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## **Financial Policies – June 16, 2009**

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### **I. Statement of Purpose**

These policies are designed to establish a framework for providing quality services to the community in an efficient and effective manner while maintaining long-term financial stability within the limitations established in the policies. These policies are reviewed, modified as appropriate, and adopted annually.

### **II. Basic Municipal Services Funded Through the General Operating Fund**

Municipal services such as public safety and public works are the City's first responsibility. These services should be funded to at least maintain current service levels. General Operating Fund transfers for traditional capital expenditures in the Capital Improvements Fund should be changed annually to maintain a constant level of commitment when adjusted for inflation. The transfer from the General Fund to the Capital Improvement Fund and the funds allocated to the Local Street Improvements project will be increased in accordance with the Construction Cost Index and allocated in accordance with standard practices for funding annual infrastructure maintenance projects. In addition, consideration of increasing funding proportionally to account for additional infrastructure related to growth will be reviewed annually with Council. The General Operating Fund and other funds, as appropriate, should provide transfers to equipment replacement funds to maintain equipment at least at current service levels.

### **III. Economic Development**

Economic Development Policies are adopted as a separate document, and are incorporated into the Financial Policies by reference.

### **IV. Parking Fund**

Resources of the Parking Fund should be used for the maintenance and development of parking facilities. Facilities development may be done in conjunction with economic development programs. The Parking Fund should reimburse the General Operating Fund for the cost of all services provided by the General Operating fund to the Parking Fund; such reimbursement should be limited to no more than 20% of Parking Fund revenues given the current level of services provided by the General Operating Fund.

**Campus Area Revenues:** Revenues from fee and fine increases and parking space rental in the campus area will be reserved for parking improvements in that area.

## V. Sanitary Sewer System

Revenues from the Sanitary Sewer Fee shall primarily support maintenance and rehabilitation of the City's sanitary sewer system, which will be accounted for on an enterprise fund basis in the Sewer Improvement Fund. However, the Council may supplement funding provided by sanitary sewer fees with general revenues. An accounting system will be implemented to ensure that all costs related to maintenance and rehabilitation, as well as engineering expenses, overhead costs, and costs incurred to administer the fees, will be paid from revenues raised through the fee.

The Sanitary Sewer Fee rate will be reviewed every other year. If the fee does not fully support maintenance and rehabilitation of the system, or if excess balances are projected, staff will recommend changes to the Council. Changes would be effective on the first day of even numbered calendar years, with review taking place as part of the budget development process for the fiscal year in which the change would be effective.

Up to 12% of revenue from the fee may also be allocated for expansion of the system on a reimbursable basis. Expansion projects will be budgeted in the Sewer Improvement Fund through the Capital Improvement Plan process. Reimbursement revenues will be credited to the Sewer Improvement Fund.

## VI. Neighborhood Wellness

The City is committed to developing and maintaining healthy neighborhoods through the Neighborhood Wellness Plan.

The following is a description of existing funds utilized to provide resources for neighborhood wellness activities and policies relative to the funds.

*Urban Renewal Funds:* The Urban Renewal Fund, which derives its revenues from a share of utility taxes, will be used for projects identified in cooperation with citizen groups or those determined to further the City's neighborhood wellness goals. Priority will be given to projects in Restoration and Preservation planning areas, as defined in the Neighborhood Wellness Plan. Funds will be budgeted for (1) the Neighborhood Infrastructure Repair Program which funds neighborhood improvement projects costing less than \$30,000 which can be completed in a single fiscal year; (2) neighborhood support and community outreach activities; (3) major structure demolition, particularly emergency demolition of fire-damaged structures or structures that must be cleared immediately for the protection of public health and safety; (4) the Neighborhood Small Grant Program, which provides grants to registered neighborhood groups to fund small scale neighborhood improvements and clean-ups – 100% grants are available up to a maximum of \$1,000 and 50% matching grants are available for projects costing between \$1,000 and \$5,000; (5) a grant program to assist low income families to paint the exterior of their homes; (6) costs related to the redevelopment of the Beardsley Park neighborhood under a plan adopted by Council in 1995 [CB No. 95-094] and later amended by Council in 2000 [CB No. 2000-306]; (7) costs associated with the prosecution of property maintenance code offenders; and (8) community service grants in an amount not to exceed 15% of the City's total annual CDBG allocation. Administrative costs in the Neighborhood Services Department will also be paid from this fund.

