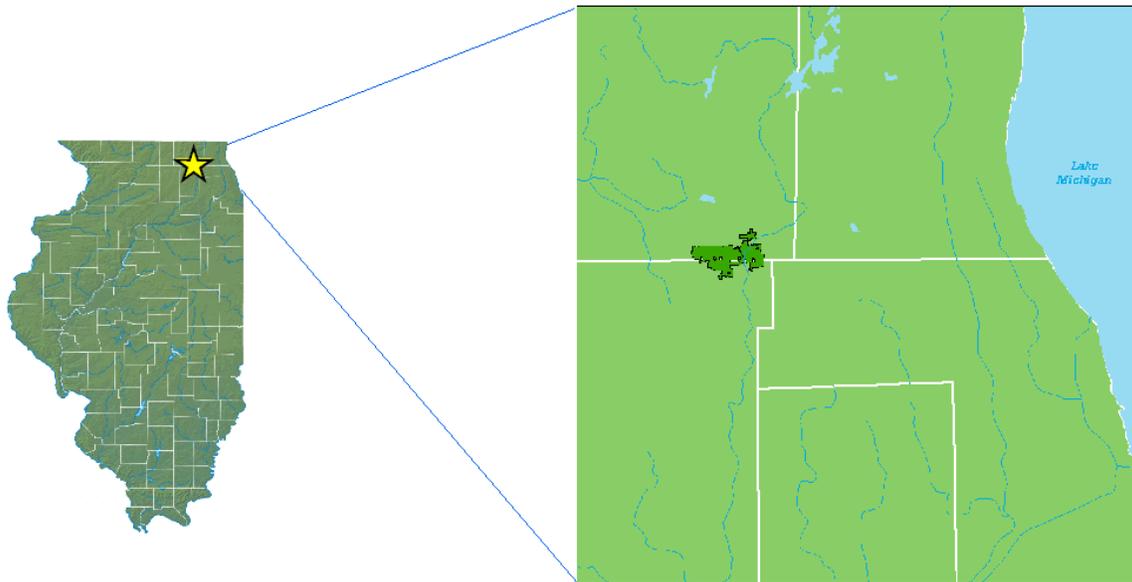


Village of Algonquin Overview

General Overview

The Village of Algonquin was incorporated in 1890 and has grown to a population of 30,046 as of 2010. Nestled in the Fox River Valley, Algonquin lies in both Kane and McHenry Counties and is conveniently located 45 miles from the Chicago Loop. Much of the Village's growth has occurred since 1990. At the 1990 Census, Algonquin had 11,663 residents which increased to 23,276 at the 2000 Census. The Village covers approximately 12.4 square miles in Chicago's far northwest suburbs.

Algonquin has a balanced land use distribution with approximately 63% of its land zoned residential, 14% commercial, 13% industrial, and 10% open space. Neighboring communities include Lake in the Hills and Cary to the north, Barrington Hills to the east, Carpentersville to the south, and Huntley to the west.



Government

The Village of Algonquin is formally organized under the Trustee-Village form of government and combines the strong political leadership of elected officials (in the form of the Village Board) with the professional experience of an appointed local government administrator (Village Manager). The Village Board consists of a President, six Trustees, and a Village Clerk, elected at large to serve overlapping four-year terms. The Village Board appoints the Village Manager to carry out its directives and oversee the delivery of public services. The Village Manager also supervises the daily operations of the Village and all of its departments.

Furthermore, Algonquin is a home-rule unit of government. As a home-rule unit, the Village has no tax rate or debt limitations, nor is it required to conduct a referendum to authorize the issuance of debt or to increase property taxes.

Village Services

Village services are organized among four major service areas: General Services Administration, Community Development, Police, and Public Works. Each of these departments is further delineated into specific divisions that provide public services. Overall, the Village has 153 full-time and 62 part-time/seasonal employees.

The General Services Administration Department (GSA) administers several functions of Village operations including the Village Manager's Office, Finance, Human Resources, Information Systems, Geographic Information Systems (GIS), Events and Recreation, and Office of Adjudication. Community Development is responsible for planning and zoning, economic development, and building and code enforcement. The Police Department has several operating functions including patrol, investigations, traffic, records, and administrative. Several Police Department employees are represented by a labor union (Metropolitan Alliance of Police Locals 78 and 183) which collectively bargains labor contracts. The Public Works Department is divided into five primary operating divisions: Administration, Streets, Parks & Forestry, Internal Services, and Utilities. Several Public Works Department employees are also represented by a labor union (International Union of Operating Engineers Local 150) to collectively bargain labor contracts.

Fire protection services are provided to Village residents by a separate taxing district, depending on their location of residence.

