

CITY COUNCIL FISCAL POLICY

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 and updated annually, and will be presented to the Council for approval as part of the Annual Operating and Capital Budget.

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. Design the budget process to ensure *all* aspects of operations and expenditures are reviewed to determine whether needed and delivered to the citizens at a level which will meet real needs as efficiently and effectively as possible.
2. Adopt a concise and “user friendly” budget process that seeks and encourages resident input in budget planning issues and service level decisions.
3. Review all services residents receive and strive to maintain at existing levels, unless specific variances are granted 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. The City's goal is to pay for all recurring expenditures with recurring revenues, and to use non-recurring revenues for non-recurring expenditures.
5. Maintain positive fund balances for all funds with no deficit financing.
6. Review cash flow reserves in all City operating funds to determine if they should be equal to 15% of operating expenditures or reduced to provide additional funding for Capital Improvements. When deficits appear to be forthcoming within a fiscal year, spending during the fiscal year must be reduced sufficiently to create a positive undesignated fund balance and a positive cash balance.
7. The individual agency budget submissions must be prepared with the basic assumption that the Council will always attempt to not substantially increase the local tax burden.
8. The City will protect its assets by maintaining adequate insurance coverage through either commercial insurance or risk pooling arrangements with other governmental entities.

II. Expenditure Guidelines

Personnel

1. The Council will seek to limit staff increases to areas where approved growth and support requires additional staff; and to reduce staff where this can be done without adversely affecting approved service levels. The Council will also seek to maintain authorized personnel at the lowest levels possible consistent with the service plan authorized.
2. Adjust personnel pay plan consistent with market rates for positions with comparable responsibilities.
3. Fully fund annual obligations for all employee pension plans pursuant to State of Illinois actuarial requirements.

Operating Costs

1. Fully budget anticipated expenditures.
2. 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.
3. Review the potential for out sourcing/contracting services for each City operating department.
4. Funding priorities will emphasize efficiencies and economy with established criteria including the number of residents benefiting from specific services or programs.

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. The City will make all capital improvements in accordance with an adopted Capital Improvements Program.
2. The City will conduct a detailed analysis of capital improvement proposals for current year, and review projects identified for future years. Review funding methods for all projects proposed to reflect financial implications and to determine whether essential at this time.
3. Conduct a detailed review of all capital equipment requests to determine current needs, cost effectiveness, and ramifications of deferred or eliminated. All purchases shall be made from the City's Equipment Reserve Account.
4. The City will 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.
5. The City will identify the "full-life" estimated cost and potential funding source for each capital project proposal before it is submitted to the Council for approval.

III. Revenue Guidelines

1. The City will try to maintain a diversified and stable revenue structure to shelter it from short-run fluctuations in any one revenue source.
2. Conservatively but realistically review and estimate projected revenues.
3. The City, where possible, will institute user fees and charges for specialized programs and services in the City, as well as conduct the annual detailed analysis of all user fees, charges, and fines to assure proper charges for services and recommend appropriate changes.
4. Continue to conduct the annual detailed review of all Enterprise Fund charges, (i.e., water, sewer, golf, parking, etc.), and recommend cost effective changes in line with operating expenses and capital needs.
5. The City should 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.

IV. Reserve Policies

1. The City will maintain a fund balance designation 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. The City must 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.
3. Undesignated fund balances, plus the designation for fiscal cash liquidity purposes, at the close of each fiscal year, should be equal to no less than 15% of governmental fund net operating revenues.
4. The City will maintain appropriated contingencies to provide for unanticipated expenditures. The contingencies and their recommended minimum funding levels are:
 - ◆ General Contingency, (\$100,000). These funds are to be used for emergency, unexpected or unanticipated situations that may require expenditures by the City, or to address unanticipated revenue shortfalls, as approved by the City Council.
5. The City will maintain sufficient self-insurance reserves as established by professional judgement based on the funding techniques utilized, loss records, and required retentions.

V. Investment Policies

1. 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.
2. The City will, where permitted by law, pool cash from its various funds for investment purposes.
3. The City will invest City revenue to maximize the rate of return while maintaining a low level of risk.
4. The City will review contractual consolidated banking services every three 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 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, to minimize debt issuance costs, may, at its discretion, on a project by project basis, subject to a public hearing of the Council on the proposed financing where applicable, use alternative financing mechanisms for general obligation, (GO), bonds requiring a referendum, revenue bonds, or other financing mechanisms that may be created. The policy is to use these financing mechanisms for total project costs as follows:
5. The City will annually calculate target debt ratios and included those ratios in the review of financial trends.
6. The City's debt capacity shall be maintained at a level consistent with Moodys Guidelines to maintain our AAA rating.
7. 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.
8. The City will maintain good communications about its financial condition with bond and credit rating institutions.
9. The City will follow a policy of full disclosure in every annual financial report and financing 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 Principals, (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's regular monthly financial statements and annual financial reports will present a summary of financial activity by governmental funds and all funds respectively.
4. The City's reporting system will also provide monthly information on the total cost of specific services by type of expenditure and revenue, and if necessary, by fund.
5. The City will retain the right to perform financial, compliance, and performance audits on any entity receiving funds or grants from the City.
6. The City will engage an independent firm of certified public accounts to perform an annual financial and compliance audit according to Generally Accepted Auditing Standards, (GAAS), and will have these accounts publicly issue an opinion which will be incorporated in the Comprehensive Annual Financial Report.

7. The Audit Committee is responsible for approving 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.
8. The City will annually seek the GFOA Certificate of Achievement for Excellence in Financial Reporting.

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City Manager