

2014-2015 Budget Analysis

Village of Sauk Village

PREPARED BY: **Derrick Burgess**

DATE: **July 14, 2014**

Mayor David Hanks presented what he said was a “balanced budget” for FY2014-15 on June 30, 2014, nearly 2 months after when the fiscal year was to start. The budget and process lacked input and involvement from the Board of Trustees and Departments Heads. Furthermore it did not allow enough time for the Village Board to have a robust debate and open discussion about the merits of the budget. The Public Hearing was scheduled at such a time where public input could not have been taken into consideration to where amendments or changes could have been made before passage.

Many questions remained without answers as we went into the Budget meeting on June 30th and further analysis was clearly needed. We received the budget the day of the budget hearing and nobody, except the Mayor Hanks, had any opportunity to review the data.

Given the Village’s fragile financial condition and lack of timely financial reporting it was hoped that more attention to detail would have been given the budget and budgetary process, however, that does not seem to be the case. This is absolutely the worst budget that I have seen. This budget lacks attention to detail, lacks thoughtful consideration to some very serious financial situations, lacks a clear plan of action and does not consider many short and long term goals and objectives.

The Mayor advises that he took it upon himself to meet with department heads and cut over \$5 million from a budget that the Board of Trustees had not reviewed nor seen. It has not been determined what had been cut and the logic and consideration behind the cuts. The Mayor advised that he did not seek the “advice and consent” during those meetings.

Just because some things were “past practice” does not mean that they were correct and that they should simply be continued. Given the challenging financial condition of the State of Illinois and the nation in general, Sauk Village needs to step up its game.

In order to attract major businesses, or any businesses we need to show that our financial house is in order. Reviewing this proposed budget, one can easily ascertain that our house is anything but in order.

It appears that some are intent on playing politics and are clearly not interested in engaging in constructive dialogue to work together collaboratively to bring about changes to the Village’s Budgetary process and the budget in general.

This administration had six months to prepare this budget which was presented to the Board of Trustees on June 30, 2014. I have taken two weeks to review the information to formulate my own analysis of this data. This Village Board should have given adequate time to review the budget, make changes, hold a public hear, make changes following our residents’ input and pass a budget. This administration

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waited far too long in preparing the information knowing that the budget must be passed before July 31st.

This budget and the Village's finances need fundamental change, everything should be on the table nothing should be exempt or sacrosanct when Village officials talk about the budget. We are stewards of the taxpayers, we are elected to be responsible with their tax dollars.

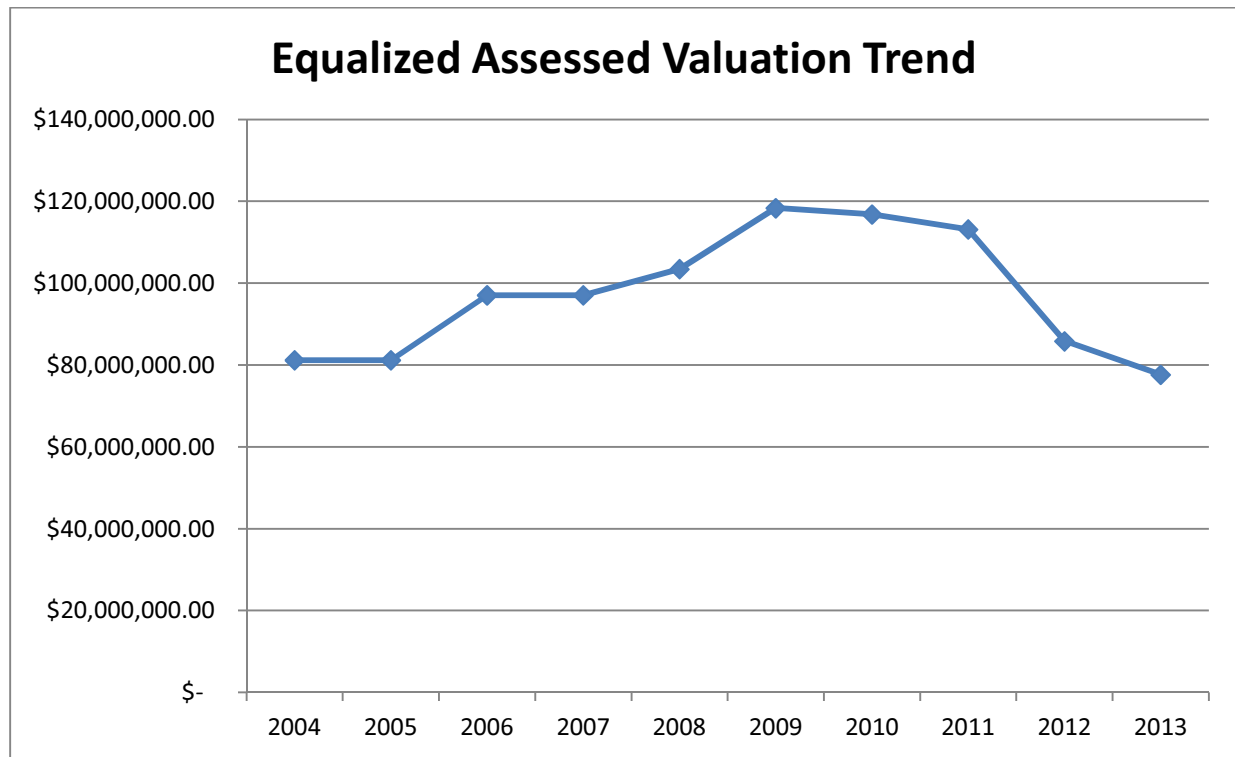
The taxpayers of Sauk Village will ultimately be responsible for the financial situation and decisions that we make as a Village Board. I for one do not agree with the status quo and believe we should be fiscally responsible with our residents tax dollars.

Yours very truly,
Derrick N. Burgess,
Village Trustee

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EQUALIZED ASSESSED VALUATION HISTORY



It is expected that the reassessment will show continued decline in EAV as we near the bottom of the recession.

