

**ILLINOIS GOVERNMENT  
FINANCE  
PROFESSIONALS  
ACADEMY  
LEVEL II**

**June 20 – 21, 2018**



**Learning • Connecting • Progressing**

## Illinois Government Finance Professionals' Academy Level II 2018 SCHEDULE OF SESSIONS

### Day One: Wednesday, June 20, 2018

<b>8:00 – 8:45 AM</b>	Registration and Continental Breakfast	
<b>8:45 – 9:15 AM</b>	Welcome and Introductions	Rachel Musiala, Village of Hoffman Estates, PEC Chair Kathy Thomas, Ice Miller
<b>9:15 – 10:55 AM</b>	Forecasting and Monitoring Major Revenues	Molly Talkington – City of DeKalb Julie Zolghadr – City of Springfield
<b>10:55 – 11:10 AM</b>	Morning Break	
<b>11:10 – Noon</b>	Public Pension 101: What Every Finance Professional Should Know About Firefighter and Police Pension Funds	Carolyn Welch Clifford – Ottoson Britz Kelly Cooper Gilbert & DiNolfo, Ltd.
<b>Noon – 1:00 PM</b>	Illinois Government Finance Professionals Networking Luncheon	
<b>1:00 – 1:50 PM</b>	Could Your Organization Be a Victim of Fraud? A Discussion of Recent Internal and External Fraud Schemes and Prevention Tips	Aimee Briles – Wintrust Government Funds Andrew Brown, Village of Buffalo Grove
<b>1:50 – 2:40 PM</b>	Best Practices in Banking	Todd Sholeen, Huntington National Bank
<b>2:40 – 3:00 PM</b>	Afternoon Break	
<b>3:00 – 4:30 PM</b>	Your CAFR as a Resource	Chad Lucas, CPA - Sikich LLP

### Day Two: Thursday, June 21, 2018

<b>8:00 – 9:00 AM</b>	Continental Breakfast	
<b>9:00 – 9:15 AM</b>	Welcome and Recap from Day 1	Rachel Musiala, Village of Hoffman Estates, PEC Chair Kathy Thomas, Ice Miller
<b>9:15 – 11:00 AM</b>	Simplifying Labor and Benefits Expenditures	Molly Talkington – City of DeKalb Julie Zolghadr – City of Springfield
<b>11:00 – 11:10 AM</b>	Morning Break	
<b>11:10 – Noon</b>	Debt Issuance – The Process and Players	Shelly A. Scinto, Ice Miller LLP Austin Root, Ice Miller LLP
<b>Noon – 1:00 PM</b>	Illinois Government Finance Professionals Networking Luncheon	
<b>1:00 – 2:15 PM</b>	Basic Legal Requirements on Municipal Bond Issues	Shelly A. Scinto, Ice Miller LLP Austin Root, Ice Miller LLP
<b>2:15 – 2:25 PM</b>	Afternoon Break	
<b>2:25 – 3:40 PM</b>	Purchasing for Finance Managers	RuthAnne Hall, CPPO, Lake County
<b>3:40 – 4:30 PM</b>	Preparing for the Next Step in Your Career	Sarah McKee, GovHR USA



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## **Identifying and Forecasting Major Revenues** *Molly Talkington & Julie Zolghadr*



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# Governing Authority

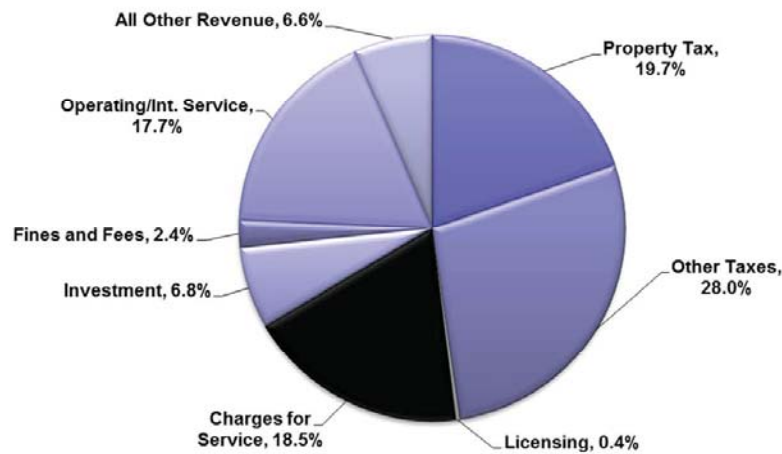
## Home Rule vs. Non-Home Rule

- Home Rule gives local governments power to act independently. Home Rule municipalities may usually take action unless it is specifically prohibited or “preempted.”
  - Municipalities with a population of at least 25,000 automatically have home rule powers.
  - Smaller municipalities can achieve home rule status by majority vote of their citizens at a local referendum
- Non-Home Rule municipalities must show a specific grant of legal authority in order to exercise a power.
  - A Home Rule municipality may vote to repeal its status via referendum.

## Home Rule Authority Benefits

- Per Illinois Constitution, municipalities can tax anything that is not income, occupations or earnings.
- Provides expanded ability to govern
- Not constrained by Property Tax Extension Limitation Law “property tax cap”
- Home rule revenues help reduce reliance on property tax revenues

# Revenue Diversification



# Home Rule Authority

- Common home rule taxes:
  - ☐ Local Motor Fuel Tax (Gasoline)
  - ☐ Municipal Sales Tax
  - ☐ Hotel/Motel Tax
  - ☐ Real Estate Transfer Tax
  - ☐ Food & Beverage Tax
  - ☐ Amusement Tax
  - ☐ Municipal Use and Gas Use Tax
  - ☐ Electricity Use Tax
  - ☐ Self Storage Tax

## Local Motor Fuel Tax (gasoline)

- In addition to federal and state motor fuel taxes
- State sales taxes applies (6.25%)
- Assessed in increments of \$0.01 per gallon sold
- MFT project funding
- Local reporting

## Sales Tax

- “Sales Tax” is a combination of different tax acts and is based on “sales of tangible personal property for use or consumption”
- Essentially 3 different sales tax rate structures:
  - Qualifying food, drugs and medical appliances (food not prepared for immediate consumption, drugs, medicines, corrective eyewear, dentures, etc.)
  - Items required to be titled or registered (vehicles, ATV's watercraft, trailers)
  - General merchandise (most other retail items, soft drinks, candy, ready-to-eat foods at grocery store, food prepared at restaurants, gasoline)

# Municipal Sales Tax

- Basic sales tax revenue often referred to as the “1% sales tax” received by municipalities
- Actual revenue distributed is based on different percentages of the three sales tax rates
- Many local governments and jurisdictions have the authority to impose additional sales taxes
  - Non home rule by referendum
  - State action for regional authority
  - Designated areas within municipality (i.e. Business District)
- Actual total sales tax rate will vary based on where a purchase is made or final sale recorded
- Assessed at 0.25% increments, no maximum

# Sales Tax Cycle

- Sales tax revenue is distributed monthly by the State
- Based on where sale took place or “point-of-sale”
- Three-month disbursement cycle: Liability, Collection, Disbursement
  - Purchase of \$100 Sweater on August 4th
    - Sales Tax Collected of 7.5% or \$7.50
    - Purchase is made in August and is Liability Month
  - Retailer turns over \$7.50 to Dept of Revenue in September
    - September is the Collection Month
  - Dept of Revenue Notifies and Disburses \$7.50 to all governments with a share of the revenue in early November (Usually Around the 5<sup>th</sup>)
    - November is the Disbursement Month when sales tax is actually received



# IDOR Resources

■ [www.revenue.state.il.us/localgovernment](http://www.revenue.state.il.us/localgovernment)

## Local Governments

### Most Frequently Used Links

- Contacts
- FY2017 Estimate for PPRT
- Monthly Disbursements
- PTAX-1002-12, Retailer Verification by Local Governments
- Rebate Sharing Web Application
- Taxpayer Location Verification Web Application
- Tax Rate Database

### Research and Statistics

- Income Tax & Use Tax Per Capita
- Monthly Disbursements
- Other Local Government Statistics
- Standard Industrial Classification Report (SIC) General Information
  - SIC Report (by local government)
  - Sales Tax Statistics (SIC report sequenced by SIC number)
- All Tax Types

### Distribution Information

- Taxes Distributed to Local Governments
- Changes in Disbursements
  - Annexations
  - Census and Incorporations

### Tax Rate Changes

- Rate Changes to Take Effect January 1, 2017
- Simplified Municipal Telecommunications Tax Rate Changes Effective January 1, 2017
- Sales Tax Rate Changes Effective July 1, 2016
- Tax Rate Database

### Resources

- Forms and Agreements
  - Authorization to Release Sales Tax Information to Local Governments
  - Reciprocal Agreement for Exchange of Confidential Information
    - Sales Tax
    - Simplified Municipal Telecommunications Tax
  - Sample Ordinances
- Taxpayer Location Verification by Local Governments
  - PTAX-1002-12, Retailer Verification by Local Governments
  - Confirming Business Locations
  - Annual Taxpayer Location Address List (TPL)
    - Reviewing the TPL
    - Sample & Definitions for the TPL
  - Taxpayer Location Verification (TLV)
    - Taxpayer Location Verification Web Application
    - IDOR-50-L-1M Sample
    - IDOR-50-L-1D Sample
- Rebate Sharing
  - Rebate Sharing FAQ's
  - Rebate Sharing Web Application
- Local Government Workshops

# Tax Rate Look-Ups

■ Tax Rate Database: <https://mytax.illinois.gov/#4>

**Welcome to MyTax Illinois!**

**In MyTax Illinois, you can:**

- File your tax returns securely
- Make and view payments
- Apply for IFTA decals
- Register a new business
- View correspondence sent from IDOR
- Update your account

**Other helpful links:**

- Guide to creating a MyTax Illinois account
- Important Security Information
- Help
- FAQs
- IDOR Home
- Privacy Policy
- Contact Us
- Site Map
- Request a Letter ID
- Tax Rate Finder

**TAX RATE FINDER**

To use the Tax Rate Finder, select the name of your location from the "Municipality or county" list.

- To find the rates for an incorporated area, select the name of the municipality.
- To find the rates for an unincorporated area not listed, select the county name and use

Next, select the date to find the applicable tax rates.

Note: Choose your location carefully. Some names are very similar, e.g., Glenview (Cook Co) are in more than one county.

Municipality or county name:  County: DuPage

Rates as of:

**Rate Detail**

Local Government : Lombard  
County : DuPage  
Location Code : 022 0016 3  
Rate as of : 11/4/2016  
Rate Category : Telecommunication Taxes  
Rate Type : Telecommunication Taxes  
Rate Total : 13.000%

**Rate Breakdown**

Local Tax - Telecom	6.000%
State Tax	7.000%

**Local Government** : Lombard  
**County** : DuPage  
**Location Code** : 022 0016 3  
**Rate as of** : 11/4/2016

**Tax Rates**

**Sales Taxes (retailers' and service occupation taxes)**

General Merchandise	View Rate
Qualifying Food and Drugs	1.750%
Vehicle (ST-556 and ST-556-LSE)	7.000%

- If the vehicle or trailer is titled and registered to a Chicago address, a Chicago Home Rule Tax of 1.250% is imposed in addition to the vehicle rate listed above, making the rate 8.250%.
- If the vehicle or trailer is titled and registered to an out-of-state location, you (the dealer) may be required to collect tax. Refer to ST-558, Reciprocal - Non-Reciprocal Vehicle Tax Rate Chart.

**Use Taxes (use and service use taxes)**

General Merchandise	6.250%
Qualifying Food and Drugs	1.000%
Vehicle (RUT-25) and RUT-25-LSE	7.000%

**Other Related Sales Taxes**

County Motor Fuel Tax	\$0.04 per gallon
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**Automobile Renting Taxes**

Automobile Renting Tax (occupation)	6.000%
Automobile Renting Tax (use)	5.000%

**Telecommunication Taxes**

Telecommunication Taxes	13.000%
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# Sales Tax – SIC Reporting

- Standard Industrial Classification (SIC) Reporting of sales tax revenue by State
- Breakdown of sales tax revenue by quarter over 10 categories
- Analyze sources of sales tax revenue in community

Report Period: 2015 Calendar Year - Sales made during January 2015 through December 2015 ▼

Municipal or County Government Name: Lombard ▼

County Name: DuPage ▼ Note: Inquiry here for entire county data

Tax Type(s): Municipal Taxes ▼

Start Search Main Menu Comparison Search Terms

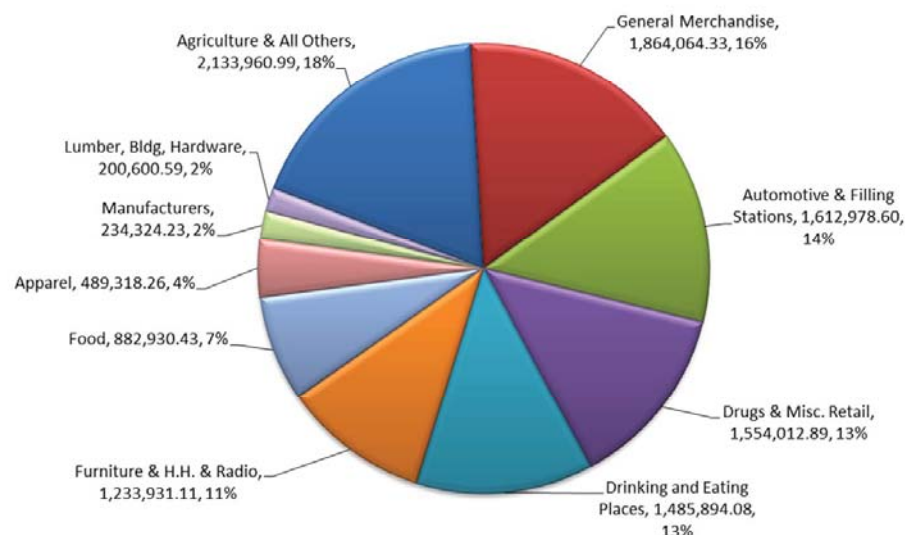
Lombard		DuPage County		Number of Taxpayers: 1272	
2015 Calendar Year - Sales made during January 2015 through December 2015					
Categories	Tax Types	MT	NHMR	CWT	
1 General Merchandise		1,864,064.33	1,714,235.95	428,559.57	
2 Food		882,930.43	439,615.03	109,904.46	
3 Drinking and Eating Places		1,485,894.08	1,460,954.56	365,429.85	
4 Apparel		489,318.26	489,222.29	122,307.70	
5 Furniture & H.H. & Radio		1,233,931.11	1,233,895.92	308,475.10	
6 Lumber, Bldg, Hardware		200,600.59	200,452.07	50,113.75	
7 Automotive & Filling Stations		1,612,978.60	622,529.13	394,580.44	
8 Drugs & Misc. Retail		1,554,012.89	1,044,638.62	261,167.76	
9 Agriculture & All Others		2,133,960.99	1,536,346.44	510,834.83	
10 Manufacturers		234,324.23	233,615.50	58,406.50	
Totals		11,692,015.51	8,975,505.51	2,609,779.96	

Note: Blank categories have less than 4 taxpayers, therefore no data is shown to protect the confidentiality of individual taxpayers, totals include censored data.

# Sample Breakdown and Chart

- Basis for analysis and presentation of Sales Tax Revenue categories

Calendar Year 2015 Sales Tax Revenue



## Use Tax Revenue

- Use tax revenue derives from tax on out of state purchases, internet sales, catalog or purchases made outside the State.
- Individual is responsible for remitting use tax if less than 6.25% is tax is paid on the purchase
- Use tax can now be paid on IL-1040 income tax returns
- Significant increase in revenue last several years
- Revenues distributed to municipalities on a “per-capita” basis not based on origin of use or location of payer

## Utility/Telecommunications Tax Revenue

- Telecommunications tax revenue is a tax imposed on all telecommunications services, cellular, land-line, mobile, some DSL services provided by mom-providers of internet access
  - Maximum rate is 6% which can be imposed in 0.25% increments
  - Based on gross charges, decline in revenues last few years consolidation, etc.
- Utility tax of up to 5% on natural gas and water utility, up to 5% equivalency on electricity (kilo-watt hour rates)

# Motor Fuel Tax Revenue

<http://www.revenue.state.il.us/TaxRates/MotorFuel.htm>

- Motor Fuel Tax (MFT) revenue derives from a \$0.19 per gallon state tax on gasoline and \$0.215 tax on diesel fuel and \$0.19 per gallon tax on combustible tax
- Portion of these revenues are then distributed to municipalities on a “per capita basis”
- Revenues are restricted in use for programs specifically designated by Illinois Department of Transportation (IDOT) such as street reconstruction and maintenance, street lighting, road salt, maintenance worker salaries

# License & Permit Fees

- The Illinois Municipal Code sets forth various other businesses and occupations that a municipality may license, tax, and regulate (65ILCS 5/11-42-1 through 11/42-14).
  - License Examples
    - Restaurants, Food Delivery Vehicles, Coin-Operated Amusement Devices, Motion Picture Theaters, Tobacco Dealers, Bowling Alleys, Pool Halls, Antique Dealers, Filling Stations, Second Hand Dealers, Massage Establishments, Pets
  - Permit Examples
    - Commercial or residential alterations and renovations such as building additions, decks, driveways, patios, electrical alterations or improvements, fire protection equipment (alarms or sprinklers), garages, plumbing, pools, porch/patio enclosures, windows and fences.
  - Other Fee Examples
    - Administrative towing, ambulance, red light camera, cell tower, water & sewer connection/ reconnection.
  - Vehicle Stickers

## License & Permit Fees

- Non-home rule municipalities are limited to the cost of regulation.
- Considerations for setting license and permit fees:
  - Information Sharing – many time fees can be derived by simply asking what other community charges as a basis for their own fees.
  - Market Conditions – from time to time, business and residents inform staff regarding what they are assessed in other communities.
  - Political Desires – generally, communities want to be in-line with others and not be outliers. If a fee is too high, it can have a chilling effect. If it is too low, the general fund of the municipality would end up covering the cost of the service.
  - Standardized Costs – comparable communities are usually within the same labor market (for example the Chicago labor market). As such the cost to deliver the service is relatively equal.
- Resources include surveys by responsible departments local/state groups such as IGFOA, DuPage Mayors and Managers Conferences, IML.

## Fines and Forfeitures

- Non-home rule cities and villages are authorized to establish a code hearing department to expedite the prosecution and correction of ordinances other than those that establish construction, plumbing, heating, electrical, fire prevention, sanitation or other health and safety standards that are applicable to structures or that requires, after notice, the cutting of weeds, the removal of garbage and debris, the removal of inoperable motor vehicles, or the abatement of nuisances from private property (65 ILCS 5/1-2.2-5, 65 ILCS 5/1-2.2-10).
- No fine or penalty for violation of an ordinance, except civil penalties provided for failure to make returns or to pay any taxes levied by the municipality may exceed \$750.00 for any one violation (65 ILCS 5/1-2-1).

## Hotel/Motel Tax

- Available to both home rule and non-home rule (capped)
- Use of funds different
  - Home rule – any public purpose
  - Non-home rule – promote overnight tourism
- General revenue, economic development
- Local reporting

## Real Estate Transfer Tax

- Transfer title to real estate, beneficial interest in a land trust
- Assessed at rates per \$1,000 of sale value
- Requires a separate referendum, not automatic
- General revenue
- Local reporting

## Food & Beverage Tax

- Tax in addition to regular sales tax on prepared food, beverage and alcohol consumed on-site
- Also assessed on package liquor sold at retail
- General revenue, economic development
- Local reporting
- Can include Packaged Liquor

## Amusement Tax

- Broad application tax that applies to places of “amusement”
- Movie theatres, amusement parks, bowling lanes, etc.
- Per ticket assessment, no set min/max
- General, economic development
- Local reporting

# Municipal & Gas Use Tax

## ■ Municipal Use Tax

- ☐ Separate utility tax on the price of natural gas
- ☐ General revenue
- ☐ Public utility collects/remits tax

## ■ Gas Use Tax

- ☐ Separate utility tax on the consumption of natural gas, alternate supplier
- ☐ Assessed on a per-therm basis
- ☐ General revenue
- ☐ Public utility collects/remits tax

# Other Taxes

## ■ Less Common Taxes

- ☐ Leasing Tax
- ☐ Video Gaming Licensing Fee (non-home rule limited to a \$25 license fee)



# Legislative Update

## Legislative Update

- FY2019 State Budget
  - 5% in Income Tax receipts (Local Government Distributive Fund)
  - 1.5% Administrative fee for Home Rule Sales Tax collections
  - More entities added to the Personal Property Replacement Tax pie (lowers each ones share)

# Property Tax Levy

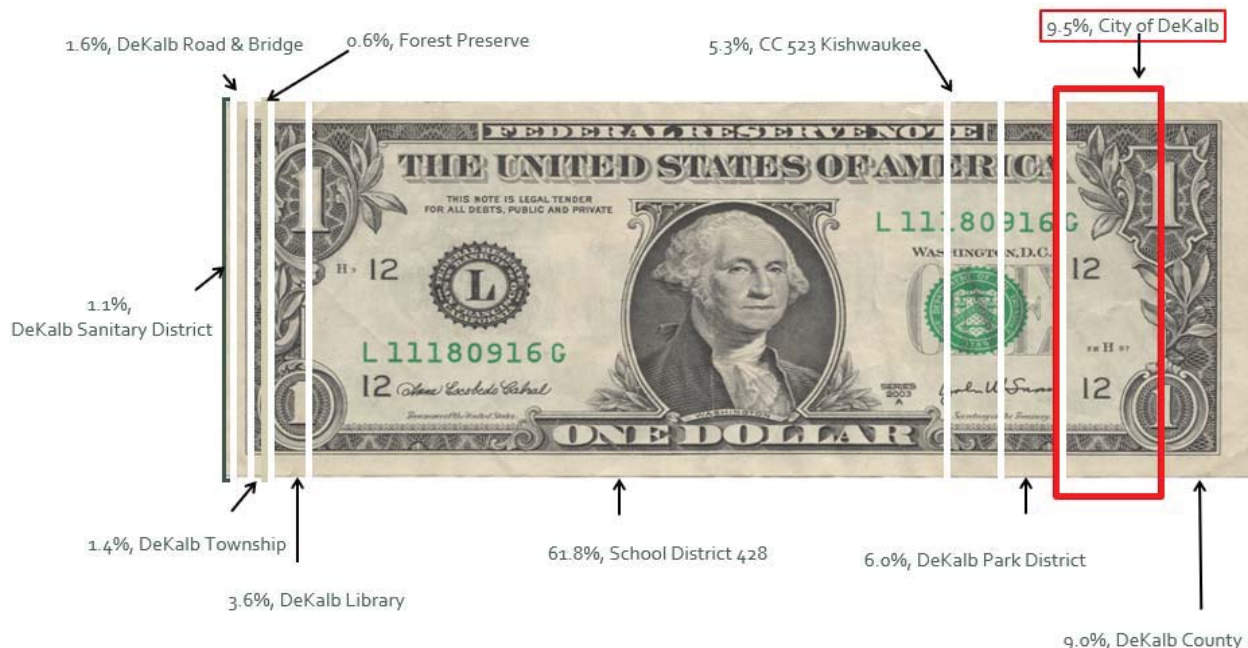
## Property Tax Levy

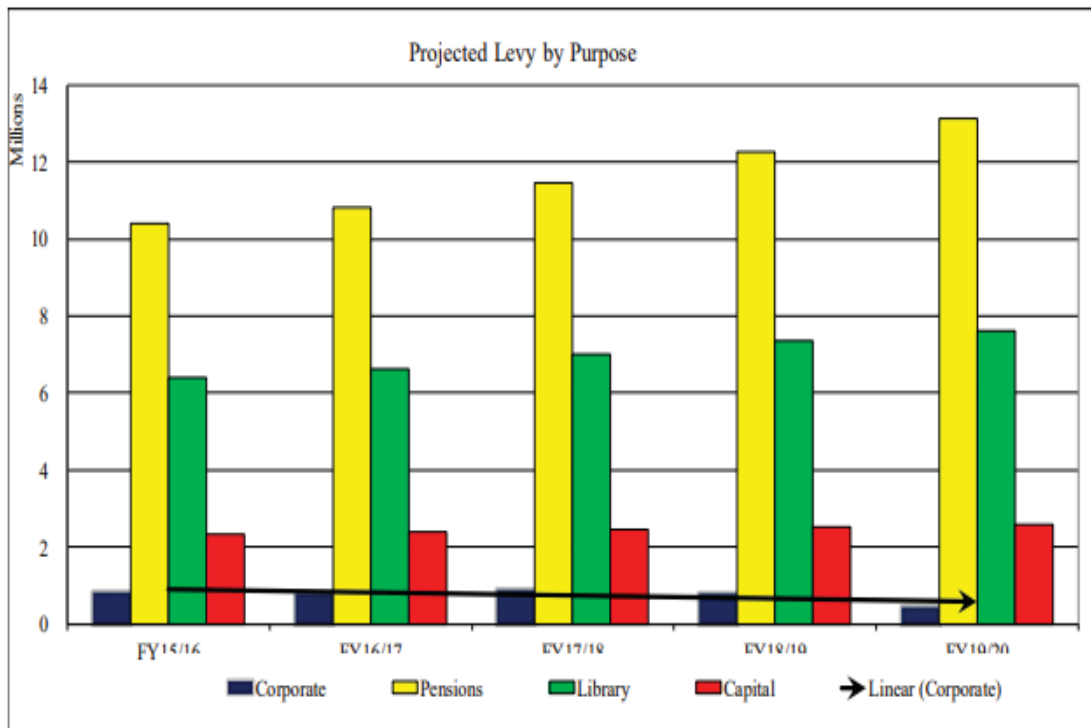
- Levy is a dollar amount
- On a calendar year basis
- Recommendation is typically dictated by the municipality's Financial Policies
- Stable funding source

