

Finance Department



Organizational structure

Finance Director

Finance
Commission &
Police Pension
Board

Administration & Operations (4 FT, 2 PT)

- Accounting and budgeting
- Financial reporting
- Cash and investing
- Payroll
- Accounts Payable
- Employee benefits
- Liability and health insurance
- Damage to Village Property
- Food & Beverage Tax
- Village Links/Reserve 22 accounting and financial reporting

Cashier's Office (1 FT, 13 PT)

- | | |
|--|---------------------------------|
| • Revenue collection | Real estate transfer tax stamps |
| • General billing | Yard waste/refuse/leaf |
| • Utility billing | Permit payment processing |
| • Vehicle registration | Cash reconciliation & deposit |
| • Parking permits (annual & quarterly) | Meter reading |
| • Business registration | Month end reconciliation |



Entities Served

- Village of Glen Ellyn
 - Full Service
- Glenbard Wastewater Authority
 - Full Service
- Glen Ellyn Public Library
 - Benefits administration
 - Pension administration
 - Lead agency on banking and purchase cards
- Glen Ellyn Volunteer Fire Company
 - Financial software assistance
 - Process accounts payable checks
 - Liability insurance



Top projects / priorities

- Focus on Financial sustainability and sound fiscal management
 - Maintain AAA bond rating
 - Receive Government Finance Officers Association awards for annual budget and annual audit
 - Preparation of the Five Year Forecast
 - Preparation of the Scorecard
 - Focus on funding and financial aspects of current large capital projects (Civic Center, Parking Garage, CBD, etc)
- Provide customer service to the citizenry
 - Provide online service options where available (Village Services Bill, permit parking, business licenses, vehicle stickers)
 - New water meter update (in collaboration with Public Works)
- “Keep the bills paid and the lights on”
 - Process payroll for 300-450 employees every two weeks
 - Process accounts payable weekly for Village (approximately 800 invoices/month); bi-monthly for GWA (approx. 120 invoices/month) and monthly for Fire Company
 - Continually identify opportunities for operational efficiencies
 - New Food & Beverage tax effective March 1
 - Automate or streamline processes where possible
 - Accounts Payable
 - Food & Beverage
- Support our internal customers
 - Other departments
 - Village Board

City of Rolling Meadows

FY 2018 Audit Discussion Attachments

City of Rolling Meadows - Fund Balance Summary - FY 2018 Unaudited Data

FUND NAME	BGN FY 2017 AUDITED FUND BALANCE	REVENUES - AUDIT	EXPENSES - AUDIT	NET CHANGE IN CURRENT YEAR FUND BALANCE	NET TRANSFERS IN OR OUT TO OTHER FUNDS	ENDING FY 2018 UNAUDITED FUND BALANCE OR EQUIVALENT
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Governmental Funds:

ACTUAL

General (01) **	9,565,069	33,116,096	31,312,252	1,803,844	(254,527)	11,114,386
Motor Fuel Tax (03)	115,275	621,933	575,934	45,999	-	161,274
E911 (04)	1,219,100	652,826	724,072	(71,246)	150,000	1,297,854
Debt Service (47)	68,587	430,380	1,139,048	(708,668)	683,075	42,994
Local Road (61)	117,470	2,233,163	1,798,341	434,822	-	552,292
TIF #2 (37) Kirch/Owl	(1,544,381)	260,582	65,879	194,703	-	(1,349,678)
TIF #4 (38) Golf Road	378,813	2,950,645	244,978	2,705,667	-	3,084,480
Fire Stations Fund (83)	852,055	9,960,375	2,103,075	7,857,300	-	8,709,355
Foreign Fire Tax (26) *	51,925	32,472	13,894	18,578	-	70,503
Police Asset Seizure (17) *	158,712	135,167	67,671	67,496	-	226,208

*See notes
below.

* Foreign Fire & Police Asset Seizure are shown on the City's Financials but are not controlled by the City Council.

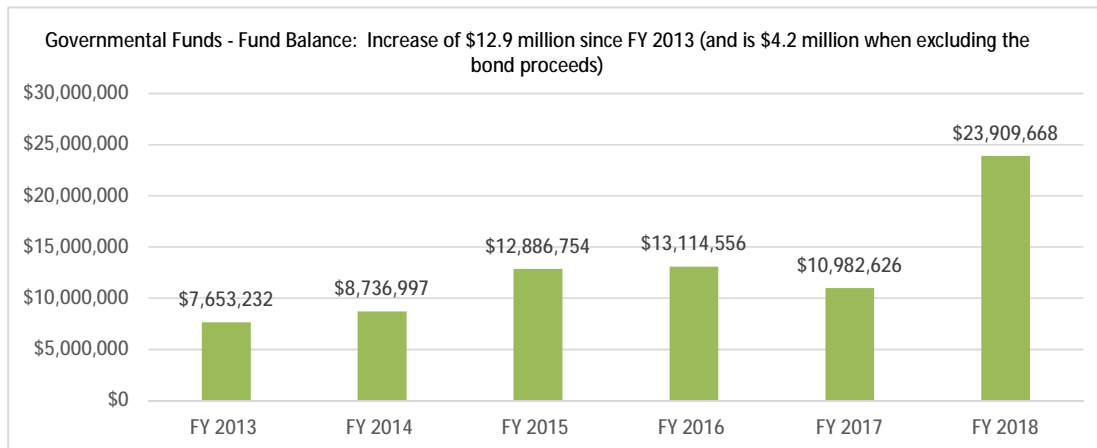
Enterprise Funds:

Utilities (20)	3,096,443	11,473,184	9,601,362	1,871,822	-	4,783,384
Refuse (16)	1,020,333	2,196,129	2,178,195	17,934	-	1,054,110