FUND BALANCES

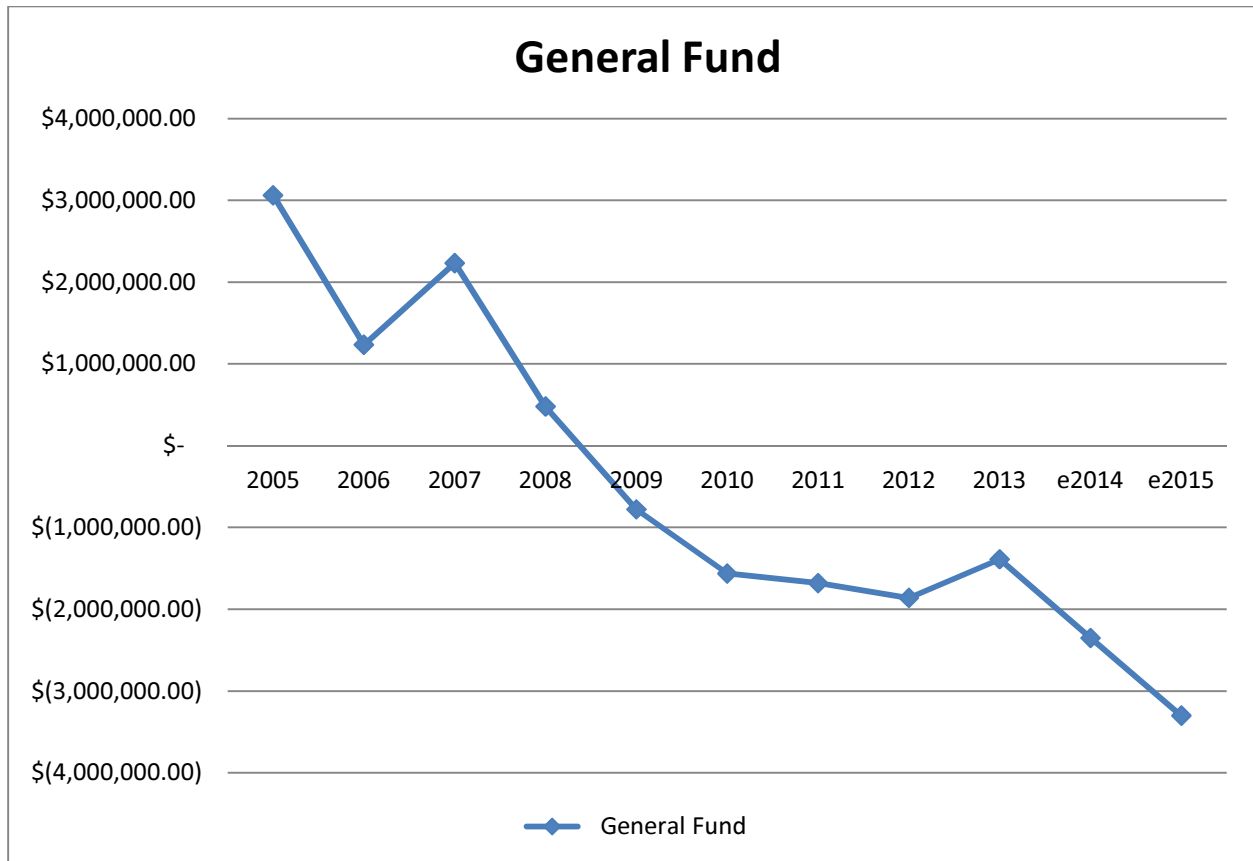
No Fund Balance data was provided to the Board of Trustees to determine if the budget was in balance. The information provided below shows the historical trends of the General Fund. The Village had two 18 month budgets in 2010-11 and 2011-12 then there was an interim 6 month budget for 2012-13. No data was provided as the audit report for 2013-14 was not completed. The FY ending April 30, 2014 estimates were not provided in this budget.

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	2013	2012	2011	2010	2009	2008	2007
Fund Balances							
General Fund	\$ (1,388,889.00)	\$ (1,861,844.00)	\$ (1,680,196.00)	\$ (1,563,276.00)	\$ (778,732.00)	\$ 478,587.00	\$ 2,232,073.00
Special Revenue	\$ 1,371,389.00	\$ 1,341,700.00	\$ 1,336,577.00	\$ 1,499,945.00	\$ 812,702.00	\$ 468,587.00	\$ (873,156.00)
Capital Project	\$ (1,194,763.00)	\$ 1,448,548.00	\$ 3,764,473.00	\$ 2,485,865.00	\$ 8,909,460.00	\$ 8,378,533.00	\$ 2,448,555.00
Debt Service	\$ 9,689,787.00	\$ 11,115,718.00	\$ 8,785,216.00	\$ 8,713,539.00	\$ 8,286,903.00	\$ 2,403,903.00	\$ 3,468,564.00
Enterprise	\$ 1,918,465.00	\$ 2,315,987.00	\$ 3,120,699.00	\$ 3,008,120.00	\$ 3,333,141.00	\$ 3,047,425.00	\$ 3,239,930.00
Fiduciary	\$ 156,232.00	\$ 153,515.00	\$ 145,431.00	\$ 129,747.00	\$ 4,385,531.00	\$ 5,043,094.00	\$ 5,017,055.00
TOTAL BALANCES	\$ 10,552,221.00	\$ 14,513,624.00	\$ 15,472,200.00	\$ 14,273,940.00	\$ 24,949,005.00	\$ 19,820,129.00	\$ 15,533,021.00

*Above is a 7 year look back in the Fund Balances. As you can see the General Fund typically ran a positive Fund Balance and since 2009, no attempts have been made to bring the General Fund back into balance. Based on the proposed 2014-15 budget the General Fund will remain not balanced resulting in additional inter-fund borrowing. As indicated by the Finance Director in the proposed 2014-15 budget, there will likely be an additional deficit of \$962,677 from 2013-14 driving the General Fund much further out of balance by **-\$2,351,566** according to the 2013 Audit and Mohan Roa's figures.*



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RECOMMENDATION: *The Village Board should work collaboratively to bring the General Fund back into balance.*

REVENUE ANALYSIS

Below is a historical look back of the General Fund Revenues by source. None of this data was included in the FY2014-15 Proposed Budget.

