

CITY COUNCIL FISCAL POLICY AND BUDGET GUIDELINES

1.0 Purpose

- 1.1 The City of Lake Forest, (the “City”), and its governing body, the City Council, (the “Council”), is responsible to the City’s citizens to carefully account for all public funds, to manage City finances wisely and to plan for the adequate funding of services desired by the public, including the provision and maintenance of facilities. The City Council Fiscal Policy is designed to establish guidelines for the fiscal stability of the City, and to provide guidelines for the City’s chief executive officer, the City Manager.
- 1.2 The City Council Fiscal Policy will be reviewed and updated annually. It is presented to the City Council Finance Committee at its October meeting for the following fiscal year. The City Council Fiscal Policy establishes the broad guidelines to be used by City staff in developing the annual budget.
- 1.3 Per City Code Section 31.058, the City Manager is responsible for preparation of the budget and the annual appropriation and tax levy ordinances. Administrative Directive 3-1 sets forth budget guidelines used in developing the City’s annual budget.

2.0 Scope

- 2.1 This Directive governs all funds included in the City’s annual budget document.

3.0 Budget and Appropriation Ordinance

- 3.1 Budget. The annual budget sets forth the anticipated revenues and expenditures for the City’s fiscal year.
- 3.2 Appropriation Ordinance. The Appropriation Ordinance is the formal legal mechanism by which the City Council authorizes the expenditure of public funds. It appropriates specific sums of money by object and purpose. State Statutes require the passage of an Appropriation Ordinance by the end of July, and it must be filed with the County Clerk within thirty (30) days of approval. The City has traditionally approved an appropriation ordinance based on the adopted annual budget, plus rollovers from the prior year, and a 10% contingency for unanticipated expenditures approved by City Council throughout the year.
- 3.3 Budgetary Control. The City Council and staff follow the adopted budget as its spending guideline, not the Appropriation Ordinance. Upon adoption of the annual

Appropriation Ordinance, a budget amendment is entered into the City's financial system adding approved rollovers. This amended budget serves as the limit on expenditures for operating departments. Departments are able to overspend and underspend specific line item accounts, but may not exceed the budget at the Fund/Department level. As a further limitation on spending, departments may not use personnel vacancy savings to exceed their non-personnel budget without approval of the City Manager.

4.0 Target Based Budgeting

- 4.1 Target Based Budget. The City utilizes a target-based budget development process. Available revenues are determined as the first step in the budget process. Using available revenues by fund, departments are allocated a "Target" which is the maximum allowable budget expenditure request. For funds that do not include expenses of more than one department, the target is the total projected revenue for the fiscal year in that fund.
- 4.2 Discretionary Requests. Departments may have expenditure requests that do not fit within the "Target." In those cases, the expenditure request may be submitted as a discretionary budget request in the prescribed format. The City Manager may consider funding discretionary requests from a discretionary pool set aside in the General Fund when targets are established. Funding of discretionary budget requests will be approved on a one-time or ongoing basis. If approved for ongoing, that expenditure will be added to the department target in subsequent fiscal years.
- 4.3 Fixed Budget Amounts. When targets are distributed, the Finance Department will also provide fixed budget amounts for designated budgetary line items. Fixed budget amounts include, but are not limited to: salaries and benefits, fleet allocations, IT maintenance, cell phone and certain utilities. Fixed budget amounts may not be modified by operating departments and must be included in the established target. For departments issued targets, the target is adjusted annually by the increase/decrease in each fixed budget amount.
- 4.4 Capital Improvement Program (CIP). Targets are utilized in developing the City's Five-Year CIP specific to the Capital Improvements Fund since the majority of CIP projects are allocated to this fund. Targets are established by CIP category for each of the five years of the CIP to ensure that an appropriate balance of funding is provided to all CIP categories. Similar to the operating budget, additional funding is available for the City Manager to consider funding for projects that cannot fit within the target or do not fall into an established CIP category.

5.0 Budget Development Process

Following are the key steps in the City's budget development process:

- 5.1 Five Year Capital Improvement Program/Plan (CIP). As part of the annual budget development, a Five-Year CIP is prepared for City Council approval. Departments

update all CIP projects in the CIP software program and enter any newly identified projects. Due to the financial impact capital expenses have on the City's budget, it is critical that capital needs be identified early and allocated over the five-year period. A CIP Evaluation Scoresheet is utilized to prioritize CIP projects uniformly across all departments. Projects that score as a Priority 1 are designated as Funded (if they fall within the capital target provided) or Non-Funded (if they cannot fit within the capital target or do not fall within a capital target category).

