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PURPOSE:

To establish policies for the administration of the budget for the year 2016

POLICY:**I. BUDGETED FUNDS**

The annual appropriation resolution shall apply to all funds except internal service funds, debt service funds, permanent funds and trust and agency funds. The City Commission is also required to approve the administrative budget for the pension trust fund.

II. OPERATING BUDGET

- A. The operating budget will be based on the principle of financing current expenditures with current revenues or accumulated reserves. Expenditures shall include adequate funding of the retirement system and adequate maintenance and replacement of capital and operating assets.
- B. Budgeted expenditures will reflect the City's perceived needs and desires of the community based on current surveys and long-range planning. The budget will be based on generally accepted accounting principles.
- C. Five-year projections are included for the General Fund, the Major and Local Street Funds, and the Capital Projects Fund. The five-year projection for the Capital Improvement Program for the Water and Wastewater funds is also included.
- D. The Operating Budget provides for general services including personnel costs, supplies, services, and capital equipment and improvements. These capital purchases are on-going and include vehicles such as cars and trucks, miscellaneous machinery and equipment, and building improvements under \$20,000. Revenues for the Operating Budget include property taxes, user fees and intergovernmental sources.

III. LIMITATIONS ON EXPENDITURES

- A. It shall be the duty of the City Manager to oversee that each department director, excluding the City Attorney, City Clerk, and Internal Auditor, does not exceed the amount appropriated for their department except by prior authority of the City Commission. Only the City Commission shall make new or additional

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appropriations. It shall be the duty of the City Attorney, City Clerk, and Internal Auditor to see that they do not exceed the amount appropriated for their department except by prior specific authority of the City Commission.

- B. The City Manager is authorized to accept grants and donations under \$25,000. The acceptance of grants shall be considered as authority to expend funds for those purposes. A summary of grants and donations accepted by the City Manager will be presented to the City Commission twice a year as an informational item.
- C. Legislative action by the City Commission to issue bonds, accept grants, and authorize special assessment projects shall be considered as authority to expend funds for those purposes, and no further appropriation authority will be necessary.

IV. TRANSFERS

- A. City Commission Approval
Transfers shall require City Commission approval if the transfer will result in an increase or decrease in one or more items in the annual appropriation resolution. All transfers from the City Commission contingency account shall require City Commission approval regardless of the amount.
- B. City Manager Approval
The City Manager may approve the transfer of operating funds to capital projects for changes up to the greater of \$10,000 or to 10% of the project cost per project. The City Manager or designee may also approve the reallocation of funds within the capital accounts on the same basis, or in any amount as long as the funds are still used for the purpose for which they were originally appropriated. All other transfers affecting capital projects shall require City Commission approval.
- C. After receiving a request for transfer from the City Manager and hearing any objections to the request, transfers may be approved or disapproved by the City Commission. When approved by the City Commission or City Manager the transfer shall be considered an amendment to the budget and shall become effective immediately.

V. MONTHLY REPORT

The City Manager shall submit to the City Commission a brief executive summary of the City's financial activity on a monthly basis.

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VI. CONTRIBUTIONS FROM THE GENERAL FUND TO THE CIP FUND

- A. General fund capital transfers to the CIP Fund and the Major and Local Street funds will be budgeted, to the extent possible, over and above operating and capital outlay budgets provided that the estimated ending unreserved General Fund balance will remain in a range of 13% - 15% of estimated revenues for fiscal year 2016.
- B. General fund balance, for the purpose of calculating the capital transfers to the CIP Fund, the Major and Local Street Funds and retainage mentioned in Paragraph A above, will be based on the accrual of all property taxes estimated to be collected by the annual property tax levy, regardless of whether the collections are received in the year levied or in subsequent years. This method of accrual of property taxes may be different than the method required by General Accepted Accounting Principles for preparation of the Comprehensive Annual Financial Report.

VII. CAPITAL PROJECTS FUND

This fund is used to account for acquisitions and construction of major capital facilities other than those financed by proprietary fund operations and special assessments.

VIII. ALLOCATION OF ADMINISTRATIVE COSTS

- A. A cost allocation plan will be developed each year to determine an appropriate amount to be allocated for central service costs to the various operations of the City. The allocation plan will be prepared in accordance with federal laws and guidelines for allocation of costs to federal grants. Allocation of costs to operations and cost centers other than federal grants may include allocation of costs that are disallowed for federal grants. A qualified, independent firm will prepare the allocation plan.
- B. Utility operations will be allocated the full costs as provided in the plan. Metro Transit will be allocated actual costs as provided in the plan. No allocation will be charged to general fund operations since this would only inflate general fund revenues and expenses equally without impacting the financial position of the fund.
- C. All other funds will be charged an amount not to exceed the allocation determined by the plan. In order to make the allocations determined by the plan, some funds

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may be provided with a General Fund subsidy if for some reason the fund cannot be reasonably expected to pay the full allocation.

