

VILLAGE OF LOMBARD  
REQUEST FOR BOARD OF TRUSTEES ACTION  
For Inclusion on Board Agenda

  X   Resolution or Ordinance (Blue)        *Waiver of First Requested*  
       Recommendations of Boards, Commissions & Committees (Green)  
       Other Business (Pink)

TO: PRESIDENT AND BOARD OF TRUSTEES

FROM: Scott Niehaus, Village Manager

DATE: July 11, 2016 (COW)(B of T) July 21, 2016

TITLE: Resolution Authorizing an Adoption of Additions and Amendments to the Village of Lombard Financial Policies

SUBMITTED BY: Timothy Sexton, Director of Finance

BACKGROUND/POLICY IMPLICATIONS:

The Finance & Administration Committee met on May 23, 2016 and June 27, 2016 to discuss additions and amendments to the Village's Financial Policies. The proposed changes focus on updating and developing the Village's financial policies in order to help align annual revenues and expenditures and reducing the Village unfunded liabilities. Attached is a detailed list of the recommended changes and a copy of the current financial policies with proposed language.

Also attached is a waterfall chart with a detailed spreadsheet outlining the proposed Year-end General Fund Reserve Maintenance Policy that would replace the Utility Tax Reserve Policy and establish funds for emergency reserves, revenue stabilization, building reserves, and pension stabilization.

The Finance & Administration Committee voted unanimously on June 27, 2016 to recommend approval of the proposed additions and amendments to the Village Board of Trustees.

Review (as necessary):

Village Attorney X	_____	Date	_____
Finance Director X	<i>Timothy Sexton</i>	Date	<i>7/11/16</i>
Village Manager X	_____	Date	_____

NOTE: All materials must be submitted to and approved by the Village Manager's Office by 12:00 noon, Wednesday, prior to the Agenda Distribution.

RESOLUTION  
R \_\_\_\_\_ 16

A RESOLUTION AUTHORIZING ADOPTION OF ADDITIONS AND AMENDMENTS  
TO THE VILLAGE OF LOMBARD FINANCIAL POLICIES

WHEREAS, the President and Board of Trustees of the Village of Lombard, DuPage County, Illinois previously approved by Resolution 63-88 various financial policies approved by the Village Finance Committee, and

WHEREAS, Resolution 63-88 has in the past been amended by Resolutions 64-88, 13-94, 47-95, 58-95, 14-96, 98-96, 50-97, 97-98, 71-00, 69-02, 02-03, 142-03, 120-07, 85-09, 69-12, 129-13; and

WHEREAS, the Finance Committee has reviewed and recommended to the Corporate Authorities additions or amendments to the policies as attached hereto; and

WHEREAS, these policies contribute to the continuity and credibility of administering public funds; and

WHEREAS, the Corporate Authorities deem it to be in the best interest of the Village of Lombard to approve such policies.

NOW, THEREFORE, BE IT RESOLVED BY THE PRESIDENT AND BOARD OF TRUSTEES OF THE VILLAGE OF LOMBARD, DU PAGE COUNTY, ILLINOIS as follows:

Section 1: That the amendments to the Village of Lombard Financial Policies are hereby approved.

Section 2: That the Director of Finance is hereby directed to implement said policies as approved.

Adopted this \_\_\_\_ day of \_\_\_\_\_, 2016

Ayes: \_\_\_\_\_

Nays: \_\_\_\_\_

Absent: \_\_\_\_\_

Approved this \_\_\_\_ day of \_\_\_\_\_, 2016

\_\_\_\_\_  
Keith Giagnorio  
Village President

ATTEST:

\_\_\_\_\_  
Sharon Kuderna  
Village Clerk

APPROVAL AS TO FORM:

