

Finance Committee Report

Date: August 10, 2010

Location: Village of Hainesville, 100 N. Hainesville Rd, Hainesville 1160030

Time Opened: 5:30 p.m.

Present: Trustees Daley, Derenoski, Duberstein, and Tiffany. Also present Treasurer Hensley and attorney Adam Simon.

Trustee Daley opened up the meeting by introducing Adam Simon. Adam did a presentation to the committee of appropriation ordinance versus budget system. Refer to attached memo.

A few highlighted notes:

- The majority of government offices follow the Appropriation System
- First year in switching to Budget System is the hardest
- Budget System is easier to change during the year
- With a Budget System you can choose our own Fiscal Year
- With the Appropriation System you may also set the fiscal year by ordinance
- Appropriation System, the ordinance must be adopted by end of 1st fiscal year
- Budget System, adoption must be made by the first day of the fiscal year

The presentation lasted until 6:00 p.m.

Regular Finance meeting continued

Trustee Duberstein spoke about her talks with Village of Round Lake Beach; they had calendar year and then change it back. They had a lot of governmental agreements that conflicted with that timing. Whatever we decide we would need to look at our timing.

The July 13th, 2010 Finance Committee Meeting Minutes were presented and approved.

Trustee Daley asked if anyone had any questions on the bills payable report. Trustee Tiffany questioned about Fleet for gas service, it showed 2 line entries for police. Treasurer Hensley noted that and said one was for Public Works and the verbiage will be changed. No other questions were presented.

Trustee Duberstein said we were going to look at the cell phones. Trustee Daley said we did speak about it. Yes we are going to review phones and upgrade/ review other plans.

Trustee Duberstein spoke about last year's IML conference and the possibility of receiving a grant for changing street lights. Treasurer Hensley stated that she gave a listing of all the street light addresses the village is being billed for and forwarded this to Jeff for his committee work.

A.

Trustee Tiffany asked how many poop containers the village has. We believe there is 1 on Hunters Way, 1 on Cranberry Lake Drive and 1 on Cranberry Lake.

Treasurer Hensley was excused at 6:12 p.m.

Discussion took place of salaries. As a result of the discussion, the Finance Committee agreed to recommend to the Mayor a 3% pay increase for Jeff, Kathy, Kelly, Roseann and Debbie. Voting for the recommendation: Trustees Daley, Derenoski, and Tiffany. Voting against: Trustee Duberstein. Trustee Duberstein expressed concern for this increase in light of the difficult economic times many of our residents are facing.

Treasurer Hensley entered back at 6:27 p.m.

Trustee Derenoski spoke about he would like to have email access on his personal cell phone. The server is blocking this capability. He emailed Noah about this and Noah would need to process a change on server. This would be about a 1 hour project. Trustee Daley said to go ahead and contact Noah to have this available. Trustee Derenoski also spoke about the security certificate message we receive while accessing the village email from the remote computers. It is annoying to have this come up each time you access your emails. He asked Noah on this also. Noah answered back that to make the security certificate secured it would cost \$100 per year. Trustee Daley asked Treasurer Hensley to email Noah to see his further thoughts on this.

Trustee Tiffany discussed his issues with responding to his emails. He can not respond to them he gets an x. Treasurer Hensley reported that she had the same thing but if you look towards the top you need to answer the question to allow this action to take place. He will look into this. Trustee Daley also stated that he could go and take a look at this issue at his home.

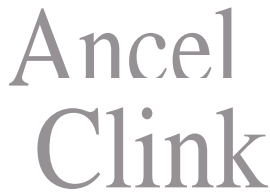
Treasurer Hensley updated the committee about the audit; we are set for Tuesday, September 7th to start.

Meeting adjourned at 6:37 p.m. August 10th, 2010.

