

FY2012 BUDGET POLICIES

FY2012 BUDGET POLICY CLARIFICATION

Given the continuing financial challenges facing the County in FY2012 the following is intended to supplement and clarify key aspects of the standard budget policies. For FY2012 the following conditions/terms apply.

Status Quo Budget Submittal:

While the budget policies (Section II a) direct a status quo submission, it should be understood that for FY2012 a status quo submittal represents a ceiling on controllable expenses. In other words, a status quo request represents the maximum budget a department should request. There is no guarantee of continued current funding, and in *some* instances Departments / Agencies may receive less than the current year's appropriation.

Contingency Plans:

Due to the fluid and unpredictable nature of State funding, although not required at the time of submittal, Departments should be prepared to identify areas of reduction should such action become necessary. These reductions will be discussed on a case by case basis.

New Program Requests:

While submittals may include self-funded new program requests that reallocate existing funding (section II b, II c and II d), it should be understood that program expansions or new programs that require additional funds will not be considered in the FY2012 budget.

Vacancies:

In an effort to reduce the FY2012 budget, all Departments / Agencies are encouraged to leave positions unfilled except in those instances where required overtime would eliminate position savings (section 2 e). Except in those instances where a permanent change in workload or reduction/elimination of services justifies a permanent reduction in headcount, it is understood that unfunded positions will remain in a Department / Agencies position inventory and will be reinstated when funding allows. At this time there is no across the board expectation of funding positions held vacant in 2011. Any such requests will be considered on a case by case basis. *Requests to fill unfunded positions should be made using the new "Request to Fund Position" form. Funding for these positions should not be included in the budget as submitted.*

State Funded Programs:

In the event of loss of State funding and/or reimbursement for specific services, it is understood that Departments will be expected to either reduce funded services or identify other reductions/revenue increases to off-set State losses. Exceptions to this policy will be reviewed on a case by case basis.

I. GENERAL POLICY DIRECTIVES

A. Operating Budget Policies

1. The County 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.
2. The budget will continue to provide for adequate maintenance of capital plant and equipment and for the orderly replacement of equipment.
3. The budget will continue to provide for adequate funding of all retirement systems.
4. The County will continue to maintain a financial system with statutory budget control to ensure adherence to the budget.
5. The Director of Finance and Administrative Services will prepare regular reports comparing actual revenues and expenditures to budgeted amounts.
6. 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.

B. Revenue Policies

1. The County will try to maintain a diversified and stable revenue system to shelter it from short-run fluctuations in any one revenue source.
2. The County will estimate its annual revenues by an objective, analytical process.
3. The County will project revenues for the next five (5) years and will update this projection annually.
4. The year-to-year increase of budgeted revenue from the property tax will adhere to the Illinois Property Tax Extension Limitation Law *and shall not exceed the national Consumer Price Index (CPI) for the year preceding the levy year on existing property.*
5. All user charges and fees will be reviewed on a regular basis, and where appropriate adjusted to a level related to the cost of providing the services, subject to State statutes.

C. Capital Improvement Policies

1. The County will make all capital improvements in accordance with an adopted capital improvement program.
2. The County will develop a multi-year plan for capital improvements and update it annually.
3. The County will enact an annual budget in appropriate County funds based on the multi-year capital improvement plan.

4. The County will coordinate development of the capital improvement budget with development of the operating budget. Any additional operating costs associated with new capital improvements will be projected and included in operating budget.
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.
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.
7. The capital improvement funding requests will be evaluated against criteria established in the most current *policy* on capital improvements.

D. Debt Policies

1. The County will limit long-term borrowing to capital improvements that cannot be financed from current revenues.
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.
3. The County will try to keep the average maturity of general obligation bond debt at or below twenty (20) years.
4. Total amount of general obligation outstanding debt will not exceed 5.75% of total assessed valuation.
5. The County will not use long-term debt for current operations.
6. 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.

