

ALL DISTRICTS

VILLAGE OF LOMBARD  
REQUEST FOR BOARD OF TRUSTEES ACTION  
For Inclusion on Board Agenda

  X   Resolution or Ordinance (Blue)            *Waiver of First Requested*  
           Recommendations of Boards, Commissions & Committees (Green)  
           Other Business (Pink)

TO: PRESIDENT AND BOARD OF TRUSTEES

FROM: Scott Niehaus, Village Manager

DATE: April 8, 2024 (COW)(B of T) April 18, 2024

TITLE: A Resolution Authorizing Additions and Amendments to the Village of Lombard Financial Policies Regarding the Year End General Fund Reserve Maintenance Policy Adopted July 21, 2016 and the Fixed Asset Policy Adopted June 6, 2002

SUBMITTED BY: Timothy Sexton, Director of Finance

BACKGROUND/POLICY IMPLICATIONS:

At the meeting on March 25, 2024, the Finance and Administration Committee discussed and unanimously voted to recommend that the Village Board approve the proposed changes to the Year End General Fund Reserve Maintenance Policy and the Fixed Assets Policy. A memo on the proposed amendment as presented to the Committee and the final recommended changes to both policies are attached.

Approval of the attached Resolution by the Village Board of Trustees is required in order to adopt the proposed changes to the Year End General Fund Reserve Maintenance Policy and the Fixed Asset Policy.

Review (as necessary):

Village Attorney X	_____	Date	_____
Finance Director X	<u>Timothy Sexton</u>	Date	<u>4/9/24</u>
Village Manager X	<u>Scott Niehaus</u>	Date	<u>4/10/24</u>

NOTE: All materials must be submitted to and approved by the Village Manager's Office by 12:00 noon, Wednesday, prior to the Agenda Distribution.



## MEMORANDUM

To: Finance and Administration Committee

From: Timothy Sexton, Director of Finance

Date: February 12, 2024

Subject: General Fund Year-End Waterfall Policy Revision

Please find attached a proposed policy revision to the General Fund Year-End Waterfall policy. The main change to the policy is to establish how any funds that go to the pension funds get distributed. Currently, those funds get distributed as follows:

- 40% - Police Pension
- 40% - Fire Pension
- 20% - IMRF

The recommended change is to allocate those funds at the end of each year based on the net pension liabilities as indicated in the most recent actuarial report for each pension fund. The current practical effect of this change based on the liabilities of the last several years is that the Fire Pension would see a slight decrease, the Police Pension fund would receive more funds, and IMRF would receive less funds, as it is closer to 100% funded. The last three years data for each pension fund is attached to this memo.

The Finance staff requests that the Finance and Administration Committee recommend the policy revision as recommended by Staff to the Village Board.

# Net Pension Liabilities

	Police		Fire		IMRF			
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>		
12/31/2020	35,098,005	68.2%	18,472,375	35.9%	(2,091,651)	-	51,478,729	(1)
12/31/2021	33,021,661	64.2%	18,422,844	35.8%	(11,116,824)	-	51,444,505	(1)
12/31/2022	40,776,787	59.1%	20,538,078	29.8%	7,715,893	11.2%	69,030,758	
	7,755,126		2,115,234		18,832,717			

(1) Whenever one of the funds does not have a net pension liability, that fund's net pension asset will be excluded from the calculation

## **YEAR-END GENERAL FUND RESERVE MAINTENANCE POLICY – Adopted July 21, 2016; Revised October 21, 2021**

Maintaining reserves is a prudent management practice. Reserves are an important indicator of the Village's financial position and its ability to withstand adverse events. At the end of each fiscal year, year-end revenues over expenses should be distributed to each reserve in the following order:

1. An Emergency General Fund Reserve should be maintained equal to 5% of the current year's budgeted unassigned expenses in the General Fund. The Emergency Reserve may be used for unexpected, large-scale events where costs in excess of \$1 million are incurred, and immediate, remedial action must be taken to protect the health and safety of residents (e.g. major flood, earthquake, event requiring significant overtime, etc.).