Respectfully Submitted by,

Treasurer Kelly Hensley, CIMT

Approved 9/14/10



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MEMORANDUM

To: President and Board of Trustees
Village of Hainesville

CC. Kelly Hensley, Treasurer

From: Adam B. Simon

Subject: Budget v. Appropriations System of Municipal Finance

Date: July 30, 2010

This memorandum provides a comparison between the traditional "Appropriation" system of planning and managing Village finances and the alternative "Budget" system. Sometimes this distinction is confusing due to the use of a "budget and appropriation ordinance" under the Appropriation system, but this memorandum will clarify the procedures and documents that will control the manner in which the Village can spend municipal funds. Both systems are described in Article 8, Division 2 of the Illinois Municipal Code, 65 ILCS 5/8-2-1, et seq. (the "Code").

The Appropriation System

In municipalities with less than 500,000 inhabitants, the default system of planning and managing village finances is the Appropriation system. Under this system, an appropriation ordinance must be passed during the first quarter of the fiscal year. Municipalities who adopt an appropriation ordinance may still adopt a working budget for internal operations and planning purposes. However, a budget prepared for internal purposes is different than the Budget system discussed later. The appropriation ordinance must be itemized and specific as to the various items and services that the public funds will be used to purchase, and each line item must be for a single purpose.

The appropriation ordinance serves as a limit on what may be spent during the current fiscal year. It is, in effect, a statement of the maximum amount that could conceivably be spent if sufficient funds were available. No expenditure can be incurred and no contract can be entered into, except for special statutorily-enumerated circumstances, unless the expenditure has been anticipated and provided for in the appropriation ordinance. Consequently, in drafting this ordinance, officials must anticipate all possible expenditures during the coming year. Because of this reality, the

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appropriation should always exceed the amount which actually will be received and the amount which will be spent. This necessary inflation of line items can often be difficult to explain to residents of the municipality who are not familiar with the process. For this reason the appropriation ordinance often contains dual columns describing the budget, or actual planned expenses, and the appropriation, the legal maximum which can be spent. Hence, the name budget and appropriation ordinance has been adopted in many communities even though the statute describes it only as an appropriation ordinance. In presenting this document, explaining the differences between an appropriation, an internal budget and a tax levy can prove very helpful when done at the beginning of the hearing on the appropriation ordinance.

If a municipality has erred by underestimating the appropriation necessary for a particular fiscal year, the Code provides three remedies which can be used to correct this error:

1. At any time the corporate authorities, by a two thirds vote of all its members (5 "ayes"), "may make transfers within any department or other separate agency of the municipal government of sums of money appropriated for one corporate object or purpose to another corporate object or purpose." However, no transfer may result in the reduction of an appropriation for any object or purpose below an amount sufficient to cover all obligations incurred or to be incurred against that appropriation.
2. During any part of the fiscal year, the corporate authorities may adopt a supplemental appropriation ordinance in an amount not in excess of the aggregate of any additional revenue available to the municipality, or estimated to be received by the municipality subsequent to the adoption of the annual appropriation ordinance for that fiscal year, or from fund balances available when the annual appropriation ordinance was adopted, but which were not appropriated at that time.
3. The third method for increasing the yearly appropriation, which fails to pass the test of practicality, allows the expenditure of additional funds above the amount listed in the appropriation ordinance to be sanctioned by a petition approving each additional expenditure. The petition must be signed by electors of the municipality numbering more than 50% of the number of votes cast for the candidates for Village President at the last preceding election at which the Village President was elected, or by a majority of those voting on the question at a general state or municipal election or a special municipal election called for that purpose.

The statutes provide that no contract or expenditure may be made unless an appropriation has been previously made for it. Any contract or expenditure that has not been appropriated or that exceeds the amount contained in the annual appropriation

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ordinance is null and void and no money may be paid on account of any such contract or expense. 65 ILCS 5/8-1-7. The strict application of this rule has resulted in many persons doing work or furnishing material to municipalities without being compensated because the project was not mentioned in an appropriation ordinance. However, in some cases, on equitable and other grounds, persons have recovered even when no appropriation was made.

