

## **REVISED AGENDA**

### Joint City Council & Finance Advisory Committee Meeting

Tuesday, November 8, 2016

5:30 p.m.

City Hall Council Chambers (Second Floor)

- A. Call to Order
- B. Roll Call for Attendance
- C. Public Participation
- D. Approval of Minutes
- E. **Financial Policies (attachment)**
  - 1. Review and Discussion
  - 2. Approval of Recommendation
- F. 2016 Tax Levy
  - 1. Review and Discussion
  - 2. Approval of Recommendation
- G. FY2017 Budget
  - 1. Review and Discussion
  - 2. Approval of Recommendation
- H. Other Items
  - 1. Confirm next meeting date November 15, 2016
- I. Adjournment

The Finance Advisory Committee's role (as listed in Chapter 54-11) is to provide well-reasoned, financially sound recommendations to the Council. Meetings and reporting shall be on a project-by-project basis or as otherwise assigned by the City Council. The Finance Advisory Committee shall work in cooperation with the City Council and the City Manager to analyze the City's financial policies, long term financial stability, options for greater efficiencies and possible revenue and expenditure modifications.

**DATE:** November 8, 2016

**TO:** Honorable Mayor John Rey  
City Council  
Finance Advisory Committee

**FROM:** Anne Marie Gaura, City Manager  
Cathy Haley, Finance Director

**SUBJECT:** Financial Policies

Attached are the changes discussed at the meeting on November 3, 2016. The wording for the fund balance policy on page 6 of the document reflects the Capital Improvement Plan which has yet to have a funding source identified. As a part of the annual budget process these policies are reviewed and this policy can be revisited again in FY2017.

All changes can be reviewed and discussed during tonight's joint City Council FAC budget meeting at 5:30 p.m.

# Budget Policy

Policy Number: 01-01  
~~2015~~

Date: ~~July 27,~~ November 8, 2016

**Purpose:** The City Manager shall submit an annual budget to the City Council which is within the City's ability to pay. The annual budget should provide for the following:

~~1.~~ 1. ~~A meeting will be held with the Finance Advisory Committee after June 30 and before joint City Council budget discussions begin to discuss the previous year-end Comprehensive Annual Financial Report, review revenues trends and discuss any new policy recommendations.~~

~~1-2.~~ 2. Management shall prepare a draft of the annual budget for review by the ~~City Council and the~~ Finance Advisory Committee in ~~October/November~~ April of each year. The recommended budget should be submitted to the City Council for review ~~and a public hearing in November~~ in May of each year. The final budget document shall be submitted to the full membership for approval prior to ~~December 31~~ June 30 of each year.

~~2-3.~~ 3. The annual budget should effectively communicate meaningful and understandable information to the City residents, City Council, City Staff, and other readers.

~~3-4.~~ 4. The annual budget shall be monitored on a monthly basis. Revenue and expenditure budget reports shall be prepared and made available to City management staff for departmental review on a monthly basis. A quarterly budget summary report (Treasurer's Report) shall be presented to the City Council.

~~4-5.~~ 5. The annual budget should allow for the implementation of as many of the City Council's goals and objectives from the 2025 strategic plan as financially possible.

~~5-6.~~ 6. The annual budget should provide for the adequate funding of all pension plans (IMRF, Police Pension Fund, and Firefighters Pension Fund). An independent actuary should be used to determine the annual City contributions to the Police Pension Fund and the Firefighters Pension Fund and determine if these pension funds are adequately funded.

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6-7. The annual budget should provide funding for the adequate maintenance of municipal equipment, municipal facilities, and infrastructure.

7-8. The annual budget should set aside-adequate funding (pay-as-you-go funding) for the replacement of major equipment. Annual funding (depreciation funding) for these replacements will eliminate major expenditure jumps in the annual budget when these acquisitions are made.

8-9. During the budget process, the City will assess the need for contingency funds to be included in the budget to fund unanticipated expenditures that might arise.

9-10. The annual budget should finance current operating expenditures, excluding major capital expenditures, with current revenues. The use of reserve funds to finance current operating expenditures should be carefully considered and avoided if possible.

10-11. The City should limit the use of the reserve fund to nonrecurring operating expenditures or capital expenditures, specifically if our anticipated fund balance is below our Fund Balance Reserve Policy of 25%. ~~This fund reserve will be calculated by comparing the difference between current assets and current liabilities to current annual budget operating expenses, excluding enterprise expenditures.~~

11-12. When the City is required to undertake a budget amendment and/or execute expenditure transfers to ensure that actual expenditures are within approved budgetary limits as authorized by City Council the following procedures will be followed. Administration of these procedures will be the responsibility of the City's Finance Director and the Finance Director will sign off that these procedures have been adhered to for any budget amendments and/or expenditure transfers undertaken by the City. Those procedures are as follows:

12.a. Upon knowledge that a budget amendment and/or expenditure transfer will be required, the City's Finance Director will inform both the Finance Committee and the City Council.

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13.b. Documents will be drafted by the Finance Director with the reason for the required budget amendment and/or expenditure transfer, including the specific accounts affected and the dollar amounts of said amendments and/or expenditure transfers.

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14.c. Formal City Council review and approval of proposed budget amendments and/or expenditure transfers will be required before any amendments and/or transfers are executed by the Finance Director.

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# Fund Balance Policy

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**Policy Number:** 01-02  
~~2015~~

**Date:** ~~July 27,~~ November 8, 2016

**Purpose:** Fund balance measures the net financial resources available to finance expenditures of future periods. Fund balance reserve policies are established to avoid cash flow interruptions, generate investment income, and reduce the need for borrowing. The fund balance reserves identified within this policy are the minimum balances necessary to accomplish these objectives.

While keeping in mind the uneven nature of the City's cash flows, should the projected ending fiscal year fund balance fall below the desired percentage or amount, the City should create a plan to restore the appropriate levels.

## **Part II – Governmental Funds**

This section only applies to fund balances reported in the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, and Permanent Funds.

### **1. Definitions**

The five fund balance classifications outlined in GASB Statement 54 follows:

**Nonspendable Fund Balance:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This would include items not expected to be converted to cash including inventories and prepaid amounts. It may also include the long-term amount of loans and receivables, as well as property acquired for resale and the corpus (principal) of a permanent fund.

**Restricted Fund Balance:** This classification should be reported when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors,

contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance: This classification reflects specific purposes pursuant to constraints imposed by formal action of the district's highest level of decision-making authority (generally the governing board). Also, such constraints can only be removed or changed by the same form of formal action.

Assigned Fund Balance: This classification reflects amounts that are constrained by the government's intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint.

Unassigned Fund Balance: This classification is the residual classification for the general fund only. It is also where *negative residual amounts for all other governmental funds* would be reported.

## **2. Fund Balance Commitments & Assignments**

Committed fund balance for a specific use must be taken by formal action of the City Council. Amendments or modifications of the committed fund balance must also be approved by formal action of the City Council. In order to be recognized in the annual Audit Report, commitments of fund balance must be enacted prior to the end of that Report's particular fiscal year.

Assigned Fund Balance is intended for specific purposes not imposed by external parties or City Council's formal action. The City Council authorizes the City Manager and/or his/her designee(s) to assign fund balance. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular Fund.

## **3. Reserves**

General Fund: Unassigned fund balance will be maintained at a minimum level equal to 25% of annual expenditures. The City's unassigned General Fund balance will be maintained to provide the municipality with sufficient working capital and a margin of safety to address emergencies without borrowing.

TIF Funds: The City currently has two budgeted TIF Funds (the Central Area TIF and TIF II). These Funds should be self-supporting and should maintain a fund balance equivalent to meet the planned improvements identified in a multi-year capital schedule(s).

