



# Financial Policies

## Financial Policies

This section contains the financial policies which guide the operations of the City. The City is looking at new policies or changes to existing policies and they will be recommended by the Finance Department for approved by the City Council.

It is critically important to note, that the City of Gardner is in the process of revising a number of policies that were adopted by the City Council in 1996. These included the Reserve Policy and Debt Policy as well as the Investment Policy. Since adoption, the City has changed how it has conducted business as well as financial information systems, so these policies terminology is out of date, funds structures have changed as well as practice. However, the concept of professional and responsible management of the City's financial resources and obligations continues to be of the highest priority.

Included are the following:

- Purchasing Policy
- *Investment Policy (under revision)*
- *Reserve Policy (under revision)*
- *Debt Policy (under revision)*
- Abatement Policy



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Purchasing Policy

Revised December 2006

- Section 1 Objective
- Section 2 Scope
- Section 3 Provisions
- Section 4 Procedures
- Section 5 Exceptions
- Section 6 Responsibilities for Enforcement

Section 1: **OBJECTIVE.** The purpose of this policy is to provide the City of Gardner staff with guidelines and directions for the acquisition of goods and services. This policy is to be used with good judgment, while seeking to obtain the maximum value for each dollar expended. The procedures conveyed within will allow employees to obtain required supplies and services efficiently and economically. All employees are expected to read and follow the policy at all times.

Section 2: **SCOPE.** The City Council has the responsibility of approving and establishing the expenditure levels for the City and each department through their approval of the annual budget. The City Administrator and Department Directors shall have the responsibility of approving purchases and keeping purchases within the scope of the budget. These guidelines are applicable to all officers, elected officials, and employees of the City of Gardner.

Section 3: **PROVISIONS:**

- A. All purchases shall demonstrate a reasonable and good faith effort to obtain goods and services at the lowest possible cost consistent with the quality and service needed to maintain efficient operations of the City.
- B. A purchase order serves as an official legal document between the City and a contractor for goods and/or services. The purchase order is the mechanism by which budgetary and cash balances are encumbered in the City's accounting system.
- C. Purchase orders for identical goods and/or services are never to be split into separate transactions in order to circumvent the established policy.
- D. Purchases of any information technology-related equipment including computers, printers, hardware, software, etc. should be coordinated through the IT Department prior to requisition.
- E. City employees may be issued a purchasing card. Cards will allow for specific dollar limits at the card and transaction levels and restrict cash advances in all cases.
- F. When using a purchasing card, all purchasing guidelines apply, including bidding and requisition requirements, **prior** to purchase using the card.
- G. Employees are responsible for the security of the card issued to them and the transactions made against it. Use of the card not in accordance with established guidelines may result in personal liability.



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- H. Cards are to be used for authorized City purchases only. Any use of the card for private or personal purchases is prohibited, and any such use will result in disciplinary action.
- I. The City of Gardner, as an agency of the State of Kansas, is exempt from paying Kansas sales or use tax per KSA 79-3606 (b). Information on the City's tax exempt status appears on the front of the card. It is the employee's responsibility to remind the vendor of the tax exempt status when making a purchase.

## Section 4: PROCEDURES:

- A. City staff shall make every reasonable effort to purchase goods and/or services from suppliers located within the City of Gardner.
- B. Purchases less than \$1,000.00 shall not require competitive bidding and may be purchased using a purchasing card or directly through accounts payable.
- C. Requests for a card should be made to the Accounting Manager by the Department Director. Card usage will be monitored and cards may be rescinded at any time.
- D. The Finance Department maintains a log of cards issued, including card number, limits, and to whom cards are issued. Renewal cards are sent automatically to the Finance Department. Finance staff will distribute them accordingly.
- E. No individual transaction, including shipping and handling, may exceed the employee's purchasing limit set by the Department Director. Purchases must not be divided to circumvent the purchasing policy. Each card is assigned a billing cycle limit for a total dollar amount of expenditures allowed in a billing cycle (30 days).
- F. Lost, stolen, or missing cards are to immediately be reported to the Accounting Manager in the Finance Department, as well as termination or resignation of an employee.
- G. All purchases made with a purchasing card **must** be accompanied by a sales receipt and/or invoice for payment. Missing receipts will require written documentation from the Department Director with the vendor name, date, amount, account number, and description of purchase. Finance may revoke card privileges after 3 missing receipts in a 1 year period.
- H. Once a month, Finance will distribute the Visa/purchasing card statements to each department. The card holder, or their designee, will process and reconcile the statement. Each transaction should be listed on a spreadsheet with the budget account number, description of the transaction, amount, and appropriate project number, if applicable.
- I. Receipts and invoices shall be attached, in order, to the spreadsheet. The spreadsheet shall be approved by the Department Director and forwarded to Finance Department for payment.
- J. Purchases made by the Department Directors shall be periodically reviewed by the City Administrator or the Finance Director.



