

---

### **Budget Process**

The City of Newton is governed by a 5-member City Commission. The Budget is prepared by the City Manager according to policies and guidelines set forth by the City Commission.

The budget process is comprehensive and incorporates long-term and short-term strategic planning to best deliver services to citizens. The City's budget year is the calendar year, January—December.

### **Kansas Statute**

The State of Kansas imposes certain guidelines and time frames in the manner that the City adopts and implements its budget.

### **Budget Law**

KSA 79-2925 includes the following provisions

- Cities prepare annual, itemized budgets
- Present the budget no later than August 1
- Do not budget contingency greater than 10% of budgeted expenditures
- Do not budget fund balances (for applicable funds) of more than 5% of fund expenditures
- Adopt the annual budget no later than 10 days prior to August 25
- Provide notices of public hearings
- Provide the adopted budget to the County Clerk by August 25th

### **Cash Basis Law**

KSA 10-1101 includes the following provisions

- The Kansas Cash Basis Law prohibits cities from creating a financial obligation unless there is money on hand in the proper fund with which to pay the indebtedness.
- Municipalities and public libraries in Kansas may not create any indebtedness in excess of the amount of money on hand in the treasury
- A city can issue "no fund warrants" by a resolution of the governing body declaring an extraordinary emergency.

### **Debt Limit Law**

The Debt Limit Law is obtained in KSA 10-308 and limits the City's maximum eligible debt to no greater than 30% of taxable assessed valuation.

### **Basis of Accounting & Budgetary Controls**

The City's accounting records for general government operations are maintained on a modified accrual basis. Revenues are recorded when available and measurable, and expenditures are recorded when the services or goods are received or when the liabilities are incurred.

Accounting records for the City's utilities and other enterprises are maintained on the accrual basis.

In developing and altering the City's accounting system, consideration is given to the adequacy of



---

internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance against loss of assets from unauthorized use or disposition. In addition, the controls maintain reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within this framework. The administration believes that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Expenditures are authorized by a budget approved by the City Commission as required by Kansas statutes. The Finance Director and the City Manager continually review all significant deviations from budget authorizations. The Kansas Cash Basis and Budget Laws require cash to be on hand before expenditure is authorized, that all expenditures are budgeted, and that the budget not exceed anticipated revenues including carry-forward balances.

### **Balanced Budget**

State law requires all local governments to operate with a balanced budget for funds that levy a tax. A balanced budget is defined as a budget in which projected revenues and available unencumbered cash are equal to expenditures. The City of Newton's 2020 budget is in compliance with this law.

### **New Tax Lid Legislation**

The City may levy taxes in accordance with the requirements of its adopted budget. Property tax levies are based on the adopted budget of the City and the assessed valuations provided by the County appraiser. The Kansas Legislature passed legislation in 2015 and 2016 that imposes an additional limit on the aggregate amount of property taxes that may be imposed by cities and counties, without a majority vote of qualified electors of the city or county (the "Tax Lid"). The Tax Lid is effective on January 1, 2017, and provides that, subject to certain exceptions, no city or county may approve an appropriation or budget which provides for funding by property tax revenues in an amount exceeding that of the immediately prior year, as adjusted to reflect the average changes in the consumer price index for the preceding five calendar years and provided that such average shall not be less than zero, unless approved by a majority vote of electors. The Tax Lid does not require an election in the following situations:

1. Increased property tax revenues that, in the current year, are produced and attributable to, new construction, increased valuation, etc.;
2. Increased property tax revenues that will be spent on;
  - Debt payments that existed prior to July 1, 2016;
  - Court judgements or settlements
  - Expenditures mandated by federal or state law;
  - Expenses relating to a federal, state, or local disaster;
  - Increased costs above the cpi for law enforcement, fire protection or emergency medical services;
3. Any increased property tax revenues generated for law enforcement, fire protection or emergency medical services, but not for construction or remodeling of buildings.
4. Property tax revenues levied by the city or county have declined:

- 
- In one or more of the next preceding three calendar years and the increase in the amount of funding for the budget from property taxes does not exceed the average amount of funding from such revenue of the next preceding three calendar years, adjusted for changes in the cpi;
  - The increase in the amount of ad valorem tax to be levied is less than the change in the cpi plus loss of assessed property valuation that has occurred as result of legislative action, judicial action, or board of tax appeals.