Because the appropriation ordinance often is not passed until the end of the first quarter of the fiscal year, some provision must be made for the authorization of expenditures during that time. Chapter 65, Section 5/8-1-7 provides that during the interim, the corporate authorities may authorize the heads of departments or other separate agencies of the municipality to make necessary expenditures for their departments based upon the appropriations of the preceding fiscal year. This is an easy requirement to meet since the entire amount authorized in the previous fiscal year is thus available, if need be, for expenditure during the first quarter of the following year. Usually, nowhere near the annual sum is expended, but under the situation where a very low appropriation was made the year before for a department now greatly increased in size, such flexibility may be helpful. In addition, by a vote taken at a regular meeting of two thirds of the corporate authorities then holding office, a municipality may employ or contract for professional services necessary for the planning and financing of the construction of a needed public work, even if nothing was appropriated for such services in the previous year's appropriation ordinance, including the hiring of engineers, lawyers and bond counsel to begin the lengthy process of preparing all documents and reports necessary for such public works projects.

The Budget System

As an alternative to the Appropriation procedure, a municipality may, by a two-thirds vote of the corporate authorities then holding office, adopt and follow the budget system of financial planning and management. Under this process, the municipality must appoint a Budget Officer. The Budget Officer shall be designated by the President with the approval of the Village Board. The budget officer may hold another municipal office, either elective or appointive, and may receive compensation for both offices. In many cases, the Budget Officer is also the chief financial officer of the municipality.

It becomes the responsibility of the budget officer to complete an annual budget, in lieu of the annual appropriation ordinance. Unlike the appropriation ordinance which is passed within the first quarter of the municipality's fiscal year, the annual budget must be adopted before the beginning of the fiscal year to which it applies. The purpose of this system is to replace the annual appropriation ordinance with a budget which more

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truly reflects anticipated receipts and disbursements. This is different than a municipality which simply adopts an informal and internal working budget for operations and planning.

Importantly, the Budget Officer is statutorily granted certain powers and duties which cannot be amended by the corporate authorities, including:

- (a) Permit and encourage and establish the use of efficient planning, budgeting, auditing, reporting, accounting, and other fiscal management procedures in all municipal departments, commissions, and boards;
- (b) Compile an annual budget;
- (c) Examine all books and records which relate to monies received by and paid out by the municipality, debts and accounts receivable, and amounts owed by or to the municipality;
- (d) Obtain such additional information from the municipality, municipal departments, commissions, and boards as may be useful to the budget officer for purposes of compiling a municipal budget, such information to be furnished in the form required by the budget officer. Any department, commission or board which refuses to make such information as is requested of it available to the budget officer shall not be permitted to make expenditures under any subsequent budget for the municipality until such municipal department, commission, or board shall comply in full with the request of the budget officer; and
- (e) Establish and maintain such procedures as shall insure that no expenditures are made by the municipality except as authorized by the budget.

For your reference, I have attached a sample ordinance designating a Budget Officer and delegating specific powers and duties.

Many municipalities have adopted the Budget system with good success. In addition to creating a system for the authorization of municipal expenditures which is more in keeping with modern accounting principles, the budget system provides two specific improvements over the appropriation system. First, the budget system allows the corporate authorities to more easily delete, add to, change or create object classes

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within the budget, including delegating such authority to Village departments, boards or commissions, both of which require a two-thirds vote of the corporate authorities then holding office. No change is permitted when there is not a revenue source available to implement the budget amendment. Second, unlike the appropriation procedure, the budget system contains a provision authorizing the accumulation of funds over a period of years to be used to construct specific capital improvements or to finance repairs and replacements for existing ones, along with a provision authorizing a fund for contingency purposes.