# Home Rule Authority - Property Tax Levy

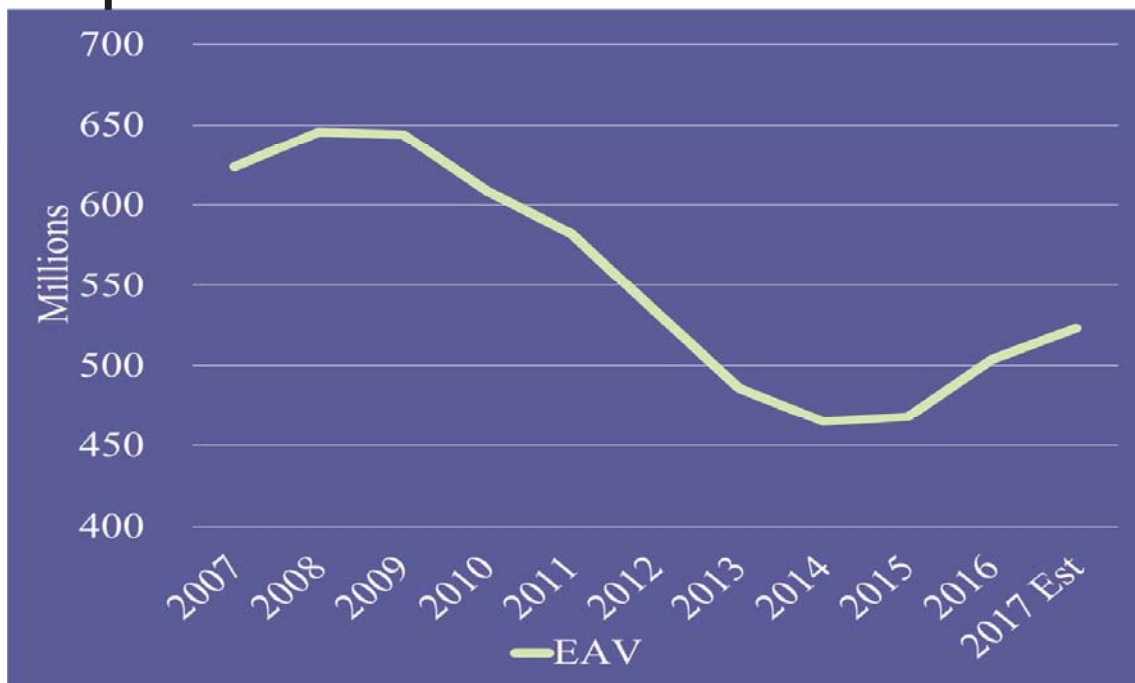
- Not constrained by Property Tax Extension Limitation Law “property tax caps”
- No rate caps on individual components of levy (corporate, parks, debt, etc.)
- Truth in Taxation
  - Legislation known as the Truth in Taxation Law (the “Law”) limits the aggregate amount of certain taxes which can be levied by, and extended for, a taxing district to 105% of the amount of taxes extended in the preceding year unless specified notice, hearing and certification requirements are met by the taxing body. The express purpose of the Law is to require published disclosure of, and hearing upon, an intention to adopt a levy in excess of the specified levels.
- Self-imposed caps
  - Reduce reliance on single source
  - Impact on residents

**While the City of DeKalb’s property taxes appear to be low but, when coupled with the tax levies of other taxing bodies such as schools, park districts and libraries, taxpayers perceive them as a burden.**





## Equalized Assessed Valuation



# Debt

## Non-Home Rule Debt

- Municipal Code (Ill. Rev. Stat. Ch. 24/8-1-3) provides for the issuance of general obligation (G.O.) bonds only upon approval by referendum (Ch. 24/8-4-1) and constitutes statutorily limited debt. Accordingly, the debt limit of any non-home rule municipality is 8.625 percent of the equalized assessed valuation (EAV) of that municipality (Ch. 24/8-5-1).
  - Therefore, a non-home rule municipality may not incur legal debt more than \$86,250 for each one million dollars of equalized assessed valuation of that municipality.
  - Able to extend debt payments for debts payable from property taxes over a 40-year period.
  - If you lease or purchase real or personal property through a lease or purchase agreement (Ch. 24/11-76.1 et seq.), the entire amount of the contract due to be paid over the installment period must be included within the debt limitation.

# Non-Home Rule Debt

## ■ Exceptions

- Any interest to be paid during the period of amortization is **not** considered as debt.
- G.O. bonds issued to abate pollution as required by a compliance order under the Environmental Protection Act, G.O. bonds issued to fund a judgment indebtedness, or G.O. bonds issued to provide an escrow fund for self-insurance against possible judgments may be issued without referendum and do **not** constitute debt under the statutory limitations.
- Bonds issued for a special service area project or a local improvement (special assessment) project do **not** constitute debt and do not require a referendum approval.
- Bonds issued for the payment of construction under the Local Improvement Act (Ch. 24/9).
- Tax anticipation warrants are not considered as debt
- Revenue bonds can be issued for a multitude of purposes, many of which do not require referendum approval. Ch. 24/8-4-1 lists, some by reference and some by Act, those purposes for which revenue bonds may be issued without referendum approval.

# Non-Home Rule Debt

- Except as noted on the previous slide, non-home rule units may issue general obligation bonds by taking the following steps:
  1. Adoption of a referendum ordinance on the question of the issuance of the bonds.
  2. Hold an election. Absent an emergency, the consolidated schedule of election limits elections to two in even-numbered years (March and November) and three in odd-numbered years (February, April, November).
  3. Canvass the votes. If the majority voted in favor of the issuance of these bonds, the municipality must then wait 30 days before selling the bonds (election contest period).
  4. Sale of the bonds.
  5. Adoption of a bond ordinance setting out the terms of the sale, maturity schedule, interest rates and tax levy sufficient to retire the bonds.

# Home Rule Authority Debt

- Article VII of the State Constitution
  - No debt limit
  - Not required to seek approval for the issuance of debt
- Length of issue still limited to 40 years
- Debt Service Policy
- Support from financial advisor and bond counsel
  - Ratings Call
  - Legal opinion

# Home Rule Authority Debt

- Language from bond ordinance of Series 2016

## ***AUTHORIZATION, PURPOSE AND SECURITY***

The \$6,125,000 General Obligation Corporate Purpose Bonds, Series 2016 (the “Bonds”), are being issued pursuant to the home-rule powers of the Village of Buffalo Grove, Lake and Cook Counties, Illinois (the “Village”), under Section 6, Article VII of the 1970 Constitution of the State of Illinois. The Bonds will be authorized pursuant to an ordinance adopted by the President and Board of Trustees of the Village on the 18th day of April, 2016.

*(Sec 6, Article VII (summary) The Village is a home rule unit and may exercise any power or perform any function pertaining to its government and affairs including, but not limited to, the power to tax and to incur debt; and the Village has the power to incur debt payable from ad valorem property tax receipts or from any other lawful source and maturing within 40 years from the time it is incurred without prior referendum approval;)*



# Forecasting Major Revenues

## Revenue Forecasting

- National Advisory Council on State and Local Budgeting (NACSLB) recommended practices
  1. Prepare a multi-year projection of revenues and other resources.
  2. Maintain an in-depth understanding of its major revenues.
  3. Evaluate and understand the effect of potential changes to revenue source rates and bases.
  4. Periodically estimate the impact and potential foregone revenue as a result of policies that exempt from payment, provide discounts and credits, or otherwise favor particular categories of taxpayers or service users.
  5. Develop a process for achieving consensus on the forecast of revenues used to estimate available resources for a budget.
  6. Prepare and maintain a revenue manual that documents revenue sources and factors relevant to present and projected future levels of those revenues.

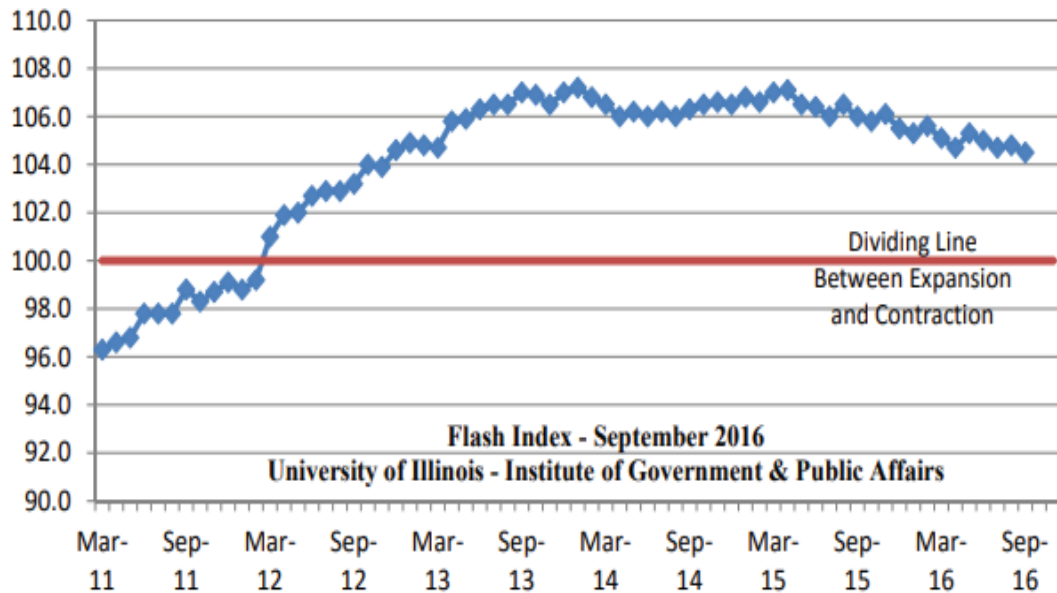
# Forecasting Major Revenues

- Develop a process that works for you/your organization
- Incorporate recommended practices
- Develop long-term financial policies for revenues
  - Maintain a diversified revenue structure
  - Five-year revenue projections of major operating/capital funds
  - Base property tax revenues on the municipality's financial policies
  - Setting of fees and user charges
  - Use of one-time revenues
  - Forecast other revenues in categories such as license and permits

# Forecasting Major Revenues

- Develop revenue assumptions
  - Consistency in process from year to year
  - Refine estimates over time for improved accuracy
  - Sources include
    - Historical trend data
    - Professional association estimates
    - Projected impact from economic development
- Share estimates with governing body for buy-in
  - Opportunity to explain rationale
  - Gather support

# Statewide Resource



# Statewide Resource

← → iml.org

Illinois Municipal League

Educate • Advocate • Empower • Search IML

Contact Us • f •

**IML STATEHOUSE BRIEFING**  
ILLINOIS MUNICIPAL LEAGUE  
Update on issues affecting Illinois municipalities

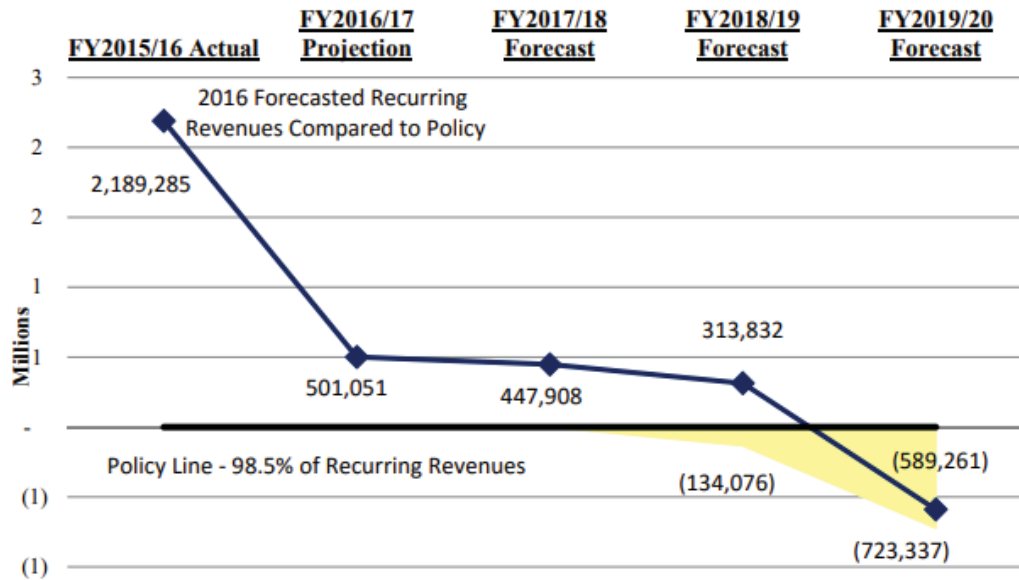
IML Statehouse Briefing - June 18, 2018

This week's Statehouse Briefing provides an update on IML's tracking of preemption legislation, information on publishing notices regarding prevailing wage and an upcoming webinar about a new Federal Communications Commission program.

[Read the Briefing ...](#)

# Forecast Outcome Example

## Recurring Revenues Available for Recurring Expenditures



## Questions?

*Molly Talkington*  
Finance Director  
City of DeKalb, IL  
815-748-2000  
[molly.talkington@cityofdekalb.com](mailto:molly.talkington@cityofdekalb.com)

*Julie Zolghadr*  
Supervisor of Fiscal Services  
City of Springfield, IL  
217.893.2191  
[julie.zolghadr@springfield.il.us](mailto:julie.zolghadr@springfield.il.us)



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## **Pension 101: What Every Finance Professional Needs to Know about Firefighter and Police Pension Funds**

Academy Level 2 – June 20, 2018 -- Champaign, Illinois



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## **Presented at Academy Level 2**

**Carolyn Welch Clifford -- Partner**

**Ottosen Britz Kelly Cooper Gilbert & DiNolfo, Ltd.**

**Naperville, Illinois**

# Session Description

This session will provide a general overview of the administration of firefighter and police pension funds, from the governance structure to the various responsibilities of the fund's fiduciaries from investing the fund's assets to determining members' eligibility for benefits. A special emphasis will be placed on the role and responsibility of the municipality's financial professionals in the life of the funds, from oversight of assets to determination of annual employer contributions through the actuarial process.

# Learning Objectives

**Participants attending this session will be able to:**

- Understand the basic legal framework of firefighter and police pension funds in Illinois.
- Assist in the oversight and navigation of the key annual financial requirements for proper management of the municipality's pension funds.
- Collaborate with the pension funds on several critical components affecting the financial health of the municipality and the funds, including the actuarial process.
- Identify issues of importance, and serve as a liaison between the municipality and the fund in resolving concerns.

# Overview

- Statutory Basics of Article 3 and 4 Funds
- Organization and Management of Fund
- Relationship with the Illinois Department of Insurance
- The Actuarial Process and Funding Issues

State and Federal Law

## STATUTORY BASICS OF ARTICLE 3 AND 4 FUNDS



## Applicable Provisions of the Illinois Pension Code

- Chicago's Policemen's Annuity and Benefit Fund -- Article 5 of the Illinois Pension Code (40 ILCS 5/5-101 *et seq.*)
- Chicago's Firemen's Annuity and Benefit Fund -- Article 6 of the Illinois Pension Code (40 ILCS 5/6-101 *et seq.*)
- **All other municipal police and firefighter pension funds (656 funds) are considered "Downstate"**
  - Police Pension Fund -- Article 3 (40 ILCS 5/3-101 *et seq.*)
  - Firefighters' Pension Fund -- Article 4 (40 ILCS 5/4-101 *et seq.*)

## Statutory Requirements for Initial Fund Creation

- Sections 3-128 and 4-121 of the Illinois Pension Code automatically create police and firefighters' pension funds in municipalities or fire protection districts of over 5,000 population that employ full-time police officers or firefighters (40 ILCS 5/3-128 and 4-121).
- Sections 3-145 and 4-141 provide a method for creation of a pension fund by referendum in municipalities under 5,000 (40 ILCS 5/3-145 and 4-141).
- Note that the Illinois Department of Insurance (DOI) has interpreted Section 4-101 to require any fire protection district that employs one or more full-time firefighters to establish a pension fund for the benefit of its firefighters, their surviving spouses, children, and certain other dependents (40 ILCS 5/4-101).

## Qualified Plan Status under Internal Revenue Code

- An employee retirement plan qualified under Internal Revenue Code (IRC) Section 401(a) (qualified plan) is entitled to favorable tax treatment.
- The Internal Revenue Service provides such advance assurance by means of the determination letter program. A favorable determination letter indicates that, in the opinion of the IRS, the terms of the plan conform to the requirements of IRC Section 401(a).
- Illinois' police (Article 3) and firefighters' (Article 4) pension funds jointly received favorable determination letters, indicating "qualified plan status" in October 2009 and October 2014. These letters are available on the DOI website.
- Note that public pension funds are exempt from the Employee Retirement Income Security Act of 1974 (ERISA) (see Section 4021(b)(2) of the Act).

## Relationship to Municipality and Status as a Public Body

- Fire and police pension funds are public bodies subject to various statutory provisions, including the Open Meetings Act, the Freedom of Information Act, the Local Records Act, Identity Protection Act, Personal Information Protection Act, etc.
- Generally, fire and police pension funds are considered separate units of government from their host municipalities. However, in some instances, they are subject to ordinances of the municipalities. For example, a municipality may require that its pension board members file municipal economic interest disclosure statements under a local ordinance (*Board of Trustees of Barrington Police Pension Fund v. Village of Barrington Ethics Board*, 287 Ill.App.3d 614 (1<sup>st</sup> Dist. 1997)).
- Pension boards deal with the underlying municipality "at an arm's length" distance when exchanging certain records and information that may be confidential.

## Election and Appointment of Board Members

- Both police and fire pension boards consist of five (5) members (40 ILCS 5/3-128 and 4-121).
- Two (2) members are elected by the active police officers or firefighters.
- One (1) member is elected by the retired and disabled members in a fire pension fund.
- In a police pension fund, one (1) member is elected from the beneficiaries (retired and disabled members, and surviving spouses).
- Two (2) members are appointed by the mayor, or village or fire protection district president.
- Board members serve without compensation.

## Election and Appointment of Board Members

### **Appointed Police Fund Trustees (40 ILCS 5/3-128)**

- Appointed for two-year terms, beginning on the second Tuesday in May.
- Terms should be staggered, such that the terms of the two appointed trustees do not expire in the same year.

### **Appointed Fire Fund Trustees (40 ILCS 5/4-121)**

- Statute is silent as to length or start of terms. However, generally DOI recommends staggered, three-year terms, beginning after the third Monday in April.
- Some municipalities choose to establish the appointments to serve “at the pleasure” of the mayor or president.

## Election and Appointment of Board Members

- Both the police and fire pension statutes are silent as to any residency requirements or other qualifications of appointed trustees.
- Historically, many village, city and fire protection district trustees and officials have also served on the fire (and sometimes, the police) pension fund boards, as well, primarily because of the prior eight and nine-member statutory structure of fire boards before April 2006.
- “Dual hats” of some trustees have raised issues of conflicts of interest, particularly in disability matters or municipal funding disputes.
- Appointments should be made timely, recorded in the governing body’s meeting minutes, and transmitted in writing to the fund.

## Election and Appointment of Board Members

### Election of Active Members (40 ILCS 5/3-128 and 4-121)

- **Terms** – two (2) years for police fund trustees; three (3) years for fire trustees; terms should be staggered
- Elections are to be held on the **third Monday in April**
- Elections are to be conducted “**under the Australian ballot system**” and pursuant to the regulations prescribed by the “appointed” members of the police fund (prescribed by the “board” for a fire fund)
- “**Australian ballot system**” simply means pre-printed ballots with the name of the candidates and respective checkboxes. Provisions are made for the voters to record their preferences in secret and designed to eliminate bias. This system originated in Australia during the 1850s.

## Board Officers

- Fire and police pension boards elect their own officers, except for the treasurer of the fund, who is, by statute, the municipal treasurer (40 ILCS 5/3-132 and 4-130).
- Fire boards annually elect two (2) officers – president and secretary (40 ILCS 5/4-121).
- Police board annually elect four (4) officers – president, vice-president, secretary, and assistant secretary (40 ILCS 5/3-130).
- Fire board officers are typically elected at the first meeting after the spring elections have been conducted, as the board is “reorganized.” By statute, police boards elect their officers at the July meeting.

## Fund Treasurer

- The treasurer of the fund is, by statute, the municipal treasurer (40 ILCS 5/3-132 and 4-130).
- The treasurer is not a member of the board by statute and generally is considered *ex officio*; however, in some cases, the treasurer will be appointed to the board.
- Where the treasurer is strictly *ex officio* (not appointed to the board), he or she has no voting power.
- The treasurer is a **fiduciary to the fund** and the holder of the pension fund’s assets.
- Treasurers must be bonded to ensure funds are made whole in case of embezzlement.

## Signing Checks and Disbursements

- Because auditors recommend that no single person have signature authority over a governmental checking account, both the treasurer and a pension trustee should be required cosigners on all pension accounts.
- Besides the treasurer, the board should establish who has signatory authority on accounts by resolution, which typically include the members of the board and the finance director (if not already serving as the treasurer).
- The resolution establishing signatory authority should include a specific “delegation of signatory authority” by the treasurer to establish who are authorized to serve as a signer in his or her absence. Typically, this is an exhibit to the signatory authority resolution.