Business and Industry

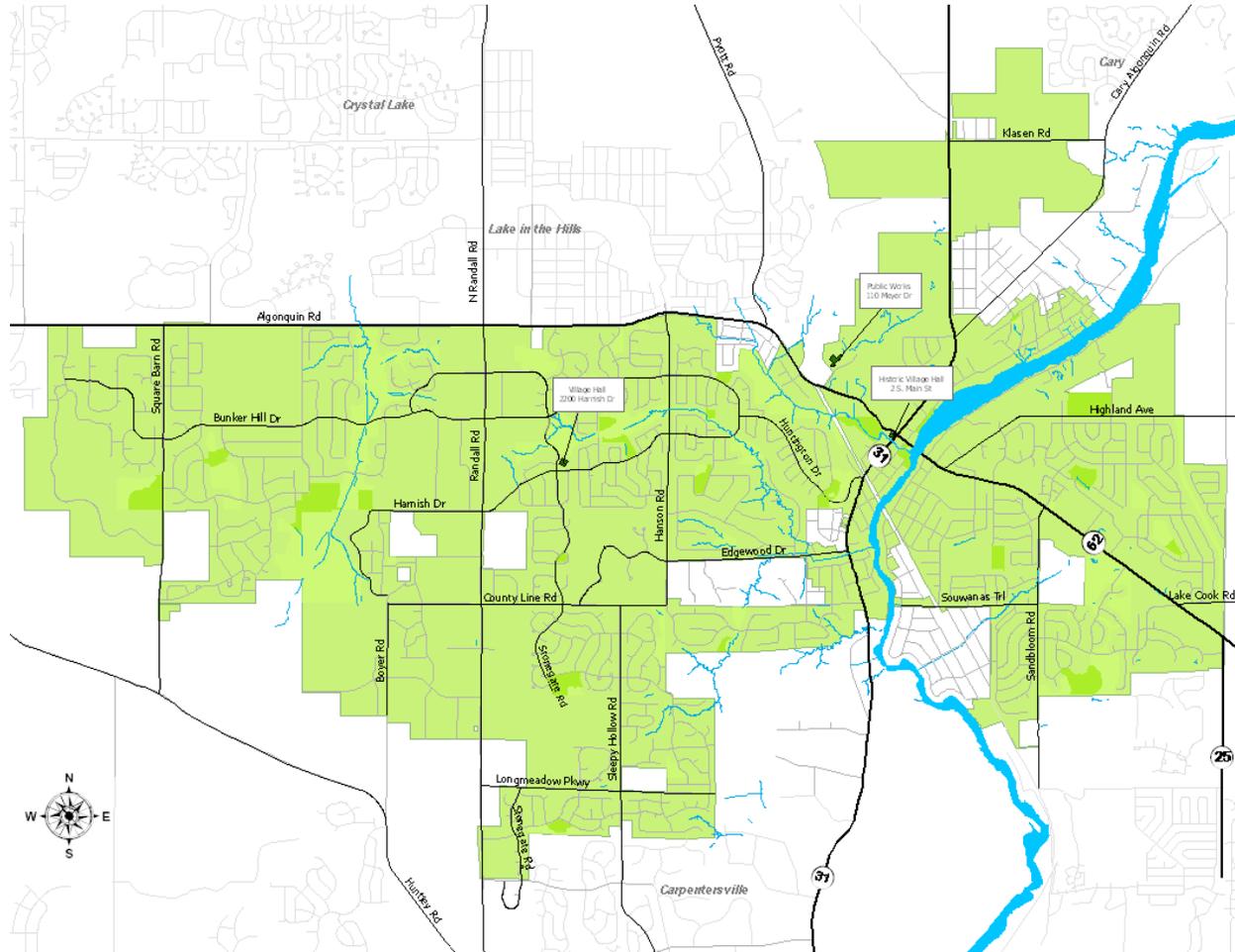
The Village of Algonquin serves as an important center of commerce in northern Kane and McHenry Counties. Since 2006, just under one million square feet of commercial space has been added to the Village. This includes space on both the Randall Road and Algonquin Road corridors and the Old Town District. The largest retail space in the Village is Algonquin Commons, a lifestyle center which features over 80 specialty shops and restaurants. Gordmans is scheduled to open in the Algonquin Commons in 2011. Additionally, a Hobby Lobby is scheduled to open in 2011 in the Esplanade development on Randall Road.

The Algonquin Industrial Park, located south of Algonquin Road, is home to major employers such as Wauconda Tool & Engineering, Kenmode Tool & Engineering, Schiffmayer Plastics, Crystal Die & Mold, and VCP Printing. The Algonquin Corporate Campus is a more recent development on the Village's south side which has attracted employers such as Young Innovations Incorporated and Advantage Moving and Storage.

Transportation

Algonquin is conveniently located 5 miles north of the Jane Addams Tollway (Interstate 90), which easily connects the Village to the Chicago and Rockford regions. The Village is served by three state highways (Illinois Routes 25, 31, and 62) as well as the Randall Road corridor, which is the Village's primary retail artery. Commuter rail access (Metra) to Chicago is provided by the Union Pacific Northwest line and Milwaukee District West line with stops in nearby communities including Crystal Lake, Cary, Fox River Grove, Barrington, and Elgin.

The Village is also fortunate to have access to two international airports within a 45 minute commute. Chicago O’Hare International Airport is conveniently located 30 minutes southeast of the Village. Rockford International Airport is located 40 minutes west of Algonquin. Less than 2 minutes to the north, the Lake in the Hills Airport is a reliever airport for Chicago O’Hare and primarily accommodates single-engine aircraft.



