



**CITY OF URBANA, ILLINOIS
FINANCE DEPARTMENT**

MEMORANDUM

TO: Mayor Diane Wolfe Marlin and City Council Members
FROM: Elizabeth Hannan, Finance Director
DATE: June 7, 2018
SUBJECT: **Ordinances Approving the FY2019 Annual Budget and Amending the FY2018 Annual Budget, and Resolution Approving Financial Policies**

Introduction: Attached are three Council Bills – an Ordinance adopting the FY2019 Annual Budget, an Ordinance amending the FY2018 Annual Budget, and a Resolution Adopting the City’s updated Financial Policies.

Discussion:

FY2019 Annual Budget: Illinois law requires the City to adopt a budget before the beginning of the fiscal year on July 1. The proposed budget was reviewed with the City Council in meetings on May 21 and 29, and June 4. A public hearing on the budget was advertised on May 21 and held on June 4.

The Ordinance approving the Annual Budget includes a detailed listing of changes from the proposed budget provided to the City Council. Most of these changes are housekeeping items. Changes include restoring \$6,538 for STEP (selective traffic enforcement program) overtime in the Police Department. This was included on a list of budget reductions in error. Adjustments in the timing of both revenues and expenditures related to capital improvement projects are also included.

The budget Ordinance would also authorize the Finance Director to amend the budget to reflect the carry forward of open purchase orders as of June 30. This carry forward would be for items for which a commitment to purchase is made prior to June 30, but funds have not yet been spent. This is a new provision in the Ordinance that reflects changes in the financial management system. The previous system did not allow the ability to reserve funds in this manner.

FY2018 Budget Amendment: This Ordinance amends the FY2018 budget to conform to estimates provided in the proposed budget, with changes detailed on the attachment. Again, most changes are housekeeping items, such as changes in the timing of expenditures for capital projects.

Financial Policies: The attached resolution would approve the Financial Policies that were included in the proposed budget document and reviewed with the City Council on May 29. Two changes are incorporated into these revised policies.

Pension Funding: The pension funding policy would be revised to incorporate the following policies –

1. Amortization Policy: Amortize 100% of the unfunded liability over a 20 year period, with a five year transition, beginning with the 2018 tax levy
2. Actuarial Cost Method: Use an entry age normal, level percent of pay method.
3. Asset Smoothing: Continue the current practice of smoothing assets over a five-year period.
4. Review of Funding Policy: Because contributions will become more volatile as we move closer to being fully funded, the City should review the funding policy before taxes are levied in 2028, which is half way through the 20-year period for amortization of unfunded liability.

Balanced Budget: The balanced budget policy would be revised to indicate that the City's budget is balanced if recurring expenditures do not exceed 98.5% of budgeted recurring revenues. This provides increased capacity to deal with revenue fluctuations, including any reduction in State shared revenues, without having to make immediate budget reductions. It also allows for a margin of error in budgeting for revenues.

Alternatives:

1. Forward the Ordinances approving the Annual Budget for FY2019 and amending the Annual Budget for FY2018, and the Resolution adopting the Financial Policies to City Council for approval on June 18.
2. Amend one or more of the items before forwarding to Council for approval.

Recommendation: Forward all three items to City Council for approval at the June 18 meeting.

Fiscal Impact: The projected fund balance in the General Operating Fund will be slightly higher than in the proposed budget due to an increase in income tax estimated for FY2018. Fund balance will be 14.95% of recurring expenditures, which is very close to the policy target of 15%.

ORDINANCE NO. 2018-06-045

AN ORDINANCE APPROVING THE FISCAL YEAR 2018 – 2019 ANNUAL BUDGET

WHEREAS, the City of Urbana (“City”) is a home rule unit of local government pursuant to Article VII, Section 6, of the Illinois Constitution, 1970, and may exercise any power and perform any function pertaining to its government and affairs, and the passage of this Ordinance constitutes an exercise of the City’s home rule powers and functions as granted in the Illinois Constitution, 1970; and

WHEREAS, the Budget Director has compiled a proposed annual budget ordinance for the fiscal year beginning July 1, 2018, and ending June 30, 2019, in accordance with 65 ILCS 5/8-2-9.1 through and including 65 ILCS 5/8-2-9.9 and Urbana City Code Chapter 2, Article VI, Division 2; and