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- K. The cardholder is responsible for contacting and following up with the vendor on any erroneous charges, disputed items, or returns as soon as possible. Documentation should be kept explaining each credit received for returns or exchanges.
- L. Purchase cards may be used to pay for traveling and meal expenses while away conducting City business. However, IRS per diem rates do apply. Prior to travel, employees are required to look up the meal allowance (M&IE RATE) for the City nearest the travel destination on the IRS Publication #1542. Link provided: (<http://www.irs.gov/formspubs/lists/0,,id=97819,00.html>). The employee is responsible for the amount of meals exceeding the daily allowance set forth by the IRS. The employee shall pay the difference to the restaurant at the time of purchase. Alcoholic beverages are not an allowable expense and shall never be paid for with a City purchasing card.
- M. Purchases of \$1,000.00 or greater must be entered into the purchasing software system as a purchase requisition for proper approval **prior to ordering**.
- N. Purchase requisitions of \$15,000.00 or less shall be made under the general direction and supervision of the City Administrator. Requisitions of \$5,000.00 or less shall be made under the direction and supervision of the Department Directors. Approval levels for requisitions under \$5,000.00 shall be assigned by the Department Directors.
- O. Requisitions in excess of \$1,000.00 but less than \$14,999.99 shall require competitive bidding. Quotations shall be obtained in writing, by telephone, or from current catalog price lists. Quotations shall be solicited from at least three vendors. The three quotations should be entered into the purchasing software system with the selected quote marked as such.
- P. Requisitions in excess of \$15,000.00 shall require sealed bids. Requests for bids are required to be published in the local newspaper at least 10 days prior to the bid opening and posted on the City's website. The City Administrator shall make a recommendation for final award to the City Council. The City Council shall make final award.
- Q. The City Council and/or staff shall reserve the right to refuse all or any part of a bid when it is felt that such refusal is in the best interest of the City.
- R. Successful quotations, bids, and requests for proposals exceeding \$5,000.00 shall be retained in the department for the life of the contract. Once inactive, shall be retained for 5 years, then destroyed. Unsuccessful quotations, bids, and requests for proposals exceeding \$5,000.00 shall be retained for 2 years and then destroyed.
- S. Purchases can be made after the requisition has gone through the appropriate approval process and has been turned into a purchase order in the purchasing software system by the Finance Department.
- T. Invoices should be noted with the corresponding purchase order number and forwarded to the Accounting Assistant for payment.
- U. Blanket purchase orders may be established using the applicable bid mechanism based upon the estimated annual expenditure. Blanket orders may be issued for a period of one year.



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- V. The City may join with and cooperate with other city, school district, county, state, and/or federal agencies for the purchase of supplies, goods, and/or services when the City of Gardner deems it to be in the best interest of the City.
- W. The City Administrator shall have the authority to approve all change orders related to Capital Improvement Projects up to 10% of the project cost or less than \$15,000.00. All total change orders greater than \$15,000.00 or 10% of the project cost must be approved by the City Council. Approved change orders shall be forwarded to the Accounting Manager in the Finance Department to revise the purchase order in the purchasing software system.
- X. Legal, financial, engineering, and consulting services or any other service that may be considered complex or technical in nature shall be provided as determined by the City Council upon recommendation by the City Administrator. An initial Request for Proposal shall be used when the cost of ongoing services is expected to exceed \$15,000.00 in order to gain information from potential service providers. Such complex or technical services are considered to be long-term for continuity. Contracts for such services may be written to reflect that services will continue until terminated by one of the parties. Evaluation criteria shall include but not be limited to price, ability to perform, experience, technical expertise, and availability. Any multi-year contract/lease agreement for purchase of goods and/or services must be authorized by the City Administrator or City Council as required by law.
- Y. Budget appropriations do not mandate expenditures unless the need continues to exist at the time of purchase. The City Administrator may establish spending levels below those budgeted if revenue collections are inadequate to fulfill budgetary needs.
- Z. All vendors shall be treated in a fair and businesslike manner with preference given to area vendors when all other factors are equal. Vendors may be excluded from future consideration because of late delivery, failure to meet specifications and/or not providing the necessary maintenance or service. No employee will engage in any business or transaction, nor have financial or other personal interest, direct or indirect that is incompatible with the proper discharge of their official duties in the public interest. Employees may accept minor tokens of appreciation that are a courtesy common to the business world as long as it does not tend to influence or appear to influence their judgment. Employees uncertain about the acceptance of a minor token should consult their supervisor and/or refer to the employee handbook (Personnel Policies and Procedures, Ethics and Conduct). Council members shall abstain from voting or discussing any purchase in which they have financial interest.
- AA. Finance shall maintain a list of vendors for the purchase of goods and/or services on the purchasing software system. Vendors will be added to the list by Finance upon request from City departments. To request the addition of a vendor, the requestor should provide the necessary information, including; complete name of business or individual, physical and billing address with zip code, and phone number. Finance has the right to withhold payment until the necessary tax information (W-9 Form) is obtained from the vendor.



