Fund Balance and Reserve Policy

Definitions

Fund Balance – the difference between assets and liabilities in a Governmental Fund.

Nonspendable Fund Balance – the portion of a Governmental Fund's net assets that are not available to be spent , either short tern or long term, in either form or through legal restrictions.

Restricted Fund Balance – the portion of a Government Fund's net assets that are subject to external enforceable legal restrictions.

Committed Fund Balance – the portion of a Governmental Fund's net assets with self-imposed constraints or limitations that have been placed by formal action at the highest level of decision-making.

Assigned Fund Balance – the portion of a Governmental Fund's net assets to denote an intended use of resources.

Unassigned Fund Balance – available expendable financial resources in a Governmental Fund that are not the object of tentative management plan (i.e. designations). (Only in the General Fund, unless negative)

Note: In Non-Governmental Funds, management may decide to "assign" funds for a specific purpose. This will be done as an internal budgeting procedure rather than as a formal accounting entry, creating a fund automatically assigns fund balance.

Fund Policy

A. It is the policy of the Village of Buffalo Grove to maintain Committed Fund Balance in the General Fund to fund operations for a period of at least three months. The committed amount in the General Fund is adjusted annually with the adoption of the annual budget and is calculated as three months (25 percent) of General Fund expenditures (excluding transfers to fund capital projects and pensions). During the development of the subsequent year's annual budget, should the Committed Fund Balance be expected to fall below the 25 percent target notification will be given to the Village's Finance Committee. While identified uses of Fund Balance may be proposed that could continue the trend below 25%, such uses will be disclosed and approved by the Committee.

B. The annual budget (appropriation) will include a contribution to (or drawdown from) the Committed Fund Balance to assure compliance with this policy. The levels of other required restrictions, commitments, and assignments will fluctuate depending on activity.

C. Unassigned Fund Balance shall be reviewed annually and, where appropriate, a determination will be made as to how much of the unassigned fund balance will be transferred to the Reserves for Capital Replacement. Although the policy minimum is 25 percent for Committed Fund Balance, 30 percent is considered the preferred balance and any unassigned balances exceeding 30 percent will be considered for transfer.

D. This policy may be amended from time to time according to the requests of the Village of Buffalo Grove President and Board of Trustees.

E. The Village will spend the most restricted dollars before less restricted, in the following order;
    a. Nonspendable Fund Balance (if funds become spendable)
    b. Restricted Fund Balance
    c. Committed Fund Balance
    d. Assigned Fund Balance
    e. Unassigned Fund Balance

F. The Finance Director will determine if a portion of fund balance should be assigned.

VILLAGE OF BUFFALO GROVE
DEBT POLICY

I. PURPOSE AND GOALS

The Debt Policy sets forth comprehensive guidelines for the financing of capital expenditures. It is the objective of the policies that (1) the Village obtain financing only when necessary, (2) the process for identifying the timing and amount of debt or other financing be as efficient as possible, (3) the most favorable interest rate and other related costs be obtained, and (4) when appropriate, future financial flexibility be maintained.

Debt financing, which includes general obligation bonds, special assessment bonds, revenue bonds, temporary notes, lease/purchase agreements, lines of credit, and other Village obligations permitted to be issued or incurred under Illinois law, shall only be used to purchase capital assets that cannot be acquired from either available current revenues or fund balances. The useful life of the asset or project shall exceed the payout schedule of any debt the Village assumes.

To enhance creditworthiness and prudent financial management, the Village is committed to systematic capital planning and long-term financial planning. Evidence of this commitment to capital planning will be demonstrated through the annual adoption of a Capital Improvement Plan (CIP) identifying the benefits, costs and method of funding each capital improvement planned for the succeeding five years.