2. The Village should maintain a "Revenue Stabilization" reserve with a goal of reaching 3.5% of the current year's budgeted unassigned expenses in the General fund. This reserve may be used to provide funding to temporarily offset unanticipated fluctuations in on-going revenues or unanticipated events, such as unexpected external mandates, reductions in state shared revenues, closure of large sales taxpayer, etc. The reserve funds will provide time for the Village to restructure its operations in a deliberate manner to ensure continuance of critical Village activities. Revenues should be down at least 1.5% compared to prior year budget to utilize this fund.

3. Remaining funds should be split equally (50/50) between a Building Reserve Fund and a Pension Stabilization Fund, up to \$700,000 per year per fund. Any funds over \$700,000 per year per fund will flow to the Economic Development Fund Reserve.

- The Building Reserve Fund may be used to help fund the cost to build new, replace, or complete a major renovation to an existing Village owned building.
- The Pension Stabilization Fund may be used if the annual actuarially determined pension funding requirement exceeds the total statutorily permissible annual property tax levy. Funds over \$1M should be distributed as follows to each pension fund in accordance with their ratio of net pension liabilities from the most recently completed actuary report as a percent of the total net pension liabilities of all three (3) pension funds, in order to pay down unfunded pension liabilities.:

- ~~Illinois Municipal Retirement Fund: 20%~~
- ~~Police Pension Fund: 40%~~
- ~~Fire Pension Fund: 40%~~

- The Economic Development Fund Reserve should maintain a fund balance

of \$5,000,000. ~~Note, the Economic Development Fund is also funded with 25% of Hotel/Motel Tax revenue. If the fund balance exceeds \$5,000,000, the 25% of Hotel/Motel Tax revenue will stay in the Hotel/Motel Fund as long as allowed by law. Any excess funds as stated in #3 from the Building/Pension Reserves will flow into the Economic Development Fund, until it has reached \$5,000,000, and then will flow back into the Building/Pension Reserves.~~

- The Board has the option to reduce, not fund, or amend this policy in any way.



**To:** Finance & Administration Committee

**From:** Timothy Sexton, Director of Finance

**Date:** February 6, 2024

**Subject:** **Proposed Fixed Asset Policy Update**

In 2002, the Village Board approved an increase for the capitalization threshold at the time of acquisition from \$5,000 to \$50,000 on a per unit basis for machinery, equipment, and vehicles; \$100,000 for buildings and improvements; and \$200,000 for land and infrastructure.

Due to inflationary increases over the past 20 years, staff propose the capitalization threshold increase from \$50,000 to \$100,000 on a per unit basis for machinery, equipment, and vehicles.

As of CYE 2022, total governmental activities capital assets for the Village are \$170,941,483 of which 8.1% (\$13,944,755) are vehicles and equipment.

- 34.8% (24 of 69 assets) cost below \$100,000 each and total less than 10% (\$1,360,586) of total capitalized vehicles and equipment.
- The last 2 police vehicles purchased were \$51,000 each.
- There will be approximately 50 vehicles added to fixed assets within the next 5 years without a change to increase the threshold to \$100,000.

No changes are recommended for the current thresholds for land improvements, buildings, land, or infrastructure. Below are the current asset totals for each type.

- Land Improvements \$1,439,578
- Buildings \$10,171,520
- Land \$29,741,554
- Infrastructure \$115,617,0767

Staff requests the Finance & Administration Committee to review the proposed changes and provide a recommendation for the Village Board.

## **FIXED ASSETS - Adopted June 6, 2002**

### **PURPOSE**

The Village shall establish and maintain fixed asset records to comply with governmental financial reporting standards, to provide a basis for determining appropriate insurable values, and to establish responsibility for property control.

### **DEFINITION**

*Fixed assets shall include land, infrastructure, buildings, machinery, equipment, and vehicles with a life expectancy of one year or more, subject to the capitalization threshold below. Infrastructure shall include roads (including curbs and gutters), bridges, water and sewer mains, pumping stations, lift stations, traffic lights, streetlights, etc. Capitalization of road projects only occurs when the street is torn down to the base and completely rebuilt.*

*All expenditures related to an infrastructure project will also be capitalized (engineering, legal services, etc.). All other street construction, i.e. regrinding, patching, etc., is considered maintenance, and not capitalized. Water and sewer projects will be capitalized when the project constructs additional infrastructure or replaces infrastructure and meets the capitalization threshold below. Repairs of water and sewer assets will only be capitalized when they materially extend the life of the original asset and meet the capitalization threshold below.*

### **CAPITALIZATION THRESHOLD**

The capitalization threshold or minimum value of an asset at the time of acquisition is established at \$100,000 on a per unit basis for machinery, equipment, and vehicles; \$100,000 for buildings and improvements; and \$200,000 for land and infrastructure.