\_\_\_\_\_  
Thomas P. Bayer  
Village Attorney

## Recommended Changes to Village of Lombard Financial Policies

- Page 10: Liability Insurance Account: Generally, the life of claim is four years. Therefore, we are looking to spread the unfunded liability over a four year period to smooth out the years with higher claims.
  - Remove Language: In addition, an assigned fund balance of 10% of total annual expenditures shall be maintained to cover additional unanticipated insurance costs or committed requirements.
  - Add Language: The Village will levy for the actuarially determined normal loss amount and any unfunded liability will be spread over four years
- Page 21: Property Tax Policy:
  - Add Language: The Village Board should implement the statutorily allowable property tax increase allowed under state law for a Non-Home Rule community.
- Page 21: User Fees:
  - Remove Language: These charges will be reviewed as needed, but in no case longer than every other year in order to insure that the proper costs are being applied to administratively provide the service.
  - Add Language: At least once every 3 years, staff should review the Village's existing fee schedules to determine whether they are comparable to fees charged by other municipalities. The goal should be to remain competitive and to set Village fees at the mid-point, or 50% range, of the surveyed communities.
- Page 23 & 24: Technology Reserve:
  - Add Language: To include Police and Fire Radios as equipment in the Technology Reserve fund. The Police and Fire Radio equipment shall be depreciated over its useful life of 6-8 years.

Page 26: Eliminate Utility Tax Reserve to create Emergency Reserve, Revenue Stabilization Reserve, Pension Stabilization Reserve, and Building Reserve. See spreadsheet and waterfall chart.

### **Year-end General Fund Reserve Maintenance Policy**

*Maintaining reserves is a prudent management practice. Reserves are an important indicator of the Village's financial position and its ability to withstand adverse events. At the end of each fiscal year, year-end revenues over expenses should be distributed to each reserve in the following order:*

- 1. An Emergency General Fund Reserve should be maintained equal to 5% of the current year's budgeted unassigned expenses in the General Fund. The Emergency Reserve may be used for unexpected, large-scale events where costs in excess of \$1 million are incurred, and immediate, remedial action must be taken to protect the health and safety of residents (e.g. major flood, earthquake, event requiring significant overtime, etc.).*
- 2. The Village should maintain a "Revenue Stabilization" reserve with a goal of reaching 3.5% of the current year's budgeted unassigned expenses in the General fund. This reserve may be used to provide funding to temporarily offset unanticipated fluctuations in on-going revenues or unanticipated events, such as unexpected external mandates, reductions in state shared revenues, closure of large sales taxpayer, etc. The reserve funds will provide time for the Village to restructure its operations in a deliberate manner to ensure continuance of critical Village activities. Revenues should be down at least 1.5% compared to prior year budget to utilize this fund.*
- 3. Remaining funds should be split equally (50/50) between a Building Reserve Fund and a Pension Stabilization Fund.*
  - The Building Reserve Fund may be used to help fund the cost to build new, replace, or complete a major renovation to an existing Village owned building.*
  - The Pension Stabilization Fund may be used if the annual actuarially determined pension funding requirement exceeds the total statutorily permissible annual property tax levy. Funds over \$1M should be distributed as follows to pay down unfunded pension liabilities:*
    - Illinois Municipal Retirement Fund: 20%*
    - Police Pension Fund: 40%*
    - Fire Pension Fund: 40%*

- Page 29: Conservative Budgeting Policy
  - Add Language: The Village should budget conservatively (budget revenues low and expenses high) and the Multi-Year Financial Forecast will be updated annually.
  
- Page 30: Capital Budget Policy
  - Add Language: Prior to any approval of a project, a financial analysis shall be required that analyzes the long-term sustainability of funding from Village resources. Any operating and maintenance (O&M) costs associated with the completed project must be identified along with the proposed source for funding the O&M costs prior to approval of the project.

# Example

## Eliminate Utility Reserve Fund & Allocate \$'s to New Reserves

### \$5.332M



### Fill up Emergency Reserve Fund

Maintained equal to 5% of the current year's budgeted expenses in the General fund

**\$1.765M**

- May be used for unexpected, large-scale events where costs in excess of \$1M are incurred, and immediate, remedial action must be taken to protect the health and safety of residents (e.g. major flood, earthquake, event requiring significant overtime, ect.).

