

 <b>Lake County Policy</b>	<b><i>FY2022 Budget and Financial Policies</i></b>
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	<b>Date: 04/04/2021</b>

## **A. Purpose**

The purpose of this policy document is to provide guidelines that support a strategic, long-term approach to financial management of Lake County's resources. They provide a framework for stability and continuity, clarifying strategic intent, defining boundaries, and accounting for risks. The policies are reviewed and updated by the Lake County Board on an annual basis prior to the preparation of the subsequent fiscal year budget.

The policies have three sections:

1. General Policy Directives – provide direction on budget, revenue, capital, debt, and accounting and financial reporting
2. Budget Submittal Policies – provide specific direction for the upcoming budget year
3. Fund Balance Reserve Policy – provides direction for the annual assessment of reserve fund balances

## **B. Application**

This policy applies to all Lake County employees, departments, and elected officials, including those that report to a Board or Commission separate from the County Board, unless specific exclusions are granted by the Finance and Administrative Committee or except as provided by State law. Exceptions will be documented in writing.

## **C. Budget and Financial Policies**

### **1.0 GENERAL POLICY DIRECTIVES**

#### **1.1 Operating Budget Policies**

- 1.1.1 The County will prepare an annual budget and will strive to pay for all current expenditures with current revenues. The County will avoid budgetary procedures that balance current expenditures at the expense of meeting future year's expenses such as postponing expenditures or borrowing from future year's revenues.
- 1.1.2 The County continues to use the "cash plus encumbrances" basis of accounting for budgetary purposes while financial statements will be prepared using the modified accrual basis of accounting, as identified by generally accepted accounting principles (GAAP) in the United States.
- 1.1.3 The budget as recommended to the County Board will be balanced. The budget will be considered balanced when planned operating expenditures do not exceed expected

revenue plus County Board-approved use of reserves.

- 1.1.4 The County Board will officially accept an estimated tax levy for the new fiscal year no later than the September County Board meeting of the fiscal year that immediately precedes the new fiscal year. The estimated levy is determined for preparation purposes only; the final levy is approved in November in conjunction with the annual budget.
- 1.1.5 The approved budget may be amended with emergency appropriations throughout the year at regular County Board meetings resulting in a modified budget, in accordance with the County Board rules. One such emergency appropriation is a "carryover." The unexpended portion of projects that were not completed in one fiscal year may be requested to be "carried over" to the next fiscal year. Other accounts may be designated for carryover by the County Board, County Administrator, and/or Chief Financial Officer. Such accounts may include long term capital needs where money may be accumulated for multiple years until needed for projects as approved by the County Board.
- 1.1.6 The budget will provide for adequate maintenance of capital infrastructure, facilities and equipment and for the orderly replacement of equipment.
- 1.1.7 The budget will provide for adequate funding of all retirement systems. The other post-employment benefits (OPEB) liability will be funded on a pay-as-you-go funding basis.
- 1.1.8 The County will maintain a financial system with statutory budget control to ensure adherence to the budget. The budgetary level of control is based on five subtotals for each department: 1) personnel; 2) commodities; 3) contractals; 4) benefits; and 5) capital. Debt service is budgeted in a separate category where appropriate.
- 1.1.9 Finance and Administrative Services Department (FAS) will analyze reports comparing actual revenues and expenditures to budgeted amounts on a monthly basis. Financial reports will be shared with the Finance and Administrative Committee at least quarterly.
- 1.1.10 Each year, the County will update expenditure projections for the next five (5) years. Projections will include estimated operating costs of future capital improvements that are included in the capital improvement plan.
- 1.1.11 Revenue received by the County from Video Gaming will be expended in accordance with the County's Video Gaming Revenue policy.
- 1.1.12 To the greatest extent possible, County departments will include performance metrics budget on departmental core mission areas and activity and progress on County Board priorities. Measures will illustrate trends, targets and other criteria by which the County's efforts on a given program can be evaluated on a periodic basis. This evaluation is intended to inform organizational awareness and provide a basis for repeating successful activities and reallocating resources away from less successful efforts.