Capital Projects Fund: This Fund is used for resources accumulated and used in right of way improvements such as street repair, street reconstruction, and curb and gutter replacement. Costs associated with this Fund must not be State MFT eligible and must cost over \$5,000 and have a useful life of at least three years. The funding source for this Fund will be the local home rule motor fuel tax. The Capital Projects Fund should

work toward establishing~~maintain~~ a fund balance ~~of the planned improvements for the current fiscal year~~ at a minimum dollar amount to meet the planned improvements identified in a multi-year capital replacement schedule(s).-

**Special Revenue Funds:** These Funds are used to account and report the proceeds of specific revenue sources which are restricted or committed toward expenditures for specific purposes other than debt service or capital projects. In general, all these Funds should maintain the least fund balance necessary to cover current fiscal year expenditures, plus an amount to pay for those expenditures of the subsequent fiscal year needed to avoid a cash deficit position.

#### **4. Fund Balance Classification**

Fund balance classifications depict the nature of the net resources that are reported in a governmental fund type. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The General Fund may also include an unassigned amount.

#### **5. Prioritization of Fund Balance Use**

When an expenditure is incurred for a purpose which can be paid from multiple fund balance classifications, the City will spend the most restricted dollars before less restricted, in the following order:

- Nonspendable (if funds become spendable)
- Restricted
- Committed
- Assigned
- Unassigned

### **Part III – Enterprise, Internal Service, & Fiduciary Funds**

This section applies to Funds outside the scope of GASB 54.

#### **1. Definitions**

**Restricted Net Assets:** The component of net assets restricted by external parties, constitutional restrictions, and enabling legislation.

**Net Assets Invested in Capital Assets, Net of Related Debt:** A component of net assets calculated by reducing capital assets by accumulated depreciation and the principal portion of related debt.

**Unrestricted Net Assets:** The portion of net assets that is neither restricted nor invested in capital assets net of related debt.

#### **2. Reserves**

Water Operating Fund: The unrestricted net assets of the Water Fund will be maintained at a minimum level equal to 25% of the annual budgeted operational expenses, plus the budgeted capital improvements. ~~(stemming from the water system construction impact fees).~~

Water New Construction Fund: ~~This revenue is from impact fees and is restricted for any new water main infrastructure in the City of DeKalb.~~

Water Capital Projects Fund: ~~This fund includes water related expenditures pertaining to fleet, equipment and capital projects. Capital projects include existing water infrastructure for water mains, wells, treatment plants and water towers.~~

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Airport Fund: The unrestricted net assets of the Airport Fund will be maintained at a minimum level equal to 25% of annual budgeted operational expenses, plus the budgeted capital improvements for the current fiscal year.

Other Specified Funds: The Health Insurance Fund should maintain unrestricted net assets of one month of IPBC premium. Any amount above this threshold may be transferred to the Workers' Compensation Fund or Liability/Property Insurance Fund to be used toward claims, eliminate potential deficits, or maintain net asset policy in these other Funds.

The Workers' Compensation Fund should maintain unrestricted net assets of \$1,000,000 collectively (or 1 year premium for reinsurance plus the average annual retention costs associated with that premium).

The Liability/Property Insurance Fund should maintain unrestricted net assets approximately equivalent to 25% of annual budgeted expenses.

~~The Fleet Replacement Fund will account for revenue and expenditures associated with the acquisition of City vehicles and major equipment (i.e. trailers and plows). A chargeback system from each division and Fund requiring vehicles will be utilized as the main revenue source. The Fleet Replacement Fund should maintain unrestricted net assets of the planned replacements for the current fiscal year.~~

~~The Equipment Fund is used to track the resources collected for and used in obtaining major improvements to equipment which costs over \$5,000 and has a useful life expectancy of at least three years. Equipment to be funded includes computer equipment, office furniture, copy and facsimile machines and other like equipment. A chargeback system from each division and Fund requiring equipment will be utilized as the main revenue for the Fund. The Equipment Fund should maintain unrestricted net assets of the planned replacements for the current fiscal year.~~



#### **Part IV – Other**

##### **1. Cash Deficits**

Should any Fund incur a cash deficit by the end of the fiscal year, an interfund loan will be created with a Fund or Fund(s) which have a cash surplus (unless restricted by statute or Fund Balance policy).

##### **2. Reporting**

Year to date revenues and expenditures for the General Fund will be issued to the City Council by their second regular meeting of each month.

On a quarterly basis, the City Council shall receive an update on the General Fund with a year-end forecast for the fiscal year and also receive a summary of major fund balances.

TIF Funds will be reported in greater detail to Council by the end of March and by the end of September of each year.

The City Council shall receive an update on Workers' Compensation claims through December 31 by the end of March and claims through June 30 by the end of September of each year.

A semi-annual report on economic development incentives will be reported to Council by the end of March and by the end of September of each year.

An update on retiree insurance costs will be reported annually by the end of March of each year.

# Capital Equipment Replacement Fund

Policy Number: 01-03

Date: November 8, 2016

Purpose: The City of DeKalb has established the Capital Equipment Replacement Fund (CERF) to encourage departments to set aside funds each year for the eventual replacement of existing equipment and to avoid significant fluctuations in the operating budget from one year to the next. In order to build and maintain sufficient funds on hand to replace items at the end of their useful life, water tower rental income, revenue received from the E911 Board for OSSI payments will be dedicated annually as well as, transfers by each department from the General Fund determined annually through the budget process. The remainder of this policy is intended to provide guidance as to how the CERF will operate.

The Capital Equipment Replacement Fund shall be used only to replace existing equipment owned by the City. The fund shall not be used to purchase equipment not currently owned by the City or as a means to circumvent the process for having new equipment approved by the City Council. Requests for new equipment shall be made as part of the annual operating budget and must be approved by the City Council before acquisition;

Only those items which individually have a replacement cost of more than \$10,000 or groups of similar equipment (e.g. personal computers, bullet proof vests, etc.) which, in the aggregate, exceed \$10,000 with a useful life of more than one year shall be included in the CERF. Departments shall include individual items or groups of items with a value of less than \$10,000 in their annual operating budget.

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The cost of items associated with new vehicles such as vehicle markings, light bars, radios and similar equipment shall be included in the replacement cost of the vehicle.

The replacement cost and useful life for each vehicle or technology related equipment will be re-evaluated by the individual departments on an annual basis. This re-evaluation may change the annual amounts that programs contribute for the replacement of each item. The Department Head, in consultation with the City Manager and the Finance Director shall determine when a vehicle or equipment is due for replacement. Final capital asset replacement decisions using CERF monies will be discussed and approved by the City Council as part of the annual budget process.

When CERF equipment is sold, the proceeds of the sale shall be credited to the CERF Fund.

From time to time, departments may be assigned previously used technology related equipment from within their department or another department in the City. The Director of Information Technology, in consultation with the Department Head, shall recommend that such equipment be assigned to a department when it meets the department's needs and when doing so will help avoid the expense of purchasing new equipment. Consideration shall be given to the annual operating cost of maintaining the used equipment when deciding whether or not to continue using it. The City Manager shall have the final say in determining whether or not previously used technology is assigned to a department.

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# Revenue and Expenditure Policy

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**Policy Number:** 01-043  
2015

**Date:** ~~July 27,~~ November 8, 2016

**Purpose:** Revenues

The City desires to maintain a diversified and stable revenue base to reduce the impacts of fluctuations in any one revenue source. The revenue mix combines elastic and inelastic revenue sources to minimize the effects of an economic downturn. The City also incorporates the following principles related to revenues as it furthers its financial planning and fulfills its fiscal responsibilities:

1. The City prefers to keep its property tax rate as low as possible. The following components shall be followed in priority order each year when establishing the property tax levy:
  - a. Levy for Police, Fire and IMRF pensions per actuary calculations. If the actuarial reports indicated a higher employer contribution is needed, said increase will need to be added to the City's overall previous year levy request to avoid underfunding problems.
  - b. Levy for FICA.
  - c. Levy for general obligation bond principal and interest less abatements.