GOALS

In following this policy, the Village shall pursue the following goals when issuing debt:

- Long-term debt will not be used to finance current operations or to capitalize operating expenses. The capitalization of expenses, which represents a shift of operating costs into long-term debt, should be a practice that is expressly prohibited. Long-term debt will be used only for capital projects that cannot be financed from current revenue sources. Where capital improvements or acquisitions are financed through the issuance of debt, such debt will be retired in a period not to exceed the expected life of the improvement or acquisition.
- Assess financial alternatives to include new and innovative financing approaches as well as seeking categorical grants, revolving loans or other state/federal aid
- The Village will also issue long-term debt for refunding of other outstanding debt for the purpose of interest rate savings. As a guide, the minimum net present value savings shall be three percent (3%) of the par value of the proposed new bonds to be issued. However, circumstances may occur where a refunding may be advantageous with net present value savings of less than 3%. In those cases, approval of the President and Board of Trustees will be required in order to proceed.
- Determine the amortization (maturity) schedule which will best fit with the overall debt structure of the Village's general obligation debt and related tax levy at the time the new debt is issued. The Village may choose to delay principal payments or capitalize interest

during the project construction. For issuance of revenue bonds, the amortization schedule which will best fit with the overall debt structure of the enterprise 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.

- Level or declining debt service shall be employed unless operational matters dictate otherwise, or except to achieve overall level debt service with existing bonds. The Village 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 Village policy will be adjusted accordingly.
- The cost of taxable debt is higher than for tax-exempt debt. However, the issuance of taxable debt is mandated in some circumstances and may allow valuable flexibility in subsequent contracts with users or managers of the improvement constructed with the bond proceeds. Therefore, the Village will usually issue obligations tax exempt, but may occasionally issue taxable obligations.

II. DEBT ISSUANCE IN GENERAL

A. Authority and Purposes of the Issuance of Debt

The laws of the State of Illinois authorize the issuance of debt by the Village. 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 Village may contract debt to pay for the cost of acquiring, constructing, reconstruction, improving, extending, enlarging, and equipping such projects or to refund bonds. The Village Charter authorizes the Village Board to incur debt by issuing bonds for any lawful municipal purpose as authorized by the State Constitution or it Home Rule Powers.

B. Types of Debt Issued

i) Short-Term (three years or less) The Village may issue short-term debt to finance the purchase of capital equipment having a life exceeding one year or provide increased flexibility in financing programs.

ii) Long-Term (more than three years) The Village may issue long-term debt which may include, but not limited to, general obligation bonds, certificates of participation, capital appreciation bonds, tax increment allocation revenue bonds, special assessment bonds, special service area bonds, self-liquidation bonds and double barreled bonds. The Village may also enter into long-term leases for public facilities, property, and equipment with a useful life greater than one year.

C. Capital Improvement Program

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

D. Structure of Debt Issues

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

E. Sale of Securities

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

F. Credit Enhancements

The Village may enter into agreements with commercial banks or other financial entities for the purpose of acquiring letters of credit, municipal bond insurance, or other credit enhancements that will provide the Village with access to credit under terms and as specified in such agreements when their use is judged cost effective or otherwise advantageous. Any such agreements shall be approved by the Village Board.

III. LEGAL CONSTRAINTS AND OTHER LIMITATIONS ON THE ISSUANCE OF DEBT

The Village Board may utilize the guidelines established by this policy, or may choose, in its discretion, to consider other relevant factors in incurring debt. The validity of any debt incurred in accordance with applicable law shall not be invalidated, impaired or otherwise affected by non-compliance with any part of the procedure set forth pursuant to this policy.

A. State Law

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

B. Authority for Debt

The Village 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 lawful purpose except current expenses, unless approved by the Village Board.

C. Debt Limitation

Because the Village of Buffalo Grove is a Home Rule Community, the debt limitations of the bond laws are not applicable.

D. Methods of Sale

All bonds shall be sold at a public sale, except that bonds may be sold at a private sale in accordance with 30 ILCS 350/10. The Village may issue short-term notes by negotiated sale if the bond ordinance or subsequent resolution so provides.

i) Bonds All bonds will mature within the period or average period of usefulness of the assets financed; and the bonds will mature in installments, the first of which is payable not more than five years from the dated date of the bonds. Term bonds may be allowable if recommended by the Village's financial advisor and approved by the Village Board.

ii) Financial Advisor To ensure independence, the Financial Advisor will not bid on nor underwrite any Village debt issues on which it is advising.

IV. DEBT ADMINISTRATION

A. Financial Disclosures

The Village shall prepare appropriate disclosures as required by the Security 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.

B. Review of Financing Proposals

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

C. Establishing Financing Priorities

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

D. Rating Agency Relations

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

E. Refunding Policy

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

F. Post-Issuance Compliance

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

V. 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 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 (references 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.