### Fill up Revenue Stabilization Fund

Maintained equal to 3.5% of the current year's budgeted expenses in the General Fund

**\$1.235M**

Revenues should be down at least 1.5% compared to prior year budget to utilize this fund.

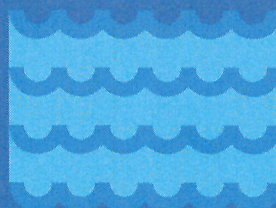
- May be used to provide funding to temporarily offset unanticipated fluctuations in on-going revenues or unanticipated events, such as unexpected external mandates, closure of large sales taxpayer, reductions in state shared revenues, etc.
- This Fund will provide time for the Village to restructure its operations in a deliberate manner to ensure continuance of critical Village activities. If this reserve is spent down, it shall be restored within the following three years.

### Building Reserve Fund

**\$1.166M**

- May be used to help fund the cost to build new, replace, or complete a major renovation to an existing Village owned building.

Remaining funds should be split equally (50/50) between both funds



### Pension Stabilization Fund

**\$1.166M**

- May be used if the annual actuarially determined pension funding requirement exceeds the total statutorily permissible annual property tax levy.
- Funds over \$1M should be distributed as follows to pay down unfunded pension liabilities:

Distribute \$166K to pension funds:  
20% IMRF: \$34K  
40% Police Pension Fund: \$66K  
40% Fire Pension Fund: \$66K

<b>Current Utility Fund Balance</b>		<b>\$ 5,332,662</b>
	<u>2016 Budget</u>	
<b>Emergency (5% of Total unreserved budgeted GF Exp)</b>	\$35,312,057	<b>\$ 1,765,603</b>
<b>Revenue Stabalization (3.5% of Total unreserved budgeted GF Exp)</b>	\$35,312,057	<b>\$ 1,235,922</b>
Total		<b>\$ 3,001,525</b>
Remaining Balance to distribute between Pension and Building Reserves		<b>\$ 2,331,137</b>
<b>Pension (50% Remaining Balance):</b>		<b>\$ 1,165,569</b>
Balance over \$1M Make Distribution to Pension Funds		
<u>Distribution to Pension Funds:</u>		
IMRF: 20%		\$ 33,114
Police Pension: 40%		\$ 66,227
Fire Pension: 40%		\$ 66,227
<b>Building (50% Remaining Balance)</b>		<b>\$ 1,165,569</b>

*Note: will not budget to maintain Fund Balance and funds will only be moved at the end of the year.*

<b>Hypothetical Year End 2016 Revenues over Expenditures</b>		<b>\$ 1,200,000</b>
	<u>2017 Budget</u>	
Emergency (5% of total unreserved budgeted GF Exp)	\$37,000,000	\$ 1,850,000
Minus 2016 fund balance in Emergency Fund		\$ (1,765,603)
<b>Additional funds needed for Emergency Fund in 2017</b>		<b>\$ 84,397</b>
Revenue Stabalization (3.5% of Total unreserved budgeted GF Exp)	\$37,000,000	\$ 1,295,000
Minus 2016 fund balance in Revenue Stabalization Fund		\$ (1,235,922)
<b>Additional funds needed for Revenue Stabalization Fund in 2017</b>		<b>\$ 59,078</b>
Remaining Balance to distribute between Pension and Building Reserves		<b>\$ 1,140,922</b>
Pension Reserve (50% Remaining Balance):		\$ 570,461
2016 Pension Reserve fund balance		\$ 1,000,000
<b>If Pension Reserve total is over \$1M make distribution to Pension Funds:</b>		<b>\$ 1,570,461</b>
<u>Distribution to Pension Funds:</u>		
IMRF: 20%		\$ 114,092
Police Pension: 40%		\$ 228,184
Fire Pension: 40%		\$ 228,184
Building (50% Remaining Balance)		\$ 570,461
Plus 2016 Building Reserve Fund Balance		\$ 1,165,569
<b>Total in Building Reserve Fund</b>		<b>\$ 1,736,030</b>