## 1.2 **Revenue Policies**

- 1.2.1 The County will maintain diversified and stable revenues to shelter it from short-run fluctuations in any one revenue source.
- 1.2.2 The County will estimate its annual revenues through an objective, analytical process that is specific to each unique revenue stream.
- 1.2.3 The County will project revenues for the next five (5) years and will update this projection annually.
- 1.2.4 The year-to-year increase of budgeted revenue from the property tax will adhere to the Illinois Property Tax Extension Limitation (PTL) Law and shall not exceed the national Consumer Price Index (CPI) for the year preceding the levy year on existing property.

The County Administrator will provide a justification for the proposed levy, which will be the minimum amount projected to balance the budget, prior to budget preparation. For the purpose of developing the FY2022 budget for the Board's consideration, staff will prepare a balanced budget with (1) no growth in the tax levy, and (2) an option or scenario that assumes a property tax levy of allowable CPI growth.

- 1.2.5 The County will regularly investigate other revenue sources (e.g., charges for services, user fees, use taxes) that could be used to relieve the property tax burden.
- 1.2.6 All user charges and fees will be reviewed on an ongoing basis with all fees reviewed within a five-year cycle, and where appropriate adjusted to a level related to the cost of providing the services, subject to State statutes.

### 1.3 **Capital Improvement Policies**

- 1.3.1 The County will develop a five-year prioritized plan for capital improvements and investments and update it annually. All departments/offices/agencies that have a separate capital planning process will present their current year budgeted capital plan in the context of the five-year plan.
- 1.3.2 The County will enact an annual capital budget in appropriate County funds based on the five-year capital improvement plan. Capital expenditures will be presented together as a comprehensive capital plan to facilitate transparency and long-term planning. The capital improvement plan budget will be adopted concurrently with the annual operating budget.
- 1.3.3 There will be an annual budgeted contribution to capital improvements from the operating budget in an amount equal to 1% - 5% of the Property Tax Operating Funds, excluding debt service.
- 1.3.4 Any additional operating costs associated with new capital improvements will be projected and included in the appropriate operating budget.
- 1.3.5 The County will strive to maintain all its assets at a level adequate to protect the County's capital investment and to minimize future maintenance and replacement costs.
- 1.3.6 The County will identify the estimated cost and potential funding sources for each capital project proposal before it is submitted to the County Board for approval. This will include determining the least costly financing method for all new projects.
- 1.3.7 The capital improvement funding requests will be evaluated against criteria established in the most current policy on capital improvements.
- 1.3.8 Revenues received by the Lake County Health Department from the Illinois Department of Healthcare and Family Services for Federally Qualified Health Centers (FQHC), providing Medicaid Match Managed Care Organization (MCO) funding will be the primary source of funding for Health Department capital and facility projects. The Lake County Health Department staff will prepare capital improvement projects using the County's standard Capital Improvement Program (CIP) format. Throughout the year, as capital and facilities projects are developed, they will be added to the County-wide integrated CIP and Facilities Assessment lists while awaiting Medicaid Match MCO funds. When Medicaid Match MCO funds become available, the Lake County Board of Health will review and approve the capital/facility project(s). Surplus Medicaid Match MCO funds can support Lake County Health Department FQHC one-time, non-recurring operational expenses. Projects approved by the Lake County Board of Health will be sent to the Health and Community Services Committee and Finance and Administrative Committee for the appropriation of funds. Due to the nature of the receipt of the Medicaid Match MCO revenues, requests for

appropriation will occur through the Emergency Appropriations process or, for carry over MCO revenue, the annual CIP and budget process.

#### **1.4 Debt Policies**

- 1.4.1 The County will limit long-term borrowing to capital improvements that cannot be financed from current revenues.
- 1.4.2 When the County finances capital projects by issuing bonds, it will pay back the bonds within a period not to exceed the expected useful life of the asset.
- 1.4.3 By statute, total amount of general obligation outstanding debt will not exceed 5.75% of total assessed valuation. The actual outstanding debt ratio will be reported with the annual budget.
- 1.4.4 The County will not use debt for current operations.
- 1.4.5 The County will continue to maintain good communications with bond rating agencies about its financial condition. The County will continue full disclosure on every financial report and bond prospectus.
- 1.4.6 The CFO will provide the County Administrator and the Board with a risk analysis and assessment prior to any bonding decision.