	2013	2012	2011
FY Ending	30-Apr-13	31-Oct-12	31-Oct-11
Property Tax	\$ 1,254,597.00	\$ 2,359,081.00	\$ 1,848,213.00
Utility Tax			
Electric	\$ 140,548.00	\$ 259,758.00	\$ 249,965.00
Water	\$ 22,176.00	\$ 37,150.00	\$ 35,100.00
Communications	\$ 61,647.00	\$ 134,684.00	\$ 143,847.00
Other Utilities	\$ 38,097.00	\$ 45,111.00	\$ 62,028.00
State Income Tax	\$ 503,291.00	\$ 904,741.00	\$ 1,028,283.00
State Sales Tax	\$ 218,834.00	\$ 440,679.00	\$ 293,171.00
State			
Replacement	\$ 19,020.00	\$ 28,682.00	\$ 28,639.00
Other: State	\$ 10,600.00		\$ 2,200.00
Streets & Hwys	\$ -	\$ 7,028.00	
Other		\$ 46,036.00	\$ 97,621.00
Other Intergov	\$ 33,446.00	\$ 74,157.00	
License & Permits	\$ 54,347.00	\$ 232,964.00	\$ 254,506.00
Fines &			
Forfeitures	\$ 125,113.00	\$ 196,563.00	\$ 193,917.00
Refuse & Disposal	\$ 65,489.00	\$ 37,597.00	\$ 94,191.00
Other: Tow Fund	\$ 200,304.00	\$ 253,822.00	\$ 142,875.00
Interest	\$ 137.00	\$ 481.00	\$ 444.00
Miscellaneous	\$ 77,645.00	\$ 52,115.00	\$ 432,126.00
Federal Sources			
	\$ 2,825,291.00	\$ 5,110,649.00	\$ 4,907,126.00
<i>Annualized</i>		\$ 3,407,099.33	\$ 3,271,417.33

PROPERTY TAXES

It appears that the Property Taxes proposed in the 2014-15 Budget are at the same rate as the 2013 Tax Levy. It also appears that this budget calls for 100% collection rates on Property Taxes, or close to it.

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Common sense would dictate that the Village will not get 100% collection on property taxes since it only received about 87.7% of what it budgeted in 2013.

Property Taxes Revenues are likely to be a bit lower as Assessed Values continue to decline from its historic high in 2009. A more prudent course would be to “anticipate” 94%-95% and should not be budgeted at a higher rate due to appeals and other normal shortfalls which routinely occur.

A conservative estimate on “over anticipated” property tax income and budget shortfall would be \$252,460.00 to \$333,954.00 which will cause shortfalls in payroll and routine bills and unbalance the Village’s fragile General Fund. The net result will be additional inter-fund borrowing from the water/sewer fund to meet payroll and ongoing expenses.

RECOMMENDATION: Property taxes should be estimated on a conservative basis, revenues should be as close to what has historically been brought in. The Village Board needs to work collaboratively on a long term solution to this matter.

2007A Bond Special Tax Levy

A corresponding revenue source for the 2007A Bond appears to be absent from this budget as it was in 2013. There appear to be no Impact Fees to cover the Debt Service for the 2007A Bond and the budget, as proposed has no corresponding Property Tax Levy anticipated as a result the budget does not appear to be “balanced” as regular property taxes are being used to pay the debt service for the 2007A Bond. This course of action could be considered, however, this will unbalance the General Fund, as budgeted, by **\$690,000**.

Recommendation: need to provide a line item budgetary revenue source. The Village Board needs to work collaboratively on a long term solution to this matter. The Administration needs to show a corresponding revenue source in the budget and as this is bond obligation, it should be shown as a Special Tax Levy Property Tax segregated to cover the corresponding credit to the Debt Service account in accordance with GAAP.

Illinois Income & Sales Tax Revenue:

Illinois Income Tax revenues projected are at a rate of \$94.70 per capita which are in line with what has been indicated, however, the State of Illinois (State) has had a history of falling behind on distributing income tax and use tax revenues back to municipalities. In 2012-13, the State was routinely 3-4 months behind in payments totaling over \$260,000 in 2012. The State is currently attempting to make timely payments but as history shows, they tend to fall behind.

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The budget as presented anticipates 100% collection rate and does not take into consideration any shortfalls which is not a prudent budgetary practice. Generally, other municipalities budget about 95% of anticipated State Income Tax and Local Use Taxes given the State's notorious history.

Illinois Sales Taxes, Local Use Taxes appear to be budgeted at 100% collection based on a per capita of \$17.55. Again, with the inconsistency of the State's financing budgeting at 100% collection levels is not a prudent course of action. 95% Collection rate would be a more conservative approach for this revenue source.

	<i>Projected 2014/15</i>	2013	2012*	2011*
State Income Tax	\$ 992,817.00	\$ 503,291.00	\$ 603,160.67	\$ 685,522.00
State Sales Tax	\$ 336,000.00	\$ 281,834.00	\$ 293,786.00	\$ 195,447.33
TOTALS	\$ 1,328,817.00	\$ 785,125.00	\$ 896,946.67	\$ 880,969.33

**amounts are annualized based on the 18 month budget.*

Recommendation: State Tax Revenue should be estimated on a much greater conservative basis, revenues should be as close to what has historically been brought in. Over anticipating income will bring the General Fund out of balance. The Village Board needs to work collaboratively on a long term solution to this matter.

Fees & Services:

While the Village has raised Licenses and Fees it appears that we're taking an aggressive approach to anticipating income and not a more conservative approach.