E. Accounting, Auditing and Financial Reporting Policies

1. The County will continue to establish and maintain a high standard of accounting practices.
2. The accounting system will continue to maintain records on a basis consistent with accepted standards for local government accounting.
3. An independent public accounting firm will conduct an annual audit and the County Administrator and/or Controller will issue a comprehensive annual financial report.
4. Additional reports comparing budget to actual results will be presented to the Board at least annually through the committee process.

II. BUDGET SUBMITTAL POLICIES

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

- A. A *status quo* budget, defined as no new positions or programs, shall be submitted by departments.
- B. New or expanded programs may be included in the budget request as a separate package when funded by new sources of funds or a commensurate reduction of existing operations.
- C. New or expanded programs may be included in the budget request as a separate package when no funding source is identified and will be evaluated against County-wide priorities and available resources.
- D. County Board Members may submit new or expanded programs for consideration. Departmental staff will be available to assist in writing the requests. These requests will be presented to the Board for consideration without staff recommendation.
- E. Department Heads are encouraged to review each vacant position in their department during the 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.

III. BUDGET POLICIES BY FUND TYPE

A. Property Tax Funds (Excluding Special Service Areas)

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. For all Property Tax Funds, the total of all unallocated fund balances is to be maintained in an amount equal to the total of all prior year maximum monthly cash flows in each fund plus an amount equal to 15% of the total of all Property Tax Fund's current fiscal year budget/appropriation. Except that the 15% requirement does not apply to the FICA, IMRF and the claim portion of the Risk Management & Liability Insurance Fund. The reserve funds may be used only in accordance with the *Reserve Fund Balance Policy* below. *Each year, following the completion of the audit, amounts available beyond these and other designated reserves shall be swept and used for projects identified in the annual capital improvement program or other one-time expenses.*
3. 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 not be less than \$250,000 for personnel related costs and \$300,000 of non-personnel related costs.

5. 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 II.C). Renewals of state or federal grants shall receive the closest possible scrutiny.
6. 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. In the latter instance, the plan for working with adjusted amount of property tax revenue must be understood.
7. New grants: 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 the F&A Committee (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 the Department of Finance & Administrative Services of grant applications that require an indirect, or in-kind, match.
8. 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 the Financial and Administrative Committee 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, Travel Reimbursement Policies, Employee Policies and Procedures and the Purchasing Ordinance.
9. 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 items over the dollar threshold established in the annual budget instructions and all computer or computer-related purchases of any amount, will be moved to, and the actual approved budget amounts shall be appropriated in, the General Operating Expense (GOE) budget. All purchases shall be limited to those items identified in the budget submittal. Any substitutions or additions must be approved in advance by the Director of Finance and Administrative Services
10. Debt Service: Budgets shall be based on applicable bond schedules and/or other relevant factors relating to enabling ordinances.

B. Non-Property Tax Funds

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. The Department of Public Works will maintain a schedule of rates and charges sufficient at all times to pay operation, maintenance, and replacement costs, and provide Net Revenues sufficient to meet all outstanding bond coverage amounts as required in the Bond Ordinance.
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), Insurance (H-L-D, unemployment, liability, worker's compensation), indirect costs and any direct costs that can be identified.
4. As an Internal Service Fund the H-L-D (Health, Life and Dental) Fund will maintain a positive fund balance. 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 experience as needed, help offset the costs of additional wellness program incentives, and to fund a reserve for future benefits.

C. All Funds

1. Personnel Services Costs:
 - a. Compensation will be addressed after budgets have been submitted and reviewed.
2. Revenues:
 - a. 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 shall appropriate any specific source of revenue even though that revenue may be generated by any service it provides. Each property tax fund will be allocated a portion of any levy of taxes (where applicable), including any increase in a levy as may be applicable.
 - b. The County will continue to increase the non-property tax revenues as follows:
 - (1) Make annual adjustments to all fee schedules under the jurisdiction of the County Board, where appropriate; and
 - (2) Maintain aggressive collection activities to receive outstanding monies owed the County; and
 - (3) Recommend new fees that could be charged for departmental activities or services that are currently being performed at no charge.
3. Capital Equipment:
 - a. All budget requests for any capital items shall be based upon the estimated total purchase price, exclusive of trade-in value.
 - b. 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 II.C above).