WHEREAS, the Mayor has made the proposed annual budget ordinance conveniently available for public inspection by publication in pamphlet form and by posting on the City’s website at least 14 days prior to a public hearing on such ordinance; and

WHEREAS, the City Council held a public hearing on the proposed annual budget ordinance at 7:00 p.m. on Monday, June 11, 2018, after due and proper notice of the availability for inspection of such ordinance and notice of such public hearing having been given by publication in *The News-Gazette*, a newspaper having a general circulation in the City, on a date at least 14 days prior to the time of the public hearing; and

WHEREAS, the City Council finds that the best interests of the City are served by approving the proposed annual budget ordinance as heretofore further changed, modified, and amended.

NOW, THEREFORE, BE IT ORDAINED by the City Council of the City of Urbana, Champaign County, Illinois, as follows:

Section 1.

The City of Urbana Fiscal Year 2018 – 2019 Annual Budget, a true copy of which is attached hereto and made a part hereof, be and the same is hereby passed, approved, and adopted as the annual budget ordinance of and for the City of Urbana, Champaign County, Illinois, for the fiscal year beginning July 1, 2018, and ending June 30, 2019.

Section 2.

The Finance Director is authorized to amend the Annual Budget for the fiscal year commencing July 1, 2018 to increase expenditures by the amount of encumbrances outstanding as of June 30, 2018.

Section 3.

The City Clerk is directed to publish this Ordinance in pamphlet form by authority of the corporate authorities, and this Ordinance shall be in full force and effect from and after its passage and publication in accordance with Section 1-2-4 of the Illinois Municipal Code.

This Ordinance is hereby passed by the affirmative vote, the “ayes” and “nays” being called, of a majority of the corporate authorities (5 of 8 votes) of the City of Urbana, Illinois, at a meeting of said corporate authorities.

PASSED BY THE CITY COUNCIL this ____ day of _____, _____.

AYES:

NAYS:

ABSTAINED:

Charles A. Smyth, City Clerk

APPROVED BY THE MAYOR this ____ day of _____, _____.

Diane Wolfe Marlin, Mayor

Budget Ordinance FY2018/19

		<u>Proposed Budget</u>	<u>Adopted Budget</u>	<u>Difference</u>	<u>Reason</u>
<u>GENERAL OPERATING FUND</u>					
<u>EXPENDITURES</u>					
10020201-50132	STEP OVERTIME	24,368	30,906	6,538	restore STEP OT reduction
10040401-50120	SALARY - TEMPORARY EMPLOYEES	-	14,595	14,595	correct program for temp employees
10040402-52906	GREEN INFRASTRUCTURE SERVICES	31,548	64,631	33,083	reallocate line item detail 1040402
10040402-51320	REPAIR & MAINTENANCE MATERIALS	3,737	6,055	2,318	reallocate line item detail 1040402
10040402-50120	SALARY - TEMPORARY EMPLOYEES	72,975	58,380	(14,595)	correct program for temp employees
10040402-52299	OTHER MAINT COSTS	35,401	-	(35,401)	reallocate line item detail 1040402
10040423-51900	OTHER SUPPLIES	79,992	49,992	(30,000)	reduce for increased capital expense
10060610-59200	TFR TO CA RECL & IMPR FUND	740,412	770,412	30,000	increased expense - University Ave
10060610-59300	TFR TO VERF FUND	110,300	119,100	8,800	adjust VERF tfr - leasing program
<u>TOTAL EXPENDITURES</u>		<u>33,258,173</u>	<u>33,273,511</u>	<u>15,338</u>	
<u>ENDING FUND BALANCE (ESTIMATED)</u>		<u>4,845,412</u>	<u>4,900,074</u>	<u>54,662</u>	
<u>CAPITAL REPLACEMENT & IMPROVEMENT FUND</u>					
<u>REVENUES</u>					
200-49100	TFR FROM GENERAL FUND	740,412	770,412	30,000	increased expense - University Ave
200-41130-40105	STATE GRANTS - STREETS & HW	-	601,778	601,778	adjust timing of State grants
<u>TOTAL REVENUES</u>		<u>765,412</u>	<u>1,397,190</u>	<u>631,778</u>	
<u>EXPENDITURES</u>					
20040470-52204-40101	INFRASTRUCTURE MAINT	150,000	250,000	100,000	adjust timing of capital expense
20040470-53301-40105	HIGHWAY AND STREETS	-	33,947	33,947	adjust timing of capital expense
20040470-53301-40121	HIGHWAY AND STREETS	120,000	150,000	30,000	increased expense - University Ave
<u>TOTAL EXPENDITURES</u>		<u>865,000</u>	<u>1,028,947</u>	<u>163,947</u>	
<u>ENDING FUND BALANCE (ESTIMATED)</u>		<u>(11,060)</u>	<u>(11,060)</u>	<u>-</u>	
<u>STORMWATER UTILITY FUND</u>					
<u>EXPENDITURES</u>					
20140470-53303	STORMWATER	-	109,234	109,234	adjust timing of capital expense
20140470-52204-40421	INFRASTRUCTURE MAINT	22,500	62,576	40,076	adjust timing of capital expense
<u>TOTAL EXPENDITURES</u>		<u>1,466,447</u>	<u>1,615,757</u>	<u>149,310</u>	
<u>ENDING FUND BALANCE (ESTIMATED)</u>		<u>310,301</u>	<u>310,301</u>	<u>-</u>	
<u>MOTOR FUEL TAX FUND</u>					
<u>REVENUES</u>					
203-41130-40103	STATE GRANTS - STREETS AND HW	-	136,000	136,000	adjust timing of state grants
<u>TOTAL REVENUES</u>		<u>1,103,188</u>	<u>1,239,188</u>	<u>136,000</u>	
<u>ENDING FUND BALANCE (ESTIMATED)</u>		<u>174,611</u>	<u>174,611</u>	<u>-</u>	

