

VILLAGE OF HOMEWOOD



BOARD AGENDA MEMORANDUM

DATE OF MEETING: September 26, 2023

To: Village President and Board of Trustees

Through: Napoleon Haney, Village Manager

From: Amy Zukowski, Director of Finance

Topic: Fund Balance Policy (General Fund)

PURPOSE

Pass a resolution approving an amended Fund Balance Policy for the Village's General Fund.

PROCESS

A Fund Balance Policy aims to provide the Village with financial stability, safeguard against unforeseen circumstances, maintain cash flow for operations, and ensure readiness to respond to emergencies with the use of the General Fund's unrestricted fund balance. Fund Balance is the Village's only fiscal insurance policy to protect against internal and external factors that impede the Village's ability to continue to provide high-level services to our residents and stakeholders. The General Fund is the Village's main operating fund.

The Village's Fund Balance Policy was last updated in 2011 to comply with Governmental Accounting Standards Board (GASB) Statement No. 54. GASB 54 introduced the categories of nonspendable, restricted, and unrestricted fund balance. Within the unrestricted category, fund balance can be committed, assigned, or unassigned.

- Nonspendable is the portion of 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).
- Restricted is the portion of fund balance that is subject to external enforceable legal restrictions (e.g., grantor, contributor, and property tax levies).
- Unrestricted is the portion of fund balance that reflects expendable available financial resources. It is made up of three components:
 - a. Committed fund balance occurs when the Village Board takes a formal action such as adopting an ordinance or resolution or entering into a contract. The same action is required to remove the commitment of fund balance.
 - b. Assigned fund balance denotes a self-imposed constraint with the intent to use fund balance for a specific purpose. No formal Village Board action is required.

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- c. Unassigned fund balance is the residual portion of fund balance that does not meet any of the criteria described above.

OUTCOME

The current Fund Balance Policy requires no less than four (4) months of operating expenses in unassigned fund balance. Village staff recommends that the number of months be increased to no less than five (5) months of operating expenses.

The recommendation is made for the following reasons:

- Anticipated revenue impacts of nearly a million dollars from the closing of a top retailer
- Sales tax revenues are leveling off – returning to pre-COVID levels
- Perpetual increase of operating expenses
- Volatile and unpredictable economy
- Impacts from Cook County Assessments being shifted to commercial properties
- Potential General Fund support to our anchor Downtown Development Project

The updated policy will also establish the priorities for spending any funds over the recommended five (5) months minimum. The priorities are:

1. Capital projects
2. Non-TIF incentives
3. Maintain an unassigned fund balance up to a maximum of six (6) months
4. Pension contribution funding

Use of excess unassigned fund balance should be prohibited as a funding source for ongoing recurring expenditures.

Lastly, the updated policy includes steps the Village Board should take if the unassigned fund balance falls below four months. A plan is to be formulated during the subsequent budget cycle to replenish it to the minimum level over a period not exceeding twenty-four (24) months. This plan will outline necessary adjustments to expenditures and/or revenue levels to align with any new economic realities necessitating the use of unrestricted fund balance.

This policy will be instrumental in fortifying the Village's financial foundation and ensuring fiscal resilience.

FINANCIAL IMPACT

- **Funding Source:** N/A
- **Budgeted Amount:** N/A
- **Cost:** N/A

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LEGAL REVIEW

Completed

RECOMMENDED BOARD ACTION

Pass a resolution approving an amended Fund Balance Policy for the General Fund.

ATTACHMENT(S)

Resolution

Fund Balance Policy for the General Fund