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- BB. Any deviation from the purchasing procedures must have prior approval of the City Administrator. These guidelines may be modified or waived with the approval of the City Administrator under any of the following conditions:
1. The expenditures are routine monthly obligations (i.e. utility bills);
  2. The expenditures are contractual obligations (i.e. bond payments, insurance premiums, easements, progress payment on contracts);
  3. The goods and/or services are part of a benefit district in which the petitioner has previously retained contracts prior to petitioning the City.
  4. The purchases are supplied for electric utility service extensions to new developments;
  5. The goods and/or services are available from only one vendor (requisition still required);
  6. An emergency exists (see exceptions below);
  7. Items are purchased in accordance with the Purchasing Card Policy;
  8. A concession or maintenance service agreement is being renewed for good workmanship, material, or performance for no more than one year; or
  9. It is advantageous to purchase through the purchasing contracts of other governmental agencies.
- CC. Obsolete property may be transferred, sold, offered as a trade-in, or destroyed. Any property disposed of will be stripped of all identification as City property. Depending on the item, Department Directors may choose one of the following methods of disposition:
1. Transferring to another department.
  2. Returning to manufacturer or vendor.
  3. Trade in.
  4. Sale by auction or sealed bid.
  5. Selling as scrap.
  6. Destruction.
- DD. The Finance Department must be notified in writing within 10 days, regardless of the disposal method chosen.

**Section 5: EXCEPTIONS:** It is recognized that emergency situations occasionally arise in City operations. In the event of an emergency it is up to the judgment of the highest authority personnel on hand to make a responsible decision regarding obtaining required goods and/or services. All Supervisors of the City are charged with the responsibility to determine if an emergency situation exists and to make necessary decisions if higher authority is unavailable.

Any purchases made outside of the normal purchasing procedure must be reported as soon as it is reasonably possible to the Accounting Manager in the Finance Department. A requisition still must be entered through the purchasing software system for documentation of proper approval.

Lack of adequate planning is not justification for emergency purchases. City departments should plan accordingly for all situations that may occur in the normal course of daily or seasonal work patterns.



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Section 6: RESPONSIBILITY FOR ENFORCEMENT: The City Administrator shall be responsible to the Governing Body for the enforcement of the Purchasing Policy.



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## INVESTMENT POLICY

Section 1	Objectives
Section 2	Scope
Section 3	Definitions
Section 4	Provisions
Section 5	Procedures of General Idle Funds
Section 6	Procedures of Debt Proceeds
Section 7	Responsibility for Enforcement
Section 8	References

### **Section 1: OBJECTIVES.**

Investments shall be made with the primary objective of safety of principal, followed by liquidity needs, and then the rate of return on said investments. The City's portfolio shall be sufficiently liquid to meet operating requirements that can be reasonably anticipated. These policies are designed to ensure the prudent management of public funds, the availability of those funds when needed, and an investment return competitive with those of comparable funds and financial market indexes.

### **Section 2: SCOPE.**

This investment policy applies to all public funds to be invested. Funds included in the investment policy are accounted for in the Comprehensive Annual Financial report and include:

1. General Fund
2. Special Revenue Funds
3. Debt Service Fund
4. Capital Project Funds
5. Enterprise Fund
6. Trust and Agency Funds

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officer(s) acting in accordance with written procedures and investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

### **Section 3. DEFINITIONS.**

**Active Funds:** Money which is immediately required for the purposes for which it was received or collected.



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**Certificate of Deposit:** Instruments issued by banks that state specified sums have been deposited for specified rates of interest. Certificate of Deposits are required to be backed by acceptable collateral securities as directed by State and local law.

**Debt Proceeds:** Money that is received for a specific purpose through issuance of debt.

**General Idle Funds:** Money that is not immediately required for the purposes for which it was collected or received, except for debt proceeds.

**Kansas Municipal Investment Pool (MIP):** A public funds investment pool administered by the Kansas State Treasurer and overseen by the Pooled Municipal Investment Board.

**Repurchase Agreements:** Contractual agreements between the City and banks. The repurchase agreement issuer receives cash and in turn provides securities to the city as collateral for cash. There must be a signed repurchase agreement on file before the City will enter into any repurchase agreements with the issuer.

**United States Treasury Bills:** Short term (less than 2 years) obligations of the United States government, issued and sold at a discount.

**United States Treasury Notes and Bonds:** Obligations of the United States government, issued with a fixed coupon rate.

## Section 4: PROVISIONS.

**A. Acceptable Investments of General Idle Funds:** Investments shall only be made in accordance with K.S.A. 12-1675.

**B. Acceptable Investments of Debt Proceeds:** Investments of debt proceeds shall only be made in accordance with provisions for acceptable investments of general idle funds and in accordance with K.S.A. 10-131.

**C. Collateralization:** Before any deposit of public moneys or funds shall be made by the City of Gardner, the City shall obtain security for such deposit in the following manners prescribed by K.S.A. 9-402:



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1. A personal bond in double the amount that may be on deposit
2. A corporate surety bond
3. Collateralized security interest. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 105% of market value of principal and accrued interest. FDIC will be included in the calculation of full collateralization.