SANITARY SEWER FUND

EXPENDITURES

20440470-52999-40501	OTHER CONTRACTUAL SERVICES	25,000	70,675	45,675	adjust timing of capital expense
20440470-52999	OTHER CONTRACTUAL SERVICES	132,559	143,859	11,300	adjust timing of capital expense
<u>TOTAL EXPENDITURES</u>		<u>1,379,293</u>	<u>1,436,268</u>	<u>56,975</u>	
<u>ENDING FUND BALANCE (ESTIMATED)</u>		<u>608,082</u>	<u>608,082</u>	<u>-</u>	

VEHICLE & EQUIPMENT REPLACEMENT FUND

REVENUES

300-49100	TFR FROM GENERAL FUND	1,232,921	1,241,721	8,800	adjust VERF tfr - leasing program
<u>TOTAL REVENUES</u>		<u>1,324,261</u>	<u>1,333,061</u>	<u>8,800</u>	

EXPENDITURES

30060600-53420	VEHICLES	451,681	518,130	66,449	adjust expense - leasing program & adjust timing - repl totalled squad car
<u>TOTAL EXPENDITURES</u>		<u>3,256,826</u>	<u>3,323,275</u>	<u>66,449</u>	
<u>ENDING FUND BALANCE (ESTIMATED)</u>		<u>5,102,839</u>	<u>5,011,639</u>	<u>(91,200)</u>	

LANDSCAPE RECYCLING CENTER FUND

EXPENDITURES

30140402-52202	EQUIPMENT REPAIR & MAINT	10,000	30,000	20,000	revise expenditures for LRC
30140402-51310	CONSTRUCTION MATERIALS	5,050	17,170	12,120	revise expenditures for LRC
30140402-53440	OTHER EQUIPMENT	3,612	14,350	10,738	revise expenditures for LRC
30140402-53410	MACHINERY	-	9,700	9,700	revise expenditures for LRC
30140402-52500	INTERGOVERNMENTAL AND AGENCY	-	6,525	6,525	revise expenditures for LRC
30140402-52909	ADV/MKTING/PUBLIC EDUCATION	22,725	26,000	3,275	revise expenditures for LRC
30140402-52199	OTHER PROFESSIONAL SERVICES	12,120	-	(12,120)	revise expenditures for LRC
30140402-52106	ARCHITECTURAL & ENG SERVICES	14,250	-	(14,250)	revise expenditures for LRC
30140402-53301	HIGHWAY AND STREETS	55,381	-	(55,381)	revise expenditures for LRC
<u>TOTAL EXPENDITURES</u>		<u>757,462</u>	<u>738,069</u>	<u>(19,393)</u>	
<u>ENDING FUND BALANCE (ESTIMATED)</u>		<u>57,159</u>	<u>76,552</u>	<u>19,393</u>	