One difficulty some communities find in transitioning to the Budget system is preparing the budget documents the first year, which must contain estimates of revenues available to the municipality for the fiscal year for which the budget is drafted, together with recommended expenditures for the municipality and all of the municipality's departments, commissions, and boards. Revenue estimates and expenditure recommendations shall be presented in a manner which is in conformity with good fiscal management practices. Substantial conformity to a chart of accounts, now or in the future, recommended by the National Committee on Governmental Accounting, or the Auditor of Public Accounts of the State of Illinois, or the Division of Local Governmental Affairs and Property Taxes of the Department of Revenue of the State of Illinois, or successor agencies, shall be deemed proof of conformity to good fiscal management practices. The budget also shall contain actual or estimated revenues and expenditures for the two years immediately preceding the fiscal year for which the budget is prepared. So far as is possible, the fiscal data for such two preceding fiscal years shall be itemized in a manner which is in conformity with the chart of accounts approved above. Each budget shall show the specific fund from which each anticipated expenditure shall be made. In some respects this level of detail is similar to the appropriation ordinance, even though it is organized slightly differently.

Finally, a community which has adopted the Budget system may later change its mind and revert to the Appropriation system with a two-thirds majority vote of the corporate authorities then holding office.

Summary

There are a few similarities between the two finance systems. For example, the Budget approach requires an annual budget for review and hearing; the Village's current method also involves an annual budget (although not legally required) from which the annual appropriation ordinance is developed. The appropriation ordinance approach allows a single responsible individual to be appointed as budget director (or similar title) for administrative purposes, but that person would have less individual discretion than a statutory budget officer.

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There are also some distinct differences between the two systems. First, the delegation of authority to the department heads by direction of the Village Board is one such substantive difference. Second, the Budget system has more strict statutory guidelines for what the budget must include (e.g., two years of historical financing data), which data is not required under the appropriations financing method. In exchange for more substantive detail, the Budget method allows for easier changes and revisions to be made to the budget throughout the year, either by a two-thirds vote of the corporate authorities or by a designated head of a Village department, commission, or board. This allows a department, commission, or board to have flexibility within its account to shift funds from one class to another, or create, delete, or change subclasses within classes of expenditures, provided that the overall account finances remain the same. If a change in an appropriation ordinance is ever required, there are more onerous procedural requirements in the Appropriation system than in the Budget system.

If you have any questions about either the Appropriation System or the Budget System, please bring them to the Finance Committee meeting so that I can address the answers to all of you at the same time.

ORDINANCE _____

AN ORDINANCE AMENDING VARIOUS PROVISIONS OF THE VILLAGE OF HAINESVILLE CODE TO ADOPT THE BUDGET OFFICER FINANCE SYSTEM

WHEREAS, Section 8-2-9.1 of the Illinois Municipal Code, 65 ILCS 5/8-2-9.1, authorizes a municipality to adopt the budget officer financing method; and

WHEREAS, in order to implement the budget officer finance system, a municipality must first adopt an ordinance adopting the budget system by two-thirds vote of the corporate authorities, then designate a budget officer; and

WHEREAS, the Village has determined that it is in the best interest of the Village and its residents to adopt the budget officer system of municipal finances for the Village of Hainesville, as set forth in this Ordinance.

WHEREAS, the Village needs to establish an administrative department and system of operations for the purpose of implementing the budget officer finance system.

NOW, THEREFORE, BE **IT** ORDAINED by the Village Board of the Village of Hainesville, Lake County, Illinois pursuant to its statutory powers, as follows:

Section 1. The recitals set forth above are hereby incorporated into and made a part of this Ordinance as though set forth in this Section 1.

Section 2. The Village of Hainesville hereby adopts and declares that it shall be and hereafter is operated in the "Budget Officer" system of municipal financial controls as provided for under Section 8-2-9.\ of the Illinois Municipal Code, 65 ILCS 5/8-2-9.1.