- 5.2 Revenue Estimates. Each fall, operating departments develop revenue projections for revenues associated with their operations and propose updates to the City's fee schedule. The Finance department prepares revenue projections for general revenues and develops the proposed tax levy.
- 5.3 Fall City Council Workshop. In November, the City Council Finance Committee conducts its first of two budget workshops. The November budget workshop focuses on the annual tax levy, fee schedule and proposed Five-Year CIP. Feedback received at this workshop is critical so that City staff can begin to work on bidding capital projects over the winter so that construction can begin immediately after the fiscal year begins.
- 5.4 Operating Budgets. After the City Council adopts the tax levy and fee schedule in December, Finance prepares operating budget targets for each applicable department as summarized in Section 4 and provides each department with salary/benefit projections and fixed amounts.
- 5.5 City Manager Budget Meetings: After an initial review of budget submittals, each operating department is scheduled for a meeting with the City Manager and Finance Director to review the budget submittal.
- 5.6 Spring City Council Workshop. In March, the City Council Finance Committee conducts its second budget workshop to review the City Manager's Proposed Budget.
- 5.7 Budget Adoption. In April, the City Council considers adoption of the annual budget.

6.0 Non Budgeted Expenses

Non-budgeted expenses may be approved through the following processes:

- 6.1 Absorbed within Department Budget. As noted previously, departments may overspend specific line item accounts and underspend other line items, provided the total Fund/Department budget is not exceeded. Personnel savings may not be used for non-budgeted, non-personnel expenditures, without the approval of the City Manager.

- 6.2 Contingency Accounts. The annual budget may include contingency amounts in various City fund budgets to address unanticipated expense during the fiscal year. Reference Administrative Directive 3-5, Purchasing Policy for information on the administration of contingency accounts.
- 6.2 City Council Approval. Non-budgeted expenses that exceed \$25,000 or will result in a Fund/Department budget being exceeded must be approved by the City Council. The City Council write-up must include language noting that if requires, a supplemental appropriation will be presented for City Council approval at the close of the fiscal year.

7.0 Distribution

Human Resources website: www.citylf.org.

Jason Wicha
City Manager

ATTACHMENT: City Council Fiscal Policy



City Council Fiscal Policy

FISCAL YEAR 2025

Statement of Policy Purpose

The City of Lake Forest, (the “City”), and its governing body, the City Council, (the “Council”), is responsible to the City’s citizens to carefully account for all public funds, to manage City finances wisely and to plan for the adequate funding of services desired by the public, including the provision and maintenance of facilities. These policies of the Council are designed to establish guidelines for the fiscal stability of the City and to provide guidelines for the City’s chief executive officer, the City Manager.

These policies will be reviewed annually.

Policy Goals

This fiscal policy is a statement of the guidelines and goals that will influence and guide the financial management practices of the City. A fiscal policy that is adopted, adhered to, and regularly reviewed is recognized as the cornerstone of sound financial management. Effective fiscal policy:

- Contributes significantly to the City’s ability to insulate itself from fiscal crisis,
- Enhances short-term and long-term financial credit ability by helping to achieve the highest credit and bond ratings possible,
- Promotes long-term financial stability by establishing clear and consistent guidelines,
- Directs attention to the total financial picture of the City rather than single issue areas,
- Promotes the view of linking long-term financial planning with day-to-day operations, and
- Provides the Council and the citizens a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

To these ends, the following fiscal policy goal statements are presented.

