This account group is not a fund. It is an account where all fixed assets of the City except those belonging to the proprietary funds are recorded. Proprietary fund fixed assets are recorded in those funds.

   A summary of funds can be found on page A-15 to A-17.
Budgetary Policies and Procedures

There are a number of state statutes, city policies and long term plans that shape the city’s budget process. Kansas Statutes (K.S.A.§ 79-2927 et seq.) require that an annual operating budget be legally adopted for the General Fund, Special Revenue Funds (unless specifically exempted by statute), Debt Service Funds, and certain Enterprise Funds.

A legal annual operating budget is not required for the Capital Projects Fund or Trust Funds and the following Special Revenue Funds:

- Airport Improvement Fund
- Capital Improvement Reserve Fund
- Equipment Reserve Fund
- Guest Tax Reserve Fund
- Liability Reserve Fund
- Sales Tax Reserve Fund
- Law Enforcement Grant Fund
- Worker's Compensation Reserve Fund
- Summer Youth Fund
- Outside Agency Fund
- Wee Folks Scholarship Fund
- Fair Housing Assistance Fund
- Community Development Fund
- Rehabilitation Escrow Fund
- Home Program Fund
- Transportation Planning Fund
- Law Enforcement Trust Fund

The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

a. Preparation of budget for the succeeding calendar year on or before August 1 of each year.
b. Publication of proposed budget and notice of public hearing on or before August 5 of each year.
c. Public hearing on or before August 15 of each year, but at least ten days after public notice.
d. Adoption of final budget on or before August 25 of each year.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time.

The statutes permit management to transfer budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds (the legal level of budgetary control). Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting modified further by the encumbrance method of accounting. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations lapse at year-end.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the City.

Administrative policies of the City that guide the development of the budget include policies regarding the issuance of industrial revenue bonds, temporary notes and bonds, cash management, fixed assets, investments and payroll. Policies are in place regarding the accumulation of reserves (fund balance) in the general fund, the procurement of city vehicles and the allocation of the transient guest tax.
The budget is then formatted into this printed document, reproduced and made available for the public.

Horizon 2020 and other long range and strategic plans also effect the City’s budget. These plans allow the various city departments to forecast their future staffing, equipment, and facility needs and the costs associated with them based on growth and population projections. This allows city staff to estimate the revenue that will be needed to meet these needs, to what amount the issuance of debt will be necessary, if fee and rate increases will be required, etc..

The budget calendar is developed early each year according not only to the state statutes but also an administrative policy. The 2004 Budget Calendar is on page A-34 of this document.

In addition to written administrative policies, there are a number of departmental policies and procedures that effect the budget. For instance, there are procedures for the replacement of city vehicles as well as for the issuance of debt.

A number of study sessions are held throughout the year with city staff and the City Commissioners to discuss various elements of the budget. A goal setting session is held, giving the Commissioners an opportunity to determine priorities for the budget year. Staff in the various departments can then work toward accomplishment of these goals through their daily operations. The City Commission goals are on pages A-27 through A-29 of this document. Other sessions are held to discuss the multi-year Capital Improvement Plan, to review Debt, and to provide the City Manager and staff with direction for allocation to contractual agencies [see pages B-42 (general overhead), C-1 through C-3 (Guest Tax), GI-1 through G-3 (Special Alcohol)].

This year, the City Commissioners also had budget conferences with each department. The conferences provided the Commissioners the opportunity to review the requests with department staff, learn more about program improvement packages and ask questions about the issues presented by department staff in their budget proposals.

The first opportunity for public comment is in June. Another study session is held to review the Multi-year CIP Budget (see pages J-9-J-15) and to allow the Commissioners to provide additional direction to staff.

The City Manager then prepares a recommended budget that is reviewed and revised by the Commissioners buffering being published in the Journal World.

A second opportunity for public comment is held in early August. A final budget is then adopted by the City Commission and filed with the County Clerk in late August.

The budget is then formatted into this printed document, reproduced and made available for the public.
1.0 **Policy:**

To establish policy and guidelines for the consideration of funding requests from outside agencies during the year after the completion of the annual budget process.