Internal Service Funds:

Garage (14)	880,867	1,558,271	1,411,253	147,018	-	1,027,885
Vehicle-Equipment (25)	1,977,679	1,490,869	882,238	608,631	100,000	1,059,339
Building & Land (33)	14,522	571,974	392,644	179,330	200,000	325,283
Liability Insurance (23)	1,449,461	1,354,078	773,526	580,552	(350,000)	1,410,462
Health Insurance (45)	1,752,696	4,429,851	4,150,790	279,061	(528,548)	1,473,767

TOTAL ALL CITY FUNDS	\$ 21,174,626	\$ 73,467,995	\$ 57,435,152	\$ 16,032,843	\$ -	\$ 35,043,898
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**Notes:

The General Fund's Total Fund Balance is \$11,114,386. It is important to remember that there are commitments to this Fund Balance as follows:

1. \$1.4 million is committed for funding Compensated Absences Liability (35% of the \$3.9 million liability - as shown in the CAFR with adding the Compensated Absences line items - with this commitment of funds).
2. There is \$38,341 for Prepaid Expenses (similar to past years).

After deducting these items, the General Fund's Ending Unassigned Fund Balance is \$9.7 million and is in range with the City's Fund Balance Policy at 30.9% of expenditures (the range is between 15% to 30% of Unassigned Fund Balance to Expenditures).

As a reminder, the Fire Stations Fund has a due to the General Fund in the amount of \$2,120,000 for the transfer of funds for the purchase of land for two fire stations. In FY 2019, the City Council approved a transfer from the bond proceeds which reimbursed the General Fund. A budget amendment transferred the funds to the Local Road Fund (#61) in the amount of \$1,060,000 and to the Building & Land Fund (#33) in the amount of \$1,060,000.

General Fund Balance Review - Audited Data - FY 2018

FY 2018 General Fund Results

FY 2018 Expenditures	\$	31,312,252
FY 2018 Unassigned Fund Balance	\$	9,675,955

Fund Balance as % of Expenditures - Approximately 3 months of reserves	30.9%
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This represents approximately **three or so months** of reserves for the City. As a reminder, there have been years that the City did not receive its Local Government Distributive Taxes (such as Income Tax) and Property Taxes. These taxes lagged by four to six months and necessitated the City to borrow in the short term.

Breakdown of Each Month's Expenditures

1 month of expenditures =	8.30%
2 month of expenditures =	16.70%
3 month of expenditures =	25.00%
4 month of expenditures =	33.30%
5 month of expenditures =	41.70%
6 month of expenditures =	50.00%

Listed above is a breakdown of the FY 2018 Audited Expenditures for the General Fund as a Percent (%) of Expenditures.

The City adopted an Initial Fund Balance Policy for the General Fund to range from 15% to 30% of the General Fund's Operating Expenditures.

The City's Auditors recommend that the City review the Fund Balance Policy on an annual basis to ensure the policy meets the needs of the City's obligations.

**Notes:

The General Fund's Total Fund Balance is \$11,114,386. It is important to remember that there are commitments to this Fund Balance as follows:

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FY 2018 - Fund Balance Policy - Review - Audited Data

In FY 2014, the City of Rolling Meadows approved a Fund Balance Policy for the General Fund; in FY 2015, a Policy was approved for the Refuse Fund, and in FY 2016, a Policy was approved for the 911 Fund. At some point, a Fund Balance Policy will be drafted for the Utilities Fund and possibly other Funds.

Listed below is a summary of the FY 2018 year-end results of the General Fund, Refuse Fund and the 911 Fund with regards to each of the Fund Balance Policies.

General Fund: Unassigned Fund Balance to be in range between 15% to 30% of Unassigned Fund Balance to Operating Expenditures.

General Fund - Unassigned Fund Balance	\$	9,675,955
Divided by General Fund - Operating Expenditures	\$	31,312,252
FY 2018 General Fund - In Range of 15% to 30%		30.9%

% Breakdown of Expenditures

1 month =	8.6%
2 months =	16.7%
3 months =	25.0%
4 months =	33.3%
5 months =	41.7%
6 months =	50.0%

Refuse Fund: Current Net Position ranging from 30% to 50% of the Refuse Fund's Operating Expenditures.

Refuse Fund - Current Net Position	\$	1,054,110
Divided by Refuse Fund - Operating Expenditures	\$	2,209,077
FY 2018 Refuse Fund - In Range of 30% to 50%		47.7%

911 Fund: Unassigned Fund Balance ranging from at least (1.0 times coverage ratio) to one and a half times (1.5 times coverage ratios) of annual expenditures.

911 Fund - Unassigned Fund Balance	\$	1,297,854
1.0 X the Annual Expenditures of \$724,072	\$	724,072
1.5 X the Annual Expenditures of \$724,072	\$	1,086,108
FY 2018 911 Fund - In Range of 1x - 1.5 x		\$724,072 to \$1,086,108
<i>Slightly above policy due to upcoming capital expenditures</i>	\$	1,297,854




(The City Council has been preparing for NW Central capital and radio purchases for Police, Fire & the City.)

