

DOWNSTATE CHAPTER CONFERENCE

February 15 - 16, 2018



**Illinois
Government
Finance
Officers
Association**

Learning • Connecting • Progressing

ILLINOIS GFOA DOWNSTATE CHAPTER CONFERENCE

February 15 - 16, 2018

Jumer's Casino & Hotel, 777 Jumer Drive, Rock Island IL, 61201

AGENDA

THURSDAY, FEBRUARY 15, 2018

- | | |
|----------------------------|---|
| 9:30 – 10:00 AM | Check-in and Networking |
| 10:00 – 10:10 AM | Welcome and Opening Remarks

<i>Molly Talkington, MPA, Finance Director, City of DeKalb and President, IGFOA Downstate Chapter</i>

<i>Megan Petersen, Finance Director, City of East Moline and Secretary - IGFOA Downstate Chapter</i> |
| 10:10 – 11:25 AM | Keynote Address: Connecting with Your Audience
<i>Speaker: Donna Hare, MFA, Teaching Fellow, Communications Studies Department, Augustana College</i> |
| 11:25 – 11:40 AM | Break |
| 11:40 AM – 12:30 PM | Refresh and Update your Resources & Tools for the New Year
<i>Speaker: Mary Smith, Managing Partner of Baecore Group, Inc.</i> |
| 12:30 – 1:30 PM | Networking Luncheon |
| 1:30 – 2:20 PM | The Insurance Tide is Turning
<i>Speakers: Tia Incapreo, Arthur J. Gallagher</i>
<i>Ethan Salsinger, Arthur J. Gallagher</i> |
| 2:20 – 2:30 PM | Break |
| 2:30 – 3:20 PM | Legislative Update
<i>Speaker: William D. McCarty II, Director, Office of Budget and Management, City of Springfield, IGFOA Executive Board Member-at-Large, and Legislative Committee, Chair</i> |
| 3:20 – 3:30 PM | Break |

THURSDAY, FEBRUARY 15, 2018 CONTINUED

- 3:30 – 4:45 PM** **Illinois Police/Fire Pension Fund Consolidation:
Discussion Points**
Speaker: Dan Ryan, Project Coordinator for the Illinois Public Pension Fund Association (IPPPFA)
- 4:45 – 5:00 PM** **Open Discussion/Q&A**
*Megan Petersen, Finance Director, City of East Moline and
Secretary - IGFOA Downstate Chapter*
- 6:00 – 9:00 PM** **Mystery Fraud Dinner**
*Speaker: Tim Hungerford, CPA, CFE, CIA, CMA, CISA, CGAP, MBA, Hungerford
Vinton, LLC*

FRIDAY, FEBRUARY 16, 2018

- 8:00 – 8:50 AM** **Breakfast**
- 8:50 – 9:00 AM** **Announcements**
*Megan Petersen, Finance Director, City of East Moline and
Secretary - IGFOA Downstate Chapter*
- 9:00 – 10:15 AM** **How to Have an Efficient and Successful Yellow Book Audit**
Speaker: Linda Abernethy, Partner, RSM US LLP
- 10:15 – 10:30 AM** **Break**
- 10:30 – 11:45 AM** **Key Rating Drivers and Trends for Illinois Local Governments**
*Speakers: David Levett, Assistant Vice President, Moody's Investors Service
Shannon Bibby, Associate Lead Analyst, Moody's Investors Service*
- 11:45 AM – NOON** **Closing Remarks**
*Megan Petersen, Finance Director, City of East Moline and
Secretary - IGFOA Downstate Chapter*
- NOON – 12:45 PM** **Luncheon with the IGFOA Executive Board**



Illinois Government Finance Officers Association

Learning • Connecting • Progressing

Connecting with Your Audience

What to Expect

- Audience's Disposition
- Engaging Content
- Confident Delivery
- PowerPoint Reminders

Is it ever NOT about the audience?



Source: "Boring Political Caucus" (cropped image) by James Brooks via Wikimedia Commons

Types of Audiences

Friendly	<ul style="list-style-type: none">• Humor• Examples• Personal Experiences• Participation
Neutral	<ul style="list-style-type: none">• Avoid Humor and Anecdotes• Use Statistics• Compare/Contrast• Include Time for Questions
Uninterested	<ul style="list-style-type: none">• Use Humor• Use Visuals• Don't Expect Participation
Hostile	<ul style="list-style-type: none">• Avoid Humor and Anecdotes• Objective Data• Expert Opinion

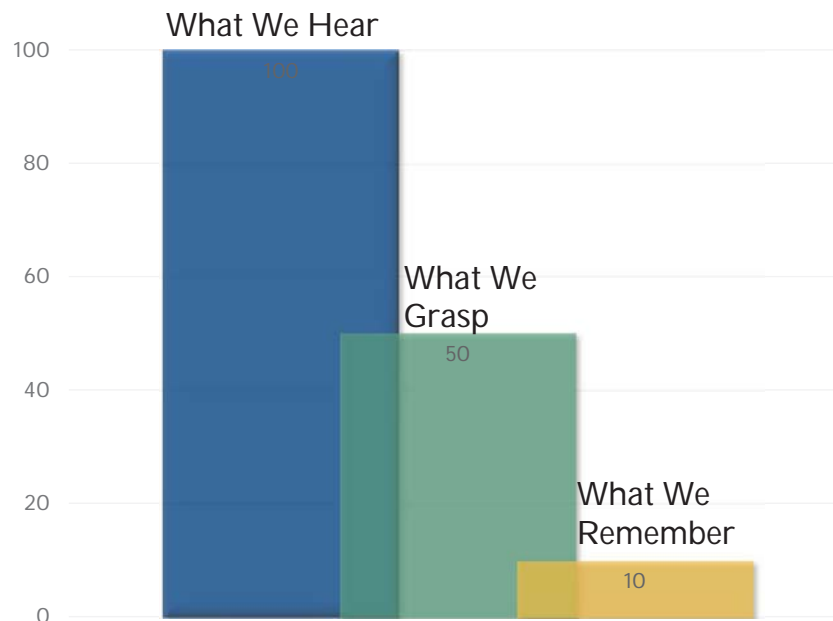


Photo Credit: "Audience" by Faruk Ateş via FlickrCC

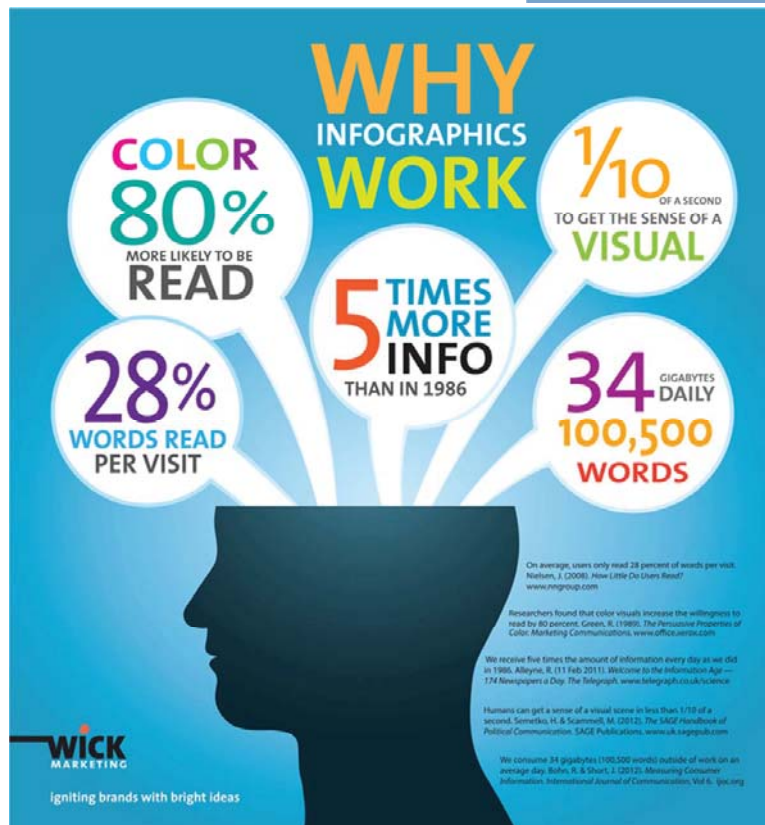


Source: Untitled by Cpl Caitlin Brink: The appearance of U.S. Department of Defense (DoD) visual information does not imply or constitute DoD endorsement.

Hear vs. Remember



Source: Barker & Watson, 2001



Source: "Why Infographics Work" by Wick Marketing Infographics



Illinois Government Finance Officers Association

Learning • Connecting • Progressing

Connecting with Your Audience

What to Expect

- Audience's Disposition
- Engaging Content
- Confident Delivery
- PowerPoint Reminders

Is it ever NOT about the audience?



Source: "Boring Political Caucus" (cropped image) by James Brooks via Wikimedia Commons

Types of Audiences

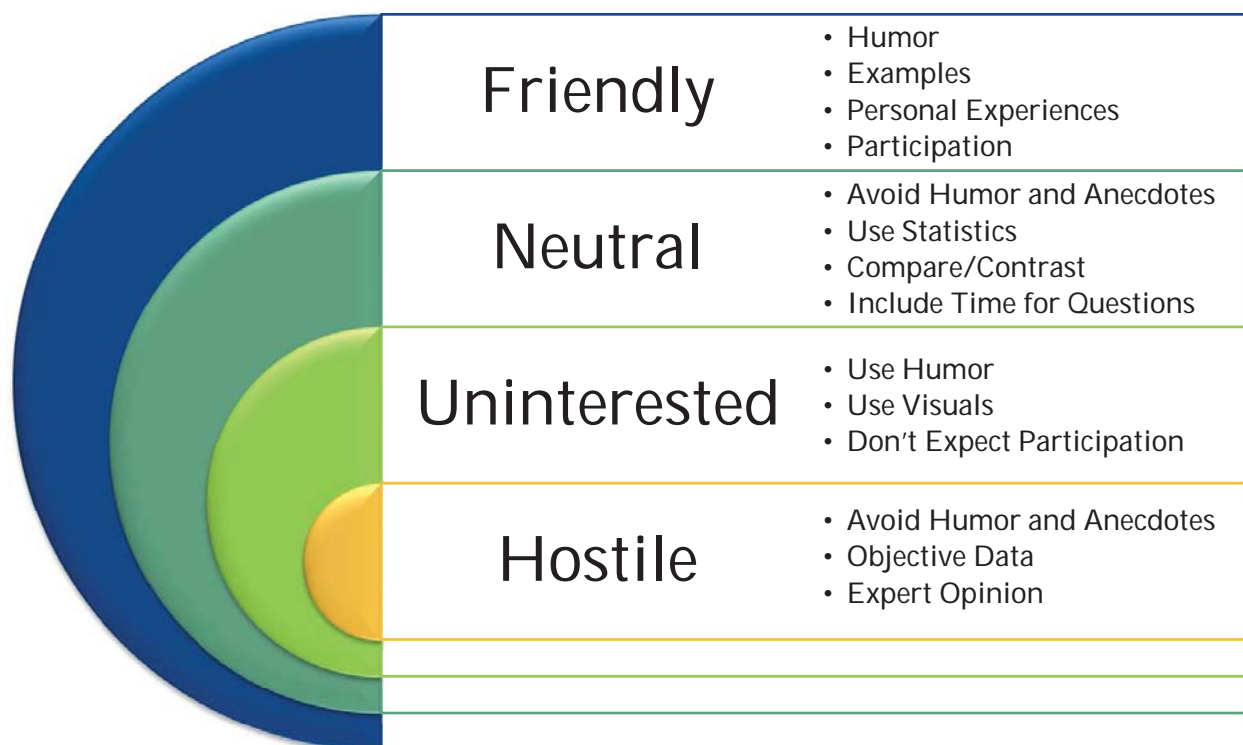


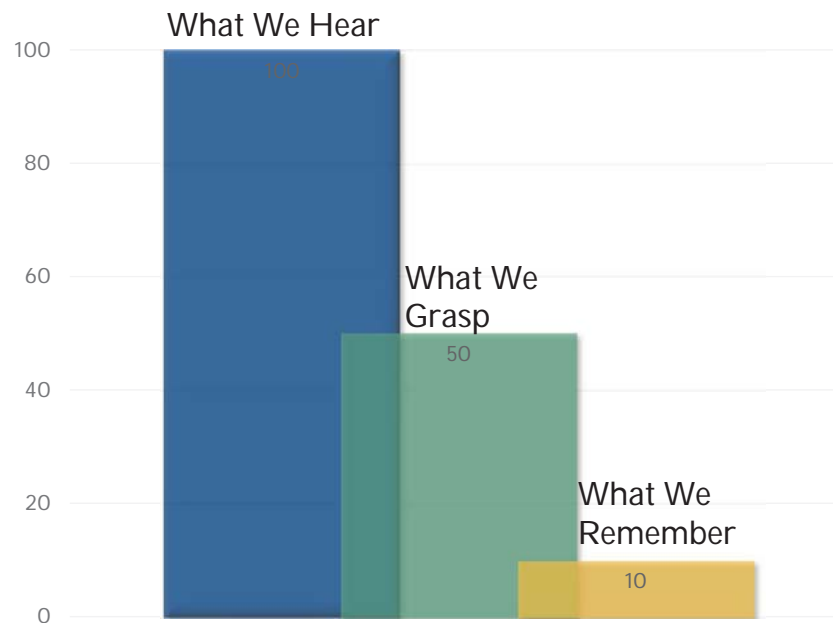


Photo Credit: "Audience" by Faruk Ateş via FlickrCC

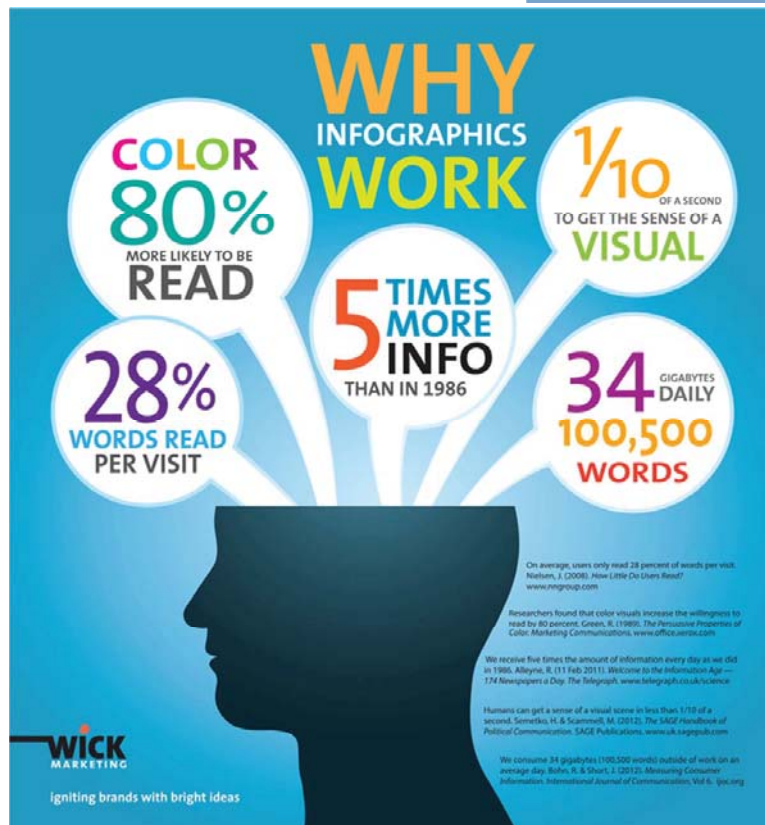


Source: Untitled by Cpl Caitlin Brink: The appearance of U.S. Department of Defense (DoD) visual information does not imply or constitute DoD endorsement.