*Community Development Block Grant Fund:* These funds are received annually by the City from the federal government to address affordable housing and community development needs that have been identified in the Consolidated Plan and Neighborhood Wellness Plan. This fund is used to support Neighborhood Improvement Initiatives which may include new capital improvement projects or community programming initiatives that support or respond to the needs of the City's low- to moderate-income neighborhoods and citizens. The Community Development Fund should be largely dedicated as an operating fund.

*HOME Fund:* These funds are received from the federal government through a consortium that includes the City of Champaign, the City of Urbana, and Champaign County. HOME funds are used for the development of affordable housing projects as identified in the City's Consolidated Plan and Neighborhood Wellness Plan. The City must provide a 25% local match for these funds. The City currently uses recaptured UDAG funding and a grant from the Federal Home Loan Bank as the match for its HOME allocation. Some funding is restricted to target areas of the City with the highest percentage of low-income households and those in most need of public investment.

## VII. Debt Management

Special Note: A formal Debt Management Policy was adopted by City Council on October 2, 2001 (Council Bill No. 2001-0246).

## VIII. Capital Improvements

Capital Improvement Policies are adopted as a separate document, and are incorporated into the Financial Policies by reference.

## IX. Budget Guidelines

The following policies are established as more specific guidance to the budget development process:

*Item No. 1:* Balanced budget means that expenditures do not exceed available resources, including fund balances and reserves, and the budget meets all other applicable policies.

*Item No. 2:* Authorized expenditures to support ongoing operations shall be less than recurring revenues anticipated for the same period. A target of recurring expenditures at 98.5% of recurring revenues shall be used in preparing the proposed budget. In addition, .5% of recurring revenues will be allocated to a City facility reserve.

*Item No. 3:* Non-recurring revenues shall be applied toward non-recurring expenditures (capital improvements, capital outlay for major equipment and discretionary activities such as economic development). As an extension of this general policy, fund reserves carried from the prior year shall be expended only for non-recurring projects.

*Item No. 4:* Adequate reserves shall be maintained for all known liabilities, including anticipated employee leave and separation expenses, worker's compensation and self-insured retention limits.

*Item No. 5:* When equipment is to be acquired, fiscal arrangements should be appropriate for each particular circumstance. For equipment to be permanently acquired, financing through lease-purchase shall be considered whenever the financing cost is determined to be less than the interest that can be earned on city cash assets. Flexible arrangements (i.e., rental) may be used when equipment needs are not permanent, or when changing needs or technologies may make the equipment obsolete. Replacement schedules for all major equipment should be established, and funds set aside annually in an amount sufficient to allow replacement of such equipment at the end of its useful life.

*Item No. 6:* To provide for exigencies, working cash, and as a safeguard against fluctuating revenues, adopted budgets for the General Operating and Parking Funds shall include a Fund Balance Contingency of no less than 10% of expenditures excluding transfers. This shall be in addition to any amounts that may be budgeted for specific purposes (e.g., Salaries Contingency) and shall not be available for expenditure except by City Council action. Budget amendments taking place through the course of the Fiscal Year may cause the contingency to drop below this level. In any case, contingencies for these funds shall not fall below 9% except in the event of a catastrophic need.

*Item No. 7:* The City employees are paid on a bi-weekly basis, which typically results in 26 payrolls during one fiscal year. Every 11 years there are 27 pay periods resulting in additional expenses that year. A reserve has been established and a specific amount is added to this reserve annually to build up enough funds to cover the additional expenses when needed.

*Item No. 8:* Special contingencies should be established where unusual events and needs are anticipated.