## Pension Fund Fiduciaries

- Section 1-101.2 of the Illinois Pension Code defines fiduciaries and their duties to the pension fund and its members (40 ILCS 5/1-101/2).
- A person is a fiduciary to the pension fund if he or she:
  - Exercises any discretionary authority or discretionary control respecting management of the pension fund or retirement system, or exercises any authority or control respecting management or disposition of its assets;
  - Renders investment advice or renders advice on the selection of fiduciaries for a fee or other compensation, direct or indirect, with respect to any moneys or other property of the pension fund or retirement system, or has any authority or responsibility to do so; or
  - Has any discretionary authority or discretionary responsibility in the administration of the pension fund or retirement system.

# Pension Fund Fiduciaries

- Fiduciaries owe “fiduciary duties” to their beneficiaries (in this case, members and participants).
- A fiduciary duty is the **highest** standard of care known to law.
- If an individual breaches the fiduciary duties, he or she can be held liable for any damages suffered by the beneficiary. (40 ILCS 5/1-114)

# Pension Fund Fiduciaries

## Who are fiduciaries to Article 3 and 4 funds?

- Members of the Board of Trustees
- Investment advisors and consultants
- Treasurer to the pension fund

## What do fiduciary duties include?

- **Duty of Care:** Requires that fiduciaries act reasonably.
- **Duty of Loyalty:** Requires that fiduciaries act impartially and solely for the benefit of all members, retirees, and beneficiaries of the Fund.

## Can fiduciary duties be delegated?

- Yes, but the fiduciaries are still responsible for the actions of other fiduciaries or professionals, even where the duty has been delegated (co-fiduciary liability).



Key Components

## ORGANIZATION AND MANAGEMENT OF FUND

## Regular Quarterly Meetings

- Police pension boards are required by statute to meet four times a year during July, October, January, and April. (40 ILCS 5/3-130)
- The fire pension statutes are silent on regular meetings; however, typically fire pension boards also meet quarterly.
- Boards are required to annually give notice of their regular meeting schedule at the beginning of the calendar or fiscal year under the Open Meetings Act. Section 2.02 of the Act requires that notice include the regular dates, times, and places of the meetings. (5 ILCS 120/2.02)

## Example Meeting Agenda

- I. Call to Order
- II. Roll Call
- III. Public Comment
- IV. Approval of Minutes
- V. Treasurer/Investment Reports
- VI. Communications and Special Reports/Presentations
- VII. Consideration of and Action upon Applicants for Admission to, Benefits from and/or Withdrawal of Members from Fund
- VIII. Unfinished Business
- IX. New Business
- X. Closed Session (if needed)
- XI. Training
- XII. Adjournment

## Board Rules and Forms

- Police and fire pensions boards have express statutory authority to make necessary rules and regulations for the discharge of their duties and in conformity with the provisions of the Illinois Pension Code (40 ILCS 5/3-140 and 4-126).
- Adopting a proper set of rules and forms insures that the business of the fund is conducted properly and uniformly, as well as fills in the gaps in the statutory provisions of the Illinois Pension Code.
- In some cases, a board policy is required by statute (example – electronic participation of board members at meetings).
- Rules should be reviewed annually and updated whenever a change in law occurs or need for procedures is revealed in conducting the fund's business.
- Once established, it is important that the board follow its rules.

# Board Rules and Forms

Board rules typically address the following areas:

- **Basic board provisions and rules of order** – election procedures, conduct of meetings, ethical issues, etc.
- **Fund membership issues** -- applications, withdrawals, continuing eligibility for benefits, etc.
- **Application for benefits and hearing procedures** – process for applying for benefits and Board adjudication of applications
- **Expenditures and investments** – basic financial procedures

Board forms provide a method of standard documentation for a myriad of fund matters, from applications for certain benefits to reporting requirements to the municipality.

# Administrative and Professional Support for Fund

- Most pension board members have little to no background in administrative law, parliamentary procedure, financial management, or investment strategy.
- Fiduciary duty of a board member includes the duty to use available funds to hire professionals to advise the board and to handle tasks such as:
  - Preparing agendas, meeting minutes, and correspondence
  - Keeping fund files complete and up to date
  - Preparing reports to the Illinois Department of Insurance
  - Reconciling and monitoring accounts, maintaining basic financial books, and paying benefits and expenses (40 ILCS 5/1-109.1)
- Board member's role is to meet, set policy, and deliberate, and not to perform the daily administrative tasks of the fund.
- Board remains responsible, as fiduciaries, for the oversight of any individuals to which fund activities have been delegated and co-fiduciary duties are shared – *duty can be transferred; responsibility cannot* (40 ILCS 5/1-109.2).

# Accounting Services

- Traditionally, the municipality's finance department has been responsible for providing basic bookkeeping, benefit administration, bill paying, and DOI reporting services for pension funds.
- As municipalities' resources have diminished, many pension funds have outsourced their accounting needs to outside accounting firms who specialize in public pension fund work.
- Responsibilities typically include:
  - ☐ Preparation of monthly or quarterly financial statements
  - ☐ Ongoing benefit administration and bill payment
  - ☐ Monitoring of investment activity and reconciliation
  - ☐ Calculation and confirmation of benefits
  - ☐ Preparation and submission of online annual statement to DOI
  - ☐ Preparation of work papers for the annual audit
  - ☐ Preparation and distribution of tax notices
- The fund's accountant should provide monthly or quarterly financial statements for the board, prepare the warrant for payment, and be present at the board's quarterly meetings, if possible.

# Investment Advisors/Consultants

- The complexity of investments, coupled with the restrictions of the Illinois Pension Code, have made the need for professional investment advice more important than ever for pension funds.
- Smaller pension funds typically hire an investment advisor or manager to oversee the fund's portfolio; larger funds may also hire an investment consultant to oversee the investment managers and monitor performance.
- The Illinois Pension Code outlines specific requirements for investment advisors and consultants, including the requirement that the advisors/consultants serve as fiduciaries to the fund and disclose all direct and indirect fees for their services (40 ILCS 5/1-109.1 and 1-113.5).
- Investment advisors/consultants are typically hired through a formal "Request for Proposals (RFP)" process.
- Investment advisors/consultants should provide quarterly reports to the board and be present at the board's quarterly meetings to review the investment performance of the fund.

## Auditing Services

- Municipalities are required to have annual audits performed by an auditor. These audits must include an audit of their police and fire pension funds.
- Sections 3-143 and 4-134 of the Illinois Pension Code require that the municipality have the assets of the fund and their current market value verified by an independent certified public account of its choice (40 ILCS 5/3-143 and 4-134).
- Often, the same auditor for the municipality will also audit the pension fund, unless there is a conflict of interest, or the pension fund has chosen a different auditor.
- At a minimum, board members should receive a copy of the annual audit report, and preferably, should have audit report presented to the board by the auditor at one of its quarterly meetings.

## Private Actuary

- The municipality's annual contribution to the fund is based upon an annual actuarial study of the fund.
- Sections 3-125 and 4-118 of the Illinois Pension Code provide that the annual actuarial requirements of the fund must be determined by an enrolled actuary employed by the DOI or retained by the fund or municipality. (40 ILCS 5/3-125 and 4-118)
- Under GASB requirements, municipalities must have an actuarial valuation of the fund conducted by a private actuary every two (2) years (most municipalities are complying annually).
- Best scenario – joint hiring of a private actuary by the municipality and pension board.
- Private actuary should be present at a board meeting at least once a year, to either discuss actuarial assumptions or to present the actuarial report to the board.

# Establishment and Maintenance of Pension Fund Records

- The DOI has provided guidance on what records public pension funds need to keep, and has offered suggestions on how those records should be organized. The DOI defines three categories of records kept by pension funds:
  - ☐ **Membership Records**
  - ☐ **Corporate Records**
  - ☐ **Accounting Records**
- Each category of records should be maintained and organized separately.

## Membership Files

- Each fund member should have a file. The member files should be separated among active members, retired members and members receiving a disability pension.
- Additionally, files should be kept for surviving spouse pension beneficiaries, children's pension beneficiaries, and members who have withdrawn from the fund.

# Membership Files

## General Documentation

- Application to the fund
- Certification of appointment from the municipality
- Baseline medical information on occupational disease issues (coordinated with Commission)
- Background information form and any change of records forms
- Birth certificate of member, spouse and children
- Marriage certificate
- Divorce decrees and Qualified Domestic Relations Order (QILDRO) forms
- U.S. military service records and/or discharge
- Dependent adult children records
- Dependent parent records
- Certified copy of children's adoption orders

# Membership Files

## Additional Documentation

- Annual statement of contributions and service credit
- Information regarding annual salary, including components thereof
- Documentation of combined creditable service or portability
- Record of any breaks in creditable service
- Exhibits (including IME physician reports), transcripts, findings and decision from disability matters
- Litigation involving the member
- Any department correspondence regarding individual's status or retirement
- Calculation of any retirement or disability benefits
- Pension payment history
- Annual affidavits of eligibility
- Annual medical evaluation for disabled members
- Death certificate of member



## Corporate Records

- Relevant ordinances from underlying municipality (creation of fund, pick-up ordinance, ethics ordinance, levy, salary ordinances, etc.)
- Resolutions
- Meeting minutes (separated by open and closed, including closed meeting tapes)
- Election/appointment records of board members
- Training records
- Board rules and forms
- Investment policy
- Audits
- Annual statements to DOI
- Insurance policies
- Contracts and agreements with custodians, investment advisors, etc.
- Other documentation of the operations of the board
- Correspondence (including email)

## Accounting Records

- Fund's general ledger (financial statements)
- Investment statements
- Bank and brokerage statements
- Register of pensions
- Refund register
- Records of accumulative contributions for each participant
- Warrants (signed by president and secretary)
- Annual audits of the fund
- Actuarial studies (DOI and private actuary)
- Municipal compliance reports and tax levy requests
- Servicer certifications
- Copy of treasurer's surety bond

Navigating the Requirements of the State Regulator

# RELATIONSHIP WITH THE ILLINOIS DEPARTMENT OF INSURANCE

## General Duties of the DOI's Public Pension Division

- Examinations and investigations of the affairs of public pension funds and retirement systems (40 ILCS 5/1A-104);
- Accumulation of financial and statistical data, including annual reports, pertaining to the operation of such funds and systems (40 ILCS 5/1A-109);
- Offering of advisory services to pension trustees and participants, as well as members of the Illinois General Assembly (40 ILCS 5/1A-106);
- Enforcement authority to address failures of regulated pension funds to comply with any provision of the Illinois Pension Code (40 ILCS 5/1A-113); and
- Automation of the Division's operations, services, and communications to the fullest practical extent (40 ILCS 5/1A-107).

# Annual Statement Filing

## 40 ILCS 5/1A-109 – Annual statements by pension funds

- Each pension fund must furnish an annual statement
- Submitted to the DOI within six (6) months following the close of the fund's fiscal year
- Submitted online through DOI's website
- Annual Statement includes:
  - Financial Data
  - Interrogatories (recently updated and expanded June 1, 2018)
  - Participant Data
  - Certification Form (commonly known as the "signature sheet")
- Audit of the fund (or the municipality, if no separate fund audit) must also be filed with the DOI within six (6) months following the close of the fiscal year.

# Confirming Information in Annual Statement

- Draft Annual Statement should be carefully proofread, preferably by the entire board.
- Board should take formal action to approve Annual Statement.
- Remember that the information contained in the Annual Statement drives the levy requirement – thus errors can adversely affect this number.
- Insure the final step in the Annual Statement process is completed – signatures of president, secretary and treasurer notarized on "signature sheet" and timely returned to the DOI via the online portal.
- Note that Annual Statement filings are not accepted until all significant discrepancies are corrected.
- DOI generally does not provide extensions on deadlines for filing of the DOI Annual Statement, and it has the power to assess fines for late filings. (40 ILCS 5/1A-113(a))

# Public Pension Compliance Audit Process

## 40 ILCS 5/1A-104(b)

The Division shall examine or investigate each pension fund established under Article 3 or Article 4 of this Code. The schedule of each examination shall be such that each fund shall be examined once every 3 years.

**The DOI audit process is defined in *Title 50, Part 4401 of the Illinois Administrative Code*.**

### Two Types of Audits:

- **Field Audits** – Division field auditors will conduct an audit on-site for pension funds with more than 25 participants.
- **Desk Audits** – For pension funds with 25 or fewer participants, the audit of the fund will take place at the Division's office.

## Pre-Audit Process

- Official letters are sent to the fund secretary and fund treasurer from the DOI notifying the pension fund that it is due for an audit within the next sixty (60) days.
- Attached to the letter is an official "Warrant of Examiners" signed by Illinois Department of Insurance Director, appointing Division of Pension audit staff to examine the fund.
- Included with the letter is a "data request" due 30 days from receipt of the letter, requesting a long checklist of documents. These documents can be provided electronically, either through an upload of the files to the DOI website or via mail on a disc or USB storage drive.

## Post-Audit Process

- Upon completion of the audit, the examiner may request **further information** be provided by the pension fund. Such information, if needed, will be provided within two (2) weeks or within a time frame agreed to by the pension fund and the Division.
- Once all relevant information has been received, the examiner will prepare a **written report of examination** detailing the status of the pension fund's compliance with the Illinois Pension Code.
- A copy of the **draft report of examination will be sent to the secretary** of the pension fund. The fund will then have **thirty (30) days after the date of receipt to review and respond**. The fund can also request a hearing based on the facts contained in the examination.
- Upon receiving a response, the **Division will review the documentation provided to determine if modifications are needed** before finalizing the audit report. If no response is received from the fund, the report will be considered finalized as previously submitted.

## Post-Audit Process

- At a minimum, **board of trustees must specifically review and acknowledge at a meeting each finding** set forth in the audit report, which should be documented in the meeting minutes
- The board should also prepare a **response letter to the DOI**, indicating that it has reviewed the findings and how it will be resolving any discrepancies. Letter should include the required signature sheet, acknowledging the audit results, as well as a copy of the approved meeting minutes at which the board reviewed the audit.
- If the board disputes an audit finding, it may **request a hearing**, and one will be scheduled within thirty (30) days of the request to review the specific findings in dispute.
- Upon finalization of the audit, the Director of Insurance will issue **an order requiring compliance** where it is determined that the pension fund has violated the Illinois Pension Code. In response, action must be taken to comply with the findings of the report within fifteen (15) days.

# Division of Public Pension Advisory Services

## 40 ILCS 5/1A-106 --

“The Division shall render advisory services to the pension funds on all matters pertaining to their operations and shall recommend any corrective or clarifying legislation that it may deem necessary. These recommendations shall be made in the report of examination of the particular pension fund and in the biennial report to the General Assembly under Section 1A-108. The recommendations may embrace all substantive legislative and administrative policies, including, but not limited to, matters dealing with the payment of annuities and benefits, the investment of funds, and the condition of the books, records, and accounts of the pension fund.”

# Division of Public Pension Advisory Services

**The Division receives advisory requests via three methods:**

- **By phone:** (800) 207-6958 or (217) 782-7542
- **By e-mail:** [doi.pension@illinois.gov](mailto:doi.pension@illinois.gov)
- **By mail:** Illinois Department of Insurance  
Public Pension Division  
320 West Washington Street  
Springfield, Illinois 62767-0001

# Advisory Opinions

## Most Common Requests

- Concession agreements
- Salary spikes/retirement incentives
- Re-entry into active service
- Purchase of creditable service time
- Board of trustee responsibilities
- Investments
- Benefit calculations/conversions

# Compliance Fee Process

- 40 ILCS 5/1A -112 sets forth fees:
  - Two (2) basis points of the total assets
  - \$8,000 annual maximum
- Invoices annually mailed to President and Secretary May 15<sup>th</sup>
- Fee due on June 30<sup>th</sup>



# Required Filings with the Public Pension Division

- ❖ **Annual Statements (40 ILCS 5/1A-109)**
  - Due within six (6) months after close of the fiscal year end of the pension fund
- ❖ **Actuarial Statements (40 ILCS 5/1A-111)**
  - Due within nine (9) months after close of the fiscal year end of the pension fund
  - Filing required if statement prepared by a private actuary
- ❖ **Investment Policy (40 ILCS 5/1-113.6)**
  - Due thirty (30) days after initial adoption or amendment

# Required Filings with the Public Pension Division

- ❖ **Investment Adviser/Consultant Agreements (40 ILCS 5/1-113.5(c))**
  - Due within thirty (30) days of appointment of adviser/consultant
- ❖ **Security Administrator Authorization Form**
  - Prior to permission to access DOI data collection system
  - Registrations required on DOI website
- ❖ **Servicer Certification (40 ILCS 5/1-110.10)**
  - Due by February 28<sup>th</sup> of each year
  - Illinois finance entity must comply with High Risk Home Loan Act
  - Model certificate available on DOI website

# Required Filings with the Public Pension Division

- ❖ **Signed copy of labor contracts showing salary by rank and class, including wage scales if applicable and referenced in labor contracts**
  - Annually
- ❖ **Fiscal year appropriation ordinance, plans or agreements establishing salary for Schedule P active members and new retirees during fiscal year**
  - Annually
- ❖ **Independent Certified Public Accountant (CPA) Audit Report of fund or municipality (40 ILCS 5/1A-104)**
  - Due within six (6) months after close of fiscal year-end of the fund
  - DOI Annual Statement not considered “filed” until audit is also filed

# Annual Trustee Training Requirement

## 40 ILCS 5/1-109.3 and 40 ILCS 5/1-113.18

- Any pension fund trustee who was not a board member on or before August 13, 2009, must complete an initial 32-hour training course at a training facility that is accredited and affiliated with a state certified college or university
- All trustees must complete 16 hours of training **annually based on date of election or appointment**
- Any board member who fails to obtain the necessary annual training within six (6) months of the year in which it is to be completed will be ineligible to serve on the pension board
- The pension fund’s treasurer is not required to obtain training, unless the treasurer also serves as an appointed trustee on the board.
- Note that all trustees must also complete the Open Meetings Act training within 90 days of taking office (5 ILCS 120/1.05b).

The Most Critical Issue for Pension Funds and Municipalities

# THE ACTUARIAL PROCESS AND FUNDING ISSUES

## Illinois Math: A History Lesson

- In 2011, P.A. 96-1495 “reformed” the way the employer contribution to Article 3 and 4 pension funds is calculated, with the introduction of “projected unit credit actuarial cost method” (PUC) and the 90% funding target to year 2040.
- These “reforms” in funding were borrowed from several statewide pension fund statutes.

**IMRF, as well as many Illinois firefighter and police pension funds, and public pension funds across the United States, however, continue to calculate employer contributions using entry age normal (EAN) cost method and 100% funding goals.**

# Courts' View on Funding Responsibility of Municipalities

**Municipalities have discretion in funding and funding is not constitutionally protected**

- Appellate court determined a municipality is not obligated to provide contributions to a pension fund at actuarially-calculated levels (*Board of Trustees of the Riverdale Police Pension Fund v. Village of Riverdale*, 2014 IL App (1<sup>st</sup>) 130416).
- Illinois Constitution's pension protection clause extends to pension benefits only and has no impact on the funding of the benefits (citing two Illinois Supreme Court cases: *McNamee v. State of Illinois*, 173 Ill.2d 433 (1996) and *People ex rel. Sklodowski v. State*, 182 Ill.2d 220 (1998)).
- The *Riverdale* opinion echoed the language of these previous decisions that stated that the Illinois Constitution pension protection clause does not serve to freeze "the politically sensitive area of pension financing" and does not evince a legislative intent to create vested contractual rights to anything beyond benefits.

# Courts' View on Funding Responsibility of Municipalities

**DOI's funding orders will be upheld and tax cap is not an excuse to not properly fund**

- Appellate court in *Village of North Riverside v. Boron*, 2016 IL App (1<sup>st</sup>) 152687, upheld DOI's administrative order for the Village to make its statutory, minimum employer contribution to its police and firefighter pension funds.
- Court did not buy Village's excuse it had "good and sufficient cause" for failing to meet its obligations (such as the tax cap) or that it intended to take remedial action in the coming years.
- Key persuasive factor: Village made full required contributions to IMRF "because that fund had an enforcement provision."

# Courts' View on Funding Responsibility of Municipalities

## Courts will enforce settlement agreements between pension funds and municipalities

- Appellate court affirmed circuit court's award of over \$7 million to the Harvey Police Pension Fund that had entered into a settlement agreement with the City of Harvey in 2008, in which the city had agreed to pay the fund more than half a million in back property taxes in 2008, plus annually levy a tax for the fund going forward.
- City failed to live up to the settlement agreement, and the award by the court reflected a combined sum of the yearly taxes the city should have levied to meet its obligations under the settlement agreement.
- *Board of Trustees of the Harvey Police Pension Fund*, 2017 IL App (1<sup>st</sup>) 153095 (petition for leave to appeal denied by Illinois Supreme Court September 27, 2017)

# Courts' View on Funding Responsibility of Municipalities

## First court decision finding of a pension fund on the “verge of default” under the Illinois Constitution’s “Pension Clause”

- ❖ In 1993, the Harvey Firefighters' Pension Fund sued the City of Harvey for failing to properly contribute and remit tax monies it collected to the Fund between 1988 and 1994.
- ❖ In 1996, the Fund and Harvey entered into a settlement agreement with Harvey agreeing to (1) remit the back amounts it owed, and (2) pay tax amounts collected and due the Fund within 30 days of receipt.
- ❖ In 2010, the Fund asked the court to enforce the agreement due to Harvey's failure to make proper contributions between 2005 and 2013.
- ❖ The Appellate Court upheld the Trial Court decision ordering Harvey to pay \$11.5 million in damages to the Fund.
- ❖ The Appellate Court also found the Fund was on the “verge of default” for Pension Clause purposes and obligated Harvey to fund the system to avoid a default.
- ❖ *Harvey Firefighters' Pension Fund v. City of Harvey*, 2017 IL App (1<sup>st</sup>) 153074 (petition for leave to appeal denied by Illinois Supreme Court May 30, 2018)

# Courts' View on Funding Responsibility of Municipalities

The Illinois Appellate Court made this determination in *Harvey Firefighters'* based on:

- (1) The Fund's low funding ratio (22%);
- (2) Harvey's failure to properly contribute to the Fund, let alone levy or remit the required tax amounts;
- (3) The fact that the Fund was now selling assets at an unsustainable rate and using employee contributions to pay pension benefits;
- (4) The undisputed testimony that the Fund would go broke in 5 years without additional funding; and
- (5) The pervasive fiscal mismanagement plaguing Harvey and lack of plan to correct its payment shortfall.

# Latest Step for Funding Enforcement: Intercept Process

**In the Pension Reform Law, effective January 1, 2011 (and later modified in 2015), Sections 3-125 and 4-118 of the Illinois Pension Code added a process to intercept State funds to make up for delinquencies in employer contributions to police and firefighter pension funds:**

“(b-5) If a participating municipality fails to transmit to the fund contributions required of it under this Article for more than 90 days after the payment of those contributions is due, the fund may, after giving notice to the municipality, certify to the State Comptroller the amounts of the delinquent payments in accordance with any applicable rules of the Comptroller, and the Comptroller must, beginning in fiscal year 2016, deduct and remit to the fund the certified amounts or a portion of those amounts from the following proportions of payments of State funds to the municipality. . . .”

# Latest Step for Funding Enforcement: Intercept Process

## **Sections 3-125 and 4-118 Funding Enforcement**

Adopted in the pension reform law of 2011, it “borrowed” some aspects of Section 7-172.1(a) of the Illinois Pension Code (IMRF’s enforcement provision).

- Phase One – fiscal year 2016
- Phase Two – fiscal year 2017
- Phase Three – fiscal year 2018

## **Failure of municipality to transmit pension contributions to fund**

After a failure to transmit contribution for more than 90 days, pension fund must give notice to municipality and then certify amount of delinquent payments to State Comptroller.

