# FINANCIAL POLICIES

This section contains the financial policies which guide the operations of the Village. From time to time, new policies or changes to existing policies are recommended by the Finance Committee and approved by the Village Board.

# FINANCIAL POLICIES

## ACCOUNTING, AUDITING & FINANCIAL REPORTING POLICY - Adopted December 3, 1987

1. The Village of Lombard's accounting records for general government operations are maintained on a modified accrual basis, with revenues recorded when measurable and available and expenditures recorded when the services of goods are received and liabilities incurred. Accounting records for the Village's pension plans and enterprise funds are maintained on an accrual basis with revenues recorded when earned and expenses recorded when the liabilities are incurred. In developing and modifying the Village's accounting system, consideration is given to adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable but not absolute assurance that assets are safe guarded and financial records reliable.

2. The Village will produce annual financial reports in accordance with generally accepted accounting practices as outlined by the Governmental Accounting Standards Board.

3. An independent audit will be performed annually.

## CAPITAL BUDGET POLICY - Adopted December 3, 1987; Revised May 3, 2007; Revised July 21, 2016

The Village will develop a multi-year plan for capital improvements updated annually and will budget all capital improvements in accordance with the plan. Various funding sources including sales tax, motor fuel tax, a portion of water and sewer revenues, telecommunication and utility taxes, public benefit and TIF property tax will be allocated to support these improvements. In addition, the Village will consider long-term debt borrowing for projects where applicable. The Village will maintain its physical assets at a level adequate to protect the capital investment and to minimize future maintenance and replacement cost.

The operating budget will provide for adequate maintenance and orderly replacement of the capital plant and equipment from current revenues where possible. Prior to any approval of a project, a financial analysis shall be required that analyzes the long-term sustainability of funding from Village resources. Any operating and maintenance (O&M) costs associated with the completed project must be identified along with the proposed source for funding the O&M costs prior to approval of the project.

Capital investment objectives will be prioritized by the Village Board and appropriately reflected in the capital budget.

## CASH MANAGEMENT - Adopted July 22, 1993; Revised May 1, 2003

In order to properly manage the funds of the Village and the commingled cash accounts that the Village maintains it is necessary that from time to time interfund loans and transfers may be needed to cover negative cash balances. The Director of Finance is authorized to make such interfund loans and transfers as necessary in order to eliminate negative cash balances.

Such loans and transfers shall be recorded on the books and records of the Village and shall be audited as part of the Annual Village audit. Beginning June 1, 2003, any funds with negative cash balances or interfund loans will be charged interest expense.

**CHANGE ORDERS – Adopted February 16, 1995; Revised May 1, 2003; Revised November 3, 2005**

State statute requires Village Board approval of all change orders for $10,000 or more and for all change orders which, when combined with those previously approved, increase or reduce the contract price by more than $10,000. For projects with change orders exceeding 50% of the original contract amount, the contract must be rebid per state statute. The following financial policy is consistent with this statute.

It shall be the responsibility of each Department Head to ensure that all change orders are submitted to the Village Manager or Village Board for approval. In addition, Department Heads shall be responsible for monitoring all contract payouts and retainages and ensuring that the amount of the change order is correct.

Where a change order requires the approval of the Public Works Committee or Board of Local Improvements, approval shall be received prior to submitting the change order to the Village Board or Village Manager. Departments shall follow the procedures established by the Public Works Department for submitting change orders to these boards and committees.

The procedures outlined below shall not apply to professional service contracts (e.g. engineering, architectural or land surveying work). Changes to professional service contracts shall be treated as contract amendments.

**1. Change Orders Increasing or Reducing the Contract Price - Original Contracts for Less Than $40,000*:***

a. Change Orders To Contracts for Less Than $40,000 which Increase or Reduce the Contract Price by Less Than 25%:

Change orders to contracts for less than $40,000 which do not exceed 25% of the original contract price may be approved by the Village Manager or his/her designee. Departments may receive approval by submitting a purchase requisition for the amount of the change order and a "Village of Lombard Change Order Form" to the Assistant Finance Director who will review it for completeness and accuracy. Upon approval by the Assistant Finance Director, the change order will be forwarded to the Director of Finance and Village Manager for final approval.

Note: A change order (and all subsequent change orders) must be submitted to the Village Board for approval if it increases or reduces an original contract for $40,000 or more by more than 25% when combined with all other change orders previously approved. In these instances, departments shall be responsible for following the procedures described below for submitting change orders to the Village Board.

b. Change Orders To Contracts for Less Than $40,000 which Increase or Reduce the Contract Price By 25% Or More:

Change orders which increase or reduce a contract for less than $40,000 by 25% or more (of the original contract price) must receive the approval of both the Village Manager and Village Board. In these cases, departments shall follow the procedures outlined below for submitting change orders to the Village Board. Change orders may not exceed 50% of the original contract amount without rebidding the project.

**2. Change Orders Increasing or Reducing the Contract Price - Original Contracts for $40,000 or More:**

a. Change Orders To Contracts For $40,000 Or More Which Increase Or Reduce The Contract Price By Less Than $10,000:

Change orders which increase or reduce an original contract for $40,000 or more by less than $10,000 require only the approval of the Village Manager or his/her designee. Departments may receive approval by submitting a purchase requisition for the amount of the change order and a “Village of Lombard Change Order Form” to the Assistant Finance Director who will review it for completeness and accuracy. Upon approval by the Assistant Finance Director, the change order will be forwarded to the Director of Finance and Village Manager for final approval.

Note: A change order (and all subsequent change orders) must be submitted to the Village Board for approval if it increases or reduces the original contract for $40,000 or more by more than $10,000 when combined with all other change orders previously approved. In these instances, Departments shall be responsible for following the procedures described below for submitting change orders to the Village Board.

b. Change Orders To Contracts For $40,000 Or More Which Increase Or Reduce The Contract Price By More Than $10,000:

Change orders which increase or reduce the contract price by more than $10,000 require the approval of the Village Manager and Village Board.

In these instances, departments should follow the procedures for submitting change orders to the Village Board outlined below. Change orders may not exceed 50% of the original contract amount without rebidding the project.

**3. Change Orders Increasing or Reducing the Time for Completion of a Contract:**

a. Change Orders Increasing or Reducing the Time for Completion of the Contract by Less Than 30 Days

Change orders which increase or reduce the time for completion of a contract (regardless of the original contract price) by less than 30 days require only the approval of the Village Manager. Departments may receive approval by submitting a Village of Lombard Change Order Form directly to the Village Manager for approval.

Note: A change order (and all subsequent change orders) must be submitted to the Village Board for approval if it increases or reduces the time for completion of the contract by more than 30 days when combined with all other change orders previously approved. In these instances, departments shall be responsible for following the procedures outlined below for submitting change orders to the Village Board.

b. Change Orders Which Increase or Reduce the Time for Completion of the Contract by More Than 30 Days

Change orders which increase or reduce the time for completion of the contract by more than 30 days (regardless of the original contract price) require Village Board approval. In these instances, departments shall follow the procedures for submitting change orders to the Village Board outlined below.

<u>PROCEDURES FOR SUBMITTING CHANGE ORDERS TO THE VILLAGE BOARD</u>

Change orders requiring Village Board approval shall be placed on the Village Board's consent agenda and shall be accompanied by the following:

1. A purchase requisition for the amount of the change order (except with change orders dealing with time.) Purchase requisitions shall identify the appropriate budget account(s) and project(s) to be charged

2. Board of Trustees' Action Request Form

3. Village of Lombard Change Order Form and

4. A memorandum explaining the need for the contract revision. If a change order for less than $10,000 is submitted to the Village Board for approval, departments shall explain that Village Board approval is necessary because the total value of all change orders exceeds $10,000.

Change orders shall be numbered sequentially and shall bear the signature of the Department Head. In instances where a final balancing change order (regardless of the amount) reduces the contract price, departments shall instruct Finance to close out the remaining encumbered funds.

In special circumstances, a change order requiring Village Board approval may be authorized by the Village Manager or his/her designee prior to being placed on the Village Board agenda.  After receiving authorization, however, the department, following the requirements outlined above, shall place the change order on the Village Board's agenda for the following meeting.

**COLLECTION - Adopted December 3, 1987**

The Village will take an aggressive approach in pursuing all revenues due for services provided, and ensure that fines and permits due the Village are collected in a reasonable fashion.  This policy will hold true for revenues generated in operating, enterprise, and special revenue funds.

**CONSERVATIVE BUDGETING POLICY – Adopted July 21, 2016**

The Village should budget conservatively (budget revenues low and expenses high) and the Multi-Year Financial Forecast will be updated annually.

**DEBT MANAGEMENT - Adopted December 3, 1987; Revised June 21, 2018**

**I. PURPOSE**

This Debt Policy sets forth comprehensive guidelines for the financing of capital expenditures by the Village. It is the objective of this Debt Policy that: (1) the process for identifying the timing and amount of debt or other financing be as efficient as possible; (2) the most favorable interest rate and other related costs be obtained; and (3) when appropriate, future financial flexibility be maintained.
Debt financing, which includes general obligation bonds, limited bonds, alternate bonds, special assessment bonds, special service area bonds, tax increment bonds, promissory notes, installment contracts, leases, debt certificates and other Village obligations permitted to be issued or incurred under Illinois law, shall only be used to finance capital expenditures that cannot be funded from either available current revenues or fund balances in a manner that maintains the financial health, feasibility and liquidity of the Village. The useful life of the asset or project shall exceed the length of debt service of any debt the Village assumes relative to the asset or the project.
To enhance creditworthiness and prudent financial management, the Village is committed to systematic long-term capital planning and financial planning. Evidence of this commitment to capital and financial planning will be demonstrated through the annual adoption of a Capital Improvement Plan (CIP) identifying the benefits, costs and method of funding each capital improvement planned for the succeeding ten years.

