



City Council Policy #6 Cash & Debt Management

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Cash Management

It is the policy of the City of Kirksville to follow prudent cash management practices to ensure the availability of funds for the payment of bills and payroll; properly safeguard the collection of cash and ensure timely deposit; maintain an accurate accounting of cash inflows and outflows; facilitate the investment of idle cash to maximize revenues; and monitor the level of funds necessary to meet short-term needs.

I. Cash Pool

All monies from all of the City's different funds are centralized in the City's main checking account (pooled account) unless stipulated under federal or state provisions to be segregated or as required for special projects. For financial reporting purposes, the monies are reported in the appropriate fund. Interest earned by the pool is proportionately divided among the funds based on their month-end cash balance.

II. Centralized Depository

Various City departments have the capability to accept cash payments. Monies collected are forwarded on a daily basis to the Finance Department which performs the actual depository function. A deposit is made daily to ensure funds are available for immediate use or investment. Monies collected after the deposit is made are kept secure in a locked vault with access limited to authorized personnel.

The City accepts substitute checks that meet the standards as outlined under the Check Clearing for the 21st Century Act (Check 21 Act). Any checks that are not in compliance with the promulgated standards will be subject to refusal of acceptance.

III. Credit Card & Echeck Acceptance

Credit cards are accepted as a payment method to encourage discretionary charges, i.e., airport fuel and recreation fees, in addition to mandatory charges for customer convenience, i.e., utility bills. The City will not charge fees for usage of the credit cards but instead will take any convenience costs into account when structuring charges for services. Echecks for utility payments are the preferred online payment method.

The City maintains compliance with the Payment Card Industry (PCI) data security requirements for security controls over customer card data.

IV. Online Services

The City will encourage the payment of utility, and parks and recreation fees or charges through the use of the City's on-line web payment system.

V. Receivables

The City actively pursues collection on returned checks and bad debts. Returned checks are subject to additional processing costs incurred by the City. Checks will not be accepted from individuals who have not satisfied outstanding debts or who have a history of writing bad checks.

Procedures for the collection of delinquencies conforms with the provisions of the Fair Debt Collection Practices Act Subchapter V, Section 1692 of the U.S. Code, which requires the

elimination of abusive debt collection practices, limits communications with debtors, prohibits harassment or abuse, prohibits unfair practices, requires written validation of the debt, provides for civil liability of debt collectors and uses the Federal Trade Commission to enforce its provisions.

Special tax liens are instigated against real property whose owners have failed to pay debt obligations to the City related to that specific property, e.g., demolition costs, mowing, etc.

VI. Internal Controls

A segregation of duties is mandatory to ensure proper handling of cash collections and to be in compliance with annual audit procedures. The Finance Director has the overall fiduciary responsibility for proper cash management and is required to be bonded.

VII. Petty Cash

The Finance Department petty cash drawer is housed in a secure and locked location and is limited in access. Petty cash vouchers are utilized to record the withdrawal of funds and are signed by the individual requesting the withdrawal. The petty cash fund is reconciled at a minimum on a monthly basis.

Other departments maintain separate petty cash funds which can only be reimbursed by submittal of approved vouchers to the Finance Department. These funds are periodically audited and the amount in any fund will not exceed \$500.

VIII. Bank Reconciliations

The City maintains various bank accounts which are reconciled on a monthly basis, generally within fifteen working days of the beginning of the month. To maintain proper segregation of duties, the bank reconciliation duties are divided among various employees that have no direct responsibility for the collection or disbursement of cash in the account for which the reconciliation is performed.

IX. Cash Flow Monitoring

Temporarily idle cash is invested until needed. Cash inflows and outflows are monitored to ensure that the supply of liquid cash is available to meet appropriation requests. During peak construction periods and recreation season, cash outflows increase and cash on hand is generally maintained at a level to meet three months of appropriation requests. Cash flow monitoring ensures the City has the ability to meet future cash requirements and eliminates the need for short-term borrowing in addition to maximizing the time available for investment.

The City's investment policy is explained in more detail in City Council Policy #10.

X. Vendor Disbursements

On a weekly basis, the Finance Department approves the listing of vendor payments to be disbursed for that week. Vendor payments are disbursed weekly, generally on Friday, unless it falls on an observed holiday. Exceptions to the weekly disbursement cycle include the need for an advance check or for an electronic transfer for payment of payroll taxes, bonds, bond fees, sales tax remittance, etc.

The City strives to make timely payment and take advantage of every applicable discount possible.

XI. Payroll Disbursements

Payroll is performed bi-weekly and is paid from a bank account set up specifically to disburse payroll monies, payroll taxes and payroll-related transactions. Monies are transferred from the pooled account as needed to cover payroll disbursements. City payroll checks will be directly deposited into the respective employees' bank accounts.