### **City of Newton 2020 Budget Development Calendar**

#### ***March***

- Preliminary Operating Budgets Developed **March 6**
- Budget Meeting with Department & Division Heads **March 7-8**
- Equipment Replacement Plan & Narrative due to Finance Department- **March 27**
- Letters to External Agencies sent **March 29**

#### ***April***

- Budget Review Team Review Unmet Needs Requests Supplemental Budget Requests **April 19**
- Personnel budget updated- **April 30**
- External agency funding requests due back to City Clerk **April 31**

#### ***May***

- Commission Reviews Utility Funds **May 7**
- Commission Reviews Capital Projects and Bond & Interest Fund **May 14**
- Commission Receives Five-year Forecast for Various Funds **May 28**

#### ***June***

- Receive preliminary assessed valuation from County **June 10**
- Budget work session with City Commission **June 11**
- Budget work session with City Commission **June 25**

#### ***July***

- Budget work session with City Commission **July 9**
- Budget wrap up with City Commission **July 23**
- Manager presents recommended budget to City Commission
- Publish notice of budget public hearing

#### ***August***

- Commission Conducts Public Hearing and Adopts 2020 Budget **August 13**
- Budget Certified by County Clerk **August 25**

#### ***September***

- Adopted budget on Website

#### ***November***

- Finance Department planning for next year budget begins

---

## **Banking Arrangements and Cash Management**

Banking services for the City include routine banking services, checking account, and investment of short-term liquid assets. Interest on funds are paid at a rate pegged to short-term U.S. Treasury bills. Funds not needed in the short term are invested either in local financial institutions or in the Kansas Municipal Investment Pool. The City may only invest in Treasury bills, certificates of deposits, or the Pool.

The Kansas Municipal Investment Pool was created in 1992 to allow municipalities to invest funds with the Kansas State Treasurer, who subsequently invests in federal securities. The State of Kansas guarantees these funds. Prior to investing funds in the Pool, the City must offer funds to qualified local financial institutions. Rates by local institutions are compared to published rates established by the Pool. If local banks are willing to pay the same rate, funds must be invested locally.

In priority order, the basic cash management philosophy of the City is:

1. Protect investment principal.
2. Maintain liquidity.
3. Maximize interest earnings.

All investments are subject to statutory requirements that all investments be 100 percent collateralized by federally guaranteed depository securities.

## **Budget Amendments**

Since the annual operating budget is formulated well in advance of its execution, the City Commission recognized that it may become necessary to amend a budget after adoption. State Statute 79-2929 permits the budgets to be increased for previously unbudgeted increases through revenue other than property tax. It is the policy of the City to amend budget only in extenuating circumstances.

The City may authorize an amendment of any current year budget, at the fund level, after giving public notice and holding a public hearing as required by State Statute.

## **Long Range Financial Planning**

Annually, the City develops a long-range financial plan for a period of five years that is updated throughout the year. The financial plan assists in evaluating current and future fiscal conditions to guide current and future policy and programmatic decisions.

## **Capital Improvement Plan (CIP)**

The CIP process ensures realistic project planning. The CIP is reviewed as planning for the previous cycle ends. The Director of Public Works/City Engineer leads the City's CIP process. The Public Works Director assists departments in developing new or updating current projects, obtaining accurate estimates, determining potential impact on the operating budget, and submitting project requests for the next five years. After the projects are prioritized, they are presented to the City Commission for approval. There are also a number of cash-funded capital improvements that are budgeted within Departmental operating budgets.

## **Debt Financing & Debt Policy**

Large capital improvement projects for the City of Newton normally require long-term financing through

---

municipal bonds. It has been City policy to divide bond issues into ten, fifteen, and twenty-year final maturities based upon the expected useful life of the financed project. This enables the life of the asset to match the term of financing. The practical application of this policy has resulted in most issues being "front loaded." Therefore, annual principal and interest payments are declining over time. This allows the primary financial burden of a project to be borne in its early years rather than deferring financial burden to future taxpayers. In accordance with State Statute, the total eligible City debt cannot exceed 30% of assessed valuation.

### **Independent Audit**

State statutes require an annual audit of the books of accounts, financial records, and transactions of all administrative departments of the City by independent certified public accountants selected by the City Commission. The firm of Berberich, Trahan, and Co., P.A. has performed the audit for fiscal years 2015 through 2017.