I. Overall Budget Guidelines

1. The City shall annually adopt a Balanced Budget, for which expenditures in a given fiscal year do not exceed the sum of: 1) estimated revenues for the fiscal year, plus 2) the fund balance at the beginning of the fiscal year. Abide by the target based budgeting process. Target based budgeting ties expenses to projected resources at the beginning of the budget process, rather than cutting expenses after budgets are developed. This methodology reaffirms the relationship between revenues and services, taxes and spending, and involves departments in the process from the beginning.
2. Seek and encourage resident input in budget planning issues and service level decisions.
3. Review all services residents receive and strive to maintain the services at existing levels, unless specific variances are deemed warranted by the City Council. Each service should be examined thoroughly to determine if it is still necessary or can be provided in a more cost-effective way. New program initiatives must be measured in terms of their overall fiscal impact and capabilities.
4. Pay for all recurring expenses with recurring revenues, and use non-recurring revenues for non-recurring expenses. Proceeds from land sales (including the Laurel and Western TIF Note) shall be deposited into the Capital Fund unless intended for other legislative initiatives as directed by the City Council.
5. Maintain positive fund balances for all funds.
6. Annually review the cash flow reserves in all City operating funds to ensure adequacy given the volatility and risk of revenues attributable to each fund.
7. Monitor actual revenues and expenditures compared to budget throughout the year so that spending may be reduced as needed to offset revenue shortfalls or unanticipated expenditures.
8. Protect the City's assets by maintaining adequate insurance coverage through either commercial insurance or risk pooling arrangements with other governmental entities.
9. Abide by the 1991 Property Tax Extension Limitation Act, which limits the annual increase in property tax extensions to the lesser of 5 percent, or the increase in the consumer price index, plus allowances for new construction and voter approved increases, unless the City Council determines that an exception is necessary to preserve the long term financial health of the City.
10. Work actively with legislators and Councils of Government in passing legislation that promotes effective local government. Emphasis should be given to reducing

unfunded mandates, controlling pension and other personnel costs, and opposing legislation that adversely impacts the costs or operations of local government.

II. Expense Guidelines

Personnel

1. The Council will seek to maintain authorized personnel at the lowest levels possible consistent with the service plan and service levels authorized.
2. Adjust the personnel pay plan consistent with market rates for positions with comparable responsibilities.
3. Fully fund annual obligations for all employee pension plans pursuant to the City's Pension Funding Policy (as may be amended by City Council) and the State of Illinois Compiled Statutes, as determined annually by an independent actuary. Continue efforts to seek action by the Illinois General Assembly for pension reform to ensure fiscal sustainability.
4. Fund other post-employment benefit (OPEB) costs on a pay-as-you-go basis, while also setting aside reserves in the Self Insurance Fund to meet future obligations. Reserves shall be set aside annually using a fifteen-year amortization period beginning May 1, 2015, based upon the most recent actuarial valuation.
5. Be a leader among Illinois municipalities in maintaining fiscally prudent compensation policies and identifying alternative methods for attracting and retaining quality employees.

Operating Costs

1. Fully budget anticipated expense for an average operating year.
2. Maintain a contingency budget for unanticipated expenses.
3. Review all contract services and other charges for cost effectiveness and to determine if there are alternative methods to perform these services at less cost.
4. Review the potential for and desirability of outsourcing/contracting services for each City operating department.
5. Follow funding priorities that emphasize efficiencies and economy with established criteria. Such criteria may include the number of residents benefiting from specific services or programs and/or the value or significance of the benefit derived from specific services or programs.

6. A 2014 cost allocation study has been completed to demonstrate the allocation of administrative costs budgeted in the General Fund and their benefit to budget programs across the organization. The City utilizes the cost allocation study results to assess administrative charges to other City funds to recover administrative costs provided by General Fund administrative departments. Where feasible, the cost allocation study is also used to factor in the administrative cost burden to departments in agreements to provide services to outside entities.

Program Expansions

1. Proposed program expansions above existing service levels must be submitted as budgetary enhancements requiring detailed justification. Every proposed program expansion will be scrutinized on the basis of its relationship to the health, safety, and welfare of the community to include analysis of long-term fiscal impacts.

New Programs

1. Proposed new programs must also be submitted as budgetary enhancements requiring detailed justification. New programs will be evaluated on the same basis as program expansion to include analysis of long-term fiscal impacts.

Capital Budget

1. Make all capital improvements in accordance with an adopted Capital Improvements Program (CIP).
2. Conduct a detailed analysis of the capital improvement proposals for the current year, review projects identified for future years, and establish a five year capital improvement plan. Review the funding methods for all projects proposed to reflect financial implications and to determine whether the project is justified at this time.
3. Conduct a detailed review of all capital equipment requests to determine current needs, cost effectiveness, and ramifications if deferred or eliminated.
4. Coordinate development of the capital budget with development of the operating budget. Future operating costs associated with new capital projects will be projected and included in operating budget forecasts. Following completion of any project, conduct a post project review.
5. Identify the "full-life" estimated cost and potential funding source for each capital project proposal before it is submitted to the Council for approval.
6. Maintain level and complete budgeting for building and capital equipment to avoid erratic changes from year to year for on-going maintenance and replacement of City facilities and equipment. Fund recurring/maintenance capital expenses from recurring revenue sources.