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- d. Levy to support General Fund operations including Police, Fire, Public Works, Community Development, Finance, Human Resources, I.T. and Administration. The annual increase for this component should not exceed the rate of inflation.
  - e. Levy to fund additional personnel as determined by the City Council.
2. User charges and tap-on fees will be sufficient to finance all operating and debt service costs for the Water Fund.
3. The City Manager should impose spending limits if, in his/her judgment, revenues will be below original estimates. Staff should review and monitor on a monthly basis expenditures to assure control of spending within available revenues.
4. Ongoing transfers will be made from the General Fund to the Fleet Replacement fund on an annual basis to help plan for the purchasing of large capital equipment needs.

**Expenditures**

The City will strive to adhere to the following policies:

1. The City will consistently budget the minimum level of expenditures which will provide for the public well-being and safety of the residents and businesses of the community.
2. Expenditures will be within the confines of generated revenue. Fund balances will not be used to pay for operating expenditures except in the case of emergencies and after careful consideration.

# Accounting, Auditing and Financial Reporting Policy

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**Policy Number:** 01-054

**Date:** ~~November 8~~ July 27, 2015

**Purpose:** The City shall have an annual audit conducted on its financial records by a qualified, independent public accounting firm. The City should request proposals from qualified independent accounting firms to conduct an annual audit of its financial statements every five to six years by the use of a request for proposal (RFP) process. In accordance with Government Finance Officers Association's (GFOA's) Best Practice Guidelines, the current auditors can be included in the RFP process, however, it is recommended changing the audit team if the same firm came in with the best proposal.

The audit shall be conducted on an annual basis to be completed and filed within six months after the end of each fiscal year.

The City should submit its Comprehensive Annual Financial Report (CAFR) to the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting Program.

The City's financial statements shall be prepared according to generally-accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Council (GASB).

The City should contract with an independent actuary to determine the City's annual contribution to the Police and Fire Pension Funds.

When the City prepares monthly significant account reconciliations, prepares the year-end adjustments, and prepares the year-end financial statements, the following procedures will be followed. Administration of these procedures will be the responsibility of the City's Finance Director and the Finance Director will sign off that these procedures have been adhered to on a monthly and year-end basis. Those procedures are as follows:

The Finance Department, under approval of the Finance Director, will prepare a listing of all significant accounts of the City that are to be reconciled on a monthly basis. These accounts are to include at a minimum all balance sheet accounts at month-end, all grant related revenue and expense accounts, all restricted use revenue accounts and all other accounts deemed necessary by the Finance Department to be reviewed on a monthly basis. A monthly checklist of these accounts will be prepared and signed off by the Finance Director.

Within 90 days after the close of the fiscal year the Finance Department will be required to submit to the Finance Director all required year-end close adjustments. These adjustments are to be approved and reviewed by the Finance Director and posted to the general ledger prior to the auditors beginning audit fieldwork.

The City's auditors assist in the preparation of the City's financial statements, including the footnote disclosures, in accordance with generally accepted accounting principles. Further, the City will review a complete initial draft and final draft of the financial statements as prepared by the auditors. The City Finance Director will be responsible for a final complete review of the financial statements, including the footnotes disclosures, to ensure that the financial statements are prepared in accordance with generally accepted accounting principles. Any questions or concerns related to the financial statements will be discussed with the City's auditors.

The City's Comprehensive Annual Financial Report and Management Letter~~audited financial statements~~ will be approved by the City Council and available for distribution no later than six months after the close of the City's fiscal year-end.

# Capital Asset Policy

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**Policy Number:** 01-065  
2015

**Date:** ~~November 8, 2016~~ July 27,

**Purpose:** Capital assets purchased or acquired with an original cost of \$25,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. Infrastructure such as streets, traffic signals and signs are capitalized. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by the governmental activities) the government chose to include all such items regardless of their acquisition date. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement costs.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation on all assets is computed and recorded using the straight-line method of depreciation over the following estimated useful lives:

Buildings and Building Improvements	40 to 50 Years
Equipment	10 to 20 Years
Vehicles	3 to 20 Years
Infrastructure	25 to 50 Years
Water Distribution System	40 to 65 Years

When capital assets are purchased with the use of federal funds the following procedures will be completed by the City. Administration of these procedures will be the responsibility of the City's Finance Director and the Finance Director will sign off that these procedures have been adhered to for the purchase of every federal funded capital asset. Those procedures are as follows:



Capital assets purchased with federal funds will be tagged with a special notation of “F” in addition to the regular identification number system used by the City.

The description of the capital asset in the City’s capital asset records will also include the words “federally funded” before the description of the specific asset acquired.

The source of federal funds must be noted and include a description of who holds title to the assets, along with the asset acquisition date, the asset cost, location of the asset, condition and use/purpose of the asset.

The portion of the asset that is federally funded must also be noted in the City’s capital asset records. Upon disposition of any federally acquired assets, the City must note in the capital asset records the disposition date and sale price.

A physical inventory of all assets acquired with federal funds will be performed on a biennial basis. The results of the City’s inventory of federally funded capital assets will be reconciled to the City’s capital asset records to ensure accuracy. This inventory will be overseen and approved by the City’s Finance Director.

# Debt Management Policy

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**Policy Number:** 01-076  
2015

**Date:** November 8, 2016~~July 27,~~

**Purpose:** The City of DeKalb developed this Debt Management Policy to help ensure the City's credit worthiness and to provide a functional tool for debt management and capital planning.

The City of DeKalb faces continuing capital infrastructure requirements to meet the increasing needs of its citizens. The City limits long-term debt to only those capital improvements that cannot be financed from current revenues. The City of DeKalb will not use long-term debt to fund operating programs.

The costs of the capital requirements will be met through the issuance of various types of debt instruments. Consequently, the City needs to anticipate increases in debt levels based upon historical data. With these increases, the effects of decisions regarding the type of issue, method of sale, and payment structure become ever more critical to the City's financial well-being. To help ensure the City's credit worthiness, an established program of managing the City's debt becomes essential.

To this end, the City Council recognizes this "Debt Management Policy" to be financially prudent and in the City's best economic interest. This policy will provide a functional tool for debt management and capital planning, and enhance the City's reputation for managing its debt in a conservative and prudent manner.

## **Goals Related to the Issuance of General Obligation and Revenue Bond Debt:**

The City shall pursue the following goals below when issuing debt. Though the City may not have achieved all these goals as of yet, these are long term objectives for which we must continue to strive toward.

1. Maintain at least an Aa3 (Moody's) or equivalent credit rating for each general obligation debt issue.
2. Take all practical precautions to avoid any financial decision which will negatively impact current credit ratings on existing or future debt issues.
3. The City should attain a General Fund unassigned balance equal to a minimum of twenty five percent (25%) of total annual ~~expenditures, appropriations, exclusive of inter fund transfers.~~

4. Consider market timing.
5. Determine the amortization (maturity) schedule which will best fit with the overall debt structure of the City's general obligation debt and related tax levy at the time the new debt is issued. The City may choose to delay principal payments or capitalized interest during project construction. For issuance of revenue bonds, the amortization schedule which will best fit with the overall debt structure of the fund and its related rate structure will be considered. Consideration will be given to coordinating the length of the issue with the lives of assets, whenever practicable, 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 payout structure.
6. Consider the impact of such new debt on overlapping debt and the financing plans of local governments which overlap, or underlie the City.
7. Assess financial alternatives to include new and innovative financing approaches, including whenever feasible, categorical grants, revolving loans or other state/federal aid.
8. Minimize debt interest costs.

**Debt Issuance in General:**

**1. Authority and Purposes of the Issuance of Debt**

The laws of the State of Illinois authorize the issuance of debt by the City. The Local Bond Law confers upon municipalities the power and authority to contract debt, borrow money, and issue bonds for public improvement projects as defined therein. Under these provisions, the City may contract debt to pay for the cost of acquiring, constructing, reconstructing, improving, extending, enlarging, and equipping such projects or to refund bonds. The City Charter authorizes the City Council to incur debt by issuing bonds for any lawful municipal purpose as authorized by the State Constitution or its Home Rule Powers.