State Comptroller must then deduct and remit to the pension fund the following portion of contributions owed to fund out of the payments of State funds to the municipality (the “intercept”) phased in from 2016 to 2018 as follows:

- One-third of total amount of payments
- Two-thirds of total amount of payments
- Total amount of payments

# The Intercept Administrative Rules

## **74 Ill. Admin. Code § 295.100 *et seq.***

- After several years of delay, administrative regulations were finally promulgated by the Office of the Comptroller to implement the intercept process.
- Rules provide procedures for seeking remittance of certified amounts of employer contributions which are delinquent to public pension funds.
- Applicable to Articles 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, and 22.
- 74 Illinois Administrative Code Part 295 became final on January 11, 2018.
- Notice of its adoption was published in the January 26, 2018 Illinois Register.
- At least three Article 3 or 4 pension funds have used the intercept process: Harvey Police Pension Fund, Harvey Firefighters’ Pension Fund, and North Chicago Firefighters’ Pension Fund



## The Intercept Administrative Rules

- The intercept rules require the pension board give notice to the municipality of its intention to seek intercept with the State Comptroller and provide an opportunity to be heard.
- The pension board may then submit the intercept request with the State Comptroller, using the State Comptroller's standard forms.
- The municipality has an opportunity to file a protest with the State Comptroller within 60 days of notice from the State Comptroller, while the Comptroller begins to intercept and hold State funds that would otherwise be transmitted to the municipality.
- State Comptroller's role is ministerial: it will not make judgments regarding the amount of – or merit of – the amount certified by the pension fund as being delinquent.

## What a Funding Process Should Look Like

- Municipalities and pension funds should seek a shared private actuary and collaborative process.
- Key individuals from the municipality and pension fund should meet with the private actuary to set the assumptions for the actuarial valuation.
- Focus should be on proper actuarial assumptions and actuarial methodology, and not on the amount of contribution generated by the actuarial valuation.
- The goal will be to create a “recommended contribution” based on sound actuarial methodology (EAN) and appropriate actuarial assumptions.

## What a Funding Process Should Look Like

- The actuary should present the actuarial valuation to the pension board and to the municipal board, explaining in detail any changes in assumptions, as well as fund experiences over the past year that caused either increases or decreases in the expected employer contribution.
- The pension fund should also review the tax levy recommendation promulgated by the DOI, which will be based on the “statutory minimum.” It is also appropriate for the private actuary to prepare a “statutory minimum” contribution calculation, even if it is not recommended.
- The pension fund should review the three contribution calculations and prepare a written request for funding, based on the actuarial valuation, and transmit it to the municipality with the certified tax levy report (often called the “Municipal Compliance Report”).

## What a Funding Process Should Look Like

- Where funding challenges exist, municipalities and pension funds should seek assistance from the private actuary to build a phase-in process over a three to five-year period to achieve full funding.
- Educating all stakeholders on the importance of proper funding – and the consequences of failing to properly fund – is critical.
- Municipal finance professionals are instrumental in bringing the parties together to find common ground and build this collaborative process.

## Contact information

**Carolyn Welch Clifford, Partner**

**Ottosen Britz Kelly Cooper Gilbert & DiNolfo, Ltd.**

**1804 N. Naper Boulevard, Suite 350**

**Naperville, Illinois 60563**

**630-682-0085**

**[cclifford@ottosenbritz.com](mailto:cclifford@ottosenbritz.com)**

**[www.ottosenbritz.com](http://www.ottosenbritz.com)**

## TIMELINE OF REQUIREMENTS FOR: ARTICLE 3 POLICE PENSION FUNDS AND ARTICLE 4 FIREFIGHTER PENSION FUNDS

### FILING REQUIRED WITH THE ILLINOIS DEPARTMENT OF INSURANCE (DOI)

ITEM	STATUTORY REFERENCE	RESPONSIBLE PERSON(S)	DUE DATE	COMPLETED
DOI Annual Statement (including signature sheet)	40 ILCS 5/1A-109	Treasurer and/or outside accountant	Due within six (6) months after close of the fiscal year-end of the Fund	
Independent Certified Public Accountant (CPA) Audit Report of fund or municipality	40 ILCS 5/1A-104		Due within six (6) months after close of the fiscal year-end of the Fund	
Actuarial statements by outside actuary	40 ILCS 5/1A-111		Due within nine (9) months after close of the fiscal year-end of the Fund	
Investment policy	40 ILCS 5/1-113.6		Due within thirty (30) days after initial adoption or amendment	
Investment advisor/consultant agreements	40 ILCS 5/1-113.5(c)		Due within thirty (30) days of appointment of advisor/consultant	
Security administrator			Prior to permission to access DOI online data collection system	
Servicer certification from Illinois finance entities	40 ILCS 5/1-110.10		Due by February 28th	
Signed copy of labor contracts showing salary by rank and class, including wage scales if applicable and referenced in labor contracts	50 Ill. Admin. Code 4402 40 ILCS 5/3-125.1 40 ILCS 5/4-118.1		Annually	
Fiscal year appropriation ordinance, plans or agreements establishing salary for Schedule P active members and new retirees during fiscal year	50 Ill. Admin. Code 4402 40 ILCS 5/3-125.1 40 ILCS 5/4-118.1		Annually	

### EVERY QUARTER/MEETING

ITEM	STATUTORY REFERENCE	RESPONSIBLE PERSON(S)	COMPLETED
Post agenda for meeting (notice and agenda if special or rescheduled meeting) 48 hours in advance	5 ILCS 120/2.02(a)		
Review and approve minutes from prior meeting (within 30 days after that meeting or at second subsequent regularly scheduled meeting, whichever is later)	5 ILCS 120/2.06		
Receive treasurer's report	30 ILCS 235/2.5(a)(10)	Treasurer and/or outside accountant	
Review investment performance and take action on investments	30 ILCS 235/2.5(a)(9) and (10)	Investment advisor and/or investment consultant	
Review and approve payment of bills (disbursement warrant)	40 ILCS 5/3-134 and 3-138 40 ILCS 5/4-127, 4-131, and 4-132	Treasurer and/or outside accountant	

## FIRST QUARTER (JANUARY-FEBRUARY-MARCH)

ITEM	STATUTORY	RESPONSIBLE PERSON(S)	DUE DATE	COMPLETED
Give public notice of the schedule of regular meetings, stating regular dates, times and places of such meetings	5 ILCS 120/2.02(a)	Secretary	Beginning of calendar or fiscal year	
Review and update investment policy	40 ILCS 5/1-113.6 30 ILCS 235/2.5(a)(9)		To be filed with DOI, if amended, within 30 days	
Prepare election procedures and seek reappointments	40 ILCS 5/3-128 40 ILCS 5/4-121		Third Monday in April	
Receive and submit annual servicer certifications from Illinois finance entities to DOI	40 ILCS 5/1-110.10		No later than February 28th	
Confirm tax levy amount for Fund from municipal tax ordinance from December	40 ILCS 5/3-125 40 ILCS 5/4-118	Treasurer		
Certify annual training requirements met by individual trustees and submit to DOI	40 ILCS 5/1-109.3 40 ILCS 5/1-113.18			
Complete the 1099-Misc forms due to vendors, and send copies of the 1099-Misc forms and 1096 form to IRS		Treasurer and/or outside accountants	To vendors and the IRS by January 31st	
Complete the 1099-R forms due to payees, and send copies of 1099-R forms, 1096 form and 945 form to the IRS		Treasurer and/or outside accountants	To payees and the IRS by January 31st	
Complete the fiscal year-end audit work papers and send information to the auditor	40 ILCS 5/1A-109	Treasurer and/or outside accountants		
Complete fiscal year-end audit work papers and send information to the auditor	40 ILCS 5/3-143 40 ILCS 5/4-134	Treasurer and/or outside accountants		
Review professional services contracts, engagement letters and retainers with auditor, actuary, accountants and attorneys (as needed)				
Submit list of required filers for Statements of Economic Interest to county clerk	5 ILCS 420/4A-106	Chief Administrative Officer	By February 1st	
Funding policy development/review		Board members in conjunction with Village, City or Fire District officials	End of 1st quarter	
Approve annual pension increases to begin in January	40 ILCS 5/3-111.1 40 ILCS 5/4-109.1	Treasurer and/or outside accountants		

## SECOND QUARTER (APRIL-MAY-JUNE)

ITEM	STATUTORY	RESPONSIBLE PERSON(S)	DUE DATE	COMPLETED
Conduct and canvass trustee elections	40 ILCS 5/3-128 40 ILCS 5/4-121		Third Monday in April	
Reorganize the board and elect officers (fire)	40 ILCS 5/4-121			
Conduct six-month review of closed meeting minutes	5 ILCS 120/2.06(d)	Secretary		

## SECOND QUARTER, CONT'D

ITEM	STATUTORY	RESPONSIBLE PERSON(S)	DUE DATE	COMPLETED
Review professional services contracts, engagement letters and retainers with investment professionals (as needed). Obtain Form ADV (Part 1) from investment advisors/consultants and complete checklist.	40 ILCS 5/1-113.5			
Review and update membership files	40 ILCS 5/3-132 40 ILCS 5/4-107(b) and 4-123			
Confirm actual prior year employer contributions	40 ILCS 5/3-143 40 ILCS 5/4-134	Treasurer		
Approve and remit payment of the DOI Compliance Fee invoice (usually received in May)	40 ILCS 5/1A-112	Treasurer and/or outside accountants	Due June 30th	
Submit the fiscal year-end Annual Statement and signature sheet to DOI	440 ILCS 5/1A-109		Due six (6) months after end of fiscal year (June 30th)	
Submit independent CPA Audit Report of fund or municipality to DOI	40 ILCS 5/1A-104		Due six (6) months after end of fiscal year (June 30th)	
Submit annual Statement of Economic Interests form to the county	5 ILCS 420/4A-106 5 ILCS 420/4A-101(o)	Individual trustees	Due May 1st	
Ensure new OMA and FOIA officers complete initial training and FOIA officer completes annual training	5 ILCS 120/1.05(a) 5 ILCS 140/3.5(b)	OMA and FOIA officers	Within thirty (30) days of designation for OMA and FOIA; annually for FOIA by July 1st	
Open Meetings Act Trustee Training	5 ILCS 120/1.05(b)	Elected and appointed trustees	Within 90 days of election or appointment; Training completion certificates to be filed with Fund	
Review portions of Audit applicable to the fund			Due six (6) months after end of fiscal year (June 30th)	
Securities Custody Affidavit	50 Ill. Admin. Code 4425.40		Due April 30th – a "Dealer" must provide fund with notarized affidavit. New "Dealer" must provide a notarized affidavit on or before taking possession or control of securities.	

## THIRD QUARTER (JULY-AUGUST-SEPTEMBER)

ITEM	STATUTORY	RESPONSIBLE PERSON(S)	DUE DATE	COMPLETED
Reorganize new Board and elect officers (police)	40 ILCS 5/3-130		July meeting	
Send out affidavits of eligibility to beneficiaries (if any)	40 ILCS 5/3-115 40 ILCS 5/4-112			
Conduct annual medical evaluations of disabled members under age 50 (if any)	40 ILCS 5/3-115 40 ILCS 5/4-112			
Review actuarial report and make tax levy recommendation to municipality	40 ILCS 5/3-143 40 ILCS 5/4-134			
Submit tax levy report (municipal compliance report) to municipality	40 ILCS 5/3-143 40 ILCS 5/4-134		Before meeting at which municipal board adopts its tax levy ordinance	
File copy of outside actuarial report with DOI	40 ILCS 5/1A-111		Within nine (9) months of end of fiscal year (September 30th)	

### THIRD QUARTER, CONT'D

ITEM	STATUTORY	RESPONSIBLE PERSON(S)	DUE DATE	COMPLETED
Begin coordinating implementation of GASB Statement No. 67 and No. 68 with accountant, auditor, actuary and investment managers		Treasurer		

### FOURTH QUARTER (OCTOBER-NOVEMBER-DECEMBER)

ITEM	STATUTORY	RESPONSIBLE PERSON(S)	DUE DATE	COMPLETED
Establish regular meeting schedule for next calendar year	5 ILCS 120/2.02(a)			
Review and update Board rules and forms	40 ILCS 5/3-140 40 ILCS 5/4-126			
Review and update contractual agreements with custodians and investment advisors/consultants (as needed)	40 ILCS 5/1-113.5		No less than every five (5) years for investment consultants	
Begin gathering information to complete the fiscal year-end DOI Annual Statement	40 ILCS 5/1A-109		Due within six (6) months after close of fiscal year-end of Fund	
Conduct six-month review of closed meeting minutes	5 ILCS 120/2.06(d)			
Make sure implementation of GASB Statement No. 67 and No. 68 is on track		Treasurer		
Request investment consultant disclosures on minority/female/disabled individuals investment services and compensation/economic opportunities	40 ILCS 5/1-113.22 40 ILCS 5/1-113.23		By January 1st of every year	

### OTTOTSEN BRITZ KELLY COOPER GILBERT & DiNOLFO, LTD.

1804 North Naper Boulevard, Suite 350, Naperville, IL 60563

T: (630) 682-0085 • F: (630) 682-0788

Offices also in Elburn, Mokena and Woodstock

[WWW.OTTOTSENBRITZ.COM](http://WWW.OTTOTSENBRITZ.COM)

Carolyn Welch Clifford ..... cclifford@ottosenbritz.com  
Shawn P. Flaherty ..... sflaherty@ottosenbritz.com  
Thomas J. Gilbert ..... tgilbert@ottosenbritz.com  
John H. Kelly ..... jkelly@ottosenbritz.com  
Joseph Miller ..... jmiller@ottosenbritz.com  
Ryan R. Morton ..... rmorton@ottosenbritz.com

John Motylinski ..... jmotylinski@ottosenbritz.com  
Brian J. O'Connor ..... boconnor@ottosenbritz.com  
Ericka J. Thomas ..... ethomas@ottosenbritz.com  
Meganne Trela ..... mtrela@ottosenbritz.com  
James Wargo ..... jwargo@ottosenbritz.com  
Michael Weinstein ..... mweinstein@ottosenbritz.com

### SIKICH LLP

1415 W. Diehl Road, Suite 400, Naperville, IL 60563

T: (630) 566-8400 • F: (630) 566-8401

[WWW.SIKICH.COM](http://WWW.SIKICH.COM)

3201 W. White Oaks Drive, Suite 102, Springfield, IL 62704

T: (217) 793-3363 • F: (217) 862-3111

Brian D. LeFevre, CPA, MBA..... brian.lefevre@sikich.com





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## **Could Your Organization Be A Victim of Fraud?**

**A Discussion of Recent Internal & External  
Fraud Schemes and Prevention Tips**



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## **Introductions**

- **Aimee Briles**  
Director  
Wintrust Government Funds
  
- **Andrew Brown**  
Deputy Finance Director  
Village of Buffalo Grove

# External Fraud Scheme – E-mail Impersonation

- “Fake” email from Elected Official, Village Manager or Finance Director requesting an urgent transfer of funds or wire transfer
- “Fake” email from a vendor requesting a change in payment information

# Prevention Techniques

- Question suspicious activity – no payment should have to be immediate
- Examine the sender email address / signature line
- Set limits for ACH and wire transfers
- Allow transfers only to pre-approved accounts
- Require that transfers be confirmed by the bank

# Policy vs Procedure

- Policy: All vendors should be submitting Municipal created forms for any change to be facilitated.
  - The Village of Buffalo Grove has a Qualified Vendor Registration (QVR) packet that is completed by all vendors.
- Segregation of Duties: Layer the request structure to require more than 1 person or division to make payment or remittance changes.
  - Have an intensive, multi-layer policy for emergency purchases as part of the purchasing policy.
  - Limit increases, allowable transfer accounts, allowable ach debit accounts, and other entity wide setting should be separated from employee executing transaction.

# Policy vs Procedure

- Procedures: Elected officials should not be involved in day to day operations. Any issues should be facilitated through the Village Administrator/Manager, or if strong Mayor form of government, the Village President/Mayor.
- Authorization of transfer by supervisors/department head/directors
  - Prepare a transfer request for signature
  - Create approval chain through banking site

## External Fraud Scheme – Altered or Counterfeit Checks

- 74% of companies experienced an attempt or attack in 2017
- Local municipality mailed check payment to a vendor
- Check was intercepted and payee information was altered
- Multiple occurrences

## Prevention Techniques

- Check Positive Pay
  - ☐ Bank compares information on items clearing to check issued file
  - ☐ Client is notified of any discrepancies and is required to authorize payment of the check
- Reverse Positive Pay
  - ☐ All checks clearing are presented to client for verification
- Review accounts daily

# Policy vs Procedure

- Procedure: Positive Pay and Bank Reconciliations
  - This is old technology at this point and creating a CSV file from the operating system and uploading to the banking website is seamless
  - Timely Bank Reconciliation's
    - Most Bank's have a limit on how long you can contest an item
  - Daily Cash Receipts review allows you to confirm deposits, ACH's, NSF's, and other transactions quickly
  - Test your bank, void a check try and cash it, see the timeline of detection.

# Internal Fraud Scheme – Embezzlement

- Fake Vendors are created in A/P system
- Employees using A/P or payroll system to pay personal bills
- Employee uses P-Card for personal purchases

# Prevention Techniques

- Purchasing policies should address limits and authorities
- Limit ability to create new vendors to select personnel and all should be approved by a supervisor
- ACH Positive Pay
- Disbursements should be reviewed by individuals knowledgeable of vendors and department needs/policies

# Prevention Techniques

- Establish written P-Card policies which include:
  - ☐ Authorization for users
  - ☐ Daily & transaction limits
  - ☐ Documentation requirements
- Statements should be reviewed by the program Administrator
- Policies must be enforced to be effective

# Policy vs Procedure

- Policy: Accounts Payable and Payroll processing is separate from the creation and maintenance of the vendor/employee from those employees who process the list of Bills or payroll disbursements.
- Segregation of Duties: Human Resources, Purchasing, and Finance all have to create efficient and protective workflows.
  - Human Resources is the gate keeper for creation and maintenance of employees in payroll system. Payroll data entry employee is only recording hours/disbursements.
  - Accounts Payable processing should include reviewing items to ensure purchase orders, invoices, and disbursements match or are within purchasing guidelines.
  - Layered P-Card approval structure, plus additional oversight to reconcile all P-cards entity wide and import into operating system.

# Internal Fraud Scheme – Cash Mismanagement

- Resident fees are collected but not recorded in system; employee keeps cash
- Cash received for purchase of tickets, food, etc. at festival, golf outing, or other event with high volume of cash transactions is pocketed



# Cash Handling Procedures

- All payments collected should be deposited daily
- Cash should not be left in unlocked drawers / file cabinets or on desks
- All check payments should be made payable to the government entity
- A receipt should always be offered for payment

# Cash Handling Procedures

- Daily deposits should be hand delivered to personnel responsible for the bank run
- Any deposits not made by the end of the business day should be locked in a safe
- A paper trail of the deposit and account posting should be kept together for audit purposes
- Tickets should be sequential and recorded with start and end number

# Water Billing Fraud

- Resident comes in to pay bill. Clerk can not pull up account. Verifies Resident's name and address from state issued ID and how long resident has lived at the location. The Supervisor is notified and can not imagine what has happened?
  - ☐ What would you do?
  - ☐ What happened?
  - ☐ Mitigation?

# Offsite Cash Collection for Services

- Offsite operation that has annual revenue of \$50,000-\$100,000. Deposits are made infrequently due to the nature of the business. Peak season is April through September. First quarter revenue review is down from historical trend. Immaterial by the Municipalities standards. Six month revenue review no change in revenue line from first quarter. Materially less than historical trend as of June 30<sup>th</sup>.
  - ☐ What would you do?
  - ☐ What Happened?
  - ☐ Mitigation?

# P-Card Issues

- An inquiry about an unpaid invoice from a vendor comes to the Accounts Payable Clerks attention. The Invoice is forwarded to the department to be rectified. The department returns it adamant that it is not their invoice. A response is crafted to the vendor that this simply is not the Municipalities Invoice. Vendor responds with bill of lading signed by a village employee. This employee who signed the bill of lading does not work for the department that the invoiced items would be consumed.
  - ☐ What would you do?
  - ☐ What happened?
  - ☐ Mitigation?

# Best Practices – General Workplace

- Keep ID's, passwords and cards secure
- Store all financial documents in a secure area and minimize paper
- Establish a company security policy for hardware, personnel and facilities
- Implement a third party audit process
- Know your employees and vendors

## Best Practices – General Banking

- Review bank accounts daily – only 24 hours to return unauthorized ACH transactions
- Keep resolutions, signature cards & agreements up to date
- Separate reconciliation and reporting functions from payment initiation

## Best Practices – Online Banking

- Implement dual control on all payments
- Do not open unknown or suspicious emails
- Use strong passwords & change frequently
- Use token authentication for Web logon and release of payments

# Best Practices – Online Banking

- Only access accounts from a dedicated work computer or VPN connection
- Initiate and transmit funds from separate computers
- Log off immediately when you are finished

## Questions?

Aimee Briles  
Director  
Wintrust Government  
Funds  
630-560-2120  
[abriles@wintrust.com](mailto:abriles@wintrust.com)

Andrew Brown  
Deputy Finance  
Director  
Village of Buffalo Grove  
847-808-2641  
[abrown@vbg.org](mailto:abrown@vbg.org)



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# Best Practices in Banking:

What are They and How to Use Them



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## Agenda

- ACH Update
- Lockbox
- Electronic Lockbox
- Purchasing Cards
- Collateral
- Investment Policy and Investment Options

# NACHA Rule Change – Same Day ACH

- New rules have been adopted by NACHA to allow ubiquitous capability for same day ACH entries, which is being implemented in three phases. The first phase started in September of 2016.
- All receiving financial institutions (RDFI's) will be required to receive same day ACH transactions.
- But it doesn't require that an originating financial institution (ODFI) has to offer clients the service.

# ACH on the Same Day

- Certain Criteria is needed to be met to be eligible
  - The transaction must be < \$25,000.00
  - Can't be an international ACH transaction (IAT)
  - Can't be an automated enrollment entry (ENR)
- Pre-notifications, remittance information and notifications of change are eligible.
- 99% of current ACH volume meets the criteria to be considered same day.



## Phase One

- The first phase of the rule change went into effect on September 23, 2016.
- This phase requires all funds related to same day ACH entries must be made available at the end of day processing for the RDFI.
- This impacted only credit entries.

## Phase Two

- Went into effect on September 15, 2017.
- This allowed originators to begin submitting ACH debit entries with same day effective dates.
- The RDFI still has until the end of day processing to make the funds available.
- And important part is the fee structure.

## Phase Three

- The final phase rule change will be effective on March 16, 2018.
- Morning submission deadline at 10:30 AM ET, with settlement occurring at 1:00 PM.
- Afternoon submission deadline at 2:45 PM ET, with settlement occurring at 5:00 PM.
- You may want to discuss same day ACH with your bank for cost effectiveness and any changes you might make to allow of this.

## Same Day ACH

- Properly setting the effective date for ACH entries, taking into account weekends and federal holidays, is especially important now that Same Day ACH has launched.
- The date must be set to an appropriate future "banking" date (a date the Federal Reserve is open).
- Entries submitted on weekends are treated as if received on the next business day, so the future date must be set appropriately to the next banking date after the "received" date.
- A premium service fee maybe applied.

## Resource Material

- NACHA website
  - <https://www.nacha.org/rules/same-day-ach-moving-payments-faster>
- Federal Reserve website
  - [https://www.frbservices.org/resourcecenter/sameday\\_ach/index.html](https://www.frbservices.org/resourcecenter/sameday_ach/index.html)

## Lockbox Services

- Incoming Mail Received – Check and Coupon
- Mail received coupons and checks scanned
- Deposit made to account and file issued for upload to accounting software
- Remittance imaging – online images and unprocessed items returned

# Electronic Lockbox Services

- Optimizes electronic payments
- Payments no longer received from multiple endpoints; payments are consolidated resulting in a single ACH credit for all payments each business day.
  - Reduction of costs
- Typically, connection points have access to home banking providers, walk-in payment locations, and bill payment web portals
- Increase payment cash flows by the reduction of check payments
- Typically use a Good Funds Model

## Merchant Processing

With the increase in today's consumers and businesses using credit and debit cards, providing multiple payment options can offer invaluable benefits.