By now we have received revenues for Business License renewals and the bulk of the Village Sticker Revenues.

A few things are worthy of note on Fees & Services. The anticipated revenue projection for Business Licenses is up around 100%, has this revenue been realized to date? We are two months into the fiscal year and should have a good idea of where revenues should be. Additionally, Vehicle Licenses we should have a good idea where we are based on the revenue projections.

Building permits are budgeted at about 33% higher than last year? Are there any major projects coming on line to warrant such an increase?

We've increased the revenue in Police Reports but it is not a prudent approach to this revenue source as it varies.

Police Tow Release Fees are projected at the same level as 2013. It would be a more conservative approach to consider reducing these by \$20,000 due to the fact that the department has reduced staff

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and reliance on these fees should not be made to balance the budget, rather, this revenue could be earmarked for the Police Department Capital Purchases only. By using this revenue for Capital Improvement/Purchases the money could be used and budgeted based on what is actually available to spend and not simply dumped into the General Fund.

Recommendation: Fees and Services should be budgeted on a more conservative basis; Police Tow Release Fees should be earmarked for Police Department Capital Expenses or operational expenses. The Village Board needs to work collaboratively on a long term solution to this matter.

Illinois Bell Surcharge (9-1-1)

The proposed budget appears to over anticipated income for this year. The budgeted Surcharge for 2013-14 was \$70,000 however the actual revenue received was \$53,153. So it appears that now we're projecting \$80,000 or \$26,847 in revenue more than the Village is likely to receive. Voters rejected a proposed increase in a binding Referendum in early 2014 so it is uncertain where the additional revenue is coming from.

Additionally, the proposed budget appears to be budgeting \$80,000 in spending but is only likely to receive about \$54,000 in revenues causing a deficit in this fund of some \$26,000

Recommendation: The Village Board needs to work collaboratively on a long term solution to this matter.

Parks and Recreation

Program receipts and rental income for the Parks and Recreation do not indicate any growth over last year's programs based on 2013's budget income verses actually income. It appears that there is only budgeted personnel for Parks and Recreation based on "anticipated" grant revenue and nothing more was budgeted. Does this mean that if the Village does not get the grant, we have nobody running the community center? Additionally it appears that the individual would only work no more than 489 hours based on the amount budgeted at \$9.50 per hour which would mean that the Community Center would have this employee there no more than 10 hours per week or two hours per day during the week.

What is the purpose stated in the "Youth Grant¹" which is also anticipated in the Village's Revenue and also in the Parks and Playground Budget.

¹ Proposed 2014-15 Budget pg 2 and pg 10

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There are no funds budgeted for repairs or ongoing maintenance to the Paesel Community Center. Routine cleaning and repairs should be included in this budget and they have not been budgeted out of Parks and Playgrounds Budget.

The Village levies a Property Tax for Parks and Playgrounds and anticipates \$33,339 in property tax revenue, additionally \$7,000 in program and concession receipts are anticipated for the Parks and Recreation Budget. That's \$40,339 in total Revenues for Parks and Playgrounds. The total Operating Budget of Parks and Playgrounds total \$19,766 leaving \$20,573 available to be budgeted for Parks and Recreation including any utility costs, building maintenance, insurance expenses, costs for general administration, etc. There are none budgeted and it appears that property taxes which are pledged to Parks and Playgrounds are going to fund other operations of the Village without a transparent budgetary process provided.

There is nothing budgeted for maintenance of parks equipment throughout the Village nor a maintenance schedule or assessment provided in this budget proposal. Village residents have voiced numerous questions about the Parks of Sauk Village, some residents pay extremely high property taxes bills and offering attractive and inviting parks are but one way to maintain and increase property values.

Recommendation: A more realistic budget proposal should be put forth including a timeline, program costs and revenue projections. Employee costs should be budgeted with ongoing revenues. The Village Board needs to work collaboratively on a long term solution to this matter.

GRANTS

Balancing the Budget with Grant Revenue is not a prudent course of action as illustrated with the Youth Grant.

There are several "grants" anticipated in the proposed budget, however, it would be a much better approach to budget these grants separately so that way there is more transparency as to exactly how the grant monies are being spent. For instance, there is a Parks and Playgrounds Grant anticipated which is lumped into the Parks and Recreation Budget for \$335,000². The public is left guessing, what the grant is for and exactly how the funds are to be spent (ie engineering, cost of goods, Salaries, etc).

Likewise for the "Other Grants & Gen. Infra Grant-State of Ill"³ this lacks transparency for the residents to fully understand where this money is being sent.

² Proposed 2014-15 Budget, pg 2 (see 100.230.870.000) "Infra Improvement"

³ Proposed 2014-15 Budget, pg 2 (see 100.000.376.005 "Other State Grants" and also "Gen.Infr Grant-State of Ill")

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Fire Grant Revenue this revenue source anticipates about \$25,000 and should have a separate budget category showing the expense for this grant. This is simply “lumped” into the Fire Department Budget and lacks transparency on how this grant is going to be spent.

Recommendation: Budgetary Revenues and Expenses should be segregated from operations within specific budgets. Grants should have their own budgets including breakdowns of revenues and expenses. This will provide greater transparency. The Village Board needs to work collaboratively on a long term solution to this matter.

TRANSFERS

The transfer of various funds to the General Fund lack transparency because there are no specifics provided. We are transferring an additional \$78,737 from TIF's 2&3 but what this lacks is any breakdown as to what the Transfer of funds are attributed (ie- Legal Fees, Engineering, etc).

Additionally, there is a \$300,000 transfer from the Water/Sewer Funds which are actually two separate funds and not one and the same. Further details are provided in the Water and Sewer Fund expenditures. This again, lacks transparency and further puts the General Fund Balance into deficit.