**2. Short-Term Debt (three years or less)**

The City may issue short-term debt to finance projects or portions of projects for which the City ultimately intends to issue long-term debt. This will be used to provide interim financing which will eventually be refunded with proceeds of long-term obligations, which may include, but not be limited to, bond anticipation notes or variable rate demand notes. The City will have an estimated timeframe when any short-term debt issue will eventually be converted into long-term debt.

a. Line of Credit

The City may also issue debt instruments to meet cash flow requirements. With the approval of the City Council, the City may establish a tax-exempt line of credit with a financial institution selected through a competitive process. This line should have a limit of \$2,500,000. Draws should be made on the line of credit when the need for financing is needed to meet **operating** expenditures on a temporary basis. Draws made on the line of credit must be requested by the Finance Director and approved by the City Manager and the City Council.

**3. Long-Term Debt (more than three years)**

The City may issue long-term debt which may include, but not limited to, general obligation bonds, certificates of participation, capital appreciation bonds, special assessment bonds, self-liquidating bonds and double barreled bonds.

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

The City shall be mindful of the potential 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 City policy will be adjusted accordingly.

The cost of issuance of private activity bonds is usually higher than for governmental purpose bonds. Consequently, private activity bonds will be issued only when they will economically benefit the City.

The cost of taxable debt is higher than for tax-exempt debt. However, the issuance of taxable debt is mandated in some circumstances and may allow valuable flexibility in subsequent contracts with users or managers of the improvement constructed with the bond proceeds. In addition, there may be circumstances in which the issuance of taxable debt may be more cost effective than the issuance of tax-exempt debt. Therefore, the City will usually issue obligations tax exempt, but may occasionally issue taxable obligations.

a. Capital Leasing

The City may also enter into long-term leases for public facilities, property, and equipment with a useful life greater than one year that costs less than

\$500,000. The City should be limited to issuing a capital lease of no more than \$1,000,000 in a fiscal year.

Whenever a lease is arranged with a private sector entity, a tax-exempt rate should be sought. Whenever a lease is arranged with a government or other tax-exempt entity, the City should strive to obtain an explicitly defined taxable rate so that the lease will not be counted in the City's total annual borrowing subject to arbitrage rebate.

The lease agreement should permit the City to refinance the lease at no more than reasonable cost should the City decide to do so. A lease which can be called at will is preferable to one which can merely be accelerated.

#### 4. Capital Improvement Program

The Capital Improvement Program (CIP), approved by the City Council as part of the annual budget, should determine the City's capital needs. The program should be a five-year plan for the acquisition, development and/or improvement of the City's infrastructure. Projects included in the CIP should be prioritized; and the means for financing each should be identified. If the current resources are insufficient to meet the needs identified in the CIP, the City Council may consider incurring debt to fund the shortfall. The City Council may also consider incurring debt to fund multiple years of the Capital Improvement Program. The CIP should be revised and supplemented each year ~~to maintain and test compliance in keeping with the City's Debt stated Management Policy Financial Policy #01-07, policies on debt management.~~

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#### 5. Structure of Debt Issues

The duration of a debt issue should not remain outstanding beyond the asset's useful life. Each new bond issue should be structured to be callable in 10 years. The City should design the financing schedule and repayment of 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. In keeping with the stated goals of this debt management policy, the City should structure each general obligation issue (except refunding and mini-bond issues) to comply with the rapidity of debt repayment provisions in Section III. E-4 following.

#### 6. Credit Enhancements

Credit enhancements are mechanisms which guarantee principal and interest payments. Typically they include bond insurance and/or a line or letter of credit. Usually this will bring a lower interest rate and a higher rating from the rating agencies, thus lowering costs.

The City may enter into agreements with commercial banks or other financial entities for the purpose of acquiring credit enhancements when their use is judged cost effective or otherwise advantageous. Any such agreements shall be approved by the City Council.

#### **7. Inclusion of Local Institutions**

Whenever practical and in the best interest of promoting the City of DeKalb, local financial institutions are to be offered the opportunity to bid on debt instruments.

### **Legal Constraints and Other Limitations on the Issuance of Debt**

#### **1. State Law**

30 ILCS 305/0.01, et. seq.: the short title is "The Bond Authorization Act."

#### **2. Authority for Debt**

The City may, by bond ordinance, incur indebtedness or borrow money, and authorize the issue of negotiable obligations, including refunding bonds, for any capital improvement of property, land acquisition, or any other lawful purpose with approval by the City Council.

#### **3. Debt Limitation**

The City of DeKalb is a home rule community. As such, the debt limitations of the bond laws are not applicable because the General Assembly has set no limits for home rule municipalities.

#### **4. Methods of Sale**

When feasible and economical, obligations should be issued by competitive rather than negotiated sale. A sale may be negotiated when the issue is predominantly a refunding issue or in other non-routine situations which require more flexibility than a competitive offer allows. Whenever the option exists to offer an issue either for competition or for negotiation, analysis of the options should be performed to aid in the decision-making process. When a sale is not competitively bid, the City will publicly present the reasons and select the underwriter or direct purchaser. If a Financial Advisor is hired to assist the City in bond issuance, the Financial Advisor will not underwrite any debt issues on which it is advising.

The criteria used to select an underwriter in a competitive sale should be the true interest cost. In a negotiated sale, the underwriter may be selected with or without

a request for proposals (RFP). The criteria used to select an underwriter in a negotiated sale should include the following:

- Overall experience
- Marketing philosophy
- Capability
- Previous experience as managing a co-managing partner
- Financial statements
- Public Finance team and resources
- Underwriter's discount

When cost/beneficial, the City may privately place its debt. Since no underwriter participates in a private placement, it may result in lower costs of issuance. Private placement is sometimes an option for small issues.

#### 5. Credit Implications

When issuing new debt, the City should strive not to exceed credit industry benchmarks where applicable. Therefore, the following factors should be considered in developing debt issuance plans:

- a. Ratio of Gross Bonded Debt to Full Market Value of Taxable Property  
The formula for this computation is Gross Bonded Debt, which is the total outstanding debt, divided by the current Full Market Value of Taxable Property as determined by the Township Assessors. The City should not exceed 2% of Gross Bonded Debt per Full Market Value of Taxable Property.
- b. Gross Bonded Debt Per Capita  
The formula for this computation is Gross Bonded Debt divided by the current population as determined by the most recent U.S. Census. The City should not exceed \$1,200 for Gross Bonded Debt per capita.
- c. Ratio of Annual Debt Service to General Fund Expenditures  
The formula for this computation is annual debt service expenditures divided by General Fund expenditures (excluding certain interfund transfers). The City should not exceed 10% of General Fund expenditures for annual debt service.
- d. Rapidity of Debt Service Repayment  
The City's general obligation bond issues should be so structured whereby the duration of the debt should not exceed 120% of the life of the asset.
- e. Current Fund Balance General Fund Cash Reserve

The City should maintain a General Fund unassigned balance equal to a minimum of twenty five percent (25%) of total annual appropriations, exclusive of interfund transfers. Such calculation, including a projection to June 30th (of the current fiscal year), should be made on an annual basis by the Finance Director (or designee) during the budget process.

## **Debt Administration**

### **1. Financial Disclosures**

The City shall prepare appropriate disclosures as required by the Securities and Exchange Commission, 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.

### **2. Review of Financing Proposals**

All capital financing proposals that involve a pledge of the City's credit through the sale of securities, execution of loans or lease agreements and/or otherwise directly involve the lending or pledging of the City's credit shall be referred to the Finance Director who shall determine the financial feasibility, and the impact on existing debt of such proposal, and shall make recommendations accordingly to the City Manager.

### **3. Establishing Financing Priorities**

The Finance Director shall administer and coordinate the City's debt issuance program and activities, including timing of issuance, method of sale, structuring the issue, and marketing strategies. The Finance Director along with the City's bond consultants shall meet, as appropriate, with the City Manager and the City Council regarding the status of the current year's program and to make specific recommendations.