- Convenience
- Increased Availability of Funds
- Online Payment Flexibility

### **Convenience Fee Program**

- Eligibility
- Process
- Card Present vs. Card Not Present
- Rate Structure-percentage vs. flat fee
- Utility Program

# Purchasing Cards

Purchasing Card combines the functionality of a multiple business related payment program into a single platform, offering superior flexibility, unified data capture, enhanced reporting and control.

- Improves cash flow
- Reduces cost of errors
- Saves staff time
- Reduces paper, check and postage costs
- Avoids late payments
- Increases control of expenses and payables
- Cash / rebate programs

# Investment Policy

- Best Practices
  - Ensure that all your providers or broker/dealers have a copy
  - Don't just issue the policy – enforce it
- Updates
  - Policy should be reviewed at least every 2 years
  - Policy should be reviewed if major changes occur
    - Personnel
    - Investment committee
    - Economic environment
- Policy vs. Procedure
  - Policy – overall intention and direction
  - Procedure – specific way to carry out an activity or process

# Investment Options

- Sweeps
- Securities
- CD investments

# Collateral Options

- Pledged Securities
  - Held by a custodian bank or trust department through a third-party agreement
  - Obligations issued by the U.S. Federal Government
    - Historically have been treasuries and agencies
    - Movement towards mortgage backed securities (Fannie/Freddie)
  - Limited availability of securities and capacity at the banks
- FDIC Insured Sweeps

# Collateral Options

- Letters of Credit

- Binding document that guarantees the payment of an obligation
- Public entity is the beneficiary on the LOC
- Payable on demand – no delays from selling securities or FDIC disputes
- Usually written by a FHLB
- Currently more cost effective than pledging securities
- Acceptable form of collateral in the Illinois Public Funds Investment Act if issued by a FHLB

- Disclaimer: The information contained in this presentation has been obtained from sources deemed to be reliable; however, we do not guarantee its accuracy. You should make your own independent evaluation of the relevance and adequacy of the information contained in this material and make such other investigations as you deem necessary, including obtaining legal and/or financial advice.

## QUESTIONS?

Todd Sholeen, Vice President  
Huntington National Bank

[todd.c.sholeen@huntington.com](mailto:todd.c.sholeen@huntington.com)

312-802-2227





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# **Your CAFR as a Resource**

**Chad Lucas, Partner, Sikich LLP**

**chad.lucas@sikich.com**



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## **Course Overview**

### **■ Description**

- Provide an in-depth analysis of the contents of the CAFR document.
- Assist government finance professionals in learning how to efficiently use the information as an essential resource.

### **■ Learning Objectives**

- Recognize how a CAFR can be a valuable tool.
- Understand the various components of a CAFR.
- Analyze data presented in a CAFR.
- Evaluate performance indicators in a CAFR.

# Financial Reporting Overview

## What is a GAAP?

- GAAP = Generally Accepted Accounting Pinciples
- “Conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements”
- Minimum standards governing the formatting and contents of general-purpose external financial reports in the public and private sectors

# What is a GASB?

## Governmental Accounting Standards Board

- Independent organization established in 1984 to establish and improve accounting and reporting standards for state and local governments
- Board is composed of seven members from a variety of backgrounds including preparers and auditors of government financial statements, users of those statements and member of the academic community
- Standard setting body for Generally Accepted Accounting Principles (GAAP) for state and local governments

# What GASB is NOT

## GASB is NOT a federal agency

- It is an independent, private-sector, not-for-profit organization.

## GASB does NOT have enforcement authority to require governments to comply with its standards

- However, compliance with GASB standards is enforced through:
  - Audit process (opinions in accordance with GAAP)
  - Laws of individual states
  - Municipal bond industry

# What are the minimum GAAP requirements?

## General Purpose External Financial Statements

1. Management's Discussion & Analysis (MD&A)
2. Basic Financial Statements
  - a) Government-wide financial statements
  - b) Fund financial statements
  - c) Notes to the financial statements
3. Required Supplementary Information (RSI)
4. Notes to Required Supplementary Information

# What is a Comprehensive Annual Financial Report (CAFR)?

Report that includes information above and beyond the minimum requirements of GAAP.

Three general sections:

1. Introductory Section
2. Financial Section
3. Statistical Section

Other sections:

1. Compliance (single audit)
2. Actuarial (pension plan)

## Authoritative Guidance

- NCGA Statement 1 *Governmental Accounting and Financial Reporting Principles* establishes standards for comprehensive annual financial reports
- GASB 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*

## Authoritative Guidance

- GASB 44 *Economic Condition Reporting: The Statistical Section an amendment of NCGA Statement 1*

# CAFR as a Valuable Tool

## Issues & Concerns

- Too much information?
- Meaningful information?
- Readability
- Historical information (timing of issuance)
- Comparability
- Currently do not include future financial projections

# Stakeholders (Users)

- General public (taxpayers)
- Investors
  - ☐ Bond holders
  - ☐ Financial institutions
- Other interested groups
  - ☐ Grantors
  - ☐ Regulators
  - ☐ Rating agencies

# Stakeholders (Users)

- Elected officials
- Management



# Purpose

- Compliance
- Transparency
- Accountability
- Historical picture

# Compliance

- Fulfills the reporting requirements of:
  - ☐ Law (statutes)
  - ☐ Debt covenants
  - ☐ Grants
- Potential noncompliance issues
  - ☐ Grant funding
  - ☐ Ratings – cost of debt financing

# Transparency

- A CAFR provides detailed information about the financial activity of the entity
  - Very thorough

# Accountability

- A CAFR can help hold elected officials accountable to their constituency
- Can demonstrate financial management
  - Responsible or not

# Historical Picture

- Financial position at a point in time
- Financial activity for a period of time

# Other Reports

- Some governmental entities use information from their CAFR to prepare a Popular Annual Financial Report (PAFR)
  - Condensed version of the CAFR

# Components of a CAFR

## Components of a CAFR

- Basic financial statements
- RSI (MD&A and Other RSI)
- Information in addition to basic financial statements and RSI
  - Introductory information
  - Combining and individual statements
  - Statistical data
  - Compliance provisions

# Components of a CAFR

- Introductory Section
- Financial Section
- Statistical Section
- Compliance Section (if applicable)

# Introductory Information

- Objective is to provide background and context for the information presented in the financial section of the CAFR

# Introductory Information

- Letter of Transmittal
- Principal Officers
- Organizational Chart
- Prior Certificate (if applicable)

## Introductory - Letter of Transmittal

- Should not reproduce info already in MD&A
- Can be more subjective information
- Provide prospective
- Opportunity to tell a story
- Prepared by management
- Avoid boilerplate templates

## Introductory - Letter of Transmittal

- Charts and graphs can help usefulness
- Recommended sections
  - ☐ Formal transmittal
  - ☐ Profile of government
  - ☐ Info useful in assessing economic condition
  - ☐ Awards and acknowledgments

## Introductory – Formal Transmittal

- Serves as a cover letter
- Management should acknowledge responsibility for CAFR
- Comprehensive internal control framework has been established
- Reference to Auditor's Opinion Letter and MD&A

## Introductory – Profile of Government

- Population
- Structure (i.e. council-manager)
- Service types and levels
- Component units
- Budget process
- Budgeted funds
- Legal level of budgetary control

## Introductory – Economic Condition

- Info too subjective to include in basic financial statements and MD&A
- Info that can be used to help assess if the financial position is likely to improve or deteriorate in the future



## Introductory – Economic Condition

- Suggested minimum information
  - Info on local economy (i.e. industries, unemployment rate, prospects for the future)
  - Long-term financial planning (i.e. revenue/expense forecasting, capital budgeting)
  - Relevant financial policies
  - Major initiatives (i.e more public safety staff)

## Introductory – Awards & Acknowledgements

- Indicators of quality of financial management
  - GFOA certificates (Reporting, budgeting, etc)
  - Acknowledge those who played roles in CAFR prep process

# Financial Section

- Independent Auditor's Report
- Management's Discussion and Analysis
- Basic Financial Statements
- Required Supplementary Information
- Combining and Individual Fund Statements and Schedules
- Supplementary Information

# Financial – Auditor's Opinion

- Fairly presented financial statements in accordance with GAAP

## Financial – MD&A

- Considered *Required Supplementary Information*
- Purpose is to furnish an objective and easily readable analysis of the financial activities
- Avoid boilerplate template
- Only specific topics included in GASB 34 paragraph 11 should be addressed

## Financial – MD&A

- Intro & overview of basic financial statements
- Condensed comparative data
- Analysis of overall financial position and results of operations
- Analysis of balances and transactions in individual funds

## Financial – MD&A

- Analysis of budgetary variations
- Description of capital asset and long-term debt activity
- Discussion of infrastructure (if modified approach is used)
- Discussion of currently known facts, decisions or conditions of future significance

## Financial – Basic Financial Statements

- Government-wide financial statements
- Fund financial statements – focus on major funds
- Notes to the financial statements

## Financial – Basic Financial Statements

- Notes to the financial statements
  - Commitments for Future Spending
    - Debt service requirements (timing)
    - Pension Obligations
    - Other Post Employment Benefit Obligations

## Financial – Required Supplementary Information (RSI)

- Budgetary reporting
- Infrastructure condition data (if applicable)
- Trend data
  - Pension Plans
  - OPEB
- Notes to RSI

## Financial – Combining & Individual Fund Statements

- Over and above the minimum GAAP requirements
- Individual fund information (non-major funds)

## Financial – Other Supplementary Information

- Information related to financial statements
- Demonstrate legal compliance
- Provide additional information

# Statistical Data

- GASB Statement 44 *Economic Condition Reporting: The Statistical Section*
- Not required by GAAP
- Objective is to provide users with additional historical perspective
- Ten years of trend information

# Statistical Data

- Financial Trends
- Revenue Capacity
- Debt Capacity
- Demographic and Economic Information
- Operating Information

## Statistical - Financial Trends

- Assist users in understanding and assessing how a governments financial position changes over time
  - Government wide information
  - Fund information

## Statistical – Revenue Capacity

- Assist users in understanding and assessing factors affecting the government's ability to generate its own-source revenues



## Statistical – Debt Capacity

- Assists users in understanding and assessing the government's debt burden and the ability to issue additional debt

## Statistical – Demographic and Economic Information

- Assists users in understanding the socioeconomic environment within which it operates
- Provides information that facilitates comparisons of financial statement information over time and among governments

## Statistical – Operating Information

- Provides non-financial information about a government's operations and resources to assist users in understanding and assessing a government's economic condition

## Compliance Provisions

- Single audit information
- Debt covenant compliance
  - ☐ Rate schedules
  - ☐ Insurance coverage
- TIF compliance

# Analyzing Data & Evaluating Performance Indicators

## What's Different about Governmental Financial Statements

- Private sector business generally provide services to generate revenues (profit driven)
- Government sector entities generate revenues as a means to provide services (service driven)

## Analysis Focus for Governmental Financial Statements

- Most private sector profit motive ratios are not relevant
  - Profit margin
  - Return on equity
  - Earnings per share
  - Price to earnings

## Analysis Focus for Governmental Financial Statements

- Near term financial position
- Net position
- Economic Condition

## Performance Indicators for Governments

- Near term financial position
  - Governmental fund financial statements
  - Liquidity (Current)
  - Fund balance
    - Nonspendable
    - Restrictions
    - Committed/Assigned
    - Unassigned (unrestricted)

## Performance Indicators for Governments

- Near term financial position
  - Fund balance policy (i.e. number of months of operating expenses available in the general fund unrestricted fund balance)

## Performance Indicators for Governments

- Near term financial position
  - Excess of revenues over expenditures
    - Context (excess fund balance/spend down)
  - Trend information – Statistical Section
    - 10 years

## Performance Indicators for Governments

- Near term financial position
  - Proprietary funds
    - Working capital (current ratio)
    - Evaluation of public policy goals
      - Cost recovery (all vs partial)

## Performance Indicators for Governments

### ■ Net Position

- ☐ Long-term financial health
- ☐ Government-wide financial statements
- ☐ Improvement vs. deterioration
  - Change in net position

## Performance Indicators for Governments

### ■ Net Position

- ☐ Functional expense analysis
  - Cost recovery
- ☐ Comparison with prior year(s)
  - MD&A
  - Statistical Data – 10 year trends

## Performance Indicators for Governments

### ■ Economic Condition

- ☐ Likelihood net position will improve or deteriorate in the future
- ☐ Statistical section
- ☐ Comparison with prior year(s)
  - MD&A
  - Statistical Data – 10 year trends

## Performance Indicators for Governments

### ■ Economic Condition

- ☐ Ability to generate of own source revenue
  - Taxes, charges, fees, etc.
- ☐ Ability to borrow
  - Legal debt margin



## Performance Indicators for Governments

### ■ Economic Condition

#### ☐ Socioeconomic environment

- Demographics (age, education, per capita income)
- Principal employers

#### ☐ Government operations

- Number of employee
- Capital assets

## Limitations

- CAFR's provide historical information
- CAFR's currently DO NOT include future projections (i.e. revenues or expenses)
- Although use of historical information from the CAFR can be used to help project for future (economic conditions)
  - ☐ Just currently not part of the CAFR

# Analysis Tools

- Letter of Transmittal
- Management's Discussion and Analysis
- Notes to the Financial Statements
- Statistical Data - Trends

# Resources

- GASB Statements (34 and 44)
- Governmental Accounting, Auditing and Financial Reporting (GAAFR – Blue Book)
- Comprehensive Implementation Guide



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# **Simplifying Labor & Benefits Expenditures**

*Molly Talkington & Julie Zolghadr*



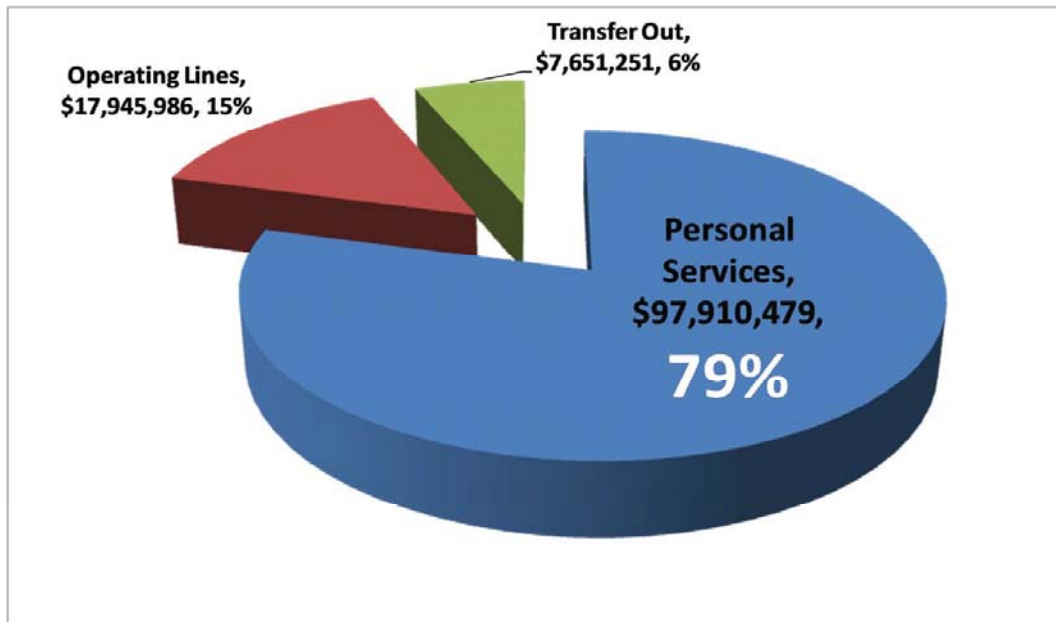
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## **People = Services**

- Major Services
  - Police – Fire – Public Works
- Support Services
  - Permitting – Code Enforcement – Fines - Inspections
- Internal Services
  - Finance – HR – Admin – Clerk – Treasurer – Governing Body

# General Fund - Springfield, IL



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# Total Compensation



- Base Salary
- Component Pay
- Overtime
- Health Insurance, etc.
- FICA
- Pension
- Sick Days
- Personal Days
- Vacation Days
- Clothing Allowance
- Car Allowance
- Tool Allowance

***Public Act 97-0609, requires municipalities to post the total compensation of certain employees .***

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# Base Salary

- Salary Schedules - Planned Increases
  - ✓ Step and Grade
  - ✓ Time in Title
  - ✓ Collective Bargaining - Union Longevity
  - ✓ COLA's – Tied to CPI
- Adjustments to Pay Scale – Compensation Study
- Job Audits
- Merit Increases
- Reorganizations

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# Component Pay

- **Shift Pay**
  - ✓ Second – Third Shift
- **Special Assignment Pay**
  - ✓ “Acting Up” in a higher grade/classification
  - ✓ Additional Duties Over the Base
- **Hazard Pay**
  - ✓ Linemen, Type of Equipment, Hazardous Sewer Work
- **Bonus Pay for Attendance**
- **Additional Pay for Certification(s)**
  - ✓ EMT, Paramedic, Lawn Chemicals

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# Overtime

- **Staffing Based**
  - ✓ Using overtime regularly to cover needs (military or medical absences)
- **Task Based**
  - ✓ Construction season, budget time
- **Call-in – hold over**
  - ✓ First responder demands
- **Unpredictable Needs**
  - ✓ Weather related service demands

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# Health – Dental - Life

- What is the employer's share of the premium cost?
- Identify the possible cost increases.
- The per employee contribution becomes part of the Total Compensation Package.

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# FICA

The Federal Insurance Contributions Act (*FICA*) is a U.S. law that creates a payroll tax requiring a deduction from the paychecks of employees as well as a contribution from employers to fund the Social Security and Medicare programs.

Two Components to FICA:

1. OASDI – 6.2% (\$128.7K limit for CY 2018)
2. Medicare – 1.45%

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# Pension Contributions

## Illinois Municipal Retirement Fund

The Illinois Municipal Retirement Fund was created in 1939 by the Illinois General Assembly and began operating in 1941 with 5 original employers and \$5,000 in assets. Today IMRF serves almost 3,000 employers and has approximately \$41 billion in assets.

Each municipality (employer) is assessed their annual rate for the upcoming year. That rate is applied to the covered wages.

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## Examples of IMRF Covered Wages

- Cash payments for personal services
- Overtime pay (overtime pay is not reportable for SLEP Tier 2)
- Salary paid to employees on vacation
- Salary paid to employees on sick leave
- Longevity pay
- Contract settlement payments (retroactive pay)
- Bonuses and awards
- Value of employer provided housing and meals
- Value of personal use of employer-provided vehicle
- Pay for personal leave and other paid leaves of absence during the employment relationship

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## Police and Fire Pensions

- Not a generated fringe per employee but an annual payment
- Defined by state statute
- The annual contribution is determined by the use of an actuary
- There is a statutory minimum that must be met
- The fund must reach a 90% funding level by 2041

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# Pension Assumptions

- Mortality Rates – actuarial table
- Termination Rates – estimated from actual data
- Disability Rates – estimated from actual data
- Retirement Rates – estimated from actual data
- **Salary progression**
- Investment Return
- Marital Status
- Spouse's Age
- Actuarial Value of Assets – smoothed over 5 years
- Actuarial Cost Method – entry age cost per GASB 67

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# PTO – Paid Time Off

- Sick Time – monthly accrual
- Vacation Time – increasing amounts with seniority
- Personal Time
- Bonus Time – attendance based?
- Funeral (bereavement) Leave

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# Various Allowances

- Clothing Allowance
- Car Allowance
- Tool Allowance

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# Base Salary Budgeting

Gather all the KNOWN information for the coming year.

- Determine the CURRENT base for each pay policy
- Determine staffing levels and possible changes
- Determine any new programs that will be added
- Data must be available by fund, department, employment class, budget line, etc.

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# Base Salary by Pay Policy

<u>Pay Policy</u>	<u>Base Salary Amt</u>	<u>Inc. %</u>	<u>Date</u>	<u>Net %</u>	<u>Inc Amt</u>	<u>New Base</u>
Non-Union	\$9,855,878	2.00%	9/1/2018	1.00%	\$98,559	\$9,954,437
IAFF - Fire	\$16,712,940	2.00%	3/1/2018	2.00%	\$334,259	\$17,047,199
Operating Engineers	\$1,064,194	1.75%	6/1/2018	1.31%	\$13,968	\$1,078,162
AFSCME Truck Drive/Laborers	\$3,012,301	1.75%	6/1/2018	1.31%	\$39,536	\$3,051,837
PBPA - Police	\$18,584,355	2.00%	3/1/2018	2.00%	\$371,687	\$18,956,042
Elected Officials	\$461,941	0.00%	4/1/2018	0.00%	\$0	\$461,941
Cement Finishers	\$138,572	2.00%	9/1/2018	1.00%	\$1,386	\$139,958
Painters	\$160,688	2.00%	9/1/2018	1.00%	\$1,607	\$162,295
IBEW A/V Zoning	\$755,447	2.00%	4/1/2018	1.84%	\$13,900	\$769,347
AFSCME Clerical	\$1,810,776	2.00%	8/1/2018	1.16%	\$21,005	\$1,831,781
	<b>\$52,557,092</b>				<b>\$895,907</b>	<b>\$53,452,999</b>

City of Springfield General Fund by Pay Policy

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# Top Down Look at Salaries

- Take a look at your largest employee groups
- What is driving their increases?
- What segment of total salaries do these large groups represent?
- Where do their increases rank with internal and external increases?
- Where do their increases rank with CPI?