Education

The Village of Algonquin is covered by two public school districts: Community Unit School District 300 and Consolidated School District 158. The following schools serve Algonquin residents:

Elementary	Middle	High
Algonquin Lakes	Algonquin	Dundee-Crown
Eastview	Heinemann	Huntley
Neubert	Westfield Community	Jacobs
Liberty		
Lincoln Prairie		
Westfield Community		
Conley		
Mackeben		

Additionally, the Village contains several parochial schools including St. John's Evangelical Lutheran School and St. Margaret Mary Catholic School. Algonquin is in close proximity two local community colleges – McHenry County College in Crystal Lake and Elgin Community College in Elgin. The Village is served by several independent library districts. The Algonquin Area Public Library District, which includes two facilities, serves the majority of the Village. The Huntley Public Library, Dundee Township Library, Cary, Library, and the Barrington Area Library also service certain sections of the Village.

The Budget Process

The budget process is an essential procedure that requires a substantial amount of staff time and dedication. It serves many important purposes, including the following:

- The budget process allows staff and elected officials the opportunity to scrutinize and evaluate existing processes and weigh alternatives for increased efficiencies and effectiveness.
- It is an opportunity to compare the actions of the Village to the plans and goals that are guiding the Village.
- Through the budget process, staff confirms that all legal and statutory requirements are being met.
- The budget process is a means for elected officials and staff to set the course of action for the future operations of the Village.

Budgeting Philosophies

Constraint Budgeting

We continued to follow a constraint budgeting process for the FY 11/12 budget. In 2002, in response to fiscal challenges, such as a struggling economy, increasing liability and medical insurance costs, union contract obligations, and other financial barriers, and increasing demand for municipal services, the Village of Algonquin followed a new method for budgeting, which was originally adopted for FY 03/04. This method was modeled after a budget process outlined in a May 2002 article on “*constraint budgeting*” that appeared in the International City/County Management Association (ICMA)’s Public Management magazine.

The constraint budgeting methodology allows department heads to know in advance their bottom-line budget amount. This gives them the flexibility to prioritize their needs, with items that were cut or postponed placed on their enhanced budget request. We feel that, in the words of the ICMA article authors MacReynold and Fuhrer, “the system is simple, promotes fiscally responsible behavior, and is an effective aid in the decision-making process.”

Guiding Principles

The main tenets that guide the Village and its operations are crystallized in the Guiding Principles, core standards that serve as the guideposts for decision-making in the Village of Algonquin. The Guiding Principles were formulated based on several informal planning processes that occur regularly in the Village on an on-going basis, such as at Board meetings, staff brainstorm sessions, focus groups, and so on. The Guiding Principles are outlined in a separate document in this budget.

Preparation for Government Finance Officer’s Association Budget Awards Program

Each year, the budget team sets out to improve a specific section of the budget document, often to respond to recommendations made by GFOA reviewers as well as to changes in the financial industry and best practices. The Village was originally awarded GFOA’s Distinguished Budget Presentation Award for the FY 04/05 budget, and has been honored to receive this distinction for the fiscal years ending 2006, 2007, 2008, 2009, 2010, and 2011. The requirements of the award program are significant, requiring additional input from department heads and the Budget Team. Adding information to our budget as required by GFOA also enriches it as a communications tool with elected officials and residents.

Participants, Roles, and Responsibilities – The Budget Team

The Budget Team consists of the Budget Officer, Finance Director, Assistant Finance Director, and the Management Assistant. Department Heads, Village Board, and Village residents also play crucial roles in the budgeting process. Department Heads are responsible for evaluating the needs of their department/divisions, soliciting input from staff, and compiling those needs and priorities into a cohesive and straightforward budget request. The Village Board is critical in evaluating the budget as proposed by the Budget Officer, asking questions, and, eventually, approving the budget. Residents and their needs are, of course, the driving force behind the budget process. In addition, residents have opportunities to view the budget proposal and attend the Committee meetings, Board meetings, and public hearings when the budget is addressed.

Budget Development Timeline

The timing of the budget process is critical, for two reasons. One, we operate under the system of “constraint budgeting,” which requires more up front work, as described below; second, we continue to alter and enhance the budget document in preparation for submittal to the Government Finance Officer’s Association’s (GFOA) Distinguished Budget Awards Program. Below is the timeline that we adhered to in preparing our budget.

August to October, 2010

- *Initial Budget Meetings – Budget Officer and Finance Director:* These preparatory meetings took place from August to October 2010, in order to assess the budget process, consider altering it to meet the Village’s financial situation as well as the global financial crisis, and determine a method for implementing the budget process.

