

**VILLAGE OF DOWNERS GROVE**  
**COUNCIL ACTION SUMMARY**

**INITIATED:** Finance Director      **DATE:** June 15, 2004  
(Name)

**RECOMMENDATION FROM:** \_\_\_\_\_ **FILE REF:** \_\_\_\_\_  
(Board or Department)

**NATURE OF ACTION:**

- Ordinance
- Resolution
- Motion
- Other

**STEPS NEEDED TO IMPLEMENT ACTION:**

Motion to Adopt "AN ORDINANCE ESTABLISHING  
A CASH BALANCE POLICY", as presented.

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**SUMMARY OF ITEM:**

Adoption of the attached ordinance will establish certain establish cash balance policy for the Village's fiscal activities.

**RECORD OF ACTION TAKEN:**

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**VILLAGE COUNCIL POLICY**

**VILLAGE OF DOWNERS GROVE**

**SUBJECT:** CASH BALANCE POLICY

**ISSUED BY:** Village Council **EFFECTIVE DATE:** June 15, 2004

**THESE ARE:**  X  Official Village Policy Approved by Council  
\_\_\_\_\_ Administrative Regulation Issued by Village Manager  
\_\_\_\_\_ Departmental Procedure Applying to All Departments

**THIS IS A:**  X  New Policy or Procedure

**AN ORDINANCE ESTABLISHING A CASH BALANCE POLICY**

**I. PURPOSE**

The purpose of this policy is to establish the principles and parameters by which the projected end-of-year CASH BALANCE target will be defined at the beginning of each budget period. The parameters established in this policy provide a range of acceptable amounts of end-of-year cash balance for different types of funds. The policy provides guidance to Village staff who monitor the Village's fiscal activity and who are responsible for proposing plans to meet Council goals.

The Village will not budget CASH BALANCE in excess of the maximum parameters or less than the minimum parameters set forth in this policy, unless the Council resolves that it is in the best interest of the Village to do so.

**II. DEFINITIONS**

A. **CASH BALANCE** is the term that will be used to represent the desired financial condition for the Village, should all budgeted fiscal activity perform as planned. It refers to the targeted amount of cash anticipated on the monthly Treasurer's report for the last month of the fiscal year. The *cash balance*, as of the last day of the fiscal year, will be used as a target for budgeting for the fiscal year. The amount of *Cash* in the bank is monitored each month with the monthly Treasurer's report and may swing above and below the end of year target, referred in this document as *Cash Balance*.

B. **Fund Balance** is represented in the annually audited financial reports for governmental funds and represents the amount of current resources available. It equals the beginning of year balance, plus all revenues and other financing sources *accrued* to the fund, minus all expenditures and other financing uses accrued to the fund during the year. The

calculation of Fund Balance is reduced by current liabilities and increased by current receivables, per generally accepted accounting principles ("GAAP"). According to GAAP, Enterprise-type funds do not have "fund balance." To be consistent with all budgeted funds, cash balance is used as the end of year target, not fund balance.

- C. **Operating Expenses.** This term refers to the total amount of budgeted expenses used for regular operations, less the amounts budgeted for:
- Controlled assets (5700 type)
  - Capital assets (5800 type), and
  - Pension expense that is specifically supported with a tax levy, i.e. the Police and Fire Pension contributions.
- D. **Capital Improvements** are long-lived, high-cost assets or improvements, needing additional investment once within a period of several years.

### III. GUIDING PARAMETERS

The Village of Downers Grove has established that it will manage its fiscal affairs by a system of objectives and goals, articulated by the Council, and integrated into fiscal budgeting as an essential and basic element of that budgeting process, (Attachment A: Resolution 91-5). A target CASH BALANCE is established to provide financial stability, cash flow for operations, and the assurance that the Village will be able to respond to emergencies with fiscal strength. It is anticipated that unexpected situations may cause the Village to fall below the CASH BALANCE, at which point certain steps will be followed to correct the deficiency, as outlined in this Policy.