Hear vs. Remember



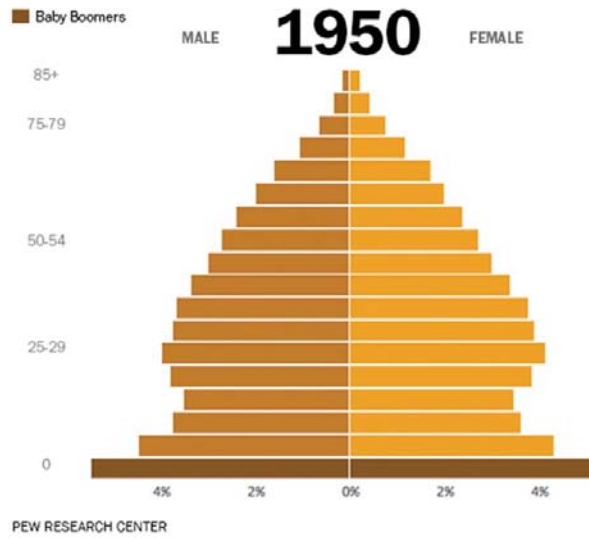
Source: Barker & Watson, 2001



Source: "Why Infographics Work" by Wick Marketing Infographics

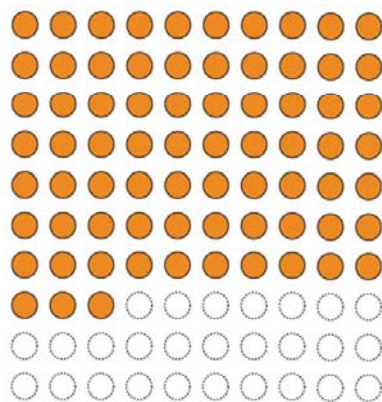
NEXT AMERICA

Percent of U.S. Population by Age Group, 1950-2060



Source: "U.S. Pyramid Becomes a Rectangle" from PewResearch.org

INTERNET USE BY EDUCATION LEVEL



73 % of High School Grads
Use the Internet

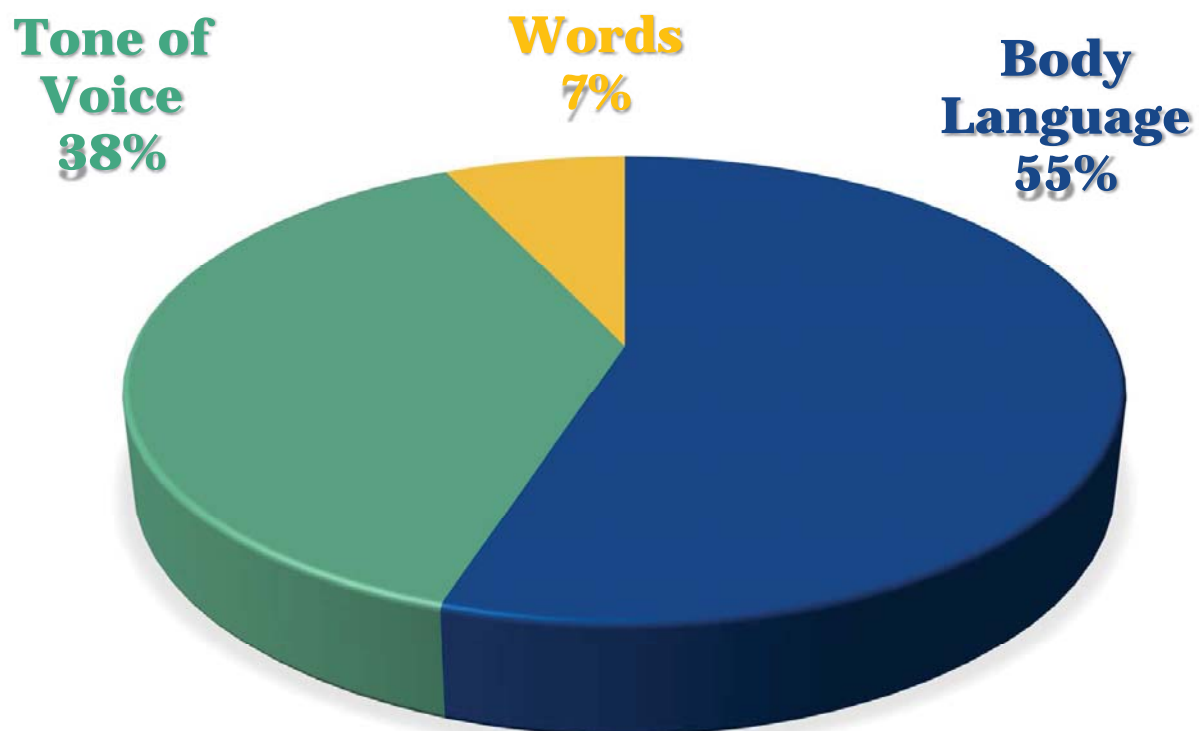
97 % of College Grads
Use the Internet

Source: The Pew Research Center Internet & American Life Project Feb 2012

Source: "How to Make Numbers Interesting" by Connie Malamed



Source: "How to Make Numbers Interesting" by Connie Malamed



Source: Mehrabian & Wiener, 1967 and Mehrabian & Ferris, 1967

Participation Time

- Ineffective Communicator?
- Effective Communicator?



Source: "Speakers" by O'Reilly Internal via FlickrCC



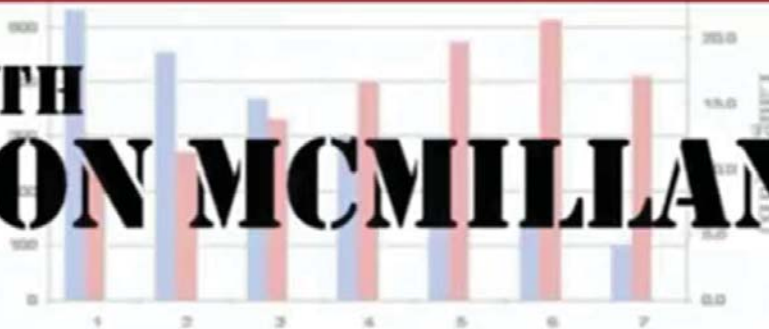
Source: "Speakers" by O'Reilly Internal via FlickrCC

Types of Audiences

	Friendly	<ul style="list-style-type: none"> • Eye Contact • Gestures • Vocal Variety • Friendly
	Neutral	<ul style="list-style-type: none"> • Confidence • Small Gestures • Nothing too Showy
	Uninterested	<ul style="list-style-type: none"> • Dynamic • Entertaining • Large Gestures • Movement
	Hostile	<ul style="list-style-type: none"> • Calm • Controlled • Speak Slowly and Evenly

LIFE AFTER DEATH BY POWERPOINT 2012

WITH
DON MCMILLAN



Create Your Speech First

This

Keep in mind...

- Time of Day
- Room
- Topic
- Speaker

Not This

- Why do we speak? Because we have knowledge to pass on to an audience (whether it is to City Council, concerned citizens, or even other departments. However, as human beings we are very egocentric.
- If we don't understand the information or if we don't perceive that this knowledge affects us directly, we are less apt to pay attention.
- Think about all the times you have zoned out during either a conference or even a weekly meeting. While some of this could be pinned on the speaker for not being the best deliverer, a larger portion can be blamed on human nature.
- Sometimes the deck is stacked against the speaker (bad time or room). Sometimes, you actually stack the deck against yourself by not thinking about the audience first. Is it ever not about the audience? NO! If you're used to thinking it's more about getting all your facts and figures out, then you're probably used to seeing audiences that look like this.

Keep It Simple

More than 6 seconds

- This takes more than six seconds to read.
- It's really here because I didn't plan well.
- Sadly, you are trying to read this too.
- Anyone keeping up with me?
- I think we are all having a hard time with this slide.

6 seconds and less

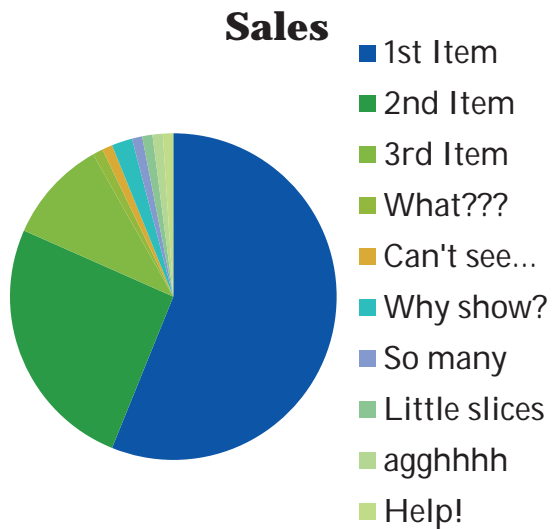
- No more than 6 words
- No more than 6 bullets
- Now you get it!

Limit Number of Slides and Bullets

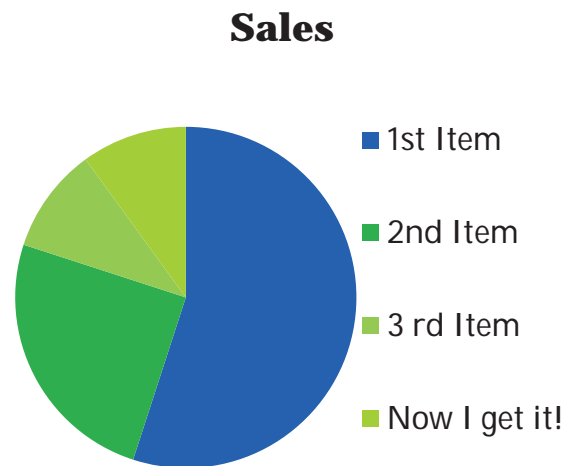
$$\frac{\text{Length of speech}}{2} + 1 = \text{max slides}$$

Keep the Audience in Mind

Unclear



Clearer



Normal Vision



Deuteranomaly/Green-Weak



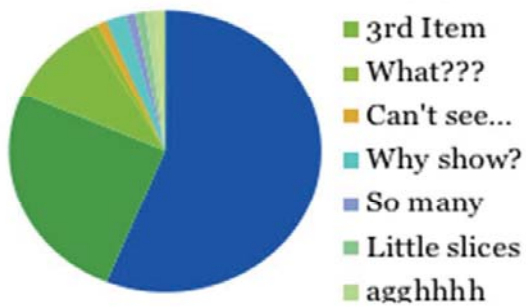
Protanopia/Red-Blind



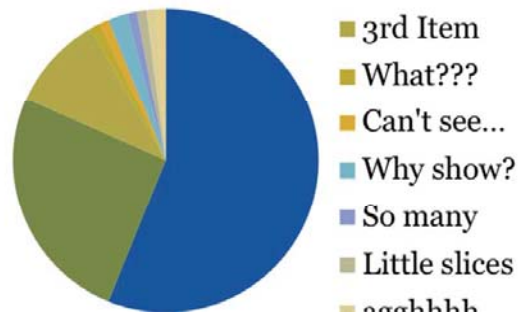
Tritanopia/Blue-Blind



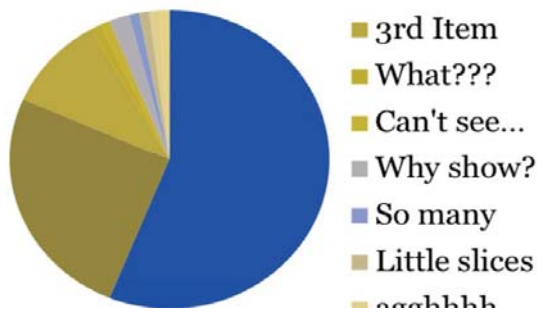
Normal Vision



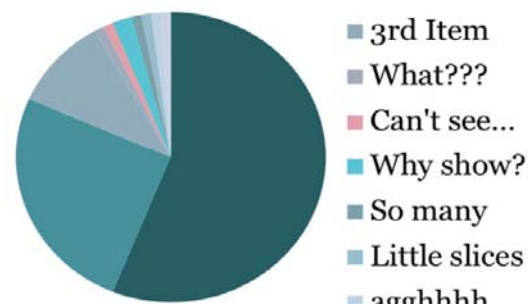
Deuteranomaly/Green-Weak



Protanopia/Red-Blind



Tritanopia/Blue-Blind



To Access License for Creative Common Images

- <https://creativecommons.org/licenses/by-nc/2.0/legalcode>



**Illinois
Government
Finance
Officers
Association**

Learning • Connecting • Progressing

Refresh and Update your Resources & Tools for the New Year



**Illinois
Government
Finance
Officers
Association**

Learning • Connecting • Progressing

Fresh Look

- Processes
- Systems
- Team's roles & responsibilities



Changing Needs

Old Expectations

- X** Things take time
- X** Limited available information
- X** Paper

New Expectations

- ✓** Faster Service
- ✓** Increased Transparency
- ✓** Electronic Access

Changing Needs

Challenges

- X** Reporting too complex
- X** Can't get to information
- X** Time-consuming & manual