#### **1.5 Accounting, Auditing and Financial Reporting Policies**

- 1.5.1 The County will continue to maintain a high standard of accounting practices.
- 1.5.2 The accounting system will maintain records on a basis consistent with accepted standards for local government accounting.
- 1.5.3 An independent public accounting firm will conduct an annual audit and the County will issue a comprehensive annual financial report.
- 1.5.4 Additional reports comparing budget to actual results will be presented at least quarterly as an attachment to the agenda of the Finance and Administrative Committee.

#### **2.0 BUDGET SUBMITTAL POLICIES**

In an effort to support departmental operations and provide County services within a framework of fiscal responsibility, all departments/agencies/offices of Lake County government shall prepare budget submissions consistent with the following Items:

- 2.1 The County Administrator will present a balanced, recommended budget. Departments will be provided instructions for a target budget amount that will result in a budget that is balanced. This may be an amount less than last year's actual or approved budget. The County Administrator may underfund specific line items, based on historical averages, as necessary to balance the budget. When workload levels have changed, or as appropriate based on financial challenges, the County Administrator may require written justification for funding levels and may require the submittal of multiple budget scenarios including departmental reductions. In an effort to continuously evaluate opportunities to provide services more efficiently and cost-effectively, it is expected that all County departments, agencies, and offices will evaluate their operations (including the need to fill vacant positions) as a part of the budget process and throughout the course of the fiscal year.
- 2.2 The following definitions will be used to distinguish the various types of additional services or products:

- **New Program**

*A request will be considered a New Program if it is a new service/product offering not currently provided/owned by the department/agency/office. New program requests must have a definitive tie to the County Board's approved Strategic Plan.*

- **Expansion**

*A request will be considered an Expansion if it is intended to increase the level or reach of a program/service/tool currently provided/owned by the department/agency/office.*

- **Replacement/Upgrade**

*A request will be considered a Replacement/Upgrade if it is a "1 to 1" replacement of an existing service/product currently provided/owned. This could be a modernization of an existing tool/product or a necessary change in the way an existing service is offered due to technical, legal, or other material changes. It is recognized that as technology and services evolve, many replacements bring enhancements. A request will still be considered a replacement if the request is intended primarily as a substitution for the existing service/product.*

- **Cyclical Replacements**

*In accordance with budget submittal policies, departments/agencies/offices are required to identify cyclical replacement of large cost items/processes. However, unless these items represent an expansion or an enhancement as defined above, no new program request is required. Departments/agencies/offices are required to provide a five (5) year replacement plan.*

- 2.3 Department/agency/office New Expansion, and Replacement/Upgrade Program Requests will be accepted. They must be accompanied by an adequate justification and be included in the budget request as a separate package. FAS will provide budget instructions with detail on the New, Expansion, and Replacement/Upgrade Program Request package. All requests will be included in the budget document, but only those that fulfill the required elements of the request package will be presented during the budget hearings for consideration. The quantifiable or qualitative results or outcomes that will result from the new or expanded program must be included in the request package and will be reported upon to the County Board, both upon approval and after a reasonable timeframe to ensure the outcome was achieved. These outcomes must be measured and reported for FY2022 and going forward.
- 2.4 Board Member requests will not be accepted. Board Members should make a request to the appropriate standing committee for consideration of a new initiative, as indicated in the County Board Rules of Order and Operational Procedures. **These requests should be vetted through standing committees sufficiently before the preparation of the budget to allow staff time for inclusion.**
- 2.5 Department/Agency/Office Heads will review each vacant position in their department during budget development and throughout the fiscal year with regard to each position's importance to the department and any alternative to refilling the vacant position. Any funded position that is vacant for twelve months will automatically be eliminated **during budget preparation**, unless approved by the Board **during budget hearings upon presentation of justification.**
- 2.6 The increase in the wage tables that establish non-union wages and salaries by grade shall be increased by the Consumer Price Index (CPI) or one half the budgeted pay increase, whichever is lower. A formal study will be conducted every five years to normalize the table, if necessary.
- 2.7 **The increase in salaries or wages of County employees will not be less than the Consumer Price Index used for PTELL purposes for this budget year, with a goal percentage increase within the range of increases used within the last five years.**
- 2.8 **The budget preparation of all departments/agencies/offices will be synchronized as much as possible to align with the County budget preparation process.**
- 2.9 As outlined in the Strategic Plan, Staff will consistently consider and present options to advance energy and environmental stewardship (e.g., vehicle fleet, solar, wind, energy retrofits, etc.).