### **4. Credit Rating**

The City should endeavor to maintain and/or to improve its credit rating and staff will specifically discuss with the City Council any proposal which might cause that rating to be lowered.

Before a general obligation bond is issued, the City will update its rating from at least one national rating agency. The City Manager, Finance Director, and the City's bond consultants should meet with a rating agency to disclose the City's capital plans, debt issuance program, and other appropriate financial information as required by the rating agency.

### **5. Refunding Policy**



The City should consider refunding outstanding debt when legally permissible and financially advantageous. When refunding for savings purposes, a net present value debt service savings of at least two percent or greater must be achieved. Depending on the time to maturity and the absolute level of interest rates of the refunding candidate this target may change. For longer maturities the target can be higher, for shorter maturities, lower. For higher interest rates the target may be higher, for lower rates it could be lower. There may be circumstances where the City may refund bonds for restructuring purposes that may not generate any savings.

#### **6. Investment of Borrowed Proceeds**

The City acknowledges its ongoing fiduciary responsibilities to actively manage the proceeds of debt issued for public purposes in a manner that is consistent with Illinois statutes that govern the investment of public funds, and consistent with the permitted securities covenants of related bond documents executed by the City. The management of public funds should enable the City to respond to changes in markets or changes in payment or construction schedules so as to (i) optimize returns, (ii) insure liquidity, and (iii) minimize risk. The City will invest bond proceeds in accordance with the City's investment policy and federal arbitrage requirements.

#### **Glossary of Terms:**

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

**Advanced 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 advanced 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.

**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.

**Arbitrage** - Usually refers to the difference between the interest paid on the tax-exempt securities and the interest earned by investing the proceeds in higher yielding taxable securities. Internal Revenue Service regulations govern arbitrage (reference I.R.S. Reg. 1.103-13 through 1.103-15).

**Arbitrage Bonds** - Bonds which are deemed by the I.R.S. to violate federal arbitrage regulations. The interest on such bonds becomes taxable and the bondholders must include this interest as part of gross income for federal income tax purposes (I.R.S. Reg. 1.103-13 through 1.103-15).

**Assessed Value** - An annual determination of the just or fair market value of property for purposes of ad valorem taxation.

**Basis Point** - 1/100 of one percent.

**Bond** - Written evidence of the issuer's obligation to repay a specified principal amount on a date certain, together with interest at a stated rate, or according to a formula for determining that rate.

**Bond Anticipation Notes (BANS)** - Short-term interest bearing notes issued by a government in anticipation of bonds to be issued at a later date. The notes are retired from proceeds of the bond issue to which they are related.

**Bond Counsel** - An attorney retained by the City to render a legal opinion whether the City is authorized to issue the proposed bonds, has met all legal requirements necessary for issuance, and whether interest on the bonds is, or is not, exempt from federal and state income taxation.

**Bonded Debt** - The portion of an issuers total indebtedness represented by outstanding bonds.

Direct Debt or Gross Bonded Debt - The sum of the total bonded debt and any unfunded debt of the issuer.

Net Direct Debt or Net Bonded Debt - Direct debt less sinking fund accumulations and all self-supporting debt.

Total Overall Debt - Net direct debt plus the issuer's applicable share of the direct debt of all overlapping jurisdictions.

Net Overall Debt - Net direct debt plus the issuer's applicable share of the net direct debt of all overlapping jurisdictions.

Overlapping Debt - The issuer's proportionate share of the debt of other local governmental units which either overlap or underlie it.

**Callable Bond** - A bond which permits or requires the issuer to redeem the obligation before the stated maturity date at a specified price, the call price, usually at or above par value.

**Capital Appreciation Bonds (CAB)** - A long-term security on which the investment return is reinvested at a stated compound rate until maturity. The investor receives a single payment at maturity representing both the principal and investment return.

**Certificates of Participation** - Documents, in fully registered form, that act like bonds. However, security for the certificates is the government's intent to make annual appropriations during the term of a lease agreement. No pledge of full faith and credit of the government is made. Consequently, the obligation of the government to make basic rental payments does not constitute an indebtedness of the government.

**Commercial Paper** - Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank.

**Coupon Rate** - The annual rate of interest payable on a coupon bond (a bearer bond or bond registered as to principal only, carrying coupons evidencing future interest payments), expressed as a percentage of the principal amount.

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

**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.

**Demand Notes (Variable Rate)** - A short-term security which is subject to a frequently available put option feature under which the holder may put the security back to the issuer after giving specified notice. Many of these securities are floating or variable rate, with the put option exercisable on dates on which the floating rate changes.

**Double Barreled Bonds (Combination Bonds)** - A bond which is payable from the revenues of a governmental enterprise and are also backed by the full faith and credit of the governmental unit.

**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.

**General Obligation Bond** - A bond for whose payment the full faith and credit of the issuer has been pledged. More commonly, but not necessarily, general obligation bonds are payable from ad valorem property taxes and other general revenues.

**Lease Purchase Agreement (Capital Lease)** - A contractual agreement whereby the government borrows funds from a financial institution or a vendor to pay for capital acquisition. The title to the asset(s) normally belongs to the government with the lessor acquiring security interest or appropriate lien therein.

**Letter of Credit** - A commitment, usually made by a commercial bank, to honor demands for payment of a debt upon compliance with conditions and/or the occurrence of certain events specified under the terms of the commitment.

**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.

**Long-Term Debt** - Long-term debt is defined 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.

**Mini-bonds** - A small denomination bond directly marketed to the public.

**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").

**Offering Circular** - Usually a preliminary and final document prepared to describe or disclose to investors and dealers information about an issue of securities expected to be offered in the primary market. As a part of the offering circular, an official statement should be prepared by the City describing the debt and other pertinent financial and demographic data used to market the bonds to potential buyers.

**Other Contractual Debt** - Purchase contracts and other contractual debt other than bonds and notes. Other contractual debt does not affect annual debt limitation and is not a part of indebtedness within the meaning of any constitution or statutory debt limitation or restriction.

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

**Parity Bonds** - Two or more issues of bonds which have the same priority of claim or lien against pledged revenues or the issuer's full faith and credit pledge.

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

**Private Activity Bonds** - One of two categories of bonds established under the Tax Reform Act of 1986, both of whom are subject to certain tests and State volume caps to preserve tax exemption.

**Ratings** - Evaluations of the credit quality of notes and bonds, usually made by independent rating services, 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.

**Registered Bond** - A bond listed with the registrar as to ownership, which cannot be sold or exchanged without a change of registration.

**Reserve Fund** - A fund which may be used to pay debt service if the sources of the pledged revenues do not generate sufficient funds to satisfy the debt service requirements.

**Self-Supporting or Self Liquidating Debt** - Debt that is to be repaid from proceeds derived exclusively from the enterprise activity for which the debt was issued.

**Short-Term Debt** - Short-term debt is defined as any debt incurred whose final maturity is three years or less.

**Spread** - The income earned by the underwriting syndicate as a result of differences in the price paid to the issuer for a new issue of municipal bonds, and the prices at which the bonds are sold to the investing public, usually expressed in points or fractions thereof.

**Tax-Exempt Bonds** - For municipal bonds issued by the City tax-exempt means interest on the bonds are not included in gross income for federal income tax purposes; the bonds are not items of tax preference for purposes of the federal, alternative minimum income tax imposed on individuals and corporations; and the bonds are exempt from taxation by the State of Illinois.

**Tax Increment Bonds** - Bonds secured by the incremental property tax revenues generated from a redevelopment project area.

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

**True Interest Cost (TIC)** - Also known as Canadian Interest Cost. 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.

**Yield to Maturity** - The rate of return to the investor earned from payments of principal and interest, with interest compounded semiannually and assuming that interest paid is reinvested at the same rate.

**Zero Coupon Bond** - A bond which pays no interest, but is issued at a deep discount from par, appreciating to its full value at maturity.

