

**OSAWATOMIE CITY COUNCIL**  
**WORK SESSION / MEETING AGENDA**  
Thursday, October 23, 2008  
7:00 p.m., Memorial Hall

**WORK SESSION**

1. Building Inspections
2. Nuisance Code Enforcement Issues
3. Financial Policies – presentation of draft
- 4.

**REGULAR MEETING – 7:30 p.m.**

- A. Call to Order
- B. Roll Call

C. Approval of Agenda

- 1.
- 2.
- 3.

4. **Executive Session**

- Personnel matter of nonelected personnel
- Consultation with City Attorney which would be deemed privileged in the attorney-client relationship
- Preliminary discussions relating to the acquisition of real property
- Employer-Employee Relations and Negotiations

D. Adjournment of Regular Meeting

**WORK SESSION – Continued:**

- 5.
- 6.



**COMPREHENSIVE**

**FINANCIAL**

**POLICIES**

**&**

**PROCEDURES**

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## **INTRODUCTION –**

This manual is a compilation of financial policies to be observed by elected and appointed officials of the City of Osawatomie. The intent of this manual is to combine all of these policies into a central location, so those with significant degrees of fiscal responsibility can find relevant financial policies to conform to and ensure that their practices meet the standards laid out herein.

These policies are primarily intended for department heads and front office staff. However, they should also be made available to individuals within the department who have budgetary authority, those who make frequent and regular purchases on behalf of the city, supervisory personnel, etc. These policies are open to review by any interested employee or citizen.

These policies also establish a system of checks and balances for the protection of public funds. This system applies not only to expenditures, but revenues as well. In order for these checks and balances to be preserved and the public trust to be retained in the city's management of these funds, each person involved in these processes is required to follow the procedures provided for in these policies and expected to ask questions when they need to be asked. Ultimately, everyone is responsible for the enforcement of these policies and failure to do so on the part of one person reflects poorly on all.

The responsibility of any formal adoption of a financial policy that affects the city's fiscal management as a whole lies with the City Council. Individual department heads may adopt policies applicable to their respective departments that are more stringent, but not less stringent than the City Council's policies. These are the City Council's policies as set forth herein, and it is the responsibility of the City Manager to enforce them.

## CHAPTER 1 – THE BUDGET

### PROCESS –

The City of Osawatomie budget is the end result of a process designed to provide for the expenditure of tax dollars for the benefit of the citizens. To begin the process, department heads receive Budget Request Forms that show actual expenditures for the most recently completed fiscal year, two years of approved operating budgets for the department, as well as space to request funding for the coming year's budget.

The Cash Basis Law requires that expenditures cannot be greater than cash on hand and the State Budget Law requires that actual expenditures do not exceed budgeted expenditures. Therefore, it is vital that both revenue and expenditure estimates be accurate. The City Manager and City Clerk are responsible for compiling all revenue estimates for the budget. Any requests for expenditures that exceed revenue estimates will be reduced accordingly, with proper communication given to the affected department.

Once revenues and expenditures have been determined, this “preliminary budget” is forwarded to the City Council for review. The City Council will provide direction on what changes/adjustments need to be made. The City Council is ultimately responsible to the citizens for the budget document, and more importantly, the taxes that must be levied to support it. Property taxes and utility revenues are the primary sources of revenue for the budget. The value of a mill (the unit used to determine the amount of tax dollars charged to property owners) is determined by the County Clerk and is a function of the total assessed valuation of real property within the city. The City Council, once the value of a mill is determined, may set a maximum levy that they are willing to approve.

Once the City Councils' goals have been met, the budget is published in the newspaper and a public hearing is set. A minimum of ten days must pass after the publication of the budget, before the hearing and formal adoption of the budget can take place. Once the budget is adopted, it becomes the official budget of the city. It is a legal document, and any expenditures that are going to exceed what was published in any given fund must follow the same rules as the adoption of the original document. This will be discussed in greater detail at a later point in this chapter.

### BUDGETED FUNDS –

There are a variety of funds that the City Council could establish and utilize. State law governs what funds a city may establish, how the funds are to be used, what revenue sources can fund these various funds, and whether or not these funds are required to be budgeted or not. The City of Osawatomie uses several types of funds. The types of funds and their purposes are as follows:

General Fund: The General Fund is used to account for all unrestricted financial resources except those required to be accounted for in another fund.

Special Revenue Funds: Special Revenue Funds are used 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 expenditures for specific purposes.

Debt Service Funds: Debt service funds are used to account for the accumulation of resources for and the payment of, interest and principal on general long-term debt and the financing of special assessments<sup>1</sup> which are general obligations of the city.

Capital Projects Funds: Capital Projects Funds are used to account for financial resources segregated for the acquisition or construction of major capital facilities and improvements, other than those financed by Proprietary Funds.

Proprietary (Enterprise) Funds: Proprietary or Enterprise Funds are used to account for operations where it is the intent that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

## **REVENUE SOURCES –**

The primary source of revenue for the City of Osawatomie is the ad valorem property tax. This tax is levied on the assessed value of property in the city. The appraised value of any real property is taxed at a rate based on the class of property that it belongs to. For example, residential property is taxed at 11.5% of appraised value. Commercial property is taxed at 25% of appraised value. Thus, the assessed value of a \$100,000 home is \$11,500, and a \$100,000 building used for commercial purposes has an assessed value of \$25,000. It is the assessed value that is used to determine the amount of ad valorem property tax to be levied, which is based on the number of mills that the City Council approves during the budget process. Once the mill levy has been determined, it can be applied to the assessed value of the property. A mill is \$1 for every \$1,000 of assessed valuation. Therefore, in the example provided above, the property taxes owed on the \$100,000 residential home will be: \$11.50 for every mill levied. It will be \$25 for every mill levied on the commercial property. These taxes are due for the coming year on December 20<sup>th</sup> (1<sup>st</sup> half) and May 10<sup>th</sup> (2<sup>nd</sup> half).

The property tax assessment process for the coming year begins on January 1. On this date, the County Appraiser classifies and values all taxable and exempt properties, and assessment rates are applied (see previous paragraph). By March 1<sup>st</sup>, the County Appraiser is required to notify each taxpayer of any changes to valuation or classification. June 15<sup>th</sup> is the last day for the County Appraiser to certify the completion of property appraisals. In October, as soon as possible, the County Clerk certifies tax levies to all taxing jurisdictions. November 1<sup>st</sup> is the last day for the County Clerk to certify the completed tax rolls to the County Treasurer, who then prepares the tax bills to the taxpayers. With the first half being due on December 20<sup>th</sup> and the second half due on May 10<sup>th</sup> as mentioned above.

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<sup>1</sup> Special Assessments are taxes levied against a specified group of property owners to pay off debt incurred to construct infrastructure such as water, sewer, or street systems that benefit this same specified group of individuals.

Other significant sources of revenue for the city is utility revenue and our local sales tax. State law authorizes cities to transfer utility revenues to any other lawfully established fund of the city, to be used for any lawful purpose. During the budget process, the City Manager strives to limit budgeted transfers from the city's utility funds to no more than 5% of that fund's budgeted revenue for the coming year. It is recognized however, that this 5% is a guideline for budget development and each budget is unique in its development. There may be more or less monies required from the utility fund in order to balance each budget.

The city levies a general purpose, one cent sales tax which is credited to the General Fund. Additionally, the sales tax that Miami County collects must be shared with the cities within the County. Half of the total sales tax dollars collected by the County sales tax is apportioned between the County and cities within the County based on the proportion of taxes levied in the prior year. The second half of the sales tax is distributed based on population.