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# Base Salary by Largest Group

Pay Policy	Base Salary Amt	Inc. %	Date	Net %	Inc Amt	New Base
PBPA - Police	\$18,584,355	2.00%	3/1/2018	2.00%	\$371,687	<b>\$18,956,042</b>
IAFF - Fire	\$16,712,940	2.00%	3/1/2018	2.00%	\$334,259	<b>\$17,047,199</b>
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	<b>\$52,557,092</b>				<b>\$895,907</b>	<b>\$53,452,999</b>

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# Detail by Employee

**JULIE ZOLGHADR**

First Name: JULIE  
Last Name: ZOLGHADR  
Title: SUPERVISOR FISCAL SERVICES  
Agency: 107  
Org: BMGT  
Activity: BUDD  
Pay Policy: 30315  
Budget & Management  
Count: 1.00

EMPLOYEE  
TOTAL  
**\$134,052**

TOTAL SET  
**\$134,052**

Average Salary  
**\$92,512**

Seniority Date

Longevity Factor

Time Factor

Vacancy ☐

SWORN ☐

First Cut  
☐

Second Cut  
☐

## Position Attributes

Yearly Hours: 1950  
Hourly Rate: \$47.0890  
Base Salary: \$91,824

Long. Inc: \$689  
Global Inc: \$92,512  
Total Salary: \$92,512

Daily Hours: 7.5  
FICA Class: 4  
Pension: IMRF

## Calculated Fringes

Base Salary Summary: \$91,824

Longevity Total: \$0

Global Total: \$689

Total Salary Summary: \$92,512

## Labor Distribution

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# Fringes

**JULIE ZOLGHADR**

First Name: JULIE  
Last Name: ZOLGHADR  
Title: SUPERVISOR FISCAL SERVICES  
Agency: 107  
Org: BMGT  
Activity: BUDD  
Pay Policy: 30315  
Count: 1.00

**Budget & Management**

Seniority Date  
Longevity Factor  
Time Factor  
Vacancy ☐  
SWORN ☐

**EMPLOYEE TOTAL**  
\$134,052

**TOTAL SET**  
\$134,052

**Average Salary**  
\$92,512

Position Attributes	Calculated Fringes	Labor Distribution
Annual Sick \$4,238	Unemp \$75	
Annual Vacation \$7,391	IMRF \$14,839	
Vacation Factor 13.08	FICA \$7,077	
	Insur \$15,737	
	SICK \$925	
	WCMP \$2,886	

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## What If's



Pay Policy	Base Salary Amt	Inc. %	Date	Net %	Inc Amt	New Base
PBPA - Police	\$18,584,355	2.00%	3/1/2018	2.00%	\$371,687	\$18,956,042
IAFF - Fire	\$16,712,940	2.00%	3/1/2018	2.00%	\$334,259	\$17,047,199
Non-Union	\$9,855,878	2.00%	9/1/2018	1.00%	\$98,559	\$9,954,437
AFSCME Truck Driver/Laborers	\$3,012,301	2.00%	6/1/2018	1.50%	\$45,185	\$3,057,486
AFSCME Clerical	\$1,810,776	2.00%	8/1/2018	1.16%	\$21,005	\$1,831,781
Operating Engineers	\$1,064,194	2.00%	6/1/2018	1.50%	\$15,963	\$1,080,157
IBEW A/V Zoning	\$755,447	2.00%	4/1/2018	1.84%	\$13,900	\$769,347
Elected Officials	\$461,941	2.00%	4/1/2018	0.00%	\$0	\$461,941
Painters	\$160,688	2.00%	9/1/2018	1.00%	\$1,607	\$162,295
Cement Finishers	\$138,572	2.00%	9/1/2018	1.00%	\$1,386	\$139,958
	\$52,557,092				\$903,550	\$53,460,642

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## What If's (cont)

- Knowing the building blocks of the cost of your pay policies makes it easy to see your largest cost center from the top-down.
- These top-down views are good to have on hand during budget and labor talks.
- It becomes easy to compare your major revenue sources and their forecasts with your major expense center forecasts.

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## Multi-Year Costs

COS				
Total Base Salaries as Budgeted for FY 2017	\$16,769,248	Adjusted Base	Difference over base:	
Year 1 Cost @ 1.25%	\$209,616	\$16,978,864	\$209,616	
Year 2 Cost @ 1.25%	\$212,236	\$17,191,099	\$421,851	
Year 3 Cost @ 1.25%	\$214,889	\$17,405,988	\$636,740	
Year 4 Cost @ 1.25%	\$217,575	\$17,623,563	\$854,315	
			\$2,122,522	Compounded Cost

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# Compounding Effect

					1.25% Increase
		<u>Increase Steps:</u>		1.25% Increase	\$217,575
			1.25% Increase	\$214,889	\$214,889
		1.25% Increase	\$212,236	\$212,236	\$212,236
		\$209,616	\$209,616	\$209,616	\$209,616
Base:	\$16,769,248	\$16,769,248	\$16,769,248	\$16,769,248	\$16,769,248
	Adjusted Base:	\$16,978,864	\$17,191,099	\$17,405,988	\$17,623,563

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# External Comparables

- Do you have a list of cities you use to gather comparable information?
- Do know your counterparts in these cities?
- Do you keep up on financial happenings in cities similar to your own?
- Listen – Read – Stay Informed
- Gather data from your counterparts – APPLES TO APPLES!

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# External Comparables

COMPARABLE FIRE INCREASES								
Year	Bloomington *****	Champaign*	Decatur	Normal**	Peoria****	Rockford	Springfield***	Urbana
2008	3.50%	3.75%	3.65%	4.00%	3.50%	4.00%	4.00%	3.25%
2009	3.00%	3.75%	4.00%	3.50%	3.50%	0.00%	4.00%	3.75%
2010	3.00%	1.00%	2.00%	3.50%	3.50%	0.00%	4.00%	4.00%
2011	3.00%	2.00%	2.00%	4.00%	0.00%	6.00%	0.39%	0.00%
2012	3.00%	0.00%	2.00%	2.85%	2.50%	2.75%	4.00%	1.00%
2013	3.00%	2.75%	2.25%	2.85%	2.75%	2.50%	1.00%	2.50%
2014	3.00%	2.50%	2.25%	2.85%	2.50%	2.50%	1.00%	1.70%
2015	2.50%	2.50%	2.00%	2.50%	2.50%	2.00%	1.50%	2.70%
2016	2.50%	2.50%	1.50%	2.75%	2.50%	2.00%		3.00%
2017	2.50%	2.50%	2.75%	2.75%	2.25%	2.00%		1.00%

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# Compare Vacation

## ANNUAL VACATION ACCRUAL (H-L)

CITY	RANK	Annual VAC Days
Bloomington	4	120.00
Champaign	2	152.00
Decatur	4	120.00
Normal	4	120.00
Peoria	4	120.00
Rockford	4	120.00
<b>Springfield</b>	<b>3</b>	<b>144.00</b>
Urbana	1	160.00

**Source: Labor Contracts using Patrol +10**

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# And Personal Days

## ANNUAL PERSONAL DAYS (H-L)

<b>CITY</b>		<b><u>Annual</u> <u>Personal Days</u></b>
Bloomington	4	16
Champaign	3	24
Decatur (1)	5	0
Normal (2)	3	24
Peoria	1	40
Rockford	4	8
<b>Springfield</b>	<b>2</b>	<b>32</b>
Urbana	3	24

Source: Labor Contracts

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# And Sick Sell Back

## ANNUAL SICK SELLBACK DIRECT TO EMPLOYEE

<b><u>CITY</u></b>	<b><u>Rank</u></b>	<b><u>AMOUNT</u></b>
<b>Springfield (1)</b>	<b>1</b>	<b>Convert 80 hours at 100% full pay</b>
Champaign (2)	2	Convert 150 hours at 25% pay
Urbana (3)	3	Convert 24 hours at 50% pay
Peoria	4	Sliding Scale into RHS
Bloomington	5	NO
Decatur	5	NO
Normal	5	NO
Rockford	6	silent

Source: Labor Contracts

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# And Cost of Living

City Cost of Living Comparisons*			Cost of Living Rank (L-H)
	Annual	% Difference	
Decatur	\$45,918	-8.16%	1
Rockford	\$47,839	-4.32%	2
<b>Springfield</b>	<b>\$50,000</b>		<b>3</b>
Peoria	\$50,360	0.72%	4
Urbana	\$53,421	6.84%	5
Champaign	\$54,682	9.36%	6
Normal	\$54,682	9.36%	7
Bloomington	\$54,922	9.84%	8

\* Source: Sperling's Best Places; BLS; CPI; US Census

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# A Key Comparable

CITY	DIRECT SELLBACK	RHS TYPE DEPOSIT	MINIMUM FLOOR FOR SELL BACK	RATE OF SELLBACK
<b>Springfield</b>	Yes	No	846	50%
			<b>1800</b>	<b>100%</b>
Bloomington	No	No	N/A	N/A
Champaign	Yes	No	1008	25%
Decatur	No	No	N/A	N/A
Normal	No	Yes	Three Tiers of Balances	45% - 55%
Peoria	No	Yes	Varies by Plan Selected	20% - 80%
Rockford	No	No	N/A	N/A
Urbana	Yes <sup>(1)</sup>		Attendance Based	53%

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# ALL Wages Included in Proposal

Comparables Fire Contract Rates with Sick Sell Back & Proposal of 1.0% @ Year									
	CY 2015			CY 2016			CY 2017		
	Sick Sellback	Annual Inc.	Total	Sick Sellback	Annual Inc.	Total	Sick Sellback	Annual Inc.	Total
Springfield	1.51%	1.00%	2.51%	1.44%	1.00%	2.44%	1.67%	1.00%	2.67%
Peoria	0%	2.50%	2.50%	0%	2.50%	2.50%	0%	2.25%	2.25%
Bloomington	0%	2.50%	2.50%	0%	2.50%	2.50%	0%	2.50%	2.50%
Champaign		2.50%	2.50%		2.50%	2.50%		2.50%	2.50%
Decatur	0%	2.00%	2.00%	0%	1.50%	1.50%	0%	2.75%	2.75%
Normal	0%	2.50%	2.50%	0%	2.75%	2.75%	0%	2.75%	2.75%
Rockford	0%	2.00%	2.00%	0%	2.00%	2.00%	0%	2.00%	2.00%
Urbana		2.70%	2.70%		3.00%	3.00%		1.00%	1.00%

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# Total Package Comparisons

CITY*	Hours of Work	Annual Vacation Accrual (H-L)	Annual Sick Accrual (H-L)	Annual Personal Days (H-L)	Sick Usage Bonus (H-L)	Sick Accumulation Cap (H-L)	Sick Payout (H-L)	Sick Sellback (H-L)	Annual Holidays (H-L)	Compensatory (H-L)	Cost of Living Rank (L-H)	Annual Family Health Premiums (L-H)	Average Ranking
Bloomington	4	4	1	3	4	3	1	2	3	3	8	4.00	3
Champaign	3	2	1	2	4	2	1	2	4	5	6	3.00	3
Decatur	7	4	1	4	3	5	1	2	1	4	1	3.33	3
Normal	6	4	1	2	3	4	1	2	7	7	7	4.00	4
Peoria	5	4	1	1	3	1	1	2	5	8	3	4.33	3
Rockford	7	4	1	3	4	1	2	2	2	6	2	3.67	3
Springfield	1	3	1	1	2	1	2	1	2	2	4	2.3	2
Urbana	2	1	1	2	1	1	1	1	6	1	5	4.33	2

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## The Cost of Labor

Base Salary - Firefighter	\$71,177.00
div. by Annual Hours	2680.2
Hourly Labor Cost	\$26.56

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## The TRUE Cost of Labor

Hours of Work	2620.80
Kelly Days (hrs)	(292.32)
Annual Vacation (hrs)	(168.00)
Personal Days (hrs)	<u>(48.00)</u>
	2112.48
<b>Average Annual Hours</b>	<b>2276.96</b>
Firefighter - Base	\$71,177
<b>Hourly Labor Cost</b>	<b>\$33.69</b>
<b>% of base hours worked</b>	<b>80.60%</b>

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# Comparable Labor Costs

	HOURS OF WORK WALK DOWN (1.24.18 for Base Firefighter)							
	Bloomington (1)	Champaign (2)	Decatur (3)	Normal (7)	Peoria (4)	Rockford (5)	Springfield - 10	Urbana (6)
	5.1.17	7.1.17	1.1.18	4.1.2017	1.1.18	1.1.2017	3.1.2015	7.1.2016
Hours of Work	2712.84	2704.00	2704.00	2704.00	2704.00	2652.00	2620.80	2864.16
Kelly Days (hrs)	(208.80)	(208.80)	(224.88)	(208.80)	(208.80)	(264.00)	(292.32)	(48.00)
Annual Vacation (hrs)	(120.00)	(134.42)	(120.00)	(144.00)	(96.00)	(84.00)	(168.00)	(144.00)
Personal Days (hrs)	(24.00)	(24.00)	0.00	0.00	(24.00)	0.00	(48.00)	0.00
	2360.04	2336.78	2359.12	2351.20	2375.20	2304.00	2112.48	2672.16
Average Annual Hours	2276.96	2276.96	2276.96	2276.96	2276.96	2276.96	2276.96	2276.96
Firefighter - Base	\$74,173	\$71,883	\$68,871	\$67,848	\$74,541	\$70,327	\$71,177	\$63,312
Hourly Labor Cost	\$31.43	\$30.76	\$29.19	\$28.86	\$31.38	\$30.52	\$33.69	\$23.69
% of base hours worked	87.00%	86.42%	87.25%	86.95%	87.84%	86.88%	80.60%	93.30%

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## Internal Comparables

- Public safety unions may look for similar annual increases and other benefits in addition to using external comparables (me too clauses).
- Similarly, those units who work in close proximity or in tandem may ask for similar conditions, i.e., Operating Engineers and AFSCME Truck Driver/Laborers share job sites.
- If you are trying to tie your annual increases to CPI, then internal comparables become an important dataset.

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## Internal vs. External

- Both have a place in gathering data for use by those in your labor process.
- Internal comparisons can provide a path to fairness on things such as vacation and sick accrual and other “out of title” benefits.
- External comparisons are valuable from the standpoint of learning the perceived value of the same job in other communities.

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## Recent Use of Internals

Case No. S-MA-16-001 (2017)  
City of Springfield and PBPA Unit No.5

- The arbitrator ruled the City’s offer was the most reasonable given the rich sick sellback provision AND the City’s continued economic struggles.
- The City did NOT use an inability to pay defense, but rather asked the panel to give appropriate weight and consideration to the City’s financial position.

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# Putting it Together



	FY 2016	FY 2017	FY 2018 Curr Bud	FY 2018 Est	FY 2019 Proj	FY19 vs FY18
<b>Revenue</b>			w/o fund bal	11/7/2017	11/21/2017	
Taxes- Local Economy	\$83,237,499	\$82,233,567	\$84,681,357	\$81,430,018	<b>\$81,503,611</b>	\$73,593
Taxes-Share of Statewide	\$17,135,812	\$16,061,064	\$16,737,002	\$15,467,132	\$16,717,372	\$1,250,240
PILOT	\$8,474,044	\$8,386,655	\$8,388,000	\$8,396,091	<b>\$8,588,666</b>	\$192,575
All Other	<u>\$9,688,198</u>	<u>\$8,816,776</u>	<u>\$9,406,889</u>	<u>\$9,361,755</u>	<u>\$8,467,364</u>	<u>(\$894,391)</u>
<b>Total Revenue</b>	<b>\$118,535,553</b>	<b>\$115,498,062</b>	<b>\$119,213,248</b>	<b>\$114,654,996</b>	<b>\$115,277,013</b>	<b>\$622,017</b>
<b>Expenses</b>						
Personal Services						
Salaries & Fringes	\$61,443,914	\$61,436,862	\$65,121,659	\$64,819,226	\$66,749,700	\$1,930,474
Health Insurance	\$11,272,940	\$12,204,437	\$11,463,933	\$11,463,933	\$12,381,048	\$917,115
Police Pension	\$9,050,592	\$9,942,505	\$10,116,706	\$10,116,706	\$10,843,009	\$726,303
Fire Pension	\$9,786,645	\$10,395,154	\$11,184,141	\$11,184,141	\$11,916,494	\$732,353
<b>Sub-Total Personal Services</b>	<b>\$91,554,091</b>	<b>\$93,978,958</b>	<b>\$97,886,439</b>	<b>\$97,584,006</b>	<b>\$101,890,251</b>	<b>\$4,306,245</b>
<b>Sub-Total Operating Lines</b>	<b>\$16,341,410</b>	<b>\$16,796,239</b>	<b>\$17,560,475</b>	<b>\$15,620,379</b>	<b>\$17,179,190</b>	<b>\$1,558,811</b>
Transfers Out	\$7,467,038	\$6,762,257	\$7,576,251	\$7,576,251	\$7,576,251	\$0
<b>Total Expenses</b>	<b>\$115,362,539</b>	<b>\$117,537,454</b>	<b>\$123,023,165</b>	<b>\$120,780,636</b>	<b>\$126,645,692</b>	<b>\$5,865,056</b>
<b>Resources over Exp</b>	<b>\$3,173,014</b>	<b>(\$2,039,392)</b>	<b>(\$3,809,917)</b>	<b>(\$6,125,640)</b>	<b>(\$11,368,679)</b>	
<b>Ending Fund Balance</b>	<b>\$20,696,642</b>	<b>\$18,802,345</b>	<b>\$14,992,428</b>	<b>\$12,676,705</b>	<b>\$1,308,026</b>	
<b>% of Expenditures</b>	<b>17.94%</b>	<b>16.00%</b>	<b>12.19%</b>	<b>10.50%</b>	<b>1.03%</b>	

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## Questions?

*Molly Talkington*  
Finance Director  
City of DeKalb, IL  
815-748-2000  
[molly.talkington@cityofdekalb.com](mailto:molly.talkington@cityofdekalb.com)

*Julie Zolghadr*  
Supervisor of Fiscal Services  
City of Springfield, IL  
217.7893.2191  
[julie.zolghadr@springfield.il.us](mailto:julie.zolghadr@springfield.il.us)

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## **Debt Issuance – The Process and The Players**

June 21, 2018

Shelly A. Scinto, Austin C. Root  
**Ice Miller LLP**

1227275



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## **The Process**

- **Determine the need for financing**
  - ☐ Project
  - ☐ Working capital
  - ☐ Refinancing
- **Hire the "players" (to be discussed)**
- **Adopt ordinance**
  - ☐ Authorizing ordinance
  - ☐ Referendum ordinance
- **Conduct public hearing**
- **Determine purchaser of bonds**
- **Adopt bond ordinance**
- **Close**



# Players and Their Roles

## ■ Municipality

- Main participant
- Generally responsible for the repayment of the debt

## ■ Financial/Municipal Advisor

- Represents the municipality in many debt issuances
- Works closely, and coordinates tasks, with the municipality, bond counsel and the other participants in a debt transaction
- Can be hired in both competitive and negotiated sales
- Prepares the financing plan, recommends method of sale, manages the transaction, coordinates the sale and closing, prepares the municipality for the rating process
- Not required by Dodd-Frank or other law
- Issuer decision on whether to hire municipal advisor

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# Players and Their Roles (cont'd)

## ■ Underwriter

- A bank, investment banking firm or broker-dealer that purchases the debt from the municipality in a competitive or negotiated transaction
- Assumes the risk of purchasing the bonds for re-sale to investors
- In a negotiated sale
  - Assists in structuring the debt
  - Assists the financial/municipal advisor and municipality with the rating preparation
  - Reviews bond document
  - May be sole manager, senior manager, co-manager, or in a selling group
- In a competitive sale
  - Submits a bid based on the information presented in the Notice of Sale
  - Does not participate in preparing an issue for market

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## Players and Their Roles (cont'd)

### ■ Placement Agent

- ❑ A broker-dealer that acts as agent to place a new issue directly with investors
- ❑ May be used for small, risky, or more complex issues

### ■ Bond Counsel

- ❑ Law firm retained by the municipality to give a legal opinion stating that the municipality is authorized to issue the proposed debt, and that the municipality has met all legal requirements necessary for the issuance of the debt
- ❑ Ensures the debt is a legal, valid, and binding obligation of the municipality
- ❑ Provides a legal opinion as to the federal tax status of the interest on the debt – tax-exempt or taxable – and, where applicable, as to state and local taxation
- ❑ Prepares authorizing ordinances, bond ordinances, trust indentures, and other legal proceedings of an issue
- ❑ Represents the municipality but also drafts bond documents

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## Players and Their Roles (cont'd)

### ■ Local Counsel

- ❑ Represents the municipality
- ❑ May be on staff, or brought into the transaction for a specific issue – i.e. in-house attorney is not familiar with the transaction
- ❑ Involvement varies depending on desire of municipality

### ■ Underwriter's Counsel

- ❑ Typically retained by the underwriter in a negotiated transaction
- ❑ Represents the underwriter
- ❑ Prepares the agreement among underwriters when more than one underwriter is part of the financing team
- ❑ Often conducts due diligence as requested by the underwriter – reviews relevant municipality disclosure information
- ❑ May prepare the official statement or other offering documents
- ❑ Reviews the municipality's bond ordinance and other documentation on behalf of the underwriter
- ❑ Prepares the bond purchase agreement

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## Players and Their Roles (cont'd)

### ■ Bond Registrar

- Bank that is responsible for maintaining records of the owners of the registered bonds

### ■ Paying Agent

- Bank that is responsible for transmitting payment of principal and interest from a municipality to the holder of the security
- Typically the paying agent and the bond registrar are the same entity, but they do not have to be

### ■ Escrow Agent

- Bank that holds in escrow the securities purchased in a refunding issue or holds tax levy money pursuant to a tax depository agreement

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## Players and Their Roles (cont'd)

### ■ Rating Agency

- A company that provides ratings which indicate the relative credit quality or liquidity characteristics of a debt issue
- Moody's Investors Service, Standard & Poor's, Fitch Ratings, and Kroll Bond Rating Agency are the agencies which provide ratings on municipal debt issues
- Requires certain information from the municipality in order to conduct its analysis – audits, budgets, strategic plans, etc.

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# Players and Their Roles (cont'd)

## ■ Bond Insurance Company

- ❑ Issues a bond insurance policy that guarantees the payment of principal and interest to the holders of the security
- ❑ Assured Guaranty and Build America Mutual are the only bond insurers currently in existence with investment grade ratings from the rating agencies
  - AGM's financial strength is rated "AA" (stable outlook) by S&P, "AA+" (stable outlook) by KBRA and "A2" Moody's
    - AGC requested that Moody's withdraw its financial strength ratings of AGC and AGUK in January 2017, but Moody's declined that request. Moody's continues to rate AGC and AGUK.
  - BAM's financial strength is rated "AA/Stable" by S&P
- ❑ Reduces interest cost to municipalities
- ❑ Provides security to investors
- ❑ Provides higher rating to a municipality than could be achieved on its own
- ❑ This industry has changed drastically in recent years

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# Players and Their Roles (cont'd)

## ■ Depository Trust and Clearance Corporation – DTCC

- ❑ DTCC, through its subsidiaries, provides clearing, settlement and information services for equities, corporate and municipal bonds, government and mortgage-backed securities, money market instruments and over-the-counter derivatives
- ❑ Certain documents from most municipal debt issues must be submitted to DTCC in order to close the transaction
- ❑ Serves as a central location or depository where bonds or certificates are maintained
- ❑ Changes of ownership using "book-entry" accounting methods where no certificates actually change hands are recorded in a central location

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## Players and Their Roles (cont'd)

### ■ Electronic Bidding Platforms

- ❑ Ipreo and Grant Street are the two most widely used in Illinois
- ❑ Providers of deal execution platforms and investor communication tools
- ❑ Receive official statements for dissemination to potential bidders of debt issues in a competitive sale
- ❑ Bidders submit their bids through a central location
- ❑ Provide bid and results information to market publications – i.e. TM3 and The Bond Buyer
- ❑ Allows for a more efficient review of bids

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## An Exchange is in the Near Future

- Muniex
- One to two years away
- A Patent for the municipal exchange is pending
- Discussions with the SEC and the MSRB have occurred
- Initial marketing to issuers has begun

# Why An Exchange?

## ■ Market Efficiency

- ☐ The economic tenants to market function
  - Transparency
  - Access
  - Fairness
- ☐ Market defragmentation
- ☐ Market liquidity and velocity

## ■ Good Business

- ☐ Lower interest rates and costs to issuers
- ☐ Greater access and liquidity for investors

# Players and Their Roles (cont'd)

## ■ Other Professionals

- ☐ Engineers or accounting firms – prepare a feasibility study or analysis to show sufficiency of revenues for enterprise fund debt issues, if one is required
- ☐ TIF consultants – prepare a report and analysis to show sufficiency of revenues for tax increment bond issues and business development district bond issues

# Sample Timetable

## ■ General Obligation Bonds

- ☐ Debt limit
  - Cities/villages - 8.625%
  - Counties - 2.875% (non-voted debt)
  - 5.750% (voted and non-voted debt)
- ☐ BINA hearing
- ☐ Adopt bond ordinance
- ☐ Close/Fund

## ■ Alternate Revenue Bonds (not subject to debt limit)

- ☐ Adopt authorizing ordinance
- ☐ Publish authorizing ordinance and notice of intent
- ☐ Wait 30 days
- ☐ BINA hearing
- ☐ Adopt bond ordinance
- ☐ Close/Fund

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# Sample Timetable (cont'd)

## ■ Voted Bonds

- ☐ Adopt referendum ordinance
- ☐ Publish and post election notice
- ☐ Pass with majority vote of taxpayers
- ☐ Adopt bond ordinance
- ☐ Close/Fund

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# THANK YOU

Shelly A. Scinto  
Of Counsel  
[Shelly.Scinto@icemiller.com](mailto:Shelly.Scinto@icemiller.com)  
312-726-8116

Austin C. Root  
Associate  
[Austin.Root@icemiller.com](mailto:Austin.Root@icemiller.com)  
312-726-2515





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## **Basic Legal Requirements on Municipal Bond Issues**

June 21, 2018

Shelly A. Scinto, Austin C. Root  
**Ice Miller LLP**

1228133



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# **State Law Requirements**

## **■ Illinois Municipal Code ("Municipal Code")**

### **□ Home Rule**

- Under the 1970 Illinois Constitution, home rule power shifts decision making from the state level to the local level enabling more flexibility.
- Home rule communities are granted a broad range of powers unless exempted by the State. Municipalities with populations over 25,000 are automatically granted home rule status, while smaller communities can put the question on a ballot and let voters decide. Home rule units can issue general obligation bonds not to exceed 40 years without the need to secure voter approval through a referendum or backdoor referendum

### **□ Non-Home Rule**

- *Authority:* Unless an exception applies, the Municipal Code requires that general obligation bonds secured by an ad valorem tax must be approved by voters of a non-home rule municipality in a referendum.
- *Exceptions:*
  - Alternate revenue bonds (as discussed below)
  - Refunding bonds
  - Bonds to fund or refund debt related to judicial judgments

## State Law Requirements (cont'd)

- Working cash fund bonds
- Bonds used to pay pollution abating costs mandated under the Environmental Protection Act
- Bonds issued to pay for costs related to improvements of water or wastewater treatment facilities mandated by federal or state regulators
- Bonds issued pursuant to the Municipal Code in an amount not to exceed one-half of one percent of the equalized assessed value ("EAV") of the taxable property of the municipality

***Non-home rule municipalities generally have no authority to mortgage municipal property.***

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## Forms of Debt Issuance

### □ **Promissory Notes**

- Municipalities (with the exception of counties) are legally permitted to borrow money from a financial institution pursuant to a promissory note or similar debt instrument that is a lawful direct general obligation of the municipality payable from the general funds of the municipality and other sources of payment as are otherwise lawfully available, subject to the statutory debt limit.