# Investment Policy

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Policy Number: 01-087  
2015

Date: ~~November 8, 2016~~ July 27,

## Purpose:

### 1.01 Policy

It is the policy of the City of DeKalb to invest public funds in a manner that will conform to state statute, maximize security, meet daily cash flow demands, and attempt to attain a market rate of return.

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### 1.02 Scope

This policy includes all funds governed by the City Council and, except for cash in certain restricted funds, the City of DeKalb will consolidate cash balances to maximize investment earnings. Investment income will be allocated to the various individual funds based on their respective participation. Interest income derived from non-fund specific consolidated bank accounts will be attributed to the General Fund.

### 1.03 Objectives

The primary objectives of the City of DeKalb's investment activities are, in order of priority:

- A. **Safety of principal** Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio, while mitigating credit and interest rate risks, as defined below:
  1. **Credit Risk**, that is, the risk of loss due to the failure of the security issuer or backer. It may be mitigated by:
    - Limiting investments to the safest types of securities;
    - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business; and
    - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
  2. **Interest Rate Risk**, that is, the risk that the market value of securities in the portfolio will fail due to changes in general interest rates. It may be mitigated by:
    - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
    - By investing operating funds primarily in shorter-term securities

- B. **Liquidity**, so as to meet all operating requirements that may be reasonably anticipated, the portfolio shall consist largely of securities with active secondary or resale markets (dynamic liquidity).
- C. **Yield**, with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments shall be limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:
1. a declining credit security could be sold early to avoid loss of principal;
  2. a security swap would improve the quality, yield, or target duration in the portfolio; or,
  3. liquidity needs of the portfolio require that the security be sold.

#### **1.04 Standards of Care**

##### **A. Prudence**

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers and employees of the City of DeKalb, while acting in good faith in accordance with this investment policy and any written procedures as might be established, shall be relieved of personal liability for an individual security's credit risk or market price changes.

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.

##### **B. Ethics and Conflicts of Interest**

City of DeKalb employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. They shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

##### **C. Delegation of Authority**

Authority to manage the investment program is granted to the authorized municipal official described in Chapter 54 of the DeKalb Municipal Code. Responsibility for the operation of the investment program is hereby delegated to the Finance Director or his/her designee, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. These procedures shall include references to: safekeeping, delivery vs. payment, investment accounting, repurchase

agreements, wire transfer agreements collateral/depository agreements and banking services contracts. All investments shall follow the investment plan designed and approved by the Finance Director or his/her designee prior to execution.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the DeKalb City Council. The Finance Director, as Chief Financial Officer, shall be accountable for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

#### **1.05 Safekeeping and Custody**

All trades where applicable will be executed by Delivery vs. Payment (DVP). This shall ensure that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

#### **1.06 Authorized Financial Dealers and Institutions**

A list shall be maintained of financial institutions authorized to provide investment services to the City of DeKalb, as well as a list of approved security broker/dealers (or their respective custodial clearing firm) selected for creditworthiness (minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following (as appropriate):

1. audited financial statements
2. proof of National Association of Securities Dealers (NASD) certification
3. proof of state registration
4. completed broker/dealer questionnaire
5. certification of having read the City of DeKalb's investment policy and that all investments will comply with the policy

An annual review of the financial condition and registration of qualified bidders will be conducted by the Finance Director or his/her designee.

#### **1.07 Internal Controls**

The Finance Director or his/her designee is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.



Accordingly, the Finance Director or his/her designee shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Prevention of collusion
2. Separation of transaction authority from accounting and record keeping.
3. Custodial safekeeping (Securities purchased from any bank or dealer including appropriate collateral, as defined by State Law, shall be placed with an independent third party for custodial safekeeping).
4. Avoidance of physical delivery securities.
5. Clear delegation of authority to subordinate staff members.
6. Written confirmation of telephone transactions for investments and wire transfers (may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures).
7. Development of a wire transfer agreement with the lead bank or third party custodian, which shall outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

#### **1.08 Suitable and Authorized Investments**

##### **Investment Types**

Consistent with the GFOA Recommended Practice on State Statutes Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state law where applicable:

1. U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations
2. Repurchase agreements
3. Certificates of deposit
4. Savings and loan association deposits
5. Investment-grade obligations of state, provincial and local governments and public authorities
6. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of domestic securities
7. Statewide investment pools

Use of repurchase agreements should be consistent with GFOA Recommended Practices on Repurchase Agreements (see attached "GFOA Recommended Practices").

Consistent with the GFOA Recommended Practice on Use of Derivatives by State and Local Governments, extreme caution shall be exercised in the use of derivative instruments (see attached "GFOA Recommended Practices").

From time to time, the City may choose to invest in instruments offered by minority and community financial institutions. These financial institutions may not meet all the criteria under this section. All terms and relationships will be fully disclosed and authorized by the City Manager prior to purchase and shall be consistent with state or local law.

### **1.09 Collateralization**

Funds on deposit (checking accounts, certificates of deposit, etc.) in excess of FDIC or SIPC limits, excluding interest, must be secured by some form of collateral, witnessed by a written agreement (see the attached "GFOA Recommended Practices"). Pledged collateral shall be held in safekeeping by the Federal Reserve Bank of Chicago (or other independent third party designated by the Finance Director or his/her designee) in the name of the municipality. In addition, the value of the pledged collateral must be marked to market monthly, or more frequently depending on the volatility of the collateral pledged. Last, the City requires that the amount of collateral pledged equal 110% of the uninsured amount on deposit.

### **1.10 Diversification**

The City of DeKalb shall attempt to diversify its investments appropriate to the nature of the funds, the purpose for the funds, and the amount available to invest. Diversification can be by type of investment, number of institutions invested in, and length of maturity.

### **1.11 Maximum Maturities**

To the extent practicable, the City of DeKalb shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of DeKalb will not directly invest in securities maturing more than 3-years from the date of purchase.

Reserve funds may be invested in securities exceeding 3-years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Regardless of the foregoing, no funds may be invested in securities maturing in excess of 7-years from the date of purchase unless authorized by the City Council.

### **1.12 Reporting**

The Finance Director or his/her designee shall prepare a monthly investment and bank balance report for City Council that provides:

1. Cash balances held at the end of the month;
2. A listing of individual securities and corresponding maturities held at the end of the reporting period;
3. The percentage of the total portfolio which each type of investment represents;
4. Inception-to-date yields for each individual security;
5. Average weighted inception-to-date yield to maturity of the entire portfolio as compared to applicable benchmarks.

### **1.13 Performance Standards**

This investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should attempt to obtain a comparable rate of return during a market/economic environment of stable interest rates. The portfolio performance should be benchmarked to the return of the 90-day Treasury bill.

**1.14 Investment Policy Adoption**

The investment policy shall be adopted by the City Council.

