



## MEMORANDUM

To: Finance and Administration Committee

From: Timothy Sexton, Director of Finance

Date: February 12, 2024

Subject: General Fund Year-End Waterfall Policy Revision

Please find attached a proposed policy revision to the General Fund Year-End Waterfall policy. The main change to the policy is to establish how any funds that go to the pension funds get distributed. Currently, those funds get distributed as follows:

- 40% - Police Pension
- 40% - Fire Pension
- 20% - IMRF

The recommended change is to allocate those funds at the end of each year based on the net pension liabilities as indicated in the most recent actuarial report for each pension fund. The current practical effect of this change based on the liabilities of the last several years is that the Fire Pension would see a slight decrease, the Police Pension fund would receive more funds, and IMRF would receive less funds, as it is closer to 100% funded. The last three years data for each pension fund is attached to this memo.

The Finance staff requests that the Finance and Administration Committee recommend the policy revision as recommended by Staff to the Village Board.

Net Pension Liabilities

	Police		Fire		IMRF			
	Amount	% of Total	Amount	% of Total	Amount	% of Total		
12/31/2020	35,098,005	68.2%	18,472,375	35.9%	(2,091,651)	-	51,478,729	(1)
12/31/2021	33,021,661	64.2%	18,422,844	35.8%	(11,116,824)	-	51,444,505	(1)
12/31/2022	40,776,787	59.1%	20,538,078	29.8%	7,715,893	11.2%	69,030,758	
	7,755,126		2,115,234		18,832,717			

(1) Whenever one of the funds does not have a net pension liability, that fund's net pension asset will be excluded from the calculation

## YEAR-END GENERAL FUND RESERVE MAINTENANCE POLICY – Adopted July 21, 2016; Revised October 21, 2021

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, up to \$700,000 per year per fund. Any funds over \$700,000 per year per fund will flow to the Economic Development Fund Reserve.

- 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 each pension fund in accordance with their ratio of net pension liabilities from the most recently completed actuary report as a percent of the total net pension liabilities of all three (3) pension funds, in order to pay down unfunded pension liabilities.:

- Illinois Municipal Retirement Fund: 20%
- Police Pension Fund: 40%
- Fire Pension Fund: 40%

- The Economic Development Fund Reserve should maintain a fund balance

of \$5,000,000. ~~Note, the Economic Development Fund is also funded with 25% of Hotel/Motel Tax revenue. If the fund balance exceeds \$5,000,000, the 25% of Hotel/Motel Tax revenue will stay in the Hotel/Motel Fund as long as allowed by law.~~ Any excess funds as stated in #3 from the Building/Pension Reserves will flow into the Economic Development Fund, until it has reached \$5,000,000, and then will flow back into the Building/Pension Reserves.

- The Board has the option to reduce, not fund, or amend this policy in any way.