XII. Check Fraud Protection

The City secures its check stock in a locked location with limited access accounted for through a control log. Two authorized signatures are required on all checks disbursed. A signature stamp is utilized which is secured and available for use by only authorized personnel who are required to sign a log sheet. Duties are segregated among the staff for initiating, authorizing, preparing, signing, mailing payments and reconciling bank statements.

XIII. Banking Services

The City goes out for bids on their banking services every two years, with an option to renew with their current financial institution for an additional two years. The bid process consists of sending out requests for proposals (RFP) to all local financial institutions which details the services required by the City. Each bid is reviewed in detail to determine the scope of services offered, at what cost and interest rate offered on the collective bank accounts. The City Council approves the bid in July with the agreement for banking services to commence January 1.

The City maintains a written banking services agreement with the depository bank engaged.

XIV. Collateral

All deposits must be collateralized equal to a margin of 105 percent of market value over the bank balances, inclusive of the FDIC-insured limit. The collateral is held in a third-party bank that is independent of the depository bank or the bank's holding company. The securities acceptable to be used as collateral are described in State Statutes 30.270, Part 1, with the exception of items 6 and 7.

XV. Unclaimed Property

All refunds of monies are remitted back to the rightful owners as applicable. The City makes every possible effort to find the owner of property; if refunds are "abandoned" or go unclaimed, the City will hold the monies until required for remittance to the Missouri State Treasurer's Office, as per State Statutes Chapter 447 RSMo.

XVI. Identity Theft

The City enforces the Fair and Accurate Credit Transaction Act of 2003 (FACTA) and adopted the "Red Flag" rules as they pertain to the provision of and payment for municipal-provided utility services. An Identity Theft Prevention Program was adopted by the City effective October 20, 2008.

Debt Management

It is the policy of the City of Kirksville to abide by established debt control policies in order to provide assurance of the City's commitment to sound financial management and controlled borrowing practices and set parameters for issuing debt and managing the debt portfolio.

I. Capital Planning

Capital improvement plans are prepared on a multi-year basis. These plans go through an annual review by the City Council in conjunction with the budget process. Financing needs are determined well in advance in order to identify all alternative sources of funding and locate the most cost-effective financing option for the City.

II. Responsibility

It is the responsibility of the Finance Department to acquire the proper debt instrument and ensure the most cost-effective method of financing for the project. The City Council and City Manager will give the final approval on the acceptability of a financing arrangement.

The City will make all debt service payments when due on a timely basis, including all principal and interest payments, sinking fund payments, debt service reserve fund payments and payments for all other debt-related obligations.

III. Non-appropriation

All debt payments are subject to appropriation on an annual basis and must be approved in the budget process. All financing contracts contain a non-appropriation clause to recognize that the City cannot be obligated in subsequent years.

IV. Pay-as-you-go Financing

The City will pay for all equipment and infrastructure projects in cash if the applicable fund has an adequate cash flow and fund balance, project phasing is feasible and funding will not curtail operating or maintenance expenditures.

V. Non-debt Capital Funding Sources

The City will normally rely on existing funds and project revenues to finance capital projects such as major maintenance, equipment acquisition and small development projects. The City will strive to locate grants, matching fund programs or low-interest loan programs to assist with the cost of capital projects.

VI. Capital Financing

The City will utilize debt financing for one-time capital improvement projects when the project's useful life will exceed the term of financing and when project or specific revenues will be sufficient to service the long-term debt.

Bonds will be amortized within a period not to exceed the expected useful life of the asset being financed.

The City will confine long-term borrowing to capital improvements or infrastructure projects that cannot be financed from current revenues. Long-term debt will not be used for any recurring purpose such as current operating and maintenance expenditures or revenue shortfalls.

Capital improvements will be financed primarily through user fees, service charges, assessments or special taxes attributable to that specific project.

Generally, the City will make a down payment to any project with an expected useful life of less than 10 years, rather than relying on 100% debt financing.

Debt issued by the City should be structured to provide for either level principal or level debt service. Deferring the payment of principal should be avoided except in cases where it will take a period of time before project revenues are sufficient to pay debt service. Ascending debt service should generally be avoided.

Interfund borrowing will be considered to finance high priority needs on a case-by-case basis and only when planned expenditures in the fund making the loan would not be compromised. Interfund borrowing may be used when it would reduce costs of interest, debt issuance and/or administration.

The City will generally conduct financings on a competitive basis, unless the nature of the project favors a negotiated financing. Should better rates become available on an existing conventional loan/lease, the City shall have flexibility to refinance if analysis proves a cost savings without extending the length of the arrangement.

