**COMMISSIONER'S ORDINANCE NO. O-50-15**

AN ORDINANCE RELATING TO ENHANCING FISCAL STABILITY TO ENACT A FORMAL POLICY FOR THE ESTABLISHMENT, MAINTENANCE AND USE OF CERTAIN FUND BALANCES WITHIN THE CITY'S GENERAL FUND AND OTHER FUNDS.

* * * * *

WHEREAS, the City of Covington's financial stability is utmost in establishing a solid foundation for the future growth and sustainability of the City; and

WHEREAS, it is prudent and necessary to establish guidelines to enhance fiscal stability for City employees, public safety, infrastructure, economic development and City operations; and

WHEREAS, the Board of Commissioners' Spirit of Progress 2015 Vision Statement provides:

1. Together, we will create a sustainability plan for our City; and
2. Together, we will become more efficient and effective in the internal operations of our City government; and
3. Together, we will create a sustainability plan for our City; and

WHEREAS, the Government Finance Officers Association of the United States and Canada recommends that municipal entities such as the City of Covington establish a formal policy relating to the maintenance of fund balances within the City's General Fund, and other funds; and

WHEREAS, establishing such a policy is considered to be a favorable accounting practice, as recommended by the City's external auditing firm in a memo to the Mayor and Commissioners dated December 7, 2015, in order to provide the required resources to maintain bond ratings, insure short-term cash availability, mitigate future economic risks, and enhance long-term planning; and

WHEREAS, the Board of Commissioners desires to promote the themes of responsibility, sustainability and investment, as outlined in the FY 2015-2016 annual budget message, and general stability for the functional operation of the City government and the services it provides; and

WHEREAS, based on the aforementioned themes, the Board of Commissioners desires to promote reliable funding for the City's legal and financial obligations, its business needs to meet payroll, benefits and other general operating expenses of the City, and investment for growth; and

WHEREAS, by providing the framework for sustainability in this Ordinance, the expected benefit of this Ordinance and the various funds that it establishes will be more

reliable planning and funding for the stable operation of City government and the services it provides; and

WHEREAS, the funds established, maintained and used in this Ordinance are also intended to buffer the City from cyclical changes in the economy and unanticipated risk, and provide a framework for sustainability for the long-term financial health of the City.

NOW THEREFORE,
BE IT ORDAINED BY THE BOARD OF COMMISSIONERS OF THE CITY OF COVINGTON, KENTON COUNTY, KENTUCKY:

Section 1

This Ordinance supersedes all other City Ordinances, except as otherwise noted herein.

Section 2

It shall be the policy of the City to establish and maintain the hereinafter described fund balances within the General Fund and all other City Funds as described below.

Section 3

**RESPONSIBILITY**

Section 3.1

Police and Fireman's Retirement Plan Fund and the City Employees' Retirement Plan Fund

It shall be the policy of the City annually to fund the Police and Fireman's Retirement Plan Fund, and the City Employees' Retirement Plan Fund based on the most recent Actuarial Valuation Report of each Retirement Plan Fund. The FY 2015-2016 General Fund contribution for the Police and Fireman's Retirement Plan is 66 percent of the contribution of funding necessary to properly fund this retirement fund account based on the most recent Actuarial Valuation Report. The City Employees' Retirement Plan Fund is 76 percent of the contribution of funding necessary to properly fund this retirement fund based on the most recent Actuarial Valuation Report. Each year hereafter, the City shall annually fund the Police and Fireman's Retirement Plan Fund, and the City Employees' Retirement Plan Fund, based on the most recent Actuarial Valuation Report for each, in the percentage amount of the FY 2015-2016 funding contribution, plus a minimum additional contribution of twenty-five percent (25%) of the difference between the most recent Actuarial Valuation report and the previous year's contribution percentage, each year thereafter, until the annual funding contribution for both retirement plan funds is at least one-hundred percent (100%) of

the most recent Actuarial Valuation Report and provide such annual contributions thereafter in the same manner as necessary to maintain one-hundred percent (100%) of the most recent Actuarial Valuation Report. Such funding will be provided for as part of the City's annual budgeting process using funds available from the City's General Fund.

## Section 3.2

### Minimum General Fund Unreserved Fund

It is the goal of the City to maintain a Minimum General Fund Unreserved Fund Balance equivalent to at least two months of budgeted operating revenues as recommended by the Government Finance Officers Association (GFOA) to meet the general operating expenses of the City including payroll, benefits, and other operating expenses. In FY 2015-2016, two (2) months of budgeted operating revenues is equal to $7,835,675 based on budgeted General Fund operating revenues of $47,010,405.