**II. GOALS**

Pursuant to this Debt Policy, the Village shall pursue the following goals when issuing debt:

- Long-term debt will not be used to finance current operations or to capitalize operating expenses. The capitalization of expenses, which represents a shift of operating costs into long-term debt, should be a practice that is expressly prohibited.

- Long-term debt will be used only for capital projects that cannot be financed from current revenue sources. Where capital improvements or acquisitions are financed through the issuance of debt, such debt will be retired over a period not to exceed the expected life of the improvement or acquisition.

- Assess financial alternatives including new and innovative financing approaches as well as categorical grants, revolving loans or other state/federal aid.

- Long-term debt will be used for refunding of other outstanding debt. As a guide, the minimum net present value savings, inclusive of all reissuance costs, shall be three percent (3%) of the par value of the bonds being refunded. However, circumstances may occur when a refunding may be advantageous with net present value savings of less than 3%. In those cases, approval of the Village Board will be required in order to proceed.

- Determine the amortization (maturity) schedule for general obligation bonds which will best fit with the overall debt structure of the Village's existing general obligation debt and related tax levy at the time the new debt is issued. The Village may choose to delay principal payments or capitalize interest during project construction. For issuance of revenue bonds, determine the amortization schedule which will best fit with the overall debt structure of the enterprise fund and its related rate structure. Consideration will be given to coordinating the length of the issue with the useful lives of the assets, while considering repair and replacement costs of those assets to be incurred in future years as an offset to the useful lives, and the related length of time in the debt service structure.

- Level or declining debt service shall be employed unless operational matters dictate otherwise, or to achieve overall level debt service with existing bonds.

- Under Section 265(b)(3) of the Tax Code, banks and certain other financial institutions are not allowed any deduction for interest expense attributable to tax-exempt debt acquired after August 7, 1986, unless the "small issuer exception" applies. If the Village issues less than $10,000,000 of tax-exempt debt during a calendar year and designates the debt as a "qualified tax-exempt obligation" pursuant to said Section 265(b)(3), the restriction on the deduction for interest expense does not apply. The Village shall be mindful of the potential cost-savings benefits of bank qualification and will strive to limit its annual issuance of debt to $10 million or less when such estimated benefits are greater than the benefits of exceeding the bank qualification limit. Should subsequent changes in the law raise this limit, then the Village policy will be adjusted accordingly.

- The cost of taxable debt is higher than for tax-exempt debt. However, the issuance of taxable debt is mandated in some circumstances (for example, for the advance refunding of bonds) and may allow valuable flexibility in the use of bond-financed property, including in subsequent contracts with users or managers of the improvement constructed with the bond proceeds. Therefore, the Village will strive to issue tax exempt obligations whenever possible, but may occasionally issue taxable obligations.

- Any exceptions to this policy will require Village Board approval.

## III. DEBT ISSUANCE IN GENERAL

### A. Authority and Purposes of the Issuance of Debt

The Village has the authority to borrow money and issue debt. The Village's debt must be issued (a) for lawful public and corporate purposes; (b) subject to constitutional, statutory, or other limitations (such as debt limitations); and (c) pursuant to proper constitutional, statutory, or other procedures (including holding its meetings in accordance with the Open Meetings Act, as amended, or holding a public hearing prior to issuing non-referendum general obligation bonds, including alternate bonds or limited bonds, in accordance with the Bond Issue Notification Act, as amended).

### B. Types of Debt Issued

i) Short-Term (three years or less) The Village may issue short-term debt to finance the purchase of capital equipment having a life exceeding one year or to provide increased flexibility in financing programs.
ii) Long-Term (more than three years) The Village may issue long-term debt which may include, but is not limited to, those debt instruments listed in the second paragraph under "Purpose" above.

### C. Capital Improvement Program

The CIP as approved by the Village Board shall determine the Village's capital needs. The CIP may be adjusted if the Village Board determines additional funding is required. The CIP shall be a ten-year plan for the acquisition, development and/or improvement of the Village's infrastructure. The first year of the program shall be the Capital Budget. If the current resources are insufficient to meet the needs identified in the Capital Budget, the Village Board may consider incurring debt to fund the shortfall. The Village Board, upon advice from the Village's financial advisor, may also consider funding multiple years of the CIP by incurring debt. The CIP should be revised and supplemented each year in keeping with the Village's policies on debt management.

### D. Structure of Debt Issues

The duration of a debt issue shall not exceed the economic or useful life of the improvement or asset that the issue is financing. The Village shall design the financing schedule and repayment of the debt so as to take best advantage of market conditions and, as practical, to recapture or maximize its credit capacity for future use, and moderate the impact to the taxpayer or ratepayers within the Village.

### E. Method of Sale

All debt issues should be sold through a competitive bidding process based upon the lowest offered True Interest Cost (TIC), unless the Village Board deems a negotiated sale the most advantageous to the Village.

**F. Credit Enhancements**

In connection with the issuance of its bonds, the Village may enter into an agreement with commercial banks or other financial entities to provide additional security or liquidity, or both, for the bonds ("Credit Agreement"), including municipal bond insurance, letters of credit, lines of credit, standby bond purchase agreements and surety bonds. The term of the Credit Agreement may not exceed the term of the bonds, plus any time period necessary to cure any defaults under such agreements. The Village Board shall approve any Credit Agreement upon the determination that such Credit Agreement is cost effective or otherwise advantageous to the Village.

**G. Other Considerations**

The Village is authorized to incur certain types of debt without voter approval that is not backed by the full faith and credit of the Village, but instead the Village's pledge of annual appropriation. Generally, this type of debt is first secured by the revenues of the particular project. If these revenues are insufficient, the Village pledges an annual appropriation from general revenues. The rating agencies consider the annual appropriation pledge as a very serious commitment of the Village, which is reflected in the credit quality of the debt. Failure to appropriate on any given bond issue would likely lead to a significant downgrading of the Village's credit rating. While the Village Board has the legal authority to appropriate under this type of debt on an annual basis, the Village enters into annual appropriation debt with the full expectation of making whatever annual appropriations are necessary to fund debt service on a timely basis. The Village Board should give serious consideration to the Village's ability to appropriate for up to the full amount of the debt service prior to incurring this type of debt.

## IV. LEGAL CONSTRAINTS AND OTHER LIMITATIONS ON THE ISSUANCE OF DEBT

The Village Board will utilize the guidelines established by this Debt Policy in incurring debt. The validity of any debt incurred in accordance with applicable law shall not be invalidated, impaired or otherwise affected by non-compliance with any part of the procedure set forth pursuant to this Debt Policy.

**A. State Law**

The Village has the authority to contract debt, borrow money, and issue bonds and other debt for public improvement projects, as allowed by the Illinois Constitution and state law, as amended from time to time.

**B. Authority for Debt**

All debt of the Village shall be authorized by an ordinance approved by the Village Board. In the ordinance, the Village Board shall reaffirm the findings concerning the means of authorization of the bonds or other debt; set forth the terms of the sale, including the maturity schedule and the interest rates; prescribe the form of the respective debt instrument and levy taxes, as applicable, sufficient to retire the debt. Under the Debt Reform Act, bond ordinances become effective immediately without publication or posting or any further act or requirement, except for ordinances required to be published by applicable law in connection with a backdoor referendum.

## C. Debt Limitation

Under Section 8-5-1 of the Municipal Code, the debt limit for the Village is 8.625% of the equalized assessed valuation of all of the taxable property located within the boundaries of the Village. General obligation bonds, limited bonds, promissory notes, installment contracts, leases and debt certificates are generally subject to the debt limit. Revenue bonds, alternate bonds (unless taxes are extended to pay the alternate bonds), special assessment bonds, special service area bonds, tax increment bonds and bonds that finance water or wastewater treatment facilities mandated by a compliance order are not subject to the debt limit of the Village.

## D. Capitalized Interest

Section 9 of the Debt Reform Act allows the Village to use bond proceeds to pay capitalized interest on its bonds for a period not to exceed the greater of: (1) two years or (2) a period ending six months after the estimated date of (a) completion of the acquisition and construction of the project or (b) accomplishment of the purpose for which the bonds are issued. The Village Board may provide for such capitalized interest in the ordinance authorizing the bonds.

## E. Issuance Costs

Under Section 6 of the Debt Reform Act, whenever the Village is authorized to issue bonds without referendum, the Village Board may add issuance costs (including underwriter's discount, bond insurance or other credit enhancement costs) to the estimated costs of the project and may pay such costs from bond proceeds.

## F. Discount Bonds

Section 10 of the Debt Reform Act permits the Village to sell bonds at a discount. Whenever bonds are sold at a discount, the bonds must be sold at a price and bear interest at such rate or rates so that either the true interest cost (yield) or the net interest rate received upon the sale of the bonds does not exceed the maximum rate otherwise authorized by applicable law.

## G. Additional Pledge

Section 13 of the Debt Reform Act authorizes the Village to pledge, as additional security for the payment of its bonds, any of the following: (i) revenues derived from the operation of any utility system or revenue-producing enterprise; (ii) money deposited or to be deposited in a special fund of the Village; (iii) grants or other revenues or taxes expected to be received from the state or federal government, including sales, use, or utility taxes; (iv) special assessment to be collected with respect to a local improvement financed with the proceeds of bonds; or (v) payments to be made by another governmental unit pursuant to a service, user, or other similar agreement. Pursuant to such a pledge, the Village may bind itself to impose rates, charges, or taxes to the fullest extent permitted by applicable law.