Both the water and sewer funds are “Enterprise Funds” and any use of those funds is restricted for the operation of those enterprises with some exceptions permitted

Recommendation: Transfers from the TIF Funds warrant additional consideration and documentation. Water Funds should not be arbitrarily “transferred in” without a detailed expense analysis provided to the Board of Trustees prior to the approval of this budget and prior to the moving of any funds. The Board needs to adopt a more stringent policy and better oversight of this matter. The Village Board needs to work collaboratively on a long term solution to this matter.

MISCELLANEOUS

The Budget, as proposed anticipates \$7,000 in “donations”, however, the Village of Sauk Village is not a 501(c)3 Not-for-Profit Organization and “donations” as such are not Tax Deductible as a result. Consequently these are miscategorized as a Revenue Source per GAAP.

Similarly, the proposed budget has “Fire Works” as a Revenue Source under Miscellaneous. If Village officials are soliciting donations, these donations are NOT Tax Deductible under IRS Code for Fire Works.

“Concessions, Etc”⁴ projects less sales anticipated for the fiscal year. This line item needs some explanation as to “why” they would anticipate less sales if they plan a robust expansion of programs or is the anticipation that there will be less programs for the Youth.

⁴ Proposed 2014-15 Budget pg3 (see 10.230.394.000)

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Recommendation: The Village is not a “charity” although some days it seems like it. We should not be soliciting donations. If not-for-profit groups want to solicit donations and provide grants to the Village that would be more desirable than exposing the Village to potential litigation regarding this. The Village Board needs to work collaboratively on a long term solution to this matter.

General Fund Expenditures	2013	2012*	2011*
General Government			
Financial Administration	\$ 978,040.00	\$ 1,563,219.00	\$ 1,779,641.00
Public Safety			
Police	\$ 1,344,021.00	\$ 2,842,893.00	\$ 3,226,212.00
Fire			
Other	\$ 270,974.00	\$ 570,290.00	\$ -
Transportation & Public Works			
Streets & Highways	\$ 5,945.00	\$ 8,718.00	\$ 27,855.00
Other	\$ 53,955.00	\$ 155,919.00	\$ 139,704.00
Debt			
Interest	\$ 2,554.00	\$ 3,742.00	\$ 43,105.00
Principal	\$ 25,490.00	\$ 24,302.00	
	\$ 2,680,979.00	\$ 5,169,083.00	\$ 5,216,517.00
<i>Annualized</i>		\$ 3,446,055.33	\$ 3,477,678.00

****These amounts were annualized due to the 18 month budget process.***

Water Fund Revenues

It appears based on the proposed budget that revenue projections are based on 100% collection using an average of 207,586,667 gallons of water at \$7.50 per/1000 gallons or \$1,556,900. Based on the 2013-14 collection it appears that the collection rate would be closer to 75%. Based on our current weather, which has been considerably wetter, one can reasonably expect that water usage will be down as we near the end of the heavy water use months for the fiscal year. Using a bit more aggressive collection activity one could boost the number to 85% so \$1,323,365 for water revenues.

Based on the proposed budget it would seem revenues are over estimated by \$233,535

Other Revenue projected appears to be from a grant, which as stated herein, Grants should be included in a separate budgetary category to provide greater transparency.

The other major issue is that there are funds from the Village’s “IEPA Loan”⁵ included as a revenue source. As this is revenue derived from an obligation of the village, this loan should be segregated out

⁵ Proposed 2014-15 Budget pg 16 (see 300.000.398.001)

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and placed under a separate budgetary category. What clearly doesn't make sense is that if there were any funds drawn upon during the 2013-14 Fiscal Year, that amount logically would have been deducted from the "net" amount of the loan.

One final note is that there are no revenue projections for water bill collections. Since collection rates appeared to be down in 2013-14 and an aggressive collection policy should be adopted by the Board in order to recover any shortfalls

Recommendations: The Village Board accepted Mr. Bud Mason's recommendation to increase water rates an additional \$2.00 per 1000 gallons to \$7.50 per 1000 gallons to allow for infrastructure improvements. None have been budgeted out of this revenue which would be \$415,173.33 according to the budgetary analysis. Furthermore, no payment arrangements are included in this year's budget, yet we are planning on an arbitrary transfer of \$300,000 to the General Fund! This makes no sense! This warrants further review and collaborative action by the board to resolve this. The Village Board needs to work collaboratively on a long term solution to this matter.

Sewer Fund Revenues

Sewer Fund revenues appear to be at 100% collection levels. Sewer rates are established at \$28.00 per user paid every two months, plus \$0.99 per 1000 gallons of water. Revenue based on these projection total \$558,310.70 but the proposed budget appears to anticipate a higher rate of collection or usage than the average by about \$17,344.00.

EXPENSE ANALYSIS

Finance & Administration

Regular Employee Wages. Only the Finance Director and Administrative Services Director are paid from this line item. Their Salaries are broken down accordingly:

Finance Director	\$57,054.38*
Admin Svc Director:	\$68,164.74
Total:	\$125,219.12

**note: The Finance Director Salary appropriates part of the Water and Sewer Funds \$9,509.06 (or 25% of his salary comes from both the water(12.5%) and sewer funds(12.5%) and amounts for IMRF and FICA are also included at 25% ½ of which comes from each fund.*

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There is an ambiguous amount of \$23,000 listed as “Other-Enbridge Expenses”⁶ There is no logical explanation as to what this amount is to be used for as far as an account expense. This does not follow GAAP.

Also “Professional Services” a lump sum of \$550,000 is budgeted for this line item. There is no explanation given as to the breakdown or what this amount is for. This lacks transparency as it does not breakdown exactly what “professional services” are being provided, by whom and how much those services are budgeted. Then one must ask are all of the Professional Services appropriately categorized under Administration and Finance?