### **EXPENDITURES –**

Osawatomie is required by law, to adopt and submit a balanced budget to the State Division of Accounts and Reports each fall. Each fund employed by the city which is required to be budgeted, must be balanced. By state law, not all funds are required to be budgeted. For example, capital projects funds are not required to be budgeted, but must show, for informational purposes, the amounts expended from the fund each year. However, any monies transferred to a capital projects fund must be budgeted.

### **BUDGET & EXPENDITURE POLICY:**

All funds utilized by the City of Osawatomie shall be budgeted, regardless of any state statutes that exempt a fund or funds from the state budget law.

### **BUDGET AMENDMENTS –**

As a result of the policy to budget all funds regardless of state laws allowing otherwise, all funds shall also be amended in accordance with the state budget law.

### **BUDGET AMENDMENT POLICY:**

In the event that a city fund's expenditures will exceed its approved budget, the City Manager shall communicate such need to the City Council. The respective department head may need to be present at the City Council meeting in the event that questions are asked as to why the amendment is needed. The City Council shall then approve or deny the budget being exceeded for the fund in question. In the event that the amendment is approved, any necessary fund transfers shall then be made.

Prior to the end of the year for which the amendment was approved, the City Manager shall compile a list of all necessary budget amendment(s), complete the required state

forms, and publish the amendment(s) in accordance with state law. A hearing shall be scheduled ten days subsequent to the publication, which shall be followed by the adoption of the amendments. This must occur prior to the end of the budget year in order to avoid violation of the state budget law.

#### **ESTABLISHING & CLOSING FUNDS –**

Every effort shall be made by all department heads to utilize the funds that are currently established. From time to time, however, new funds will be established as prescribed by state law, as they arise out of necessity as a result of certain bond issuances, receiving of certain grants, or for other special and compelling circumstances. Any need that arises to track expenses for various items separately shall be assigned project codes in order to avoid unnecessarily opening new funds.

When the useful purpose of a fund has passed, any fund balances shall be dealt with in accordance with state law. If necessary, the City Attorney shall issue a legal opinion guiding the City Council as to what must be done with the unexpended funds. Once a decision to close a fund has been made, the City Manager shall notify all affected parties. Once the fund has been closed, no further revenues or expenditures will be allowed to pass through the fund.

## CHAPTER 2 – DEBT ISSUANCE

### PURPOSE –

The Debt Financing Management Policy sets forth comprehensive guidelines for the financing of capital expenditures. It is the objective of the policy that (1) the City obtain financing only when necessary, (2) the process for identifying the timing and amount of debt or other financing be as efficient as possible, (3) the most favorable interest rate and other related costs be obtained, and (4) when appropriate, future financial flexibility be maintained. Debt financing, which includes 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 cannot be acquired from either available current revenues or fund balances. The useful life of the asset or project shall exceed the payout schedule of any debt the City assumes.

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 Comprehensive Plan and the adoption of a Capital Improvement Plan (CIP) identifying the benefits, costs and method of funding each capital improvement planned for the succeeding five years.

### **POLICY ON DEBT ISSUANCE:**

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 capital improvement projects and unusual equipment purchases, and only under the following circumstances:

- When the project is included in the City's capital improvement program; or
- When the project involves acquisition of equipment that can't be purchased outright without causing an unacceptable spike in the property tax rate; or
- When the project is the result of growth-related activities within the community that require unanticipated and unplanned infrastructure or capital improvements by the City; and
- When the project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing; and
- When there are designated revenues sufficient to service a debt, whether from project revenues, other specified and reserved resources, or infrastructure cost sharing revenues.

### **POLICY ON DEBT LIMITS:**

The City will not engage in debt financing unless the proposed obligation, when combined with all existing debts, will result in debt ratios throughout the life of the proposed obligation that are less than the following benchmarks.

- Per capita direct debt will not exceed \$800
- Per capita direct, overlapping and underlying debt will not exceed \$3,000
- Direct debt as a percentage of estimated appraised valuation will not exceed 20%
- Annual debt service will not exceed 30% of budgeted expenditures

The computation of these ratios will use the following variables.

- Per capita measures will be based on the most recent annual estimate of City population produced by the State of Kansas for the year in question.
- Direct debt will be the total of all then outstanding General Obligation and special assessment bonded debt plus all authorized but unissued bonded debt plus the amount of debt financing being proposed.
- Direct, overlapping and underlying debt will be the total of direct debt plus all General Obligation bonded debt of the city, township, school district, and special purpose governmental district located within Osawatomie as of the most recent December 31, but will exclude bonds backed solely by a dedicated non-ad valorem revenue, industrial revenue bonds and mortgage revenue bonds.
- Estimated appraised valuation will be the total estimated valuation of all real and personal property located within the City of Osawatomie for the year in question as estimated by the Miami County Appraiser.
- Annual debt service will be the total principal and interest payments due on direct debt in the year in question plus the estimated maximum annual principal and interest payment on the proposed long term obligation.
- Budgeted expenditure will be the total original adopted budget of the General Fund and debt service fund for the year in question.

### **POLICY ON STRUCTURING OF DEBT:**

*General:* City debt will be structured to achieve the lowest possible net interest cost (NIC) to the City given market conditions, the urgency of the capital project, and the nature and type of any security provided. City debt will be structured in ways that will not compromise the future flexibility to fund projects. Moreover, to the extent possible, the City will design the repayment of its overall debt issues so as to rapidly recapture its credit capacity for future use. As a benchmark, the City shall strive to repay at least 30% of the principal amount of its bonded debt within five years and at least 60% within ten years.

General Obligation Bonds: The City shall use an objective analytical approach to determine whether it can afford to issue new bonds for City facilities beyond what it retires each year (see Assumption of Additional debts below). Generally, this process will compare a variety of measures of debt benchmarks relative to key demographic data of the City. The decision on whether or not to assume 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 assume new general obligation bonds as determined by the aforementioned benchmarks.

*NOTE: The provisions of this section also apply to the issuance of any private activity bonds.*

Revenue Bonds: The City may issue bonds secured solely by dedicated non-ad valorem revenue streams if doing so will yield clearly identifiable advantages. For the City to issue revenue bonds, a primary objective will be to minimize risk through the use of adequate coverage requirements while remaining in compliance with overall debt management policy objectives. The City will adhere and where necessary take actions to ensure compliance with all outstanding revenue bond covenants.

Special Assessment Bonds: The City shall maintain a watchful attitude over the issuance of special assessment bonds for benefit district improvements. While the City's share of any benefit district project may fluctuate, the City will not pay more than 50% of any proposed costs related to a benefit district. Further, it will be the responsibility of the Debt Management Committee to analyze each special assessment bond issue for indications that future special assessments will equal or exceed the annual principal and interest payments of such bonds. A report on the findings of the Finance & Audit Committee will be submitted to the City Manager prior to the approval by the City Council of any special assessment bond issue.

Assumption of Additional Debts: The City shall not assume more debt than it retires each year without conducting an objective analysis of the community's ability to assume and support additional debt service payments and of the probable impact of the additional debt on the City's bond ratings.

Asset Life: The City will consider debt financing for the acquisition, replacement, or expansion of physical assets (including land) only if a capital project has a useful life longer than the term of the bond issue supporting it. Debt will be used only to finance capital projects and equipment, except in case of unforeseen emergencies. Debt will not be issued for periods exceeding the useful life or average useful lives of the project or projects to be financed.

Length of Debts: City debts will be amortized for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users, and in keeping with other related provisions of this policy. The City normally shall issue bonds with a maximum life of 20 years or less for general obligation bonds, Public Building Commission bonds, and revenue bonds, and 15 years or less for special assessment bonds.