### H. Staleness

Under Section 17.5 of the Debt Reform Act, whenever the authorization or the issuance of bonds is subject to either a referendum or a backdoor referendum, the approval, once obtained, remains (a) for five years after the date of the referendum or (b) for three years after the end of the petition period for the backdoor referendum. Whenever applicable law provides, however, that the authorization or issuance of bonds under the Water Pollution Control Loan Program or the Public Water Supply Loan Program, under Title IV-A of the Environmental Protection Act, is subject to either a referendum or a backdoor referendum, the approval, once obtained, remains (1) for seven years after the date of the referendum or (2) for five years after the end of the petition period for a backdoor referendum.

## V. DEBT ADMINISTRATION

### A. Financial Disclosures

The Village shall prepare appropriate disclosures related to the Village's debt issuances as required by the Securities and Exchange Commission (the "SEC"), any other branch or agency of the federal government, the State of Illinois, rating agencies, underwriters, investors, agencies, taxpayers, and other appropriate entities and persons to ensure compliance with applicable laws and regulations.

### B. Review of Financing Proposals

All capital financing proposals that involve a pledge of the Village's credit, through the sale of securities, execution of loans or lease agreements or other arrangement, shall be referred to the Director of Finance/Treasurer who shall determine the financial feasibility and the impact on existing debt of such proposal. The Director of Finance/Treasurer and shall make recommendations regarding such proposals to the Village Manager.

### C. Establishing Financing Priorities

The Director of Finance/Treasurer shall administer and coordinate the Village's debt issuance program and activities, including timing of issuance, method of sale, structuring the issue, and marketing strategies. The Director of Finance/Treasurer along with the Village's financial advisor shall meet, as appropriate, with the Village Manager and Village Board regarding the status of the current year's program and to make specific recommendations.

### D. Rating Agency Relations

The Village shall endeavor to maintain effective relations with the rating agencies. The Village Manager, Director of Finance/Treasurer, and the Village's financial advisor should meet with, make presentations to, or otherwise communicate with the rating agencies on a consistent and regular basis in order to keep the rating agencies informed of the Village's capital plan, debt issuance program, and other appropriate financial information.

**E. Refunding Policy**

The Village should consider refunding outstanding debt when legally permissible and financially advantageous. A net present value debt service savings of at least three percent (3%) or greater should be achieved.

**F. Post-Issuance Compliance for Tax-Exempt Bonds**

The Finance Director/Treasurer shall be responsible for following post-issuance compliance procedures for all tax-exempt debt issues. The procedures are noted in the Post-Issuance Procedures Manual for Tax-Exempt Bonds issued by the Village.

**G. Disclosure Compliance Policy**

The Village Board has determined that it is necessary and in the best interest of the Village to ensure compliance with its responsibilities under federal securities laws, including its continuing disclosure undertakings (the "Undertakings") under Rule 15c2-12 of the Securities Exchange Act of 1934, as amended, and the statements of the SEC in enforcement actions. The Director of Finance/Treasurer, as the disclosure officer of the Village, among others (including Disclosure Counsel), shall be responsible for the accurate disclosures with respect to the Village's preliminary official statements, final official statements and any supplements or amendments thereto. In addition, the Disclosure Officer shall compile and file with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system in a timely manner (i) Financial Information, as required by and defined in the Undertakings, and (iii) notices of Material Events or Reportable Events, each as defined in the Undertakings, and any other required or voluntary disclosures to EMMA.

## VI. GLOSSARY OF TERMS

**Ad Valorem Tax** – A direct tax based "according to value" of property.

**Advance Refunding Bonds** – Bonds issued to refund an outstanding bond issue prior to the date on which the outstanding bonds become due or callable. Proceeds of the advance refunding bonds are deposited in escrow with a fiduciary, invested in United States Treasury Bonds or other authorized securities, and used to redeem the underlying bonds at maturity or call date.

**Alternate Bonds (Double Barreled Bonds)** – Alternate bonds are general obligation bonds payable from enterprise revenues or from a revenue source, or both, with the general obligation of the municipality acting as backup security for the bonds. The intent of the Debt Reform Act is for the enterprise revenues or the revenue source to be sufficient to pay the debt service on the alternate bonds so that taxes need not be extended for such payment.

**Amortization** – The process of paying the principal amount of an issue of bonds by periodic payments either directly to bondholders or to a sinking fund for the benefit of bondholders.

**BINA** – The Bond Issue Notification Act of the State of Illinois, as amended.

**Bond** – Any instrument evidencing the obligation to pay money authorized or issued by or on behalf of the Village under applicable law, including without limitation, bonds, notes, installment or financing contracts, leases, certificates, tax anticipation warrants or notes, vouchers, and any other evidences of indebtedness.

**CIP** – The Capital Improvement Plan of the Village.

**Debt Limitation** – The maximum amount of debt which an issuer is permitted to incur under constitutional, statutory or charter provision.

**Debt Reform Act** – The Local Government Debt Reform Act of the State of Illinois, as amended.

**Debt Service** – The amount of money necessary to pay interest on an outstanding debt, the serial maturities of principal for serial bonds, and the required contributions to an amortization or sinking fund for term bonds.

**Disclosure Counsel** – An attorney or law firm retained by the issuer to provide advice on issuer disclosure obligations and to prepare the official statement and/or continuing disclosure agreement.

**Enterprise Funds** – Funds that are financed and operated in a manner similar to private business in that goods and services provided are financed primarily through user charges.

**Extension Limitation Law** – The Property Tax Extension Limitation Law of the State of Illinois, as amended.

**General Obligation Bond** – A full faith and credit general obligation of the Village payable from taxes levied against all taxable property within the Village without limitation as to rate or amount. Section 8-4-1 of the Municipal Code requires that general obligation bonds be approved by voters. This referendum requirement has many exceptions. The Municipal Code provides that certain general obligation bonds, including the following, may be issued without referendum: (i) bonds to refund existing indebtedness; bonds issued by the Village when ordered to abate pollution under the Environmental Protection Act; bonds issued for the acquisition, construction, or improvement of water or wastewater treatment facilities mandated by a compliance order issued by the United States Environmental Protection Agency or the Illinois Pollution Control Board; and bonds issued under Section 8-5-16 of the Municipal Code so long as such bonds, together with the other bonds issued and outstanding under that Section, do not exceed 0.50% of the equalized assessed value of the taxable property within the Village. Since the Village is subject to the Extension Limitation Law, it can only issue its non-referendum general obligation bonds as limited bonds.

**Installment Contracts** – Two separate provisions of the Municipal Code and Section 17(b) of the Debt Reform Act authorize the Village to purchase real or personal property pursuant to installment contracts. Under Division 76.1 of the Municipal Code, the Village may enter into an installment contract not to exceed 20 years. The installment contract is payable from the levy of a direct, unlimited ad valorem property tax sufficient to pay the installments. Accordingly, since the Village is subject to the Extension Limitation Law, the Village must be authorized by a direct referendum to enter into a Division 76.1 installment contract. The Village may issue debt certificates in lieu of or as evidence of the amounts payable under the installment contract.

Section 11-61-3 of the Municipal Code permits the Village to purchase real or personal property pursuant to an installment contract. The installment payments of principal and interest are payable solely from the general funds of the municipality; and there is no separate tax levy to support the installment payments; The Village is not permitted to issue its own certificates evidencing the installment payments due under the contract; and no backdoor referendum is required in order to enter into the installment contract.

Section 17(b) of the Debt Reform Act also authorizes the Village to purchase real or personal property pursuant to an installment contract with a maximum term of 20 years. The Village is authorized to issue debt certificates evidencing the indebtedness incurred under such an installment contract. The payment obligation under such an installment contract and on such certificates constitutes a binding and enforceable promise to pay the amount borrowed plus the interest thereon. The municipality is expected to agree to annually appropriate amounts sufficient to pay the principal and interest on the installment contract and the debt certificates. There is no separate tax levy available for the purpose of making such payments.

**Leases** – The Village may lease real or personal property for a term not exceeding 20 years under Section 17(b) of the Debt Reform Act. The Village is authorized to issue debt certificates evidencing the indebtedness incurred under the lease. As with installment contract financings, the payment obligation under a lease is a binding and enforceable promise to pay, for which the municipality agrees to appropriate sufficient funds on an annual basis.

**Level Debt Service** – An arrangement of serial maturities in which the amount of principal maturing increases at approximately the same rate as the amount of interest declines.

**Limited bonds** – Bonds issued in lieu of general obligation bonds that otherwise have been authorized by applicable law. They are payable from a separate property tax levy that is unlimited as to rate, but the amount of taxes that will be extended to pay the bonds is limited by the Extension Limitation Law. Limited bonds are payable from the Village's debt service extension base (the "Base"), which is an amount equal to that portion of the Village's extension for the 1994 levy year for the payment of non-referendum bonds (other than alternate bonds or refunding bonds issued to refund bonds initially issued pursuant to referendum), increased each year, beginning with the 2009 levy year, by the lesser of 5% or the percentage in the Consumer Price Index for All Urban Consumers during the 12-month calendar year preceding the levy year.

**Long-Term Debt** – Long-term debt is defined, for purposes of this policy, as any debt incurred whose final maturity is more than three years.