FY 2018 Financial Results for IMRF, Fire and Police Pensions

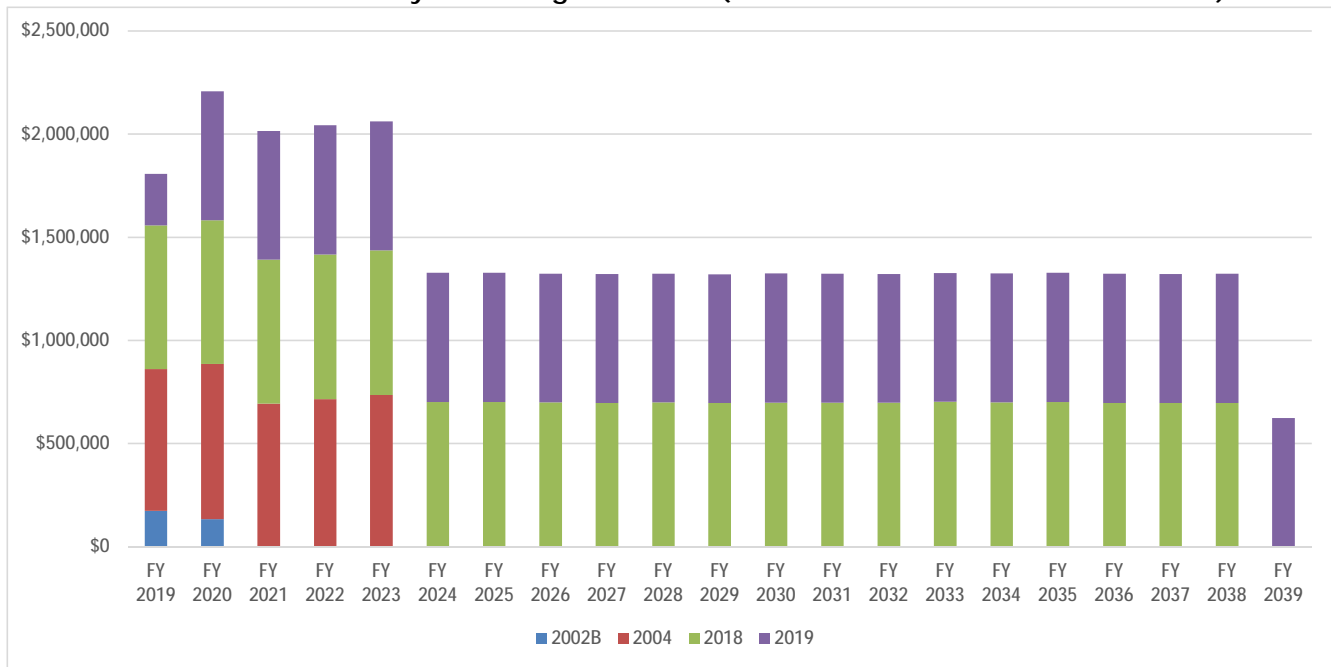
Change in Net Position from FY 2017 to FY 2018 (Plan Assets)				
	FY 2017 Net Position (Assets)	FY 2018 Net Position (Assets)	\$ Change in Net Position (Assets)	% Change in Net Position (Assets)
IMRF	\$ 49,998,099	\$ 46,420,646	\$ (3,577,453)	-7.2%
Police Pension Fund	\$ 43,469,930	\$ 41,946,583	\$ (1,523,347)	-3.5%
Fire Pension Fund	\$ 34,316,788	\$ 33,406,967	\$ (909,821)	-2.7%

* Note: The City details the City's portion and the Library's portion in the City's Audit. The number on this page last year reflected the total for both.

Change in Funded Status FY 2017 to FY 2018 (Net Position as a % of Total Pension Liability)			
	FY 2017 Funded Status	FY 2018 Funded Status	% Change in Funded Status
IMRF	95.1%	81.4%	-13.8%
Police Pension Fund	57.7%	53.3%	-4.4%
Fire Pension Fund	49.7%	44.2%	-5.5%

PENSION FUNDS - TOTAL LIABILITIES				
The Total Liabilities of the pension funds are important to review and monitor. The City's total outstanding liabilities for the pension funds are as of 12/31/2018:				
		Total Liabilities Outstanding	Net Position	Net Position as % of Total Liabilities
IMRF		\$ 57,052,486	\$ 46,420,646	81.4%
Police Pension Fund		\$ 78,653,778	\$ 41,946,583	53.3%
Fire Pension Fund		\$ 75,584,352	\$ 33,406,967	44.2%
TOTALS		\$ 211,290,616	\$ 121,774,196	57.6%

**Current Outstanding Debt Service Payments - General Obligation Bonds Outstanding -
Estimated for the City of Rolling Meadows (includes the 2018 and 2019 Bonds)**



Summary of Outstanding Bonds by Type

Bond Issues	City Fund Debt Retired By	Original Amount Issued	Budget Year-Debt is Paid Down	Estimated Principal & Interest @ 12/31/2018
Bond Series 2012 (2002B)	Utilities (20)	\$ 2,600,000	FY 2020	\$ 306,688
Bond Series 2012 (2004)	General Fund (01)	\$ 8,070,000	FY 2023	\$ 3,585,076
Bond Series 2018	Fire Stations (83)	\$ 9,500,000	FY 2038	\$ 13,675,633
Bond Series 2019	Fire Stations (83) & Utilities (20)	\$ 8,500,000	FY 2039	\$ 12,758,533
Estimated Total Principal & Interest				\$ 30,325,930

Notes:

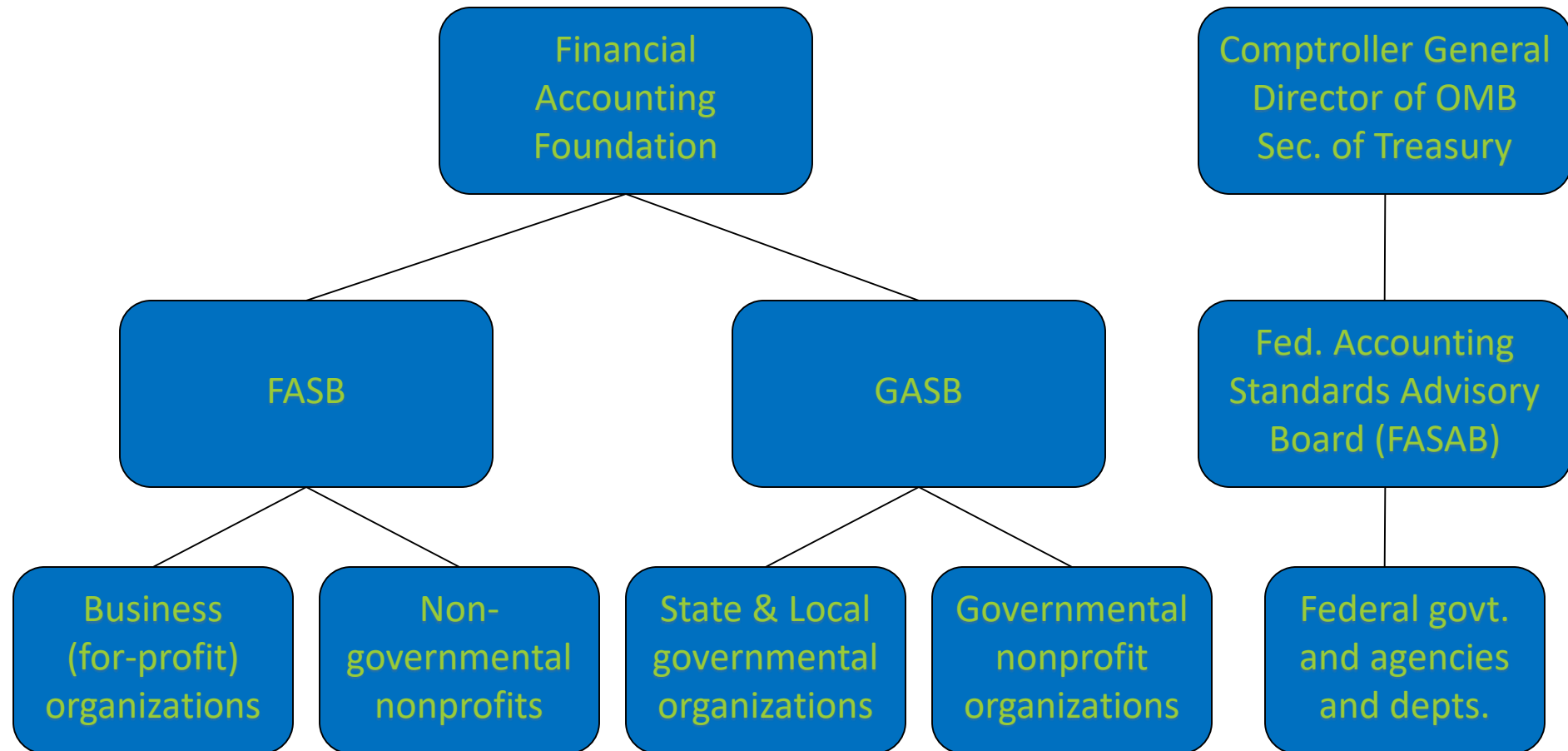
- 1) The 2012 (2002B) Bond is paid by the Utilities Fund's revenues.
- 2) The 2012 (2004) Bond is retired by a transfer from the General Fund to the Debt Service Fund to pay for the bond. The amount of the transfer from the General Fund is approximately \$700,000 annually. This bond matures in FY 2023.
- 3) The 2018 Bond is for the Fire Stations Fund.
- 4) The 2019 Bond is for the remaining expenditures for the Fire Stations Fund and the underground, capital projects for the Utilities Fund (rate stabilization).
- 5) The City has IEPA Loans paid by the Utilities Fund not shown on this chart. These loans are paid in full in FY 2033.

* The FY 2018 CAFR will reflect the 2018 Bonds. For purposes of debt service tracking, the 2019 Bonds were added to this chart.

Governmental Accounting 101

MARCH 20, 2019

Primary Sources of Accounting & Reporting Standards



Financial Reporting Objectives for State and Local Government

Financial reporting is used in making economic, social, and political decisions and in assessing accountability primarily by

- Comparing actual financial results with the legally adopted budget
- Assessing financial condition and results of operations
- Assisting in determining compliance with finance-related laws, rules, and regulations
- Assisting in evaluating efficiency and effectiveness

Government-wide Financial Statements

- Provides an overall view of government's net position (a.k.a. equity) and changes in net position (a.k.a. net income)
- Uses an accrual basis
- Reports on the government as a whole and assists in assessing operational accountability—whether government as a whole has used its resources efficiently and effectively in meeting operating objectives
- Activities for Governmental functions are reported separately from Business Type Activities (more on these later)
- The Village only prepares government-wide financial statements as part of the annual audit due to the investment of time required as well as the availability of information on a timely basis.

Fund Financial Statements

- Fund financial statements – reports on the fiscal accountability, whether the government has raised and spent resources in accordance with budget plans and in compliance with laws and regulations
- You can think of funds like buckets or separate bank accounts. They account for the activity of that “bucket” or “account”. For the most part, each fund is self supporting.