- c. 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.*

4. Facility-Related Expenses

All facility related costs including but not limited to requests for operations and maintenance costs and building improvements of any kind shall be subject to review, revision, consolidation, and utilization by the County Administrator's Office. Requests shall be consistent with, but may be distinct from, the Capital Improvement Plan.

5. Indirect Costs

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".

6. Exceptions

Any exceptions to these budget policies shall require the approval of the County Board.

IV. Reserve Fund Balance Policy

- A. 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.

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 will help the County continue to offer the high quality of services without employee layoffs or a hiring freeze.

These policies should be used to insulate the tax levy operating funds from:

1. temporary cash flow shortages,
2. emergencies,
3. unanticipated economic downturns based on an adverse change in economic indicators as outlined below, and;
4. one-time opportunities necessary to continue County services.

- B. 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:

1. A reserve to designate fund balance in the amount equal to the carryovers budgeted by the County Board for unfinished projects budgeted in the previous fiscal year.
2. A reserve for accumulated unpaid employee vacation and sick leave.
3. A cash flow reserve equal to the cash flow needs for the most recently completed fiscal year.
4. A fund reserve equal to 15% of the operating budgeted expense of the funds except the FICA, IMRF and the claim portion of the Risk and Liability Funds. The reserves can be used as follows:
 - a. In the general fund one-third (5%) and in the remaining tax levy operating funds two-thirds (10%) of this reserve can only be used in case of economic downturn as defined in the Economic Downturn Indicators section below.
 - b. One-third (5%) can be used to fund one-time emergency unanticipated expenditure requirements or to offset unanticipated revenue downturns occurring within a fiscal year.
 - c. One-third (5%) of this reserve in the general fund is set aside as additional liability reserves.
5. The 15% reserves can only be used after the budgeted contingency has been exhausted. These reserves can be used only after a plan has been outlined to address the situation that necessitated the use of the reserves.
6. The County Board may also designate cash balance in addition to the above reserves for the purpose of funding future capital projects *or other one time expenditures*.

C. Economic Downturn Indicators

1. Revenue growth for the following revenues in total falls below a 2% increase:
 - a. Sales tax revenue
 - b. State shared revenues (use tax, income tax and personal property replacement tax)
 - c. Recording fees
 - d. Traffic costs
2. Lake County unemployment exceeds 9.0% for a six-month period based on the Illinois Department of Employment Security figures

Reserve Fund Balance Policy Analysis

The revenues used in the analysis enjoyed double-digit growth in the 1990s then slowed to between 4% and 5.4% in 2001 and 2002. From 2003 to 2004 they decreased by 3.7%. The years 2005 and 2006 showed increases of nearly 6% and 4.6% respectively. The year 2007 began to exhibit effects of the slowing economy when revenues were essentially flat from the prior year. The results in 2008 continued the downward trend begun in 2007 and resulted in a decrease in revenues of nearly 6% followed by an even more significant decline of 14.4% in 2009. In 2010, these revenues showed a nearly 2% increase, but the total still lags far behind 2005 levels. Below is Table 1 that provides the historical levels of these revenues.

Table 1
GENERAL FUND SELECT REVENUES
 2005 to 2010

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
1% Sales Tax	3,976,448	3,883,284	3,964,218	3,783,228	2,956,005	3,022,180
1/4% Sales Tax	22,485,728	23,781,220	23,769,713	22,758,355	19,935,971	20,598,656
Use Tax	940,715	1,077,088	1,085,941	1,201,403	1,005,136	984,103
PPRT	3,032,435	3,254,931	3,849,481	3,792,087	3,199,126	3,449,387
Income Tax	6,139,115	6,734,802	7,249,665	7,748,129	6,651,404	6,439,960
Recorder's Fees	7,791,885	7,819,680	6,752,456	4,578,947	3,546,763	3,455,133
Traffic Costs	2,139,976	2,109,350	2,008,748	1,961,869	1,934,809	2,010,293
Total	46,506,302	48,660,355	48,680,222	45,824,018	39,229,214	39,959,712
% Increase (Decrease)	5.97%	4.63%	0.04%	(5.87%)	(14.39%)	1.86%

Unemployment has exceeded 9.0% for a six-month period based on the Illinois Department of Employment Security figures. Monthly figures are provided in Table 2a.

