

ORDINANCE NO. 11 - 174

**AN ORDINANCE ADOPTING
THE REVISED EMERGENCY RESERVE POLICY**

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF NAPERVILLE, DUPAGE AND WILL COUNTIES, ILLINOIS, in exercise of its home rule authority as follows:

SECTION 1: On December 17, 2002, the Naperville City Council approved a Reserve Policy for the City's General Fund. The Reserve Policy is hereby replaced in its entirety with the revised Emergency Reserve Policy attached to this Ordinance as Exhibit A.

SECTION 2: This Ordinance shall be in full force and effect upon its passage and approval.

PASSED this 19th day of December, 2011.

AYES: PRADEL, BRODHEAD, CHIRICO, FIESELER, HINTERLONG, KRAUSE,
 McELROY, MILLER, WEHRLI

NAYS: NONE

APPROVED this 20th day of December, 2011.



A. George Pradel

Mayor

ATTEST:


Pam LaFeber, Ph.D.

City Clerk



EXHIBIT A

Emergency Reserve Policy

Background:

The General Fund is the general operating fund of the City. The top four revenue sources (Property Taxes, Retail Sales Taxes, Utility Taxes and Income Taxes) together comprise almost 3/4ths of the General Fund's annual revenue. The General Fund houses the expenditure budgets for all the core city service departments including: Mayor's Office, City Manager's Office, Police, Fire, Public Works, Transportation Engineering & Development Business Group, Legal, Finance and Human Resources.

Purpose:

The Emergency Reserve exists to ensure the city's ability to fund the provision of critical services to the public during, or immediately after, an emergency event. The intention is to mitigate current and future risks from events which result in either:

- sudden and significant decreases in locally collected revenue or intergovernmental aid,
- or unanticipated expenditures related to relief efforts in response to an extreme event,
- or the immediate cash requirement for unexpected major capital maintenance

expenditures.

The reserve is not to be used for systemic financial issues, but is intended for events which impact only one budget year. A general economic decline which may be long term in nature is not deemed to be an emergency event even if the financial impact is above the dollar level defined as significant.

Emergency Event Definition:

An emergency event is characterized as a one-time unanticipated immediate event which is extreme in nature and results in either a significant temporary reduction in the city's sources of revenue; or a significant temporary increase in services, or the costs thereof, that the city needs to provide to its residents or the general public; an event may occur locally, or it may be a broader scale emergency which has significant local impact or for which the City is called upon to provide assistance. A significant event is defined in financial terms as an uninsured event with an estimated impact greater than 5% of the city General Fund expenditure budget less inter-fund transfers (or 1/4th of the Emergency Reserve requirement). For FY12 the 5% significance level would be measured as \$4.7 million. Funds may also be made available on a temporary basis from the Emergency Reserve should there be a delay in the receipt of insurance recovery money.

Emergency events include, but are not limited to, natural disasters. Other examples of emergency events are those that would result in unforeseen reductions in revenue. Should an action or event significantly reduce the city's funding sources subsequent to the adoption of the municipal budget, this would constitute an emergency event for the current budget year for which the Emergency Reserve could be used to replace the missing funding for just the current budget year. A permanent sustainable solution would be required for the following budget cycle,

which would either be identification of other new or incremental revenue sources, and or offsetting reductions in costs.

Reserve Requirement:

In the absence of any prior events which resulted in usage of the Emergency Reserve, as of April 30th of each year the reserve requirement will continue to be calculated as 20% of the General Fund subsequent years' annual budgeted expenditures less inter-fund transfers (defined as the amount of internal service revenue and the police and fire pension property tax transfers).

Usage:

At any point in time up to one half of the Emergency Reserve balance available may be used to provide funding to support required city services. This restriction is to assure that there will always be some funds available should multiple emergency events occur before the Emergency Reserve balance is restored to the reserve requirement level. A super majority vote of City Council is required to override this restriction.

Use of the Emergency Reserve may be authorized as follows:

- A simple majority vote of Council will be required to support the usage of the Emergency Reserve Fund and the level of funds to be released.
- Should the Mayor declare a state of emergency, up to half of the Emergency Reserve will be made immediately available to fund relief response efforts until Council can convene for a vote.

The Emergency Reserve may be used to fund:

- The provision of critical services to residents during, or immediately after, an emergency event,
- An unforeseen reduction in revenue due to an emergency event, including the result of adverse actions of other levels of government during the current budget year,
- Or expenditures made under the "Emergency Procurements" section of the Procurement Code Ordinance,
- Or may also be used for temporary funding of expenditures which the City anticipates reimbursement through a State or Federal Emergency Declaration,
- Or where there is a temporary delay in receipt of insurance recovery money.

Council should have available for their consideration and approval at the time the vote is taken, or within six months at the latest, the reserve recovery strategy and restoration plan. As Council deliberates on the usage of the Emergency Reserve versus other funding options for the emergency relief response, it is appropriate to consider potential Bond Rating implications from the Emergency Reserve usage.

Recovery and Restoration:

Within six months following the usage of the Emergency Reserve both a reserve Recovery Strategy and a Restoration Plan will be reviewed with and approved by Council.

- The Recovery Strategy will provide clarity on how budget balance will be restored by the end of the first fiscal year following the event or sooner.
- The Restoration Plan will articulate how the fund will be restored to the required balance level, effectively it is a repayment plan.

These plans should articulate any adverse consequences to subsequent budget years from the longer term financial impacts of the event and from the future funding of the reserve restoration.

If the use of the Emergency Reserve was to temporarily fund expenditures for which reimbursement is anticipated through a State or Federal Declaration, or through an insurance recovery, the reimbursements when received will be immediately applied to the restoration of the Emergency Reserve Fund.

The funding of the restoration must commence in the second full fiscal year following the event and continue for a maximum of 5 years with a minimum of 1/5th of the amount used being restored each year until the balance is paid back in full. This will bring the Emergency Reserve back to the required balance by the end of the 6th full fiscal year following the event. Borrowing cannot be used as a funding source for the restoration of the reserve, unless the reserve was used as temporary funding for a major capital infrastructure emergency maintenance. Any fiscal year end surplus during the intervening years must be fully used to restore the reserve. Any other non-borrowing source of funding may also be used, and it is possible that expenditure reductions may also be required in future years to ensure the reserve is restored.

Excess Fund Balance:

As of April 30th the total General Fund Emergency Reserve balance, less outstanding encumbrances, should not exceed the required reserve level. When an excess unassigned fund balance exists, staff will propose to Council potential uses for such funds. The lawful purpose approved by Council shall be incorporated into the budget. At the conclusion of the financial audit, staff will prepare a report indicating the position of the fund balance, demonstrate that a sufficient transfer as budgeted was made to the Emergency Reserve, and identify if any additional excess funds are available for appropriation by Council. The report shall be given to Council not later than October 1 of each calendar year.