

TRUTH IN ACCOUNTING ORAL TESTIMONY

Project: 3-25I

Financial Reporting Model Improvements – Governmental Funds

Attachment I

Some suburbs keep more money in reserve

By Jake Griffin – Daily Herald

Hefty reserves

The Government Finance Officers Association recommends two months (or 17 percent) of annual operating expenses be kept in reserves, but many suburbs have much more than that socked away.



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Hainesville could go at least three years without collecting any property taxes and still have enough money in its reserve fund to cover the loss of that revenue.

But don't expect that to happen.

"I do think (the village's reserve fund) is too high," Hainesville Mayor Linda Soto said. "That's why we're getting to some capital improvement projects. Some that I believe are long overdue."

Inverness and Green Oaks could also forgo taxes for multiple years and continue governmental operations without worry of going broke, according to a Daily Herald analysis of the villages' audits.

Government agencies should have at least two months of their annual general fund operating expenses in reserve, according to the Chicago-based Government Finance Officers Association's "Best Practices" guidelines. That equates to roughly 17 percent of a municipality's operational costs.

In Hainesville's case, the reserve fund at the end of the 2012 fiscal year -- the most recent year completed municipal audits are available -- was 217.8 percent of the village's expenses. The village's operational costs amounted to \$1,268,897, while its reserve fund totaled \$2,764,068. Property, sales, income and other taxes covered \$810,268 of the operational costs that year, according to the village's audit. Historically, property taxes make up about two-thirds of the village's total annual tax haul.

Reserve funds are intended to cover any unforeseen revenue shortfalls or emergency expenses. Credit rating agencies evaluate levels of reserves to determine a government agency's lending risks.

A study of 85 suburban municipal audits shows that 10 suburbs have enough in reserves to cover at least a year's worth of expenses and still have some money left over. Only five suburbs reported reserves of less than the 17 percent minimum recommended by the GFOA, an organization with more than 18,000 members nationwide, including hundreds of government agencies in Illinois.

At 8.5 percent, Hampshire's reserve fund was the lowest of any municipality studied.

"Basically we looked at where we were at personnel-wise and the level of service we were offering, and we elected to draw on that reserve to continue basic operating functions at their current level," Hampshire Village Administrator Doug Maxeiner said. "We would like to have our reserves at 25 percent. If our reserve was up to 100 percent of our operating costs, we'd have some explaining to do to our taxpayers."

Maxeiner said Hampshire went through rounds of layoffs and pay freezes since 2008 in addition to drawing down reserves in lieu of raising property taxes. Some months were leaner than others, but the village never ran out of money to cover its bills and require any short-term borrowing, he said.

While GFOA recommends a minimum reserve fund balance to be considered financially healthy, the organization's guidelines do not recommend a maximum amount.

"There can be a problem with too much," said Sarah Wetmore, vice president of The Civic Federation, a government finance research group based in Chicago. "You get into the question of whether the government is overtaxing."

Soto said Hainesville officials are planning an infrastructure renovation campaign that will chip away at some of the reserves, and short-term and long-term plans are in the works to identify how some of the excess reserves will be spent as well.

"You will see a reduction," she said. "We're changing how we manage our funds."

Stephen Gauthier, the director for technical services at GFOA, said the association doesn't put a cap on reserves because each government is funded differently and relies on different ratios of taxes for revenue. Some taxes are more stable than others, and governments that rely more heavily on less stable taxes, like sales tax receipts, may want to keep larger reserves in case of emergencies.

"The less predictable things are, the more you need a buffer," Gauthier said.

Inverness Village Administrator Curt Carver said it's the board's policy to keep a reserve that amounts to at least 100 percent of a year's worth of expenses. In 2012, that level was at 208.7 percent, or nearly \$6.2 million.

"We keep the reserves up to be sure we had the financial flexibility to handle unforeseen events," Carver said. "I think you'll see some spending down of the reserves. We're obviously higher than policy dictates."

Carver said some of those funds will be earmarked for repairs and renovations to village hall. However, he noted he is unaware of any complaints about the size of the village's reserve fund.

"Our audits have been on our website for years and it hasn't been a surprise," he said. "It doesn't seem to be an area that has garnered a lot of attention."

But it's not really that easy to find the reserve amount in a government's audit, since there's no single line item anywhere. To calculate government reserves using GFOA's guidelines, one has to add together the "unassigned, assigned and committed" general fund balances, according to the association's policies. Those figures are usually found in the first 30 to 40 pages of audits that can be anywhere from 50 pages to more than 200 pages long. And there's also some disagreement among government finance experts as to what should constitute reserves.

"Governments want you to forget that they have all this pension debt," said Sheila Weinberg, founder and CEO of Truth in Accounting, a group pushing for more uniform, understandable and accessible government financial reporting requirements. "If you don't measure it and take it into account, you don't manage it well."

The GFOA guidelines for reporting reserves does not take into account unfunded pension liabilities, though none of the municipal leaders who were asked about excess reserves mentioned funneling any of that money into pension liabilities.

Lincolnshire Mayor Brett Blomberg defended the village's \$11.6 million reserve fund, which was 140.8 percent of the village's expenses in 2012, saying the small property tax levied by the village goes only to cover police pension obligations.

"I could see where someone would say you're just sitting on this money and why are you doing that?" Blomberg said. "But drive through the village and see the condition of the streets and the parks and how well everything is maintained. We've had no complaints about it, and occasionally we have discussed eliminating the property tax for the police pension."