POLICE SPECIAL FUND

EXPENDITURES

31020206-59610	TFR TO INFORMATION TECH FUND	-	250	250	correct transfer to IT
<u>TOTAL EXPENDITURES</u>		<u>76,628</u>	<u>76,878</u>	<u>250</u>	
<u>ENDING FUND BALANCE (ESTIMATED)</u>		<u>829</u>	<u>579</u>	<u>(250)</u>	

COMMUNITY DEV GRANTS FUND

EXPENDITURES

33150531-53302-40605	LIGHTING AND SIGNALS	-	100,000	100,000	adjust timing of capital expense
33150531-53305-40123	OTHER CONSTRUCTION	-	25,000	25,000	adjust timing of capital expense
<u>TOTAL EXPENDITURES</u>		<u>1,918,659</u>	<u>2,043,659</u>	<u>125,000</u>	
<u>ENDING FUND BALANCE (ESTIMATED)</u>		<u>(25,172)</u>	<u>(25,172)</u>	<u>-</u>	

TIF 4

EXPENDITURES

34350501-53301-40119	HIGHWAY AND STREETS	-	<u>185,000</u>	<u>185,000</u>	adjust timing of capital expense
<u>TOTAL EXPENDITURES</u>		<u>767,348</u>	<u>952,348</u>	<u>185,000</u>	
<u>ENDING FUND BALANCE (ESTIMATED)</u>		<u>1,066,931</u>	<u>1,066,931</u>	-	

INFORMATION TECHNOLOGY FUND

REVENUES

610-49310	TFR FROM NARCOTICS FORFEITURES	-	<u>250</u>	<u>250</u>	correct tfr from Police Special Fund
<u>TOTAL REVENUES</u>		<u>1,077,365</u>	<u>1,077,615</u>	<u>250</u>	
<u>ENDING FUND BALANCE (ESTIMATED)</u>		<u>178,182</u>	<u>178,432</u>	<u>250</u>	

ORDINANCE NO. 2018-06-046

**AN ORDINANCE REVISING THE
ANNUAL BUDGET ORDINANCE FOR FY2017/18
(Budget Amendment #9 – FY2018 Estimates)**

WHEREAS, the Annual Budget Ordinance of and for the City of Urbana, Champaign County, Illinois, for the fiscal year beginning July 1, 2017, and ending June 30, 2018, (the “Annual Budget Ordinance”) has been duly adopted according to Sections 8-2-9.1 et seq. of the Illinois Municipal Code (the “Municipal Code”) and Division 2, entitled “Budget”, of Article VI, entitled “Finances and Purchases”, of Chapter 2, entitled “Administration”, of the Code of Ordinances, City of Urbana, Illinois (the “City Code”); and

WHEREAS, the City Council of the said City of Urbana finds it necessary to revise said Annual Budget Ordinance by deleting, adding to, changing or creating sub-classes within object classes and object classes themselves; and

WHEREAS, funds are available to effectuate the purpose of such revision; and

WHEREAS, such revision is not one that may be made by the Budget Director under the authority so delegated to the Budget Director pursuant to section 8-2-9.6 of the Municipal Code and section 2-133 of the City Code.

NOW, THEREFORE, BE IT ORDAINED by the City Council of the City of Urbana, Champaign County, Illinois, as follows:

Section 1.

That the Annual Budget for FY2017/18, as revised, is hereby revised to provide as outlined in the attached Exhibit A.

Section 2.

This Ordinance shall be in full force and effect from and after its passage and publication in accordance with Section 1-2-4 of the Illinois Municipal Code.

This Ordinance is hereby passed by the affirmative vote, the “ayes” and “nays” being called, of two-thirds of the corporate authorities then holding office (6 of 8 votes) of the City of Urbana, Illinois, at a meeting of the corporate authorities.