Unless specific compelling reasons exist 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 and principal repayment starting no later than the second fiscal year after the bond issue.

Call Provisions: Call provisions for bond issues shall be made as short as possible consistent with the lowest interest cost to the City. Unless specific compelling reasons exist all bonds shall be callable only at par.

Debt Structuring: At a minimum, the City will seek to amortize general obligation bonds with level principal and interest costs over the life of the issue. Pushing higher costs to future years in order to reduce short-term budget liabilities will be considered only when natural disasters or extraordinary or unanticipated external factors make the short-term cost of general obligation bonds prohibitive.

Variable Rate Debts: 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 preexisting bonds, and depending on market conditions.

#### **POLICIES ON DEBT ADMINISTRATION AND FINANCING:**

Financing Proposals: Any capital financing proposal of a City division, agency, or utility involving the pledge or other extension of the City's credit through sale of bonds, execution of loans or leases, or otherwise involving directly or indirectly the lending or pledging of the City's credit, shall be referred to the Finance & Audit Committee for review before such pledge is considered by the City Council.

Bond Fund: All payment of general obligation bonds and special assessment bonds shall be from the City's Bond & Interest Fund. The fund balance in the Bond & Interest Fund will be maintained at a level equal to or greater than the total principal and interest payable from that Fund for the upcoming semi-annual debt service payment. Furthermore, the fund balance will be managed to eliminate or minimize arbitrage rebate liability.

Bond Counsel: The City will utilize external bond counsel for all debt issues. All debts 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 federal income tax status of the debt.

Underwriter's Counsel: City payments for Underwriters Counsel will be authorized for negotiated sales by the Finance Division 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 will retain an external financial advisor selected for a term of up to three years through a competitive process administered by the City Manager. The utilization of the financial advisor for each debt issuance will be at the discretion of the City Council on a case-by-case basis. For each City bond sale the financial advisor will provide the City with information on pricing and underwriting fees for comparable sales by other issuers.

Temporary Notes: Use of short-term borrowing, such as temporary notes, will be undertaken only if the transaction costs plus interest on a debt are less than the cost of internal financing, or available cash or reserves are insufficient to meet both project needs and current obligations.

Credit Enhancements: Credit enhancement (letters of credit, bond insurance, etc.) may be used if the costs of such enhancements will reduce the net debt service payments on the bonds or provide other significant financial benefits to the City.

Lease/Purchase Agreements: The use of lease/purchase agreements in the acquisition of vehicles, equipment and other capital assets shall be considered carefully relative to any other financing option or a "pay-as-you-go" basis. The lifetime cost of a lease typically will be higher than other financing options or cash purchases. Nevertheless, lease/purchase agreements may be used by the City as funding options for capital acquisitions if operational or cash-flow considerations preclude the use of other financing techniques.

Competitive Sale of Debts: The City, as a matter of policy, shall seek to issue its general or revenue bond obligations in a competitive sale unless it is determined that such a sale method will not produce the best results for the City. 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 Council, enter into negotiation for sale of the bonds.

Negotiated Sale of Debts: Where a negotiated sale process is determined to be in the best interests of the City, the City will use a competitive process to select its investment banking team.

### **POLICY ON REFUNDING OF DEBTS:**

Periodic reviews of all outstanding debts 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 of the refunding or the refunding is essential in order to modernize covenants essential to operations and management. City staff and the financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debts. As a general rule, current refundings will be undertaken only if the present value savings of a particular refunding will exceed 3% of the refunded principal. As a general rule, advance refundings will be undertaken only if the present value savings of a particular refunding will exceed 4% of the refunded

principal. Refunding issues that produce a net present value savings of less than targeted amounts may be considered on a case-by-case basis. Refunding issues with negative savings will not be considered unless a compelling public policy objective is served by the refunding.

### **POLICY ON CONDUIT FINANCINGS:**

The City may sponsor conduit financings in the form of 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 Council. All conduit financings must insulate the City completely from any credit risk or exposure.

### **POLICY ON ARBITRAGE LIABILITY MANAGEMENT:**

It is the City's policy to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the law.

*General:* 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 very good prospects of timely initiation. Temporary notes and subsequent long-term bonds will be issued timely as project contracts are awarded so that debt issues will be spent quickly.

*Responsibility:* Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the advice of Bond Counsel and other qualified experts will be sought whenever questions about arbitrage rebate regulations arise.

### **POLICY ON CREDIT RATINGS:**

*Rating Agency Relationships:* The City's Financial Advisor shall be responsible for maintaining relationships with the rating agencies that currently assign ratings to the City's various debts. 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 Manager shall be responsible for determining whether or not a rating shall be requested on a particular financing and which of the major rating agencies shall be asked to provide such a rating.

*Minimum Long-Term Rating Requirements:* The City's minimum rating requirement for its direct, long-term, debt obligations is a rating of "AA" or higher. If a given debt cannot meet this requirement based on its underlying credit strength, then credit enhancement may be sought to ensure that the minimum rating is achieved. If credit enhancement is unavailable or is determined by the City's Financial Advisor to be uneconomical, then the obligations may be issued without a rating.

Rating Agency Presentations: Full disclosure of operations and open lines of communication shall be provided to rating agencies used by the City. City staff, with assistance of the City's Financial Advisor, shall prepare the necessary materials and presentation to the rating agencies.

Financial Disclosure: The City is committed to full and complete primary and secondary 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.

## CHAPTER 3 – CAPITAL IMPROVEMENTS PROGRAM

### CIP OVERVIEW –

A Capital Improvements Program (CIP) serves as a guide for the efficient and effective provision of public infrastructure, facilities, equipment and technology by continually planning for these needs. The CIP is published annually and illustrates the proposed development, modernization, or replacement of fixed public assets over a multi-year period. The CIP presents these projects in a sequential order based on a schedule of priorities and assigns an estimated cost and anticipated method of financing for each project.

Planning for capital improvements over time optimizes the use of Osawatomie's limited financial resources and assists in the coordination of public and private development. In addition, the planning process is valuable as a means of coordination among city departments to avoid duplication of efforts and to take advantage of joint planning and development of facilities where possible. By looking beyond year to year budgeting and projecting what, where, when, and how capital investments should be made, the CIP enables Osawatomie to maintain an effective level of service to the present and future population.

When there is sufficient time for planning, the most economical means for financing each project can be selected in advance. The CIP can also facilitate reliable capital expenditure and revenue estimates and reasonable bond programs by looking ahead to minimize the impact of capital improvement projects. Keeping planned projects within the financial capacity of the city helps to preserve its credit rating and makes it more attractive to business and industry. Thus, the CIP is an integral element of Osawatomie's budgetary process.

1. The Capital Improvement Program is a multi-year plan for capital expenditures needed to replace and expand public infrastructure. The program is updated annually to reflect the community's latest priorities, updated cost estimates, and latest estimates for federal aid.
2. A capital project is considered a major (greater than \$5,000), nonrecurring tangible fixed asset with a useful life greater than one year. Projects under \$5,000 (excluding land purchases) or expenses that are maintenance related are placed in the department's operating budget.
3. Before the budget process begins, each department head will submit their respective CIP request. The CIP request will include department name, name of project, priority of project, explanation and justification for project, cost, and estimated time frame.