New Expectations

- ✓** Easy, on-demand reporting
- ✓** Instant access to information
- ✓** Automation

Objectives

- Three ways for a fresh look
 - ☐ Processes & procedures
 - ☐ Systems
 - ☐ Roles & responsibilities
- Identify opportunities
- Action steps to implement improvements
 - ☐ Real case studies



TAKE A FRESH LOOK AT

YOUR PROCESSES

Step-By-Step: Big Picture

1

Major Activities

- ☐ The “What”
- ☐ The “Why”
- ☐ The “How”
- ☐ The “Who”

2

ID Opportunity

- ☐ Time Savings
- ☐ Eliminate Duplication
- ☐ Eliminate the unnecessary

3

Implement Change

- ☐ Reorganize
- ☐ Eliminate
- ☐ Implement

Step-by-Step

Assessment: Processes

WHAT you do

The major areas of activity in your department (e.g., Enter invoices, check processing, generate water bills)

WHY you do it

The reason why a particular activity is done (e.g., review packing slips)

HOW you do it

The detailed, step-by-step process flow from beginning to end to accomplish each major activity

WHO does it

The person(s) responsible for completing each step

Process Assessment

Step 1a: Lay the Foundation

- Focus on **What** you do
- Establishes a frame-work for your review
- How to complete:
 - ☐ Major Activities
 - ☐ Drill down to key tasks

Step-by-Step: Detail Processes

Scope of Review

Do I need to look at everything?

- | | |
|---|--|
| ■ Focused – Function | ■ Broad – Dept. Wide |
| <input type="checkbox"/> Priority Area | <input type="checkbox"/> Recommended |
| <input type="checkbox"/> Significant challenges | <input type="checkbox"/> Collect info to review roles & responsibilities |
| <input type="checkbox"/> Previous process reviews completed | <input type="checkbox"/> First process review |

Step-by-Step: Detail Processes

Involve Your Team

- Round-table discussion
- Inclusive: groundwork for change management
- Closest to the daily activities
- Common to hear: “We do that?”



Step-by-Step: Detail Processes

Process Assessment

Major Activity	Tasks	System Used	Person Responsible
Maintain vendor records			
Process Vouchers			
Enter invoices			
1099 processing			
Check run			
Void check			
Track misc. bill numbers (some depts.)			
Track misc. bill payments (some depts.)			
Create misc. bills			
Take customer payments			
Balance cash drawer			
Track vehicle stickers			

Step 1b: Why do we do it

- Review your list
- Identify the reason for each
 - Print checks for vendors – because they don't like ACH
 - Create a PO when we have a contract – because we think all vendors require POs



Step-by-Step: Detail Processes

Step 1c: Process Details

- How is it being done
 - Pick any major activity (start somewhere)
 - Identify the starting point of the process
 - Identify the very next step....then the next
- Details will help you see opportunities for change

Step-by-Step: Detail Processes

Step 1d: Who Is Responsible

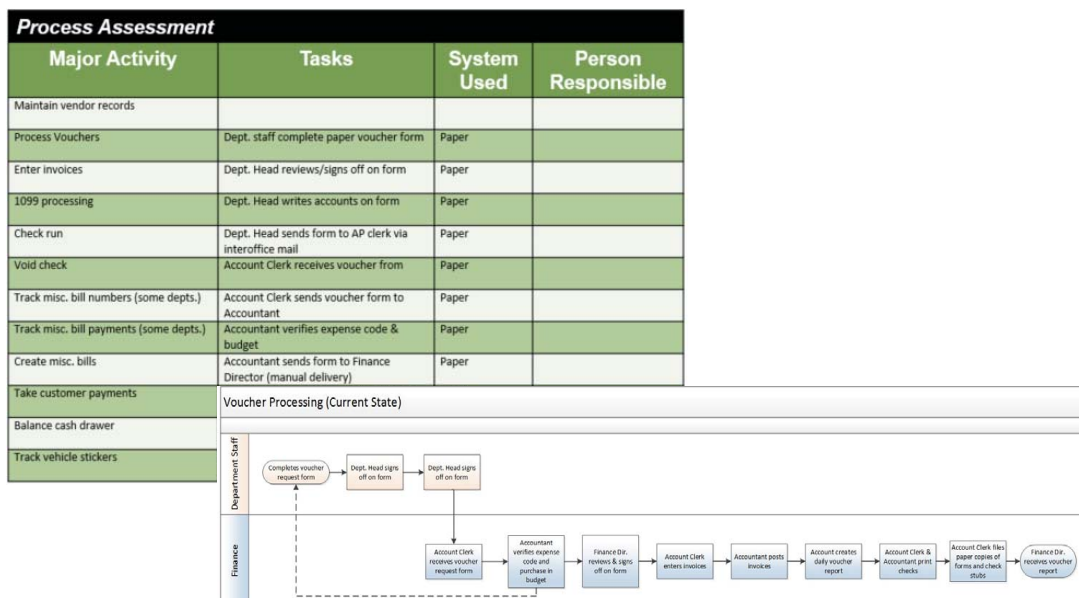
- **Who** is doing it
- Gather WHO is responsible for each step of the process
- Primary & back up



Step-by-Step: Detail Processes

*****Key step for redefining roles and responsibilities**

Methods To Document



Step-by-Step: Detail Processes

Step 2: ID Opportunities

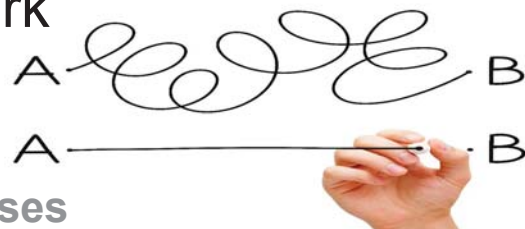
- Filling out, passing, or filing paper forms
- Manually creating reports
- Time-consuming tasks
- No cross-training
- No back-up
- Redundancy



Step-by-Step: Detail Processes

Step 2: More Opportunities

- Listen for “buzz words”
 - “We’ve always done it this way”
 - “That’s how I was trained”
- Process handed off to multiple people
- Large number of spreadsheets
- Prep work to do work



Step-by-Step: Detail Processes

Step 2: Highlight Opportunities for Action

- Mark activities that provide opportunities
 - ☐ Paper
 - ☐ Redundancy

Process Assessment		
Major Activity	Tasks	System Used
Maintain vendor records		
Process Vouchers	Dept. staff complete paper voucher form	Paper
	Dept. Head reviews/signs off on form	Paper
	Dept. Head writes accounts on form	Paper
	Dept. Head sends form to AP clerk via interoffice mail	Paper
	Account Clerk receives voucher from	Paper
	Account Clerk sends voucher form to Accountant	Paper

Step-by-Step: Detail Processes

Process Assessment			
Major Activity	Tasks	System Used	Person Responsible
Maintain vendor records			
Process Vouchers	Dept. staff complete paper voucher form	Paper	Multiple – outside dept.
	Dept. Head reviews/signs off on form	Paper	Multiple – outside dept.
	Dept. Head writes accounts on form	Paper	Multiple – outside dept.
	Dept. Head sends form to AP clerk via interoffice mail	Paper	Multiple – outside dept.
	Account Clerk receives voucher from	Paper	Lee Stecklein
	Account Clerk sends voucher form to Accountant	Paper	Lee Stecklein
	Accountant verifies expense code & budget	Paper	Will Borgen
	Accountant sends form to Finance Director (manual delivery)	Paper	Will Borgen
	Finance Director reviews and approves form (sign off)	Paper	Cayla Barnes
	Assistant to Finance Director sends signed form to Account Clerk (manual delivery)	Paper	Chris Bourque
	Account Clerk enters invoice	IDC	Lee Stecklein

What Have We Accomplished?

- Identified all of your major activities
- Identified opportunities to make improvements
- A list of areas to focus on to make improvements
- Any other challenges or changes, add to the list

Opportunities For Implementation

Step 3: Implement Process Change

Tracking Duplicate Data

- ✧ Consolidated meter information (single source)
- ✧ Provided access to information
- ✧ Improved communication method
- ✧ Eliminated duplicate tracking on paper and in system

Manual Voucher Process

- ✧ Electronic request implemented
- ✧ Electronic approvals implemented
- ✧ Reorganized routing

Manual Report Challenge

- ✧ Looked into report use
- ✧ Identified report not being used
- ✧ Eliminated manual report creation

Action Steps: Case Studies

TAKE A FRESH LOOK AT

YOUR SYSTEMS

Step-By-Step: System Review

1

What You Have

- ☐ System
- ☐ Versions
- ☐ Programs
- ☐ Modules
- ☐ Tools
- ☐ Support

2

What's Available

- ☐ Updates
- ☐ New functionality
- ☐ New modules
- ☐ External tools
- ☐ "Add-ons"

3

Identify Opportunities

- ☐ Consider needs identifies in process assessment
- ☐ Consider your options and select an approach

Step-by-Step

Step 1: Get To Know Your Tools

- What software do you own
- Are you paying for support & upgrades
- Who are your vendors
- What versions



Step-by-Step: Find out what you have

Step 1: Current State



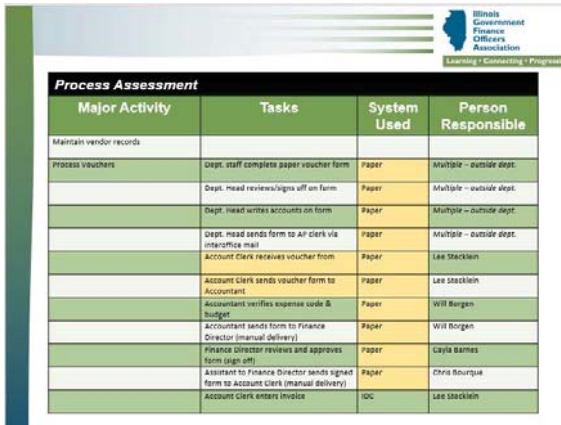
- Programs/software
- Modules
- Dashboards or widgets
- Online portals
- Reports available
- Support community
- User groups

Step-by-Step: Find out what you have

What am I Using?

Using

- What is it used for



Major Activity	Tasks	System Used	Person Responsible
Maintain vendor records			
Process vouchers	dept. staff complete paper voucher form	Paper	Multiple - outside dept.
	Dept. head reviews/signs off on form	Paper	Multiple - outside dept.
	Dept. head writes accounts on form	Paper	Multiple - outside dept.
	dept. head sends form to AP clerk via unsorted mail	Paper	Multiple - outside dept.
	Account Clerk receives voucher from	Paper	Lee Stacklin
	Account Clerk sends voucher form to Accountant	Paper	Lee Stacklin
	Accountant verifies expense code & budget	Paper	Will Bergen
	Accountant sends form to Finance Director (manual delivery)	Paper	Will Bergen
	Finance Director reviews and approves form (sign off)	Paper	Cayla Barnes
	Assistant to Finance Director sends signed form to Account Clerk (manual delivery)	Paper	Chris Bourque
	Account Clerk enters invoice	IOC	Lee Stacklin

Not using

- Why not
 - ☐ Isn't implemented
 - ☐ No training
 - ☐ Doesn't quite work right
 - ☐ Wasn't needed at the time
 - ☐ Couldn't see the whole picture
 - ☐ Functionality didn't exist
 - ☐ No SME to keep up with updates

Step-by-Step: Find out what you have

Subject Matter Expert

- What is a subject matter expert (SME)
 - ☐ Expertise/knowledge
 - ☐ System or process
 - ☐ Can identify their major activities



Step-by-Step: Detail Processes

Step 2: You Have Options

Update	Expanded Functionality	Other Tools
Confer with your resources	Confer with your resources	Confer with your resources
Meet with your vendor	Meet with your vendor	Identify other tools available
Identify updates and new features available	Identify modules available	Identify available features

Step-by-Step: Find out what's available

Step 2: Identify Resources

Update	Expand Functionality	Look to Other Tools
IT or IS Department	Vendor	IT or IS Department
Vendor	Department expert	Vendor
Community groups	Community groups	Consultant
Colleagues	Colleagues	
Consultant	Consultant	



Step-by-Step: Find out what's available

Step 3: Identify Opportunities

Update	Expanded Functionality	Other Tools
Consider identified needs (process review)	Consider identified needs (process review)	Consider identified needs (process review)
Review available new features	Review module functionality	Review available features
Identify opportunities to make improvements	Identify opportunities to make improvements	Identify opportunities to make improvements

Step-by-Step: Identify Opportunities



Implement System Change

Update	Expanded Functionality	Other Tools
1. Gather your team	1. Gather your team	1. Gather your team
2. Schedule the update	2. Define goals	2. Define goals
3. Plan testing procedures	3. Implement the module (with vendor or other expert resource)	3. Implement the tool (with vendor or other expert resource)
4. Test new processes	4. Test new processes	4. Test new processes
5. Take the update live	5. Take the module live	5. Take new process live