In the Proposed Budget of June 30, 2014, the Projected-Actual provided for Professional Services was \$550,000, however, after review of this using the Village’s Detailed Ledger for General Ledger #100.005.726.000 it was determined that only \$415,886.19 was spent during the entire fiscal year 2013-14; however, \$342,214.72 remains unpaid as of April 30, 2014 for an actual estimated amount of \$758,080.91 for the period, the numbers provide in the Proposed Budget are incorrect. Here is the breakdown for “Professional Services” for vendors paid and owed during FY 2013-14 as follows:

	Paid	Still Owed	Total
Robinson Engineering	24,014.55	21,385.00	\$ 45,399.55
Baxter & Woodman		1,556.38	\$ 1,556.38
Donald Craven PC		1,703.00	\$ 1,703.00
Kane McKenna & Assoc	23,408.75	7,537.50	\$ 30,946.25
Kraloec Meenan LLP		19,362.50	\$ 19,362.50
Langhenry, Gillen, Lund		28,016.34	\$ 28,016.34
Odelson & Sterk	344,717.89	253,654.00	\$ 598,371.89
A. Ronan (Lobbyist)	18,000.00	9,000.00	\$ 27,000.00
REM	3,150.00	0	\$ 3,150.00
Hiskes Dillner	1,930.50	0	\$ 1,930.50
Marie L. Rogers, CSR	644.50	0	\$ 644.50
TOTALS:	\$415,886.19	\$342,214.72	\$ 758,080.91

It should be noted that the \$342,214.72 is reflected in the summary as “Amount of outstanding bills still unpaid *not budgeted*” below.

Recommendation: The Village Board needs to work collaboratively on a long term solution to this matter.

⁶ Proposed 2014-15 Budget pg 4 (see under line item 100.005.680.000)

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“Other Contractual Services” once again, there is no explanation as to what “other contractual services” are being performed for Administration and Finance.

Also included as an “expense” to the Administration are the 2007 Series A Alternative Revenue Bond \$690,000. It is unclear as to why this being charged to Administration and Finance. The 2007 Series A Bond was an Alternate Revenue Bond used to build the Municipal Center. Alternative Revenues from Impact Fees were pledged to repay the bonds. In recent years, since 2012, the Village has had little to no impact fees and the Village had to Levy the residents to cover payments on the bonds. There appears to be no impact fee income budgeted in FY 2014-15 budget, also, there appears to be no Special Levy for the Property Taxes. This raises several questions which should be addressed prior to the budget’s passage:

- 1- If NO Impact Fees are budgeted is the Village supplementing normal property taxes to cover the Debt Service of the 2007 A Bond?
- 2- Will the Village be Abating the 2007A Bond this year, thereby providing a little tax relief to the taxpayers?
- 3- How will the Village make up the shortfall of \$690,000 in lost revenue?
- 4- Is the 2007A Bond Levy included in the Proposed Budget Property Tax Revenue, if so where?

Recommendation: The Village Board needs to work collaboratively on a long term solution to this matter.

Public Grounds and Buildings

Operating Supplies was expensed last year at \$25,993 for FY 2013-14, however, it was only budgeted at \$600, the same amount is budgeted for 2014-15. It would appear that this line item is under-budgeted.

Utilities were budgeted at \$12,000 for FY 2013-14 and \$14,625 was expensed. This year, only \$13,000 was budgeted leaving this “under-budgeted”

“Infra Improvement-State” This proposed line-time is part of an “anticipated” grant and should have it’s own budgetary category. A specific and detailed plan has not been presented to the Village Board on what this project might entail. Additionally, this line item does not go into specifics and break down what this is about, lacks transparency and more specifically does not conform to GAAP.

Recommendation: The Village Board needs to work collaboratively on a long term solution to this matter.

Police-Public Safety

Regular Employee Wages consists of 1- Police Chief, 4- Sergeants, 2- Detective and 15- regular Patrol Officers. This line item appears to take into consideration the 2nd Installment of Raises negotiated in the

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FOP Contract with the Village and Holiday Pay as well. What these figures do not include are any pay increase for a Deputy Chief of Police. The Village has lost three FTE Patrol Officers in FY2013-14 through resignations and there is no funds budgeted to replace any police officer lost through attrition. Chief Tim Holevis had requested additional Police Officers during the Village Board's Budget meeting.

"Overtime"⁷ with the loss of three patrol officers and the department spending \$271,591 in over-time last year. Common sense would dictate that overtime in the department would not likely go down, however, we see that the proposed budget is "anticipating" less overtime by over \$110,000. Despite the fact that new officers have gone through their 6 month training, history tells us that overtime will continue without fundamental restructuring of the Department and diligent mutual negotiations with the FOP Union. While the Village hoped to curb overtime in FY 2013-14 that did not happen. This is under-budgeted by about \$110,000. Why a short term solution is not to hire additional police officers, alternatives such as "compensatory time off" and exploring other options such as 12 hour shifts may help reduce overtime, but it is not likely going to go away altogether. A minimum of 15% of Regular Wages should be budgeted for this line item. (Since 2010, the department has spent about \$200,000 per year on overtime.)

"Employer Contribution-Police Pension" this line item is actually categorized under Police Public Safety, however, the line item number falls under the Finance and Administration and is actually an Expense of the Finance and Administration. With that said, the Village shows the employer's contribution, however, the Village is not taking into account the accrued amounts owed to the Police Pension Fund and has no long term plan on a way to catch up the contributions it has not made over the last several years. As of the 2012 Audit Report⁸ the Village has not contributed to the Police Pension Fund \$1,761,570 and there are no additional funds budgeted to make up this obligation. Mayor David Hanks indicated he wanted specific monies earmarked from gaming revenues, however, none are included in this budget. A viable plan realistic timeline should be constructed to repay this obligation over a 5 or 10 year period, including lost interest payments that the fund has lost as a result of the under-funding of this obligation.

