Discussion on Fund Balance Policy

Financial & Administrative Committee

March 6, 2025

Initial Discussion

- Fund Balance Basics
- Best Business Practice (GFOA)
- Bond Rating Agency Perspective
- Comparable policies
- Lake County's Policy
  - Possible updates for consideration
- Questions and Direction for future action

Purpose of Fund Balance

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- Weather cyclical revenue fluctuations
- Ensure stable service delivery
- Ensure ability to meet future needs
- Protect against financial instability
- Provides fiscal sustainability during economic downturn
- Protect taxpayers and employees from unexpected changes in financial condition
- Demonstrates creditworthiness to rating agencies and other lenders/maintain flexibility on capital financing options
- Facilitates long-term, strategic financial planning

Fund Balance Analysis
(Source: PFM "Best Practices in Fund Balance")

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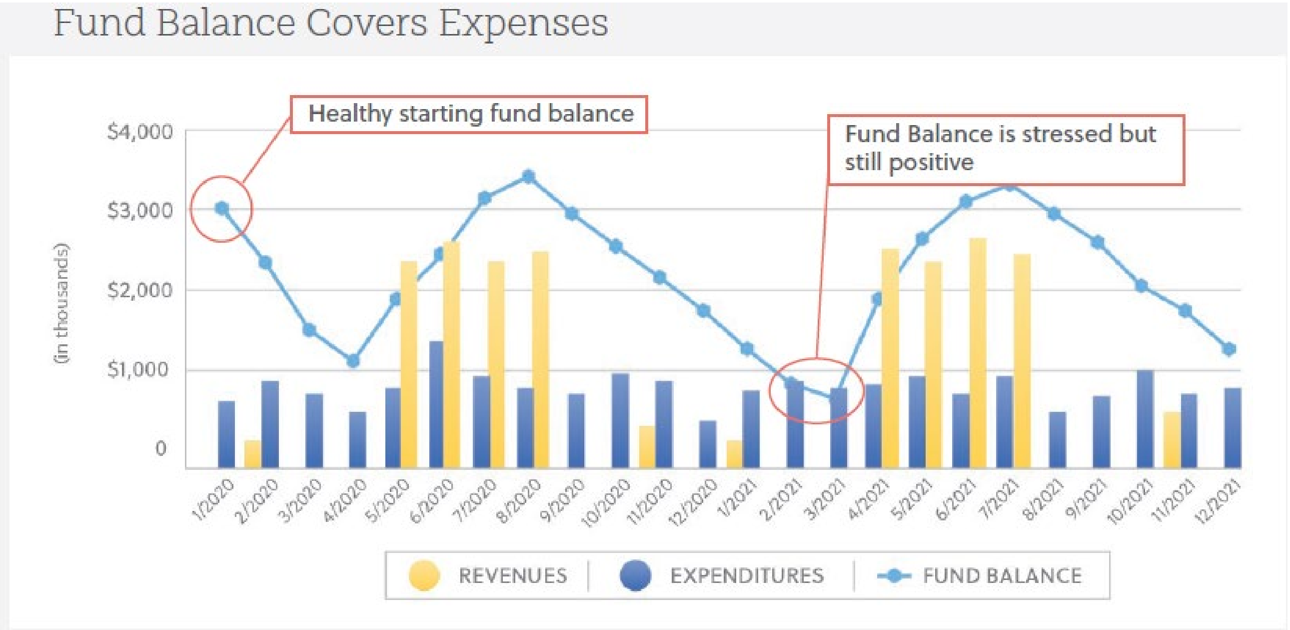
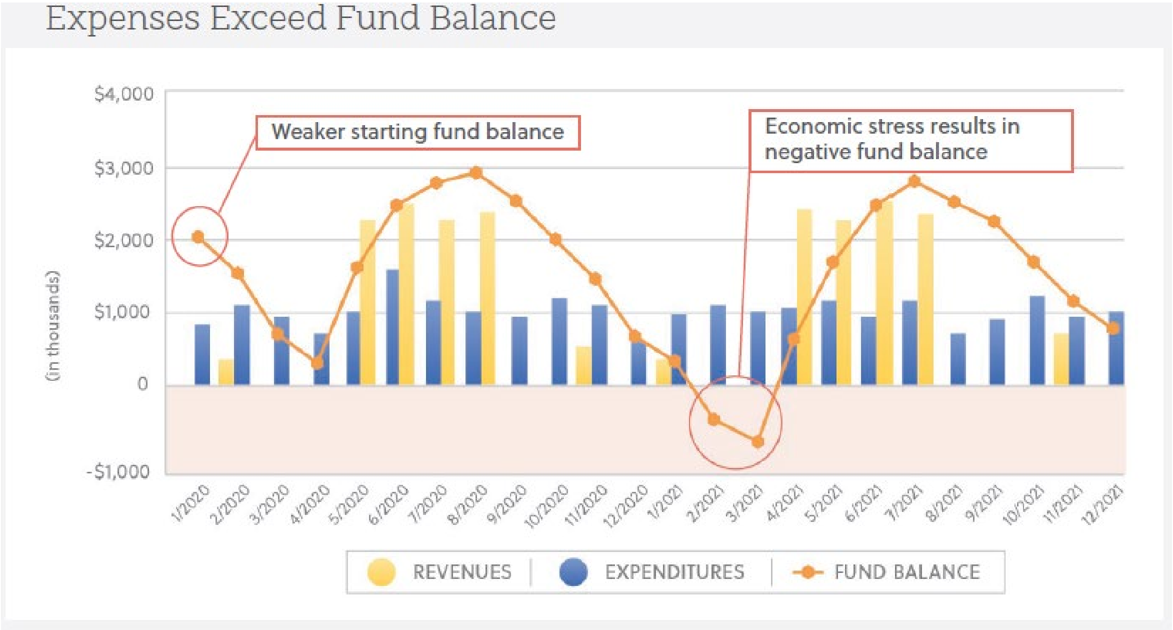
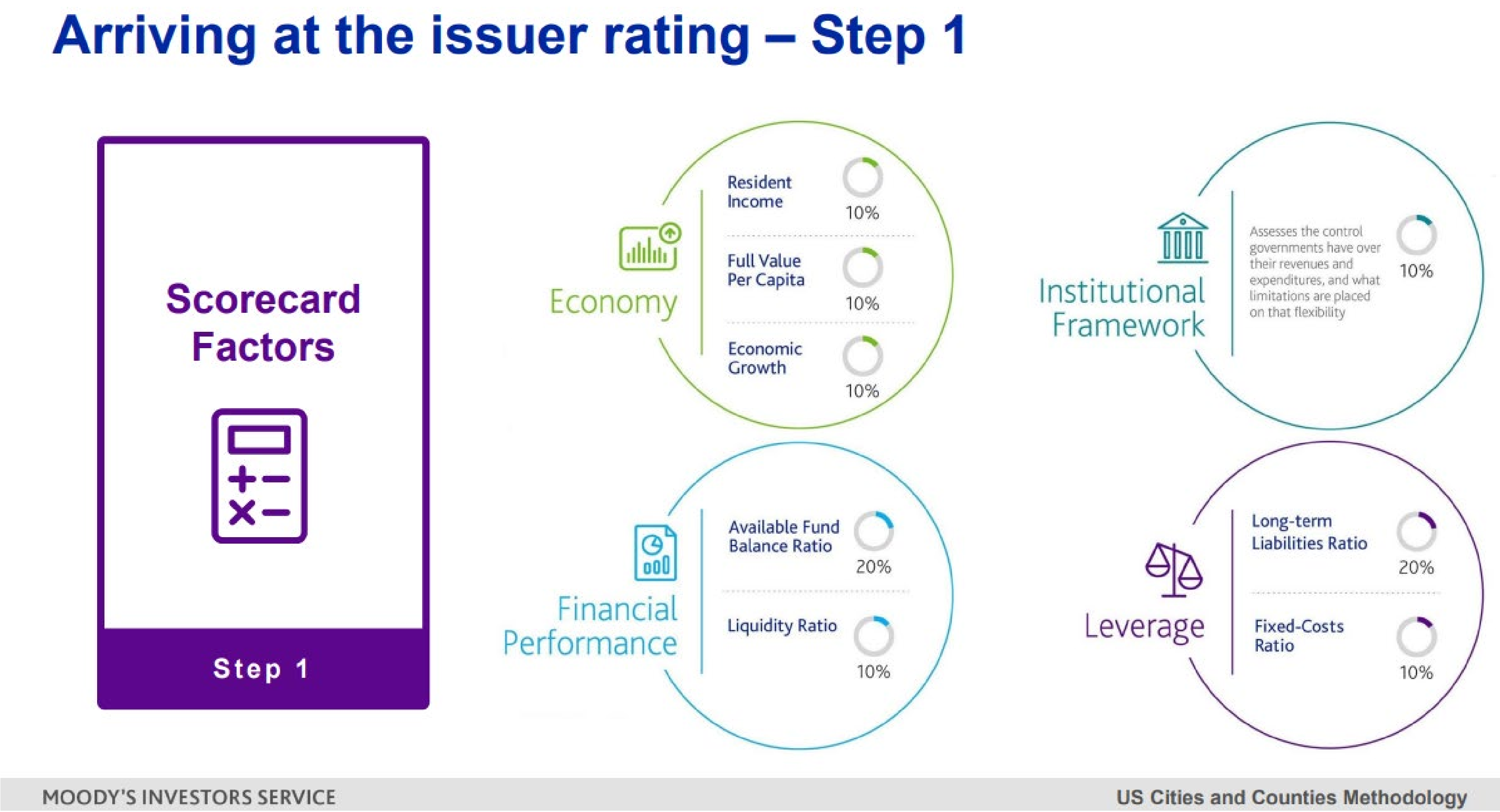