**Maturity** – The date upon which the principal of a municipal bond becomes due and payable to bondholders.

**Municipal Code** – The Illinois Municipal Code, as amended.

**Net Interest Cost (NIC)** – The traditional method of calculating bids for new issues of municipal securities. The total dollar amount of interest over the life of the bonds is adjusted by the amount of premium or discount bid, and then reduced to an average annual rate. The other method is known as the true interest cost (see “true interest cost”).

**Par Value or Face Amount** – In the case of bonds, the amount of principal which must be paid at maturity.

**Principal** – The face amount or par value of a bond or issue of bonds payable on stated dates of maturity.

**Promissory Notes** – Pursuant to Section 8-1-3.1 of the Municipal Code, the Village may borrow money from any bank or financial institution. The indebtedness is evidenced by a promissory note or similar debt instrument (but not a bond) authorized by an ordinance of the Village Board and executed by the President. The borrowing must be for a lawful corporate purpose and must be repaid within 10 years. The obligation of the Village to make payments due under the promissory note is a lawful direct general obligation of the Village, but there is no statutory authority for the levy of a separate tax in addition to other Village taxes or the levy of a special tax unlimited as to rate or amount to pay the principal and interest due on the Promissory Note. The Village is expected to agree to annually appropriate amounts sufficient to make payments due under the promissory note, but the promissory note will be valid whether or not the Village includes such appropriation in any annual or supplemental appropriation adopted by the corporate authorities.

**Property Tax Code** – The Property Tax Code of the State of Illinois, as amended.

**Ratings** – Evaluations of the credit quality of notes and bonds, usually made by independent rating services/agencies, which generally measure the probability of the timely repayment of principal and interest on municipal bonds.

**Refunding Bonds** – Bonds issued to retire bonds already outstanding.

**Revenue Bonds** – Revenue bonds are obligations of the Village payable solely from the net revenue derived from the financed project or facilities. The full faith and credit of the Village is not pledged to the payment of revenue bonds. In order for the Village to issue revenue bonds, the revenue source must be related to the purpose for which the bonds are being issued and there must be a specific statutory grant of power for the issuance of the bonds. The Municipal Code authorizes the issuance of revenue bonds for numerous revenue producing projects including, but not limited to, public utilities (water, sewer, gas and electric). If revenue bonds are to be issued for a specifically authorized purpose, there is no statutory limit on the dollar amount of revenue bonds which may be issued. The amount of revenues available to pay the bonds may, however, limit the feasibility of the size of an issue. While a direct referendum is not required, the issuance of revenue bonds is typically subject to a backdoor referendum.

**Short-Term Debt** – Short-term debt is defined for purposes of this policy as any debt incurred whose final maturity is three years or less.

**Special Assessment Bonds** – Similar to service area financings, a special assessment is a method of financing used when a municipal improvement benefits a particular area to a greater extent than it benefits the entire municipality. The cost of such improvement is assessed against individual properties in amounts approximately equal to the value of the benefit to the properties assessed. Each assessment is a lien on the property and is payable in annual installments, with interest. Article 9 of the Municipal Code grants certain municipalities the authority to make local improvements by special assessment and sets forth the municipal and court procedures for doing so.

**Special Service Area Bonds** – Pursuant to Section 27-45 of the Property Tax Code, bonds secured by the full faith and credit of the special service area territory may be issued for the purpose of providing special services. Such bonds are paid from the levy of taxes unlimited as to rate or amount against the taxable real property in the special service area. The county clerk will annually extend taxes against all of the taxable real property in the area in amounts sufficient to pay the principal and interest on the bonds. Such bonds are exempt from both the BINA and the Extension Limitation Law. Prior to the issuance of special service area bonds, the Village must give published and mailed notice and hold a hearing at which any interested person may file written objections and/or give oral statements with respect to the issuance of the bonds. The questions of the creation of the special service area, the levy of a tax on such area and the issuance of special service area bonds may all be considered at the same hearing. The creation of the special service area, the levy of a tax within the area and the issuance of bonds for the provision of special services to the area are subject to a petition process. If, within 60 days after the adjournment of the public hearing, a petition signed by not less than 51% of the electors residing within the special service area and 51% of the owners of record of land located within the special service area is filed with the Village Clerk objecting to the creation of the special service area, the levy of a tax or the issuance of bonds, then the area may not be created, the tax may not be levied and the bonds may not be issued. If such a petition is filed, the subject matter of the petition may not be proposed relative to any of the signatories within the next two years. If no such petition is filed with the Village Clerk, the Village may proceed to adopt an ordinance establishing the special service area, which must be timely filed with the county recorder and the county clerk.

**Tax Code** – The Internal Revenue Code of 1986, as amended, and the arbitrage and rebate regulations promulgated thereunder.

**Tax-Exempt Bonds** – Tax-exempt means interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. The Village's bonds are not exempt from taxation by the State of Illinois.

**Tax Increment Act** – The Tax Increment Allocation Redevelopment Act of the State of Illinois, as amended.

**Tax Increment Bonds** – Bonds secured by the incremental property tax revenues generated from a redevelopment project area. Tax increment financing provides a means for the Village, after the approval of a "redevelopment plan and project," to redevelop blighted, conservation or industrial park conservation areas. The Tax Increment Act

allows incremental property taxes to be used to pay certain redevelopment project costs and to pay debt service with respect to tax increment bonds issued to pay redevelopment project costs. The Village is authorized to issue tax increment bonds payable from, and secured by, incremental property tax revenues expected to be generated in the redevelopment project area. Incremental property tax revenues are derived from the increase in the current equalized assessed valuation of the real property within the redevelopment project area over and above the certified initial equalized assessed valuation for such redevelopment project area.
Pursuant to Section 11-74.4-5 of the Tax Increment Act, before adopting the necessary ordinances to designate a redevelopment project area, the Village must hold a public hearing and convene a joint review board to consider the proposal. At the public hearing, any interested person or taxing district may file written objections and may give oral statements with respect to the proposed financing. After the municipality has considered all comments made by the public and the joint review board, it may adopt the necessary ordinances to designate a redevelopment project area.
Tax increment revenues may also be treated as a revenue source and be pledged to the payment of alternate bonds under Section 15 of the Debt Reform Act.

**Term Bonds** – Bonds coming due in a single maturity.

**True Interest Cost (TIC)** – A rate which, when used to discount each amount of debt service payable in a bond issue, will produce a present value precisely equal to the amount of money received by the issuer in exchange for the bonds. The TIC method considers the time value of money while the net interest cost (NIC) method does not.

**Village Board –** The President and Board of Trustees of the Village.

## <u>DISCLOSURES POLICIES AND PROCEDURES</u> - Adopted June 21, 2018

Pursuant to the Village's responsibilities under the securities laws, including its continuing disclosure undertakings (the *"Undertakings"*) under Rule 15c2-12 of the Securities Exchange Act of 1934, as amended, and the Securities and Exchange Commission's statements in enforcement actions, it is necessary and in the best interest of the Village that the Village's (i) preliminary and final official statements or offering circulars and any supplements or amendments thereto (collectively, the *"Official Statements"*), disseminated by the Village in connection with any bonds, notes, certificates or other obligations, (ii) Annual Financial Information or Financial Information, as required by and defined in the Undertakings (the *"Annual Financial Information"*) to be filed with the Municipal Securities Rulemaking Board's (*"MSRB"*) Electronic Municipal Market Access (*"EMMA"*) system, and (iii) notices of Material Events or Reportable Events, each as defined in the Undertakings, and any other required or voluntary disclosures to EMMA (each, an *"EMMA Notice"*) comply in all material respects with the federal securities laws. Further, it is necessary and in the best interest of the Village that the Village adopt policies and procedures to enable the Village to create accurate disclosures with respect to its (i) Official Statements, (ii) Annual Financial Information, and (iii) EMMA Notices. Official Statements, Annual Financial Information and EMMA Notices are collectively referred to herein as the *"Disclosures."*

In response to these interests, the Village adopted the following policies and procedures (the *"Disclosure Policy"*):

(a) *Disclosure Officer*. The Director of Finance of the Village (the *"Disclosure Officer"*) is hereby designated as the officer responsible for the procedures related to Disclosures as hereinafter set forth (collectively, the *"Disclosure Procedures"*).

(b) *Disclosure Procedures: Official Statements*. Whenever an Official Statement will be disseminated in connection with the issuance of obligations by the Village, the Disclosure Officer will oversee the process of preparing the Official Statement pursuant to the following procedures:

1. The Village shall select (a) the working group for the transaction, which group may include outside professionals such as disclosure counsel, a municipal advisor and an underwriter (the *"Working Group"*) and (b) the member of the Working Group responsible for preparing the first draft of the Official Statement.

2. The Disclosure Officer shall review and make comments on the first draft of the Official Statement. Such review shall be done in order to determine that the Official Statement does not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made in the Official Statement not misleading. Particular attention shall be paid to the accuracy of all descriptions, significant information and financial data regarding the Village. Examples include confirming that information relating to the Village, including but not limited to demographic changes, the addition or loss of major employers, the addition or loss of major taxpayers or any other material information within the knowledge of the Disclosure Officer, is included and properly disclosed. The Disclosure Officer shall also be responsible for ensuring that the financial data presented with regard to the Village is accurate and corresponds with the financial information in the Village's possession, including but not limited to information regarding bonded indebtedness, notes, certificates, outstanding leases, tax rates or any other financial information of the Village presented in the Official Statement.