PASSED BY THE CITY COUNCIL this ___ day of _____, _____.

AYES:

NAYS:

ABSTAINED:

Charles A. Smyth, City Clerk

APPROVED BY THE MAYOR this ___ day of _____, _____.

Diane Wolfe Marlin, Mayor

Budget Amendment 2017/18 - 09 - Exhibit A

		<u>Current Budget</u>	<u>Revised Budget</u>	<u>Difference</u>	<u>Reason</u>
<u>General Operating Fund (100)</u>					
<u>Revenues</u>					
100-40301	STATE INCOME TAX	4,450,000	4,550,000	100,000	updated estimate based on latest revenues
<u>Total Revenues</u>		<u>33,781,399</u>	<u>33,881,399</u>	<u>100,000</u>	
<u>Expenditures</u>					
10010101-52101	LEGAL SERVICES	187,480	217,480	30,000	Budget Amendment #8 - Legal Services
<u>Total Expenditures</u>		<u>33,571,257</u>	<u>33,601,257</u>	<u>30,000</u>	
<u>Ending Fund Balance (estimated)</u>		<u>4,880,698</u>	<u>4,950,698</u>	<u>70,000</u>	
<u>Capital Improvement & Replace Fund (200)</u>					
<u>Revenues</u>					
200-41130-40105	STATE GRANTS - STREETS AND HW	601,778	-	(601,778)	adjust timing of state grants
<u>Total Revenues</u>		<u>2,852,220</u>	<u>2,250,442</u>	<u>(601,778)</u>	
<u>Expenditures</u>					
20040470-53301-40105	HIGHWAY AND STREETS	50,915	16,968	(33,947)	adjust timing of capital expense
20040470-52204-40101	INFRASTRUCTURE MAINT	290,307	190,307	(100,000)	adjust timing of capital expense
<u>Total Expenditures</u>		<u>5,323,793</u>	<u>5,189,846</u>	<u>(133,947)</u>	
<u>Ending Fund Balance (estimated)</u>		<u>88,528</u>	<u>(379,303)</u>	<u>(467,831)</u>	
<u>Stormwater Utility Fund (201)</u>					
<u>Expenditures</u>					
20140470-52204-40401	INFRASTRUCTURE MAINT	40,076	-	(40,076)	adjust timing of capital expense
20140470-53303	STORMWATER	109,234	-	(109,234)	adjust timing of capital expense
<u>Total Expenditures</u>		<u>1,978,011</u>	<u>1,828,701</u>	<u>(149,310)</u>	
<u>Ending Fund Balance (estimated)</u>		<u>203,586</u>	<u>352,896</u>	<u>149,310</u>	
<u>Motor Fuel Tax Fund (203)</u>					
<u>Revenues</u>					
203-41130-40103	STATE GRANTS - STREETS AND HW	136,000	-	(136,000)	adjust timing of state grants
<u>Total Revenues</u>		<u>2,547,565</u>	<u>2,411,565</u>	<u>(136,000)</u>	
<u>Ending Fund Balance (estimated)</u>		<u>461,423</u>	<u>325,423</u>	<u>(136,000)</u>	
<u>Sanitary Sewer Fund (204)</u>					
<u>Expenditures</u>					
20440470-52999	OTHER CONTRACTUAL SERVICES	142,196	130,896	(11,300)	adjust timing of capital expense
20440470-52999-40501	OTHER CONTRACTUAL SERVICES	50,000	4,325	(45,675)	adjust timing of capital expense

<u>Total Expenditures</u>	<u>1,685,312</u>	<u>1,628,337</u>	<u>(56,975)</u>	
<u>Ending Fund Balance (estimated)</u>	<u>542,219</u>	<u>599,194</u>	<u>56,975</u>	

Vehicle and Equipment Replacement Fund (300)

Expenditures

30060600-53420	VEHICLES	621,755	655,306	33,551	adjust timing - replace totalled squad car
<u>Total Expenditures</u>		<u>1,759,335</u>	<u>1,792,886</u>	<u>33,551</u>	
<u>Ending Fund Balance (estimated)</u>		<u>7,035,404</u>	<u>7,001,853</u>	<u>(33,551)</u>	

Cable TV Peg Fund (320)