**D. Safekeeping of Securities:** An independent third party with whom the City has a custodial agreement will hold the collateral. A safekeeping receipt must be supplied to the entity and retained. Collateral will be registered in the City's name. The City will hold all safekeeping receipts of pledged securities as collateral. Safekeeping receipts of pledged securities may be faxed to the City in order to accommodate timely investment transactions.

**E. Diversification:** The City will diversify its investment by security type and institution if it is economically feasible.

**F. Maturities:** To the extent possible the City of Gardner will attempt to match its investments with anticipated cash flow requirements.

## **Section 5: PROCEDURES FOR INVESTMENT OF GENERAL IDLE FUNDS**

The City will invest when general idle funds become available. The City may invest at other times when excess idle funds become available. The City pools investment monies from all available funds for investing. The Kansas State Treasurer provides weekly benchmark investment rates that financial institutions must pay. If none of the financial institutions agree to pay the investment rate for Certificate of Deposit, the City can then obtain quotes on the other allowable investments. At least two quotes must be obtained for all investments.

The interest from investments will be credited on an average monthly ending cash balance of all funds.

## **Section 6: PROCEDURES FOR INVESTMENT OF DEBT PROCEEDS**

The City will invest debt proceeds after closing of a debt issuance. The City will separate debt proceeds from the City's pool of idle cash. City Finance Department staff will consult with Administration, Public Works and other relevant City staff to determine the future cash flow needs for the project for which debt was issued. Finance staff will consult City bond counsel and the City financial advisor to determine proper funding



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mechanisms and terms of investment opportunities. Staff will obtain competitive bids for investments.

**Section 7: RESPONSIBILITY FOR ENFORCEMENT.**

The City Administrator delegates management responsibility for the Investment Policy to the Finance Director and Accounting Specialist with oversight. The authority to manage the City of Gardner's Investment Policy is derived from Kansas State statutes. The City of Gardner's investment policy will be reviewed on an annual basis.

**Section 8: REFERENCES.**

The City will conform to all applicable State statutes while investing Public funds.

K.S.A. 9-1401, Depositories;

K.S.A. 9-1402, Securities for Deposit of Public Funds;

K.S.A. 10-131, Investment of proceeds of bonds and temporary notes;

K.S.A. 12-1675, Investment of Public Moneys;

K.S.A. 75-4218, Pledge of Securities



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## RESERVE POLICY

Section 1	Objectives
Section 2	Scope
Section 3	Definitions
Section 4	Provisions
Section 5	Procedures
Section 6	Responsibility for Enforcement
Section 7	References

### **Section 1: OBJECTIVES.**

To establish and maintain cash reserves sufficient to:

1. avoid cash flow interruptions;
2. fund unanticipated emergency expenditures;
3. respond to large revenue shortages;
4. generate interest income;
5. reduce the need for short-term borrowing; and
6. assist in maintaining the marketability of the City's notes and bonds.

### **Section 2: SCOPE.**

This policy shall be applicable to the City Council and the City staff members responsible for financial planning and resource allocation. This policy shall be applied throughout the year, but particularly during preparation of the annual budget.

### **Section 3: DEFINITIONS.**

None Defined.

### **Section 4: PROVISIONS.**



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- A. General Fund Operating and Debt Service - The City will maintain an unreserved fund balance equal to or greater than three months of general operating expenditures and obligated debt service payments. This reserve will be calculated based on the adopted annual operating budget of the City.
- B. Workmen's Compensation Insurance - The City will maintain a designated amount to allot for any above normal yearly increase in future premiums. This reserve will be calculated each year-end based on 15% of the current year's actual premium.
- C. General Liability Insurance - The City will maintain a designated amount to allot for any above normal yearly increase in future premiums. This reserve will be calculated each year-end based on 15% of the current year's actual premium.
- D. General Liability Insurance Deductible - The City will maintain a designated amount to allot for appropriation during the next fiscal year(s) for deductible claims exceeding budgeted amount. This reserve will be calculated each year-end based on the yearly average of the last three years experience.
- E. Disability Weekly Benefits - The City will maintain a designated amount to allot for disability benefit payments occurring in the next fiscal year(s). This reserve will be calculated each year-end based on the yearly average of the last ten years experience ratio times ten and times number of employees by fund.
- F. Unemployment Compensation Insurance - The City will maintain a designated amount to allot for unemployment compensation insurance payments occurring in the next fiscal year(s). This reserve will be calculated each year-end based on the next fiscal year's budgeted salaries times the unemployment taxpayer rate.
- G. Enterprise Funds - The City will maintain a cash reserve equal to or greater than six weeks of operation and maintenance expense. This reserve amount



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for each fund will be calculated based on the adopted annual operating budget of the City.