### □ **Revenue Bonds**

- Municipalities have the ability to issue revenue bonds for a proper public and corporate purpose, which includes a variety of potential revenue-producing undertakings such as facilities financed with tax increment, transportation facilities, water and sewer systems, solid waste operations, libraries, sports facilities, exhibition facilities, housing, parking, and jails. Revenue bonds generally do not require voter approval.
- Revenue bonds are not considered debt for purposes of statutory debt limits.

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# Forms of Debt Issuance (cont'd)

## □ *Debt Certificates*

- Issued pursuant to the Local Government Debt Reform Act ("Debt Reform Act")
- Municipalities are authorized to borrow money by entering into installment finance agreements.
- The Debt Reform Act authorizes municipalities to purchase or lease either real or personal property through the use of installment contracts not exceeding 20 years in length.
- Debt certificates may be issued by a municipality to evidence the payment obligations of the municipality under a lease or installment contract subject to the statutory debt limit.
- There is, generally, no separate tax levy available for the purpose of making such installment payments; it is considered a promise to pay by way of budgetary appropriation.
- However, a municipality not subject to PTELL (discussed later in this presentation) may enter into an installment contract payable from the levy of a direct, unlimited ad valorem property tax sufficient to pay the installments, if certain backdoor referendum requirements are satisfied.

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# Forms of Debt Issuance (cont'd)

## □ *Alternate Revenue Bonds*

- Alternate revenue bonds or "double-barreled" bonds are essentially revenue bonds issued under the Debt Reform Act with the general obligation of the municipality serving as backup security for the bonds.
- The intent of the Debt Reform Act is to permit the issuance of the alternate bonds assuming the pledged revenue source is sufficient so that the tax levy relating to the debt service on the alternate bonds does not need to be extended.
- The coverage requirements provide that the municipality must demonstrate that such pledged revenue source will be sufficient in each year the bonds remain outstanding to provide not less than 1.25 times (1.10 times if the revenue source is either (i) federal or state funds that the municipality has received in some amount during each of the three fiscal years preceding the issuance of the alternate bonds or (ii) revenues to be received from another governmental unit under an intergovernmental cooperation agreement) debt service on all outstanding alternate bonds payable from such revenue source and on the alternate bonds proposed to be issued.

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# Forms of Debt Issuance (cont'd)

- Apart from coverage requirements, the alternate bonds must meet two other conditions before being issued:
  - First, the alternate bonds must be issued for a lawful corporate purpose and be payable from a revenue source limited to that purpose. Such pledge of more than one source of revenue, "multi-barreling," is a common practice used to supplement system revenues so as to meet coverage requirements.
  - Second, alternate bonds are subject to a backdoor referendum. The backdoor referendum gives registered voters the opportunity to petition the municipality to submit the question of issuing the alternate bonds to referendum. However, the petition must be submitted within 30 days after publication of the authorizing ordinance and be signed by the greater of (i) 7.5% of the registered voters of the municipality or (ii) the lesser of 200 of the registered voters or 15% of the registered voters. Non-public works projects have more rigid requirements (forty-five day notice and lower voter threshold).

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## Other Illinois Law

### ■ Bond Issue Notification Act ("BINA")

- ☐ Public hearing required not less than 7 days prior to bond sale
- ☐ Notice of hearing must be published not less than 7 days nor more than 30 days prior to hearing

### ■ Open Meetings Act

- ☐ Notice of meeting, including agenda, must be posted:
  - Not less than 48 hours prior to meeting
  - At principal office of the municipality

### ■ Freedom of Information Act ("FOIA")

- ☐ Public access to information held by public authorities
  - Public authorities must publish certain information
  - Public is entitled to request information from public authorities
  - Applies to agencies of government – not to governments themselves

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## Other Illinois Law (cont'd)

### ■ State Gift Ban Act

- ❑ generally prohibits public officials and/or employees from soliciting or accepting any gift from a "prohibited source" - any person or entity which
  - Seeks official action from the governing body, its members or employees;
  - Does business or seeks to do business with the governing body, its members or employees;
  - Conducts activities regulated by the Board, its members or employees;
  - Has interests that may be substantially affected by the performance of duties of the governing body, its members or employees; or
  - Has registered or is required to be registered with the Secretary of State as a "lobbyist."
- ❑ **Exceptions (not inclusive):**
  - Opportunities, benefits and services available on the same conditions as for the general public (i.e. theater tickets).
  - Anything for which the Board, its members or employees pay market value.
  - Food and refreshments not exceeding \$75 per person per calendar day. In order to qualify for this exception the food must be either catered or consumed on the premises from which the food was purchased or prepared.

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## Other Illinois Law (cont'd)

### ■ Avoidance of Conflicts

- ❑ **Consider:**
  - How does it look in the newspaper?
  - Many municipal officials will not take any gifts because of appearance of impropriety.

### ■ Sales Tax (Home Rule)

- ❑ Summer 2017: The Illinois General Assembly approved a new local borrowing program during permitting home rule municipalities ("HRMs") to bypass weak general obligation ratings by securitizing their state-supplied sales tax, or other state revenue, utilizing a bankruptcy-remote securitization structure.
- ❑ The legislation is designed to allow Illinois home rule issuers to access capital using an alternative borrowing structure that achieves higher credit ratings than would otherwise be available under a general obligation borrowing.
- ❑ This program is particularly valuable to lower-rated home rule units.

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# Bankruptcy and Statutory Liens

## ■ Bankruptcy

### ☐ General Overview

- Municipalities are ineligible for bankruptcy – under Federal law
- Exception:
  - Specific authorization under state law, or
  - Governmental officer or organization empowered by state law authorizes issuer to be a debtor in a bankruptcy

### ☐ Authorized in many states but not in Illinois

### ☐ Detroit

- Anything can happen
- Settlement; bondholders did not get favorable outcome

## ■ Statutory Liens

### ☐ Rhode Island

### ☐ Michigan

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# Limitations

## A. State

### ■ Debt Limit

- ☐ Non-home rule municipalities are subject to the statutory debt limit of 8.625% of EAV as set forth in the Municipal Code. Obligations excluded from the debt limit include alternate revenue bonds, revenue bonds, special assessment bonds and tax anticipation warrants.

### ■ Property Tax Extension Limitation Law ("PTELL" or "Tax Cap")

- ☐ PTELL was created to slow the growth of property tax. County voters have to vote in PTELL.
- ☐ 39 (out of 102) counties currently are under PTELL, with DuPage, Kane, Lake, McHenry and Will included with the original 1991 legislation, and Cook added in 1994.

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# Limitations (cont'd)

## ■ Debt Service Extension Base ("DSEB")

- ❑ DSEB is a number based on the existing non-referendum bond payment in the Debt Service (Bond and Interest) Fund the year PTELL is passed. DSEB is the maximum amount of annual payment a capped district can levy for non-voted bonds.
- ❑ If the municipality had no non-voted debt when capped – they have no DSEB. If they had a lot of non-voted debt, they have a high DSEB.
- ❑ Since 2009, a municipalities DSEB is subject to increase by no more than the lower of 5% or the current CPI from one year to the next.
- ❑ Exceptions: "New Growth". New property or improvements can be added at full value the first year they are assessed.



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# Limitations (cont'd)

## B. Federal

### ■ Income tax exemption

### ■ Securities

- ❑ *Fraud (10(b)(5))*
- ❑ *Continuing disclosure*
  - Rule 15c2-12 governs the preparation and distribution of official statements for municipal securities. While this Rule applies primarily to directly regulated entities such as underwriters, broker-dealers and dealer-banks, a significant portion of the burden of compliance with Rule 15c2-12 falls on the municipality to supply certain information and disclosure and to take the proper steps to comply with Rule 15c2-12 in a timely fashion.
  - MCDC Initiative.
  - Role of Disclosure Counsel/Underwriter's Counsel.
  - Negotiated vs. Competitive.

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# Limitations (cont'd)

## ■ *Dodd-Frank*

- Regulation of Municipal Advisor
  - Municipal Advisor definition
  - Registering of Municipal Advisor
- Regulation of Underwriter
  - Financial Industry Regulation Authority role is to license and regulate broker-dealer
  - Securities and Exchange Commission role is to protect investors
  - While underwriters have long been regulated by the SEC and other regulatory bodies, the regulation of municipal advisors pursuant to Dodd-Frank is new.



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## Summary of Village/City Bonds Under Illinois Law

Type of Debt	Security	General Requirements
General Obligation — <i>Home Rule</i>	Full faith and credit and backed by the ad valorem taxing power of the issuer.	No statutory debt limit and no need for voter approval to issue bonds. Flexibility.
General Obligation — <i>Non Home Rule</i>	Full faith and credit and backed by the ad valorem taxing power of the issuer.	Referendum unless exception. Statutory debt limit of 8.625% of EAV. BINA required.
Alternate Revenue Bonds	"Double-barreled" – payable from a specific revenue source with the general obligation of the municipality serving as backup security.	Pledged revenues must meet 1.25 times debt service coverage requirement. Backdoor referendum procedures and BINA required.
Debt Certificates	No separate tax levy backing; obligation is a promise to pay from lawfully available funds.	Borrow money by entering into installment contract agreement. Statutory debt limit of 8.625% of EAV.
Promissory Note payable to financial institution	No separate tax levy backing; obligation is a promise to pay from lawfully available funds.	Borrow money by entering into promissory note or similar debt instrument. Statutory debt limit of 8.625 % of EAV.
Revenue	Specific revenue source.	Varies by type of revenue. Neither referendum nor BINA is required.
Special Service Area	Full faith and credit of the taxable real property in the special service area.	Need hearings, notice and various other requirements.
Tax Increment Finance Revenue	Future incremental property tax growth from project, TIF area or contiguous TIF district.	Validly created TIF; TIF eligible costs only.

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# Types of Bond Sales

*Illinois municipalities have flexibility as to the method of sale. A competitive sale is not required. The method by which to attract potential investors of bonds can be a critical component to the resulting interest rate the municipality will pay to service its bonds.*

## Negotiated sale

- ❑ In a negotiated sale, the process begins with the municipality, choosing an underwriter (or managing underwriter if more than one underwriter). The municipality and the Underwriter then negotiate the terms of the offering. Assuming all procedural issuance requirements are met by the municipality, the underwriter purchases the bonds from the municipality and sells the bonds to its investors accordingly.

## Competitive sale

- ❑ In a competitive sale, bonds are advertised for sale. The announcement, by way of a notice of sale, includes both the terms of the sale and the terms of the bond issue. Any investment bank, broker-dealer or dealer-bank may bid on the bonds at the designated date and time in a "blind" fashion, meaning each bidder does not have knowledge of the other bids. The bidder with the lowest interest cost is awarded the bonds.

## Direct placement

- ❑ Direct placement or direct lending in the context of municipal bonds refers to any arrangement in which a single lender/buyer, such as a bank, pension fund, mutual fund, etc., purchases the bonds of the municipality directly. This form of sale may also be described as a private placement, a direct purchase or a bank loan. Advantages such as avoiding instability in public markets, avoiding continuing disclosure requirements and avoiding the rating process make direct placements an attractive option for issuers.

## Bank qualified or non-bank qualified

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# Security or Loan (Relevant to Bank Purchased Deals)

- ❑ Many banks will purchase bonds only if internal requirements regarding status of bonds as security or loan are satisfied. Preference as to loan or security varies by bank.
- ❑ Exchange Act Section 3(a)(10) includes "notes" within the definition of "security".
- ❑ Based on facts and circumstances of the financing transaction.
- ❑ The principal legal authority on the distinction between a note that is a security from one that is not is the U.S. Supreme Court case of *Reves v. Ernst & Young, Inc.*, which held that a note is presumed to be a security unless it is of a type specifically identified as a non-security.
- ❑ *Reves* established a four-part family resemblance test for determining whether a note is a security composed of the following factors: (i) the motivations of the buyer and seller; (ii) the plan of distribution; (iii) the reasonable expectations of the investing public; and (iv) the existence of an alternate regulatory regime.

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## Security or Loan (Relevant to Bank Purchased Deals)

- FINRA Regulatory Notice 2016-12 provides that simply labeling a financing as a "loan" is not dispositive of whether it is a loan or a security. For example, firms should review the transaction documentation in considering whether a particular financing instrument is a municipal security or a loan. FINRA has found instances of financing arrangements that firms have concluded are loans even though the *Reves* factors indicated otherwise. In some instances, the transaction documentation described the instruments as "bonds," or contained language consistent with bond offerings, such as: (i) references to "purchasers" or "sellers"; (ii) the debt instruments were to be sold in separate denominations; (iii) the purchasers made representations regarding their knowledge and experience in investments and willingness to take on risk; and (iv) the debt instruments could have been resold. Contrary to the firms' views, in many instances the banks and municipal issuers involved in the transactions considered the instruments as municipal securities.

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## THANK YOU

Shelly A. Scinto  
Of Counsel  
[Shelly.Scinto@icemiller.com](mailto:Shelly.Scinto@icemiller.com)  
312-726-8116

Austin C. Root  
Associate  
[Austin.Root@icemiller.com](mailto:Austin.Root@icemiller.com)  
312-726-2515



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# Purchasing for Finance Managers



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## Presentation Objectives

**Spend  
Analysis**

**Procurement  
Best  
Practices**

**Contract  
Management**

# CONFESSIONS OF A MAVERICK BUYER...

LET THESE STORIES BE A LESSON TO YOU.

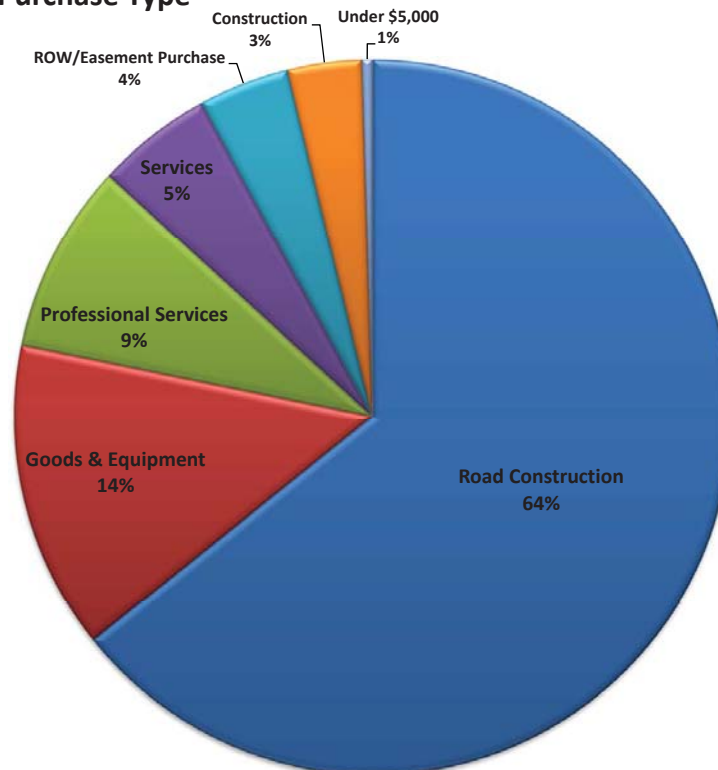
## Spend Analysis

- The process of collecting, cleansing, classifying and analyzing expenditure data from all sources within the organization
  - Procurement Card
  - Accounts Payable

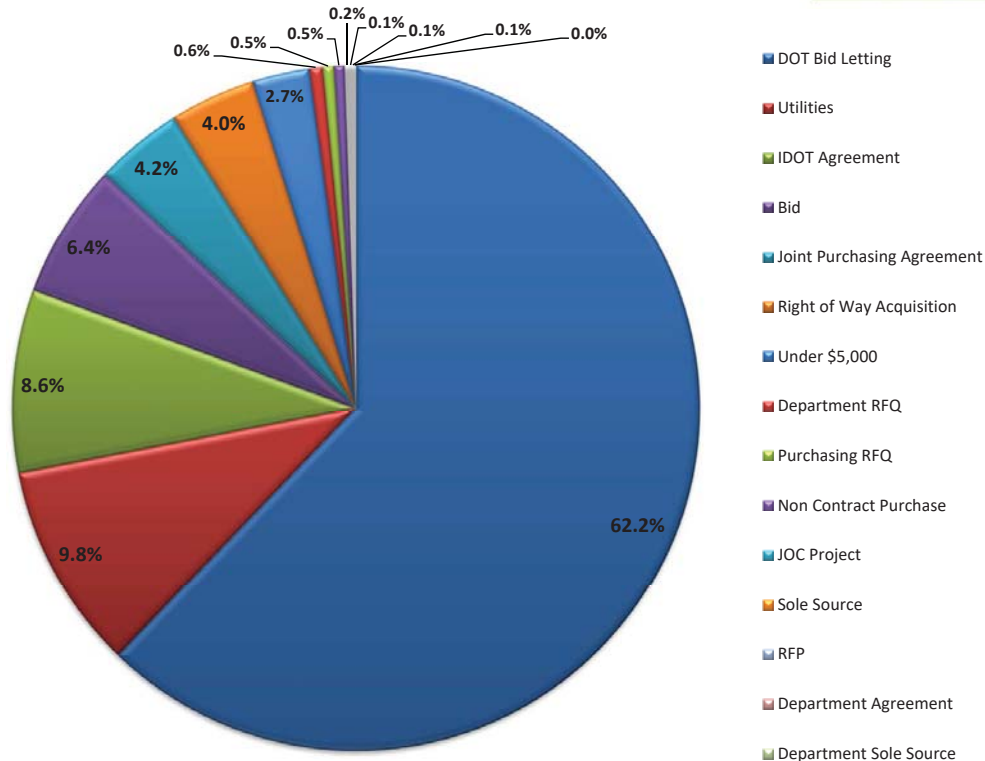
## Spend vs. Number of Transactions

Supplier Name	Transactions	Aggregate Spend	Average Invoice Value
CANON SOLUTIONS AMERICA INC	1,975	401,540.34	203.31
DIRECT ENERGY BUSINESS	1,694	3,441,699.31	2,031.70
AMERISOURCE BERGEN CORP	1,288	341,640.01	265.25
GRAINGER INDUSTRIAL SUPPLY	1,115	563,714.03	505.57
HENRY SCHEIN INC	903	531,055.20	588.10
NORTH SHORE GAS CO	846	182,424.16	215.63
Warehouse Direct	767	250,406.16	326.47
Redacted Personal Data	752	1,377,083.86	1,831.23
POPP DENTAL LABORATORY INC	707	89,205.35	126.17
RAY O'HERRON CO INC	684	149,537.09	218.62
NAPA AUTO	585	38,197.40	65.29
ADDISON PROFESSIONAL FINANCIAL SEARCH LLC	563	561,729.68	997.74
STAPLES	562	531,215.84	945.22
COMMONWEALTH EDISON CO	498	330,682.34	664.02
CDW GOVERNMENT INC	476	2,191,037.28	4,603.02
CINTAS CORP	465	18,138.28	39.01
ACE HARDWARE INC	461	22,541.08	48.90
HILLER FORD INC	458	67,645.94	147.70
REINHART FOODS INC	432	473,390.83	1,095.81
MENARDS	400	49,238.43	123.10

## Spend by Purchase Type

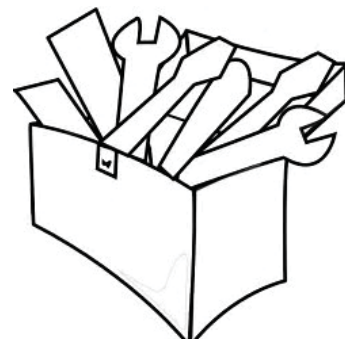


## Purchases on contract



## Procurement Tools

- Request for Quote
- Cooperative Procurement
- Invitation for Bid
- Request for Information
- Request for Proposal
- Statement of Interest
- Bid Exemption



# Planning for Procurement

- Planning Stage
- Selection of Procurement Process
- Market Analysis
- Development of Specifications
- Contract Negotiation
- Implementation

# Selecting Procurement Process

- Cost
- Timeframe
  - Expedited
  - Planned
  - Future Development
- Impact on staff and resources
  - Administrative support
  - Project Management
  - Contract Management





LAKE COUNTY  
FINANCE & ADMINISTRATIVE SERVICES  
PURCHASING DIVISION

BUY LOCAL  
BUILD LOCAL  
WORK LOCAL



### PARTNER BEFORE YOU PURCHASE.



GOODS & SERVICES **UNDER \$5,000**  
P-CARD OR DEPARTMENT PURCHASE ORDER



GOODS & SERVICES **BETWEEN \$5,000 - \$30,000**  
3 QUOTES & LAKE COUNTY PURCHASE ORDER



GOODS & SERVICES **OVER \$30,000**  
COMPETITIVE BID/RFP ISSUED BY PURCHASING



IT EQUIPMENT **OVER \$35,000**  
COMPETITIVE BID/RFP ISSUED BY PURCHASING



PROFESSIONAL SERVICES **OVER \$50,000**  
COMPETITIVE BID/RFP ISSUED BY PURCHASING

**SAVE MONEY.  
SPEND WISELY.  
SOURCE STRATEGICALLY.**  
PURCHASING IS YOUR PARTNER.

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## Financial Benefits of PCards

- A great tool to simplify and decentralize the procurement process. However, they come with risks if there are not adequate controls in place.