## **CIP CATEGORIES –**

1. Acquisition of or option to buy land and/or rights in land, whether by purchase or eminent domain proceedings, regardless of cost.
2. Construction of any new facility, structure, building, or public improvement or any addition/major renovation to an existing structure.
3. Acquisition of fixed equipment, machinery, or information technology. Information technology is defined as all hardware, software, and peripheral devices.
4. Preliminary planning costs for architectural and engineering studies to help ensure that projects are well thought out and have reasonable and accurate cost estimates. Planning funds will be repaid from project funding if approved in the CIP.

## **PRIORITIZING CAPITAL IMPROVEMENTS –**

The priority definitions are as follows, and are assigned by the Governing Body. It is the department heads' responsibility to convey their view of the importance of the respective projects.

**PRIORITY I. Imperative.** The project must be done to avoid undesirable consequences such as the loss of life or property, or these projects will positively impact a majority of citizens. Additional funding for ongoing, previously approved projects are Priority I projects. Projects that include inflexible timing and/or funding (i.e. matching federal aid dollars in a particular federal fiscal year) are Priority I projects.

**PRIORITY II. Essential.** These projects will meet clearly demonstrated needs. They are essential to the protection of life and property and will positively impact a majority of citizens. These projects must produce a measurable reduction in operating costs. Funding is more flexible for these projects.

**PRIORITY III. Important.** These projects, while being desirable and of benefit to the community, can be delayed without detriment to basic services or putting life or property at risk.

**PRIORITY IV. Desirable.** Desirable projects are not included in the plan as they lack immediate justification or positively impact only a small number of citizens.

**PROCEDURE FOR REQUESTING A CIP PROJECT:**

1. **CIP Budget Request Forms** will be sent out prior to commencing the preparation of the operating budget by the City Manager to all department heads.
2. Department heads will fill out the **CIP Budget Request Form** to cover all projects for the next 5 years. These forms are due to the City Manager two weeks after the requests are sent out.
3. All requests will be compiled by the City Manager and added to the **Non-Funded Projects** report.
4. A general meeting with the Governing Body will be set to discuss the CIP budget requests. All department heads with a CIP Budget Request should attend to answer questions pertaining to their specific project. The Governing Body will review all CIP budget requests to determine which projects will be funded.

## **CHAPTER 4 – OTHER FINANCIAL POLICIES & PROCEDURES**

### **PETTY CASH, FUEL CARDS & CREDIT CARDS –**

The purpose of a petty cash fund is to provide funds for incidental expenses that occur periodically through the month and it would be too expensive and time-consuming to use a formal voucher. The petty cash fund is to handle purchases of items with low dollar values. The petty cash funds should be segregated from other cash and not commingled with cash receipts. The custodian of the petty cash funds should not have access to the accounting records or cash receipts. Pre-numbered vouchers should be completed in ink (to discourage alterations) and include the date, amount, nature of the expenditure and should be signed by the recipient of the cash. An individual other than the custodian of the fund should approve all petty cash vouchers, insuring that proper policies and procedures have been followed.

#### **PETTY CASH, FUEL CARD & CREDIT CARD USE POLICY:**

When items are purchased with petty cash funds, the receipt for the purchase is put in the petty cash box (or otherwise accounted for). The receipt must equal the amount of the expenditure(s). Fuel cards or credit cards may be checked out to employees when they are unable to obtain fuel at the city fueling station or when taking a check is not practical. Receipts must be retained when these cards are used, and returned with the card for reconciliation with the monthly statement. Under no circumstances, shall petty cash funds, fuel cards, or credit cards be used for personal purposes.

With expenditures, the total of the cash and receipts must always equal the amount of the original petty cash. As money is collected for copies, fees, etc., the cash plus a petty cash receipt is put into the box. Cash in the box will equal beginning cash plus any receipts. These receipts must be deposited, at least monthly, and credited to the appropriate budget line item. At the end of the month, the amount in the petty cash box will equal the original amount.

### **PREPAID REVENUE –**

Prepaid revenues are advance payments received for services or goods before the services have been performed, or the goods received. This should be done only when it is not cost efficient to have the customer pay on a cash basis when the service is performed or the goods received. An example of prepaid revenue might be if a utility customer wishes to pay an additional amount for credit on their next month's utility bill.

#### **PREPAID REVENUE POLICY:**

Revenue will be recognized when they are both “measurable and available to finance expenditures of the fiscal period” (GAFRM 5.04[1]). At the time of the payment, the entire amount of funds received will be placed in the appropriate fund. (see Accounts Receivable Policy below).

## **INTERNAL REIMBURSEMENTS –**

Internal reimbursements of expenses are required when an expenditure is recorded in one fund but are properly applicable to, and should be paid for, out of another fund. These transactions may have been recorded in improper funds inadvertently, or as a matter of expediency but without interfund receivable or payable accounts being established. These transactions may occur as a matter of necessity, because the correct funds involved and the appropriate amounts to be charged to each fund may not be evident at the time of the transaction. Alternatively, the ability of the reimbursing fund to make the payment may have been uncertain.

### **POLICY ON INTERNAL REIMBURSEMENTS:**

Whenever there is an internal reimbursement, the reimbursement should be made to the expense line item where it was paid out. However, in the interest of expediting procedures, each department has the option of crediting the reimbursement to the specific line item used for the expenditures or a line item for reimbursements. The important thing to remember is that the reimbursement reduces the expenditures and is not recorded as revenue. This enables the department to still have the complete budget authority that was granted at the beginning of the year without amending the budget. It also does not over inflate the revenues of any department.

The expenditure should be recorded only in the proper applicable fund. Expenditures should be reduced by the amount of the reimbursement in the fund from which the payment was initially made. This method of accounting ensures that these transactions, which should not be confused with interfund transfers or loans, are reported only once and in the proper fund (GAFRM 5.07[2]).

## **EXTERNAL REIMBURSEMENTS –**

Examples of external reimbursement include when the county and city agree to split the costs of a traffic study, and the county is billed for the entire amount. The county will pay the full amount, and invoice the city for their portion. When this is paid, the city's portion of the expense is used to reimburse the expense line item from which the full bill was paid. Another example of an external reimbursement involves city employees who utilize city resources for personal purposes. These employees shall be required to reimburse the city for the costs incurred by the city and attributable to this usage. Finally, in the event the city suffers an insured loss to property and city funds are used to pay the cost of repair, future reimbursements from the insurance company shall be used to reduce the expenditure as opposed to being recorded as a revenue.

### **POLICY ON EXTERNAL REIMBURSEMENTS:**

General external reimbursements offset expenditures that are paid for by the city that will ultimately be the responsibility of another entity. Since this expenditure is not the legal responsibility of the city, it is not accounted for as a city expense. These reimbursements

are treated as “negative expenses”. By crediting the reimbursement back to the line item charged, the expense is not charged to the particular department or fund. The reimbursement is not revenue because the city is not in the business of paying other entities obligations.

Employee specific reimbursements are those reimbursements that are required to be made by the employee, to the city, as a result of the employee’s usage of city resources. Resources may include the use of petty cash funds or fuel cards for personal purposes, the use of telephones to make long distance phone calls, receiving reimbursement for inappropriate expenses associated with travel, etc. Employees shall be required to reimburse the city for these expenses and be subject to disciplinary action in accordance with the City of Osawatomie Personnel Policies and Guidelines.