**Section 5: PROCEDURES.**

The City Administrator and/or the City Administrator's designee shall calculate the required reserves during preparation of the annual budget. Every effort shall be made to fully fund each reserve. The status of each reserve shall be reported to the Mayor and City Council by the City Administrator during presentation of the recommended budget. No funds shall be withdrawn from any reserve without authorization of the City Council.

**Section 6: RESPONSIBILITY FOR ENFORCEMENT.**

The City Administrator shall be responsible to the Governing Body for the enforcement of the Reserve Policy. This Policy is meant to be a guide to the Governing Body for financial planning and evaluation of the annual budget.

**Section 7: REFERENCES.**



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## DEBT POLICY

Section 1	Objectives
Section 2	Scope
Section 3	Definitions
Section 4	Provisions
Section 5	Procedures
Section 6	Responsibility for Enforcement
Section 7	References

### **Section 1: OBJECTIVES.**

This Policy will provide for proper planning of capital expenditures, financing requirements, and guidelines for the issuance of various debt instruments; holding borrowing costs at a minimum and maintaining ratios (as designated by this Policy) within established standards. The results help to secure favorable credit ratings and competitive lower interest costs on all types of borrowing instruments; thereby providing a savings to all taxpayers.

### **Section 2: SCOPE.**

This Policy shall be applicable to Governing Body and City staff members during deliberation of financing methods for capital outlay. Community developers should be aware of the provisions of this Policy.

### **Section 3: DEFINITIONS.**

The following words when used in connection with this Policy shall have the meanings respectively ascribed to them herein:

*Appraised Value* Real market value of real estate.

*Assessed Value* Property value at which taxes are assessed against the real estate.



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<i>Call Provisions</i>	Covenant in a bond sale which allows the seller to repay the debt instrument at an accelerated date.
<i>Debt Instruments</i>	Municipal financial agreement between a municipality and the purchaser of the debt.
<i>Finance Team</i>	The City Administrator, the Administrative Services Director/City Clerk, the City's financial Adviser, the City's Bond Counsel and the City Attorney.
<i>Mill Levy</i>	One-tenth of one cent. The tax applied to real property. Each mill represents \$1.00 of tax assessment per \$1,000 of property value assessment.
<i>Payment Defaults</i>	Nonpayment of specific monies promised.

## **Section 4: PROVISIONS.**

The acquisition of funds through the issuance of debt will be a function of the type of funds needed, economic conditions at the time of sale, debt limit of the City, and other debt offerings within Johnson County and the Midwest, at the time of sale.

## **Section 5: PROCEDURES.**

### **A. Temporary Notes.**

Issuance will be no more than twice each calendar year. The determination of obtaining a credit rating will be on a case by case basis utilizing the input of the City finance team. Judgment will be used on a project-by-project basis to determine the amount required for each note. Whenever possible, projects will be consolidated, and one temporary note will be issued in order to avoid additional "costs of issuance" (financial advisor, bond counsel, rating fees, publications, closing costs). The maximum maturity of any one note will be for four (4) years from date of issue. Call provisions will be determined on a project-by-project basis. Notes will be grouped together and sold in series as determined by project



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and maturity. Only in emergency situations will a temporary note(s) be purchased without benefit of public sale.

## **B. General Obligations Bonds.**

Issuance will be no more than twice each calendar year. Bonds will be rated on a case by case determination. The maximum maturity shall not exceed the anticipated useful life of the capital item, and in no case shall exceed 20 years. Rapid debt retirement is desired. Generally, maturities should be scheduled to level annual debt service requirements, except in the case of benefit districts which need to comply with state law. Debt may be used only for equipment, land acquisition, or improvements that cannot be financed with current revenues. This may be modified based on the expressed purpose of spreading costs over a long period of time. This way future citizens can share in the responsibility for portions of the cost and where it is estimated that the cost of long term borrowing is less than can be obtained through investment earnings. Payment of long-term debt shall be budgeted in the Bond & Interest Fund. A minimum of three months of obligated debt service transfers shall be annually budgeted in the Bond & Interest Fund as “Cash Basis Reserve” and as such, constitutes a reserve of cash for unanticipated shortfalls. This “Cash Basis Reserve” serves as a protection to bond holders from payment defaults. Where possible, special assessments (see Special Assessment Policy), revenues or other self-supporting bonds will be pledged for the payment of general obligation bonds thereby reducing the burden of debt City at large.

## **OBJECTIVES/RATIOS FOR ISSUANCE OF DEBT.**

The City shall closely monitor the percentage of total expenditures made up by debt service. This ratio shall be reported by the City Administrator,



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to the City Council during the annual budget process and prior to the issuance of new, long-term debt.

Debt service expenditures shall be limited to a level which the City can pay while maintaining the quality and effectiveness of essential City services.