2.0 **Guidelines:**

Once the budget process is completed for each fiscal year, non-budgeted funding requests shall be handled as follows. Outside agencies requesting funding from the City of Lawrence (that falls outside the schedule established for the annual budget process) shall describe in their application for funding how the project, program, etc. accomplishes the following:

- Fills an existing gap in City services.
- Meets a City Commission or community goal.
- Provides for a need in the community that is otherwise unmet.
- Helps leverage outside funds.

3.0 **Assessment Methods:**

In considering funding requests outside the annual budget process, the City Commission will utilize the following guidelines in the decision-making process:

- Is the request a high enough priority to justify the allocation of contingency funds?
- What are the long-range implications (annual request? related costs? etc.)
General Policy

The Debt Management Policy Statement sets forth comprehensive guidelines for the financing of capital expenditures. It is the objective of the policies that (1) the City obtain financing only when desirable, (2) the process for identifying the timing and amount of debt financing be as efficient as possible and (3) the most favorable interest rate and other related costs be obtained.

Debt financing, to include general obligation bonds, special assessment bonds, revenue bonds, temporary notes, lease/purchase agreements, and other City obligations permitted to be issued or incurred under Kansas law, shall only be used to purchase capital assets that will not be acquired from current resources. The useful life of the asset or project shall exceed the payout schedule of any debt the City assumes. This allows for a closer match between those who benefit from the asset and those that pay for it.

To enhance creditworthiness and prudent financial management, the City is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to capital planning will be demonstrated through adoption and periodic adjustment of the City’s Capital Improvement Plan and the annual adoption of a multi-year Capital Improvement Budget.

RESPONSIBILITY FOR DEBT MANAGEMENT

The primary responsibility for making debt-financing recommendations rests with the Director of Finance. In developing such recommendations, the Finance Director shall be assisted by other City staff. The responsibilities of City staff shall be to:

- Consider the need for debt financing and assess progress on the current Capital Improvement Budget and any other program/improvement deemed necessary by the City Manager;
- Test adherence to this policy statement and to review applicable debt ratios listed in the Debt Issuance Guidelines,
- Review changes in federal and state legislation that affect the City’s ability to issue debt and report such findings to the City Manager as appropriate;
- Review annually the provisions of ordinances authorizing issuance of general obligation bonds of the City;
- Review the opportunities for refinancing current debt; and,
- Recommend services by a financial advisor, bond trustees, bond counsel, paying agents and other debt financing service providers when appropriate.

In developing financing recommendations, the City staff shall consider:
- Options for interim financing including short term and inter-fund borrowing, taking into consideration federal and state reimbursements;
- Effects of proposed actions on the tax rate and user charges;
- Trends in bond markets structures;
- Trends in interest rates; and,
- Other factors as deemed appropriate.
USE OF DEBT FINANCING

Debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The City will use debt financing only for one-time capital improvement projects and unusual equipment purchases under the following circumstances:

- The project is included in the City's capital improvement budget and is in conformance with the City's general plan;
- The project is the result of growth-related activities within the community that require unanticipated and unplanned infrastructure or capital improvements by the City;
- The project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing;
- There are revenues sufficient to service the debt, whether from future property taxes, user fees, or other specified and reserved resources, debt supported by user fees, special assessments or special charges shall be preferred,
- The debt shall be primarily used to finance capital projects with a relatively long life, typically ten years or longer.
- The equipment is an item that is purchased infrequently, has an expected useful life of at least five years, and costs in excess of $100,000.

STRUCTURE AND TERM OF DEBT FINANCING

Debt will be structured to match projected cash flows, minimize the impact on future property tax levies, and maintain a relatively rapid payment of principal. As a benchmark, the City shall strive to repay at least 50% of the initial principal amount within ten years.

General Obligation Bonds

The City shall use an objective analytical approach to determine whether it desires to issue new general obligation bonds. Generally, this process will compare ratios of key economic data. The goal will be for the City to maintain or enhance its existing credit rating.

These ratios shall include, at a minimum, debt per capita, debt as a percent of statutory debt limit, debt as a percent of appraised valuation, debt service payments as a percent of governmental expenditures, and the level of overlapping net debt of all local taxing jurisdictions. A set of ratios shall be adopted and itemized in the City’s Debt Issuance Guidelines.

The decision on whether or not to issue new general obligation bonds shall, in part, be based on (a) costs and benefits, (b) the current conditions of the municipal bond market, and (c) the City's ability to issue new general obligation bonds as determined by the aforementioned benchmarks.