November 2010

- *Preliminary Revenue Analysis:* As a part of the constraint budgeting philosophy, the Finance Director established revenue estimates for the General Fund in advance of distributing the worksheets to the Department Heads. Once the revenues were calculated, bottom line, constraint budget figures were established for each division’s budget. This step in the process was completed in November 2010. At this time, the Budget Team recognized that we would see a continued decline in revenues due to the declining economy. Through much dialogue, several budget parameters were set to guide staff through the budget process; guidelines were developed to assist department heads in defining realistic budgets in response to decreased revenues. These parameters included such measures as no new personnel.
- *Redistribution Account Submittal and Review and Entering Fixed Costs:* Prior to releasing the General Fund budget worksheets for completion, any and all redistribution accounts were budgeted and dispersed to the individual budgets. This allowed Department Heads to be aware of up front costs before they determined the rest of their request. Redistribution accounts include those for building supplies and maintenance, grounds maintenance, and vehicle and equipment maintenance. In addition, the Finance Director projected personnel costs, and those figures were entered into the worksheets. All other fixed costs (human resources training, most transfers, audit costs, and so forth) were entered up front as well. This step of the process took place in November 2010.
- *Capital Improvement Plan Review:* The Public Works Director reviewed and evaluated the Capital Improvement Plans, which include Streets, Water and Sewer, and Parks.

- *Budget Worksheets Distributed to Department Heads:* Once the fixed costs had been added to each division's budget, the worksheets were distributed to Department Heads for review and completion.

January 2011

- *Budget Submissions by Department Heads:* Throughout December, the Department Heads analyzed and prioritized the needs for their division, and budgeted those necessary items and costs into their budget requests. They submitted their budget proposals over a staggered schedule throughout January 2011.

January to February 2011

- *Review of Submittals and Budget Meetings:* The Budget Team met with each Department Head to review budget proposals. Adjustments were made, as necessary, to ensure a balanced budget (in the case of the General Fund), and that the goals and priorities of the Village Board and staff were being met through the budget. These meetings took place throughout January and February 2011.
- *Board Review:* The Committee of the Whole met on January 25, 2011, to review the Capital Funds (MFT, Street Improvement, Park, and Water and Sewer Improvement and Construction Funds).
- *Board Review:* The Committee of the Whole met on February 8, 2011, to review the Enterprise Funds (Water and Sewer Operating, Cemetery, and Swimming Pool funds) and the Building Services and Vehicle Maintenance Service Funds.

March 2011

- *Board Review:* On March 8, 2011, the Committee of the Whole met to review the General Fund and the remaining ("Other") funds.
- *Public Hearing:* A public hearing was held on March 15, 2011, to allow for citizen comment on the budget document. No comments were received.

April 2011

- *Official Adoption by the Village Board:* The Village Board officially adopted the Fiscal Year 2011-2012 budget on April 5, 2011.
- *Printing and Distribution of the Budget Document:* The budget document was compiled, printed, and distributed in April/May 2011. In addition, budget documents were filed with the Kane and McHenry County Clerks.
- *Finalization of Capital Improvement Plans:* The Public Works Director finalizes the Capital Improvement Plans based on available funding and discussions held throughout the budget process.

May 2011

- *Submittal to GFOA:* The budget will be submitted to the Government Finance Officer's Association for their consideration as part of GFOA's Distinguished Budget Awards program.
- *Implementation:* Throughout the May 1, 2011 to April 30, 2012 fiscal year, Village staff will focus on implementation of the budget. The Village Manager, Finance Director, and Department Heads all work together to ensure sound financial practices and consistent adherence to the budget.

A summary of the budget calendar in table format appears on the following page:

Summary Calendar

Task	Assigned Staff	2010					2011						
		August	September	October	November	December	January	February	March	April	May	June	July
Citizen Input													
Initial Budget Meetings	Budget Team												
Preliminary Revenue Analysis	FD												
Redistribution Account Submittal	DH, FD, MA												
Review and Enter Fixed Costs	FD, MA												
Capital Improvement Plan Development and Review	Public Works Director, BO, MA												
Budget Worksheets Distributed	MA												
Budget Proposals Due	DH, MA, FD												
Performance Measurement Reports Due	DH, MA												
Review of Submittals	DH, Budget Team												
Presentations of Budgets to Elected Officials/Public	BO, MA, FD, COTW												
Budget Public Hearing	BO, MA, FD, COTW												
Budget Adopted by Village Board	VB												
Finalization of Capital Improvement Plans	DH, BO, MA												
Filing Budgets with Counties	FD, MA												
Printing of Budget Documents	MA												
Budget Implementation Begins	Budget Team, DH, VB												
Submittal of Budget to GFOA	MA												
Review GFOA Comments and Begin FY 11/12 Budget													

*BO=Budget Officer/Village Manager
 MA=Management Assistant
 COTW=Committee of the Whole

FD=Finance Director
 VB=Village Board
 DH=Department Heads

**Formal citizen input is scheduled for January through budget approval in April. However, we welcome citizen input on the budget at any time throughout the year.

Revenue Assumptions and Trends

Budgeted Revenues – All Funds

Budgeted revenue in all funds for fiscal year (FY) 11/12 is \$34,694,285 which is an increase of \$623,680 (1.8 percent) over the comparable budget for FY 10/11. The increase is attributable to Sales Tax and State Income Tax in the General Fund. In other funds, revenues earmarked for capital projects have increased 9.2 percent from FY 10/11, while expenditures have decreased 30.0 percent as fund balances are being increased for projects presently in the planning stage. Investment income in all funds is projected to be flat due to the federal funds rate expected to hold at present levels which impacts interest bearing accounts. The following discussion of revenue assumptions and trends represents 96.4 percent of the total revenue budget.