*Item No. 9:* The proposed budget for the General Operating Fund will be limited as follows:

- expenditures for personnel services (salaries and benefits) may be increased in accordance with approved labor contracts; for non-bargaining unit employees increases will be as approved by Council consistent with the past practice of keeping non-bargaining unit compensation increases consistent with increases for bargaining unit employees
- expenditures for items other than salaries and benefits to maintain current service levels may not be increased more than the rate of inflation which will be determined by the Consumer Price Index for the Midwest Size B/C classification for the most recent calendar year with the exception of unavoidable increases in expenditures, such as sharp increases in energy costs and financial commitments previously made by the City Council.
- other expenditures may be included in the proposed budget subject to available resources. Such expenditures would be based on Council goals and funding priorities and would be prioritized by the following criteria:

1. mandatory legal or moral commitments that cannot be funded within the target level budget (this means that the department should make a good faith effort to fund it within the target level before requesting additional funds)
  2. any expenditure that generates a recurring savings or revenue that at least offsets the cost (e.g., the red LED for traffic signals was a one-time expense that reduced the City's electricity costs on an ongoing basis)
  3. one-time expenditures which improve safety
  4. additional expenditures required to maintain current service levels due to an extraordinary increase in costs (e.g., increased energy costs, specialty items, etc.)
  5. additional funding needed to cover expenditures related to growth, improved service to citizens or other special circumstances.
- all new or increased expenditures must be clearly identified as such in the budget memo titled "Supplemental Budget Requests" that is submitted annually along with the Proposed Budget for Council review.

*Item No. 10:* The proposed budget for operating departments will be limited as follows:

- expenditures for employee professional development will be at least 9/10ths of one percent of full-time and part-time salaries and will be expended consistent with department training plans;

*Item No. 11:* A Department Cost Savings Plan has been adopted. Under this plan one-half of budgeted savings from the prior fiscal year for non-personnel items excluding items whose costs are outside of the department's control are identified as eligible savings. 75% of those savings are allocated back to the department that generated the savings and 25% is pooled to be allocated by the City Manager for projects benefiting multiple departments or the City as a whole. The funds allocated under this plan may only be spent for non-recurring expenditures, which further the department's mission, with approval of the City Manager. Savings for the following areas only vary from this formula:

- Snow and Ice: 100% of savings in the Snow & Ice budget will be reallocated to that activity. These savings will be used first for snow & ice or other emergency response expenditures; savings remaining at the end of the fiscal year could be used to supplement infrastructure maintenance.
- If any savings are identified in the Fire Department non-discretionary overtime, 100% is allocated back to handle shortfalls in future years. These funds cannot be used for any other purpose, including discretionary overtime.
- Library: City and Library staffs have developed an alternate calculation for savings incentives for the Library, in recognition of its semi-independent status. This calculation is detailed in the document entitled "City-Library Agreement – Savings Incentives," which is dated November 5, 1999.

*Item No. 12:* Finance staff will develop a budget schedule on an annual basis. This schedule will document the budget process in a detailed format and will be completed by November 30.

*Item No. 13:* Each Department will prepare a service plan at the beginning of the budget process. This service plan will include an explanation of current level services, as well as changes in service levels, and productivity or efficiency initiatives.

*Item No. 14:* The City may consider loans to external parties on a case-by-case basis to finance high priority projects that would not otherwise take place. Loans will generally be made from the City's Treasury Fund (the pooled cash account). However, loans that entail risks inconsistent with the investment objectives of the Treasury Fund might be made directly by another appropriate fund, such as a fund established to promote economic or neighborhood development. When making loans from the Treasury Fund, the City will identify the fund that would take the loss if the loan were not repaid. Loans from the Treasury Fund will be repaid with interest at a rate similar to the average rate of interest earned by the Treasury Fund.

## X. Revenues

This section discusses general policies related to revenue. Other sections of this document contain references to specific revenues, along with discussion of the related revenues.