Action Steps

Implement System Change

Manual Process Challenge

- ✧ Defined key needs
- ✧ Evaluated functionality of existing modules
- ✧ Match needs to available functionality
- ✧ Implemented process in existing module

Data Access Challenge

- ✧ Dashboard features in new version
- ✧ Updated system
- ✧ Provided training on using new dashboards

Payroll Process Challenge

- ✧ Older system
- ✧ Evaluated document mgmt. software
- ✧ Implemented online forms and workflow

Action Steps: Case Studies

TAKE A FRESH LOOK AT

ROLES & RESPONSIBILITIES

Review Roles

■ Roles transform over decades

- ☐ Position creep
- ☐ Reactive

■ Process:

- ☐ Identify roles
- ☐ Evaluate
- ☐ Realign



Roles & Responsibilities Assessment

Step-By-Step: Big Picture

1

Define Roles

- ☐ Detail roles (reference past process review)
- ☐ Incorporate changes from process/system improvement

2

Identify Opportunities

- ☐ Quantify gains: process/system change
- ☐ Actionable opportunities

3

Realign Responsibilities

- ☐ Match skillset to resource
- ☐ Realign tools & resources with role
- ☐ Align responsibility & authority

Step-by-Step

Step 1: Define Current Roles

Started in Process Assessment

- Use list of activities and tasks from process assessment review
- Highlight each person in their current assignment
- Detail personnel activities

Step-by-Step: Roles & Responsibility Details

Process Assessment

Tasks	System Used	Person Responsible	New Role
Enter Vendor information	IDC	Lee Stecklein	
Request/obtain W9	Paper	Lee Stecklein	
Answer department personnel questions re: invoices/look up information	IDC/Paper	Will Borgen	
Receive invoices	Interoffice mail	Cayla Barnes	
Review packing slips	Paper	Lee Stecklein	
Enter invoices	IDC	Lee Stecklein	
Post invoices	IDC	Will Borgen	
Generate "Board Report"	Excel	Will Borgen	
Assign general billing invoice numbers	Excel	Lee Stecklein	
Track general billing invoice numbers	Excel	Lee Stecklein	
Enter general bills (some departments)	IDC	Cayla Barnes	
Download/upload meter read files	IDC	Will Borgen	
Maintain meter information (on accounts)	IDC	Red Gerard	
Maintain Meter inventory	IDC	Cayla Barnes	
General utility bill runs	IDC	Red Gerard	
Review and resolve UB run exceptions	IDC	Cayla Barnes	
Delinquency processing	IDC	Red Gerard	
Generate shut off list	IDC	Red Gerard	
Monitor and update shut off list	Paper report	Lee Stecklein	

Step 2: ID Opportunities

- Know constraints
 - Internal
 - External
- Time savings from changes
 - System
 - Process
- Keep an eye out for:
 - Skill set/responsibility misalignment
 - Responsibility/authority misalignment
 - Over dissection of process
 - Separation of duties
 - No/too much back up

Step-by-Step: Roles & Responsibility Details

Process Assessment

Tasks	System Used	Person Responsible	New Role
Enter Vendor information	IDC	Lee Stecklein	
Request/obtain W9	Paper	Lee Stecklein	
Answer department personnel questions re: invoices/look up information	IDC/Paper	Will Borgen	
Receive invoices	Interoffice mail	Cayla Barnes	
Review packing slips	Paper	Lee Stecklein	
Enter invoices	IDC	Lee Stecklein	
Post invoices	IDC	Will Borgen	
Generate "Board Report"	Excel	Will Borgen	
Assign general billing invoice numbers	Excel	Lee Stecklein	
Track general billing invoice numbers	Excel	Lee Stecklein	
Enter general bills (some departments)	IDC	Cayla Barnes	
Download/upload meter read files	IDC	Will Borgen	
Maintain meter information (on accounts)	IDC	Red Gerard	
Maintain Meter inventory	IDC	Cayla Barnes	
General utility bill runs	IDC	Red Gerard	
Review and resolve UB run exceptions	IDC	Cayla Barnes	
Delinquency processing	IDC	Red Gerard	
Generate shut off list	IDC	Red Gerard	
Monitor and update shut off list	Paper report	Lee Stecklein	

Step 3: Realign Responsibilities

- Consider one role at a time
- Match responsibilities to skill set
- Align responsibility & authority
- Consolidate process activity
- Clarify oversight role
- Identify back up



Action Steps

Case Study

Roles Shift Over Time

- ✧ Personnel attrition
 - Positions remained open
 - Responsibilities allocated to remaining staff
- ✧ Received promotion & retained responsibilities
- ✧ Manager's temporary help became permanent

Challenges Identified

- ✧ "Not enough people"
- ✧ Small pieces of multiple activities
 - Process delays
 - Duplicated effort
- ✧ Duplicated efforts
- ✧ Manager responsible for administrative tasks

Action Steps: Case Study

Case Study (cont.)

Solutions

- ✧ Times Savings: Process improvements
- ✧ Reallocated managerial responsibilities/focus
 - Oversight
 - Budget
 - Audit
- ✧ Consolidated process activities
- ✧ Reallocated “back up”
- ✧ Identified subject manager experts

Action Steps: Case Study

TASK	PRE (hrs/mo)	POST (hrs/mo)	PRE	POST
AP	22.25	14.25		Person 3
Enter Vendor info	2	2		
Request/obtain W9	1	1		
Collect, verify "approval" and enter invoices	8	3		
Answer questions, look up info	4	1		
1099 reporting	0.25	0.25		
Check Run	3	3		
Send out checks	2	2		
Void checks (NSF, etc)	2	2		
GB	9.75	3.25		
Assing & track bill #s	2	0		
Receive invoices and put in binder	1	0		
Track payment in binder & send receipt to dept	2	0		
Occasional receipt and entry insurance pymt	0.5	0.25		
Track PD invoices, generate receipt and send to PD	2	2		
Create PD invoices (security)	2.25	1		
FRONT DESK/PAYMENT ENTRY	15	15		Person 1 and 2
Take customer payments				
Balance Drawer (daily/cashier)	11	11		
Vehicle sticker tracking & recon	2	2		
Real estate transfer stamp tracking	2	2		
UTILITY BILLING	54.75	35.75		
Download/upload meter read files	0.5	0.5		
Maintain meter info (on accounts, no inventory)	1	0.5		
Generate UB bill run	2	2		
Review and "resolve" UB bill run exceptions	17.5	3		person 1 and 2
Maintain UB accounts	2	2		
Move in/Move out - New UB account	2.5	2		
Answer cust inquiries	21.5	21.5		
Create/maintain payment plans	1	1		
Delinquency processing	2	2		
Shut off process	4.5	1		
Update/maintain utility rates	0.25	0.25		
PAYROLL	11.5	5.25		
Enter PD & Foreman time	3.25	0		Person 4.5
Process employee events (personnel actions)	1.25	1		
Update/Maintain pay rates (figure retro if needed)	1	1		
Generate W2 tax forms	0.25	0.25		
Update/maintain direct deposit info	0.75	0.5		
questions	4	2		
Garnishment bills, etc.	1	0.5		
BUSINESS LICENSE	9.25	3.5		Person 2
Enter and track new applications	6	2		
Generate, send renewals track payment and issue licenses	3.25	1.5		
MANAGER				Person 5 Manager
Time off approval				
backfill vacancies based on sick time/time off, etc.				
Complete personnel evaluations				
Issue resolutions				
AP check run Proof approval & print	1	1		
Payroll Check run approval and review				
"Final" ("supervisor") balance drawer/create deposit	22	10		

Recap

Process Review

- Identify major activities
 - ☐ What are you doing
 - ☐ Why are you doing it
 - ☐ How are you doing it
 - ☐ Who is doing it
- Identify opportunities
- Implement the change



Take A Fresh Look

Recap

System Review

- What do you have
 - ☐ System
 - ☐ Modules
 - ☐ Community/help tools
- What is available
 - ☐ Update
 - ☐ Expand functionality
 - ☐ Other tools
- Implement the change



Take A Fresh Look

Recap

Roles & Responsibilities

- Define your team's roles
 - Detail roles using process review
 - Incorporate process & system improvements
- Identify opportunities
 - Time savings (process or system changes)
 - Actionable opportunities
- Realign responsibilities



Take A Fresh Look

QUESTIONS

Public Sector Solutions
Baecore
GroupTM

Mary Smith: 847.585.1486





The Insurance Tides Are Turning

Ethan Salsinger & Tia Incapreo | Thursday, February 15

© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM



Insurance | Risk Management | Consulting

Agenda



Insurance | Risk Management | Consulting

February 15, 2018

- I. 2017 Insurance Marketplace Review
- II. Natural Disaster Recap
- III. 2018 Insurance Marketplace Review
- IV. Last Year vs. This Year
- V. What It Means For IL Municipalities
- VI. What to Expect
- VII. How to Prepare

Ethan Salsinger

Producer - Gallagher

- Illinois State University
- Began career with Gallagher in 2012
- Focus on Illinois Municipalities
- IGFOA Conference Committee Member
- Fun Fact: I have a fear of pumpkins



Tia Incapreo

Producer - Gallagher

- University of Illinois Chicago
- Began Career with Gallagher in 2013
- Focus on IL munis, libraries, and K-12 schools
- ILCMA Committee Member
- Fun Fact: I'm getting married this year!



2017 Insurance Marketplace



© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM

Soft Market

- Lower insurance premiums
- Broader coverage
- Reduced underwriting criteria
- Increased capacity – insurance carriers will write more policies and often include higher limits
- Increased competition among insurance carriers
- Rate reductions associated with a soft market affect the insurance carriers' bottom line, as a carrier relies on a combination of insurance premiums and investments to make money as a company

Soft Market

- New players in the marketplace – Carriers, Brokers, Wholesalers
- Generally - IMLRMA, ICRMT, Trident, BRIT, Travelers all saw reduced rates and premiums in 2017
- Did anybody here benefit from a soft insurance market last year?
- Typically last 2-3 years, unless there is an unexpected/out of ordinary year of losses...

7

17GGB_____

© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM

2017: Year of Natural Disaster



2017: Year of Natural Disaster

<https://www.youtube.com/watch?v=GJRtARo0pm8>

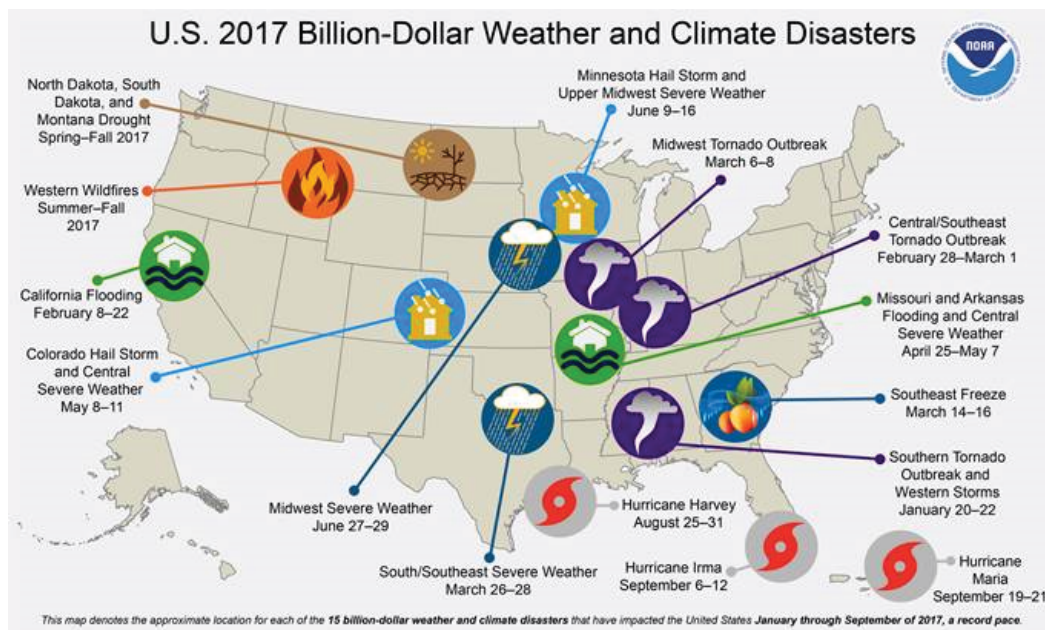


17GGB_____

© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM

9

2017: Year of Natural Disaster



17GGB_____

© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM

10

2017: Year of Natural Disaster

- The most costly disaster year EVER
- Hurricane Harvey: \$200B
- Hurricane Irma: \$67B
- Hurricane Maria: \$104B
- California Wildfires: \$9.4B

17GGB_____

© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM

11

2017: Year of Natural Disaster

What Happened in Illinois?

- <http://abc7chicago.com/weather/tornado-damage-assessed-after-deadly-storm-rips-through-ottawa-naplate-ill-/1778838/>
- July: Northern IL counties declared as disaster areas, flash flooding
- April: Severe hail damage throughout Chicagoland



17GGB_____

© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM

12

2018 Insurance Marketplace



© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM

Hard Market

- Typically will see higher insurance premiums
- More stringent underwriting criteria, makes underwriting tougher
- Reduced capacity – less insurance policies written
- Less competition in market place

Effects of a Hard Market

The market
responds by
offering...

Lower
Limits

More
Premium

Less
Coverage

Higher
Deductibles

Less
Commission



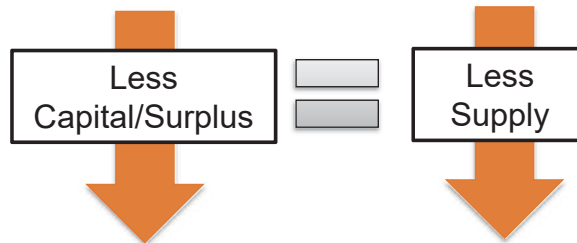
Be prepared!