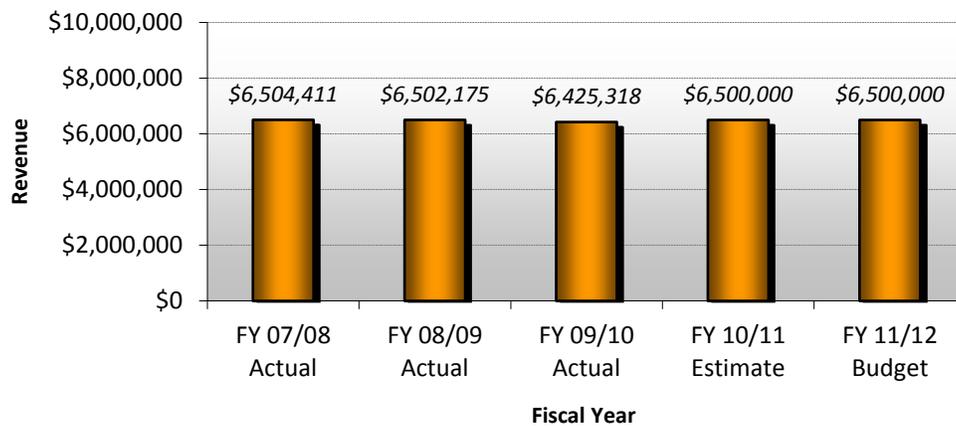
Common Assumptions

1. Interest Income Rate – 0.25 percent in the state investment pool and operating accounts.
2. The cash basis of accounting is used for budget purposes.
3. Trend analysis with historical information is used to project the budget unless another method is indicated.

1. Sales Tax

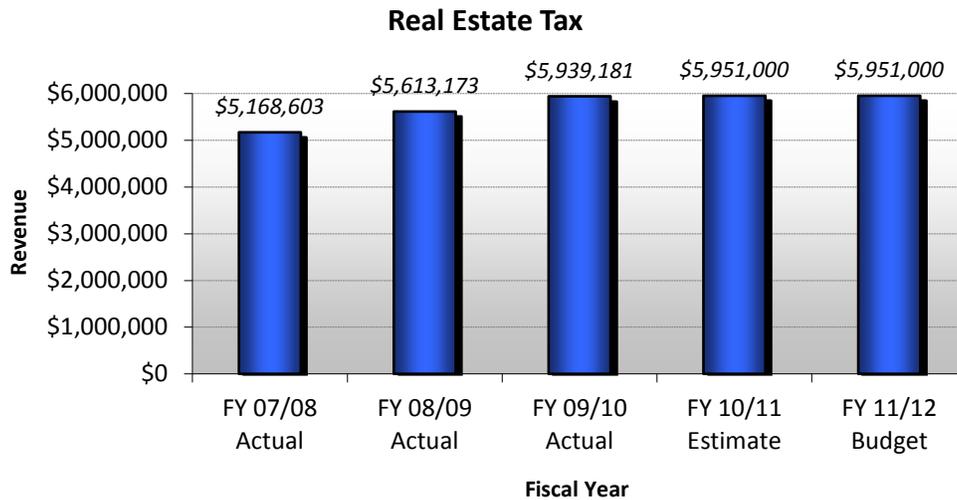
The budget assumes that the State of Illinois will continue to timely remit the municipal portion (1 percent) of the State Sales Tax to the Village on point of sales basis. The FY 11/12 budget for sales tax is \$6,500,000 or 6.8 percent more than the FY 10/11 budget and equal to the FY 10/11 estimated actual. The Village economy appears to be improving as sales tax receipts have returned to the peak level in FY 07/08 and the unemployment rate in the village has dropped below 8.0 percent since December 31, 2010. The unemployment rate in the village had peaked at 9.8 percent in June 2009. Residential and commercial construction in the Village continues to be soft since FY 08/09.

Sales Tax



2. Real Estate Tax

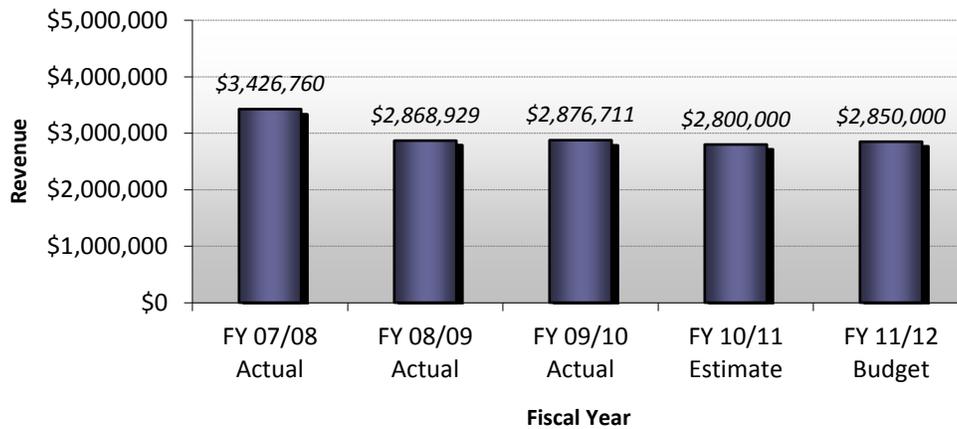
The FY 11/12 budget for real estate taxes in the General Fund is \$5,951,000 which is equal to the FY 10/11 estimated actual. As a home rule community, the village attempts to maintain the tax rate at the prior year level (0.485). The actual tax rate may be higher this year as it appears that assessments are being lowered due to the decline in home selling prices. Algonquin experienced significant increases in EAV since 1999 attributable to growth in both residential and commercial property. During this period, EAV increased from \$0.463 million to \$1.155 billion, or an increase of 149 percent. The 2009 EAV, however, flattened due to the soft economy and the 2010 EAV is expected to drop due to declining real estate selling prices. The village's tax rate declined from .492 in 1999 to the 2009 rate of 0.485. The Village attained home rule status in 2003 and the Property Tax Limitation Act no longer inhibits the tax extensions.