Expenditures

32010107-51410	SMALL TOOLS & EQUIPMENT	900	2,525	1,625	replace remote in Council Chambers
<u>Total Expenditures</u>		<u>168,158</u>	<u>169,783</u>	<u>1,625</u>	
<u>Ending Fund Balance (estimated)</u>		<u>149,839</u>	<u>148,214</u>	<u>(1,625)</u>	

Community Development Grants Fund (331)

Expenditures

33150531-52800	GRANT MISC CONTRACTUAL SERVICE	466,430	341,430	(125,000)	adjust grant expense
<u>Total Expenditures</u>		<u>1,600,631</u>	<u>1,475,631</u>	<u>(125,000)</u>	
<u>Ending Fund Balance (estimated)</u>		<u>(25,172)</u>	<u>99,828</u>	<u>125,000</u>	

TIF DISTRICT 4 (343)

Expenditures

34350501-53301-40119	HIGHWAY AND STREETS	185,000	-	(185,000)	adjust timing of capital expense
<u>Total Expenditures</u>		<u>2,190,732</u>	<u>2,005,732</u>	<u>(185,000)</u>	
<u>Ending Fund Balance (estimated)</u>		<u>841,540</u>	<u>1,026,540</u>	<u>185,000</u>	

RESOLUTION NO. 2018-06-023R

A RESOLUTION ADOPTING FINANCIAL POLICIES

(2018)

WHEREAS, Section 8-1-1 of the Illinois Municipal Code (65 ILCS 5/8-1-1) provides that the corporate authorities of each municipal corporation may control the finances of the corporation; and

WHEREAS, the City Council is the fiscal authority for the City of Urbana (“City”) and is responsible for passing the annual budget ordinance and controlling the fiscal operations of the City; and

WHEREAS, the City Council is further responsible for ensuring that the City manages public funds appropriately; and

WHEREAS, on June 6, 2016, the City Council passed Resolution No. 2016-06-033R, adopting certain financial policies for the City to establish goals and targets for the City's financial operations, provide for a consistent approach to planning and budgeting, and support the City's long-term financial stability; and

WHEREAS, the City Council, after due consideration, finds that the adoption of revised financial policies as herein provided is in the best interests of the residents of the City and is desirable for the welfare of the City’s government and affairs.

NOW, THEREFORE, BE IT RESOLVED by the City Council, of the City of Urbana, Illinois, as follows:

Section 1.

The financial policies attached hereto and hereby incorporated by reference, be and the same are hereby adopted.

Section 2.

Upon approval of this Resolution, the Finance Director shall administer these policies.

PASSED BY THE CITY COUNCIL this ____ day of _____, _____.

Charles A. Smyth, City Clerk

APPROVED BY THE MAYOR this ____ day of _____, _____.

Diane Wolfe Marlin, Mayor

FINANCIAL POLICIES

- I. **Purpose:** Financial policies establish goals and targets for the City's financial operations. Formal policies provide for a consistent approach to planning and budgeting, and support the City's long-term financial stability.
- II. **Long-term Planning:** Each year the City's Finance Department will prepare a five-year financial forecast for the City's General Operating Fund to assess the City's future fiscal condition. The purpose of the forecast is to give context to decisions that will be made in the budget process.
- III. **Balanced Budget:** The City considers the budget to be balanced if budgeted, recurring expenditures in the General Operating Fund do not exceed 98.5% of budgeted, recurring revenues. In other City funds, unless specific reserve targets have been established, expenditures will not exceed the total of budgeted revenues and unassigned fund balance at the beginning of the year.
- IV. **Reserves:** The city will maintain adequate reserves to establish a cushion of available cash during economic downturns, finance cash flow needs, provide stable tax rates, and provide for unanticipated needs or unexpected opportunities.
 - A. **General Fund:** The City will maintain reserves of approximately 15% of recurring expenditures in the General Operating Fund. This is in addition to any reserve that is established for a specific purpose. The reserve will be depleted below 10% only in the event of a catastrophic need. If the reserve dips below 15%, the Finance Director will recommend a strategy to replenish the reserve over a period of no more than three to five years.