The City may review and consider the impact debt could have with regard to the following:

- (1) Adherence to the Capital Improvement Plan;
- (2) Potential for increasing assessed valuation;
- (3) Potential for increasing sales tax receipts;
- (4) Mill levy required to service the Bond and Interest Fund annually. The competitiveness of this mill levy with surrounding communities and the perceived willingness of the citizenry to pay this mill levy;
- (5) Utility rates required to service enterprise fund debt. The competitiveness of these rates with surrounding communities and the perceived willingness of the citizenry to pay these utility rates;
- (6) Other factors not specifically mentioned in this Policy as the City determines pertinent.

## **LEASE/PURCHASE AGREEMENTS**

Financing projects and equipment with leasing instruments will be considered as a flexible alternative for acquiring assets. Generally, lease contracts shall be for a minimum one (1) year and shall not exceed five (5) years. Lease financing will be properly structured to avoid obligating the City to make payments contrary to its statutory authority. Any lease contract will not represent a binding long-term commitment to pay on the part of the City. Therefore, it is not considered to be indebtedness of that body (non-appropriation clause). However, it is classified as debt by the national credit rating agencies. Leasing may have a negative effect on credit ratings based upon higher interest costs which can result in increased debt service burdens. Lease/Purchase agreements will be



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negotiated after requests for proposal solicited to obtain the best available interest rate. Repayment of this type of obligation is classified as operating expenses rather than debt for audit purposes. Therefore, lease payments would be subject to property tax levy limitations when funded from the General Fund.

## **CERTIFICATES OF PARTICIPATION (COP'S)**

Certificates of Participation can be utilized as a financial alternative for acquiring assets. A lease agreement is entered into and the lessor finances the capital assets by selling individual interests in the lease through one or more underwriters. Voter approval for any "COP" financing is not a requirement. The issuance of COP'S resembles a bond issue in terms of its complexity, larger transaction, and sale of securities to the public. COP's may be rated. Repayment procedures are the same as for lease/purchase agreements.

## **PAY AS YOU GO**

Pay As you Go can be utilized as a financial alternative to short-term or long-term debt. Neither this method or bond financing is superior to the other - a combination of approaches usually is the most prudent course. Current funding will utilize current year revenues or reserves and should not be utilized when borrowing interest rates are lower than investment rates.

## **CASH-ON-DELIVERY (COD'S)**

COD's can be utilized as a financial alternative to long-term debt. COD's provide for the payment in full of a public improvement upon demand of the City as provided for in the authorizing project resolution. COD's may be preferred when the City has been requested (by petition pursuant to the Special Assessment Policy) to make a public improvement(s) for which traditional general obligation bonds would be issued and special assessments certified thereby adding to overall stated debt burden of the City. Requests for COD treatment will be considered by the Council if the petitioners can provide adequate credit enhancement that would ensure



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payment in full of the total project costs as determined by the City. Credit enhancements could include letters of credit, cash held in escrow in the City's name, or any other instrument approved by the City.

## **REBATE**

In order to comply with certain federal regulations relating to interest earnings on bond proceeds, the City annually will cause a rebate calculation to occur on all applicable tax-exempt transactions and if any rebate liability exists, the City will set aside in that year sufficient funds to meet its obligations.

## **Section 6: RESPONSIBILITY FOR ENFORCEMENT.**

The City Administrator shall be responsible to the Governing Body for the enforcement of the Debt Policy. The Administrative Services Director/City Clerk shall assist in the implementation of this Policy. This Policy is meant to be a guide to the Governing Body in evaluating different options for debt issuance to finance capital improvements.

## **Section 7: REFERENCES.**



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## RESOLUTION NO. 1842

A RESOLUTION ESTABLISHING A POLICY RELATING TO PROPERTY TAX ABATEMENTS FOR NEW AND EXISTING BUSINESSES.

**WHEREAS**, the City of Gardner, Kansas recognizes that it is essential to stimulate economic growth and development of existing and new industry and businesses in order to provide services, employment and tax revenues for the benefit of Gardner, Kansas; and

**WHEREAS**, it is further recognized that the stimulation of balanced economic development is a joint responsibility of the private and public sectors, working closely together creating a positive business environment and to induce industry to locate and expand in Gardner; and

**WHEREAS**, the economic development program goals of the City of Gardner, Kansas include economic diversification, broadening of the property tax base, stimulation of private investment, enhancement and support of new development, quality of materials and design, maintenance of environmental quality, creation and quality of employment opportunities; and

**WHEREAS**, to meet these economic development goals, the City of Gardner, Kansas recognizes the occasional necessity to grant property tax abatements and tax incentives for real and personal property pursuant to the provisions of Section 13 of Article 11 of the Kansas Constitution and K.S.A. 12-1740 et seq. and 79-201a; and

**WHEREAS**, the current policy sunsets December 31, 2010;

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY OF GARDNER, KANSAS:**

**SECTION ONE: POLICY STATEMENT.** It shall be the policy of the City of Gardner, Kansas to normally provide a 60% tax abatement if the project meets the criteria listed in Section Two below. Depending upon how the abatement is structured over the term, an abatement may exceed an overall average of 60%, but may not exceed 80%. It shall also be the policy of the City that economic development projects pay their fair share of property tax, special improvement district assessments, and cost of utility services. Economic development projects shall not have a negative financial impact on the County at the conclusion of the abatement term. (The City reserves the right to approve the cost-benefit analysis model used to determine the financial impact). The City shall consider the following conditions as precedents to granting property tax incentives pursuant to Section 13 of Article 11 of the Kansas Constitution and K.S.A. 12-1740 et seq. and 79-201a.