IX. CARRY FORWARDS

Unexpended balances, both encumbered and unencumbered, of previously authorized construction or capital improvements not completed as of December 31 are hereby re-appropriated. Any such carry forwards shall be presented to the City Commission as an informational item at a regular City Commission meeting. Carry forward requests for non-capital items, shall be submitted to the City Commission for approval.

X. REVENUES

A. Tax Levy

The amount annually to be raised shall not exceed 2% (\$20 per \$1,000) of the assessed valuation as equalized of all real and personal property in the City, per Section 77 of the Charter.

B. Special Assessments

Section 108 of the Charter states the City Commission shall have power to determine, with or without a petition, that all or part of the expense of any public improvement or repair may be defrayed by special assessments upon the parcels or property especially benefited, and declare by resolution.

C. User Fees

The City Commission has jurisdiction over establishing schedules of charges, including recreational activities, cemetery fees, and neighborhood and community development fees and charges.

D. Metro Transit System

The Transit Authority Board has the jurisdiction to levy the special assessment for mass transit, and the City Commission joint with the Transit Authority Board establishes the fare structure.

E. Enterprise Functions

The enterprise funds include the City Market, Metro Transit System, Water Division, Wastewater Division, and the Kalamazoo Municipal Golf Association which are fully self-supporting from user fees and charges, or subsidies from other intergovernmental sources.

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- F. Payment In-Lieu of Taxes (PILOT)
PILOT is charged to the Water and Wastewater Divisions.
- G. Interest Earnings
Interest earnings from the investment of temporarily idle funds are credited to the fund which generates the earnings.

XI. RESERVES

- A. General Fund Undesignated Reserve
A balance will be maintained within a range of 13% to 15% of current projected revenues. For purposes of this calculation, all property taxes levied for the current fiscal year, except for a reserve for delinquent taxes, are accrued to the current year.
- B. Capital Contingency Reserve
Funds will be designated in a capital reserve account within the General Fund equal to 0.5% - 1.0% of the General Fund operating budget. The funds will be used for emergency capital needs and may be transferred with City Manager approval. The Capital Contingency Reserve stipulates that purchases must meet capitalization criteria, and any expense that causes the balance to fall below the recommended level will be replaced within a three year period, in equal installments.
- C. Reserve for Self-Insurance
A reserve will be established to provide funding of a risk management program whereby the City is self-insured for workers' compensation, auto comprehensive and collision coverage, and is a member of the Michigan Municipal Risk Management Authority and Michigan Transit Pool with various deductibles and coverage limitations. This reserve is to be held in the Insurance Fund.

XII. BUDGET AMENDMENTS

Only the City Commission shall make new or additional appropriations. Budgets may be amended after adoption with approval of the City Commission if changes result in an increase in appropriation. Budget amendment requests must be made in writing and approval is required from the appropriate department director, the Management Services Director/CFO, and the City Manager. The City Manager ultimately requests approval from the City Commission.

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XIII. CAPITAL IMPROVEMENTS PROGRAM

- A. In addition to budgets for City Operations, the City of Kalamazoo Budget includes the Capital Improvement Program. The Capital Improvements Program (CIP) is a six-year forecast of capital expenses together with available funding resources. The first year of the forecast is adopted as the current year CIP budget.
- B. Capital outlay for the purpose of the Capital Improvements Program is defined as expenditures that result in the acquisition or addition to fixed assets that have an estimated life of at least five years and monetary value of at least \$20,000. Examples include construction of buildings or other structures, roads, sewers, parks, and the purchase of heavy equipment, fire trucks and buses. Funding for CIP include bond proceeds, donations, grants, and intergovernmental sources.
- C. The debt service for bonds associated with the CIP for the Enterprise funds are recorded directly in the Enterprise Funds. In Governmental funds, the debt service is paid from a separate Debt Service fund, not included in the City Budget. In this case, the transfer to the debt service fund is made from the CIP fund.
- D. The Capital Improvements Program (CIP) will reflect a consensus of the perceived needs and desires of the community based on current surveys and long range planning. Projects included in the Capital Improvements Program shall be consistent with the City of Kalamazoo Comprehensive Plan. The CIP provides funding for those operations exclusive of enterprise funds. Eligible uses include capital projects, major equipment, debt service, and non-utility environmental expenses. The City will develop and maintain a CIP to plan and fund capital projects over a minimum five year period coordinated with the Operating Budget. The Capital Improvements Program will, to the extent possible, be designed to protect the City's investments in capital and operating assets through timely and adequate maintenance and replacement of those assets.

XIV. DEBT POLICIES

- A. Subject to the applicable provisions of statutory and constitutional debt provisions and the City Charter, the City Commission, by proper ordinance or resolution, may authorize the borrowing of money for any purpose within the scope of the powers vested in the City. The City Commission may pledge the full faith credit and resources of the City for the payment of debt obligations. Section 21 of Article VII of the Michigan Constitution establishes the authority, subject to statutory and constitutional limitations, for municipalities to incur debt for public purposes. State law limits the rate of ad valorem property taxation for municipal

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purposes, and restricts the powers of cities and villages to borrow money and contract debts. Each city and village is granted power to levy other taxes for public purposes, subject to limitations and prohibitions provided by this constitution or by law.