Revenue Bonds

For the City to issue new revenue bonds, projected annual revenues as defined by the ordinance authorizing such issuance, shall be a minimum of 125% of the issue’s average annual revenue bond service or at a higher amount if required by the bond indentures. If necessary, annual adjustments to the City's rate structures will be considered in order to maintain the required coverage factor. Revenue bonds will be the preferred financing option for enterprise funds.
Special Assessment Bonds

The City shall maintain a watchful attitude over the issuance of special assessment bonds for benefit district improvements. The City’s share of any benefit district project may not exceed more than 95% of any proposed costs related to a benefit district. The developer shall be required to deposit 25% of the costs allocated to the benefit district prior to authorization. In most cases, the debt will have a maximum term of ten years, however, a longer term may be allowed provided it does not exceed the life of the improvements included in the benefit district. The benefit district will be assigned costs such as administration, engineering, financing and legal associated with the formation of the district and issuance of any debt.

Debt Issuance With Intergovernmental Agencies

The City will typically not use of its debt capacity for projects by entities or other special purpose units of government that have the ability to issue tax exempt debt. The City’s issuance of debt will be made only (1) after the prior commitment of the full assets and resources of the authority to debt service; (2) if project revenues, or development authority revenues pledged to debt service, are at least 115% of debt service; (3) if debt service reserves provided by the authority's own resources are equal to at least six months debt service; and, (4) if all other viable means financing have been examined. The City will also enter into arrangements with other governmental entities where a portion of the project costs will be reimbursed by the other government. An agreement as to how the project costs will be allocated and reimbursements made must be approved by the governing bodies.

Structure of Debt Obligations

The City normally shall issue bonds with an average life of 10 years or less for general obligation and special assessment bonds and 10-20 years for revenue bonds. The typical structure of general obligation bonds will result in even principal and interest payments over the term of the debt. There shall be no "balloon" bond repayment schedules, which consist of low annual payments and one large payment of the balance due at the end of the term. There shall always be at least interest paid in the first fiscal year after a bond sale. In cases where related revenues may not occur for several years, it may be desirable to capitalize the interest by increasing the size of the issue and deferring the principal payments so that only interest is paid on the debt for the first few years.

Call Provisions

Call provisions for bond issues will be evaluated based upon current market conditions. All bonds shall be callable only at par.

Variable Rate Long-Term Obligations

The City may choose to issue bonds that pay a rate of interest that varies according to pre-determined formula or results from a periodic remarketing of the securities, consistent with state law and covenants of pre-existing bonds, and depending on market conditions.
DEBT ADMINISTRATION AND FINANCING

Capital Improvement Budget

A Capital Improvement Budget shall be prepared and submitted to the City Commission annually. The budget shall provide a list of projects and the means of financing. The budget should cover a five-year period of time. The projects included in the budget should be part of the City’s Capital Improvement Plan. Projects must be in either the Capital Improvement Budget or Plan to be authorized.

Bond Fund

Generally, payment of general obligation bonds and special assessment bonds shall be from the City’s Bond & Interest Fund. However, in situations where General Obligation bonds are to be paid from user fees or sales taxes, bond payments should be made from the fund that receives the revenue. The minimum fund balance in the Bond & Interest Fund will be maintained at a level equal to or greater than 50% of the total principal and interest payable from that Fund for the upcoming year.

Reserve Funds

Adequate operating reserves are important to insure the functions of the City during economic downturns. The City shall budget a contingency reserve in the General Fund of no less than $150,000. The City will maintain working capital in an enterprise fund sufficient to finance 120 days of operations, if the fund supports debt payments. In addition, all reserves specified by bond indentures must be maintained. The Equipment Reserve Fund will be funded sufficiently to ensure that adequate funds are available to purchase replacement equipment on a timely basis.

Finance Department

It shall be the responsibility of the Finance Department to prepare the Preliminary and final Official Statements. The City Clerk is responsible for collecting and maintaining all supporting documentation such as minutes of the City Commission meetings and relevant resolutions and ordinances. In the case of general obligation bonds, an estimate of the mill levy required to pay off the debt should be provided to the City Commission. The department will also be responsible following applicable secondary disclosure requirements.