- A. Existence of Economic Benefit: The project must provide a clear demonstration of economic benefit to the City, which benefit can be established by, but is not limited to, such things as additional employment, increased private capital investment, expanded tax base, and spurring other economic development activities.
- B. Type of Business: The project shall be of a nature that has been identified by the City of Gardner, Kansas as desirable to stimulate the local economy and improve



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the quality of life for the citizens of Gardner, Kansas. The project should be one in which a substantial part of its total products and/or services are either exported from the Gardner, Kansas area or they would add jobs and replace purchases now being made by Gardner, Kansas citizens in areas outside of the City if the items are for local consumption. Additional considerations may include whether the project has the effect of supporting or spurring the development of a new industrial enterprise via the development of significant speculative building space, or whether the project would help retail development.

- C. Maintain Existing Tax Base: To facilitate new development, the City of Gardner, Kansas and the Southwest Johnson County Economic Development Corporation shall assist new and expanding industries that invest in new buildings, building expansion, or acquire new machinery and equipment. However, the amount of property taxes or special assessments on the existing land and facilities shall under no circumstances be reduced for new development projects. Granting of the application shall not result in the City, County, school district or any other taxing jurisdiction affected by the abatement receiving less tax revenue from the abated property than was received prior to the abatement.
- D. Definition of New Business: The business is new to the City of Gardner, Kansas or has not had facilities and operations in the City of Gardner, Kansas for a period of at least one-year.
- E. Definition of Existing Business: The business shall have had facilities and operations in Gardner, Kansas for a period of not less than one year.
- F. Transfer of Ownership: The owner of any property on which ad valorem taxes are being abated shall obtain the City's written consent before transferring majority ownership of the property. The City shall determine if the owner and the property continue to qualify for the exemption.

SECTION TWO: ABATEMENT CRITERIA AND ADJUSTMENTS. It is the intention of the City of Gardner, Kansas that all projects receiving abatement meet the criteria that are detailed below. Failure to meet the standards set below may result in a decrease in the total abatement percentage available to a project. Adjustments made to increase the total abatement amount are intended as an extra incentive to exceed certain criteria when others may not be met. However, in no instance shall adjustments based on these criteria exceed the standard abatement policy as outlined in Section One.

- A. Employment – Wages: The amount and diversity of additional employment opportunities to be provided shall be a primary consideration. The project must pay "above average" wages for all full time jobs in that industry classification based upon the most recent Johnson County average wage rate conducted by the Johnson County Economic Research Institute, Inc. In addition, the number of employees may also be taken into consideration. Depending upon the project's conformance to this criterion, an increase or decrease in the abatement of up to 10% may be considered.
- B. Design Criteria: Projects must be in compliance with the City of Gardner, Kansas Community Development Plan. Projects must utilize construction materials that meet or exceed the requirements set forth in the design guidelines as provided



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by the City's Community Development Department. The compatibility of the location of the business with land use and development plans of the City and the availability of existing infrastructure facilities and essential public services will be a consideration. The project must be environmentally acceptable to the location intended as well as the surrounding area. Preference will be given to businesses that do their own pretreatment or do not require extensive environmental controls. The proposed use must be clean, nonpolluting, and consistent with all policies, ordinances, and codes. Depending upon the project's conformance to this criterion, an increase or decrease in the abatement of up to 10% may be considered.

**SECTION THREE: TERM OF ABATEMENT.** The abatement period for a project approved under this Resolution shall be determined by the amount of new capital investment in the community. Capital investment shall include capital expenditures for land development, the capitalized cost of the land lease, the building, and personal property subject to ad valorem taxation. The normal term of abatement for each project is determined according to the following schedule, unless a different term is established by the City pursuant to Section Eight herein:

## **New Business**

<b>Capital Investment</b>	<b>Normal Term</b>
\$750,000 to \$3 million .....	3 years
>\$3 million to \$4 million .....	4 years
>\$4 million to \$5 million .....	5 years
>\$5 million to \$6 million .....	6 years
>\$6 million to \$7 million .....	7 years
>\$7 million to \$8 million .....	8 years
greater than \$8 million .....	10 years

## Existing Business

<u>Capital Investment</u>	<u>Normal Term</u>
\$350,000 to \$1.0 million .....	3 years
>\$1 million to \$1.5 million .....	4 years
>\$1.5 million to \$2.0 million .....	5 years
>\$2 million to \$2.5 million .....	6 years
>\$2.5 million to \$3.0 million .....	7 years
>\$3 million to \$3.5 million .....	8 years
>\$3.5million to \$4.0 million .....	9 years
greater than \$4.0 million .....	10 years

The abatement term for projects considered under authority of Section 13 of Article 11 of the Kansas Constitution shall begin in the calendar year after the calendar year in which the business commences its operations or the calendar year in which expansion of an existing business is completed, as the case requires. The abatement term for projects considered under



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authority of K.S.A. 12-1740 through 12-1749 and 79-201a shall begin in the calendar year after the calendar year in which the bonds are issued.