17GGB_____

© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM

15

Price Regulates Supply and Demand



With a limited supply,
**Clients are fighting for
the limited supply.**



The increased demand
for a reduced supply
increases the price.

**Price is a rationing
mechanism.**

**Price goes up to
ration the reduced
supply.**

17GGB_____

© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM

16

Marketplace - 2017 vs 2018



Insurance | Risk Management | Consulting

2017	Market Conditions	Notes	2018	Market Conditions	Notes
Primary Insurance	(+) Positive	<ul style="list-style-type: none"> ✓ Capitalization is strong; surplus at record levels (\$680B), which is up \$8B from previous year. ✓ 2017 combined ratio projected at 107%. ✓ 12 years since a major FL Hurricane. ✓ Combined ratio for 2013 was 96.4, for 2014 was 97, for 2015 was 97.8 and 2016 is expected to be 100. These results are creating large excess capital positions. ✓ US M&A activity in 2015 was \$39.6B its highest level since 2000 (Ironshore, AWAC). ✓ Global M&A activity is increasing especially in Asia. ✓ Increase in CAT losses 	Primary Insurance	(-) Negative	<ul style="list-style-type: none"> ✓ Surplus expected to be reduced by \$130B due to CAT losses. ✓ Irma loss estimate at \$40-\$50B. ✓ Harvey loss estimates at \$25-\$30B. ✓ Maria loss estimate at \$15B-\$30B ✓ Wildfires loss estimates are \$6B. ✓ Citizens Irma loss projected at \$1.25B. \$6.4B remaining in surplus. ✓ Carriers targeting 20%-50% rate increases. ✓ London experienced significant CAT losses around the world. ✓ -9.5% WC rate drop for Florida.
Reinsurance	(+) Positive	<ul style="list-style-type: none"> ✓ Reinsurance capital is at an all-time high of \$570B, which is up 68% from 2008. ✓ Reinsurers passing along premium reductions to primary carrier in 2016 and will result in favorable pricing to insurance buyers. 	Reinsurance	(-) Negative	<ul style="list-style-type: none"> ✓ Reinsurers targeting 20-50% rate increases. ✓ Unlikely to see any Property rate decreases.
Investments	(+/-) Stable	<ul style="list-style-type: none"> ✓ The Trump Bump – will it continue? 10 year treasury is up .5 since election. ✓ Interest rates are forecasting improvement over the next five years. ✓ GDP is still running at 2% on average. ✓ Insurers continue to earn profits through underwriting, not investments. 	Investments	(+) Stable	<ul style="list-style-type: none"> ✓ Dow Jones consistently at all-time highs. ✓ Interest rates are forecasting improvement over the next five years. ✓ GDP is still running at 2% on average. ✓ Insurers will not earn profits from underwriting in 2017.
Modeling	(+) Stable	<ul style="list-style-type: none"> ✓ RMS v15 is the latest model being utilized by carriers. There hasn't been an effect on pricing due to modeling so far in 2017. 	Modeling	(+) Stable	<ul style="list-style-type: none"> ✓ RMS v17 is the latest model being utilized by carriers. There hasn't been an effect on pricing due to modeling so far in 2017.
Exposure Growth (Demand)	(+/-) Stable	<ul style="list-style-type: none"> ✓ Some improvements in the US economy and job growth have resulted in modest exposure growth. 	Exposure Growth (Demand)	(+/-) Stable	<ul style="list-style-type: none"> ✓ Some improvements in the US economy and job growth have resulted in modest exposure growth.

17GGB

17

© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM



Insurance | Risk Management | Consulting

What Does This Mean For IL Municipalities?



© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM

What Does This Mean For IL Municipalities?

- Less rate/premium slashing
- Underwriting process may be stricter
- Some carriers may increase deductible requirements and/or lower limits
- Some carriers may reduce their presence in the Public Sector
- Communities in high risk areas (flood, tornado alley, wind/hail history, utilities) will be looked at more closely

19

© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM

17GGB_____

What Does This Mean For IL Municipalities?

What to expect from the marketplace in 2018

- Property: 3-7% increase
- Auto Liability: 3-7%
- General Liability: 1-5% increase
- Workers Compensation: 1-5% increase
- Ancillary lines: Relatively flat

20

© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM

17GGB_____

What Does This Mean For IL Municipalities?

How to Prepare

- Begin the insurance renewal earlier if possible
- Help your broker sell your municipality
- Request an early prediction from your broker/carriers
- Discuss if looking at multiple insurance carriers makes sense for your community
- Implement (and/or follow) best practices and risk control programs
- Make sure all records, schedules, information are updated and well kept
- Budget for potential increases

21

17GGB_____

© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM

Open Discussion

Ethan Salsinger

Tia Incapreo

630-285-2651

630-438-1586

Ethan_Salsinger@ajg.com Tia_Incapreo@ajg.com

22

17GGB_____

© 2017 ARTHUR J. GALLAGHER & CO. | AJG.COM



**Illinois
Government
Finance
Officers
Association**

Learning • Connecting • Progressing

LEGISLATIVE UPDATE

Illinois Police/Fire Pension Fund Consolidation: Discussion Points

IGFOA Downstate Chapter - 2018



Article 3-4 “Downstate” Systems

	<u>Police</u>	<u>Fire</u>	<u>Total</u>
<i>Assets (billions)</i>	\$7.452	\$5.419	\$12.871
Actives	13,488	9,451	22,939
Retires	<u>10,339</u>	<u>8,175</u>	<u>18,514</u>
Total Members:	23,970	17,018	41,453

Source: FY 2016 Illinois Dept. of Insurance Data from 2017 biennial report.

Various Consolidation Proposals

Proposed legislation or advocacy groups recommend that Article 3-4 pension systems be **consolidated into a statewide fund** (either combined with an existing fund or in a separate public safety plan). **IML working on several drafts at this time.**

Alternative proposals have individual funds continuing to exist but **investment authority is centralized** at IMRF, the State Board of Investment or similar entity. This is a 2015 recommendation of the Illinois Department of Insurance.

3

Other States

Numerous states operate single (or dual) pension funds for police/fire. Ohio, Iowa and others charge a fixed percentage of payroll to all districts (*i.e.*, a uniform rate throughout the state). In **Arizona**, each participating city pays a different rate based on local experience (in a manner similar to IMRF).

In **Indiana**, county sheriffs are covered under individual county plans. **In some states**, police/fire pensions are provided by statewide systems that include coverage for non-sworn personnel also.

In **Florida, Pennsylvania, Texas**, separate municipal systems are common, like Illinois.

4

Consolidation Argument

- Consolidation is argued to provide for greater investment returns not achievable by the smaller, individual pension plans. The benefit supposedly comes from fewer limits on investment options, greater expertise and lower costs.
- Consolidation is argued to reduce operational expenses if local funds are combined into a statewide system.

5

Concerns Regarding Consolidation

Consolidation is *not* guaranteed to produce the claimed outcomes.

As a result, all parties need to move cautiously and fully understand the issues, especially those that could result in unexpected outcomes.

Those concerns include (1) the loss of financial assets that occurs when portfolios are combined, (2) the investment outperformance of many existing Article 3-4 police/fire funds, (3) the complexity and costs of adjudicating and monitoring public safety disability claims and (4) the loss of flexibility regarding municipal funding.

6

Concerns Regarding Consolidation: **#1 – Investment Balance Loss**

When portfolios are consolidated, there is an immediate loss from what experts call “**transition costs**.” Transition costs result from:

- Fees and Commissions.
- Market impact from increased sales/purchases.
- Lost opportunity during the period of time that the assets are not invested during transition.

Costs can be reduced by use of a “**transition manager**,” but a loss cannot be avoided.

7

Concerns Regarding Consolidation: **#1 – Investment Balance Loss** (continued)

A **2012 Illinois COGFA Report** estimated the transition costs of combining Downstate police/fire systems to be \$108.8 million. The payback period to recover this loss, if investment and operational improvements were achieved, was eleven (11) years.

Thus, to begin an experiment in the *could-be* benefits of consolidation and loss of local control, the costs would be over \$108 million. This estimate is as of 2012; costs would likely be higher today given the growth in the portfolio size.

8

Concerns Regarding Consolidation: #2 – Improved Investment Performance?

IMRF and ISBI plans are well managed and high-performance operations.

But, there are Downstate plans that meet or beat their performance.

Spot Analysis of Downstate Plans (2015 10-year IDOI Report) shows:

Matching or Beating IMRF:	Carol Stream Fire	Deerfield Police
	Oak Lawn Fire	
Beating ISBI:	Waukegan Fire	Freeport Fire
	Mt. Vernon Police	Oak Lawn Police
	Libertyville Police	Skokie Police
	Hinsdale Police	
Almost Beating ISBI:	Rock Falls Fire	Rockford Fire
	Carol Stream Police	Warrenville Police
	Naperville Police	Darien-Woodridge Fire

9

Concerns Regarding Consolidation: #2 – Investment Performance (continued)

Further, while investment performance of Article 3-4 plans lagged statewide plans in total, *the Downstate plans did not have their current expanded investment authority for the full period analyzed (2006 – 2015).*

Downstate plans have only “geared up” to take full advantage of the new investment authority in the past five years.

10

Concerns Regarding Consolidation: #3 – Operational Expenses

The Pension Fairness for Illinois Communities (PFIC) report cites lower per capita operating expenses at IMRF than in Downstate 3-4 plans.

In reality, IMRF benefits are less expensive to administer. Disability claim processing is a good example. IMRF benefits are adjudicated in two phases: temporary (first 30 months), then permanent. And the permanent benefits are offset by Social Security and worker compensation. *Lower benefits cost less money to administer.*

11

Concerns Regarding Consolidation: #3 – Operational Expenses (continued)

Downstate Police/Fire Plans do an excellent, documented job of managing disability benefits. In benefits processing, higher administrative costs often result in better benefit cost-control (without denying individuals their deserved pensions). *Note Illinois stats from most recent IDOI Report:*

<u>Plans:</u>	<u>Percent of Pension Dollars Paid Out in Disability Form:</u>
Illinois Article 3 Police	9.8 %
Illinois Article 4 Fire	17.3 %
Article 3-4 Combined	13.1 %

12

Concerns Regarding Consolidation: #3 – Operational Expenses (continued)

<u>Plan:</u>	<u>Percent of Pension Dollars Paid Out in Disability Form:</u>
Ohio Police/Fire	28.8 %
Muni Police/Fire Iowa	35.9 %
<i>Arizona Public Safety</i>	<i>13.2 %</i>
New York Police/Fire (ex NYC)	19.8 %
Arkansas Local Fire/Police	16.7 %
New Jersey Fire/Police	14.9 %
Colorado Fire/Police	9.1 %
<i>Illinois Downstate Combined</i>	<i>13.1 %</i>

13

Concerns Regarding Consolidation: #3a Current System Underrepresents taxpayers

PFIC Report opines that current 5-member boards underrepresent the taxpayer. PFIC claims that the three elected representatives “have no direct financial stake in addressing the shortfall in investment revenues” or “the award of benefits or disability pensions.”

In reality, there is no evidence that the uniformed members bring anything other than significant understanding, integrity and capability to address their fiduciary roles. The aforementioned disability pension statistics show evidence of success.

14

Concerns Regarding Consolidation: **#4 – Loss of Flexibility on Municipal Funding**

“Be careful what you wish for”

- Unknown

“Thank God for unanswered prayers”

- Jim McNamee (and Garth Brooks!)

15

Concerns Regarding Consolidation: **#4 – Loss of Flexibility on Municipal Funding**

Under consolidation, municipal officials will lose all influence on actuarial assumptions and the funding method for unfunded accrued liabilities.

For some jurisdictions this will be a good thing, as some towns have misused this influence or power.

But for others, the first “invoice” received from the consolidated fund could be **a sticker-shock moment with substantial budgetary impact**.

16

Concerns Regarding Consolidation: A Discussion with One Mayor

What would happen in your town if there was Article 3-4 consolidation into one or more statewide plans?

- Local fund transfers records and assets to Springfield.
- Account credited in the name of the municipality incurs a **transition-cost loss**.
- Actuarial valuation is conducted and employer payment assessed using **new fund's statewide actuarial assumptions** and unfunded liability funding method.
- Community receives its first monthly bill to be applied against the next month's payroll. **Payment must be made.**

17

Consolidation Issues - Concluding

Nationwide, public safety pension benefits are provided by an array of systems: local, statewide all employees, and statewide public safety (both uniform funding and individual community funding). *Concerns regarding moving from local to a statewide approach in Illinois are:*

- **Transition costs** (over \$108 million).
- **Projected investment improvements may not be achieved**, and would not be achieved for some jurisdictions.
- **Operational savings may not be achieved**, and favorable disability management could be jeopardized.
- **City losses funding flexibility.**

18

Consolidation Issues – Additional Concern

The **Department of Insurance** recommendation regarding merger of investment portfolios (*i.e.* not *full* consolidation) carries the same investment portfolio concerns as full consolidation (transition costs, failure to outperform).

Further, additional study on this structure is needed. It would have to accommodate cash-flows to-and-from individual pension funds to-and-from a large system that has an allocation to illiquid investments needs considerable further study. At a minimum, an actuarial oversight role may be needed.

This approach may be unprecedented nationwide.

19

Consolidation Issues – Final Concern

Is anyone suggesting that IMRF be broken up into thousands of separate pension systems?

No.

Then why not consolidate the public safety groups?

One Answer: there is a factor that is a problem in either direction: IMRF to separate or police/fire to consolidated. That factor is: **disruption.**

A valid question is: would the systems benefit from the disruptive changes?

20

Either Way: Issues to be Addressed

- **Investment Performance.** There is a wide range of investment performance in the Article 3 and 4 pension group. Action?
- **Disability Review Expenses.** Public Safety disability claims are expensive to administer under the current law. Action?
- **Other Expenses.** Can more economies be achieved from thoughtful review? Actions?

21

Questions ?