3. After completion of the review set forth in 2. above, the Disclosure Officer shall (a) discuss the first draft of the Official Statement with the members of the Working Group and such staff and officials of the Village as the Disclosure Officer deems necessary and appropriate and (b) provide comments, as appropriate, to the members of the Working Group. The Disclosure Officer shall also consider comments from members of the Working Group and whether any additional changes to the Official Statement are necessary or desirable to make the document compliant with the requirements set forth in 2. above.

4. The Disclosure Officer shall continue to review subsequent drafts of the Official Statement in the manner set forth in 2. and 3. above.

5. If, in the Disclosure Officer's reasonable judgment, the Official Statement does not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made in the Official Statement not misleading, the Official Statement may, in the reasonable discretion of the Disclosure Officer, be released for dissemination to the public; *provided,*

*however,* that the use of the Official Statement must be ratified, approved and authorized by the President and Board of Trustees of the Village (the "*Board*").

(c) *Disclosure Procedures*: *Annual Financial Information*. The Disclosure Officer will oversee the process of preparing the Annual Financial Information pursuant to these procedures:

1. By October 15th of each year (the same being at least 30 days prior to the last date on which the Annual Financial Information is required to be disseminated pursuant to the related Undertaking), the Disclosure Officer shall begin to prepare (or hire an agent to prepare) the Annual Financial Information. The Disclosure Officer shall also review the audited or unaudited financial statements, as applicable, to be filed as part of the Annual Financial Information (the *"Financial Statements"*). In addition to the required updating of the Annual Financial Information, the Disclosure Officer should consider whether additional information needs to be added to the Annual Financial Information in order to make the Annual Financial Information, including the Financial Statements, taken as a whole, correct and complete in all material respects. For example, if disclosure of events that occurred subsequent to the date of the Financial Statements would be necessary in order to clarify, enhance or correct information presented in the Financial Statements, in order to make the Annual Financial Information, taken as a whole, correct and complete in all material respects, disclosure of such subsequent events should be made.

2. If, in the Disclosure Officer's reasonable judgment, the Annual Financial Information, including the Financial Statements, is correct and complete in all material respects, the Disclosure Officer shall file the Annual Financial Information with EMMA (or confirm that such filing is completed by any agent hired by the Village for such purpose) within the timeframe allowed for such filing.

(d) *Disclosure Procedures*: *EMMA Notices*. Whenever the Village determines to file an EMMA Notice, or whenever the Village decides to make a voluntary filing to EMMA, the Disclosure Officer will oversee the process of preparing the EMMA Notice pursuant to these procedures:

1. The Disclosure Officer shall prepare (or hire an agent to prepare) the EMMA Notice. The EMMA Notice shall be prepared in the form required by the MSRB.

2. In the case of a disclosure required by an Undertaking, the Disclosure Officer shall determine whether any changes to the EMMA Notice are necessary to make the document compliant with the Undertaking.

3. If, in the Disclosure Officer's reasonable judgment, the EMMA Notice is correct and complete and, in the case of a disclosure required by an Undertaking, complies with the Undertaking, the Disclosure Officer shall file the EMMA Notice with EMMA (or confirm that such filing is completed by any agent hired by the Village for such purpose) within the timeframe allowed for such filing.

(e) *Additional Responsibilities of the Disclosure Officer*. The Disclosure Officer, in addition to the specific responsibilities outlined above, shall have general oversight of the entire disclosure process, which shall include:

1. Scheduling email reminders with EMMA to help ensure timely filing of the Village's Annual Financial Information;

2. Maintaining appropriate records of compliance with this Disclosure Policy (including proofs of EMMA filings) and decisions made with respect to issues that have been raised;

3. Evaluating the effectiveness of the procedures contained in this Disclosure Policy; and

4. Making recommendations to the Board as to whether revisions or modifications to this Disclosure Policy are appropriate.

(f) *General Principles*.

1. All participants in the disclosure process should be encouraged to raise potential disclosure items at all times in the process.

2. The process of revising and updating the Disclosures should not be viewed as a mechanical insertion of current numbers. While it is not anticipated that there will be major changes in the form and content of the Disclosures at the time of each update, the Disclosure Officer should consider whether such changes are necessary or desirable in order to make sure the Disclosure does not make any untrue statement of a material fact or omit to state a material fact necessary or desirable, in order to make the statements made, in light of the circumstances in which they were made, not misleading at the time of each update.

3. Whenever the Village releases information, whether in written or spoken form, that may reasonably be expected to reach investors, it is said to be "speaking to the market." When speaking to the market, Village officials must be sure that the released information does not make any untrue statement of a material fact or omit to state a material fact necessary or desirable, in order to make the statements made, in light of the circumstances in which they were made, not misleading.

4. While care should be taken not to shortcut or eliminate any steps outlined in this Disclosure Policy on an ad hoc basis, the review and maintenance of the Disclosures is a fluid process and recommendations for improvement of these Disclosure Procedures should be solicited and regularly considered.

5. The Disclosure Officer is authorized to request and pay for attendance at relevant conferences or presentations or annual training sessions conducted by outside counsel, consultants or experts in order to ensure a sufficient level of knowledge for the effective administration of this Disclosure Policy.

**EMERGENCY MEDICAL TRANSPORTATION FEES - Adopted April 25, 1996; Revised May 1, 2003; Revised October 19, 2017**

The Village of Lombard Fire Department provides Emergency Medical Service and Emergency Medical Transportation Service to residents and non-residents of the Village and the Glenbard Fire Protection District. Fees are imposed for Emergency Medical Transportation Services.

It is the policy of the Village that there shall be separate Emergency Medical Transportation Service Fees established for the following groups:

- Residents of the Village of Lombard and the Glenbard Fire Protection District.
- Non-residents of the Village of Lombard and the Glenbard Fire Protection District.

There are three different levels of fees within each of these two groups, based on the level of emergency medical service that is delivered:

- Basic
- Advanced I
- Advanced II

Furthermore, it is the policy of the Village of Lombard that there is an attempt to recover 100% of the annual expense related to the personnel cost of ambulance service (excluding pensions). In calculating the cost of this service, the Village will include salaries, overtime, other operating costs (commodities, contractual services, capital equipment), vehicle maintenance, vehicle acquisition, fringe benefits and administrative overhead. Within these guidelines, fees shall be reviewed on an annual basis and may be adjusted upon recommendation of the Village Manager and approval of the Village Board of Trustees.

**FACILITY RESERVE POLICY – Adopted September 5, 2013**

The Facility Capital Reserve Fund provides for funding of projects associated with the repair, maintenance, and replacement of the Village of Lombard's facilities. Expenditures from this fund are restricted to major repair, maintenance, and replacement projects for Village-owned facilities.

Funding is provided annually by allocating three percent (3%) of sales tax revenue and five percent (5%) of utility tax revenue.

**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 $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.

## 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.

| Type of Asset | Useful Life |
|---|---|
| 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 |

**FUND BALANCE/NET ASSETS POLICY - Adopted March 15, 2012; Revised July 21, 2016**

**Purpose**

A Fund Balance/Net Assets Policy establishes a minimum level at which the projected end-of-year fund balance/net assets must observe, as a result of the constraints imposed upon the resources reported by the governmental and proprietary funds. This policy is established to provide financial stability, cash flow for operations, and the assurance that the Village will be able to respond to emergencies with fiscal strength. More detailed fund balance financial reporting and the increased disclosures will aid the user of the financial statements in understanding the availability of resources.

It is the Village's philosophy to support long-term financial strategies, where fiscal sustainability is its first priority, while also building funds for future growth. It is essential to maintain adequate levels of funds balance/net assets to mitigate current and future risks. Fund balance/net asset levels are also crucial consideration in long-term financial planning. Credit rating agencies carefully monitor levels of fund balance/net assets and unassigned fund balance in the General Fund to evaluate the Village's continued creditworthiness.

**Definitions**

***Governmental Funds***

The fund balance will be composed of three primary categories:

1) Non-spendable Fund Balance – portion of a Governmental Fund's fund balance that is not available to be spent, either in the short-term or long-term, or through legal restrictions (e.g., inventories, prepaid items, land held for resale and endowments).

2) Restricted Fund Balance – portion of a Governmental Fund's fund balance that is subject to external enforceable legal restrictions (e.g., grantor, contributor and property tax levies).

3) Unrestricted Fund Balance – is made up of three components:

   A. Committed Fund Balance – the portion of a Governmental Fund's fund balance with self-imposed constraints or limitations that have been placed at the highest level of decision making through formal Board action. The same action is required to remove the commitment of fund balance.
   B. Assigned Fund Balance – the portion of a Governmental Fund's fund balance to denote an intended use of resources but with no formal Board action.
   C. Unassigned Fund Balance – available expendable financial resources in a governmental fund that is not the object of tentative management plan.

Some funds are funded by a variety of resources, including both restricted and unrestricted (committed, assigned and unassigned). The Village assumes that the order of spending fund balance is as follows: restricted, committed, assigned, unassigned.

***Proprietary Funds***

Proprietary funds include enterprise and internal service funds. The net assets will be composed of three primary categories:

1) Invested in Capital Assets, Net of Related Debt – portion of a proprietary fund's net assets that reflects the fund's net investment in capital assets less any amount of outstanding debt related to the purchase/acquisition of said capital assets. Related debt, for this purpose, includes the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of capital assets of the Village.

2) Restricted Net Assets – portion of a proprietary fund's net assets that are subject to external enforceable legal restrictions (e.g., grantor, contributor and bond covenants).