3. State Income Tax

The State of Illinois allocates a portion of State Income Tax and Use Tax revenues to local governments with the distributions for each government based upon population. The budget for FY 11/12 is \$2,850,000 using per capita estimates determined by the Illinois Municipal League (IML) and our population of 30,482. The FY 10/11 estimated actual is \$2,800,000 or 2.6 percent more than the FY 10/11 budget but 0.9 percent less than FY 09/10 actual. The FY 10/11 estimated actual includes three months of allocations that have not been paid as yet due to the cash flow problems of the State of Illinois. The decreases since FY 07/08 are attributable to the worsening economy in the state as indicated by the 2010 state unemployment average rate of 10.4 percent vs. 6.6 percent in 2008.

State Income Tax



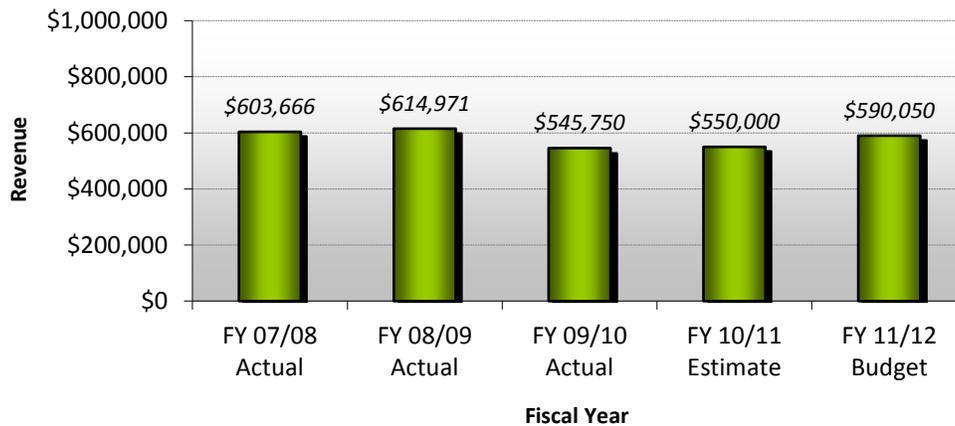
4. Franchise & Telecommunication Fees

Video Television Franchise Fees are based on 5 percent of the gross revenues collected by the local cable service provider and new video service provider. For FY 11/12, \$400,050 is projected for Cable Television Franchise Fees reflecting historical receipts. The budget is 1.3 percent higher than the FY 10/11 estimated actual of \$385,000 and 15.1 percent higher than the FY 09/10 actual.

Natural Gas Franchise Fees are no longer budgeted as a revenue item since the new franchise agreement allocates free therms to the village rather than a cash payment. We expect to use the free therms by December 2011. This will result in lower expenditures for natural gas of approximately \$65,000.

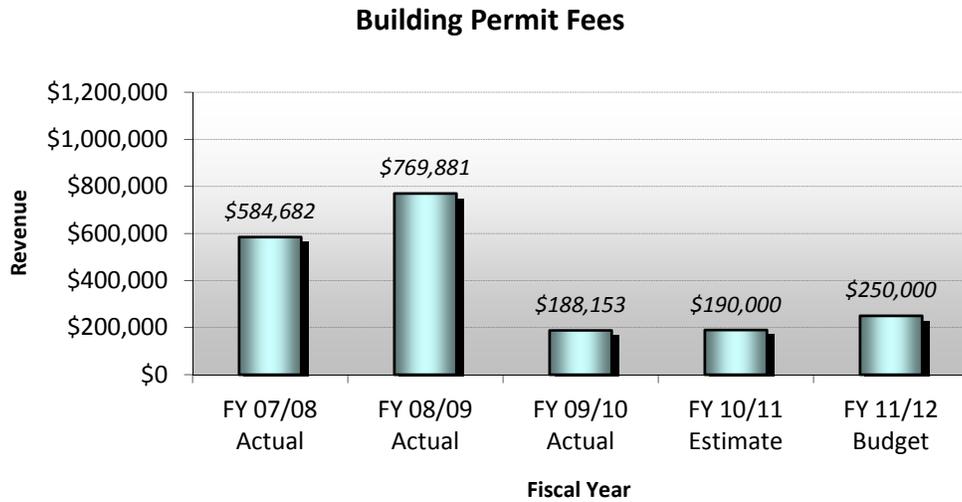
Telecommunication Fees were implemented as a Simplified Municipal Telecommunications Tax as of January 1, 2003. This tax is administered by the state of Illinois Department of Revenue and collections are remitted by the state to the village. The receipts have been relatively flat since FY 05/06. It appears that competition is reducing pricing but there is no information available for analysis. The current budget of \$190,000 is 2.7 percent more than the FY 10/11 estimated actual but 4.1 percent less than the FY 09/10 actual.