In the FY 2014 Comprehensive Annual Financial Report (CAFR), the Ending Fund Balance in the Minimum General Fund Unreserved Fund Balance is $2,204,443 The City shall add the $750,000 in the FY 2015-2016 "General Fund Restricted" Fund identified as "Sale of One Time Asset the Hotel" to the Minimum General Fund Unreserved Fund, for a total fund balance of $2,954,443, leaving a difference of $4,074,551 between the FY 2015-2016 estimated Ending Fund Balance in the Minimum General Fund Unreserved Fund Balance of $3,761,124 and $7,835,675 which is the equivalent to two months of FY 2015-2016 budgeted General Fund operating revenues, as recommended by GFOA. From the FY 2014-2015 Comprehensive Annual Financial Report (CAFR), there is $2,190,608 of carryover funds. The City hereby allocates $806,681 of the FY 2014-2015 carryover amount as stated in the CAFR to the Minimum General Fund Unreserved Fund Balance for a new estimated FY 2015-2016 Ending Fund balance of $3,761,124.

Each fiscal year hereafter, the City shall increase its contribution toward meeting the goal of at least two (2) months of budgeted operating revenues, as recommended by GFOA, by a minimum of ten percent (10%) over the previous fiscal year's progress toward this goal, after any allocation required by City Ordinance O-58-12 to the Tax Increment Financing (TIF) District, until the Minimum General Fund Unreserved Fund Balance meets or exceeds two (2) months of budgeted operating revenues, as calculated by that current year's budgeted General Fund operating revenues.

Once the Minimum General Fund Unreserved Fund Balance achieves the two (2) months of General Fund operating revenues for that respective fiscal year, then each year thereafter the City shall allocate at least that amount from the carryover of the amount stated in the immediate prior year's CAFR to the Minimum General Fund Unreserved Fund Balance, after any allocation required by City Ordinance O-58-12 to the TIF District, until the Minimum General Fund Unreserved Fund Balance meets or exceeds two (2) months of budgeted operating revenues, as calculated by that current year's budgeted General Fund operating revenues that is necessary to maintain the

equivalent of two (2) months of General Fund operating revenues for each respective fiscal year thereafter.

Section 3.3

Self-Insured Liability Fund

In order to provide for more reliable funding of the City's Self-Insured Liability Fund, a minimum of forty percent (40%) of the historical average of the previous five fiscal years of estimated liability, as determined annually by the Legal Department for the City's CAFR, shall be allocated to and reserved in the Self-Insured Liability Fund as recommended annually by the City's external auditors, after any allocation required by City Ordinance O-58-12 to the TIF District and after satisfaction of the requirements of Section 3.2 of this Ordinance. The current (2011-2015) historical five-year estimated liability average is $3,925,310, and 40 percent (40%) of that average is $1,570,124.

In the FY 2014-2015 annual CAFR, the estimated Liability in the Self-Insured Liability Fund is $1,291,216, leaving a difference of $278,908 between the estimated FY 2014-2015 estimated Liability in the Self-Insured Liability Fund and the minimum 40 percent (40%) of the historical average of the previous five (5) fiscal years' estimated liability as calculated by the City's Finance Department.

From the FY 2014-2015 CAFR, there is $2,190,608 of carryover funds in the General Fund. The City hereby allocates $278,908 of that carryover amount to the estimated Liability in the Self-Insured Liability Fund for a projected FY 2015-2016 Ending Fund balance of $1,570,124 in the Self-Insured Liability Fund achieving the 40 percent (40%) allocation goal.

Once the City's Self-Insured Liability Fund Balance achieves forty percent (40%) of the historical average of the previous five fiscal years of estimated liability for that respective fiscal year, then each year thereafter the City shall allocate only that amount from the carryover of the amount stated in the immediate prior year's CAFR to the City's Self-Insured Liability Fund Balance, after any allocation required by City Ordinance O-58-12 to the TIF District and after satisfaction of the requirements of Section 3.2 of this Ordinance, until the City's Self-Insured Liability Fund Balance meets or exceeds forty percent (40%) of the historical average of the previous five fiscal years of estimated liability, as calculated by the Finance Department.

Section 3.4

Self-Insured Employee Health Plan Fund

In order to provide for more reliable funding of the City's Self-Insured Employee Health Plan, a Minimum Fund Balance equal to three (3) months' worth of claims' expense in the Employee Health Plan in a fiscal year, shall be reserved, based on an average of the most recent three (3) fiscal years' claims' expense amounts. In the past three (3) fiscal years, (FY 2013 through FY 2015) the City has expended an annual

average of $4,366,590 each year for claims' expense in the Self-Insured Employee Health Plan, representing a monthly average rate of $363,883. Therefore, it is hereby established for FY 2015-2016 that the minimum fund balance required in the Self-Insured Employee Health Plan Fund Balance is calculated to be $1,091,499, based on the annual average of the past three (3) fiscal years, and hereafter the Minimum Fund Balance shall be calculated based on the average of the three (3) past fiscal years' annual average claims' expenditure amounts for the Self-Insured Employee Health Plan.