3) Unrestricted Net Assets – portion of a proprietary fund's net assets that is neither restricted nor invested in capital assets (net of related debt).

**Authority**

***Governmental Funds***

Committed Fund Balance – A self-imposed constraint on spending fund balance must be approved by ordinance or resolution of the Board. Any modifications or removal of the self-imposed constraint must use the same action used to commit the fund balance. Formal action to commit fund balance must occur before the end of the fiscal year. The dollar amount of the commitment can be determined after year end.

Assigned Fund Balance – A self-imposed constraint on spending fund balance based on the Village's intent to use fund balance for a specific purpose. The authority may be delegated to members of the management team by the Board.

## Minimum Unrestricted Fund Balance Levels

### *Governmental Funds*

General Fund

Purpose – Is a major fund and the general operating fund of the Village. It is used to account for all activities that are not accounted for in another fund.

Fund Balance – Unrestricted fund balance targets will be maintained at an amount which represents an average of three (3) months of operating expenditures. Balances above the maximum may be transferred to other funds or to capital projects at the Board's discretion.

Special Revenue Fund

Purpose - Used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Financing – Special revenue funds are provided by a specific annual property tax levy or other restricted and/or committed revenue source. Financing may also be received from other charges for services, etc.

Fund Balance – Derived from property taxes (or another restricted revenue source); therefore, legally restricted. The portion of fund balance derived from property taxes will be legally restricted.

The Liability Insurance Account will maintain a committed fund balance amount equal to the actuarially determined amount required to make future payments on workers compensation and property and casualty losses. The Village will establish a contingency expenditure balance to provide for unanticipated expenditures of a non-recurring nature or to meet unexpected increases in service delivery costs. The Village will levy for the actuarily determined normal loss amount and any unfunded liability will be spread over four years.

Debt Service Fund

Purpose – Established to account for financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

Financing – The Village levies an amount or transfers in an amount close to the principal and interest that is anticipated to be paid.

Fund Balance – Derived from property taxes; therefore, legally restricted.

Capital Projects Fund

Purpose - Established to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets, excluding those types of capital related outflows financed by proprietary funds.

Financing – Non-home rule sales tax, utility tax, motor fuel tax, TIF funds, debt financing, and grants are used to finance projects.

Fund Balance – Considered segregated for maintenance, construction and/or development; therefore, considered restricted, committed, or assigned depending on the intended source/use of the funds.

***Proprietary Funds***

Enterprise Fund

Purpose - Established to account for and report financial resources that are invested in capital assets, net of related debt, restricted, or unrestricted for future spending related to the fund. The focus of enterprise fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Enterprise funds are required to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

Financing – User fees, debt financing, and non-home rule sales tax are used to finance operations, capital outlay and improvements, and debt service retirements.

Net Assets – Considered invested in capital assets net of related debt (for amounts capitalized as capital assets) less the outstanding debt related to the acquisition of said assets. Restricted net assets relate to bond covenant reserves as outlined in the bond ordinance, if applicable. Unrestricted fund balance targets will be maintained at an amount which represents an average of three (3) months of operating expenditures (excluding debt service and capitalized asset expenses).

Internal Service Fund

Purpose - Established to account for and report financial resources that are invested in capital assets, net of related debt, restricted, or unrestricted for future spending related to the fund. The focus of internal service fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Internal service funds are used to account for the financing of goods or services provided by an activity to other departments, funds or component units of the Village on a cost-reimbursement basis.

Financing – User fees charged to other departments, funds, or component units, or debt financing are used to finance operations, capital outlay and improvements, and debt service retirements.

Net Assets – Considered invested in capital assets net of related debt (for amounts capitalized as capital assets) less the outstanding debt related to the acquisition of said assets. Restricted net assets relate to bond covenant reserves as outlined in the bond ordinance, if applicable. Unrestricted net asset targets should represent appropriate levels given the activity of the fund and the discretion of the Board and management (excluding debt service and capitalized asset expenses).

**Other Considerations**

In establishing the above policies for unrestricted fund balance/net asset levels, the Village considered the following factors:

- The predictability of the Village's revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile)
- The Village's perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts)
- The potential drain upon General Fund resources from other funds as well as the availability of resources in other funds (i.e., deficits in other funds may require a higher level of unrestricted fund balance be maintained in the General Fund, just as, the availability of resources in other funds may reduce the amount of unrestricted fund balance needed in the General Fund)
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained)
- Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose)

If any of the above factors change, the Village should readdress current unrestricted fund balance/net asset levels to ensure amounts are appropriate.

**INVESTMENT POLICY - Adopted December 3, 1987; Revised December 5, 1996 & December 2, 1999; Revised May 1, 2003; Revised May 3, 2007; Revised February 7, 2019**

This Investment Policy applies to the investment activities of all funds of the Village of Lombard, except for the Police Pension Fund and the Firefighters' Pension Fund, which are subject to the order of the Board of Trustees of each respective fund.

The purpose of the Investment Policy of the Village of Lombard is to establish cash management and investment guidelines for Village officials responsible for the stewardship of public funds.
Specific objectives include:

> ***Safety:*** Safety of principal is the foremost objective of the Investment Policy of the Village of Lombard. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.

***Diversity:*** The Village shall diversify its investments to avoid incurring unreasonable risks regarding specific security types and/or individual institutions.

***Liquidity***: The Village's investment portfolio shall remain sufficiently liquid to enable the Village to meet all operating requirements that may be reasonably anticipated in any Village fund.

***Return on Investments:*** The investment portfolio of the Village shall be designed with the objective of regularly exceeding the average return of three (3) month U.S. Treasury Bills. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

**Prudence**

In managing its investment portfolio, Village officials shall avoid any transaction that might impair public confidence in the Village of Lombard. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Responsibility for the Investment Program

Management responsibility for the investment program of the Village of Lombard is hereby delegated to the Director of Finance, who shall establish written procedures for the operation of the Investment Program consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. The Director of Finance shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officials.

The responsibility for investment activities of the Police and Firefighters' Pension Funds rests with the respective Board of Trustees of each fund.

***Ethics and Conflicts of Interest***

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Village Manager any material financial interest in financial institutions that conduct business with this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of this jurisdiction's portfolio. Employees and officers shall subordinate their personal investment transactions to those of this jurisdiction, particularly with regard to the timing of purchases and sales.

Cash Management

The Village's Policy regarding cash management is based upon the realization that there is a time-value to money. Temporarily idle cash may be invested for a period of one (1) day to an excess of one (1) year depending upon when the money is needed. Accordingly, the Director of Finance shall prepare written cash management procedures, which shall include, but not be limited to, the following:

Receipts: All monies due the Village shall be collected as promptly as possible and deposited in an interest-bearing fund. Monies that are received shall be deposited in an approved financial institution no later than the next business day after receipt by the Finance Department. Amounts that remain uncollected after a reasonable length of time shall be subject to any available legal means of collection.

Disbursements: Any disbursement to suppliers of goods and/or services or to employees for salaries and wages shall be contingent upon an available budget appropriation.

Pooling of Cash

Except for cash in certain restricted and special accounts, the Village will pool the cash of various funds to maximize investment earnings. Investment income will be allocated to the various funds based upon their respective participation. Beginning June 1, 2003, any funds with negative cash balances or interfund loans will be charged interest expense.

Accounting

The Village of Lombard maintains its accounting records on the basis of funds and account groups, each of which is considered a separate accounting entity. All investment transactions shall be recorded in the various funds of the Village in accordance with generally accepted accounting principals as established by the Governmental Accounting Standards Board (GASB).

Financial Institutions

The Finance Director will maintain a list of financial institutions authorized to provide investment services. It shall be the policy of the Village of Lombard to select financial institutions on the following basis:

Security: The Village will maintain funds only in financial institutions that are members of the FDIC system. Furthermore, the Village of Lombard will maintain funds only in financial institutions willing or capable of posting required collateral for funds in excess of the FDIC insurable limits.

Size: The Village of Lombard will select as depositories, only financial institutions in which the Village funds on deposit will not exceed fifty percent (50%) of the institution's capital stock and surplus.

Statement of Condition: The Village of Lombard will maintain for public and managerial inspection current statements of condition for each financial institution named as depository. If, for any reason the information furnished is considered by the Director of Finance to be insufficient, the Village may request additional data. The refusal of an institution to provide such data upon request may serve as sufficient cause for the withdrawal of Village funds.

Services and Fees. Fees for services shall be mutually agreed to by an authorized representative of the depository bank and the Director of Finance.

Dealer Brokers

A list will be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Illinois. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

Investment Selection

The Village of Lombard may invest in any type of security allowed by state law (30 ILCS 235/2).

The Village will specifically avoid any purchase of financial forwards or futures, any leveraged investments, lending securities or reverse repurchase agreements. Repurchase agreements will only be purchased if specific securities are under the control of the Village of Lombard or its agent depository.

Diversification and Maturities

In order to reduce the risk of default, the investment portfolio of the Village of Lombard shall be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (U.S. Treasury and Agency securities),
    - Commercial paper and bonds shall not exceed 15% of the Village's investment portfolio.
    - Brokered certificates of deposit shall not exceed 33% of the Village's investment portfolio.
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds, overnight repurchase agreements or insured cash sweeps to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

Maturities of investments of the various funds of the Village shall be determined to enable the Village to have available sufficient cash for all operating purposes. Investment maturities in all Funds shall be limited to a maximum maturity of sixty (60) months from the date of purchase. Investments in other funds may be purchased with maturities to match future projected liability requirements. However, any investment purchased with a maturity longer than sixty (60) months must be supported by written documentation explaining the reason for the purchase and must be specifically pre-authorized by the Finance Committee.

