

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 18th day of June, 2018.

AYES: Ammons, Brown, Hazen, Jakobsson, Miller, Roberts, Wu

NAYS:

ABSTENTIONS:



Charles A. Smith, City Clerk

APPROVED BY THE MAYOR this 20th day of June, 2018.

Diane Wolfe Marlin
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.