Franchise & Telecommunication Fees



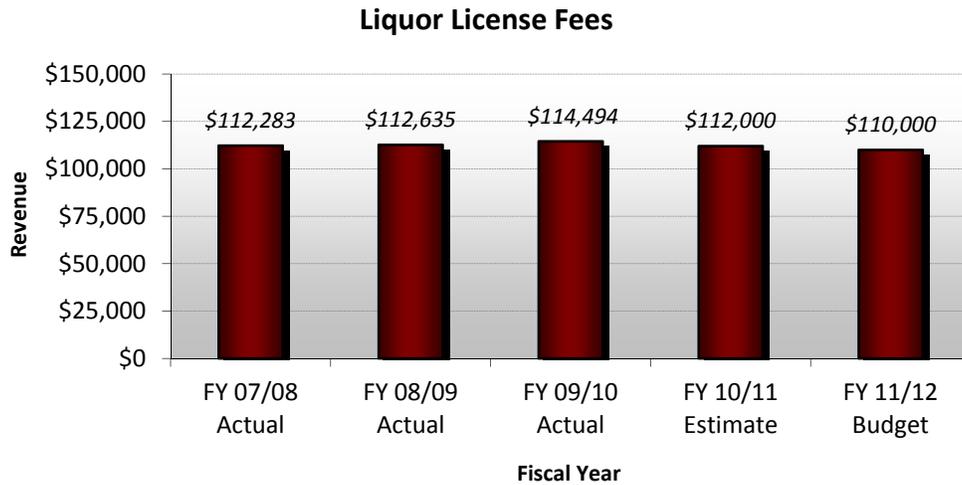
5. Building Permit Fees

FY 11/12 permit fees were budgeted at \$250,000 reflecting maintenance type permits rather than new home permits. The budget is 31.5 percent higher than FY 10/11 estimated actual and 32.9 percent higher than the FY 09/10 actual.



6. Liquor License Fees

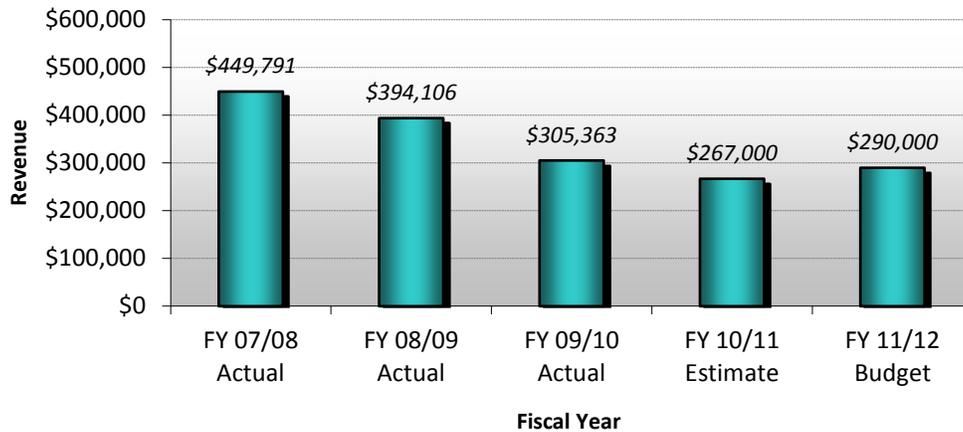
The FY 11/12 budget of \$110,000 for liquor licenses reflects the fee schedules associated with the authorized licenses as well as fees for new owners. This is equal to the FY 09/10 actual and the estimated actual for FY 10/11.



7. Court Fines

Court fines are collected by McHenry County and forwarded to the Village based on ticket violations issued by the Village. The FY 11/12 budget of \$290,000 is 5.0 percent less than the FY 09/10 actual but 8.6 percent higher than the estimated actual for FY 10/11. Other fines collected by the county are budgeted at \$26,200 which is 126 percent more than the FY 09/10 actual but equal to the estimated actual.