### **ACCOUNTS RECEIVABLE –**

Accounts receivable are generally considered any monies owed to the City of Osawatomie. Accounts Receivable are any revenues received by departments. A receipt must be completed for all revenues received by cash or check. All receipts must contain the following information:

1. Receiving Department
2. Current Date
3. Fund name/Transaction description
4. Fund Number/Department Number/Object Code/Project Number
5. Amount per fund/Sub-Total/Any Cash Back/Grand Total
6. A breakout of checks, bills, and coins
7. Department signature

All checks received shall be reviewed to ensure that:

1. Check is dated with the current date
2. The check is signed
3. The check amount and legal line match

Separation of responsibilities when receiving public funds is an important part of providing accountability when revenues are received. Therefore, no single person shall handle any sequence of related transactions from beginning to end. When money is received, a minimum of two individuals shall be involved in receiving the payment and issuing a receipt, preparing the deposit slip, making the deposit, posting receipts, and balancing reports with receipts.

### **POLICY ON RETURNED CHECKS:**

Any person with three returned checks to the City of Osawatomie shall be required to make any future payments in cash, money order, or a cashier’s check. No personal checks will be accepted from these individuals. Additionally, any individual with fewer than three returned checks may continue to pay with a personal check. However, they

will be required to pay cash for the amount of the bad check plus returned check fees. Returned check fees may be adjusted by the City Council in the annual fee resolution.

## **ACCOUNTS PAYABLE –**

As a follow up on Chapter 1's discussion of the budget process and budget amendment policies, department heads are responsible for the expenses paid out of the funds they submit budgets for. All invoices that are received by a department shall be properly coded for payment upon confirmation that the goods and/or services being billed for have been delivered and that they meet the department head's satisfaction that the goods/services have been sufficiently delivered. Additionally, all expenditures must meet the requirements set forth in the city's purchasing policy. With few exceptions, invoices are paid at the end of each month. Exceptions to this might include (but are not necessarily limited to) invoices that are due before the end of the month, which if not paid, would result in late charges to the city.

### **OSAWATOMIE PURCHASING POLICY:**

The underlying purposes of this policy are: 1.) to ensure fair and equitable treatment of all persons who wish to, or do conduct business with the City of Osawatomie; 2.) to provide for the greatest possible economy in city procurement activities; 3.) to foster effective broad-based competition within the free enterprise system to ensure that the city will receive the best possible service or product at the lowest responsible bid price.

Exemptions from this policy include: 1.) this policy shall not prevent the city from complying with the terms and conditions of any grant, gift, or bequest that is otherwise consistent with law; 2.) when procurement involves the expenditure of state or federal assistance funds, the city shall comply with applicable state or federal law and regulations.

The City Manager or his/her designee is responsible to make procurements, solicit bids and proposals, enter into and administer contracts, and make written determinations for the city. Department heads may designate additional members of their staff as purchasing authorities in accordance with the procedures of this policy. The City Council must approve all expenses above \$10,000 and all purchases requiring transfers of budget between funds or from contingency funds.

Exceptions to competitive bidding or purchases not requiring formal solicitation but consistent with budgeted expenses include (NOTE: purchases shall not be artificially divided so as to constitute a small purchase under these guidelines):

- 1.) Under \$1,000 – Department heads use their discretion regarding shopping the appropriate product, price and delivery subject to budget limitations. Purchases should be local if available.

- 2.) Over \$1,000 and up to \$5,000 – Department heads request verbal quotes from at least 3 sources, unless fewer than 3 sources can be identified and submitted to City Manager.
- 3.) Over \$5,000 and up to \$10,000 – Department heads issue a request for quotation and obtain written or faxed quotes from at least 3 sources, unless fewer than 3 sources can be identified and submitted to the City Manager.

Additionally, the following are exempt from competitive bidding requirements:

- 1.) Purchases made through cooperative purchasing contracts with other units of government when in the best interest of the city and pursuant to law;
- 2.) Purchases made from a single-source provider;
- 3.) Purchase must meet compatibility requirements with existing equipment owned by the city;
- 4.) Purchases required during an emergency (i.e. an eminent threat to the public's health, welfare, or safety). However, as much as competition as practical should be obtained and such purchases should be limited to amounts necessary to the resolution of the emergency;
- 5.) Professional services or services requiring special or technical skill, training or expertise (i.e. architects, engineers, attorneys, auditors, and other specialized consultants). The individual or company must be chosen based on accountability, reliability, responsibility, skill, education and training, judgment, integrity and moral worth. The City Council shall select all such services over \$2,000.
- 6.) The dollar limits for quotations, and the use of purchase orders are waived for the following purchases:
  - a. Petty Cash Reimbursements;
  - b. Utility Bills;
  - c. Maintenance Repairs and parts (up to \$5,000);
  - d. Maintenance and Service Contracts (up to \$5,000);
  - e. Interdepartmental Transfers or Charges;
  - f. Medical Expenses;
  - g. Legal Notices;
  - h. Postage Costs;
  - i. Memberships and Dues;
  - j. Books and Periodicals;
  - k. Mileage, Travel, Conference Reimbursements;
  - l. Fees and Taxes of Other Units of Government;

Competitive Bidding – Sealed Bid Procedures:

- 1.) The competitive bidding process for contracts over \$10,000 shall be awarded by competitive sealed bidding to the “lowest responsible bidder” except as otherwise provided by this policy.
- 2.) An invitation for bids shall be issued when a contract is to be awarded by competitive sealed bidding. The invitation shall include a purchase description, all contractual terms and conditions applicable to the procurement, time and place

for bid opening and whether a bid deposit or bond(s) will be required. Under KSA 60-1111, a payment bond is required for construction projects which exceed \$40,000 and all other bonds as required by the City Council.

- 3.) Any Procurement in excess of \$20,000 shall require a minimum 10 day notice in the official city newspaper, the Osawatomie Graphic.
- 4.) Bids shall be opened publicly in the presence of one or more witnesses at the time and place designated in the invitation for bids. All bids shall be open to public inspection.
- 5.) Bids shall be unconditionally accepted without alteration or correction, except as authorized in this policy. Bids shall be evaluated based on the requirements set forth in the invitation for bids.
- 6.) Correction or withdrawal of inadvertently erroneous bids before or after award, or cancellation of awards or contracts based on such bid mistakes, shall be permitted.
- 7.) An invitation for bids, a request for proposals, or other solicitation may be canceled, or any or all bids or proposals may be rejected, in whole or in part, as may be specified in the solicitation, when it is in the best interests of the city.

Criteria for determining “Lowest Responsible Bidder” include, but are not limited to:

- 1.) The ability, capacity, and skill of the bidder to perform the contract or provide the service required.
- 2.) The ability of the bidder to perform promptly or within the time specified, without delay or interference.
- 3.) The reputation and experience of the bidder, including the city’s previous experience with the bidder.
- 4.) The quality, availability, and adaptability of the supplies or contractual services to the particular use required.
- 5.) The ability and availability of the bidder to provide future maintenance and service for the use of the subject of the contract.
- 6.) Any conditions attached to the bid by the bidder.

Cost-plus-a-percentage-of-cost contracts are prohibited. A cost-reimbursement contract may be used only when a determination by the City Manager is made in writing that such contract is likely to be less costly to the City than any other type or that it is impracticable to obtain the supplies, services, or construction required except under such a contract.

Disposal of goods shall follow the following requirements: 1.) Goods with an expected value of less than \$1,000 may be disposed of in the most appropriate manner with the authorization of the City Manager; 2.) Upon approval of the City Council, goods with an expected value of over \$1,000 may be disposed of by either a trade-in, public auction, or by solicitation in the city newspaper; 3.) All items which might be donated to another town or non-profit organization shall require approval of the City Council; 4.) The City Clerk shall establish a procedure for maintaining an up-to-date property and inventory record of all equipment, except expendables, held by the city and for the disposal of obsolete surplus or non-usable materials, supplies and equipment.