"Vehicle Expense" the Proposed Budget included \$73,560 for repairs to the Village's aging fleet of vehicles which have amassed over 100,000 miles and have exceeded their life expectancy. Chief Holevis proposed a lease purchase agreement of 6 new squad cars, however, at the Budget hearing Mayor David Hanks said that there was no money budgeted. In a news report published in the *NWI Times* (Tejeda, 2014)

An analysis of the figures based on the media article of \$47,000 per year are as follows:

6 Squad Car Leases (\$47,000/12= \$3916.66 per month or \$652.78 per month per squad)

⁷ Proposed 2014-15 Budget pg7 (see 100.025.530.000)

⁸ 2012 Audit Report pg37 see "Net pension obligation: Police"

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According to the article: *“Hanks said Friday the cars would be leased for four years, with an option to purchase them afterward. The village would pay \$47,000 a year for the four years, a special rate Ford Motor Co. gives to law enforcement.”*

The total the Village would pay for these squad cars according to the “budgeted” amount would be \$31,333.44 over the term of the lease, the terms and conditions should have been discussed with the Village Board during the budget hearing and not simply put out to the media without a robust debate! This method would push the burden to the taxpayers down the road and could impact the the Village’s Budget over the next 4 years. A more practical approach would be to utilize the Tow Release Fund to purchase squad cars ever year to replace the aging fleet on a rotational basis.

Additional line items such as “Other Contractual Services” for \$10,000 warrant questioning.

The “Net” amount appearing to be short in expenses in the Police budget is about \$78,500

Recommendation: The Village Board needs to work collaboratively on a long term solution to this matter.

Parks and Playgrounds

We made mention of the personnel under P.T. Wages under Grants already.

There is a line items “Infra Improvements” \$335,000. There has been no detailed plan brought before the Village Board on what the money is to be used for. This “Grant” should have its own Section separate from the Parks and Playground Budget showing a detailed budgeting of the funds along with the plan as approved by the Village Board not a “generalization” of the use of funds. The plan should include appropriate timelines and cost breakdowns.

Recommendation: The Village Board needs to work collaboratively on a long term solution to this matter.

Water Fund (Enterprise Fund)

“Regular Employee Wages” consists of ½ the Salary of the Public Works Director, 12.5% of the salary of the Finance Director, 6 Full-Time Employees and raises pursuant to the contract for Public Works employees. Additionally ½ of the salary of the Payroll/Accounts Payable Clerk are paid out of the Water Fund and ½ the salary of clerk at Village Hall are paid from the water fund. The Payroll/AP Clerk is not likely 50% dedicated to water department services and this should not be continued as a practice as they perform services for other departments and funds responsible for funding those expenses should pickup the proportional amount. You may remember the village was involved in litigation in 1986 for paying employees out of the water fund that did not perform work exclusively for the water

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department. This appears this may be the case here. Likewise, if the Clerk at Village Hall is selling Vehicle Stickers or performing any type of work for the Administration, you have the same situation.

Water Fund employees are being paid 100% out of the water fund, yet provide work and services for the Streets and Public Grounds and Buildings which should not be covered by the water fund. Likewise the Sewer Department Personnel are performing work for other departments and are funded 100% out of the Sewer Fund. While this may have been past practice, this is not exactly legal as the water and sewer funds are enterprise funds and use of those funds are restricted to the Water and Sewer Funds.

Overtime has been cut by more than 50%, however, there appears to be no logical explanation for this reduction in overtime nor a narrative provided to explain this.

“Professional Services” was expensed \$115,298 in the 2013-14 budget and nothing is budgeted for FY 2014-15. Questions should be asked and answered as to what the professional services budgeted for in 2013-14 and spent were for and why none are budgeted this year.

“Transfer to G/F” appears twice under two separate General Ledger/line item numbers on for \$160,000 the other for \$150,000 for a combined total of \$310,000. What is interesting to note is that the Proposed Budget only shows \$300,000 being transferred “IN” (See GL/Line Item #100.000.380.000). Clearly this is a mathematical error which results in a \$10,000 loss or Revenue to the General Fund. What is more concerning is that there are no explanations as to what this money is actually to be used. It is an arbitrary number with no corresponding logic. These transactions are not in accordance with the GAAP. It appears that the line-item itself may be incorrect as a look into the Sewer Fund finds a transfer IN of \$160,000 from the Water Fund but there is a Transfer out of the Sewer fund of \$150,000 to the General Fund, which is explained in the General Fund Revenue sources accordingly. Either way, this should be corrected to reflect what is actually happening in the budget. Further explanation should be considered as to what these arbitrary numbers actually reflect.

Transfers from Enterprise Funds to the General Fund are restricted under Illinois Law and a full, complete and accurate accounting should be made and identified to be in compliance with Illinois law.

Finally and equally as important, there is no depreciation accounted for in the budget for infrastructure repairs and maintenance to the water system. It was recommended in 2012, that the Village increase water rates from \$3.50 to \$5.50 per 1000 gallons of water to “maintain” the existing status quo and increase the rates from \$5.50 to \$7.50 per 1000 gallons of water to cover “depreciation” and upgrades to the system, yet none are budgeted.

Recommendation: The Village Board needs to work collaboratively on a long term solution to this matter.

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Sewer Fund (Enterprise Fund)

“Regular Employee Wages”⁹ ½ the Public Works Director’s salary is derived from the Sewer Fund, 12.5% of the Finance Director’s salary, ½ the salaries of the Payroll/AP Clerk and Village hall Clerk, and 100% of the salaries of 4 full-time employees for public works are paid from the Sewer Funds.

Again, we see that two employees are paid exclusively from the Water and Sewer Funds, however, perform other functions for the Village. Under Illinois Law, use of Enterprise funds are restricted and should not be comingled with other village functions.

There appears a “Transfer to the G/F” in GL#310.000.770.000 for \$150,000. This appears to be an arbitrary number and there is not logical formula to determine how this number was arrived.

Finally in the sewer fund, there appears to be no improvements budgeted to the sewer system nor any money budgeted to Depreciation.

Recommendation: The Village Board needs to work collaboratively on a long term solution to this matter.