Notwithstanding the provisions of the above paragraph, no investment in any fund shall have a maturity date greater than the period allowed by Illinois Compiled Statutes, by Village Ordinance or by other standards of this policy.

Collateral

It is the policy of the Village of Lombard to require that funds on deposit in excess of FDIC limits be secured by some form of collateral. The Village will accept any of the following assets as collateral:

U.S. Government Securities

Obligations of Federal Agencies

Obligations of Federal Instrumentalities

Obligations of the State of Illinois

Obligations of the Village of Lombard

General Obligation Municipal Bonds Rated “A” or better

Any other collateral identified in Illinois Compiled Statutes as acceptable for use by the Treasurer of the State of Illinois.

The amount of collateral provided will be not less than one-hundred-ten percent (110%) of the fair market value of the net amount of public funds secured. Pledged collateral will be held by the Village of Lombard or in safekeeping and evidenced by a safekeeping agreement. If collateral is held in safekeeping, it may be held by a third party or by an escrow agent of the pledging institution. Collateral agreements will preclude the release of the pledged assets without an authorized signature from the Village of Lombard, but they will allow for an exchange of collateral of like value.

Internal Controls

The Director of Finance shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by an independent certified public accountant in conjunction with the annual examination of the financial statements of the Village. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the Village.

Reporting

The Director of Finance shall submit a monthly investment report that provides the following information:

- Earnings by fund for the current month and year to date
- Breakdown of cash and investments
- Percentage of the Portfolio represented by each investment category

From time to time the Director of Finance shall suggest policies and improvements that might be made in the investment program.

Indemnification

The standard of prudence to be used by investment officials of the Village of Lombard shall be the "prudent person" standard which states:

> Investments shall be made with judgment and care, under circumstances then prevailing, which persons or prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the possible income to be derived.

The above standard is established as the standard for professional responsibility and shall be applied in the context of managing the Village's overall portfolio. Investment Officers of the Village of Lombard acting in accordance with this Investment Policy and written procedures as may be established and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectation are reported in a timely fashion, and appropriate action is taken to control adverse development.

Amendment

This Policy shall be reviewed from time to time and any changes shall be presented to the Board of Trustees for their approval.

## LAKE MICHIGAN WATER RESERVE ACCOUNT – Adopted May 3, 2007

In order to monitor future utilization of the remaining portion of the rebate received by the Village from the DuPage Water Commission, a Lake Michigan Water Reserve account has been established as an unrestricted but designated account in the Water and Sewer Fund to account for rebated funds from the DuPage Water Commission not previously utilized for rate stabilization or capital improvements. Future use of these funds for rate stabilization or capital improvements to the water and sewer system will be discussed as part of the Village's annual budget process.

**LEVEL OF SERVICE - Adopted December 3, 1987**

The operating budget will be compiled in a manner to maintain the existing level of services to the community. Increases or decreases in service levels will be prioritized by the Village Board at separate work sessions prior to budget development. Staff will then be directed to develop an operating budget reflecting those service level priorities.

**MOTOR FUEL TAX POLICY - Adopted December 3, 1987, Revised April 25, 1996; Revised May 7, 1998; Revised May 3, 2007**

The State of Illinois, Motor Fuel Tax Act (35 ILCS 505/8), provides for a tax on fuel used for operational motor vehicles upon highways and waters. The Act also provides that the Illinois Department of Transportation shall allot to each municipality its share of the amount of tax appropriated to the municipalities in the state in proportion to their share of the total population of the state, as determined by the last census in the both the state and individual communities. Except as otherwise specified, it is the policy of the Village of Lombard, that Motor Fuel Tax allotments can be used for operational purposes (salaries, wages, overtime, materials and supplies for snow & ice control and/or street maintenance and repairs) provided that no more than 33 1/3% of the total estimated allotment will be budgeted from the MFT Fund for operational purposes in any given fiscal year.

This policy does not require the expenditure of 33 1/3% of MFT allotments on operations, but rather provides that if the Village's financial position requires the use of MFT funds for operating purposes, that the amount to be used for such purposes is limited to 33 1/3%.

The remaining MFT funds not allocated to operating expenses shall be used for capital improvements and engineering based on the Village's 10-Year Capital Improvement Program.

The actual amount of the budgeted MFT revenue devoted to operational purposes will be reviewed each year by the Village Manager, Finance Committee, and Village Board as part of the annual budget process.

**OPERATING BUDGET POLICY - Adopted December 3, 1987**

1. The Village will attempt to maintain its present service level for all priority and essential services within existing tax rates and new services will be added as deemed appropriate.

2. The Village will maintain a budgetary control system to ensure adherence to the budget and will prepare regular reports comparing actual revenues and expenditures to budgeted amounts.

3. The Village will integrate performance measurement and productivity integrators with the budget.

4. Personnel levels will be kept at existing levels in order to maintain the existing level of service.

5. All enterprise and special revenue funds will be self-supporting.

**PERSONNEL LEVELS - Adopted December 3, 1987; Revised May 1, 2003**

Local government operations are service-oriented, which is labor-intensive, resulting in personnel costs being the largest overall expense in the operating budget. As such, it is important to review and justify existing personnel requirements to determine the most effective utilization of work force and to consider least-cost alternatives for any staffing requirements. Work force levels are staffed in order to provide essential services in public safety, public works and administration. The criteria in decisions related to work force growth should be directed by the need to increase services mandated by the public interest in the most effective way.

**PROPERTY TAX POLICY – Adopted December 3, 1987; Revised May 7, 1998; Revised May 1, 2003; Revised July 21, 2016**

The Village of Lombard is authorized to levy a property tax for corporate purposes in accordance with Chapter 65, 5/8-3-1 of the Illinois Compiled Statutes.

The Village is also authorized to levy a property tax levy for special purposes in accordance with the provisions of the Illinois Compiled Statutes as noted below. The Village's special purpose levies support the following funds:

Federal Insurance Contributions Act (FICA) 40 ILCS 5/21-110
Firefighters' Pension 40 ILCS 5/4-118
Illinois Municipal Retirement Fund (IMRF) 40 ILCS 5/7-171
Liability Insurance 745 ILCS 10/9-107
Police Pension 40 ILCS 5/3-125
Public Benefit 65 ILCS 5/9-2-39

The Village Board should implement the statutorily allowable property tax increase allowed under state law for a Non-Home Rule community.

**PROPOSED LONG RANGE PLAN RESERVE FUND POLICY - Adopted October 6, 2016**

The Village of Lombard Board of Trustees, in accordance with the Long Range Plan, approved Ordinance #7262 to amend Title IX, Chapter 98, Section 98.1(B)(1), of the Lombard Village Code on second reading at the Village Board meeting on August 18, 2016 to increase the Places for Eating Tax from 1% to 2% effective January 1, 2017. The Village's commitment as part of the Long Range Plan is to use ½% of the 1% increase immediately for General Fund operations and reserve the remaining ½% for future operational needs.

The Long Range Plan Reserve Fund has been established in the General Fund as an unrestricted but committed account for the remaining ½% Places for Eating Tax increase and/or for designated increases to new revenues that are not immediately needed for General Fund operations.

This reserve fund was established in order to monitor future utilization of new designated revenue increases that are not used for General Fund operations within a given fiscal year, in accordance with the Long Range Plan Resolution (R 38-16 passed June 16, 2016). The Long Range Plan Reserve will be updated each year during the annual budget process based upon expenditure decisions made in previous fiscal years and updated revenue forecasts.

**REBATE OF FUNDS - Adopted May 7, 1998**

From time to time the Village receives rebates of funds from third parties or intergovernmental agencies in which the Village is a member. Such rebates may be for multiyear periods (e.g. the DuPage Water Commission) or a single one-time rebate of funds. This policy establishes a procedure for determining the use of funds rebated to the Village.

In the event that the Village is advised that it will receive such a rebate, the Director of Finance will notify the Village Manager, Finance Committee, and the Village Board. The Village Manager, as part of the preparation of the annual budget, will consider such rebates in presenting the proposed budget to the Finance Committee and Village Board and will prepare options for consideration regarding the disposition of the rebated funds. In determining the disposition of such rebates, the Village Manager and the Director of Finance will consider, in part, the following options:

Capital improvements
Customer rate relief
Direct customer rebates
Fund balance enhancement
Operating expenses
Reduction in citizen costs

Recommendations will take into consideration the nature of the funds rebated, the Village's current financial position, and the purposes and restrictions, if any, of the fund from which the money was originally expensed.

**RISK MANAGEMENT AND LOSS CONTROL - Adopted December 3, 1987; May 1, 2003**

The Village of Lombard is committed to provide a safe work environment, manage all risks in an appropriate manner, and conduct adequate loss control measures to ensure that liability and workers' compensation losses are kept at a manageable level. The Liability Insurance Account will be supported by property and sales tax dollars and will reflect the budgetary needs for those funds in any particular fiscal year.

All losses will be adequately documented, reviewed and follow-up procedures will be conducted to ensure that a safe work environment attitude is directed to all supervisors and employees. In addition, summary reports will be distributed quarterly and annually regarding loss history trend analysis in various risk areas by type of injury, claim, and department. The Village understands that many losses are unavoidable and, where unavoidable, will attempt to administer claims in an efficient manner.