Government Funds

- Short term focus on inflows and outflows of current financial resources
- Typically supported by tax dollars and charges for services
- Has “expenditures” rather than “expenses”
- Village reports these funds on a cash basis in our monthly and quarterly reports
- Modified accrual basis is used for the annual audit
 - Revenues are recorded if measurable and available for paying current period obligations
 - This means that revenues must be earned as well as available (available means they are collected within the period or within 60-90 days after the reporting date)
 - Expenditures are recognized when incurred
- Balance sheet reports only current assets and current liabilities and fund balances (i.e. no capital assets, debt, etc)
- Government Funds of the Village
 - General Fund
 - Capital Projects Fund
 - Debt Service Fund
 - Other non-major funds include: Fire Services Fund, Motor Fuel Tax, Corporate Reserve, Facilities Maintenance, Roosevelt Road TIF, and CBD TIF

General Fund

- A governmental unit has one and only one general fund
- Unless a financial resource is required to be accounted for in a different fund type, it is accounted for in the general fund
- Includes general government services such as administration, public safety, finance, planning and development, economic development, public works administration, streets, forestry, senior services, and history park
- The General Fund is considered the main operating fund of the Village.

Other Funds

Debt Service Fund:

- Accounts for financial resources segregated for the purpose of making principal and interest payment on general long term debt.
- Only includes debt for governmental (typically street and storm sewer projects) activities. Debt for Water & Sewer and Village Links/Reserve 22 is not reported in this fund.

Capital Projects Fund:

- Accounts for the construction of major projects such as buildings, highways, bridges, as well as the revenues to fund those projects

Other non-major governmental funds:

- Fire Services Fund – Accounts for the accumulation of Fire Services Fees collected on the Village Services Bill and the fire expenditures funded from those resources.
- Motor Fuel Tax – Motor fuel taxes received are used to fund street lights, road salt and other expenditures allowed by state statutes. Only certain types of expenditures are eligible to be spent out of this fund.
- Corporate Reserve – Used for a “rainy day” funding as well as a “revolving loan fund” to assist Village departments and Village activities in financing major projects. An example of the most current project is the Taft Ave reconstruction associated with Fresh Market.
- Facilities Maintenance – Used to fund and pay for maintenance of Village facilities
- CBD TIF – Used to account for the resources received and monies spent for the Central Business District Tax Increment Financing District
- Roosevelt Road TIF - Used to account for the resources received and monies spent for the Roosevelt Road Tax Increment Financing District

Proprietary Fund Statements— Business Type Activity

- Account for business type activities; follow principles similar to a business entity
- Cash basis of accounting for monthly and quarterly reports
- Full accrual basis of accounting for the annual audit
- Two types of Proprietary Funds:
 - Internal service funds – Accounting of resources that provide goods or services to other departments/funds
 - Enterprise funds – used to account for activities in which goods or services are provided to the public for a fee

Internal Service Funds

Insurance Fund

- Collects monies from various departments and funds to pay for health and liability insurance. Also accounts for insurance for Library and Glenbard Wastewater Authority (GWA)

Equipment Services Fund

- Collects monies from various departments and funds to pay for the use of the Village's fleet of vehicles
- Manages vehicles for police, fire, planning, facilities, and public works
- Provides fuel Village fleet vehicles as well as to GWA and the Park District

Enterprise Funds

- Funds are supported by user charges and are meant to be self sustaining
- Each enterprise fund should be thought of as its own business
- Typically enterprise funds receive little to no tax dollars
- Capital components and debt that are needed to support operations of the fund are recorded in that fund, unlike governmental funds.
- Enterprise Funds of the Village: Water & Sewer, Solid Waste (Refuse), Parking, Village Links/Reserve 22

Fiduciary Fund Financial Statements

Fiduciary Funds - account for certain fiduciary activities; follow principles similar to a business entity – accrual basis of accounting

Not included in government wide financial statements

- Trust Funds – investments whose earnings add to the net position of the fund and which can be used for a specified purpose (pension funds)
- Trust Fund of the Village is the Police Pension Fund
- Pension Fund is recorded on the full accrual basis for the annual audit
- For monthly and quarterly reporting, investments are recorded at market value and all other activity is cash basis

Other Governmental Accounting Terms

Encumbrance

- An encumbrance is a commitment related to unperformed contracts for goods or services.
- For example, if \$100,000 is budgeted for tree trimming and an encumbrance is created for \$80,000, it sets aside \$80,000 of the budget as already spoken for.
- At the Village, an encumbrance is created when the board approves a purchase \$20,000. Purchase orders can be created under \$20,000 for tracking purposes with the approval of the Village Manager (or departmental manager if under \$5,000) if the purchase order is required by the vendor or the Village wants to track a specific purchase.
- At the end of each fiscal year, the encumbrances are either closed and liquidated (if the project is complete) or are rolled forward into the next fiscal year. Outstanding purchase orders and encumbrances are reviewed monthly, quarterly, and annually.
- Purchase orders also serve as an internal control over board approved projects. The finance department will not pay an invoice amount over the authorized purchase order unless appropriate approval is obtained and documented.

Other Governmental Accounting Terms

Fund Balance – This is the equity balance for governmental funds.

Net Position – This is the equity balance for enterprise, internal service, and fiduciary (pension) funds.

Interfund Transfer – A transfer of resources from one fund to another. An example would be the General Fund transferring money to the Insurance Fund to pay for the insurance of employees whose benefits/salaries are paid out of the General Fund.



Handling Difficult, Complex or New Topics/Issues

- Ø Understanding some of the first steps in the process.
- Ø Introducing new ideas or issues to your Board/Council.
- Ø Working with a Committee.
- Ø Creating a path for data-driven decisions.
- Ø Developing a multi-phase approach.
- Ø Ensuring your Board/Council and citizens have ways to provide feedback.

