

 Lake County Policy	3.2 Fund Balance Reserve Policy
	Approved by the County Board on: May 10, 2022

1. Purpose and Intent

- 1.1 The purpose and intent of this policy is to guide the County in the maintenance and use of resources for financial stabilization. The policy will also codify the methodology and proper size of fund balance, including the amount of unreserved fund balance; how fund balance is reserved and used; and methods of using unreserved fund balance resources.

2. Background

- 2.1 Lake County strives to maintain financial stability with a comprehensive financial plan that balances services with revenues and expenses. Keys to reaching this objective are policies that preserve the County's strong financial position by setting reserve requirements.
- 2.2 Fund balance reserves are critical for planning for contingencies; maintaining a bond rating agency creditworthiness; accumulating funds for capital projects and other one-time expenses; and ensuring cash availability when revenue is unavailable.
- 2.3 Best practices show that factors to be considered in determining fund balance reserves include: predictability and/or volatility of expenses; availability of resources in other funds; liquidity; and designations, or reservations for a specific purpose.

3. Scope

- 3.1 This policy applies to all departments, agencies / commissions, and elected offices whose funding is approved by the Lake County Board, unless meeting criteria that waves this requirement as defined in policy *3.1 Finance Policy*.
- 3.2 This policy applies to all operating property tax levy funds which are approved by the Lake County Board unless meeting criteria that waves this requirement as defined in policy *3.1 Finance Policy*.

4. Authority

- 4.1 The Authority as stated in *3.1 Finance Policy, Section 4* applies.

5. Policy

- 5.1 The County shall 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.
- 5.2 The use of reserves should support the continuation and sustainment of County essential services without a significant employee layoff or reduction in force (RIF) for essential staff.

5.3 These policies should be used to insulate the tax levy operating funds from one or more of the following:

- Temporary cash flow shortages
- Emergencies as declared by the County Board Chair and later ratified by the County Board
- Unanticipated economic downturns based on an adverse change in economic indicator as outlined below
- Pandemics
- Adverse action from Federal or State actions and/or grantors
- One-time, unexpected expenses necessary to continue County services.

5.4 The Lake County fund balance reserve shall meet the following requirements:

- 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.
- Additional designated reserves will be maintained for Risk Management & Liability Insurance Fund liabilities in an amount based on a professionally performed actuarial analysis.
- 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%.

5.5 The undesignated reserves shall be used only with the approval of the County Board under one or more of the following circumstances:

- Economic downturn as defined in the Economic Downturn Indicators in section 5.11
- To fund emergency unanticipated expenditure requirements or to offset unanticipated revenue downturns occurring within a fiscal year
- To fund response and recovery from a pandemic
- To fund liability claims in excess of the risk reserves.

5.6 Undesignated reserves below the minimum threshold of 29% shall only be used:

- After the budgeted contingency has been exhausted, and
- After a plan for replenishment has been outlined to address the situation that necessitated the use of the reserves.

5.7 The plan for replenishment reserves shall restore minimum fund balance in the fiscal year following the use of reserves if feasible but absolutely no later than within three fiscal years of use.

5.8 The General Fund balance will be used to assist other tax levy funds to meet this policy.

5.9 The County Board shall designate excess undesignated reserves, above the 29% minimum threshold, for the purpose of funding future capital and technology projects or other one-time expenditures.

5.10 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.

5.10.1 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.

5.10.2 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.

5.11 Economic Downturn Indicators

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

5.11.1 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:

- Sales tax revenue
- Other State shared revenues (e.g., use tax, income tax and personal property replacement tax)
- Permit and license fees

5.11.2 Lake County unemployment exceeds 6.5% for a three-month period according to the Illinois Department of Employment Security.

5.12 Policy review and update shall be in accordance with policy 3.1 *Finance Policy*.

6. Severability

6.1 If any section or provision of this document should be held invalid by operation of law, none of the remainder shall be affected.

7. Non-Discrimination

7.1 Lake County prohibits the discriminatory application, implementation, or enforcement of any provision of this policy on the basis of race, color, sex, age, religion, disability, national origin, ancestry, sexual orientation, marital status, parental status, military discharge status, source of income, gender identity housing status, or any other protected category established by law, statute, or ordinance.

Policy History			
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