*Item No. 1:* For any proposed additional revenue source, Council will consider the following criteria:

- Community acceptability;
- Competitiveness, the revenue or tax burden of Champaign relative to neighboring communities;
- Diversity, the balance of revenue sources that can withstand changes in the business cycle;
- Efficiency, the cost of administering a tax or fee should bear a reasonable relation to revenues collected, and any new tax or fee should have minimal effect on private economic decisions;
- Fairness, the distribution of the City's revenue burden as measured by ability to pay, the benefits received or the community's definition of the resident's fair share of the revenue burden.

*Item No. 2:* The City recognizes that to provide quality services, revenues must keep pace with increases in service demands and service costs. At times, particular revenues may decline due to legislative, or regulatory changes, or a judicial decision beyond the City's control. When such changes take place, the City would revise the affected tax or fee to restore the lost funds. Such changes might include broadening the specific revenue base and/or increasing a fee or tax rate. The City would attempt to make such revisions revenue-neutral, and to minimize any change in who pays the taxes or fees in question.

*Item No. 3: Private Participation:* It is appropriate to use City funds to stimulate private investment, particularly since some public funding sources are shrinking. Council has adopted Infrastructure Cost-Sharing Policies, which will be followed by staff in recommending infrastructure improvements. The Infrastructure Cost Sharing Policies are adopted as a separate document, and are incorporated into the Financial Policies by reference. If for any reason, staff recommendations do not adhere to these policies, exceptions will be specifically noted for Council review.

*Item No. 4: Property Tax Policy:*

a. Overall Rate.

It is the City's goal to maintain current service levels with a property tax rate not to exceed \$1.50 per \$100 of equalized assessed valuation (EAV). For financial planning purposes, staff will use the most recent final extended tax rate. During the annual tax levy preparation process, Council may decide to levy an amount that would result in a tax rate different from the prior year's final extended rate, taking into consideration the factors and uses of the revenues discussed below. Increased service levels may warrant increasing the tax rate, while other factors may warrant decreasing the rate. In addition, trends in federal and state government may require that the revenues received from property taxes, and thus the tax rate goal, be reviewed in the future. These trends include:

- i. decreases in federal revenues,
- ii. general inflation which increases the cost of municipal services,
- iii. changes in federal and/or state tax law, such as increased property tax exemptions.
- iv. mandates by the state and federal governments, which increase the cost of municipal services or impose new services, such as recently enacted state legislation which would increase pension benefits, and thus personnel services expenses, for commissioned public safety employees.
- v. slowdown or decrease in other revenues that would otherwise result in cutting baseline services

Factors which may warrant a decrease in the property tax rate include:

- i. any other source of new, recurring revenue,
- ii. a reduced cost for providing current services,
- iii. a reduction in services funded through the levy, e.g., Library operations, were this function assumed by a library district.

b. Base Levy Purposes.

The City will first allocate property tax revenues to fund "base" purposes as listed below. These are in priority order, reflecting State mandates, agreement(s) into which the City has entered, and

other Council policies. Any funds that remain after funding base needs will be allocated to “additional” purposes as described in section c) below.

- i. *Pension Funding:* The City will levy property taxes for Police, Fire and Illinois Municipal Retirement Funds to meet pension funding needs as described in Section XI, Personnel Benefits.
- ii. *Library Funding:* The City will levy a target tax rate of \$0.3940 per \$100 of equalized assessed valuation (EAV) for funding Library operations and a target property tax rate of \$0.0282 per \$100 of equalized assessed valuation (EAV) for funding Library improvements, pursuant to an agreement with the Library Board of Trustees.

A portion of the property tax receipts for the Library Improvement Fund and the Library Operating Fund are designated for the Main Library Building project debt service and project costs in accordance with the plan of finance for the building construction, and the Library-City Cooperative Agreement, as amended. The City Council approves expenditures for these funds each year through adoption of the Capital Improvement Plan and annual Library budget.

- iii. *Capital Improvements Funding:* The City will levy the amount levied the prior year (less any “additional” amount levied the prior year, if any) plus the percentage increase in the Construction Cost Index for the most recent calendar year for capital improvements. In addition, during each year’s budget process, the City may consider supplementing capital spending to compensate for increases in infrastructure maintained by the City due to growth.
- iv. *Corporate Tax Levy:* “Corporate” levy revenues are allocated to the General Operating Fund. The amount levied is determined by increasing the prior year levy by the annual increase in the City’s operating costs. Council could allocate an additional portion of the overall levy to corporate purposes if a slowdown in other revenues would otherwise result in cutting baseline services.