City of Rolling Meadows Examples:

Revenues

- ü Natural Gas Tax Revenues (Replaced Vehicle Stickers)
- ü Local Motor Fuel Tax Increase
- ü Video Gaming Revenues
- ü Ambulance Billing Revenue Enhancements

Debt Issuance, Projects & Procedures

- ü Enterprise Resource Planning (ERP) Software Project
- ü Utility Rate Study (for rate stabilization)
- ü 2018 & 2019 Bond Issuances [See the Power Point example.]
- ü Pension Funding
- ü Fund Balance Policies

Presenting Your Audit

- ü Develop a sound process to produce the annual Transmittal Letter and the Management's Discussion & Analysis.
- ü Create a high-level overview of the Audit. [See the attachment from the City's Audit presentation.]
- ü Consider developing a Popular Annual Financial Report (PAFR) (Government Finance Officer's Association's Award Program).
- ü Document the organization's adherence to its fund balance policies.
- ü Highlight key achievements or issues from the Audit.

Tips for Presenting Financial Reports

► Focus on the bottom line with only key highlights that matter for the current period

Examples:

Revenues were higher than expenditures for the month. This was mostly due to deferring the start of the street resurfacing project.

Past due water bills are lower than the prior month thanks to our increased collection efforts and shut off policy.

► Use simple language without talking down

Example:

Say "new reporting requirements" instead of "GASB Statement number 68"

► Know when to defer

If you can't answer a question yourself, or just not at the moment, know when to be honest and defer to another person or a future time. This is always better than giving an answer that is at best hasty and at worst unintentionally dishonest.

► Provide details in writing, but don't read everything

You can answer a lot of potential questions with a single page of bullet point notes. Mention the most important highlights, but leave the greater detail for those interested enough to read them.

► Develop brief explanations for complex topics

Example:

Board member: "Why is the liability for other postemployment benefits so huge?"

You: "The actuary has calculated the amount we would have to pay today to fund our share of future retirement healthcare costs for all current employees and retirees."

Board member: "But don't the retirees pay 100%?"

You: "Yes, but their premiums are blended with the current employees, so we are effectively subsidizing the retirees' cost."

► Be prepared to answer the question, "How do we compare to [neighboring government]?"

Your answer should include ways in which the two are similar -- "Our water rates are lower despite purchasing water from the same water commission" -- and ways in which the two are not comparable -- "Our pensions are not as well-funded, but they only participate in IMRF whereas we contribute to IMRF, police, and fire pension funds."

► Work with your board to develop a presentation that balances simplicity and critical information display

Examples:

Does your board need to see 38 pages of General Fund budget vs. actual details? Would departmental totals suffice?

Can you use charts to demonstrate trends or pie charts to illustrate constraints on fund balances instead of reporting raw numbers?

What constitutes too much information vs. not enough information? The answer may be different for every governing board.

Understanding Bonds

August 15, 2017

Committee-of-the-Whole Meeting



Summary

- Introduction to Understanding Bonds
 - Tonight's discussion is a basic review of municipal bonds.
 - The review is intended to set the stage to initiate the City's Financial Advisor to prepare scenarios (terms, estimates repayment methods, calls, premiums, etc.) for issuing bonds for infrastructure projects.
- For Tonight's Discussion
 - Staff is reviewing a possible issuance of \$9.0 million (fire stations); \$3.0 - \$5.0 million (roadway improvements) and \$3.0 to \$5.0 million (utility infrastructure improvements) [based on data analysis from the Baxter & Woodman Utility Rate Study].

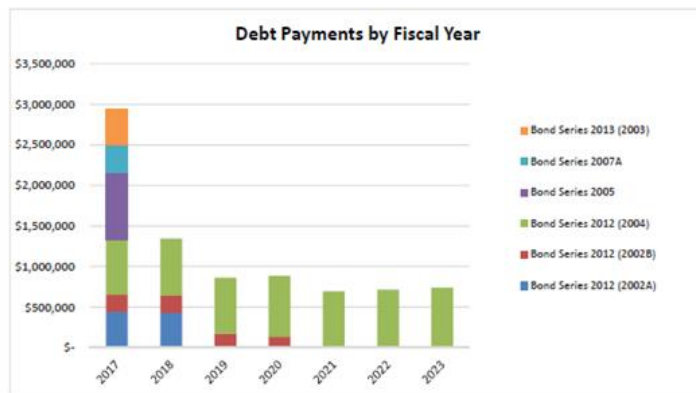


Review of the City's Outstanding Debt

- In FY 2012, the City refinanced three bonds (2002A, 2002B & 2004) for a savings of nearly \$750,000.
- The 2004 Bond is paid through FY 2023 from the General Fund.
- In FY 2013, the 2013 Bond (to be retired in FY 2017) was refinanced for a savings of approximately \$65,000.
- The two bonds paid by property taxes (shown in yellow on the next slide) will mature in FY 2017 (2005) and in FY 2018 (2002B).

Outstanding Debt Service & Purpose

Outstanding Debt Service – General Obligation Bonds Outstanding –
Estimated for Year Ending December 31, 2017



CITY OF ROLLING MEADOWS

SUMMARY OF OUTSTANDING GENERAL OBLIGATION BOND ISSUES

Highlighted in yellow and shown with blue arrows are the two Bonds that are paid by Property Taxes. The 2005 Bond is \$852,000 and matures in FY 2017. It is still shown on this form.