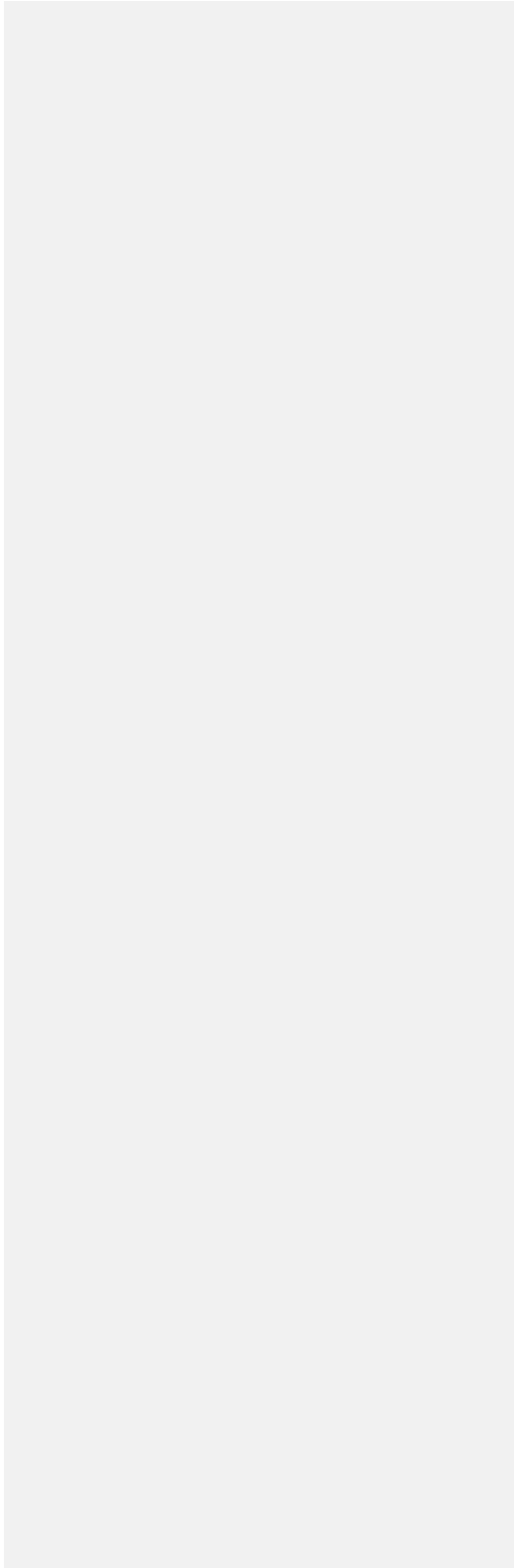
**1.15 Policy Exemption and Amendment**

**Exemption**

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

**Amendment**

This policy shall be reviewed on an annual basis. Any changes must be approved by the City Manager and any other appropriate authority, as well as the individual(s) charged with maintaining internal controls.



**DATE:** November 4, 2016

**TO:** Honorable Mayor John Rey  
City Council  
Finance Advisory Committee

**FROM:** Anne Marie Gaura, City Manager  
Cathy Haley, Finance Director

**SUBJECT:** Annual Tax Levy Tax Year 2016.

Attached are three options for the 2016 tax levy that have been formulated based on comments and inputs from the City Council and the FAC joint budget meetings.

Option #1 is the levy as was presented by staff increasing the full amount needed to fund the Police and Fire pension funds back up to the full Entry Age Normal method recommended by the actuarial valuation from Foster & Foster.

Option #2 is the levy holding the tax rate at the level it was in 2015 based on the estimated EAV provided from the County. Still fully funding the two pension funds through property tax revenue as recommended by the EPI study, Moody's and is a "Best Practice" through IGFOA. FICA and IMRF dollars would be dropped significantly.

Option #3 is the levy completely depleting any dollars going toward IMRF or FICA and strictly having the City property tax revenue cover the two pension fund actuarial contributions. Still keeping the one for one known revenue source to a known expenditure.

<b>2016 ESTIMATED TAX LEVY</b>	<b>2016 Estimated Tax</b>			<b>\$ Increase/ Decrease over prior year</b>	<b>Option #1</b>
	<b>2015 Tax Levy Extensions</b>	<b>Levy before Abatements</b>	<b>2016 Tax Levy after Abatements</b>		<b>% Increase/ Decrease over prior year</b>
<b>AGGREGATE LEVIED FUNDS</b>					
Corporate	\$824,144	\$824,107	\$824,144	\$0	0.00%
IMRF	\$251,077	\$251,035	\$251,077	\$0	0.00%
Social Security	\$204,831	\$204,818	\$204,831	\$0	0.00%
Public Library	\$2,298,549	\$2,298,549	\$2,298,549	\$0	0.00%
SSA #3-Heritage Ridge	\$0	\$1,000	\$1,000	\$1,000	100.00%
SSA #4-Knolls	\$5,000	\$5,500	\$5,500	\$500	10.00%
SSA #6 - Greek Row	\$10,000	\$14,000	\$14,000	\$4,000	40.00%
SSA#14 Heartland Fields	\$2,500	\$2,500	\$2,500	\$0	0.00%
<b>Aggregate Levy Totals</b>	<b>\$3,596,101</b>	<b>\$3,601,509</b>	<b>\$3,601,601</b>	<b>\$5,500</b>	<b>0.15%</b>
<b>PUBLIC SAFETY PENSION LEVIES</b>					
Fire Pension	\$2,177,872	\$2,632,815	\$2,632,815	\$454,943	20.89%
Police Pension	\$1,636,915	\$2,035,981	\$2,035,981	\$399,066	24.38%
<b>Public Safety Pension Totals</b>	<b>\$3,814,787</b>	<b>\$4,668,796</b>	<b>\$4,668,796</b>	<b>\$854,009</b>	<b>22.39%</b>
<b>DEBT SERVICE LEVIES</b>					
G.O. Bonds 2013A-Library	\$494,945	\$620,000	\$486,626	(\$8,319)	-1.68%
G.O. Bonds 2013B&2012A-Police	\$0	\$900,000	\$0	\$0	0.00%
G.O. Bonds 2010A - TIF	\$0	\$1,425,125	\$0	\$0	0.00%
G.O. Bonds 2010B&2010C-Refunding	\$0	\$1,350,000	\$0	\$0	0.00%
G.O. Bonds 2014-Refunding	\$0	\$400,875	\$0	\$0	0.00%
<b>Total Bond &amp; Interest</b>	<b>\$494,945</b>	<b>\$4,696,000</b>	<b>\$486,626</b>	<b>(\$8,319)</b>	<b>-1.68%</b>
<b>TOTAL</b>	<b>\$7,905,833</b>	<b>\$12,966,305</b>	<b>\$8,757,023</b>	<b>\$851,190</b>	<b>10.77%</b>

<b>Levy Year</b>	<b>Rate</b>	<b>EAV</b>	<b>Dollars</b>	<b>Increase</b>
2015	1.1942	468,077,742	\$5,589,784	
2016	1.2699	506,786,682	\$6,435,474	\$845,690

<b>PROPERTY TAX COMPUTATION CALCULATION</b>				
<b>COMPARISON BETWEEN 2015 AND 2016 Full Pension Contribution Option #1</b>				
<b>2015 Market Value</b>		<b>2015</b>	<b>2016</b>	<b>Difference</b>
\$ 100,000.00	Home EAV	33,333	36,090	<b>\$.17 - Per Day</b>
	Tax Rate	1.1942%	1.2699%	<b>\$5.02 - Per Month</b>
	Tax Bill	\$398	\$458	<b>\$60 - Annually</b>
\$ 150,000.00	Home EAV	50,000	54,135	<b>\$.25 - Per Day</b>
	Tax Rate	1.1942%	1.2699%	<b>\$7.53 - Per Month</b>
	Tax Bill	\$597	\$687	<b>\$90 - Annually</b>
\$ 200,000.00	Home EAV	66,667	72,180	<b>\$.33 - Per Day</b>
	Tax Rate	1.1942%	1.2699%	<b>\$10.04 - Per Month</b>
	Tax Bill	\$796	\$917	<b>\$120 - Annually</b>
<b>** EAV x Tax Rate = Property Tax Revenue</b>				
<b>Fund Balance held at 25%</b>				