VII. Debt Structure

The City is eligible to issue short-term debt which may include, but not be limited to: tax, revenue, grant or bond anticipation notes; tax-exempt commercial paper; or variable rate notes when such instruments allow the City to accomplish capital acquisitions or projects.

The City may issue long-term debt which may include, but not be limited to: general obligation bonds, certificates of participation, revenue bonds, tax increment bonds or variable rate notes. The City may also enter into long-term leases for public facilities, property and equipment.

The type of debt to be issued will be determined in accordance with the following factors:

- A. Direct and indirect beneficiaries of the project; a majority of the citizens should benefit from a project financed by general obligation bonds;
- B. Time pattern of the stream of benefits generated by the project;
- C. Alternative types of existing or potential user charges and the ability to generate revenue by controlling rates;
- D. Effect of the proposed bond issue on the City's ability to finance future projects of equal or higher priority;
- E. The interest costs and costs of issuance of each alternative type of issuance; and,
- F. Impact of the issue on the City's financial position and credit rating.

VIII. Restrictions

General obligation bonds can only be issued after approval by the taxpayers through a public referendum. The City will try to keep the average maturity of general obligation bonds at or below 20 years. Current or advance refundings (replacement of outstanding debt with new debt issued at a lower interest rate) will be utilized when advantageous, legally permissible, prudent and when a 5% net debt service savings is realized over the term of the debt.

General obligation debt per capita will not exceed \$300.

The City will use special assessments, revenue bonds and/or other available self-liquidating debt measures instead of general obligation bonds where and when possible and applicable.

Revenue bonds will be issued for revenue-producing facilities only. Rates charged for such operations shall be sufficient to generate a net income equivalent to 120% of the annual debt service obligation. The maximum permissible term for revenue bonds shall be twenty years.

Debt reserves equal to the next principal and interest payment shall be maintained (except for assessment debt).

Short-term debt instruments, i.e., tax and revenue anticipation notes, commercial paper and variable rate demand bonds will be used in limited circumstances and only as interim financing sources.

Debt will be structured for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users.

IX. Overlapping Debt

Overlapping governments are other taxing jurisdictions that overlap the City's boundaries, thus exposing the City's taxpayers to taxation by other governmental entities. The City will strive to minimize the use of debt; it is recognized that the individual taxpayer must bear the burden of all overlapping jurisdictions, both for operating and capital purposes.

X. Legal Debt Margin

Per State Statutes, general obligation bonds are subject to a legal debt limit of 20% of the City's portion of assessed valuation of taxable property. This is outlined in Council Policy #3.

XI. Rating

The City of Kirksville seeks to maintain the highest possible credit rating for all categories of short and long-term general obligation debt that can be achieved without compromising delivery of basic City services and achievement of adopted City policy objectives.

The City will not consider long-term debt that, through its issuance, would cause the City's bond rating to be lowered.

The City will maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus.

XII. Lease Financing

The City will utilize capital leasing arrangements to fund the purchase or construction of major capital items when necessary. Lease payments will be paid from the applicable operating revenues. Should better rates become available on an existing conventional loan/lease, the City shall have flexibility to refinance if analysis proves a cost savings without extending the length of the arrangement.

XIII. Bond Counsel

The City will retain external bond counsel for all debt issuances to ensure compliance with applicable federal and state tax and other laws and regulations pertaining to public financing. No debt will be issued by the City without a written opinion by bond counsel.

XIV. Financial Advisor

The City will retain an external financial advisor, selected through a competitive process, to be utilized in selected debt issuances.

XV. Arbitrage

The City will follow a policy of full compliance with all arbitrage rebate requirements of the federal tax code and Internal Revenue Service regulations and will perform, as necessary, arbitrage rebate calculations for each issue subject to rebate on an annual basis. All necessary rebates will be filed and paid when due.

XVI. Financial Disclosures

The City shall include the appropriate debt disclosures as required in the Official Statements, the Comprehensive Annual Financial Report (CAFR) and the annual budget.

XVII. Rate Increases

For any enterprise fund that is supporting debt, an annual rate study will be performed to ensure that the fees or rates are sufficient to meet the debt service requirements.

XVIII. Letter of Credit

Occasionally, a letter of credit is required from the City's depository bank to establish availability of funds and a limit of funds dedicated to the specific project. The Finance Director will be responsible for acquiring the letter of credit and negotiating the terms.

XIX. Conduit Financing

The City may sponsor conduit financings for those activities, i.e., economic development, housing, etc., that have a general public purpose and are consistent with the City's overall service and policy objectives. All conduit financings must be structured to protect the City completely from any credit risk or exposure and must be approved by the City Manager before being submitted to the City Council for authorization and implementation.