Issues	City Fund Debt Retired By	Original Amount Issued	Budget Year - Debt Matures	Estimated Principal & Interest Outstanding @ 12/31/12017
Bond Series 2012 (2002A)	Debt Service (47)(Tax Levy)	\$ 4,885,000	FY 2018	\$ 430,500
Bond Series 2012 (2002B)	Utilities (20)	\$ 2,600,000	FY 2020	\$ 514,676
Bond Series 2012 (2004)	Debt Service (47)*	\$ 8,070,000	FY 2023	\$ 4,293,151
Bond Series 2005	Debt Service (47)(Tax Levy)	\$ 7,425,000	FY 2017	\$ 0
Bond Series 2007A	Utilities (20)	\$ 1,199,205	FY 2017	\$ 0
Bond Series 2007A	Refuse (16)	\$ 300,510	FY 2017	\$ 0
Bond Series 2007A	Local Roads (61)	\$ 1,335,285	FY 2017	\$ 0
Bond Series 2013 (2003)	TIF #2 (Kirchoff/Owl -37)	\$ 4,030,000	FY 2017	\$ 0
		\$ 29,845,000		\$ 5,238,327

2002A – Road Improvements

2002B – Stormwater Improvements

2004 – Meadows Town Mall & Meijer Redevelopment

2005 – Road, Water & Sewer Improvements

2007A – Water Improvements & Recycling Cards

2013 – Redevelopment Costs – TIF Project Kirchoff/Owl



Why Issue Debt?

- Capital infrastructure projects are typically funded through the issuance of bonds.
- This is due to the fact that the nature of capital projects are high-dollar items that have long-term useful lives (10 to 30 years).
- Typically, residents and businesses who live in the community pay for the infrastructure improvements over time and bonds are usually issued for these types of capital projects.

What Are Municipal Bonds?

- General Obligation bonds are issued by a state or local government that pledges its full faith, credit and taxing power to pay principal and interest. General obligation bonds may be paid from the general revenues from a variety of revenue streams (property taxes, sales taxes, Utility Fund revenues, local taxes, etc.)
- [Note: there are other types of municipal bonds such as revenue bonds. Revenue bonds are a type of bond that is repaid using revenues from a specific project that the bonds helped fund. The City of Rolling Meadows has historically issued General Obligation Bonds, not Revenue bonds.]
- Municipal bonds are debt securities issued by governments to bondholders. Governments pay interest on the debt over the duration of the bond. A benefit to the bondholder is municipal bonds are tax-exempt from federal and state taxes.
- Municipal bonds are similar to a home mortgage. Capital investments of this nature typically are funded through the issuance of debt. Typically, a potential homeowner gathers data on their finances (pre-qualification process); select a lender; prepare certain documents; undertakes the loan approval process; the mortgage is underwritten; and a closing takes place. Mortgage payments are made by the new homeowner over the term of loan. Similar to a home mortgage, the municipality pays principal and interest during the duration of the General Obligation Bond.



How Do Bonds Work?

- Municipalities who issue bonds receive a cash payment (i.e., bond proceeds) at the time of issuance in exchange for a promise to repay bondholders/investors principal plus interest over the term of the bond.

Bond Terms & Repayment

- City Staff will develop the terms and length of the bond issuance. For instance, Staff will evaluate if it makes sense to start a payment six month or a year from the date of issuance; level the payment amounts over time; gradually increase the payments; or lengthen the term from ten, twenty or more years. In addition, bonds should be paid from certain revenue streams. For instance, if Utilities capital projects are paid for from bonds, the Utilities Fund, rather than property taxes should pay for the bonds.



Municipal Bond Rates

Current Municipal Bond rates will be determined by factors including:

- Current market conditions,
- City's credit rating,
- Duration of the bonds (10, 20, 30 years, etc.),
- Revenue stream to repay the bonds,
- Timing of the bond issuance and other factors.
- At this time, municipal bond rates range from 2.7% to 3.8% (factoring in the City's current rating from Standard & Poor's AA+ and Moody's Aa3).



Other Considerations

- Ensure that the City determines the projects that are shovel-ready (ready to go);
- The term “infrastructure” should be within the bond framework/documents; and
- Monitor “Arbitrage”:
 - Arbitrage is profit from borrowing tax-exempt funds at a certain rate and then investing the bond proceeds in a higher rate than the borrowing rate. For example, if a municipality borrows at 3% and invests the proceeds at 3.2%, the borrower will need to repay the IRS (U.S. Treasury) the amount equal to all interest earned on the bond proceeds in excess of the bond yield (i.e., 0.2% in this example).
 - While this is not an immediate consideration, as investment rates are low, this is an area that must be monitored by the City and the City’s Financial Advisor. (IRS Penalties will occur if this is not monitored.)

How Are Bonds Issued?

- There are professionals involved with the bond issuance process which will include Bond Counsel, the City Attorney, City Officials, City Staff, Financial Advisor, City Auditor, Underwriter, and Credit Rating Agencies. This group works together to create a financing plan to issue debt.
- There are several key items which will be prepared for the bond issuance:
 - Legal documentation (bond ordinances, tax-exempt legal opinion and other items);
 - Financial and cash flow estimates;
 - An “Official Statement” (a document of the City’s financials, economic development data, building permit data and other data prepared by City Staff and the Financial Advisor). This document is used by the underwriter to sell the bond to potential buyers; and
 - The City’s Audit (if the City is able to set up the timing with the issuance of the City’s Audit, this assists in the financial analysis and for the credit rating agencies and others who review the issuance. In addition, the Audit is used to prepare the Official Statement).



The City's Current Credit Rating

- In December 2013, Standard & Poor's Rating Services raised the City's long-term rating on the City of Rolling Meadows' general obligation bonds to AA+ from A+. Standard & Poor's cited the City's very strong budgetary flexibility, liquidity and strong budgetary performance among the reasons behind the increase in the credit rating. [One level from the top rating of "AAA".]
- In November 2014, Moody's Investor Service upgraded Rolling Meadows' general obligation (GO) bond rating to Aa3 from a previous rating of A1, reflecting the agency's confidence in the City's overall financial health. The Moody's report cited a substantial increase in the City's reserve levels as well as a strong capacity to meet financial obligations. In November 2016, Moody's reaffirmed the City's bond rating of Aa3. [Three levels from the top rating of "Aaa".]