HOW TO HAVE AN EFFICIENT AND SUCCESSFUL YELLOW BOOK AUDIT

IGFOA Downstate Conference 2018

©2016 RSM US LLP. All Rights Reserved.



Agenda

Topic	Estimated Minutes
Efficient and successful – what it looks like	10
GAAS versus GAS audit	15
Internal control and compliance	30
Exercises	15
Q and A	5

2

©2016 RSM US LLP. All Rights Reserved.



Learning Objectives

- Understand what your auditors expect from you
- Develop strategies for making the audit less stressful
- Understand the differences between a GAAS audit and a GAS audit, and when a GAS audit is required
- Learn how GAS audit preparation can benefit your organization long after the audit is complete
- Discover a new way to think about internal controls and compliance matters

3

©2016 RSM US LLP. All Rights Reserved.



Polling Question

My involvement with the annual audit:

1. Minimal
2. I often have to fulfill some requests and answer some questions
3. I am the audit liaison

4

©2016 RSM US LLP. All Rights Reserved.



Efficient and Successful

Successful:

- Minimize auditor adjustments and findings
- Meet statutory and other reporting deadlines
- Reduce negative publicity
- Avoid issues with regulatory and oversight agencies
- Spend more time with the board explaining the FS, and less time defending against findings

5

©2016 RSM US LLP. All Rights Reserved.



Efficient and Successful

Efficient:

- Minimize the time required to prepare for the audit after year end
- Minimize the time auditors need to remain “in the field”
- Minimize the occurrence of audit findings and auditor adjustments

The key to it all is thorough planning, and executing the plan appropriately

6

©2016 RSM US LLP. All Rights Reserved.



Preparing for the audit

Minimize audit prep time after year end:

- Be proactive throughout the year, gather, abstract, and save copies of:
 - Grant agreements
 - Debt covenants
 - Major contracts
 - New laws/regulations
- Look at prior year internal control documentation, update it quarterly

7

©2016 RSM US LLP. All Rights Reserved.



Preparing for the audit

Minimize audit prep time:

- Maintain certain schedules quarterly so they need minimal update at year end
 - Capital asset additions and deletions
 - Schedule of tax receipts (property, income, sales etc.)
 - Debt roll-forward schedules
- Research pending accounting standards, reach out to the auditors with questions early in the process
- Prepare certain FS sections early (Budget amounts, statistical sections, shell for MD&A and Transmittal letter)

8

©2016 RSM US LLP. All Rights Reserved.



Minimize auditors time in the field

- Hold a planning meeting with auditors several months before year end
 - Agree to timetables for PBC items
 - Establish a regular status meeting schedule
 - Make auditors aware of significant changes since the prior audit
 - New revenue source, new department, significant workforce turnover, new debt issuances, new grants and contracts, etc.
- Meet internally and assign all PBC items. Create due dates and accountability. Get department head support.

9

©2016 RSM US LLP. All Rights Reserved.



Minimize the occurrence of audit findings and auditor adjustments

- Make time for supervisory reviews of key PBC items as well as year end closing entries
- Critically review trial balances and “off the books” schedules
 - Current year versus prior year actual amounts
 - Current year actual versus budget
 - Be prepared to explain significant differences
- Compare trial balance amounts to the schedules
 - Mistakes happen
 - Additional entries get recorded, may need to update the PBC schedules
- Think holistically when making closing entries
 - Example: - an A/P item may also be a capital asset addition

10

©2016 RSM US LLP. All Rights Reserved.



Polling Questions

When the auditors propose an audit adjustment, they are also required to include a written finding in their report:

- 1) Yes
- 2) No
- 3) Maybe

11

©2016 RSM US LLP. All Rights Reserved.



Minimize auditor time in the field, and minimize findings

- Understand your compliance requirements and related internal control
 - Internal risk assessment meetings (quarterly/ semi annually?)
 - What are the compliance requirements?
 - What have we done to ensure we are complying with the requirements?
 - What more do we need to do?
 - What ongoing monitoring is done to determine we complied?
 - Address known noncompliance

12

©2016 RSM US LLP. All Rights Reserved.



GAAS versus GAS

- GAAS = Generally Accepted Auditing Standards in the United States
- GAS = Government Auditing Standards

GAS is established in what is referred to as the “Yellow Book” issued by the GAO.

GAAS is required for all Illinois governmental financial statements audits. GAS is also allowed however it is only required in limited circumstances.

13

©2016 RSM US LLP. All Rights Reserved.



GAAS versus GAS

GAAS is the minimum requirement.

GAS incorporates all of GAAS, and adds additional audit/auditor requirements and ethical principles.

A GAS audit is typically more expensive because of the additional requirements.

A GAS audit is required when an entity is required to have a single audit.

A GAS audit may also be required by legislation.

Management is responsible for determining which type of audit is needed.

14

©2016 RSM US LLP. All Rights Reserved.



Government Auditing Standards (GAS)

In conducting audits of financial statements in accordance with *Government Auditing Standards*, the auditor assumes certain responsibilities beyond those of audits performed in accordance with GAAS.

- General standards
 - Independence
 - Professional judgment
 - Competence
 - Quality control and assurance

15

©2016 RSM US LLP. All Rights Reserved.



Government Auditing Standards (GAS)

Additional GAS requirements for financial audits:

- Auditor communication
- Previous audits and attestation engagements
- Fraud, noncompliance with provisions of laws, regulations , contracts and grant agreements
- Developing elements of findings
- Audit documentation

16

©2016 RSM US LLP. All Rights Reserved.



Government Auditing Standards (GAS)

Additional Reporting Standards

- Reporting auditors compliance with GAS
- Reports on internal control and compliance with provisions of laws, regulations, contracts, and grant agreements
- Communicating deficiencies in internal control, fraud, noncompliance and abuse
- Reporting views of responsible officials
- Reporting confidential or sensitive information
- Distributing reports

17

©2016 RSM US LLP. All Rights Reserved.



Government Auditing Standards (GAS)

GAAS requires auditors to consider the impact of noncompliance with laws and regulations. GAS extends that to also include consideration of the provisions of contracts and grant agreements.

- Auditors are responsible for identifying noncompliance that could have a material impact on the financial statements.
- GAS also requires that auditors report “abuse” that is material to the FS, of which they become aware and modify their audit procedures.

18

©2016 RSM US LLP. All Rights Reserved.



GAAS versus GAS – Questions?



19

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

What will your auditors do?

- Request then read grant agreements, contracts, laws and regulations
- Consider which could have material FS impact
- Abstract requirements and create an audit program
- Inquire about/document the relevant internal controls
- Obtain populations and select a sample
- Test controls and compliance
- Report

20

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

- Common examples of areas that might be tested:
 - Debt covenants
 - Grant requirements for matching funds, eligible costs, procurement, reporting etc.
 - Grant/contract requirements governing deposit and use of restricted resources (grant funds, bond proceeds, donations and contributions)
 - Laws and regulations governing authorized investments
 - Compliance with budgets and appropriations
 - Laws and regulations governing deposit and use of restricted resources (Motor fuel tax, foreign fire insurance tax, etc.)

21

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Debt Covenants – Compliance Requirements:

- Use of debt proceeds
 - Construction/acquisition of a specific item
 - Capital outlay/purchases in general
 - Operations (less common)
- Administrative requirements
 - Information posting on EMMA
- Flow of funds
 - Need for separate funds and accounts

22

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Debt Covenants – Internal Control:

- Controls over the authorization, review and approval of expenditures of bond proceeds
- Controls over tracking of unspent amounts and related restricted fund balance/net position
- Controls over bond filings with EMMA
- Controls over the opening and closing of funds and the distribution of monies to funds

23

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Debt Covenants – Example

The City of Anywhere issued \$25 million in 2018 GO Bonds to construct a new Village Hall.

- a) The Village established the 2018 Bond Construction Fund to account for all Village Hall construction balances and activities.
- b) The Deputy Village manager is assigned responsibility for monitoring contractors including the initial approval of all construction related invoices.
- c) The Village manager is responsible for a secondary review of contractor invoices and reviews/approves prior to payment.
- d) The accounts payable clerk processes invoices for payment only after determining both approvals have been documented.

24

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Auditors select a sample of expenditures from the 2018 GO Bond Construction Fund. Auditors determine if the 2 required approvals are present (TO Control).

Auditors review the invoice to determine if it is a proper Village Hall construction item (TO Compliance).

25

©2016 RSM US LLP. All Rights Reserved.



Polling Question

My government requires a single audit:

1. Annually
2. Occasionally
3. Almost never

26

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Federal grants have 12 compliance requirements (currently):

- Activities allowed or unallowed
- Allowable costs
- Cash management
- Eligibility
- Equipment and real property management
- Matching, level of effort, earmarking
- Period of performance
- Procurements, suspension , debarment
- Program income
- Reporting
- Subrecipient monitoring
- Special tests and provisions

27

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Federal Grants – Overall:

- If a single audit is required, auditors will be required to test compliance for all applicable requirements and the related internal control.
- If a single audit is not required, auditors will test compliance for all significant requirements that are deemed material to the financial statements.
- Similarly, auditors will test compliance for all significant State/local grant compliance requirements that are deemed material to the financial statements.

28

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Federal grants – Internal Control - overall:

- Controls over the authorization, review and approval of expenditures of grant money
 - Vendor payments
 - Payroll and administrative costs
- Controls over tracking of unspent amounts and related restricted fund balance/net position
- Controls over the recording of revenue

29

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Federal grants – Internal Control – Common Requirements:

Matching Funds:

- Controls over the establishment and approval of matching funds
- Controls over the measurement of matching funds
- Controls over the reporting of matching funds

30

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Federal grants – Internal Control – Common Requirements:

Eligible Costs:

- Controls over the dissemination of eligible and ineligible expenditures
- Controls over the approval of expenditures charged to grants
- Controls over the reporting of expenditures to grantors

31

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Federal grants – Internal Control – Common Requirements:

Procurement:

- Controls over / establishing purchasing policies and procedures
- Controls over the award of contracts
- Controls over the vetting of individual vendors
- Controls over special provisions, EEOC, use of minority vendors, etc.

32

©2016 RSM US LLP. All Rights Reserved.



Polling Question

My government has established clear and consistent guidelines for evaluating proposals/bids received:

1. Yes
2. No

33

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Eligible Costs– Example

The City of Anywhere received a \$2 million federal grant to install additional safety features at a railroad crossing.

- a) The grant requires the City to hire the lowest qualified/responsive bidder.
- b) The grant requires the money to be used on new traffic signals, crossing gates, adjacent sidewalk repair and road pavement within 500 feet of the crossing.
- c) The grant money may not be used for City payroll or administrative expenses.

34

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Eligible Costs Example (Cont.)

The City has established the following controls:

- The City's procurement policy requires procurement through RFP and the receipt of sealed bids for all construction contracts over \$100,000.
- Sealed bids are opened by a committee of 3 individuals, bid tabulations and results are documented and used as a basis for the award, which is approved by the Board.
- All awards to individual vendors in excess of \$50K require a signed contract.
- All payments to vendors under these contracts require pre-approval by the Head of Public Works.
- The Head of Public Works was provided an abstract of eligible and ineligible costs.

35

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Auditors review Board minutes and sight Board approval of vendor awarded the contract. Auditors sight Department Head's abstract. Auditors select a sample of disbursements charged to the grant award and sight DH approval of invoices. (TO Control).

Auditors select a sample of paid invoices and determine if amounts paid were limited to eligible expenditures under the grant agreement. (TO Compliance).

36

©2016 RSM US LLP. All Rights Reserved.



Polling question

Our legal counsel provides annual updates on legislation that impacts our government:

1. Yes
2. No
3. Maybe, but I don't get the information

37

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Deposit and Use of Restricted Resources:

- Established by State statute, grant award or contribution, Official Statements, local ordinance etc.
 - Grants – nearly all have restrictions on use of proceeds
 - MFT funds – road improvements
 - Bond proceeds – typically limited to a specific project
 - Contributions – many have restrictions on use (NIU)
 - Local ordinance – use of hotel/motel tax

38

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Internal Control over deposit and use of restricted resources:

- Controls over the establishment of special funds and accounts
- Controls over the expenditure of funds
- Controls over monitoring remaining funds
- Controls over reporting

39

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Restricted Funds– Example

The Library of Anywhere received a \$10 million endowment from a resident of Anywhere. The Library can use the investment earnings to purchase children's books, the principal amount must remain intact in perpetuity.

- a) The Library invested the money in 40 year US Treasury bonds rated AAA.
- b) The Library established a permanent fund, the CB Endowment Fund and the \$10 million UST bonds were recorded in the fund.
- c) The Head Librarian reviews and approves all book purchase invoices before they are paid. Only children's books may be charged to the CB Endowment Fund.
- d) The accounting manager determines if sufficient investment income exists before recording book expenditures in the CB Endowment Fund.

40

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Auditors selected a sample of disbursements from the CB Endowment Fund and sighted the Head Librarian approval. (TO Control).

Auditors selected a sample of disbursements from the CB Endowment Fund and determined if the expenditures were for purchases of children's books. Auditors confirmed the UST Bond with the custodian and sighted the balance agreed to the trial balance in the amount of \$10 million. (TO Compliance).

41

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Authorized investments:

- Established by Statute as well as local ordinance/investment policy
- Typically different for pension funds
- Consider types of investments and other factors such as
 - Maturities
 - Credit worthiness of investee
 - Limits (concentration)

42

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Internal Control over Authorized Investments:

- Controls over the authorization of deposits and investment purchases
- Controls over tracking of credit ratings
- Controls over monitoring balances and limits
- Controls over opening and closing accounts
- Controls over custody and access rights

43

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Investments– Example

The City of Anywhere is authorized by State law and its investment policy to deposit cash with financial institutions to the extent of FDIC coverage. Amounts that exceed FDIC coverage should be collateralized at 102% with highly rated UST or Agency securities.