#### c. Additional Levy Purposes

Once base levy purposes have been funded, the City Council will consider levying for the following purposes, which are not necessarily listed in order of priority:

- i. *Arterial Streets.* Additional funding may be provided for arterial street improvements. The minimum target for such additional funding is \$500,000. The specific use of the funds would be determined during the annual Capital Improvement planning process.
- ii. *Pension Funding.* Additional funding may be provided to pension funds whose assets are less than 90% of fund liabilities. The minimum goal for such additional funding is \$250,000. The supplemental amount would be prorated to such funds based on the dollar amount of the respective fund’s unfunded liability.

In addition, if the base levy and supplemental levy (if any) were lower than the prior year’s levy for any pension fund, additional funds may be provided to bring the fund’s pension levy to the prior year’s level.

- iii. Other Additional Amounts. Additional funding may be provided to capital improvements other than arterial streets and/or to operating needs. No specific goals are established for such additional amounts.

*Item No. 5:* Revenues generated from programs or services should be taken into account when evaluating the cost-effectiveness of the program or service, if the revenues would not be received without those programs or services. For example, a service might be deemed cost-effective if part of the related costs were offset by user fees, but not cost-effective if the City were to fund the program fully from general revenues without user fees.

*Item No. 6:* Grant revenues shall be pursued to provide or enhance City services. However, recurring activities shall be initiated with grant funds only if one of the following conditions is met:

- the activity can be terminated in the event that the grant revenues are discontinued, or
- the activity should and can be assumed within recurring City funds in the event the grant revenues are discontinued.

*Item No. 7:* User fees: User fees are appropriate when services are not “basic” or when specific beneficiaries and their relative level of benefit can be identified. “Basic services” are those, which the City wishes to provide to all citizens. An individual may not forego these services because of the potential impact on public health, safety or welfare. A service which provides benefit to the entire community and for which the benefit to specific users cannot be measured, or the cost of measuring the benefit to specific users would be prohibitive (e.g., street maintenance) should be funded from general revenues.

Types of Services, which may be funded by User Fees:

- a service which provides benefits to a limited group, but provides little or no general benefit to the community (e.g., document reproduction, alarm registration fee)
  - cost recovery: all direct and indirect costs
  - rate structure: flat rate per unit of service
- a service provides potential benefit to all members of the community and the benefit to each user can be measured or fairly approximated (e.g., sewer system maintenance, building permits, most licenses and permits except those used by a targeted group)
  - cost recovery: all direct costs
  - rate structure: based on level of service (e.g., volume, frequency) or flat rate for licenses and permits

“Direct costs” include all costs of performing the service, regulating the activity being licensed and collecting the fee, including staff time and benefits.

“Indirect costs” include a proportionate share of budgeted expenditures for administrative services, and overhead costs such as insurance and building maintenance.

For any proposed fee, staff will provide an assessment of the socio-economic impact of the fee on users. The City Council may choose not to charge a fee if it would prohibit low or fixed income groups from using City services.

- Council may opt not to charge a fee if it would be in conflict with accomplishing public policy objectives (e.g., fire inspections).
- If the cost of administering and collecting a fee is disproportionately high in relation to the cost of providing the service, the service may be funded from general revenues.
- In recommending an appropriate rate, staff will consider similar fees charged by other jurisdictions in close proximity and of similar size, with similar operations. Where the City service is in direct competition with the private sector, e.g., parking, City’s fees should be competitive unless there is a specific public purpose achieved by leading or following market rates.

**Citizen Participation:** A public hearing will be held before any new fee is instituted. City staff will also make a reasonable attempt to contact specific parties directly by means of meetings and/or document review.

**Current Services Funded from New User Fees:** When any fee is instituted to fund services currently funded from general revenues, the City will consider whether general revenues should be reduced accordingly, or whether those revenues should be targeted to some identified purpose.