### **PROPERTY ACCOUNTING**

Responsibility for control of assets rests with the operating department wherein the asset is located. The Director of Finance shall ensure that control over fixed assets is maintained by establishing a fixed asset inventory that is updated annually and documents all additions and deletions to the fixed asset records. Operating departments shall report the disposal or relocation of a fixed asset promptly to the Director of Finance or his designee. Assets acquired during the year shall be recorded as an expenditure against the appropriate capital expenditure account, which shall be used for financial reporting purposes.

Assets shall be recorded in the fixed asset inventory by using an appropriate description and by recording serial numbers where applicable. Tagging of assets will not be required.

### **PROPERTY CONTROL**

Assets, which do not meet the definition of “fixed assets” under this policy, but in the aggregate account for a substantial asset group, shall not be capitalized for financial accounting purposes. Rather, the responsible operating department shall maintain control of these assets using a system suitable for doing so. Examples of asset groups (and the department responsible for them) which shall be inventoried and maintained separately from the Village’s fixed asset inventory include computers and related equipment (MIS Department), guns (Police), vehicles (Fleet Services) and any other asset group identified by the Director of Finance.

### **DEPRECIATION METHOD**

All assets will be depreciated using the straight-line method of depreciation over the useful life of the asset. The Director of Finance will assign useful lives to each asset according to the guidelines below:

<u>Type of Asset</u>	<u>Useful Life</u>
Buildings	30-50 Years
Vehicles and Equipment	3-15 Years
Land	Not Depreciated
Land Improvements	10-20 Years
Water & Sewer Infrastructure	20-50 Years
Other Infrastructure	20-50 Years



R E S O L U T I O N  
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A RESOLUTION AUTHORIZING ADOPTION OF ADDITIONS AND AMENDMENTS  
TO THE VILLAGE OF LOMBARD FINANCIAL POLICIES

WHEREAS, the President and Board of Trustees of the Village of Lombard, DuPage County, Illinois previously approved by Resolution 63-88 various financial policies approved by the Village Finance Committee, and

WHEREAS, Resolution 63-88 has in the past been amended by Resolutions 64-88, 13-94, 47-95, 58-95, 14-96, 98-96, 50-97, 97-98, 71-00, 69-02, 02-03, 142-03, 120-07, 85-09, 69-12, 129-13; 49-16; 65-16; 42-18; 19-21; 18-22; and

WHEREAS, the Finance Committee has reviewed and recommended to the Corporate Authorities additions or amendments to the policies as attached hereto; and

WHEREAS, these policies contribute to the continuity and credibility of administering public funds; and

WHEREAS, the Corporate Authorities deem it to be in the best interest of the Village of Lombard to approve such policies.

NOW, THEREFORE, BE IT RESOLVED BY THE PRESIDENT AND BOARD OF TRUSTEES OF THE VILLAGE OF LOMBARD, DU PAGE COUNTY, ILLINOIS as follows:

Section 1: That the amendments to the Village of Lombard Financial Policies are hereby approved.

Section 2: That the Director of Finance is hereby directed to implement said policies as approved.

Adopted this \_\_\_\_\_ day of \_\_\_\_\_, 2024

Ayes: \_\_\_\_\_

Nays: \_\_\_\_\_

Absent: \_\_\_\_\_

Approved this \_\_\_\_\_ day of \_\_\_\_\_, 2024

\_\_\_\_\_  
Keith Giagnorio  
Village President

ATTEST:

\_\_\_\_\_  
Elizabeth  
Village Clerk

APPROVAL AS TO FORM:

\_\_\_\_\_  
Jason Guisinger  
Village Attorney