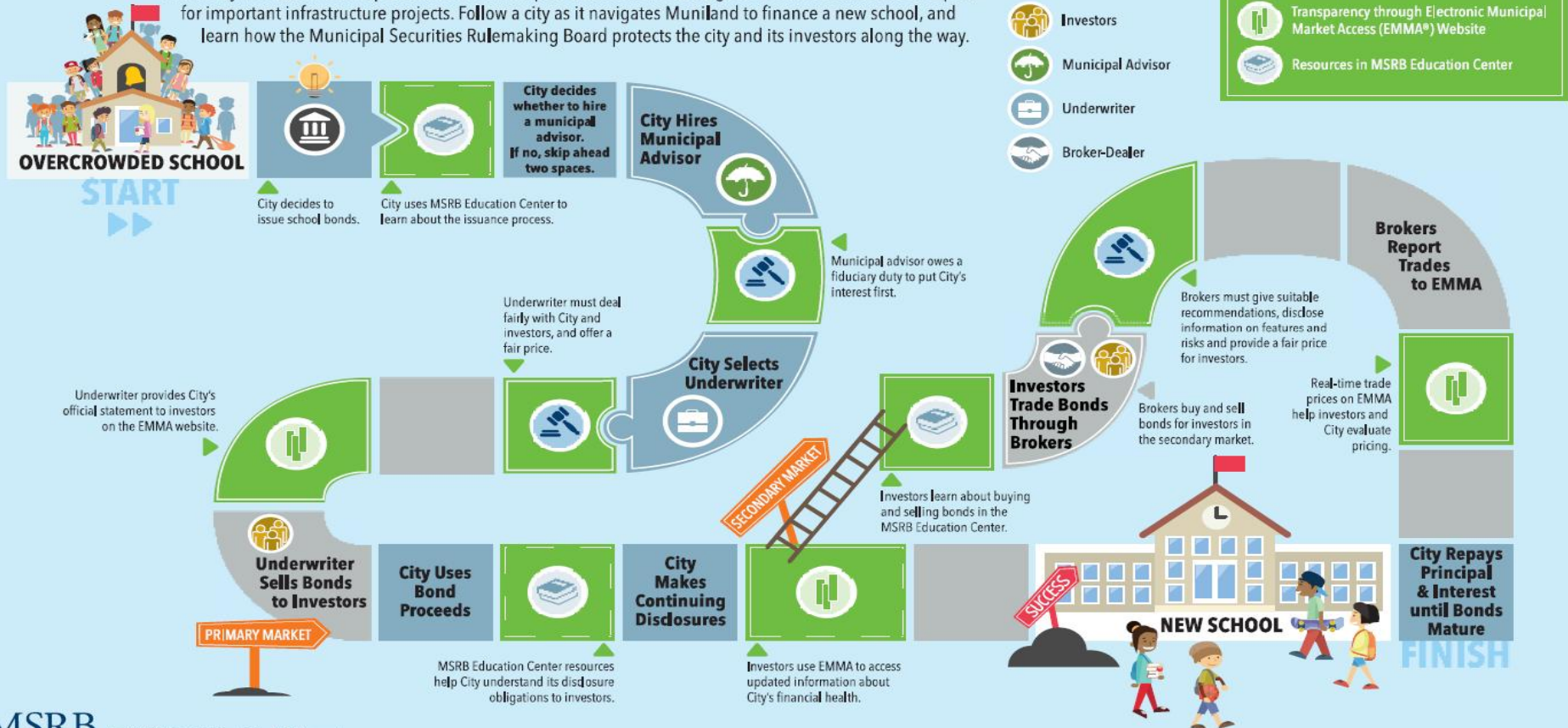


Key Components to a Credit Rating Review:

- All of the City's cash balances and fund reserves with particular attention to the General Fund;
- Fund Balance Policies (and how the City's is adhering to them);
- Other Financial Policies;
- Budgets and Audits;
- Revenue and Expenditure estimates;
- Pension obligations and if the City is making its full (or an increased amount) for the pensions;
- Status of collective bargaining agreements;
- Debt outstanding;
- For new debt – the repayment plan (and what types of revenues such as property taxes);
- Local and state economic indicators;
- Home rule status and the City's ability to generate additional revenues;
- Revenues from property taxes and incremental changes; and
- Many other factors and items.

Municipal Market 101

The nearly \$4 trillion municipal securities market provides state and local governments with access to capital for important infrastructure projects. Follow a city as it navigates MuniLand to finance a new school, and learn how the Municipal Securities Rulemaking Board protects the city and its investors along the way.



Bond Phases

Determine Infrastructure for Bond Issuance

- Review existing debt.
- City Council approval to initiate the process.
- Staff to identify "Shovel Ready Projects" and capital improvements.

Financing Terms & Service Providers

- Review long-term financial plan with Financial Advisor.
- Contract with Bond Counsel and Underwriter.
- Financial Advisor and Underwriter to formulate scenarios for the City (rates, terms, etc.).

Sale of Bonds

- Staff, Auditors and Financial Advisor to prepare financial documents and the Official Statement.
- Bond Counsel to prepare legal documents and Ordinances.
- Staff to prepare the bond rating strategy and materials for the credit rating review.
- The bonds are sold and funds received by the City.
- The City makes continuing disclosures and repays principal and interest until the Bonds mature.



City Council Direction

Tonight, Staff is asking for direction to initiate the process of contracting with the City's Financial Advisor to develop scenarios for a bond issuance. Staff will bring scenarios and suggested timelines to a future Committee-of-the-Whole Meeting (in the near future).