This level of reserve is appropriate given-

- the City's reliance on cyclical revenue sources (e.g., sales tax)
- the reliance of other funds (e.g., Retained Risk and Capital Improvements) on the General Fund as a source of revenue
- the current backlog of unmet capital needs, which could result in an immediate demand for funds due to infrastructure failures
- the potential for unavoidable cost increases imposed by the State of Illinois
- concerns about the potential impact of the State's fiscal situation, including potential reductions in State-shared revenues

B. Vehicle & Equipment Replacement Fund: The City will maintain adequate reserves for planned replacement of capital equipment. Annual charges will be made to various operating budgets at 90% of calculated straight-line depreciation for each capital asset accounted for in this fund. The replacement schedule will be updated on an annual basis. A capital asset is defined as equipment with an initial purchase price of \$5,000 or more and a useful life of 5 years or more.

Other funds, including the Landscape Recycling Center Fund and the Equipment Services Fund, may retain reserves for equipment replacement separate from the Vehicle and Equipment Replacement Fund. Adequate funds will be reserved in fund balance for planned equipment replacement.

C. Retained Risk: Retained Risk Fund reserves will be maintained to provide funding in the event of large workers compensation and liability claims. The reserve amount will be established based on a periodic actuarial review. Annual transfers will be made from operating budgets to support risk management activities such as insurance premiums and routine claims, as well as to replenish the reserve, when necessary. Reserves will be replenished over time to minimize impact on the operating budget.

V. Property Taxes: The City's goal is to maintain a property tax rate equal to that of the City of Champaign, and to work with overlapping taxing districts to create an overall tax rate equal to the City of Champaign.

A. Pension Funds: The City will levy property taxes to provide funding for a 20-year closed period amortization of 100% of unfunded liability, including a five-year transition to the higher funding level, beginning with the 2018 property tax levy. Contributions will be calculated using the entry age normal (level percent of pay) method. Asset smoothing will be used over a five-year period to reduce the effects of market volatility. 8.12% of the pension funding requirement will be allocated from personal property replacement tax, also consistent with State law.

Prior to levying taxes in 2028, staff will recommend to the City Council an appropriate strategy to minimize volatility as the funds move closer to the goal of being fully funded.

B. Library General Fund: The City levies property taxes for the Library to support operations, which are funded from the Library's General Fund. The

City Council approves the Library's budget, including estimated property tax revenues necessary to support the expenditure budget. When the City Council approves the property tax levy, it will include a levy sufficient to support the approved Library General Fund budget. (The City also allocates a portion of the Ameren franchise fee to the Library, based on the Library's proportionate benefit from free gas therms provided by Ameren prior to the franchise agreement approved in 2015. This allocation will continue in the same proportion.)

C. Corporate Tax Levy: Remaining funds that can be raised within the City's target tax rate will be allocated to the General Operating Fund to pay for public safety services.

VI. Capital Improvements: Capital improvements are defined as a project or activity costing more than \$10,000 resulting in construction, renovation, or acquisition of land, infrastructure, or buildings, with an expected life of at least 10 years.

A. Capital Improvement Fund: The Capital Improvement Fund is used to pay for capital improvements that do not have another source of funding, or for which other sources are insufficient. The City's goal is to increase funding for capital improvements each fiscal year by at least the amount of increase in the construction cost index for the prior calendar year. This funding is to be used only for the purpose of funding capital improvements.

As the budget allows, the City will consider additional one-time transfers to provide additional funding for infrastructure maintenance and improvements; or increasing the base level of the recurring transfer to provide a stable, ongoing source of funding.

B. Stormwater and Sewer Improvement Funds: These enterprise funds are established to provide ongoing funding for maintenance and improvements to the City's stormwater and sanitary sewer systems. Fees will be established to provide funding consistent with long-term plans for operation and maintenance of these systems.

C. State and Local Motor Fuel Tax Funds: These funds are reserved for transportation improvements.

VII. Debt: The City may use long-term borrowing for capital projects that cannot be funded from current resources, when the improvements have a useful life of 25 years or more. Debt maturities will not exceed the useful life of the improvement. Combined debt service payments will not exceed 10% of recurring General Operating Fund revenues, regardless of the source of repayment. The City will generally use bank qualified bonds because of the lower cost of borrowing and reduced administrative burden.