**SECTION FOUR: PROCEDURE.** The City of Gardner, Kansas shall consider granting a tax exemption pursuant to this Resolution after receipt of a complete application from the applicant in a form prescribed by the City. The application shall be submitted in sufficient time for staff to follow established procedures for publication of notice, to review the project site plans and building elevations, to prepare and/or review a fiscal impact analysis, and to meet with a representative of Unified District 231. The application must be submitted prior to any building permit being issued. The building permit may be issued once the Governing Body has ruled on the resolution of intent.

Based on each application and such additional information as may be requested by the City, the City shall prepare or cause to be prepared a fiscal impact analysis of the proposed exemption on the City and state of Kansas, which analysis shall be used by the City in considering the request. In making its decision, the City may also consider any fiscal and/or economic impact analyses performed by Unified School District 231.

The Southwest Johnson County Economic Development Corporation and the City together shall meet with representatives of the school district to discuss an application that includes a request for tax abatements. The meeting with the school district representatives shall be held prior to the City's discussion of the application and abatement request. The City shall consider the school district's feedback and input in reviewing such requests.

The Governing Body of the City shall conduct a public hearing prior to formal action on each resolution of intent. The public hearing shall be scheduled at least seven days after publication of notice. Notice of the hearing shall also be sent to the Unified School District 231.

**SECTION FIVE: PERFORMANCE AGREEMENT.** Any tax exemption granted pursuant to this Resolution shall be accompanied by a performance agreement between the applicant and/or lessee and the City of Gardner, Kansas, which is subject to annual review and determination by the City that the conditions qualifying the business for the exemption continue to exist. The City shall review information provided by the Company, lessee, county, or state to determine compliance with the agreement. If The City finds that the business or project is not in compliance, then the tax exemption may be modified pursuant to the performance agreement or eliminated, as the City deems appropriate. The County Assessor and the Board of Tax Appeals shall be notified of such action.

**SECTION SIX: APPLICATION AND ORIGINATION FEES AND ADDITIONAL COSTS.** The Governing Body shall establish the following fees:

	New Business	Existing Business
Non-refundable application fee	\$1,500	\$750

**Origination Fee:** For projects requesting tax abatement, the City shall receive an origination fee of 1% of the par amount of bonds being issued or the amount of constitutional tax abatement being requested. Such fee will be used exclusively for local economic development activities but shall not be used to pay any administrative costs of the City. The fee shall be due and payable



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at the time the bonds are issued, or for constitutional tax abatements, at the time the ordinance is adopted exempting the property from taxation.

These fees may be reduced or waived by City Council if the application is for a targeted transportation related project or targeted by another regional or State organization.

Additional Costs: The applicant shall pay all actual administrative costs associated with the property tax abatement. These costs include the preparation of the cost-benefit analysis, all legal publication notices, and application fees to the Court of Tax Appeals, the City's bond counsel fees, and all other miscellaneous costs.

SECTION SEVEN: APPRAISED VALUATION OBJECTIVE. The City of Gardner, Kansas desires to increase the City's non-residential tax base to preserve and enhance the City's fiscal capacity to provide public infrastructure and services necessary to support economic development.

SECTION EIGHT: AUTHORITY OF THE CITY OF GARDNER. The City of Gardner, Kansas reserves the right to deviate from any policy, but not any procedure set forth in this Resolution or any other procedural requirements of state law. The authority and decision to grant a tax abatement is vested solely with the Gardner City Council. This policy is intended to provide a guide to the City Council in considering applications. The Gardner City Council is under no obligation to approve any requested abatement and reserves the right to deviate from the policies and criteria contained herein if, in the opinion of the City Council, circumstances exist to warrant such deviation.

SECTION NINE: SUNSET DATE. Since the justification for tax abatements will be lessened as the local economy moves towards its goals of balance and diversification, this policy shall automatically expire on December 31, 2012 unless it is readopted for an additional term. No such tax abatement shall be granted following such expiration, unless this policy is readopted.

SECTION TEN: EFFECTIVE DATE. This Resolution shall take effect November 1, 2010, and supersedes Resolution 1818.

ADOPTED by the City of Gardner, Kansas this 18<sup>th</sup> day of October, 2010.

SIGNED by the Mayor this 18th day of October, 2010.

(SEAL)

CITY OF GARDNER, KANSAS

\_\_\_\_\_  
David C. Drovetta, Mayor

Attest:

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Doreen K. Pesek, City Clerk

APPROVED AS TO FORM:

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James R. Hubbard, City Attorney