Fund Balances Restricted for Debt Service

Tax increment financing districts – Incremental tax revenues generated by the Village’s TIF districts, and collected by the Cook County Treasurer, are remitted directly by the County Treasurer to accounts held in the Village’s name at Amalgamated Bank of Chicago, the Trustee and Paying Agent. Upon receipt of any incremental tax revenues, the Trustee/Paying Agent direct the funds to the following accounts:

Bond Funds- used to accumulate amounts sufficient for payment of principal, interest and premium, if any , on the Parity Bonds and other additional bonds, if any. Amounts deposited into the Bond Funds should be used solely and only for such purposes until the bonds have been paid in full. If the amount in the Bond Funds at a specific date are less than the debt service requirements, as defined, the Trustee/Paying Agent shall replenish any deficiency by immediately withdrawing funds first from the Reserve Redemption Fund and then the General Account. As of October 31, 2012 \$3,153,282 was held for 2002A and 2002B bonds, \$1,114,003 was held for the 2008 bonds and \$887,076 was held for the 2009 Bonds:

Bond Fund Balance: \$5,154,361 (per 2012 Audit Report)

Reserve and Redemption Fund – used to hold amounts in excess of the sum of the debt service requirements, as defined, and program expenses for each bond year. Provided the ratio of the amount held in the Reserve and Redemption Fund, as of a specific date, is equal to or greater

⁹ Proposed 2014-15 Budget pg 19 (see 310.000.510.000)

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than 125% of the average annual debt service requirements or such higher amount that may be designated from time to time, the Trustee/Paying Agent may transfer any excess amount to the General Account.

Reserve and Redemption Fund Balance: \$3,696,987 (per 2012 Audit Report)

General Account - May be distributed upon the request of the Village for the following purposes: 1) to purchase, redeem or defease the Parity Bonds, 2) to pay, reimburse or provide payment of redevelopment costs or any expenditure permitted under the Tax Increment Financing Act or 3) to distribute surplus funds to taxing bodies as defined by the Tax Increment Financing Act.

General Account Fund Balance: \$91,648 (per 2012 Audit Report)

Administrative Expense and Prior Note Fund – used to make payments for certain eligible redevelopment project costs. If, as of a specific date, the amount in the Bond Fund equals or exceeds debt service requirements, as defined, the Trustee/Paying Agent, within 10 days thereafter, shall deposit into this account annually an amount not to exceed \$250,000.

Administrative Expense and Prior Note Fund Balance: \$64,665 (per 2012 Audit)

TOTAL AMOUNTS RESTRICTED IN RELATION TO TIF DISTRICTS: \$9,007,661 (per 2012 Audit)

TIF #2 Sauk Pointe Fund

There is no fund balances provided in order to adequately determine how much is available in this fund. There are no revenues projected or expenses projected for this year.

TIF #3 LogistiCenter Fund

There are no fund balances provided with the proposed budget. \$830,374 projected in property tax revenue.

According to the most recent Audit Report published by the Village, there are 4 Alternate Revenue Bonds in conjunction with this TIF District.

2002A a \$9,755,000 General Obligation Tax increment Refunding Bonds issued June 15, 2002 calling for principal and interest payments to be made June 1 and December 1st. This year's total payments will be \$954,928

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2002B a \$4,999,356 General Obligation Capital Appreciation Bond issued June 27, 2002. These bonds are Tax Increment Alternate Revenue Bonds calling for principal and interest payments for FY2014 \$815,000.

2008 a \$9,500,000 General Obligation Alternate Revenue Bond calling for principal and interest payments to be made June 1 and December 1. This fiscal year the payment is \$767,548 up from \$379,355 last fiscal year.

2009 a \$8,000,000 General Obligation Tax Increment Alternate Revenue Bond calling for principal and interest payments to be made June 1 and December 1. This fiscal year the payment is \$584,414 up from \$329,582 last fiscal year.

Where are the payments of these bonds included in the budget?

UNBUDGETED ITEMS

The Village currently has \$812,502.40 in bills which have been approved through accounts payable but have not been paid according to the Village of Sauk Village's Aging Report dated April 30, 2014. None of this is budgeted nor accounted for in the FY2014-15 Budget. As a result, the Village is carrying these unpaid bills into FY2014-15 and budgetary allowances should be considered in order to balance the budget. No narrative was provided offering no solution to the unpaid bills.

The Village's Housing Commission has apparently received a grant of \$75,000 from the South Suburban Mayors and Managers Association for Grass Mowing of Vacant Homes. None of these funds are included in the proposed budget.

Recommendation: The Village Board needs to work collaboratively on a long term solution to this matter.

SUMMARY

There are many things that have not been considered by the Administration in this proposed budget.

-Amount of outstanding bills still unpaid <i>not budgeted</i>	\$ 812,502 (actual as of 4/30/2014)
-Amount owed the Police Pension Fund <i>not budgeted</i>	\$1,761,570
-Amount owed to Fire Pension Fund <i>not budgeted</i>	\$ 101,149
-Over Anticipated General Fund Income	\$ 466,354
-Over Anticipated Income from 9-1-1	\$ 26,847
-Over Estimated Water Revenue	\$ 233,535
-Over Estimated Sewer Revenue	\$ 17,334
-Accounting Error- Water Fund Transfers to GF	\$ 10,000
-Omission of Revenue Source (2007A Tax Levy)	\$ 690,000

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-Under Estimated Expenses

General Fund (all)	\$ 483,586
Fire Fund	\$ 30,000

Total Out of Balance: **\$4,632,887**

REMOVE Police Pension Obligation -1,761,570

REMOVE Fire Pension Obligation - 101,149

ADD General Fund Balance (as of April 30, 2014) -\$1,388,889

Total Unbalanced Budget **\$4,159,057**

GENERAL FUND:

Beginning Balance May 1, 2014 (per audit)	[\$1,388,889]
Over Anticipated Income in General Fund	[\$ 466,354]
Under Estimated Expenses in General Fund	[\$ 483,586]

TOTAL ANTICIPATED GENERAL FUND BALANCE April 30, 2015: [\$3,301,506]