### **Purchasing**

An important tool in the management of any complex organization is an established set of guidelines setting out the process and procedures for purchasing supplies and services. The City of Newton has followed and adopted guidelines for purchasing for many years.

### **Purchasing Cards**

To expedite procurement and reduce purchasing and related payment paperwork by reducing the number of purchase order transactions, appropriate City eligible employees are provided a purchasing card. The purchasing card is the preferred means to purchase and pay for eligible goods and services that cost less than \$1,500. Cardholders are encouraged to use the purchase card instead of other modes of payment for City purchases to the maximum extent practicable. The Finance Director is responsible for the implementation and oversight of the program. In addition, a program administrator is designated in each appropriate department to review and approve cardholder documentation and reconciliation.

### **Fund Balance**

Fund balance is the amount of unencumbered cash that ensures services could be provided for a short time even if commitments exceeded revenues. In 2011 the City Commission officially adopted a City Fund Balance Policy. The minimum fund balance requirement is equivalent to fifteen percent of the budgeted expenditures in the General Fund and five percent in other eligible funds. For enterprise funds that have debt service, the required debt coverage ratio requires that the ending balance be 1.25% of the following year's debt service.

### **What is a Mill Levy?**

A mill is \$1 of tax for every \$1,000 of assessed value on real and personal property. The mill levy is recalculated every year and is based on the amount of property tax dollars needed to finance the City budget.

The County Clerk calculates the annual mill levy by dividing the total revenue to be obtained from property taxes for each fund by the total assessed value.

Taxes are levied in the previous year to finance the current budgets. For example, 2017 taxes are used to finance the 2018 budget.

---

**What is an assessed value?**

The assessed (or "taxable") value of property is a percentage of the property's appraised fair market value. The County Appraiser's Office determines the fair market value of property and sets the appraised value. The appraised value is then multiplied by an assessment rate that is based on the function of the property.

**What is a fund?**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State Law and by bond covenants. In addition, the City Commission establishes other funds to help control and manage money for particular purposes, or to demonstrate that Newton is complying with legal requirements for using certain taxes, grants, and other money. The City has three kinds of funds, governmental, proprietary and fiduciary funds.

**Governmental Funds**

Most of the City's basic services are reported in its governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. These funds are reported using an accounting

method called the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

- General Fund - Accounts for all financial resources of the general government, except those required to be accounted for in another fund. This is the County's primary operating fund.
- Special Revenue Funds - Account for revenue sources that are legally restricted to expenditure for a specific purpose or required by state law to be a separate fund. Examples include Airport, Library and Special Highway.
- GO Bond & Interest Fund - Accounts for the payment of interest and principal on long term debt.

**Proprietary Funds**

When the City charges for certain services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported using the full accrual basis of accounting. The City of Newton maintains two different types of proprietary funds:

- Enterprise funds are used to report the same functions presented as business-type activities.
- Internal Service funds are used to report activities provided through one fund for other City programs

<b>Real Estate</b>		
Residential	Multi- Family, urban or rural	11.5%
Agricultural	Value based on use or production	30.0%
Vacant Lots	For industrial purposes, and buildings and improvements to agricultural land	25.0%
Commercial	Public utility real property, except railroad	33.0%
<b>Personal Property</b>		
Residential	Mobile Homes	11.5%
Mineral Leases	Oil production over 5 barrels/day and natural gas production under 100 mcf/day	25.0%
Public Utility	Inventory, except railroad	33.0%
Machinery	Commercial and Industrial less depreciation	25.0%
	Farm machinery, merchant/manufacturer inventories, livestock	Exempt

---

and activities such as the City's Stores and Maintenance and Self Insurance Funds.

**Fiduciary Funds**

The City is a trustee, or fiduciary, for certain amounts held on behalf of others. The City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes.

**CITY FUND STRUCTURE**

**Governmental Funds**

- General Fund
- Airport
- Community Development
- Library
- Special Alcohol/Drug
- Special Highway
- Special Liability
- Special Parks & Rec
- Convention & Visitors
- GO Bond & Interest
- Special Law Enforcements

**Proprietary Funds**

- Solid Waste
- Wastewater
- Waterworks
- Internal Service Fund
- Golf Course Fund
- Water Bond & Interest Fund
- Wastewater Bond & Interest Fund
- Golf Debt Service
- Meridian Conference Center