FINANCIAL POLICIES

Budget Reserve Policy – Amended and adopted by the Village Board on April 12, 2005

Current and long range cash flow projections are essential aspects of the budget process. These forecasts should be based upon (1) historical data for operating revenues and expenditures, (2) the proposed capital spending per the Village's ten year Capital Improvements Program, and (3) any anticipated changes in service levels and/or fee structures.

Operating revenues are defined as those revenue sources which are anticipated to recur on an annual basis. Examples would be the property tax, sales tax, utility tax and the income tax. Non-recurring revenues such as grants or bond proceeds should be projected separately from operating revenues.

Similarly, operating expenses are defined as those expenditures which recur on an annual basis. In the cash flow charts, operating expenses have been broken down into the categories of personnel and fringe benefits, refuse collection and disposal, and other operating expenses.

Non-recurring expenditures include all capital outlay as well as any other expenses that do not recur annually. Examples of this would be a consulting study or an expenditure that related to a one time revenue such as a grant.

The Village Board has adopted the following **Budget Policy**:

> **Operating revenues should exceed operating expenses.** Current revenues should be sufficient to pay for current expenses. If non-recurring revenues or reserve funds are used to fund operating expenses, this will ultimately have an adverse impact on the property tax levy or necessitate reductions in service levels.
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> **A portion of the capital outlay expenditures should be financed from operating revenues.** While these expenses may not recur individually, a portion does recur collectively. Thus, the financing of these items is most appropriately done from operating revenues.
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> **Other non-recurring expenditures may be financed from non-recurring revenue sources through an annual transfer to the Capital Equipment Replacement Fund (CERF) or through reductions in the reserve balances.** This assumes that if reserve funds are used to finance certain non-recurring expenditures, the overall budget reserve levels will not fall below the recommended minimum reserve balances as adopted by the Village Board.

> **When setting the property tax levy, consideration should be given to the historical relationship between the property tax and expenditures.** Property tax receipts are a significant portion of General Fund revenues. A consistent relationship between the property tax and General Fund expenditures will provide for greater revenue stability under varying economic conditions.

The Village of Wilmette shall strive to maintain adequate cash reserves in each of its funds. These reserves shall be created and maintained to provide the capacity to:

1. Offset significant economic downturns or revenue shortfalls;
2. Provide sufficient cash flow for daily financial needs;
3. Maintain or improve the Village's bond ratings;
4. Provide funds for unforeseen expenditures related to emergencies;
5. Maintain a Capital Equipment Replacement Fund.

Each of the Village's Funds have somewhat unique cash flow structures. For example, funds having property tax revenue will always be at their lowest point of reserve funds just prior to the two times each year (March and September) that the Village receives its property tax. Funds that pay debt service will always be at their lowest point in their reserve funds after they have made their semi-annual debt service installments. In establishing the recommended reserve levels, these individual characteristics of the funds have been considered.

The **General Fund** annual expenditures are relatively consistent on a monthly basis except that there are large general liability, property and workers' compensation insurance premiums that are due in January each year. While much of the insurance expense is run through the Village's Internal Service Funds, these Funds do not carry any fund balance and the majority of this expense is passed through the General Fund.

The property tax accounts for nearly 30% of the total annual General Fund revenue. Other than the two months in which the Village receives property tax revenue, the total monthly expenditures of the General Fund will exceed the monthly revenues. Thus, the General Fund reserve balance will always be at its lowest point at the end of February and at the end of August (just prior to the receipt of property tax revenue). Due to the nature of some of the other revenues in the General Fund, the reserve balance at the end of February is the actual projected low point in the year.

To determine the appropriate level of General Fund reserve, estimates of revenues and expenses are made for the months of January and February. The amount that expenses are projected to exceed revenues for this two month period reflects the minimum necessary amount of cash on hand at December 31 to avoid borrowing prior to the receipt of property tax revenue. The recommended minimum budget reserve is 200% of the projected two month shortfall. A schedule detailing this calculation follows this narrative.

On an annual basis in meeting the overall minimum budget reserve, operating revenues must be at least equal to 104% of operating expenses. When actual fiscal year results are available, budget reserve amounts in excess of 25% of the projected expenditures in the next fiscal year balance shall be transferred to the Capital Equipment Replacement Fund. In years that the minimum budget reserve is met, the Village shall transfer at least 50% of that year's non-recurring revenues to the Capital Equipment Replacement Fund. The Capital Equipment Replacement Fund shall reside within the General Fund and shall not be segregated as a separate fund. By Resolution of the Village Board, CERF funds may be transferred back to the General Fund reserve to offset any unanticipated expenditures or revenue shortfalls in order to maintain the minimum recommended General Fund reserve level.In meeting the minimum recommended level noted above, the budget reserve shall not be projected to be reduced by more than 10% in a given fiscal year.

The **Water Fund and Sewer Fund** both have similar cash flow characteristics. Their revenues flow in steadily throughout the year with the summer months showing an increase due to lawn sprinkling. The operating expenditures are evenly distributed over the course of the year. While capital outlay occurs irregularly, major projects are funded from debt issues and, as such, do not present a cash flow concern. Debt service is paid in June and December each year and it is at these points that cash flow is at its lowest for these two funds.

With the Village on a calendar fiscal year, the lowest point for the reserves of these two funds is at the end of the fiscal year. Thus, the need for a budget reserve in these two funds is strictly to provide for reduced revenue in a given year that water sales may not achieve the budgeted amount or to accommodate any emergency expenditures which may occur. The budget reserve policy guideline for the Water and Sewer Funds shall be a balance of between 20% and 25% of projected revenues.

The **Motor Fuel Tax Fund** has a steady revenue flow of monthly allotments from the State of Illinois. Its expenditure flow consists of large capital projects that occur during the outdoor construction season. As such, all expenditures for a given year are typically completed by the end of October. The policy goal is to have two month's worth of revenue (currently about $100,000) in reserve at year end. This policy allows for all of a current year's projects to be paid entirely from revenues received through the month of October.

The **Debt Service Fund** has its property tax levied and received in advance of its debt service payments. As such, cash flow is not a concern of this fund (note that the property tax is the sole revenue source for this fund and is equal to the projected debt service payments). **The Firefighter and Police Pension Funds** have developed substantial reserves in line with the actuarial requirements for these funds. The remaining funds, **Parking Meter, Clampitt Estate, and War Memorial Fund** are relatively minor in terms of revenue and expense and, as such, only have a requirement that they maintain a positive reserve balance throughout the year.

Purchasing Policies

The Village routinely makes purchases for suppliers, services, and equipment. The following policies apply to such purchases:

- Purchases under $1,000 can be made with authorization of the Village Manager without quotations or bids.
- Purchases over $1,000 and under $20,000 may be approved by the Village Manager provided that there are at least three written informal bids or quotations, unless the service or equipment is a “single-source item.”
- Purchases over $20,000 require the approval of the Village Manager and the Village Board of Trustees.
- In cases of emergency the Village Manager is authorized to make emergency purchases provided that such purchases shall be submitted to the President and Board of Trustees for ratification at the next regular meeting.