How much?

- Government Finance Officers Association (GFOA) Best Practice:
  - At a minimum, two months of regular general fund operating revenues or regular general fund operating expenditures
  - Government's particular situation often may require a level of unrestricted fund balance in excess of this recommended minimum level, depending on factors including:
    - Predictability of revenues and volatility of its expenditures
    - Exposure to significant one-time outlays
    - Availability of resources in other funds
    - Impact on entity's bond ratings and corresponding cost of borrowed funds
    - Long term forecasts and economic conditions
    - External financing expectations

Moody’s Issuer Scorecard



Moody's Financial Performance Factor

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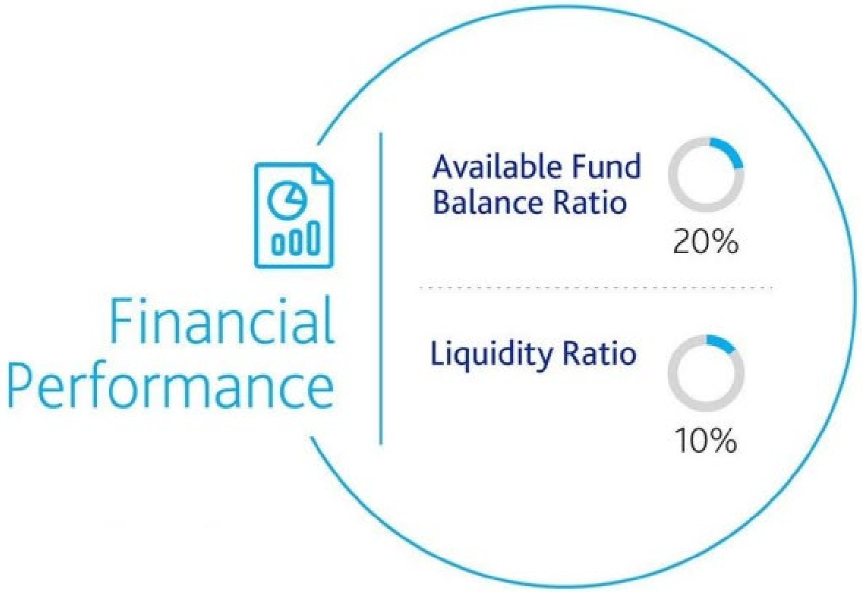
Scorecard Factor 2: Financial Performance



Sub-factor	Sub-factor calculation
Available Fund Balance Ratio (20%)	(Available fund balance + net current assets) / revenue
Liquidity Ratio (10%)	Unrestricted cash / revenue