**SPECIAL ASSESSMENT POLICY FOR UNIMPROVED STREETS - Adopted June 15, 1995**

The Village of Lombard, in an effort to improve the streets in the Village, may from time to time undertake a basic improvement of unimproved streets in the community. Recognizing that both the Village as well as those property owners adjacent to such improvements benefit from them the following policy has been established relating to the cost sharing of such construction projects.

**A. Basic Improvement**

Residents shall share “basic improvement” project costs only. Basic improvements are defined as a composite roadway structure, curb and gutter, storm sewers, asphalt driveway apron (concrete if existing), sidewalks, parkway trees, streetlights (if feasible and affordable) and restoration.

Basic improvements shall also include a proportionate share of all ancillary project costs such as costs to establish the special assessment, engineering, and geotechnical work.

**B. Village/Property Owner Cost Sharing**

The Village shall pay (70%) of the cost of basic improvements as defined herein and residents shall pay (30%) of the cost of basic improvements as defined herein.

**C. Sideage Rates**

Sideage rates shall be calculated at 33.3% of frontage rates.

**D. Replacement of Sidewalks, Driveway Aprons and Water & Sewer Mains**

Sidewalk replacements will be offered to residents according to the regular Village “50/50” sidewalk replacement cost-sharing program. The property owner’s share will vary from project to project based on the current cost of sidewalk replacement. Driveway upgrades from asphalt to concrete will be offered to residents. Residents will be asked to pay the difference in the Village’s contract price. Water and sewer main replacements constructed as part of the project will normally be funded from Village sources.

**E. Responsibilities**

The Board of Local Improvements (BOLI) shall ***estimate*** the frontage and sideage rates at time of approval of the first resolution regarding the project and shall set the ***final frontage*** and sideage rates prior to adopting the second resolution. The Board of Trustees may amend this policy and its related financial requirements from time to time when it is deemed in the best interest of the Village of Lombard.

**TECHNOLOGY RESERVE – Adopted May 7, 1998; Revised May 1, 2003; Revised April 2, 2009; Revised July 21, 2016**

The Village of Lombard has established a technology replacement reserve account in the General Fund. The purpose of this reserve is to set aside funds on an annual basis for the eventual upgrade and/or replacement of specific inventory of hardware, computer software, and defibrillator equipment (hereinafter referred to as "equipment") including:

- Personal computer (CPUs), monitors and CRTs
- Computer software
- Telephone equipment
- Mid-range computer equipment
- Printers
- Copiers
- Computer Infrastructure Peripherals
- Automatic External Defibrillators (AEDs)
- Police & Fire Radios

Each fund having equipment for which a reserve is established shall annually contribute to the Technology Reserve Account for replacement of the specific equipment assigned to the fund, in order to have sufficient funds on hand for eventual replacement at the end of the equipment's useful life. These reserve funds will be kept separately from any general operating funds for the Information Technology (IT) division.

In order to properly manage the Technology Reserve Account and maintain the reserve fund contribution by other funds at an appropriate level, the contribution amounts shall be annually determined based on the following factors:

- The fund reserve target for all equipment categories is set at 75% of the equipment replacement value as determined annually by IT, except that the target for the AEDs, mid-range computer equipment, and Village Hall copier shall be 100% of the equipment replacement value.

- Equipment shall be depreciated over its useful life. As a general guideline, the useful life established by category is as follows:

| CATEGORY | USEFUL LIFE |
|---|---|
| Personal computers (CPUs), monitors and CRTs | 3 years |
| Computer software | 5-10 years |
| Telephone equipment | 6-10 years |
| Mid-range computer equipment | 5-10 years |
| Printers | 5 years |
| Copiers | 5 years |
| Computer Infrastructure Peripherals | 10 years |
| Automatic External Defibrillators (AEDs) | 7 years |
| Police and Fire Radios | 6-8 years |

- Replacement cost and useful life for each item will be re-evaluated on an annual basis. This re-evaluation may change the annual amounts that each fund contributes to the technology reserve.

IT will annually review both the replacement cost and the general useful life guidelines and may amend these items for any individual piece of equipment for which a reserve is established. The Fire Department will review changes required for the AEDs. The reasons for such a change may include but are not limited to changes due to market conditions, technological improvements, and/or ongoing maintenance costs.

- A reserve amount for future replacement shall be set aside in the year of disposal but not in the year of purchase.
- Any funds received from the auction or sale of surplus equipment shall be applied to the reserve account for the replacement equipment, thereby reducing the budgeted annual expenditure required from the appropriate fund for future annual reserves. The budget for these items would therefore reflect gross replacement cost.
- Any funds received from the trade-in of obsolete equipment shall be used to reduce the budgeted expenditure for replacement of the traded-in equipment. The budget for these items would therefore reflect the net replacement cost. If the amount required to replace the equipment, less trade-in, is less than the amount allocated to replace the equipment, the balance shall be allocated to the reserve account set aside for future replacement of the new equipment. This would thereby reduce the budgeted annual expenditure required from the appropriate fund for future annual reserves.
- If the amount received from trade-in proceeds is less than the amount needed to replace the equipment, the balance shall be made up from the fund that annually contributes to the reserve fund for that equipment item.
- The cost of improvements to existing equipment, provided that they extend the useful life of the equipment, shall be paid for from the reserve fund. Useful life of the equipment will be adjusted to reflect the improvement to existing equipment.
- Interest income earned in the Technology Reserve Account shall accrue to fund balance and may be used for IT capital equipment acquisition, maintenance or capital improvements to the IT facilities and/or to otherwise stabilize equipment reserve accounts.
- The Technology Reserve Account balance shall be used to pay for changeover costs associated with the installation of new equipment as may be needed from time to time.
- Any additions of equipment requested by operating departments will be carefully reviewed as part of the budget review process by the Village Manager, Director of Finance and IT Manager and funding for this additional equipment will not be provided from this reserve fund.
- A report on the replacement of equipment and the status of the Technology Reserve Account will be prepared on an annual basis by the IT Manager and will be presented to the Village Manager and Village Board as part of the budgetary process.

**USER FEES, PERMITS AND OTHER CHARGES - Adopted December 3, 1987; Revised July 21, 2016**

User fees, permits, and other charges are charges made by the municipality in order to recover costs for conducting various services. These fees will be set at appropriate levels in order to recover costs associated with providing those services. At least once every 3 years, staff should review the Village's existing fee schedules to determine whether they are comparable to fees charged by other municipalities. The goal should be to remain competitive and to set Village fees at the mid-point, or 50% range, of the surveyed communities.

Revenues collected from these user fees will be used as allowed by Illinois State Statutes and Village ordinance.

**VEHICLE & EQUIPMENT RESERVE - Adopted July 22, 1993; Revised May 1, 2003**

The Village of Lombard has established an internal service fund for equipment replacement reserve. Each program shall annually contribute to the reserve fund for replacement of vehicles and equipment in order to have funds on hand for complete replacement at the end of the vehicle or equipment useful life. These reserve funds will be kept separately from any general operating funds for Fleet Services.

Replacement cost and useful life for each vehicle will be re-evaluated on an annual basis. This re-evaluation may change the annual amounts that programs contribute to the replacement of each vehicle.

In order to properly manage the Fleet Services Reserve Fund and maintain the reserve fund contribution by the operating departments at an appropriate level, the contribution amounts shall be annually determined based on the following factors:

(1) Auction proceeds shall be applied to revenue needed for the replacement of a vehicle sold at auction thereby reducing the budgeted expenditure required for replacement of that vehicle. The budget would therefore reflect net replacement cost;

(2) If a vehicle is traded in, the trade-in value received should be used to reduce the budgeted expenditure for replacement of the traded-in vehicle. The budget would therefore reflect the net replacement cost;

(3) If the amount received from auction or trade-in proceeds exceeds the amount necessary to replace a vehicle, the balance shall be allocated to the reserve account set aside for future replacement of the new vehicle;

(4) If the amount received from auction or trade-in proceeds is less than the amount needed to replace a vehicle, the balance shall be made up from the operating budget of the user department;

(5) Vehicles and equipment shall be depreciated over their useful life. A reserve for future replacement shall be set aside in the year of disposal but not in the year of purchase;

(6) Interest income earned in the Fleet Services Reserve Fund shall accrue to fund balance and be used for capital equipment acquisition, maintenance or capital improvements to the fleet service facilities and/or to otherwise stabilize labor rates or equipment reserve accounts;

(7) The Fleet Services Reserve Fund balance shall be used to pay for changeover costs associated with new vehicles, including lightbars, radios and similar items.

Any additions to the fleet will be carefully scrutinized by the Village Manager and Fleet Superintendent and funding for these additional vehicles will not be provided from this reserve fund. A report on the replacement of vehicles and the status of that fund will be prepared on an annual basis and be presented to the Village Manager as part of the budgetary process.

**WATER AND SEWER CAPITAL RESERVE POLICY - Adopted December 3, 1987**

The Water & Sewer Capital Reserve Fund provides for funding of projects associated with the repair, maintenance, and replacement of the water and sewer system capital plant. Expenditures from this fund are restricted to major repair, maintenance, and replacement projects in the water and sewer system.

Funding is provided from annual water and sewer connection fees and a minimum of three percent (3%) of the annual revenue generated from the water and sewer system less the allowance for Lake Michigan water.

**YEAR-END GENERAL FUND RESERVE MAINTENANCE POLICY – Adopted July 21, 2016**

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.
    - 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 pay down unfunded pension liabilities:
        - Illinois Municipal Retirement Fund: 20%
        - Police Pension Fund: 40%
        - Fire Pension Fund: 40%