- B. In accordance with the foregoing authority granted to the State Legislature, the Home Rule Cities Act limits the amount of debt a city may have outstanding at any time. The Act provides that the net indebtedness incurred for all public purpose shall not exceed ten percent of the assessed value of all real and personal property in the city plus the combined constitutional and statutory state revenue sharing amount divided by the City's millage rate.
- C. Exceptions to the debt limitation have been permitted by the Home rule Cities Act for certain types of indebtedness. All special assessment bonds, Michigan Transportation Fund bonds, revenue bonds payable from revenues only, whether secured by a mortgage or not, and bonds issued or contract obligations assessments incurred to comply with an order of the Water Resources Commission of the State of Michigan or a court of competent jurisdiction. Any obligations incurred for water supply, sewage, drainage or refuse disposal or resource recovery projects necessary to protect the public health by abating pollution, and bonds issued or assessments or contract obligations incurred for the construction, improvement or replacement of a combined sewer overflow abatement facility.
- D. Although the City has sufficient legal debt margin, all decisions to enter in debt obligations are contingent upon the City's ability to make debt service payments and maintain adequate reserves.
- E. The City has historically issued short-term tax anticipation notes for cash flow purposes because the fiscal year is January 1 to December 31 and operating taxes are levied on July 1 of each year. The City plans to continue issuing short-term tax anticipation notes for the foreseeable future.
- F. Debt will be used to finance long term capital and operating assets within the constraints of maintaining or improving bond ratings and debt service capacity.
- G. Debt management will provide for the protection of bond ratings, the maintenance of adequate debt service reserves, compliance with debt instrument provisions and appropriate disclosures to investors, underwriters, and rating agencies.

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XV. INVESTMENT POLICY

Investment management will strive to maximize investment return on the City's funds through pooling of funds where permitted, frequent market analysis, cash forecasting procedures, and competitive bidding. Interest income is applied on a percentage basis to each fund based on the fund's balance compared to total fund balances.

XVI. DISCRETIONARY FUNDS POLICY

The Kalamazoo City Commission may set aside discretionary funds for community programs and projects geared toward improving the quality of life for our residents. During the budget cycle, applications are accepted from organizations that sponsor programs and projects that perpetuate a positive influence on the lives of residents of all ages.

Funding awards range from \$3,000 to \$16,000. Organizations must meet the following criteria:

- The physical location of the organization must be within the Kalamazoo city limits;
 - the organization must be a 501(c)(3) organization under the Internal Revenue Code;
 - the organization must support programs and projects geared toward improving the quality of life of City residents throughout the year.
- A. Organizations are required to submit completed grant applications with all supporting documentation. All organizations which have received previous funding are required to submit a final report outlining the scope of services provided as well as a financial report itemizing City fund usage with this application. Failure to submit the final report will disqualify an organization from future funding considerations.
- B. Applications are reviewed by the Community Development Act Advisory Committee (CDAAC) and City Manager staff. Reviewers measure how well applicants answer the questions that correlate with the following eight categories of focus which include program objectives, benefits to residents, need in the community, other programs provided by the applying agency throughout the year, organizational resources, community partnerships, and the organizations overall budget.

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XVII. THE COMMUNITY DEVELOPMENT ACT ADVISORY COMMITTEE (CDAAC)

- A. A thirteen-member citizen's advisory panel made up of seven members-at-large, and six representatives from Kalamazoo's core neighborhoods, will coordinate the review of applications, and submit funding recommendations to City Manager staff. CDAAC will base its recommendations on the quality, need, and impact each program/project has on the community's goal structure as it relates to the Blueprint for Action.
- B. Scoring in each category is based on 1 (lowest) to 5 (highest). The reviewer scores are tallied, and divided by the number of reviewers to obtain a committee average "score" for each project. City Manager staff prepares funding recommendations based on the feedback from CDAAC for City Commission approval. After City Commission approval, organizations are notified of funding decisions.

XVIII. USE OF PUBLIC FUNDS

Acceptable uses of City funds for food, awards, and appropriations to outside organizations are as follows:

- A. The City may host events in appreciation of the City's workforce and provide tokens of appreciation to employees to recognize new hires, years of service and retirements.
- B. The City may provide beverages to employees, volunteer workers, elected officials and business guests during regular working hours and events that require public participation.
- C. The City may provide meals to employees, volunteer workers and elected officials for work conducted during normal meal times.
- D. Awards or prizes may be given to employees or outside parties in association with fundraising efforts.
- E. The City may host Wellness Luncheons to provide education to employees in an effort to reduce the City's health care costs.
- F. The City may make financial payments to outside organizations where a written agreement between the City and such organization has been executed.

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HISTORY:

This policy was adopted with the Annual Appropriation Resolution for FY2016 (Resolution 16-02)