2.10 Personnel Services Costs:

- 2.7.1 The County shall maintain compensation packages that are sufficient to attract and retain quality employees.
- 2.7.2 The percentage increase in salaries included in the budget for non-union personnel will be considered by the Finance and Administrative Committee prior to final balancing of the recommended budget.
- 2.7.3 Consolidation, centralized services, shared services, or other productivity-enhancing alternatives to County personnel must be reviewed and considered by departments and offices as a means of cost savings before filling a vacancy or requesting a new position. Human Resources, Finance and Administrative Services, and the County Administrator's Office will review the options considered.

2.8 Revenues:

- 2.8.1 After determination of all sources, all revenues shall be allocated across the various items appropriated by the County Board as provided by law. Unless otherwise provided by law, no Department/agency/office shall appropriate any specific source of revenue even though that revenue may be generated by any service it provides.
- 2.8.2 The County will continue to increase the non-property tax revenues as follows:
  - 2.8.2.1 Make annual adjustments to all fee schedules under the jurisdiction of the County Board, to appropriately offset the cost of providing the service; and
  - 2.8.2.2 Maintain aggressive collection activities to receive outstanding monies owed to the County; and
  - 2.8.2.3 Recommend new fees that could be charged for departmental activities or services that are currently being performed at no charge.
- 2.8.3 Revenues coming into special revenue funds, typically in the form of fees, are used to support the programs and services related to those fees. In the event of a request to begin or expand a program or service legally eligible to be funded, in whole or part, by special revenue funds, the special revenue funds directly tied to that program or service shall be considered as the funding source prior to seeking general fund revenue. Special revenue funds should not be used to offset or fund shortages in the General Fund. As special revenue funds can vary considerably from year to year based on economic and other conditions, consideration will be given to the balance of the special revenue funds, as well as the sustainability if the expense is on-going. In order to preclude the County becoming overly reliant on a particular revenue stream, the County shall maintain the current practice of a diverse mix of property tax and special revenue appropriations.

2.9 Capital Expenses:

- 2.9.1 An item is considered capital equipment if it is a tangible item, has a useful life of more than 1 year, and has an acquisition cost including accessories equal to the dollar threshold established in the annual budget instructions.
- 2.9.2 All budget requests for any capital items shall be based upon the estimated total purchase price, exclusive of trade-in value.
- 2.9.3 Requests for capital outlay should be limited to replacement items only. Requests for new or expanded capital items must be submitted in accordance with the Budget Submittal Policies (Section 2.3 above). Vehicle and computer replacements on the long-term replacement schedule will be funded through an annual budgetary allocation in accordance with the schedule. Replacements or expansions to the fleet must be requested through the process in Section 2.3. .

2.10 Facility-Related Expenses:

- 2.10.1 All facility related costs including but not limited to requests for operational and

maintenance costs, as well as building improvements of any kind shall be subject to review, revision, or consolidation by the County Administrator's Office. Requests shall be consistent with the Capital Improvement Plan.

2.11 Indirect Costs

- 2.11.1 When a fund or department is required to budget for any indirect cost allocation, those costs shall be determined pursuant to a study in compliance with Federal OMB Circular A-87 "Cost Principles for State and Local Governments."

2.12 Property Tax Funds (Excluding Special Service Areas):

- 2.12.1 The Illinois Property Tax Extension Limitation Law limits the amount of total property tax that can be levied by the County Board. In complying with the law, the levy for each fund shall be based upon an evaluation of its fiscal health; non-tax revenues; opportunities for non-tax revenue growth; level of planned expenditures; and cash requirements. Thus, departmental budget requests submitted in compliance with these policies may be subject to adjustment and/or reduction in order to satisfy levy determinations.