Table 2a
Lake County Monthly Unemployment Rates 2010

January	13.0	July	10.2
February	13.0	August	10.1
March	12.5	September	9.2
April	10.6	October	9.2
May	9.5	November	9.1
June	10.1	December	9.5

Historical information regarding annual averages is provided in Table 2b.

Table 2b
Lake County Annual Unemployment Rates

2001	4.6	2006	4.2
2002	5.7	2007	5.0
2003	6.0	2008	6.7
2004	5.5	2009	9.8
2005	4.5	2010	10.5

LAKE COUNTY BUDGET CALENDAR- FISCAL YEAR 2012

April 6, 2011- Wednesday @ 1:00 pm
Preliminary Review of FY 2012 Budget Policies by Financial & Administrative Committee

May 4, 2011 - Wednesday @ 1:00 pm
Final Review of FY 2012 Budget Policies by Financial & Administrative Committee

May 10, 2011 - Tuesday @ 9:00 A.M.
Adoption of FY 2012 Budget Policies

May 13, 2011 - Friday
Distribution of Budget Packages to Departments

June 14, 2011 - Tuesday
Completed new program request forms due in Finance & Administrative Services (FAS)

June 30, 2011 - Thursday
Completed Budgets due in Finance & Administrative Services (FAS)

July 14 - August 26, 2011
Budget Reviews with Individual Departments

October 7, 2011 - Friday @ 8:30 AM at the beginning of the Committee of the Whole meeting
Budget Presentation to Financial and Administrative Committee (All County Board Members Encouraged to Attend)

October 11, 2011 @ 9:00am regularly scheduled Board Meeting

**Note: All joint Meetings Held in the Assembly Room, 10th floor, Lake County Building.
The Financial & Administrative Committee may continue to meet after each of the scheduled
special call committee meetings to act upon budgets under its jurisdictions.**

October 18th , 2011 - Tuesday @ 8:30 am
JOINT Planning, Building, & Zoning and Financial & Administrative Committees (Special Call)

October 18th, 2011 - Tuesday @ 10:00 am
JOINT Law & Judicial and Financial & Administrative Committees (Special Call)

October 18th, 2011 - Tuesday @ 1:00 pm
JOINT Health & Community Services and Financial & Administrative Committees (Special Call)

October 19th, 2011 - Wednesday @ 9:00 am
JOINT Revenue, Records & Legislation and Financial & Administrative Committees (Special Call)

October 19th, 2011 - Wednesday @ 10:00 am
JOINT Public Works & Transportation and Financial & Administrative Committees (Special Call)

October 19th, 2011 - Wednesday @ 1:00 pm
Financial & Administrative Committee (Special Call)

October 24, 2011
Budget Placed on File

October 25th and 26th, 2011 - 2nd budget reviews with Joint Committees during regular committee meetings if needed

November 1st and 2nd, 2011 - 3rd budget reviews with Joint Committees during regular committee meetings if needed

November 2nd, 2011 - Wednesday @ 1:00 P.M.
Financial & Administrative Committee: Final recommended actions to County Board (if needed)

November 4, 2011 - Friday @ 8:30 A.M.; Review by Committee of the Whole
Truth-in-Taxation Hearing

November 8th, 2011 - Tuesday @ 9:00 A.M.; Regular County Board Meeting
For the purpose of adopting the Budget, Appropriation, and Levy Ordinances