- a) The Finance Director recommends financial institutions to the Board and the Board approves.
- b) The Village manager executes agreements with the approved FI's, such agreements require adequate collateralization of excess deposits.
- c) The accounting manager obtains a monthly collateral statement from each bank and compares to reconciled account balance (excess amount).

44

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Auditors review Board minutes and sight Board approval of financial institutions. Auditors obtain copies of executed agreements for larger banks and sight VM signature. (TO Control).

Auditors review bank agreements and note 102% collateral requirement. Auditors review year end balances in individual banks and the collateral statements for those that exceed FDIC limits. Determine if collateral is sufficient and consists of UST and Agency securities. (TO Compliance).

45

©2016 RSM US LLP. All Rights Reserved.



46

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Budgets and Appropriations:

- Required by State Statute
- Authorize spending limits and are approved by the Board
- Policy for level at which overspend can/cannot occur
 - Fund level
 - Department level
 - Object level
- Requirements for amending budget

47

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Internal Control over Budgets and Appropriations:

- Controls over the authorization of spending limits
- Controls over monitoring of expenditure totals
- Controls over measuring spending totals and limits
- Controls over budget amendments

48

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Budget– Example

The City of Anywhere is required to adopt the appropriation and annual budget document the quarter prior to the start of the FY.

- The legal level of budgetary control is at the Fund level.
- Expenditures in excess of the established level in the budget require approval of 2/3rd of the Board.
- The City uses an encumbrance system to monitor expenditure levels compared to the approved budget.
- The Board receives a monthly and YTD report of budgeted versus actual expenditures by Fund in the Board packet. The Finance Director provides an overview at each Board meeting.

49

©2016 RSM US LLP. All Rights Reserved.



Internal Controls and Compliance

Auditors review Board minutes and sight Board approval of the annual appropriation/budget. Auditors review minutes and sight budget versus actual expenditure discussion in the Finance presentation. (TO Control).

Auditors compare year end balances of total expenditures compared to the amended budget. Auditors sight Board approval of budget amendments in the Board minutes. (TO Compliance).

50

©2016 RSM US LLP. All Rights Reserved.



Added Benefits

- A strong system of internal control deters, detects and prevents:
 - Errors
 - Theft and fraud
- A strong system of internal control provides:
 - Detailed documentation on policies and procedures which benefits new employees
 - Evidence that the organization took reasonable steps to safeguard assets and data
- A strong system of internal control also:
 - Provides accountability and transparency which improves employee morale

51

©2016 RSM US LLP. All Rights Reserved.



52

©2016 RSM US LLP. All Rights Reserved.



Exercise

When designing or evaluating internal controls, see if it addresses the following:

Who (who is performing the control activity)

What (what are they doing)

Where (where is it performed – i.e. electronic, paper, central or offsite, etc.)

When (is it a daily control, weekly, monthly etc.)

How (how is it performed)

ALWAYS CONSIDER SEGREGATION OF DUTIES

53

©2016 RSM US LLP. All Rights Reserved.



QUESTIONS???

54

©2016 RSM US LLP. All Rights Reserved.



Key Rating Drivers and Trends for Illinois Local Governments

David Levett, Assistant Vice President
Shannon Bibby, Associate Lead Analyst

February 16, 2018

Agenda

1. Moody's General Obligation (GO) Methodology
2. Limited Tax Debt
3. Pensions
4. Illinois Credit Trends

1

Moody's General Obligation Methodology

Moody's GO Methodology

Scope of the GO Methodology:

- » Applies to U.S. local governments issuing debt secured by a general obligation pledge.
- » Principal and interest are secured by the full faith and credit of the issuer and supported by the issuer's unlimited or limited taxing power.
- » Includes cities, counties, school districts, some community colleges and special districts.

Methodology Scorecards

Goals of the GO methodology and scorecard factors:

- » Provide a starting point for a more thorough analysis.
- » Enhance the transparency of our rating process.
- » Include some qualitative metrics in addition to quantitative factors.
- » Formally incorporate historical trend analysis.
- » Capture key considerations that correspond to particular rating categories.
- » Not an exhaustive list of factors that we consider in every rating.
- » May adjust up or down from scorecard-indicated outcome based on additional factors.
- » Final rating is determined by a Rating Committee after consideration of all relevant facts.

General Obligation Scorecard Factors

Factor 1: Economy/Tax Base – 30%

- » Full value (10%) – market value of taxable property.
- » Full value per capita (10%) – provides a resources per resident metric.
- » Median Family Income (10%) – measure of strength and resiliency of a tax base.

	<i>Very Strong</i>	<i>Strong</i>	<i>Moderate</i>	<i>Weak</i>	<i>Poor</i>	<i>Very Poor</i>
	Aaa	Aa	A	Baa	Ba	B & Below
ECONOMY/TAX BASE (30%)						
Tax Base Size: Full Value (in 000s)	> \$12B	\$12B ≥ n > \$1.4B	\$1.4B ≥ n > \$240M	\$240M ≥ n > \$120M	\$120M ≥ n > \$60M	≤ \$60M
Full Value Per Capita	> \$150,000	\$150,000 ≥ n > \$65,000	\$65,000 ≥ n > \$35,000	\$35,000 ≥ n > \$20,000	\$20,000 ≥ n > \$10,000	≤ \$10,000
Socioeconomic Indices: MFI	> 150% of US median	150% to 90% of US median	90% to 75% of US median	75% to 50% of US median	50% to 40% of US median	≤ 40% of US median

General Obligation Scorecard Factors

Factor 2: Finances – 30%

- » Fund Balance (10%) – typically assigned and unassigned Operating Fund balance.
- » Cash Balance (10%) – measures liquidity; excludes accruals, interfund loans, etc.
- » 5-Yr. \$ Change in Fund Balance and in Cash Balance as % of Revs (each 5%).

	<i>Very Strong</i>	<i>Strong</i>	<i>Moderate</i>	<i>Weak</i>	<i>Poor</i>	<i>Very Poor</i>
	Aaa	Aa	A	Baa	Ba	B & Below
FINANCES (30%)						
Fund Balance as % of Revenues	> 30.0% > 25.0% for School Districts	30.0% ≥ n > 15.0% 25.0% ≥ n > 10.0% for SD	15.0% ≥ n > 5.0% 10.0% ≥ n > 2.5% for SD	5.0% ≥ n > 0.0% 2.5% ≥ n > 0.0% for SD	0.0% ≥ n > -2.5% 0.0% ≥ n > -2.5% for SD	≤ -2.5% ≤ -2.5% for SD
5-Year Dollar Change in Fund Balance as % of Revenues	> 25.0%	25.0% ≥ n > 10.0%	10.0% ≥ n > 0.0%	0.0% ≥ n > -10.0%	-10.0% ≥ n > -18.0%	≤ -18.0%
Cash Balance as % of Revenues	> 25.0% > 10.0% for School Districts	25.0% ≥ n > 10.0% 10.0% ≥ n > 5.0% for SD	10.0% ≥ n > 5.0% 5.0% ≥ n > 2.5% for SD	5.0% ≥ n > 0.0% 2.5% ≥ n > 0.0% for SD	0.0% ≥ n > -2.5% 0.0% ≥ n > -2.5% for SD	≤ -2.5% ≤ -2.5% for SD
5-Year Dollar Change in Cash Balance as % of Revenues	> 25.0%	25.0% ≥ n > 10.0%	10.0% ≥ n > 0.0%	0.0% ≥ n > -10.0%	-10.0% ≥ n > -18.0%	≤ -18.0%

MOODY'S INVESTORS SERVICE

Key Rating Drivers and Trends for Illinois Local Governments, February 16, 2018

7

General Obligation Scorecard Factors

Factor 3: Management – 20%

- » Institutional Framework (10%) – legal ability to match revenues with expenditures.
- » Operating History (10%) – 5-yr average ratio of operating revenues to expenditures.

	<i>Very Strong</i>	<i>Strong</i>	<i>Moderate</i>	<i>Weak</i>	<i>Poor</i>	<i>Very Poor</i>
	Aaa	Aa	A	Baa	Ba	B & Below
MANAGEMENT (20%)						
Institutional Framework	Very strong legal ability to match resources with spending	Strong legal ability to match resources with spending	Moderate legal ability to match resources with spending	Limited legal ability to match resources with spending	Poor legal ability to match resources with spending	Very poor or no legal ability to match resources with spending
Operating History: 5-Year Avg of Op Rev / Op Expend	> 1.05x	1.05x ≥ n > 1.02x	1.02x ≥ n > 0.98x	0.98x ≥ n > 0.95x	0.95x ≥ n > 0.92x	≤ 0.92x

MOODY'S INVESTORS SERVICE

Key Rating Drivers and Trends for Illinois Local Governments, February 16, 2018

8

General Obligation Scorecard Factors

IL Institutional framework scores

- » Framework scores include an evaluation of governments' legal ability to adjust revenue and expenditures, as well as the predictability of revenues and expenses.

Counties	A
Cities	A
School Districts	A
Community College Districts	A
Fire Districts	A
Other Districts (Airport, Transit, Library)	Aa
Park and Recreation Districts	Aa
Utilities (GO Secured)	Aa

General Obligation Scorecard Factors

Factor 4: Debt/Pensions – 20%

- » Debt to Full Value (5%) & to Operating Revenues (5%) – measures debt relative to resources.
- » 3-Year Average Moody's Adjusted Net Pension Liability (ANPL) to Full Value (5%) & to Operating Revenues (5%) – measures pensions relative to resources.

	<i>Very Strong</i> Aaa	<i>Strong</i> Aa	<i>Moderate</i> A	<i>Weak</i> Baa	<i>Poor</i> Ba	<i>Very Poor</i> B & Below
DEBT/PENSIONS (20%)						
Net Direct Debt / Full Value	< 0.75%	0.75% ≤ n < 1.75%	1.75% ≤ n < 4.00%	4.00% ≤ n < 10.00%	10.00% ≤ n < 15.00%	> 15.00%
Net Direct Debt / Operating Revenues	< 0.33x	0.33x ≤ n < 0.67x	0.67x ≤ n < 3.00x	3.00x ≤ n < 5.00x	5.00x ≤ n < 7.00x	> 7.00x
3-Year Average ANPL/ Full Value	< 0.90%	0.90% ≤ n < 2.10%	2.10% ≤ n < 4.80%	4.80% ≤ n < 12.00%	12.00% ≤ n < 18.00%	> 18.00%
3-Year Average ANPL/ Op Revenues	< 0.40x	0.40x ≤ n < 0.80x	0.80x ≤ n < 3.60x	3.60x ≤ n < 6.00x	6.00x ≤ n < 8.40x	> 8.40x

GO Scorecard- Notching Factors

Adjustments/Notching Factors	
<u>Description</u>	<u>Direction</u>
Economy/Tax Base	
Institutional presence	up
Regional economic center	up
Economic concentration	down
Outsized unemployment or poverty levels	down
Other analyst adjustment to Economy/Tax Base factor (specify)	up/down
Finances	
Outsized contingent liability risk	down
Unusually volatile revenue structure	down
Other analyst adjustment to Finances factor (specify)	up/down
Management	
State oversight or support	up/down
Unusually strong or weak budgetary management and planning	up/down
Other analyst adjustment to Management factor (specify)	up/down
Debt/Pensions	
Unusually strong or weak security features	up/down
Unusual risk posed by debt/pension structure	down
History of missed debt service payments	down
Other analyst adjustment to Debt/Pensions factor (specify)	up/down
Other	
Credit event/trend not yet reflected in existing data sets	up/down

General Obligation Scorecard Factors

Standard Notching for Illinois Sectors

- » Illinois school districts and community colleges receive a -0.5 downward adjustment for exposure to underfunded state pension plan and pension cost-shift.
- » Home rule Illinois cities and counties that have home rule status receive +0.5 given the broader authority to levy taxes and incur debt compared with non-home rule entities.

2

Limited Tax Debt

General Obligation Limited Tax Debt

1. Debt Service Extension Base (DSEB)

- » Payable from a property tax levy unlimited as to rate but limited by the amount of the LG's DSEB.

2. Debt Certificates

- » Payable from all available funds and are a first budget obligation.

Moody's Assessment of GOLT Debt

- » GOULT rating or its equivalent is the starting point for our analysis.
- » GOLT ratings in IL generally rated equivalent to the GOULT rating because of the broad security pledge (debt service is a first budget obligation).
- » In February 2017, we upgraded the GOLT ratings of approximately 40 issuers.
- » Notching differential can change under severe credit stress. As local governments approach default, we may adjust the differential between GOLT and GOULT based on our issuer-specific expectations regarding relative recovery rates.

3

Pensions

Pensions

Moody's Adjusted Net Pension Liability

- » Under GASB standards, public pension plans with the same benefit obligations and similar asset values may report different unfunded pension liabilities due to differences in assumed rates of investment return.
- » Since assumed rates of investment return are linked to pension fund portfolio asset composition, plan funded status can improve under GASB accounting rules solely due to greater asset risk-taking.
- » Our adjustment allows for greater transparency and comparability of pension liability measures for use in our credit analysis.
- » Reflects the market value of pension promises weighed against the assets backing them as of the measurement date.
- » Our adjustment is intended to reflect the point-in-time market value of a zero-coupon fixed-income payment stream that is similar in risk, timing and amount to accrued pension benefits.

Pensions

Moody's Tread Water Indicator

- » The measures of pension costs provided under GASB 67 and 68 do not provide a comparable or reliable indication of the cost of keeping up with pension plan funding.
- » Tread water represents our estimate of the pension contribution necessary to prevent unfunded pension liabilities from growing, year-over-year, in nominal dollars, if all actuarial assumptions are met.
- » Contributions that exceed the indicator reflect positive amortization of reported unfunded liabilities.
- » In contrast, contributions that lag the tread water indicator typically signal budgetary imbalance, because the ongoing contribution does not cover the cost of implied interest on unfunded liabilities under reported assumptions.