<b>2016 ESTIMATED TAX LEVY</b>	<b>2015 Tax Levy Extensions</b>	<b>2016 Estimated Tax Levy before Abatements</b>	<b>2016 Tax Levy after Abatements</b>	<b>\$ Increase/ Decrease over prior year</b>	<b>Option #2 % Increase/ Decrease over prior year</b>
<b>AGGREGATE LEVIED FUNDS</b>					
Corporate	\$824,144	\$824,107	\$824,144	\$0	0.00%
IMRF	\$251,077	\$251,035	\$72,480	(\$178,597)	-71.13%
Social Security	\$204,831	\$204,818	\$0	(\$204,831)	-100.00%
Public Library	\$2,298,549	\$2,298,549	\$2,298,549	\$0	0.00%
SSA #3-Heritage Ridge	\$0	\$1,000	\$1,000	\$1,000	100.00%
SSA #4-Knolls	\$5,000	\$5,500	\$5,500	\$500	10.00%
SSA #6 - Greek Row	\$10,000	\$14,000	\$14,000	\$4,000	40.00%
SSA#14 Heartland Fields	\$2,500	\$2,500	\$2,500	\$0	0.00%
<b>Aggregate Levy Totals</b>	<b>\$3,596,101</b>	<b>\$3,601,509</b>	<b>\$3,218,173</b>	<b>(\$377,928)</b>	<b>-10.51%</b>
<b>PUBLIC SAFETY PENSION LEVIES</b>					
Fire Pension	\$2,177,872	\$2,632,815	\$2,632,815	\$454,943	20.89%
Police Pension	\$1,636,915	\$2,035,981	\$2,035,981	\$399,066	24.38%
<b>Public Safety Pension Totals</b>	<b>\$3,814,787</b>	<b>\$4,668,796</b>	<b>\$4,668,796</b>	<b>\$854,009</b>	<b>22.39%</b>
<b>DEBT SERVICE LEVIES</b>					
G.O. Bonds 2013A-Library	\$494,945	\$620,000	\$486,626	(\$8,319)	-1.68%
G.O. Bonds 2013B&2012A-Police	\$0	\$900,000	\$0	\$0	0.00%
G.O. Bonds 2010A - TIF	\$0	\$1,425,125	\$0	\$0	0.00%
G.O. Bonds 2010B&2010C-Refunding	\$0	\$1,350,000	\$0	\$0	0.00%
G.O. Bonds 2014-Refunding	\$0	\$400,875	\$0	\$0	0.00%
<b>Total Bond &amp; Interest</b>	<b>\$494,945</b>	<b>\$4,696,000</b>	<b>\$486,626</b>	<b>(\$8,319)</b>	<b>-1.68%</b>
<b>TOTAL</b>	<b>\$7,905,833</b>	<b>\$12,966,305</b>	<b>\$8,373,595</b>	<b>\$467,762</b>	<b>5.92%</b>

<b>Levy Year</b>	<b>Rate</b>	<b>EAV</b>	<b>Dollars</b>	<b>Increase</b>
2015	1.1942	468,077,742	\$5,589,784	
2016	1.1942	506,786,682	\$6,052,047	\$462,262

<b>PROPERTY TAX COMPUTATION CALCULATION</b>				
<b>COMPARISON BETWEEN 2015 AND 2016 Holding rate the same Option #2</b>				
<b>2015 Market Value</b>		<b>2015</b>	<b>2016</b>	<b>Difference</b>
\$ 100,000.00	Home EAV	33,333	36,090	<b>\$.09 - Per Day</b>
	Tax Rate	1.1942%	1.1942%	<b>\$2.74 - Per Month</b>
	Tax Bill	\$398	\$431	<b>\$33 - Annually</b>
\$ 150,000.00	Home EAV	50,000	54,135	<b>\$.14 - Per Day</b>
	Tax Rate	1.1942%	1.1942%	<b>\$4.12 - Per Month</b>
	Tax Bill	\$597	\$646	<b>\$49 - Annually</b>
\$ 200,000.00	Home EAV	66,667	72,180	<b>\$.18 - Per Day</b>
	Tax Rate	1.1942%	1.1942%	<b>\$5.49 - Per Month</b>
	Tax Bill	\$796	\$862	<b>\$66 - Annually</b>
<b>** EAV x Tax Rate = Property Tax Revenue</b>				
Fund Balance drops to 23.85%				



<b>2016 ESTIMATED TAX LEVY</b>	<b>2015 Tax Levy Extensions</b>	<b>2016 Estimated Tax</b>		<b>\$ Increase/ Decrease over prior year</b>	<b>Option #3</b>
		<b>Levy before Abatements</b>	<b>2016 Tax Levy after Abatements</b>		<b>% Increase/ Decrease over prior year</b>
<b>AGGREGATE LEVIED FUNDS</b>					
Corporate	\$824,144	\$824,107	\$824,144	\$0	0.00%
IMRF	\$251,077	\$251,035	\$0	(\$251,077)	-100.00%
Social Security	\$204,831	\$204,818	\$0	(\$204,831)	-100.00%
Public Library	\$2,298,549	\$2,298,549	\$2,298,549	\$0	0.00%
SSA #3-Heritage Ridge	\$0	\$1,000	\$1,000	\$1,000	100.00%
SSA #4-Knolls	\$5,000	\$5,500	\$5,500	\$500	10.00%
SSA #6 - Greek Row	\$10,000	\$14,000	\$14,000	\$4,000	40.00%
SSA#14 Heartland Fields	\$2,500	\$2,500	\$2,500	\$0	0.00%
<b>Aggregate Levy Totals</b>	<b>\$3,596,101</b>	<b>\$3,601,509</b>	<b>\$3,145,693</b>	<b>(\$450,408)</b>	<b>-12.52%</b>
<b>PUBLIC SAFETY PENSION LEVIES</b>					
Fire Pension	\$2,177,872	\$2,632,815	\$2,632,815	\$454,943	20.89%
Police Pension	\$1,636,915	\$2,035,981	\$2,035,981	\$399,066	24.38%
<b>Public Safety Pension Totals</b>	<b>\$3,814,787</b>	<b>\$4,668,796</b>	<b>\$4,668,796</b>	<b>\$854,009</b>	<b>22.39%</b>
<b>DEBT SERVICE LEVIES</b>					
G.O. Bonds 2013A-Library	\$494,945	\$620,000	\$486,626	(\$8,319)	-1.68%
G.O. Bonds 2013B&2012A-Police	\$0	\$900,000	\$0	\$0	0.00%
G.O. Bonds 2010A - TIF	\$0	\$1,425,125	\$0	\$0	0.00%
G.O. Bonds 2010B&2010C-Refunding	\$0	\$1,350,000	\$0	\$0	0.00%
G.O. Bonds 2014-Refunding	\$0	\$400,875	\$0	\$0	0.00%
<b>Total Bond &amp; Interest</b>	<b>\$494,945</b>	<b>\$4,696,000</b>	<b>\$486,626</b>	<b>(\$8,319)</b>	<b>-1.68%</b>
<b>TOTAL</b>	<b>\$7,905,833</b>	<b>\$12,966,305</b>	<b>\$8,301,115</b>	<b>\$395,282</b>	<b>5.00%</b>

<b>Levy Year</b>	<b>Rate</b>	<b>EAV</b>	<b>Dollars</b>	<b>Increase</b>
2015	1.1942	468,077,742	\$5,589,784	
2016	1.1799	506,786,682	\$5,979,566	\$389,782

<b>PROPERTY TAX COMPUTATION CALCULATION</b>				
<b>COMPARISON BETWEEN 2015 AND 2016 Deplete IMRF and FICA Option #3</b>				
<b>2015 Market Value</b>		<b>2015</b>	<b>2016</b>	<b>Difference</b>
\$ 100,000.00	Home EAV	33,333	36,090	<b>\$.08 - Per Day</b>
	Tax Rate	1.1942%	1.1799%	<b>\$2.31 - Per Month</b>
	Tax Bill	\$398	\$426	<b>\$28 - Annually</b>
\$ 150,000.00	Home EAV	50,000	54,135	<b>\$.11 - Per Day</b>
	Tax Rate	1.1942%	1.1799%	<b>\$3.47 - Per Month</b>
	Tax Bill	\$597	\$639	<b>\$42 - Annually</b>
\$ 200,000.00	Home EAV	66,667	72,180	<b>\$.15 - Per Day</b>
	Tax Rate	1.1942%	1.1799%	<b>\$4.63 - Per Month</b>
	Tax Bill	\$796	\$852	<b>\$56 - Annually</b>
<b>** EAV x Tax Rate = Property Tax Revenue</b>				
<b>Fund Balance drops to 23.67%</b>				