Investments

The bond proceeds will be invested in accordance with the City’s investment policy. Adherence to the guidelines on arbitrage shall be followed, which at times, may require that the investment yield be restricted. In most cases, the investment will be selected to maximize interest with the assumption that the City will meet the IRS spend down requirement that allows for an exemption from arbitrage calculations.

Bond Counsel

The City will utilize external bond counsel for all debt issues. All debt issued by the City will include a written opinion by Bond Counsel affirming that the City is authorized to issue the debt, stating that the City has met all Federal and State constitutional and statutory requirements necessary for issuance, and determining the debt’s federal income tax status. The City’s Bond Counsel will be selected on a competitive basis.
Underwriter's Counsel

City payments for Underwriters Counsel will be authorized for negotiated sales by the Department of Finance on a case-by-case basis depending on the nature and complexity of the transaction and the needs expressed by the underwriters.

Financial Advisor

The City may utilize an external financial advisor. The utilization of the financial advisor for debt issuance will be at the discretion of the Director of Finance on a case-by-case basis. For each City bond sale, the financial advisor will provide the City with information on structure, pricing and underwriting fees for comparable sales by other issuers. The Financial Advisor will be selected on a competitive basis for a period not to exceed five years.

Temporary Notes

Use of short-term borrowing, such as temporary notes, will be undertaken until the final cost of the project is known or can be accurately projected. In some cases, projects might be funded with internal funds that will be reimbursed with bond funds at a future date.

Credit Enhancements

Credit enhancement (letters of credit, bond insurance, etc.) may be used if the costs of such enhancements will reduce the debt service payments on the bonds or if such an enhancement is necessary to market the bonds.

Competitive Sale of Debt

The City, as a matter of policy, shall seek to issue its temporary notes, general and revenue bond obligations through a competitive sale. In such instances where the City, through a competitive bidding for its bonds, deems the bids received as unsatisfactory or does not receive bids, it may, at the election of the City Commission, enter into negotiation for sale of the bonds. In cases where the circumstances of the bond issuance are complex or out of the ordinary, a negotiated sale may be recommended if allowed by State statute.

REFUNDING OF DEBT

Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit from the refunding or the refunding is needed in order to modernize covenants essential to operations and management or to restructure the payment of existing debt.

City staff and the financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. As a general rule, the present value savings of a particular refunding will exceed 3%.

Refunding issues that produce a net present value savings of less than 3% percent will be considered on a case-by-case basis. Refunding issues with negative savings will not be considered unless there is a compelling public policy objective.
CONDUIT FINANCINGS

The City may sponsor conduit financings in the form of Industrial Revenue Bonds for those activities (i.e., economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the City's overall service and policy objectives as determined by the City Commission. All conduit financings must insulate the City completely from any credit risk or exposure and must first be approved by the City Manager before being submitted to the City Commission for consideration. The City should review the selection of the underwriter and bond counsel, require compliance with disclosure and arbitrage requirements, and establish minimum credit ratings acceptable for the conduit debt. Credit enhancement, such as insurance, may be required for certain issues.

ARBITRAGE LIABILITY MANAGEMENT

Federal arbitrage legislation is intended to discourage entities from issuing tax-exempt obligations unnecessarily. In compliance with the spirit of this legislation, the City will not issue obligations except for identifiable projects with good prospects of timely initiation. Temporary notes and subsequent general obligation bonds will be issued timely so that debt proceeds will be spent quickly.

Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the City will be engage outside consultants to calculate potential arbitrage liability.

CREDIT RATINGS

Rating Agency Relationships

The Director of Finance shall be responsible for maintaining relationships with the rating agencies that assign ratings to the City's debt. This effort shall include providing periodic updates on the City's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance.

Use of Rating Agencies

The City will obtain a rating from Moody’s Investors Service. The Finance Director will recommend whether or not an additional rating shall be requested on a particular financing and which of the major rating agencies shall be asked to provide such a rating.

Rating Agency Presentations

Full disclosure of operations and open lines of communication shall be made to rating agencies used by the City. The Finance Director, with assistance of City staff, shall prepare the necessary materials and presentation to the rating agencies.

