

080558

VILLAGE OF LOMBARD
REQUEST FOR BOARD OF TRUSTEES ACTION

For Inclusion on Board Agenda

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

TO: PRESIDENT AND BOARD OF TRUSTEES

FROM: David A. Huliseberg, Village Manager *DAH*

DATE: September 23, 2008 (COW)(B of T) October 2, 2008

TITLE: Resolution Authorizing an Amendment to the Village of Lombard
Financial Policies

SUBMITTED BY: Timothy Sexton, Director of Finance

BACKGROUND/POLICY IMPLICATIONS:

At the meeting on September 16, 2008, the Finance Committee discussed and voted upon an amendment to the Village's Financial Policies as recommended by staff. A memo on the proposed amendment as presented to the Finance Committee is attached. The amendment presented to the Finance Committee is the text in blue. After further discussion, Trustee Soderstrom suggested the text in red.

The Finance Committee voted unanimously to recommend approval of the staff recommendation and the additional wording to the amendment.

Review (as necessary):

Village Attorney X _____
Finance Director X *Timothy Sexton*
Village Manager X *David A. Huliseberg*

Date _____
Date *9/24/08*
Date *9/23/08*

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.





To: Finance Committee

David A. Hulseberg
Village Manager

From: Timothy Sexton
Director of Finance

Date: September 12, 2008

Subject: Financial Policy Update - 2008

In May 2007, the Village Board approved a financial policy to establish a Utility Tax Reserve account. The purpose of this reserve was to account for Utility and Telecommunications Tax revenue that is not designated for capital or operating purposes within a given fiscal year. In addition, this reserve is updated each year during the annual budget process based upon expenditure decisions made in previous fiscal years and updated revenue forecasts. Attached is a proposed amendment to this policy, with information on this proposed amendment below.

As part of the non-home rule sales tax referendum, there were four main pledges that were made to residents:

- Preserve necessary services especially in the Public Safety area.
- Reduce Water and Sewer rates and save the typical residential customer \$200 per year on average over the next 10 years.
- Provide flexibility to meet future Village operating needs.
- Have non-residents paying over 50% of the increased sales tax.

As certain revenues decline in the current economic environment, there are essentially only three options to deal with this: raise additional revenue through fee and/or tax increases, reduce expenses through freezing positions and other cost/service cutting measures, or allocate additional money from the Utility Tax Reserve to offset the decline in revenue. If the Village Board had desired to raise fees or taxes, this would normally have been done already during the budget process. If we consider the second option of freezing positions and/or reducing services, we are not being consistent with the message that was given during the referendum of preserving necessary services, especially since the Utility Tax Reserve currently has a balance in excess of \$4 million. However, there are certain additions to the FYE 2009 budget that could be reconsidered by the Board, such as a part-time police Front

Desk Clerk, an additional Firefighter, upgrades to Microsoft Vista and Office 2007, and asset management software, to provide a few examples.

Based on the desire to not freeze already existing positions or reduce services, staff is proposing an amendment to the policy which would allow 15% of the beginning balance in the Utility Tax Reserve to be used to offset shorter term declines in revenue, with a maximum amount of \$750,000 allowed within a fiscal year. The \$750,000 limit is the equivalent of 15% of the first \$5,000,000 in beginning balance within this account. This would not be used for any additional expenditures or services, as those would still go through the normal budget process and would be approved by the Village Board. This policy revision would only apply to revenue shortfalls.

In addition to the proposed policy amendment, I have attached a 10 year forecast for the Utility Tax Reserve. The top portion is the forecast that was part of the FYE 2009 budget. The bottom portion shows what effect this policy amendment may have on the Utility Tax Reserve account. For purposes of this forecast, there is an assumption that additional Utility Tax Reserve would need to be allocated to the General Fund in FYE 2009 and FYE 2010 based upon the current economic conditions, and then again in FYE 2014, up to the full amount allowed by the policy.

Staff is requesting the Finance Committee's approval of this proposed change to the Village's Financial Policies and recommendation to the Village Board of Trustees for consideration at a future meeting.

c. Rhonda Heabel, Assistant Director of Finance

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, and

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

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

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 _____, 2008

Ayes: _____

Nays: _____

Absent: _____

Approved this _____ day of _____, 2008

William J. Mueller
Village President

ATTEST:

Brigitte O'Brien
Village Clerk

APPROVAL AS TO FORM:

Thomas P. Bayer
Village Attorney

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**UTILITY TAX RESERVE POLICY – Adopted May 3, 2007; Proposed Amendment
September 2008**

On March 21, 2006, Village residents approved through referendum a 1% Non-Home Rule Sales Tax. Pursuant to State law, Non-Home Rule Sales Tax may only be used for property tax relief or infrastructure improvements. The Village's commitment at the time of the referendum was to use it for the latter. As a result of utilizing Non-Home Rule Sales Tax for infrastructure purposes, the Village is in a position to re-allocate some or all of the Village's Utility and Telecommunication Tax revenue previously used for capital improvements toward meeting future operating needs. In order to monitor future utilization of the Utility and Telecommunications Tax revenue, a Utility Tax Reserve Account has been established as an unreserved but designated account in the General Fund to account for Utility and Telecommunications Tax revenue that is not designated for capital or operating purposes within a given fiscal year. The Utility Tax Reserve will be updated each year during the annual budget process based upon expenditure decisions made in previous fiscal years and updated revenue forecasts.