No person involved in making procurement decisions may have personal investments in any business entity which will create a substantial conflict between their private interests and their public duties. Any person involved in making procurement decisions is guilty of a felony if the person asks, receives, or offers to receive any compensation, gratuity, contribution, loan, or reward, or any promise thereof, either for the person's own benefit or any other person or organization from anyone interested in selling to the city.

Appeals from any actual or prospective bidder who feels aggrieved in connection with the solicitation or award of a contract may appeal to the City Manager. An appeal shall be submitted in writing within 5 working days after the aggrieved person knows or should have known of the facts. The City Manager shall promptly issue a written decision regarding any appeal, if it is not settled by a mutual agreement. The decision shall state the reasons for the action taken and inform the actual or prospective bidder of the right to appeal to the City Council. The City Council shall be the final appeal at the city level.

### **POLICY ON PAYROLL –**

All payroll policies will be in accordance with the approved Osawatomie Personnel Policies and the Fair Labor Standards Act. Specific policies regarding leave administration and pay policies are outlined in the personnel policy manual.

### **POLICY ON CASHING CHECKS:**

Neither customers, nor employees of the City of Osawatomie will be allowed to write checks to obtain cash. Checks that are written to the city for any other legitimate purpose shall be for the amount due, except in the case of prepaid revenues for services to be delivered at a later time. Additionally, employees shall not be allowed to cash payroll checks.

### **INTERFUND TRANSFERS –**

Budgeted transfers from one fund to another fund must be authorized by statute. K.S.A.79-2934 states in part: "No part of any fund shall be diverted to any other fund, whether before or after the distribution of taxes by the County Treasurer, except as provided by law." This means a transfer from one fund to another should be made only if specifically authorized by state statute, and only in accordance with that statute.

Transfers from one fund to another fund should be shown in the budget as separate line items in the affected funds and identified either as a "transfer to \_\_\_\_\_ fund" or a "transfer from \_\_\_\_\_ fund" item as appropriate. For example, the entries to record a transfer from the general fund to a capital project fund are: 1) the general fund shows an expense of transfer to the capital project fund; 2) the capital project fund shows a receipt of transfer from general fund. The "Statement of interfund transfers" located within the Osawatomie budget document must include all interfund transfers.

## **POLICY ON MUNICIPAL INVESTMENTS:**

### **SCOPE:**

This investment policy applies to all financial assets of the City of Osawatomie made by the Osawatomie City Clerk in the capacity of the city's Chief Financial Officer. These funds are accounted for in the city's annual financial report.

### **OBJECTIVES:**

Funds of the City of Osawatomie will be invested in accordance with Kansas Statutes Annotated, these policies, and written administrative procedures. The city's investment portfolio shall be managed in a manner to attain a market rate of return throughout budgetary and economic cycles commensurate with preserving and protecting capital in the overall portfolio. Investments shall be made based on statutory constraints and subject to available designated staffing capabilities. The first objective and priority of the investments is the safety of the investment. The second objective is the liquidity and availability of the investments at the appropriate time. And the third and final objective is the yield on the investment, which will never take precedence over safety.

### **SAFETY:**

Safety of principal is the foremost objective of the City of Osawatomie. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.

### **LIQUIDITY AND MATURITY:**

The cash position of the City of Osawatomie has peaks and valleys during the year which require that a portion of the investment portfolio emphasize liquidity. Securities will be purchased with maturities to coincide with the anticipated cash flows of the city with the intent to hold until maturity. Only in very extreme emergencies will they be cashed in prior to maturity. It is a policy of the City of Osawatomie to consider liquidity as a priority while still recognizing the need to maximize yield. The maturity of the investments will be managed to coincide with the cash flow needs with the intent to hold all investments to maturity.

### **YIELD:**

The investment portfolio of the City of Osawatomie shall be designated to attain a market-average rate of return through budgetary and economic cycles, taking into account the city's investment risk constraints, cash flow characteristics of the portfolio and prudent investment principles.

### DELEGATION AND AUTHORITY:

The City Clerk is designated as the investment officer of the City of Osawatomie and is responsible for investment decisions and activities, under the direction of the Governing Body and City Manager. The City Clerk shall develop and maintain a written administrative procedure for the operation of the investment program, consistent with these policies. In order to optimize total return through an active portfolio management program, resources shall be allocated to the cash management program and this commitment of resources shall include financial and staffing considerations.

### PRUDENCE AND ETHICS:

The standard of prudence to be applied by the investment officer shall be the "prudent investor" rule. This rule 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 optimum liquidity required for operations of their city government." The prudent investor rule shall be applied in the context of managing the overall portfolio. The investment officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to city management staff and Governing Body any material financial interests in financial institutions that conduct business with the City of Osawatomie and they shall further disclose any large personal financial/investment positions that could be related to the performance of the city's portfolio.

### AUTHORIZED INVESTMENTS:

The only authorized investments will be those set forth in state statutes. No public deposit shall be made except in a qualified public depository as established by state laws.

### PORTFOLIO COMPOSITION:

The city will set no restraints on the composition of the types of investments, as long as the ultimate goal of safety is met. The liquidity and rate of return will be secondary to the safety.

The city is empowered by statute and may take the option to place public funds in the following types of deposits:

- A. Certificates of Deposit

- B. NOW Accounts and Pass Book Savings Accounts
- C. Money Market Accounts

The city is empowered by statute and may take the option to place public funds in the following types of investments:

- A. U.S. Treasury Instruments
- B. Kansas Municipal Investment Pool
- C. Bank Trust Departments with Commercial Banks
- D. Direct obligations of, or obligations that are insured as to principal and interest by the United States or any agency thereof.
- E. Obligations and securities of U.S. sponsored enterprises which, under federal law, may be accepted as security for public funds.
- F. Repurchase Agreements.

RISK AND DIVERSIFICATION:

The City of Osawatomie recognizes that investment risks can result from issuer defaults or market price changes. Portfolio diversification is employed as a way to control risk. Investment managers are expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. In the event of default by a specific issuer, the investment manager shall review, and if appropriate, proceed to liquidate securities having comparable risks. To control market price risks, volatile investment instruments shall be avoided, unless specifically approved by the Osawatomie Governing Body.

INTERNAL CONTROLS:

The City Clerk shall establish a system of internal control, which shall be reviewed by an independent auditor. The internal controls shall be designed to prevent losses of public funds arising from fraud, employee error, third party misrepresentation, unanticipated changes in financial markets, or imprudent actions by employees and officers of the city.

RELATIONSHIPS WITH BANKS:

Banks and savings and loan associations seeking to establish eligibility for the city shall submit information as requested. No business will be conducted with any financial institution with whom or through whom public entities have sustained losses on investments. Only those financial institutions meeting the qualifications as set forth in state statute shall be eligible.

SAFEKEEPING AND CUSTODY:

It is the goal of the City of Osawatomie to maintain a risk category 1 rating for all investments as recommended by the Governmental Accounting Standards Board

(GASB). This means that all securities owned by the city must be in the name of the City of Osawatomie and held by the city or its authorized safekeeping agent.

To protect against potential fraud and embezzlement, the assets of the city shall be secured through third-party custody and safekeeping procedures by an institution designated as primary agent. The primary agent shall issue a safekeeping receipt to the county listing the specific instrument, rate of return, maturity and other pertinent information. Deposit-type securities (i.e., Certificates of Deposit) shall be collateralized as required by Kansas law for any amount exceeding FDIC coverage. Other investments shall be collateralized by the actual security held in safekeeping by the primary agent.