7. Abide by the following financing parameters for the establishment of a special service area:
 - Amortization period: not to exceed 20 years or the estimated useful life of the improvements, whichever is less;
 - Interest rate: market rate at date of bond sale, or
 - City financed projects: not less than the Municipal Market Data rate for uninsured Aaa rated bonds + 2%. Rate will be set on the construction start date;
 - All financing, legal and other related costs shall be included in the cost of the project;
 - The City will typically finance a maximum residents' share of \$500,000 annually. For projects greater than \$500,000, a bond sale may be conducted.
 - If the City is required to provide related capital project funding earlier than planned due to the establishment of the SSA, the funding shall be from General Fund fund balance. At no time shall the establishment of the SSA cause the General Fund fund balance to fall below its established minimum benchmark.

III. Revenue Guidelines

1. Maintain a diversified and stable revenue structure to shelter the City from short-term fluctuations in any one revenue source. Minimize reliance on State and/or Federal revenues to fund core services.
2. The City Council will determine tax levy allocation amounts to the General Fund, Police and Fire Pension Fund, IMRF/Social Security, Park and Recreation Fund, Special Recreation and the Library.
3. Conservatively but realistically review and estimate projected revenues.
4. Institute user fees and charges for specialized programs and services in the City, as well as conduct an annual detailed analysis of all user fees, charges, and fines to assure proper charges for services and recommend appropriate changes.
5. Conduct the annual detailed review of all Enterprise Fund charges, (i.e., water and sewer, golf) and recommend cost effective changes in line with operating expenses and capital needs.
6. Routinely identify intergovernmental aid funding possibilities. However, before applying for or accepting intergovernmental aid, the City will assess the merits of a particular program as if it were funded with local tax dollars. Local tax dollars will not be used to make up for losses of intergovernmental aid without first reviewing the program and its merits as a budgetary increment. Therefore:

- ♦ All grant applications, prior to submission, must be approved by the City Manager.
 - ♦ No grant will be accepted that will incur management and reporting costs greater than the grant amount.
 - ♦ All grant requirements will be reviewed and understood prior to entering into the grant agreement.
7. The City's 1.0% Home Rule Sales Tax will be deposited to the Capital Improvements Fund for expenditure on public infrastructure located in the City.

IV. Reserve Policies

1. The City will maintain a fund balance for fiscal cash liquidity purposes, (i.e., fiscal reserve), that will provide sufficient cash flow to minimize the potential of short-term tax anticipation borrowing.
2. Unassigned fund balances should be equal to no less than 35% of non-pass through operating revenues for the General Fund plus accrued sick and vacation leave. In recent years, the City Council has intentionally accumulated excess General Fund balance reserves to mitigate potential impacts of the State of Illinois fiscal crisis (ie. loss of State-shared revenue or imposition of property tax limitations). Recognizing that General Fund reserves as of 4/30/18 are sufficient to address State impacts, the FY19 operating surplus of the General Fund was transferred to the Capital Improvement Fund. Until further revision to the City Council Fiscal Policy is approved, the City may allocate future General Fund operating surpluses at fiscal year-end to one-time funding needs as determined annually by the City Council. The City will seek to maintain General Fund reserves at 70% of revenues.
3. The City will maintain sufficient self-insurance reserves as established by professional judgment taking into account premium costs, loss experience and funding retention reserves.
4. The City will seek to maintain minimum fund balance targets (unrestricted net position for proprietary funds) in each fund which reflect considerations such as revenue volatility and necessary contingencies. It is noted that certain funds are subject to five year financial forecasts, debt service coverage requirements and/or may be accumulating fund balance to address future capital needs, warranting a fund balance in excess of the minimum target. Loans made from fund reserves are considered long-term investments and shall be included in the fund balance target calculation. In the event fund balance falls below the established target for a particular fund, the City shall establish a plan to return the fund balance to its target. The fund balance targets by fund or category of funds is as follows:

- General Fund – see Section IV.2
- Parks and Recreation Funds (combined) – 25% of operating revenue
- Other Non-major Special Revenue Funds – 10% of operating revenue
- Debt Service Funds – N/A
- Capital Project Funds – The Capital Improvement Fund should maintain sufficient fund balance (minimum of \$1 million) to address unanticipated capital expenses not foreseen during the annual CIP and budget development process.
- Water and Sewer Enterprise Fund/Operating – 33% of operating revenue plus one years' debt service + \$500,000
- Water and Sewer Enterprise Fund/Capital – Minimum of \$1 million
- Deerpath Golf Course Fund – 15% of operating revenue
- Fleet Fund – 15% of operating revenue
- Self Insurance Fund – 25% of operating revenue + OPEB reserve
- Liability Insurance Fund – 50% of operating revenue
- Police and Fire Pension Funds – N/A; subject to statutory and actuarial requirements
- Cemetery Trust Fund – N/A; subject to bequest requirements and Cemetery Commission policy

V. Investment Policies

1. The City will follow the investment policy approved by the City Council on May 16, 2022, or a subsequently approved revision to the investment policy.
2. The City will conduct an analysis of cash flow needs on an on-going basis. Disbursements, collections, and deposits of all funds will be scheduled to insure maximum cash availability and investment potential.
3. The City will, where permitted by law, pool cash from its various funds for investment purposes.
4. The City will invest City revenue to maximize the rate of return while maintaining a low level of risk.
5. The City will review contractual consolidated banking services every five years.

VI. Debt Policies

1. The City will not fund current operations from the proceeds of borrowed funds.
2. The City will confine long-term borrowing to non-recurring capital improvements, projects, or equipment that cannot be financed from current financial resources.
3. The City will analyze market conditions, and long-term capital needs assessments, prior to debt issuance to determine the most advantageous average life. The debt

structure may be lengthened during low interest rates and shortened during high rates.

4. The City will look for both current and advance refunding opportunities in order to save interest expense.
5. The City's debt capacity shall be maintained at a level consistent with available Moody's Guidelines to maintain our Aaa rating.
6. The City recognizes the importance of underlying and overlapping debt in analyzing financial condition and will regularly analyze total indebtedness including underlying and overlapping debt.
7. The City will maintain good communications about its financial condition with bond and credit rating institutions. The City's Finance Director/Treasurer is responsible for maintaining policies and procedures as recommended by the City's Bond Counsel for post-issuance compliance matters.
8. The City will follow a policy of full disclosure in every annual financial report and official statement/offering document.

VII. Accounting, Auditing, And Financial Reporting Policies

1. The City will establish and maintain a high standard of accounting practices in conformance with uniform financial reporting in Illinois, and Generally Accepted Accounting Principles (GAAP), for governmental entities as promulgated by the Governmental Accounting Standards Board (GASB).
2. The City's financial accounting system will maintain records on a basis consistent with accepted standards for local government accounting (according to GASB).
3. The City will strive to collect the majority of its receivables within thirty days.
4. The City will retain the right to perform financial, compliance, and performance audits on any entity receiving funds or grants from the City.
5. The City will engage an independent firm of certified public accountants to perform an annual financial and compliance audit according to Generally Accepted Auditing Standards (GAAS), and will have these accountants publicly issue an opinion which will be incorporated in the Comprehensive Annual Financial Report.
6. The Audit Committee is responsible for recommending the selection of the independent firm of certified public accountants (the Council's external auditor) to perform an annual financial and compliance audit, defining the audit scope and receiving the report of the auditor.

City Council Fiscal Policy

7. The City will annually seek the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting.
8. The City will follow the below fund balance classification policies and procedures.
 - A. Committed Fund Balance shall be established, modified or rescinded through a City Council resolution.
 - B. Assigned Fund Balance will generally follow the approved budget and may be assigned to a specific purpose by the Finance Director.
 - C. In the General Fund, the City considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, followed by committed amounts then assigned amounts. Unassigned amounts are used only after the other categories of fund balance have been fully utilized.
 - D. In governmental funds other than the General Fund, the City considers restricted amounts to have been spent last. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City will first utilize assigned amounts, followed by committed amounts then restricted amounts.

Other Applicable Financial Policies:

- **Pension Funding Policy**
- **Investment Policy**

Amended: 10/16/23 Finance Committee