## Pros

- Improved supplier relations with expedited payment
- Online card management tool
- Rebate opportunities
- Tiered rebates for annual volume & large ticket purchases
- Reduces procurement costs
- Joint purchasing opportunity for smaller entities



## Cons

- Risk of internal and external fraud
- May reduce competitive pricing.
- Lack of notice for prevailing wage requirements
- Reconciliation process can be cumbersome
- Spend data may not be integrated with other purchase data
- May not provide the same level of budget visibility as an ERP system.

## When should Pcards be used?

- Small dollar purchases (under \$2,500)
- Qualified large ticket transactions

## When NOT to use Pcards

- Invoice and receipt approval required prior to payment
- If notice of prevailing wage is required
- No personal use

## Purchase Orders

- A purchaser's written document to a supplier formalizing all of the terms and conditions of a proposed transaction, such as a description of the requested items, cost of items being purchased, delivery schedule, terms of payment, and transportation

## Key PO Terms

- Entire Agreement
- Indemnification
- Change Order
- Default
- Transportation Charges
- Inspection
- Warranty
- Payment
- Taxes
- Termination
- Insurance
- Liability
- Prevailing Wage

## Cooperative Purchasing

Joint  
Solicitation

Piggybacking

# Joint Solicitation

- Intentional coming together of two or more agencies to aggregate their individual product and service needs (a.k.a. “purchasing volume”) into a single solicitation effort. Each participant agency is bound to the resulting contract resulting from the singular effort.



# Pros and Cons of Joint Solicitation



## Pros

- Suppliers have clear understanding of volume and service levels
- Forward looking and collaborative approach.
- Shared services by a relatively small number of agencies.



## Cons

- Must commit to participating fully in contract upfront.
- Burden to manage contract is on principal procurement agency.
- May have challenges agreeing to terms and conditions between various governmental units.

# Piggybacking

- An agency utilizes the pricing and contracting of another agency that has already procured the same product or service, saving the agency the effort of developing its own invitation to bid and going through a separate solicitation process



## Pros and Cons of Piggybacking



### Pros

- Can jump on and off during the term of the contract.
- Potential for rebates and revenues.
- Reduces staff time



### Cons

- Actual purchasing volume unknown.
- May not secure the most aggressive pricing.
- May reduce review of the marketplace.

# Governmental Joint Purchasing Act

## 30 ILCS 525/2

- Any governmental unit may purchase personal property, supplies and services jointly with one or more other governmental units. All such joint purchases shall be by competitive solicitation as provided in Section 4 of this Act.



# Intergovernmental Cooperation Act

## 5 ILCS 220/2

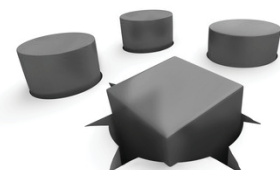
- Any power or powers, privileges, functions, or authority exercised or which may be exercised by a public agency of this State may be exercised, combined, transferred, and enjoyed jointly with any other public agency of this State and jointly with any public agency of any other state or of the United States to the extent that laws of such other state or of the United States do not prohibit joint exercise or enjoyment and except where specifically and expressly prohibited by law.

# Benefits of using cooperatives

- Reduce procurement time
- Ensures compliance with procurement procedures
- Can jump on and off as needed
- Opportunity for rebates and revenue
- Assist in budget preparation

# Things to look out for

- Terms and conditions are not negotiable.
- Cannot significantly expand the scope of goods and services to fit your needs
- Some states do not have the same procurement processes as Illinois



# Where to find a cooperative?



## Bids

- An Invitation for Bids (IFB) procurement method may be chosen when requirements are known and the award is based primarily on price, which can include total cost of ownership.



# Elements of a Bid

- Instructions to Bidders
- General Terms and Conditions
- Special Terms and Conditions
- Scope of Work and Specifications
- Required forms
- Contract documents

# Request for Information

- A non-binding method whereby a jurisdiction publishes its need for input from interested parties for an upcoming solicitation. Used to obtain comments, feedback, or reactions from potential responders (suppliers, contractors) prior to the issuing of a solicitation.

# Request for Proposal

- The document used to solicit proposals from potential providers (proposers) for goods and services. Price is usually not a primary evaluation factor. Provides for the negotiation of all terms, including price, prior to contract award. May include a provision for the negotiation of best and final offers.



# Statement of Interest

- Local Government Professional Services Act - 50 ILCS 510/
- Applies to any school district and any unit of local government of fewer than 3 million inhabitants, except home rule units.
- Governs the use of architectural, engineering and land surveying services (AES)

## Local Government Professional Services Selection Act

- Public Notice – Section 4
- Evaluation Process – Section 5
- Selection Process – Section 6
- Contract Negotiation – Section 7

## Local Government Professional Services Selection Act

- Exceptions to Sections 4, 5, and 6
  - Already has satisfactory relationship with firm(s);
  - Determines by resolution that an emergency exists and expeditious selection needed; or
  - Determines by resolution that cost of services is below the public procurement threshold of \$50,000.

# Sole Source/Bid Exemption

- Has the market been tested lately?
- Has the department documented the need for the item or service?
- How has the determination been vetted by procurement and legal counsels?

## Lake County – 6-102 Bid Exemption

- a) There is only one source for the required good, service or construction item.
- b) There exists a long standing, successful relationship for professional services, and the knowledge gained through this relationship adds value integral to the services provided.
- c) A sole supplier's item is needed for trial use or testing.
- d) The purchase is for used equipment.
- e) The purchase is made at auctions.

## Lake County – 6-103 Emergency Procurement

- Notwithstanding any other provisions of this Ordinance, the goods, services or construction items when there exists a threat to public health, welfare, or safety, or to prevent or minimize serious disruption of government services, shall be considered an “emergency.”

## Contract Negotiation

- Meet with project manager to confirm price
- Define acceptance of deliverables and contract compliance
- Understand the risks for both parties

# Key Contract Elements

- Recitals
- Agreement Documents
- Scope of Work
  - ✓ Project Plan
  - ✓ Project Resources
- Duration
- Operative Language
  - ✓ Price
  - ✓ Invoices & Payment
  - ✓ Change Orders

# Key Contract Elements

- General Terms and Conditions
  - ✓ Damages – Compensated or Liquidated
  - ✓ Termination
- Legal Provisions
  - ✓ Indemnification
  - ✓ Jurisdiction and Venue
  - ✓ Insurance
- Closing
  - ✓ Signature line

# Contract Management

- Read your contract
  - ✓ Understand deliverables
  - ✓ General Terms & Conditions
  - ✓ Legal Provisions
- Encumber Funds
  - ✓ Sets aside the funds for payments
- Communicate expectations to vendor
  - ✓ Define roles & responsibilities
  - ✓ Confirm deliverable timeframes
- Final acceptance

## Questions

RuthAnne K. Hall, CPPO  
Purchasing Manager  
Lake County, IL  
[rhall@lakecountyil.gov](mailto:rhall@lakecountyil.gov)  
(847) 377-2180



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## Preparing for the Next Step in Your Career!

Presenter: Sarah McKee, Vice President, GovHR USA, LLC



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## A Looming Crisis

*“The local government management profession is at a crossroads. The baby boomers that comprise the majority of local government managers are approaching retirement...while a much smaller group of young professionals are in line...to fill their shoes. With up to 20 million fewer people in the generation following the boomers, competition for talent is likely to be fierce and global in nature.”*

*International City Manager’s Association*



## Public Sector Workforce Trends

- ☐ Fewer candidates for senior positions
- ☐ Fewer candidates willing to relocate
- ☐ High expectations of elected officials and residents
- ☐ Constant focus on “doing more with less”

## Getting Ready for Advancement...

- ☐ Participate in professional development opportunities – networking matters!
- ☐ Every contact is a potential employer/reference
- ☐ Watch your conduct at professional conferences
- ☐ Self improvement and growth are your personal responsibilities

## Getting Ready for Advancement...

- ☐ Dress for the job you aspire to...
- ☐ Treat everyone in your professional world with dignity and respect – It really is a small world!
- ☐ Follow up and follow through – develop a reputation as a hard worker who is easy to get along with and dedicated to the organization.
- ☐ Preparation to become a Finance Director takes time - take extra tasks, understand department roles and goals
- ☐ Be respectful of authority

## Criteria that Recruiters Use to Evaluate Candidates

- ☐ Education
- ☐ Types and levels of positions
- ☐ Size - population, budget, # of employees
- ☐ Stability
- ☐ No gaps or confusion in resumes
- ☐ Be specific and quantitative

## Criteria that Recruiters Use to Evaluate Candidates

- ☐ Professional looking resume
- ☐ Cover letter specific to position
- ☐ Specific criteria set by elected officials
- ☐ Best predictors of future behavior is past behavior/success
- ☐ References/background checks/due diligence
  - Facebook, Twitter, blogs

## Criteria that Recruiters Use to Evaluate Candidates

- ☐ Willingness to move
- ☐ Willingness to hire in at pay range
- ☐ Telephone/in person interview:
  - ☐ Why are you looking at this position?
  - ☐ Why are you leaving or left current position?
  - ☐ Knowledge/understanding of what organization is looking for
- ☐ Ability to articulate your thoughts
- ☐ Enthusiasm/Presence

## Criteria that Recruiters Use to Evaluate Candidates

- ☐ Timely follow up
- ☐ Intangibles; personality match with Board and community “Do you fit?”
- ☐ Relative ranking compared to others
- ☐ Doing things the right way
- ☐ Board management skills

## What Hiring Authorities Look for in Candidates

- ☐ Degree - BA a minimum; MPA, MA, or MBA is a plus
- ☐ Credentialed – CPFO, CPA, CMA
- ☐ Similar size or type of organization and issues
- ☐ Finance and budgeting experience
- ☐ Experience in interdepartmental projects
- ☐ Reputation as a problem solver

# What Hiring Authorities Look for in Candidates

## Financial Management Skills

- ☐ Budget development and administration
- ☐ Financial forecasting
- ☐ Tax structure and fund accounting
- ☐ Efficient use of resources
- ☐ General knowledge of local financial climate

# What Hiring Authorities Look for in Candidates

## Other Finance Related Experience

- ☐ TIF knowledge and/or experience
- ☐ Collective bargaining analysis
- ☐ Capital improvement program budgeting
- ☐ Grant administration
- ☐ FEMA compliance
- ☐ Improved customer service through technology

# Communication Skills

- ☐ Interpersonal skills - Communication in all directions
- ☐ Relationship building skills
- ☐ Writing skills
- ☐ Verbal skills
- ☐ Public speaking skills
- ☐ Leadership

# Integrity and Honesty

- ☐ Integrity through reputation
- ☐ Honesty
- ☐ Trust
- ☐ Earn respect of employees and community

# Management Style

- ☐ Problem solver
- ☐ Team builder
- ☐ Empowerment
- ☐ Not a micro-manager
- ☐ Managing people/delegating/accountability

# Visionary

- ☐ Big picture thinker
- ☐ Sees through the forest to the trees
- ☐ Attacks problems with solutions
- ☐ See trends
- ☐ Strategic planning

# What Hiring Authorities Look for in Candidates

## Personal Traits

- ☐ Commit to at least 5 years employment
- ☐ High level of energy/enthusiasm
- ☐ Sense of humor
- ☐ Look and dress professionally
- ☐ Stability in positions

# Common Sense Career Builders

- ☐ Understand the unwritten contract you have with your employer
- ☐ Be accountable – a “go to” person
- ☐ Aim for excellence – not perfection
- ☐ Be concerned with your image
- ☐ Self improvement and growth are your personal responsibilities



# Common Sense Career Builders

- ☐ Choose your battles carefully
- ☐ Never be complacent with your skills and performance
- ☐ Develop a sense of timing
- ☐ Don't ever lie or make excuses
- ☐ Anticipate problems and be prepared within reason

# Working with a Recruiter

- ☐ Interactions with the recruiter
- ☐ The recruiter's role
- ☐ Going around the recruiter
- ☐ Recruiters and internal candidates

# Resume Writing Tips

- ❑ Chronological Order vs. Competency Based Resume
- ❑ Quantify! Quantify! Quantify!
- ❑ Gaps
- ❑ Experience – Be specific!
- ❑ Presentation, Length and Tone
- ❑ Other Activities
- ❑ Cover Letter
- ❑ Attachments

# Quantifying Experience

**Instead of:** *Coordinated the implementation of an ERP for the village.*

**Say this:** *Led the team that implemented a \$2 million ERP in all departments including finance, human resources, public safety, public works and community development. Worked closely with department directors to troubleshoot issues and trained 15 employees on the new system.*

# Top Ten Interview Blunders

1. Poor Initial Impression
2. Appearance Issues
3. Dated Language
4. Failure to Answer the Questions
5. Longwinded Answers

# Common Mistakes People Make During the Interview Process

6. Inability to Convey Your Accomplishments
7. Failure to Prepare
8. Use of the Word “Retire”
9. Failure to Ask Thoughtful Questions
10. Failure to Exhibit Energy

## How to Answer the Tough Questions

- ❑ What is your greatest strength?
- ❑ In what area are you seeking improvement?
- ❑ What achievement are you most proud of?
- ❑ Give us an example of a customer service improvement you initiated.

## Negotiating Your Package

- ❑ Be prepared to state your salary/benefits requirements when you go in for the first interview.
- ❑ Make recruiter/human resources director aware of any unusual benefit requirements.
- ❑ Know your “bottom line”.
- ❑ Take one bite at the “negotiation apple”.

## At the interview, be sure to:

- ☐ Smile...
- ☐ Exhibit sincere energy...
- ☐ Ask for the job! (If you want it)

## At the interview, be sure to:

- ☐ If you are no longer interested in the position, notify recruiter or hiring authority.
- ☐ Send a thank you note!

# Contact Information

**Sarah McKee, Vice President**

**GovHR USA, LLC**

630 Dundee Road, Suite 130

Northbrook, IL 60062

847-380-3240

[smckee@govhrusa.com](mailto:smckee@govhrusa.com)

<https://www.govhrusa.com/>

## **Illinois Government Finance Professionals' Academy II Speakers**

### **Aimee Briles, Director, Wintrust Government Funds**

Aimee Briles oversees the Government Funds group at Wintrust Financial and has over fifteen years of experience in government banking, specializing in the needs of public entities. Aimee joined Wintrust in 2007 and works with the family of Wintrust Community Banks to deliver innovative products, tailored processes and exceptional customer service specifically to meet the needs of local governmental entities in our communities. Aimee has been an active member of the Illinois Government Finance Officers Association since 2003. She has served on the Illinois GFOA Professional Development Committee and Partners Forum.

### **Andrew Brown, Deputy Director of Finance, Village of Buffalo Grove, IL**

Andrew Brown is the Deputy Director of Finance for the Village of Buffalo Grove, Illinois, serving in that capacity since May of 2014. He has a BA in Accounting from Western Michigan University in 2005, during his tenure there he served on the Executive Board of Beta Alpha Psi, the international honors organization for financial information professionals. In 2010 he completed his Masters in Professional Accounting from Elmhurst College. Andrew has over 10 years of Governmental Accounting experience that includes over 8 years at The Town of Cicero prior to his current position. Andrew oversees the day to day operations of the Finance and General Services Department, which includes utility billing, accounts payable, accounts receivable, licensing, and customer service. Other responsibilities include coordinating the annual audit, Popular Annual Financial Report, sections of the annual budget, and strategic plan initiatives and projects Village wide. The Village of Buffalo Grove has received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for thirty-three consecutive years, Distinguished Budget Presentation Award four consecutive years and the Popular Annual Financial Reporting Award 2 consecutive years. The Village maintains a "Aaa" bond rating from Moody's and Standard and Poor's Investors Services, which is the highest bond rating achievable by a governmental entity. Andrew serves as a staff liaison to the Buffalo Grove Days Committee and Buffalo Grove Symphonic Band. Public and professional contributions include membership to the Government Finance Officers Association (GFOA), Illinois Government Financial Officers Association (IGFOA), and Midwest Association of Public Procurement (MAPP). Andrew serves IGFOA in multiple capacities; Executive Board Member Non-CFO, chair of the Growth and Engagement Network, and member of the Professional Education Committee. He also sits on the Finance Committee for the Northwest Municipal Conference.

### **Carolyn Welch Clifford, Ottosen Britz Kelly Cooper Gilbert & DiNolfo, Ltd.**

Carolyn Welch Clifford has devoted her legal career to the representation of local governments in Illinois with a special emphasis on legal issues involving the fire service. In her practice, Ms. Clifford primarily represents public pension funds, fire and police commissions, and fire protection districts. Ms. Clifford is actively involved in legal issues regarding the management of public pension funds. Ms. Clifford has extensive experience in handling firefighter and police disability pension matters from the initial hearing stage to appellate review. Her experience with employment matters from the initial hiring stage through disability and retirement provides her a unique perspective in advising clients. Ms. Clifford has handled a number of appellate cases and argued before the Illinois Appellate Court. Her appellate cases have included several issues of first impression. Ms. Clifford is the editor of the firm's newsletter, *Legal Insights for Pension Boards*, and she contributes articles to a variety of publications. Ms. Clifford is a frequent speaker on pension and employment issues and developed and served as a lecturer for two modules of Northwestern University's 32-hour public pension trustee training course. Ms. Clifford received her J.D. from the University of Illinois and has been admitted to the bars of the State of Illinois and the Federal District Court for the Northern District of Illinois.

### **RuthAnne K. Hall, Purchasing Manager, Lake County, IL**

RuthAnne K. Hall, CPPO has worked in municipal and county government for over 16 years and is currently serving as the Purchasing Manager for Lake County since 2011. In her role as the Purchasing Manager, RuthAnne oversees a staff of purchasing officers that procures over \$250 million annually on various goods, contracted services, construction and professional services for 26 county departments. She currently serves as the President of the Midwest Association of Public Procurement (MAPP), has served as a Board Member for the Illinois Association of

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Public Procurement Officials (IAPPO) and is an active member the National Institute of Governmental Purchasing (NIGP). RuthAnne is a graduate of Augustana College in Illinois and holds a MS degree from Columbia University in New York.

### **Chad A. Lucas, CPA, Partner, Sikich LLP**

Chad A. Lucas, CPA, is a Partner with Sikich LLP. Mr. Lucas has over twenty years of experience providing audit and management consulting services in the local government industry. He is responsible for overseeing the day-to-day fieldwork and execution of audit services for local government clients. Mr. Lucas is a 1995 graduate of Illinois State University with a B.S. in Accounting. He is a licensed Certified Public Accountant in Illinois and a member of the American Institute of Certified Public Accountants, the Illinois CPA Society, the Illinois Government Finance Officers Association, the Government Finance Officers of Missouri and the Government Finance Officers Association serving on the Special Review Committee for the Certificate of Achievement for Excellence in Financial Reporting Program.

### **Sarah McKee, Vice President, GovHR USA**

Sarah McKee is a Vice President with GovHR USA and has extensive experience as a local government manager and in non-profit management. She has conducted recruitments for a variety of positions including, City Manager/Administrator, Public Works Director, Fire Chief, Human Resource Director, Director of Development Services, Park and Recreation Director, Building Director, Bridge and Road Director, Court Services Director, 911 Center Director, Community and Economic Development Director and non-profit Executive Director in various states including Illinois, Indiana, North Carolina, South Carolina, Florida, Texas, Washington, Montana, West Virginia and Colorado. She has also been involved in studies related to organizational structure/development and strategic planning. Sarah was a city manager in Johnstown, OH (5,500) and Rolling Meadows, IL (25,000). Sarah also has extensive experience in Public Works Administration. She served as a solid waste and fleet superintendent prior to being a public works director at Paducah, KY. Through ICMA's international program and their cooperation with USAID, Sarah was asked to assist the country of Bulgaria in developing their solid waste management program as they transitioned to the European Union. She spent over seven years developing their program and training their environmental experts as well as assisting in the development of their landfills and composting sites. In addition to Bulgaria, Sarah has also worked in Beirut, Lebanon in the development of the Economic Development plan. She served as the first Executive Director of the Issaquah Highlands Community Association. Sarah has a Master's degree in Public Administration with emphasis in Organizational Communications, Murray State University, KY and a Bachelor of Science degree in Business Administration with emphasis in management, Murray State University, KY. Sarah has spoken/presented at various conferences including ICMA's Women's luncheon, Illinois Government Finance Officers Association, Indiana Municipal Managers Association, Illinois City/County Management Association and various other entities related to municipal government. She also serves as a coach for ICMA.

### **Austin Root, Associate, Ice Miller LLP**

Austin Root is an associate in Ice Miller's Municipal Finance Group. He acts as bond counsel and disclosure counsel to governmental entities throughout the State of Illinois including school districts, cities, villages, counties, park districts and special districts and as underwriters counsel to various municipal bond underwriters.

### **Shelly Scinto, Of Counsel, Ice Miller LLP**

Shelly Scinto is Of Counsel in Ice Miller's Municipal Finance Group. Shelly has served as bond counsel in public finance transactions for municipal issuers in Illinois, including counties, cities, villages, community college districts, school districts, park districts, and various other entities. Shelly drafts and reviews bond documents, purchase contracts, official statements, offering circulars, tax certificates, ordinances, resolutions and closing certificates. In addition, Shelly works with clients to confirm and ensure compliance with federal securities and tax law, as well as other contractual, federal, and state law requirements associated with municipal financings. Shelly was an attorney in the municipal finance group at Chapman and Cutler LLP from 1998 to 2015 and has served as lead counsel during her career on more than 350 underwritten and privately-placed municipal bond transactions throughout the State of Illinois with respect to municipal financings.



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### **Todd Sholeen, Huntington Bank**

Todd is part of the Huntington Bank, Government Banking team in Illinois, with over 25 years of banking experience in the government sector. Todd joined the bank in 2012 and is currently a member of the IGFOA and is a member of IASBO where he serves on the Cash Management Debt Service Committee. Todd also serves locally as a trustee for the Village of Barrington and volunteers for various nonprofit organizations. Todd graduated from Principia College with a bachelor's degree in English and he received his Masters in Accounting at DePaul University.

### **Molly Talkington, Finance Director, City of DeKalb, IL**

Molly Talkington is the Finance Director for the City of DeKalb, Illinois. She is responsible for the overall administration and operations of the Finance Department. This includes budget preparation and execution, financial aspects of the Capital Improvements Plan, property tax levy, revenue projections, audit, and other projects. Molly is also a key team member tasked with replacing and implementing new financial and human resources software. Additionally, she is the President of the Downstate Chapter of the Illinois Government Finance Officers' Association. Previously, she was the Financial Services Manager/Budget Officer for the City of Champaign, Illinois and in other Illinois communities. Molly holds a Bachelor of Science in History from the University of Wisconsin-Whitewater and a Master of Public Administration from Northern Illinois University. She is a Distinguished Budget Award and Popular Annual Financial Reporting Award reviewer.

### **Julie Zolghadr, Manager of the Budget Division, City of Springfield, IL**

Julie Zolghadr is the manager of the Budget Division for the City of Springfield, Illinois. She has served in this capacity since 1991. The division monitors spending for twelve City agencies with a total annual appropriation in excess of \$250 million dollars across 40 funds. The division provides analysis, training, and support to field fiscal personnel as well as ongoing monitoring of external and internal financial trends. The staff provides impact analysis for pending legislation at the federal, state and local level and works to stay current with major economic trends that may impact local government activities. Ms. Zolghadr has been a presenter at the Illinois Government Finance Officers Association, the Illinois Municipal Treasurers Association, and the Illinois Municipal Clerks Association. She serves as a budget reviewer for Government Finance Officers Association.

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**Illinois Government Finance Officers Association**

800 Roosevelt Road, Building C, Suite 312

Glen Ellyn, IL 60137

Phone: 630-942-6587

Email: [info@igfoa.org](mailto:info@igfoa.org)

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