Bearer instruments shall be held only through third party institutions. Investment officials shall be bonded to protect the public against possible embezzlement and malfeasance. Collateralized securities such as repurchase agreements shall be purchased using the delivery vs. payment procedure. Unless prevailing practices or economic circumstances dictate otherwise, ownership shall be protected through third party custodial safekeeping. Safekeeping procedures shall be reviewed by the independent auditor.

#### MASTER REPURCHASE AGREEMENTS:

The City of Osawatomie requires that Master Repurchase Agreements be signed by both parties and in place before entering into a repurchase agreement with any financial institutions.

#### BID REQUIREMENTS:

Qualified institutions shall include all financial institutions within the county approved by the Governing Body in their annual designation of official depositories. Financial institutions shall provide their most recent financial statement upon request by the city. The city will periodically conduct an evaluation of each bank's status to determine whether it should continue to be included on the list of "Official Depositories."

#### REPORTING:

The City Clerk shall submit at least quarterly, an investment report that summarizes recent as well as anticipated market conditions. The report shall summarize the investment strategies, describe the portfolio in terms of investment securities, maturities, risk characteristics and other features. The report shall explain the total investment return and compare the return with budgetary expectations. The report shall include an appendix that discloses all transactions during the last quarter.

#### PERFORMANCE EVALUATION AND OPERATIONS AUDIT:

Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a

degree of professionalism that is worthy of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the city's ability to govern effectively.

## CHAPTER 5 – RISK MANAGEMENT

### OVERVIEW –

The primary purpose of this chapter in the Financial Policies and Procedures Manual is to provide department heads with an educational resource for implementing the principles of risk management into the daily operations of their department. While there are some policy aspects included herein, the key goal is to bring risk management issues to a heightened degree of awareness. If you would like more information, the City Manager has additional resources available.

Risk management is a very broad, and far reaching organizational function. It can encompass as much, or as little of the city's daily operations as the Governing Body and City Manager deems necessary. Risk management should not be viewed as an additional requirement to one's job, but as a tool to facilitate how existing functions are carried out. The Public Entity Risk Institute (PERI, [www.riskinstitute.org](http://www.riskinstitute.org)) offers a detailed list of possible benefits to be gained by bringing risk management considerations into the overall management of an organization. They are:

1. Improved long term management –
  - a. assists in making better choices of what you want your department to accomplish;
  - b. provides a greater ability to achieve realistically set goals;
2. Improved day-to-day management –
  - a. helps improve delivery of local services;
  - b. minimizes time spent dealing with the consequences of risks;
  - c. assists in identification, analysis, control, and monitoring of risks (primarily through awareness);
3. Improved financial management –
  - a. facilitates a more informed, financial decision making process on investments, insurance needs, and cost/benefit analysis;
  - b. provides better control of financial assets as a result of identifying, analyzing, controlling, and monitoring risks;
  - c. helps reduce financial costs associated with losses;
  - d. reduced insurance premiums;
4. Improved services –
  - a. Less service disruption to customers and a positive external image;

### RISK MANAGEMENT MISSION STATEMENT –

The City of Osawatomie recognizes its responsibility to manage public funds in a diligent manner, consistent with the highest public expectations, and this fiduciary responsibility includes identifying, addressing, and appropriately managing risk. These risks affect the

safety and well-being of employees and citizens, the city's financial stability, the city's ability to provide the services its citizens demand, and the overall vitality of the city as a whole. Meeting this end requires cooperation from both elected and appointed city officials to appropriately manage risk to the city.

## **RISK MANAGEMENT GOALS –**

The City Manager is responsible for providing information and resources to department heads and the Governing Body on general risk management issues for the city when requested, and providing information and recommendations to the Governing Body. The City Manager is also responsible for the development and maintenance of this risk management program.

The goals of this risk management program shall be to:

1. Serve as a resource to department heads during the decision making process and increase awareness of potential risks that may affect city operations;
2. Provide a written procedure for reporting and documenting events should a claim occur;
3. Provide an avenue of communication for addressing risks to the city among effected city officials, as these risks rarely affect only one area of operation;
4. Identify and assess risks as they arise, in order to minimize any potential impact on city assets;
5. Provide an opportunity to select and recommend for implementation, risk financing measures that include the avoidance (elimination) of risk, reduction (controlling) of risk, retaining (self-insuring) of risk, transferring (insuring) of risk, or sharing (pooling) of risk;
6. Provide an opportunity to review risk financing measures to reassess whether another, more financially beneficial option of controlling risk is available to the city;

The following discussions and policies provide support to meet these goals.

## **RESOURCES –**

The field of risk management generally recognizes five (5) categories/areas of exposure where entities will likely experience liability and/or loss. They are: physical assets, financial assets, human assets, legal liabilities, and moral responsibilities. This section will briefly describe each of the 5 categories of exposure, and provide suggested resources for information on risk management.

*Resource Number 1. Physical Assets* - There are several ways to view physical assets from a risk standpoint. They can be broadly defined as either real property or personal property. Real assets are basically land and buildings affixed to the land. Personal property is everything else (vehicles and equipment, tools, supplies, technology, office equipment, etc.) Another way to view them is whether they are intended to be mobile or not. Those physical assets that are meant to be moved from one location to another are generally considered to be at a higher risk than those physical assets whose location remains fixed. "Cause-of-loss" also should be considered here. Assets that are susceptible to many causes of loss may be considered at a higher risk, than those assets that are only open to one or two types of loss.

*Resource Number 2. Financial Assets* - There are multiple checks and balances, financial policies (as described in previous chapters), and insurance in place to protect the city from loss due to theft, embezzlement, fire, etc. that department heads can utilize to protect the city's financial assets. However, inflation, creditworthiness, interest rates, etc. can not be insured against, and therefore must be diligently watched and planned for in order to protect the city's financial assets. Questions regarding the proper management of city funds should be directed to the City Clerk or City Manager.

*Resource Number 3. Human Assets* - Of the 5 areas of risk exposure to the city, the exposures posed by human assets are probably the greatest because employees can affect (positively or negatively) all other risk exposure areas, in addition to being an exposure themselves. Personnel policies are in place to guide the department head on managing their personnel. Insurance is in place to protect the city against certain liabilities that may arise out of personnel administration. Workers' compensation insurance protects employees who are injured on the job. Questions regarding personnel policies should be directed to the Personnel Specialist. The city also provides a large number of benefits to city employees. Some of these benefits are payable by the city, others by the employee. Questions regarding benefits should also be directed to the Personnel Specialist.

*Resource Number 4. Legal Liabilities* - Liability exists for the city in all aspects of city operations. Premises liability is likely the broadest and most common source of liability the city faces. Possible liabilities arise because visitors have an expectation of safety and accessibility to these public facilities. The public also expects the city to provide for safe roads and bridges police, fire, and a whole host of other "core" and "non-core" government functions. Professional organizations exist almost strictly to help its members protect themselves against claims that may arise out of these types of liabilities. Further liability can arise out of passage of laws by the Governing Body, employment practices, dangerous workplaces, the operating of motor vehicles and equipment, or the failure to enforce contracts and agreements. The following policy addresses this risk.

## **CONTRACT REVIEW AND ADMINISTRATION POLICY:**

Subject to any exceptions within these policies, all contracts naming the City of Osawatomie as a party to the contract shall be approved by the Governing Body. Before presenting a contract to the Governing Body, the contract must first be reviewed by the City Attorney and City Manager. Either of these individuals may make a recommendation as to the contract's legality and the advisability of the city entering into the contract. All contracts approved by the Governing Body shall subsequently be copied by the managing department to the City Attorney and City Manager and tracked to ensure the terms of the contract are followed by both parties. Tracking the contract to ensure the terms of the contract are followed by both parties is the responsibility of the department managing the contract. It is also the responsibility of the department managing the contract to notify the City Attorney and City Manager if the department discovers that the terms of the contract are not being followed by a party to the contract.