Pensions

Strong legal protections for pensions limit ability to change benefits

- » The Illinois Supreme Court has found various attempts to change pension benefits – including COLAs – to be in violation of the Illinois Constitution.
- » The inability in Illinois to reduce public pension liabilities through benefit reductions stands in contrast to public pension reforms that have been upheld in several other states.
- » Lower benefit tiers for new employees will provide eventual savings but do not reduce liabilities that have already been accrued.

Pensions

Questions to expect from Moody's analysts

- » Are pension costs paid with a dedicated revenue source?
- » What was the contribution in the current year and projected for next year?
- » How does the city size its annual pension contribution (state minimum, actuarially determined contribution, other)?
- » If pension contributions are projected to rise, what revenue or expenditure options does the city have to absorb growing costs?
- » Any recent changes in actuarial assumptions or expectations going forward (mortality tables, assume rate of returns, etc)?

4

Illinois Credit Trends

Illinois Credit Trends – Cities

Pensions are a pressure challenge, but credit quality remains strong

- » Steady growth in pension burdens and fixed costs to service the burden drive recent downgrades.
- » Home rule status provides substantial legal flexibility.
- » Many cities have strong reserves and stable financial operations; we consider pension contributions practices in context of finances.
- » Pension contribution practices vary widely, with some cities at or exceeding tread water, but some far below.
- » Budget impasse had limited impact on rated cities as primary state shared revenues were not subject to appropriation.
- » Cuts to income tax revenue sharing and sales tax fee negative for communities with narrower financial operations.

Illinois Credit Trends – Counties

Stabilizing sector

- » Pension burdens are more moderate than for cities and contribution practices are generally stronger.
- » Tax base valuations are stabilizing and recovering, which is critical given absence of home rule status.
- » Minority of counties have challenges associated with human service enterprise operations and occasionally jail operations.

Illinois Credit Trends – Other sectors

Stabilizing credit profiles

- » Tax bases are starting to recover though remain well below precession peaks in most areas.
- » Uncertainty from the state's financial challenges and legislative proposals remains a credit challenge.
- » *Community Colleges*: State operating aid is again flowing.
- » *Park and recreation districts*: Generally strong reserves, but a handful of park districts are pressured from enterprise operations and / or carry narrow balances.

Illinois Credit Trends – Schools

Limited dependence on state aid, but exposure related to pension support

- » Just 18 of 255 rated districts received 40% or more of their annual funding from the state in fiscal 2016.
- » We view dependence on state aid as credit negative, but recognize such districts generally benefit under new state aid formula.
- » Most property tax dependent districts enjoy steady growth in revenues despite tax base declines given ability to offset valuation declines with tax rate increases.
- » Most rated schools have strong reserves and above average MFI.
- » Currently low pension burdens likely to slowly grow over time following implementation of tier 3.

Illinois Credit Trends – state exposure

Financial flexibility can help mitigate state pressures

- » Has management analyzed the impact of state proposals and are they able to quantify potential exposure?
- » Are there contingency plans in place including specific expenditure cuts or revenue enhancements?
- » Does the local government have the ability to adjust revenues or issue working cash bonds?
- » Does the local government maintain a financial forecast? What are the key assumptions in the forecast?
- » Does the local government have a minimum fund balance policy?
- » Are the government's reserves strong enough to withstand additional pressures?

Appendix

Pensions

Moody's Adjusted Net Pension Liability

- » **Step 1:** Identify Reported Liabilities and Discount Rates. Whether a government participates in a single-employer plan, multi-employer cost-sharing plan, and/or multi-employer agent plan, we start with the government's share of reported total pension liabilities (TPL).
- » **Step 2:** Discount Reported Liabilities. We discount the reported TPL using the Citigroup Pension Liability Index, a high-grade (Aa-rated or higher) taxable corporate bond index. Liabilities are discounted using the index on the same date as the plan valuation date. We estimate plan-specific duration using GASB disclosure of sensitivity to discount rate changes.
- » **Step 3:** From the discounted liabilities, we subtract the fair or market value of assets (MVA) as of the actuarial reporting date.

Pensions

Moody's Adjusted Net Pension Liability example

Label	Line Item	Value - Hypothetical Example	Source
A	Measurement Date	6/30/2017	Reported
B	Single Equivalent Discount Rate	7.25%	Reported
C	Total Pension Liability	\$10,000,000	Reported
D	Plan Fiduciary Net Position (i.e., market value)	\$7,500,000	Reported
E	Net Pension Liability	\$2,500,000	Reported = C less D
F	Net Pension Liability (Single Equivalent Discount Rate minus 100 bp)	\$3,850,000	Reported
G	Total Pension Liability (Single Equivalent Discount Rate minus 100 bp)	\$11,350,000	= F less E, plus C
H	Estimated Liability Duration	13.50	= 100 * (G less C, divided by C)
I	Citi Pension Liability Index as of Measurement Date	3.87%	Published monthly by the Society of Actuaries
J	Moody's Adjusted Liability	\$15,399,794	= C * (1+B) ^H * (1+I) ^{-H}
K	Moody's Adjusted Net Pension Liability (ANPL)	\$7,899,794	= J less D

Pensions

Tread Water is Indicator Sum of Two Components

- » *Employer portion of the service cost:* Subtract employee contributions from total service costs.
- » *Implied interest on the net pension liability:* Multiply the net pension liability at the beginning of the plan's fiscal year by the discount rate from the prior year, or in other words, at the beginning of the plan's fiscal year.
- » Uses reported discount rate.

Label	Line Item	Value of Plan - Hypothetical Example	Source
A	Total Pension Liability (beginning of year)	\$50,000,000	Reported
B	Plan Fiduciary Net Position (beginning of year)	\$40,000,000	Reported
C	Net Pension Liability (beginning of year)	\$10,000,000	= A less B
D	Single Equivalent Discount Rate (prior year)	7.50%	Reported
E	Implied Interest on Net Pension Liability	\$750,000	= C * D
F	Service Cost	\$500,000	Reported
G	Employee Contributions	\$200,000	Reported
H	Employer Service Cost	\$300,000	= F less G
I	Tread Water Indicator	\$1,050,000	= E plus H

MOODY'S
INVESTORS SERVICE

David Levett
David.Levett@moodys.com
312-706-9990

Shannon Bibby
Shannon.Bibby@moodys.com
312-706-9968

Moody's Investors Service
100 N Riverside Plaza, Suite 2220
Chicago, IL 60606

moodys.com

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

Linda Abernethy is a public-sector partner in RSM's Schaumburg office. Linda has served governments her entire career, spanning over 30 years. Linda's client base includes State agencies, counties, municipalities, hospitals, special districts, colleges and universities. Linda has performed numerous audits, single audits, grant and special audits throughout her career as well as performing consulting services for governments. Linda recently served on the State and Local Government expert panel of the AICPA, and currently serves on the ILCPA Governmental Executive Committee and conference task force, as well as the GFOA, the IL GFOA and is a past member of the IGFOA technical accounting review committee. Additionally, Linda is on the State Comptroller's local government advisory board.

Shannon Bibby is a lead analyst at Moody's Investors Service, focused on U.S. local governments including cities, counties, school districts, park districts and essential enterprise utilities in the Midwest. She is the state backup for Michigan local governments and covers credits in Illinois, Indiana, Minnesota and Wisconsin. Prior to joining Moody's, she worked in several roles in Indiana's Office of Management and Budget developing budgets, forecasting tax revenues, and evaluating program effectiveness. Shannon holds an MPA and BSPA from Indiana University's School of Public and Environmental Affairs (SPEA).

Donna Hare, MFA, is currently a Teaching Fellow in the Communication Studies Department at Augustana College. For over 10 years, she has been teaching various Communication courses at Augustana College and St. Ambrose University, including Public Speaking, Business & Professional Communication, Argument & Oral Advocacy, and Social Relationships. She is also a co-creator of four modules (Communication and Presentation) for the Online Competencies Curriculum in association with The Teagle Foundation. Donna has conducted seminars for Modern Woodmen of America and for Augustana College's Multicultural Student Life and Residential Life Area Coordinators regarding best practices for public speaking in a professional climate. Donna has also presented at the American College Theatre Festival.

Tim Hungerford, CPA, CFE, CIA, CMA, CISA, CGAP, CGMA, is Owner/Partner of Hungerford Vinton, LLC, a specialized accounting and auditing firm located in Rochester, NY. The organization is a NYS peer-reviewed CPA firm that has been in existence since 1997. He is very active in the Rochester Chapters of the Institute of Internal Auditors and Institute of Management Accountants. Tim's professional affiliations include American Institute of Certified Public Accountants (AICPA), Institute of Management Accountants (IMA), Institute of Internal Auditors (IIA), New York State Society of Certified Public Accountants (NYSSCPA), Association of the Certified Fraud Examiners (ACFE), and Information Security and Controls Association (ISACA). He received his BBA in Accounting from Niagara University and his MBA in Finance with a minor in International Business from the Rochester Institute of Technology.

Tia Incapreo is an Account Executive with Arthur J. Gallagher Risk Management Services, Inc.'s Public Sector Practice. Ms. Incapreo participated in two summers of the Gallagher Internship Program where she learned the industry in depth. She has been with Gallagher full time since early 2015. During her time at Gallagher she has specialized in public entity accounts and in the sales and management of both first dollar programs and public entity pools. She works directly with one public entity pool and several first dollar programs. To further enhance her public entity expertise, Ms. Incapreo has been involved with IGFOA, IAMMA, ICMA and other IL government associations on various levels. She received her degree from University of Illinois at Chicago, Chicago, IL

David Levett is an Assistant Vice President for the Chicago Ratings Team. He is the state lead for Illinois local governments and covers credits in Ohio and Michigan. David is the lead analyst for Cook County, Chicago Public Schools, Cuyahoga County and Cleveland. David has experience working in state government, local government, and the non-profit sector. Prior to joining Moody's, David was an analyst for the City of Rochester Hills in Southeast Michigan. David holds a Master of Public Administration (MPA) degree from the University of Delaware and a BA in political science from Western Michigan University.

William D. McCarty, City of Springfield, became Director of Budget and Management (OBM) on May 2, 2011. As Director of OBM, Director McCarty is responsible for overseeing accounting, budgeting, payroll, purchasing, facilities maintenance, and the newly created division of fleet management. From October 2007 through May 2011, Director McCarty was Chief Financial Officer, Bureau of Property Management for the State of Illinois Central Management Services. From April 2005 through April 2009, Director McCarty served as Village President (Mayor) of Williamsville, Illinois. Prior to becoming Mayor, he spent three years as a Village Trustee in Williamsville. Director McCarty received an undergraduate degree in Business Administration, Finance Cum Laude from the University of Notre Dame and holds a Master of Public Administration (MPA) degree from the University of Illinois – Springfield.

Daniel W. Ryan is a project coordinator for the Illinois Public Pension Fund Association (IPPFA). He graduated from North Central College in Political Science and Accounting and has a Master of Public Administration (MPA) degree from Roosevelt University. He was previously the finance director of the Village of Skokie (IL) and is a retired health and pension plan administrator for the United Food and Commercial Workers. He is an instructor in the Criminal Justice Program at Lewis University and a trustee of the Skokie Police Pension Fund. He holds the Certified Employee Benefits Specialist designation (CEBS) awarded by the International Foundation of Employee Benefit Plans (IFEBP), and The Wharton School. His book, *Retirement Income for Illinois Fire and Police: Pensions, Social Security and Deferred Compensation* is available at Amazon.com.

Ethan Salsinger is a Senior Account Executive with Arthur J. Gallagher Risk Management Services, Inc.'s Public Sector Practice. Mr. Salsinger has been with Gallagher's municipal team for 5 years and completed the two-year Gallagher Summer Internship Program. He is an IGFOA Conference Committee Member and is also involved with ILCMA and PRIMA. Clients of Mr. Salsinger consist of municipalities throughout the state of Illinois. Most of his time is spent presenting to City Council/Village Board/Finance Committee unique and cost-effective solutions to property, casualty, and workers compensation insurance. He received a Bachelor of Science in Political Science from Illinois State University, Normal, IL.

Mary Smith is the Managing Partner of Baecore Group, Inc. As a consultant Mary has exceptional experience in business process improvement, assisting her clients in a multitude of industries locally, nationally, and internationally throughout her career. For the last fifteen years Baecore Group has been solely focused on the public sector and local government surrounding the Chicagoland area. Mary and the company's passion is focused on helping local government clients save money, do more with less, utilize automation, and improve efficiencies.

DISCLAIMERS AND COPYRIGHT NOTICE

The information and opinions conveyed at IGFOA conferences, institutes, and seminars are obtained from sources believed to be reliable, but IGFOA makes no guarantee of accuracy. Opinions, forecasts and recommendations are offered by individuals and do not represent official IGFOA policy positions. Nothing herein should be construed as a specific recommendation to buy or sell a financial security. The IGFOA and speakers specifically disclaim any personal liability for loss or risk incurred as a consequence of the use and application, either directly or indirectly, of any advice or information presented herein.

Unless otherwise indicated, all materials are copyrighted by the Illinois Government Finance Officers Association 2018. The enclosed materials may not be reprinted, reproduced, or presented in any format without express written authorization.

HOW TO ACCESS CPE CERTIFICATES

CPE Certificates will be available in your IGFOA on-line profile within 30 days of the training event. This profile was created either when you became a member of the IGFOA or if you are a non-member when registering for an event. To access, sign-in to the IGFOA site at www.igfoa.org/login with your username and password. Click on “Your profile” in the upper right and on the next page, click on “Track your CPE”.

Your username is your email address. To retrieve your password, use the “Forgot your password” option at <https://www.igfoa.org/members/forgot-my-password> or contact the IGFOA office. Please note that CPE certificates will only be issued to attendees that meet the CPE participation requirements.

© 2018

Illinois Government Finance Officers Association

800 Roosevelt Road, Building C, Suite 312

Glen Ellyn, IL 60137

Phone: 630-942-6587

Email: info@igfoa.org

Visit <http://www.igfoa.org>