

FY2019 BUDGET AND FINANCE POLICIES

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 as recommended to the County Board will be balanced. The budget will be considered balanced when planned operating expenditures do not exceed expected revenue and/or use of cash.
3. The need for continued inclusion of vacancies shall be reviewed as part of the annual budget process.
4. The County Board will officially accept an estimated tax levy for the new fiscal year no later than the September Board meeting of the fiscal year that immediately precedes the new fiscal year.
5. The budget may be amended with emergency appropriations throughout the year at regular Board meetings resulting in a modified budget. 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 Director of Finance and Administrative Services (FAS). Such accounts may include long term capital needs where money may be accumulated for multiple years until needed for projects as approved by the Board. A preliminary list of carry-overs will be prepared by all departments and presented as part of departmental budget hearings.
6. The budget will continue to provide for adequate maintenance of capital plant and equipment and for the orderly replacement of equipment.
7. The budget will continue to 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.
8. The County will continue to maintain a financial system with statutory budget control to ensure adherence to the budget.
9. The FAS will prepare regular reports comparing actual revenues and expenditures to budgeted amounts.
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.
11. Revenue received by the County from Video Gaming will be expended in accordance with the County's Video Gaming Revenue policy.

B. Revenue Policies

1. The County will try to maintain diversified and stable revenues to shelter it from short- run fluctuations in any one revenue source.
2. The County will estimate its annual revenues through 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. 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 FY2019 budget, there will be a property tax levy freeze. Additional levy, as a result of the CPI increase, will not be taken. However, the FY2019 budget will include growth from new property.
5. All user charges and fees will be reviewed on a regular 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.

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 five-year plan for capital improvements and update it annually.
3. The County will enact an annual budget in appropriate County funds based on the five- year capital improvement plan. Capital expenditures funded from revenue in the current year's budget will be included in the annual budget request. Capital expenditures funded from reserves, bond funds and other one-time money will be presented in a separate emergency appropriation that will be considered and approved concurrent with the annual budget document. This "smoothes" the operating budget and provides for better historical perspective.
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. Total amount of general obligation outstanding debt will not exceed 5.75% of total assessed valuation.
4. The County will not use debt for current operations.
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.

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/agencies/offices of Lake County government shall prepare budget submissions consistent with the following items:

- A. A *status quo* budget, defined as no new positions and a total amount of no more than the target budget (as defined by the budget instructions), shall be submitted by departments/agencies/offices. If there are contractual and/or mandatory increases above this target, departments/agencies/offices will be required to submit a reconciliation of the increases. FAS will provide a template for this reconciliation as a part of the budget instructions. The County Administrator may underfund certain line items, based on historical averages, as necessary to balance the budget. When work load levels have changed, or as appropriate based on financial challenges, the County Administrator may require written justification for status quo 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.
- B. 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.

- **Expansion**

A request will be considered an Expansion if it is intended to increase the level or reach of a 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 replacement.

- **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.

- C. New, Expanded, or Board Member Program Requests will be accepted and must include sufficient justification for review. Board Member Program Requests must be voted on individually.
- D. New or expanded program requests must be accompanied by an adequate justification and be included in the budget request as a separate package. FAS will provide detail, as a part of the budget instructions, of what should be included in the justification. FAS will not accept requests that do not include sufficient justification for funding.
- E. Department/Agency/Office 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 1.5 months of cash flow needed for operations based on the current fiscal year budget 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 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.
4. 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.
5. 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 supermajority vote of the Financial & Administrative Services 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.
6. Similar to the New Program Request process, Finance and Administrative services will provide a template as part of the budget instructions that will be used to document requests to replace State and/or Federal funding. This form will include quantitative data in support of the criticality of services. In keeping with the policy language above, the County Administrator, as part of the budget process, will provide the Board a complete list of requested replacement funds, along with a recommendation on funding.
7. 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.
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 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, 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 FAS.

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 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.
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.
4. As an Internal Service Fund, the H-L-D 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 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 to the County; and
 - (3) Recommend new fees that could be charged for departmental activities or services that are currently being performed at no charge.
 - c. 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. 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.
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 operational and maintenance costs, as well as 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 risk fund liabilities based on a professionally performed actuarial analysis.
3. A cash flow reserve equal to the cash flow needs for the most recently completed fiscal year defined as 1.5 months of the current fiscal year's appropriation.
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