- 2.12.2 For all Property Tax Funds, the total of all undesignated fund balances shall not fall below 29% of the total of all Property Tax Operating Fund's current fiscal year appropriation, with the exception of the FICA, IMRF and the Risk Management & Liability Insurance Fund. The FICA, IMRF, and Risk Management & Liability Insurance Funds each must maintain an undesignated reserve of 12%. The reserve funds may be used only in accordance with the Reserve Fund Balance Policy below. Each year, following the completion of the audit, determination of the use of any surplus will be discussed with the Financial and Administrative Committee

- 2.12.3 All costs will be included in the department's budget submittal. These include retirement (IMRF, FICA), Health-Life- Dental insurance (H-L-D), unemployment, liability, worker's compensation, indirect costs, and any direct costs that can be identified.

- 2.12.4 The number of Full Time and Part Time Positions approved during the Annual Budget process shall be the maximum number of positions each department/office/agency may hire during the budget year. Any mid-year additions to Full Time or Part Time Positions require Financial & Administrative Committee approval.

- 2.12.5 In addition to adequately budgeting for all planned expenditures, the annual budget shall include an undesignated contingency within the General Operating Expense budget. This undesignated contingency shall be within 0.2% and 0.3% of the total operating expenses in the Property Tax Operating Funds, split evenly between personnel related costs and non-personnel related costs.

- 2.12.6 No new or expanded state or federal grants shall be accepted that require use of County resources of any kind unless approved in accordance with Budget Submittal Policies (Section 2.0). Renewals of state or federal grants shall receive the closest possible scrutiny.

- 2.12.7 If program funding from any non-County sources (e.g. state grants, federal grants, intergovernmental agreements, etc.) is reduced or eliminated, commensurate expense reductions or new revenue increases shall be made or, where necessary, the program will be eliminated. Exceptions may be made where grant funds were used to offset expenses that were previously provided for by local tax dollars, where loss of funding may result in a verifiable increase elsewhere in the County budget, or when a service is considered critical as recommended by the County Administrator and approved by the Board. When a request to fund a program or service grant that has been cut is brought forward, a similar cost reduction or revenue increase must be identified. Approval of such a request will require a 2/3

vote (of the members present) of the Financial & Administrative Committee (F&A). As part of the budget process, departments shall be prepared to respond to changes in State funding or general revenue loss due to cuts in State payments.

2.12.8 During the course of any fiscal year, any department intending to pursue a new grant (i.e., one that was not awarded in the previous fiscal year) shall acquire approval from the standing committee and F&A (or the County Board if so required by the agency) to apply for such grant prior to application if the grant requires a direct County match. Renewal of grants awarded during the previous fiscal year or those that are for less than \$10,000 and do not require a County match do not need prior approval. If the deadline to apply for any grant does not allow sufficient time for prior approval, the department may apply and submit for approval to committee(s) at the next available committee meetings. Departments will notify FAS of grant applications that require an indirect, or in-kind, match.

2.12.9 All departments, including those that report to a Board or Commission separate from the County Board, will comply with all County administrative policies unless specific exclusions are granted annually by F&A or except as provided by State law, including the Lake County Health Department and the Stormwater Management Commission. These include but are not limited to the County's Investment Policy, Employee Reimbursement

Policies, Employee Policies and Procedures, and the Purchasing Ordinance.

2.12.10 Capital Outlay: Corporate Fund departments shall identify all capital items, quantities and costs in their budget submission. Capital items under the dollar threshold established in the annual budget instructions and capital expenditures funded with grant revenue shall remain budgeted in department accounts. All purchases shall be limited to those items identified in the budget submittal. Any substitutions or additions must be approved in advance by the Chief Financial Officer.

2.12.11 Debt Service: Budgets shall be based on applicable bond schedules and/or other relevant factors relating to enabling ordinances.

## **2.13 Non-Property Tax Funds**

2.13.1 Appropriations will not exceed available working cash and/or anticipated revenues. Adequate cash flow requirements will be maintained. As an exception, appropriations in funds or departments funded all or in part by reimbursement grants may temporarily exceed available working cash due to the reimbursement nature of their revenues.

2.13.2 The Public Works Department will maintain a schedule of rates and charges sufficient at all times to pay operational, maintenance, and replacement costs, and provide net revenues sufficient to meet all outstanding bond coverage amounts as required in the bond ordinance.

2.13.3 All costs that are associated with non-property tax funds will be included in the department's budget submittal. These include retirement (IMRF, FICA), Health-Life-Dental insurance (H-L-D), unemployment, liability, worker's compensation, indirect costs, and any direct costs that can be identified.