MOODY'S INVESTORS SERVICE — US Cities and Counties Methodology

Moody’s Rating Methodology

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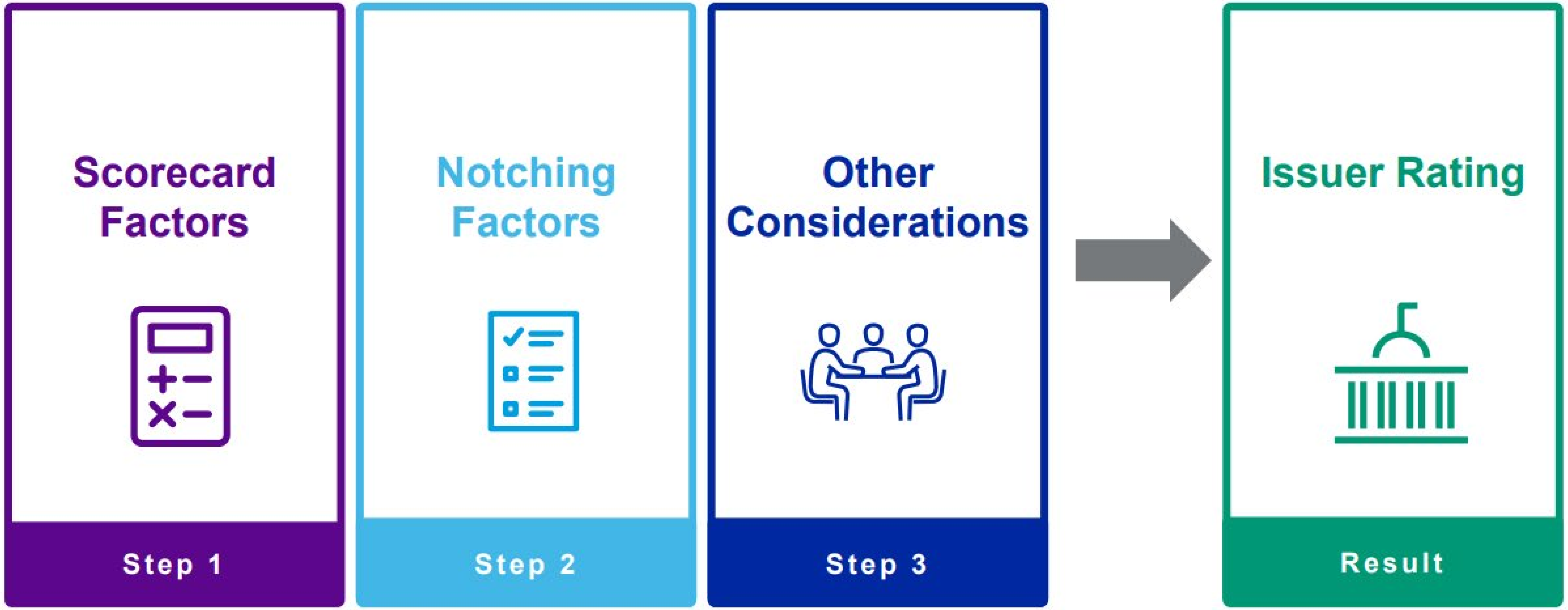
Arriving at the issuer rating



MOODY'S INVESTORS SERVICE US Cities and Counties Methodology 9

Comparable Counties

- DuPage County:
  - At least 25% of total expenditures plus transfers out of next year's General Fund budget; low point operating margin of approximately one-month's normal operations
  - If fund balance goes above 45% at end of fiscal year, CFO may recommend one-time transfer to capital fund for future funding
- Will County:
  - Goal to have a 25% corporate fund cash reserve at year end
  - If corporate fund cash reserves fall below 22% or exceed 26%, the Finance Committee shall recommend corrective action

Comparable Counties (cont’d)

- **Kane County:**
  - **Minimum of 3 months operating expenditures in the Corporate Fund**
- **McHenry County:**
  - **General Fund: Minimum General Fund Unassigned Fund Balance of 150 days or five months of expenditures (on an annual budget basis)**

Lake County's Current Policy

Current Reserve Requirements

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Amount equal to carryovers approved by the County Board for unfinished, encumbered projects budgeted in the previous fiscal year

+

Risk Management/Liability Insurance Fund professionally performed annual actuarial analysis

+

29% of the current fiscal year appropriation (except for funds below)

+

12% of FICA, IMRF and Risk Management/Liability Insurance Funds

Operating Property Tax Levy Funds

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- General Fund
- FICA
- IMRF
- Liability/Risk
- VAC
- Health
- Stormwater
- Division of Transportation
- Hulse Youth Detention Center
- Tuberculosis Clinic

How Fund Balance is Adjusted

LakeCounty
Finance Department

- **Beginning Fund Balance of Fund XYZ = 29%**
- **FY24 actual experience: revenues exceed expenses**
- **Ending Fund Balance of Fund XYZ = 30%**

In FY26, the property tax revenue for Fund XYZ will be modified by an amount sufficient to reduce the ending fund balance back to 29%

- **Beginning Fund Balance of Fund XYZ = 30%**
- **FY26 actual experience: expenses exceed revenues**
- **Ending Fund Balance of Fund XYZ = 29%**

Possible Updates for Consideration

- Refined percentages based on the volatility of the revenue streams within each of the operating funds, for example:
  - FICA and IMRF Funds are 100% funded by property taxes with a 98%+ collection rate
  - Risk Management & Liability Fund has a professionally prepared actuarial analysis on all outstanding claims **OR**
- Simplification into one percentage for the property tax operating funds in total **AND**
- Separation of the Veterans Assistance Commission (VAC) Fund's fund balance from our calculation because it is not within County Board control
- Other suggestions?

Questions and Direction