- A. The following parameters will be used at the beginning of the budget process to establish targeted CASH BALANCES for the following fund types:
1. GENERAL OPERATIONS FUND CASH BALANCE will be no less than *2 months* of annual operating expenses, and not more than *4 months* of annual operating expenses. (See definition of 'operating expenses.')
  2. CAPITAL IMPROVEMENT FUND CASH BALANCE will be not less than:
    - The planned capital improvements for the same fiscal year, as presented in the most recently adopted capital improvement plan. This will ensure adequate funding for the bidding of projects at the beginning of the calendar year, prior to the beginning of the construction period,And not more than:
    - 100% of accumulated depreciation of governmental assets, minus the planned

capital improvement expenditures in the current fiscal year, or

- A cumulative balance of projected capital improvements for the next five years that are included in the most recently adopted capital improvement plan.

The CAPITAL IMPROVEMENT CASH BALANCE will be used to calculate the budgeted end of year target for all funds that finance major capital improvements, including:

- Capital Projects Fund
- Municipal Building Fund
- Equipment Replacement Fund
- Motor Fuel Tax Fund

In addition, the following Enterprise funds have a capital improvement component and will also maintain an adequate CASH BALANCE for the capital improvements, per this guidance:

- Water Fund - (capital improvements section)
- Transportation Fund - (capital improvements section)
- Parking Fund - (capital improvements section)

3. DEBT SERVICE FUND CASH BALANCE:

- Not less than the next debt service payments due, and
- Not more than the total debt service due in the fiscal year for which the target is established. Said amount will be reduced by 50% of any authorized property taxes receivable during the fiscal year.

4. HEALTH INSURANCE FUND CASH BALANCE:

The Health Insurance Fund is unique in that it needs to provide adequate resources for premiums and claims that tend to be met within a 90-day cycle. Large claims that carry over between one year and the next are not expected. Therefore, the CASH BALANCE will be:

- Not less than 25% of projected liabilities, plus the premiums due in the budgeted fiscal year.

This amount is based on a modification of the insurance industry standard. The industry standard is set to cover one period of premiums for rate stabilization, and 14% of annualized claims for termination liability. Termination liability is established to cover outstanding claims should the Village choose to discontinue the insurance.

- Not more than 100% of projected liabilities, plus the period premiums due in the budgeted fiscal year.

5. RISK MANAGEMENT CASH BALANCE:

The Risk Management Fund is unique because it needs to provide adequate resources for current year premiums plus claims that tend to carryover for several years. Large claims that remain pending for seven to ten years are not unusual for a Risk Insurance Fund.

Therefore, Village Management will obtain an appraisal of the CASH BALANCE from a

third party claims administrator. This appraisal will include an analysis of potential length to maturity for the disposal of insurance claims and the adequacy of available reserves to cover pending claims.

**6. ENTERPRISE TYPE FUND OPERATING CASH BALANCE:**

Rate stabilization is an important goal for enterprise type funds, which are dependent upon user fees to finance both the capital improvements and services provided through the fund. The CASH BALANCE for the capital improvements component of Enterprise Funds is addressed in item A-2, above.

To avoid passing along market fluctuations for operating costs to the users of the enterprise fund services, the operation component of Enterprise Fund CASH BALANCE will be:

- Not less than 3 months of rate revenues, and
- Not more than 1 year of rate revenues.

**B. DEFICIENCY OF CASH BALANCE.** Management will monitor the major revenue collections and the amount of cash available by reviewing the monthly Treasurer's report.

During the year, if revenue projections suggest that revenues will not meet expectations and the CASH BALANCE target will not be met by yearend, the Village Manager will take the following actions to reach the goals established in the adopted budget:

- Review expenses with Directors,
- Reduce controlled and capital asset expenditures,
- Reduce operational expenditures, where appropriate, while maintaining the adopted budget goals,
- Present to Council other expenditure control options, including those that might modify the goals established in the adopted budget.

**C. EXCESS OF CASH BALANCE.** When economic conditions result in an excess of CASH BALANCE, the Council will address the excess no later than the next budgeting process. Village Management will provide information on the following considerations:

- Reduction of revenue collections, such as taxes in tax-supported funds or rates in rate-supported funds,
- Identifying one-time expenditures which provide service enhancements or capital improvements,
- Increases in on-going services will be supported by evidence of increasing revenues.

**D. EXCEPTIONS TO THE POLICY.** If the Council adopts a budget that does not meet the parameters of this policy, then the budget will include a plan for adhering to this Policy within a three-year period.