In the FY 2014 -2015 CAFR, the estimated Liability in the Self-Insured Employee Health Plan Fund is $1,696,029 leaving a positive difference of $604,530 between the estimated FY 2015-2015 estimated Liability in the Self-Insured Employee Health Plan Fund Balance and the Minimum Fund Balance of $1,091,499 based on the annual average of the past three (3) fiscal years

From the FY 2014-2015 Comprehensive Annual Financial Report (CAFR) there is $2,190,608 of carryover funds in the General Fund. The City hereby reallocates $604,530 of the FY 2014-2015 estimated Liability amount as stated in the CAFR from the Self-Insured Employee Health Plan Fund Balance to the Minimum General Fund Unreserved Fund and the Self-Insured Liability Fund.

Once the City's Self-Insured Employee Health Plan Fund Balance achieves three (3) months' worth of claims' expense of the previous three fiscal years (3) of historical claims paid, then each year thereafter the City shall allocate only that amount from the carryover of the amount stated in the immediate prior year's CAFR to the City's Self-Insured Employee Health Fund Balance, after any allocation required by City Ordinance O-58-12 to the TIF District and after satisfaction of the requirements of Section 3.2 of this Ordinance, until the City's Self-Insured Health Plan Fund Balance meets or exceeds three months' worth of claims' expense of the previous three fiscal years (3) of historical claims paid, as calculated by the Finance Department.

If in future years, there is insufficient carryover funds from the immediate prior year's CAFR to satisfy the annual allocations prescribed in Sections 3.3 and 3.4, Self-Insured Liability Fund, and Self-Insured Employee Health Plan Fund respectively, then the remaining immediate prior year's CAFR carryover funds, if any, shall be distributed proportionately between these two (2) funds, based on the combined differences of the Self-Insured Liability Funds' minimum 40% of the historical average of the previous five (5) fiscal years' estimated liability as calculated by the Finance Department, and the estimated three (3) months' worth of health insurance claims' expenses for the Self-Insured Health Plan Liability Fund, as calculated by the Finance Department.

## Section 4

## SUSTAINABILITY

### Section 4.1

Personnel and Benefits Fund

In order to provide for appropriate staffing and compensation for City employees, as determined by the Board of Commissioners, twenty-five percent (25%) from the carryover of the amount stated in the immediate prior year's CAFR and after any allocation required by City Ordinance O-58-12 to the TIF District and after satisfaction of the requirements of Sections 3.2, 3.3 and 3.4 of this Ordinance, shall be allocated to a Personnel and Benefits Fund, which may be used for staffing and compensation needs of the City, as determined by the Board of Commissioners.

Section 4.2

Fleet, Equipment, Technology, Facilities, and other Capital Projects Fund

In order to provide for the City's business needs so that services can be efficiently and effectively maintained and delivered, including fleet, equipment, technology, facilities, and other capital projects as determined by the Board of Commissioners, there is hereby established a Fleet, Equipment, Technology, Facilities, and other Capital Projects Fund. The proceeds realized from Ordinance 0-5-15, establishing an increase in the City's Insurance Premium License Fee from 10% to 12%, the increase of which shall be allocated to the Fleet, Equipment, Technology, Facilities, and other Capital Projects Fund.

Section 5

**INVESTMENT**

Section 5.1

Infrastructure Fund

In order to provide for more reliable funding and reinvestment in the City's infrastructure needs (streets, curbs, sidewalks, street lights, sewers, bridges) there is hereby established an "Infrastructure Fund". Each year the Board of Commissioners shall allocate twenty-five percent (25%) from the carryover of the amount stated in the immediate prior year's CAFR, and after any allocation required by City Ordinance O-58-12 to the TIF District, and after satisfaction of the requirements of Sections 3.2, 3.3 and 3.4 of this Ordinance, to an Infrastructure Fund, which may be used for infrastructure needs of the City, as determined by the Board of Commissioners.

Section 5.2

Covington Economic Development Program Fund

In order to provide for more reliable funding of economic development, projects, programs, and services in the City, there is hereby established the "Covington Economic Development Program Fund". On an annual basis, the net proceeds of leased facilities

of the City shall be deposited into the General Fund, and a like amount shall be transferred to the "Covington Economic Development Program Fund" to assist the City with its economic development projects, programs, and services

Section 5.3

Tax Increment Financing

In order to provide for the City's economic development needs, this Ordinance reiterates the commitment approved through Ordinance O-58-12 dedicating 80% of the City's Incremental Revenues from City Real Property Ad Valorem Taxes and Occupational Taxes generated within the Tax Increment Financing (TIF) district to Economic Development activities.

Section 6

All ordinances or parts thereof in conflict herewith are, to the extent of such conflict, hereby repealed.

Section 7

That this ordinance shall take effect and be in full force when passed, published and recorded according to law. Publication may be in summary form.

Sherry Carran
MAYOR

ATTEST:

Margaret Mykan
CITY CLERK

Passed: 12-15-15 (Second Reading)

12-8-15 (First Reading)