2.13.4 As an Internal Service Fund, the H-L-D Fund will maintain a fund balance adequate to provide the insurance needs of all County employees without interruption. The fund balance shall be evaluated annually, and any excess of revenues over expenses in any year may be retained in the fund as an addition to fund balance. The intent of maintaining a fund balance shall be to offset the cost of unanticipated high claims as needed, help offset the costs of additional wellness program incentives, and to fund a reserve for future benefits.



### 3.0 FUND BALANCE RESERVES POLICY

- 3.1 Lake County strives to maintain financial stability by developing a comprehensive financial plan that balances services with revenues and expenses. One of the keys to reaching this objective is the adoption of a policy that will preserve the County's strong financial position by setting reserve requirements. This policy will guide the County in the maintenance and use of resources for financial stabilization purposes.
- 3.2 The County desires to maintain a prudent level of financial resources for protection against either reducing service levels or raising taxes and fees due to either temporary revenue shortfalls or unpredicted one-time expenditures necessary to the County's business. The use of reserves should support the continuation and sustainment of County essential services without a significant employee layoff or reduction in force (RIF).
- 3.3 These policies should be used to insulate the tax levy operating funds from:
  - 3.3.1 Temporary cash flow shortages;
  - 3.3.2 Emergencies as declared by the County Board Chair and later ratified by the County Board;
  - 3.3.3 Unanticipated economic downturns based on an adverse change in economic indicator as outlined below;
  - 3.3.4 Pandemics;
  - 3.3.4 Adverse action from Federal or State actions and/or grantors; and/or
  - 3.3.5 One-time, unexpected expenses necessary to continue County services.
- 3.4 The County reserve policy is applicable to all operating property tax levy funds. The General Fund balance can be used to assist other tax levy funds to meet the policy. Lake County adopts the following reserve:
  - 3.4.1 Designated reserves will be maintained in the amount equal to the carryovers approved annually by the County Board for unfinished, encumbered projects budgeted in the previous fiscal year.
  - 3.4.2 Additional designated reserves will be maintained for Risk Management & Liability Insurance Fund liabilities in an amount based on a professionally-performed actuarial analysis.
  - 3.4.3 An undesignated reserve shall not fall below 29% of the current fiscal year appropriation, with the exception of the FICA, IMRF and Risk Management & Liability Insurance Funds. The FICA, IMRF, and Risk Management & Liability Insurance Funds must maintain a minimum undesignated reserve of 12%.
  - 3.4.4 The undesignated reserves can be used only with the approval of the County Board under the following circumstances:
    - 3.4.4.1 in case of economic downturn as defined in the Economic Downturn Indicators section below;
    - 3.4.4.2 to fund emergency unanticipated expenditure requirements or to offset unanticipated revenue downturns occurring within a fiscal year;
    - 3.4.4.3 to fund response and recovery from a pandemic; or
    - 3.4.4.4 to fund liability claims in excess of the risk reserves.
  - 3.4.5 Undesignated reserves below the minimum threshold of 29% can only be used after the budgeted contingency has been exhausted and only after a plan for replenishment has been outlined to address the situation that necessitated the use of the reserves.
  - 3.4.6 The plan for replenishment shall restore minimum fund balance in the fiscal year following the use of reserves if feasible and certainly within three fiscal years of use.
  - 3.4.7 The County Board may designate excess undesignated reserves, above the 29% minimum threshold, for the purpose of funding future capital projects or other one-time

expenditures.

### 3.5 Economic Downturn Indicators

The use of fund balance reserves is allowed when one or both of the following scenarios occur:

- 3.5.1 Four consecutive months of decline in total General Fund Major Revenue as compared with the current year budget and prior year actuals. Major revenues include:
  - 3.5.1.1 Sales tax revenue
  - 3.5.1.2 Other State shared revenues (e.g., use tax, income tax and personal property replacement tax)
  - 3.5.1.3 Permit and license fees
- 3.5.2 Lake County unemployment exceeds 6.5% for a three-month period according to the Illinois Department of Employment Security.

### **D. Exceptions**

Any exceptions to these budget policies shall require the approval of the County Board via the Financial & Administrative Committee.

### **E. Attachments**

FY22 Budget Calendar