User fees will be reviewed at least once every five years to ensure that the fees capture revenue consistent with the user fee policies.

*Item No. 8:* Tax Increases Effective January 1, 2005. The revenues generated by the Home-Rule and Telecommunication tax increases, effective January 1, 2005, are being deposited in the General Fund and are used for fire services, construction of a new main library building and increases in neighborhood street maintenance. The City will pay debt service costs for the new main Library building to the extent that such costs cannot be paid from the Library Improvement Fund or the Library Operating Fund. The City’s costs will be paid from the General Fund. After the Library bonds have been fully repaid, Council could consider whether or not to terminate the revenue sources used to pay debt service expenditures to the extent that they are related to the tax increase effective January 1, 2005.

*Item No. 9:* Twenty percent (20%) of revenue raised from the 1.25% local sales tax will be transferred annually from the General Operating Fund to the Stormwater Management Fund. The transfer provides ongoing funding for storm sewer rehabilitation projects.

Pension Funds: The benefit provisions and certain minimum actuarial requirements of the police and fire pension plans are governed by state statute. To ensure the most timely and accurate review of funding requirements for these plans, the City shall provide for annual actuarial studies by a private actuary. The City Administration should attempt to conduct and fund these studies in cooperation with the pension board of each fund.

The City will, at a minimum, fund the police and fire pension plans in the amounts of the Annual Required Contributions (ARC) determined by the annual actuarial studies prepared with the City's concurrence or at the City's direction. The City will consider funding the police and/or fire pension funds at higher levels during years in which the City has or expects to have discretionary funds available. In considering such additional funding, the City will generally give greater consideration to funds with lower funding levels (measured by assets as a percent of liabilities).

State statute requires that municipalities amortize any unfunded liabilities of its police and fire pension funds through the year 2033. However, the City will amortize any unfunded liabilities of its police and fire pension funds through 2020, except that the City may amortize liabilities created by any state-mandated pension benefit increases enacted after June 30, 2004, over a longer period of time, but not longer than the period required by state statute.

Illinois Municipal Retirement Fund (IMRF) and FICA costs are allocated to the budget activities in which the related salary expenditures are recorded. Funding requirements are calculated by Finance Department staff as part of the property tax levy process. Most IMRF and FICA costs are funded by the City's IMRF/FICA property tax levy. Several City funds (e.g., Library and Sewer Improvement) pay their IMRF/FICA costs from revenues dedicated to those funds.

As required by state statute, the City will make such contributions to IMRF as determined by IMRF.

#### Health Insurance:

1. Provision of Employee Health Insurance Coverage. The City of Champaign will provide health insurance coverage for its employees at no cost. The City may consult with employees regarding the health insurance provider, but has sole discretion to decide the provider.
2. Provision of Dependent Health Insurance Coverage. Should the City decide to offer more than one "tier" of dependent coverage (e.g., employee plus one dependent as one tier, and employee plus family as another tier) based on input from employee groups and other entities that purchase employee health insurance in cooperation with the City, the actual City/employee cost split for each premium tier shall be the same as the overall City/employee cost split.
3. Provision of Retiree Health Insurance Coverage. The City will offer its retirees access to post-retirement health care coverage consistent with state law. "Retirees" shall be defined consistent with state law.

The Investment Policy was adopted as a separate document, and is incorporated into the Financial Policies by reference. The Investment Policy includes provisions regarding periodic review.

### XIII. Community Service Grant Program

The Champaign City Council can, at its discretion, allocate funding to local social service agencies through the Community Service Grant Program. This program is funded using an amount equal to 15% of the City's annual Community Development Block Grant allocation. The source of funds allocated to support this level of funding is the Urban Renewal Fund. Under this program, the maximum amount of funds to be allocated from all sources shall not exceed \$150,000. The Community Service Grant awards are determined as a part of the preparation of the *Consolidated Plan*. Agencies may submit proposals for funding consideration by the City Council in an amount not to exceed \$20,000 per proposal. Priorities for funding are set annually by the City Council.