Section 3. Title 2, Chapter 2.16, entitled "Appointive Officers," of the Municipal Code of the Village of Hainesville is hereby amended to add sections creating and describing the duties inuring to the office of "Budget Officer," which new sections shall read as follows:

2.16.090 - Budget Officer.

- B. Appointment and Term:** A budget officer shall be appointed by the village president with the advice and consent of the board of trustees. The budget officer's term shall not exceed the term of the current village president. Removal from office shall be in accordance with applicable state law and applicable contractual provisions, if any. The budget officer may concurrently hold another non-conflicting appointive municipal office.
- C. Bond and Oath:**
1. **Bond:** Before entering upon the duties of office, the budget officer shall furnish a surety bond in the amount to be approved by the president and board of trustees. The bond shall be conditioned on the faithful performance of the budget officer's duties. The premium of the bond shall be paid by the village. The bond shall be filed with the village clerk.
 2. **Oath:** Before entering upon the duties of office, the budget officer shall take and subscribe the oath required by the Illinois Constitution. The subscribed oath shall be filed in the office of the village clerk.
- C. Powers and Duties:** The village budget officer shall have the following powers and duties:
1. Permit and encourage and establish the use of efficient planning, budgeting, auditing, reporting accounting, and other fiscal management procedures in all municipal departments, commissions, and boards;
 2. Compile an annual budget in accordance with state law;
 3. Examine all books and records of all municipal departments, commissions, and boards which relate to monies for municipal departments, commissions, and boards, and paid out by the municipality, municipal department, commissions, and boards, debts and accounts receivable, amounts owed by or to the municipality, municipal departments, commissions, and boards;
 4. Obtain such additional information from the municipality, municipal departments, commissions, and boards as may be useful to the budget officer for purposes of compiling departments, commissions, and boards in the form required by the budget officer. Any department, commission or board which refuses to make such information as is requested of it available to the budget officer shall not be permitted to make expenditures under any subsequent budget for the municipality until such municipal department, commission, or board shall comply in full with the request of the budget officer;
 5. Transfer funds within any fund or any department. No revision of the annual budget shall be made increasing the budget in the event monies are not available to do so;
 6. Establish and maintain such procedures as shall ensure that no expenditures are made by the municipality, municipal departments, commission, or board except as authorized by the budget;
 7. Perform such other powers and duties as may be provided from time to time by law.

- D. **Vacancy:** Whenever a vacancy shall occur in the office of budget officer, the vacancy shall be filled in accordance with state statute. If circumstances warrant it, a temporary successor may be appointed in accordance with state statute.
- E. **Compensation:** Any compensation to be paid to the budget officer, including any temporary budget officer, shall be as determined from time to time by the board of trustees.
- F. **Illinois Municipal Code Provisions Adopted:** The village hereby incorporates into this article the terms and provisions of 65 ILCS 5/8-2-9.1 through 8-2-9.10, as now in effect and as from time to time hereafter amended, providing for the adoption of an annual municipal budget in lieu of passage of an annual appropriation ordinance.

Section 4. Each section, paragraph, sentence, clause and provision of this Ordinance is separable and if any provision is held unconstitutional or invalid for any reason, such decision shall not affect the remainder of this Ordinance, other than the part affected by such a decision.

Section 5. Upon its passage and approval according to law, this Ordinance shall, by authority of the Board of Trustees be published in pamphlet form. On the tenth day after the date of publication, this Ordinance shall be in full force and effect; provided, however, that until the end of the current fiscal year the current appropriation ordinance shall remain valid and continue in full force and effect. The budget officer system shall replace the appropriation ordinance method of municipal finance at the commencement of the Village's next fiscal year.

Section 6. All other provisions of the Village Code shall remain in full force and effect and this Ordinance shall take effect upon its passage and approval according to law.

ADOPTED THIS _____ DAY OF _____ , 2010, pursuant to roll call vote as follows:

Ayes:

Nays:

Absent:

APPROVED:

Village President

ATTEST:

Village Clerk