Financial Disclosure

The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, City departments and agencies, other levels of government, and the general public to share clear, comprehensible, and accurate financial information. The City is committed to meeting secondary disclosure requirements on a timely and comprehensive basis.
Official statements accompanying debt issues, Comprehensive Annual Financial Reports, and continuous disclosure statements will meet (at a minimum), the standards articulated by the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, and Generally Accepted Accounting Principles (GAAP). The Finance Director shall be responsible for ongoing disclosure to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies.

Appendix
City of Lawrence
Debt Management Policy

TERMINOLOGY

Arbitrage. Arbitrage refers to the rebate amount due to the Internal Revenue Service where funds received from the issuance of tax-exempt debt have been invested and excess interest earnings have occurred.

General Obligation Bonds. Bonds backed by the full faith and credit of the City. The taxing power may be an unlimited ad valorem tax or a limited tax, usually on real estate and personal property. A special tax rate levied for the Bond & Interest Fund annually to pay for general obligation LTO service. Because it is secured by an unlimited tax levy, this structure has strong marketability and lower interest costs.

Revenue Bonds. Bonds secured by revenues generated by the facility from dedicated user fees. Planning for such issues generally are more complex because future costs and revenues directly affect each other. Credit enhancements (e.g., insurance or letter of credit) may be needed because of the limited source of LTO service payments that may be available in outlying years.

Special Assessment Bonds. Bonds issued to develop facilities and basic infrastructure for the benefit of properties within the assessment district. Assessments are levied on properties benefited by the project. The issuer's recourse for nonpayment is foreclosure and the remaining LTO becomes the City’s direct obligation.

Temporary Notes. Notes are issued to provide temporary financing, to be repaid by long-term financing. This type of bridge financing has a maximum maturity of four years under Kansas law.
The City of Lawrence adopts the following guidelines for the issuance of debt:

- Ratio of General Obligation Bonds Outstanding to Appraised Valuation will not exceed 2.2%.
- Ratio of General Obligation Bonds and Temporary Notes Outstanding to the Statutory Debt Limit will not exceed 60%.
- Ratio of Debt Service payments from the Bond and Interest Fund will not exceed 15% of governmental expenditures.
- Amount of General Obligation Bonds Outstanding per Population will not exceed $1100.
- Amount of overlapping General Obligation Bonds Outstanding per Population will not exceed $2500.
- Bond and Interest mill levy will not exceed 10 mills.

The City will review and consider the following before any debt is issued:

- Adherence to the Capital Improvement Budget
- Adherence to the Capital Improvement Plan
- Impact on the mill levy
- Potential impact on other revenue sources such as increased property taxes and sales taxes.
1.0 **Purpose**

The purpose of establishing a policy on the unrestricted balance in the General Fund is to provide a guideline for budgeting decisions and to insure that adequate reserves are established to fund operations by providing sufficient working capital, protection against uncollected taxes, shortfalls from municipal revenue sources, and cutbacks in distributions from the state or federal government. The General Fund is the primary operating fund of the City for its non-utility related operations. In addition, the City of Lawrence desires to maintain its current debt rating. Rating agencies are concerned about a government’s creditworthiness and the level of unreserved General Fund balance is part of their evaluation.

There is no formula for determining an appropriate fund balance. Items to consider include the timing of revenue collections, the local and national economic environment, the volatility of the major revenue sources, and the degree of protection desired to mitigate current and future financial risks. The City of Lawrence obtains a substantial portion of its revenue from sales taxes and franchise fees. Sales tax collections are derived from local retail sales. In Lawrence, these collections are very dependent upon both the local and national economies. The collection of franchise fees, particularly those based upon sales of electricity and natural gas, vary widely depending upon local weather conditions. As a result, the desired level of unreserved General Fund balance is higher than the minimum level designated by the Government Finance Officers Association recommended practice on the **Appropriate Level of Unreserved Balance in the General Fund**.

2.0 **Policy**

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, a minimum unreserved General Fund balance of 15% of actual expenditures is recommended.
To avoid a balance in excess of the level deemed sufficient for prudent fiscal management, a maximum unreserved General Fund balance of 30% of actual expenditures is recommended.

The unreserved General Fund balance does not include reservations of fund balance for the payment of encumbrances nor designations for purposes that are allowed under generally accepted accounting principles.

If the General Fund balance falls outside of the above parameters, budgeted revenues will be either greater or less than budgeted expenditures in subsequent years to bring the General Fund balance into compliance with this policy.