*Resource Number 5. Moral Responsibility* - Moral responsibility simply addresses the ethical aspects of risk management. Employees that intentionally create situations in order to incur a loss or failing to take diligent and proper precautions when it is known that doing so will prevent a loss are examples of risks associated with poor management of moral responsibility.

Certain aspects of each of these exposure areas are related to one another. Improperly addressing one exposure can certainly compound risk in another exposure. Conveyance of these risks often suffices to minimize these risks. Therefore, communication is the key to successfully protect the city against each of these exposures. The next section discusses avenues of communication that should be maintained and procedures to follow not only to prevent loss, but also in the event that a loss occurs.

## **RISK MANAGEMENT COMMUNICATION POLICY:**

This policy makes a distinction between procedures for communication of risks and possible hazardous situations, and procedures for communication of losses once they have occurred.

Each department head is encouraged to establish their own procedures for city employees to report to them, anything that may pose a risk to other people and/or property within their control. This can include, but is certainly not limited to, conditions of city owned property (buildings, sidewalks, handrails, roads, etc.), unsafe working conditions and/or practices, improper handling of funds, poorly maintained equipment, etc. It will be the responsibility of the department head or their designee to review these concerns and make an assessment of the risk in accordance with these policies.

In the event that a loss has occurred, all documentation regarding a loss shall pass through the City Clerk in order to coordinate the claims management process efficiently. The City Manager and City Clerk shall then review any documentation with the appropriate department head(s) as necessary, and in the event that legal issues arise, the

City Attorney shall then assume primary responsibility for coordinating all matters regarding the claim. For the purposes of this policy, a loss is defined as damage or injury to property or person(s) that may require the involvement of one or more of the city's insurance companies and/or policies.

## **RISK IDENTIFICATION & ASSESSMENT –**

As mentioned above, risks can arise from five categories of exposure. More specifically, these exposures can be classified into one of the following areas<sup>2</sup>:

- |   |                              |
|---|------------------------------|
| 1. Natural Hazards                            | 7. Economic Conditions       |
| 2. Contracts & Legal Arrangements             | 8. Govt. Activities/Services |
| 3. Financial Operations                       | 9. Loss of Outside Resources |
| 4. Misconduct by Public Officials & Employees | 10. Property Loss            |
| 5. Acts/Omissions by Third Parties            | 11. Use of Technology        |
| 6. State/Federal Laws/Regulations             | 12. Workforce                |

Each of these areas will affect departments differently. Each department head is encouraged to review and assess these areas periodically and determine the risks that these categories present to them, and develop plans to address the exposure(s). Assessment of the identified risk shall include both an assessment of the potential frequency of the loss as well as the potential severity of the loss. Frequency refers to how often the loss will occur while severity refers to the amount and impact of the loss on the city's operations. Severity certainly includes the pure dollar costs of the loss but can also include lost time, productivity, etc. These estimates are important because they provide department heads with the basis by which to evaluate a potential loss from one of the 12 areas of risk (identified above). Obtaining a mathematically precise number is not as important as accurately defining a potential risk as either "high" or "low". For example, if you compare the City of Osawatomie against a larger city in Kansas, the definition of "high frequency of auto accidents" will be considerably different simply because Osawatomie owns fewer vehicles and employs fewer employees than a larger city. In terms of pure dollar losses (the cost to replace the vehicle), severity would be quite similar. Adding soft costs such as productivity losses however, the difference in severity becomes nearly as wide as the difference between the two frequency classifications.

The following matrix can assist the department head in assessing the risks in their department.

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<sup>2</sup> Cited: Risk Identification and Analysis: A Guide for Small Public Entities. Claire Lee Reiss, J.D., ARM. Available at [www.riskinstitute.org](http://www.riskinstitute.org).

<b>RISK MATRIX</b>		
	<u>Low Severity</u>	<u>High Severity</u>
<u>Low Frequency</u>	Low Frequency/Low Severity	Low Frequency/High Severity
<u>High Frequency</u>	High Frequency/Low Severity	High Frequency/High Severity

If an exposure is identified by the department head as a high frequency/high severity exposure, the department head is encouraged to meet with the City Manager to assess this risk, and develop a plan to control the risk. In the event that an exposure is deemed to be one of high frequency/low severity or low frequency/high severity, the department head may wish to discuss the risk with the City Manager. Exposures with low frequency/low severity shall remain at the departmental level.

**RISK FINANCING & REVIEW –**

There are five options to control the above defined risks. This section will review these options. The City Manager is responsible for assessing all exposures/risks that are presented to him/her and considering the best options for controlling these risks. The City Manager, in consultation with the affected department head will make recommendations to the Governing Body on controlling these risks when necessary. This determination is generally made on a case by case basis.

*Financing Option Number 1. Risk Avoidance* – Avoiding the activity that gives rise to risk is the only guaranteed financing option to preventing a loss. Unfortunately, avoiding some risks leads to others and the types of activities governments provide are simply unavoidable. Therefore, it is rare that risk avoidance would be a viable solution to the city.

*Financing Option Number 2. Risk Reduction* – Risk reduction measures involve several managerial techniques including employee training/education, regular vehicle maintenance and repair, policies that require employees to wear personal protective equipment, installation of ergonomically correct workstations, installation of smoke detectors, burglar alarms, emergency response procedures, etc. Additionally, separation (storing items of value in separate locations to the extent that it is possible) and duplication (backing up computer files and maintaining separate and duplicate hard copy files to the extent possible) are two common loss reduction techniques that the city currently utilizes. A key element of risk is its uncertainty. Information technology has helped decrease dramatically the time required to understand any given issue. Informed decisions can be made more quickly. Information technology has vastly simplified the research component of the public policy process. Utilizing technology and anything else that can be done to minimize the chance of a loss occurring can be categorized as a risk

reduction measure. It is important to note that none of these measures can prevent loss, but all of them can minimize the impact a loss may have.

*Financing Option Number 3. Risk Transfer* – Transferring risk is not risk avoidance. The most common type of risk transfer that the city does is through the purchase of insurance. Premiums paid for the coverage received is a form of risk transfer. The city is paying another entity, to assume the risk for loss beyond a certain point – the deductible. The City Manager is responsible for managing all city insurance policies and overseeing the purchase of these policies. Additionally, the city commonly transfers risk through contracts for services from outside vendors. When this is done, certificates of insurance are required to be provided by the vendor as evidence that the vendor has proper coverage to protect themselves, but more importantly, the city.

*Financing Option Number 4. Risk Retention* – There are two forms of retention - planned retention and unplanned retention. Planned retention of risk involves situations where the city has identified a risk, but due to its placement in the risk matrix, has chosen to not insure against loss associated with that risk. An example of this might be the election to only carry liability insurance on vehicles with values below a certain threshold.

Unplanned retention refers to those situations that arise that were not foreseen and obviously not insured for.

*Financing Option Number 5. Risk Sharing* – Sharing in risk is typically done through a pooling arrangement with other similar entities. There are two group-funded pools organized under state statute, to provide workers’ compensation and other insurance needs to Kansas cities. The City of Osawatomie does not currently participate in any group-funded pools.<sup>3</sup>

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<sup>3</sup> Additional information on risk financing and related matters can be found in: “Limiting Small Town Liability: A Risk Management Primer for Small Town Leaders”. Compiled by the National Center for Small Communities and published at: [www.riskinstitute.org](http://www.riskinstitute.org).