In addition, in order to maintain necessary Village services as pledged during the 2006 referendum process, up to 15% of the beginning of the year balance in the Utility Tax Reserve account can be allocated to the General Fund to offset any revenue shortfalls for that fiscal year, up to a maximum of \$750,000 per fiscal year. This allocation shall be for revenue shortfalls only, and shall not be used for any additional expenditures that were not included in the budget that was approved by the Village Board. Any revenue shortfalls that are in excess of \$750,000 would need to be accounted for through additional revenue enhancements, the allocation of more Utility Tax Reserve balance, or decreases in expenditures and/or services, which would be handled through the normal budget amendment procedure which would be brought to the Board for approval. The Village Manager shall notify the Village Board in writing sixty (60) days in advance of his/her intent to use this additional allocation of the Utility Tax Reserve.



**UTILITY TAX RESERVE
MULTI-YEAR FINANCIAL FORECAST
AS INCLUDED IN THE FY09 BUDGET**

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Beginning Utility Tax Reserve Balance | 4,205,253 | 4,263,903 | 5,212,133 | 7,173,043 | 8,468,383 | 9,300,433 | 9,040,433 | 7,815,433 | 5,552,433 | 2,100,433 |
| Projected Annual Utility Tax | 5,498,760 | 5,608,740 | 5,720,910 | 5,835,340 | 5,952,050 | 6,071,090 | 6,192,510 | 6,316,360 | 6,442,700 | 6,571,560 |
| Less: 25% GF Balance Allocation | 1,753,000 | 2,813,000 | 3,160,000 | 3,940,000 | 5,020,000 | 5,971,090 | 6,092,510 | 6,216,360 | 6,342,700 | 6,471,560 |
| Less: Utility Tax Reserve Expense | 0 | 0 | 0 | 0 | 0 | 260,000 | 1,225,000 | 2,263,000 | 3,452,000 | 2,100,433 |
| Less: Capital Projects Fund | | | | | | | | | | |
| General Capital Projects | 1,500,000 | 500,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Street Maint. & Improvements | 2,187,110 | 1,347,510 | 500,000 | 500,000 | - | - | - | - | - | - |
| Utility Tax Reserve Balance | 4,263,903 | 5,212,133 | 7,173,043 | 8,468,383 | 9,300,433 | 9,040,433 | 7,815,433 | 5,552,433 | 2,100,433 | 0 |

**UTILITY TAX RESERVE
MULTI-YEAR FINANCIAL FORECAST
AS MODIFIED FOR PROPOSED POLICY**

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Beginning Utility Tax Reserve Balance | 4,205,253 | 3,633,115 | 4,036,378 | 5,997,288 | 7,292,628 | 8,124,678 | 7,114,678 | 5,889,678 | 3,626,678 | 174,678 |
| Projected Annual Utility Tax | 5,498,760 | 5,608,740 | 5,720,910 | 5,835,340 | 5,952,050 | 6,071,090 | 6,192,510 | 6,316,360 | 6,442,700 | 6,571,560 |
| Less: 25% GF Balance Allocation | 1,753,000 | 2,813,000 | 3,160,000 | 3,940,000 | 5,020,000 | 5,971,090 | 6,092,510 | 6,216,360 | 6,342,700 | 6,471,560 |
| Less: Utility Tax Reserve Expense to Maintain 25% GF Balance | 0 | 0 | 0 | 0 | 0 | 260,000 | 1,225,000 | 2,263,000 | 3,452,000 | 174,678 |
| Less: 15% of Beginning Balance to Offset Revenue Shortfall (up to \$750,000) | 630,788 | 544,967 | | | | 750,000 | | | | |
| Less: Capital Projects Fund | | | | | | | | | | |
| General Capital Projects | 1,500,000 | 500,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Street Maint. & Improvements | 2,187,110 | 1,347,510 | 500,000 | 500,000 | - | - | - | - | - | - |
| Utility Tax Reserve Balance | 3,633,115 | 4,036,378 | 5,997,288 | 7,292,628 | 8,124,678 | 7,114,678 | 5,889,678 | 3,626,678 | 174,678 | 0 |

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