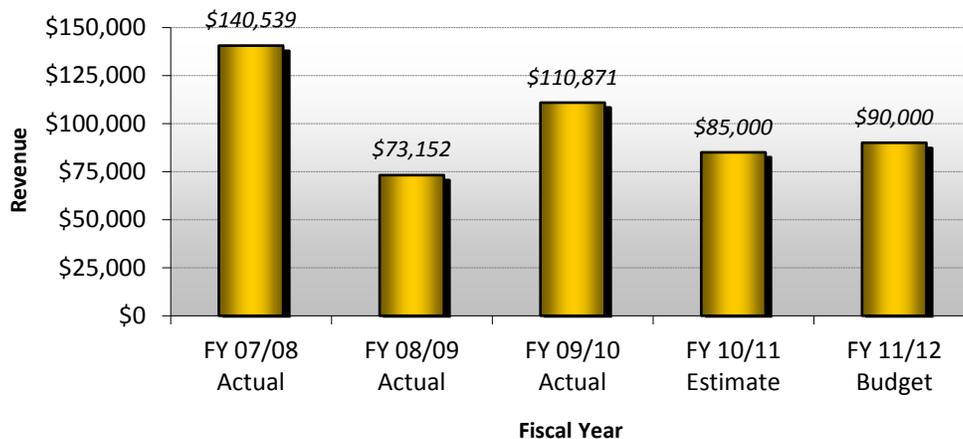
Court Fines



8. Intergovernmental Agreements

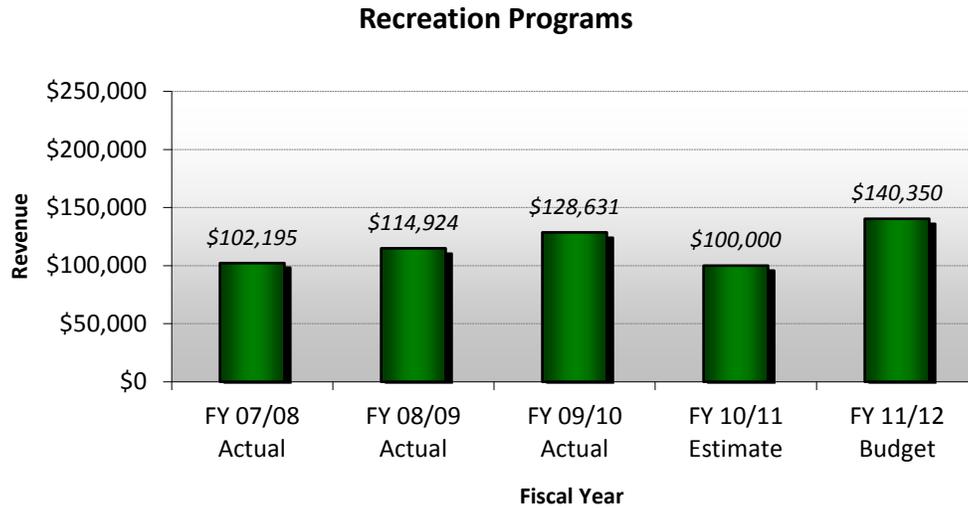
This line item accounts for payments received from other units of government pursuant to agreements for police officer assignments. This includes a liaison officer assigned to Community Unit School District 300 and one officer assigned to the North Central Narcotics Task Force. Pursuant to these agreements, \$90,000 has been budgeted for FY 11/12 which is 6 percent higher than the estimated actual for FY 10/11. The budget is 19 percent less than FY 09/10 as there was a one-time security agreement that year.

Intergovernmental Agreements



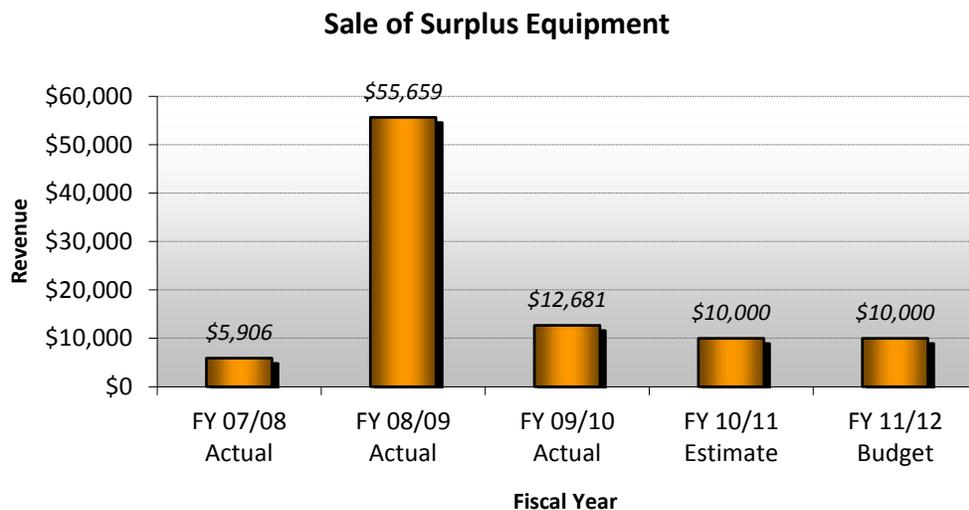
9. Recreation Programs

This line item accounts for registrations for events and recreation programs. Revenues are projected at \$140,000 which is 9 percent and 40 percent more than FY 09/10 actual and FY 10/11 estimated actual respectively. The increase is due to the introduction of adult athletic leagues and other continued development for this relatively new program which changes each year.



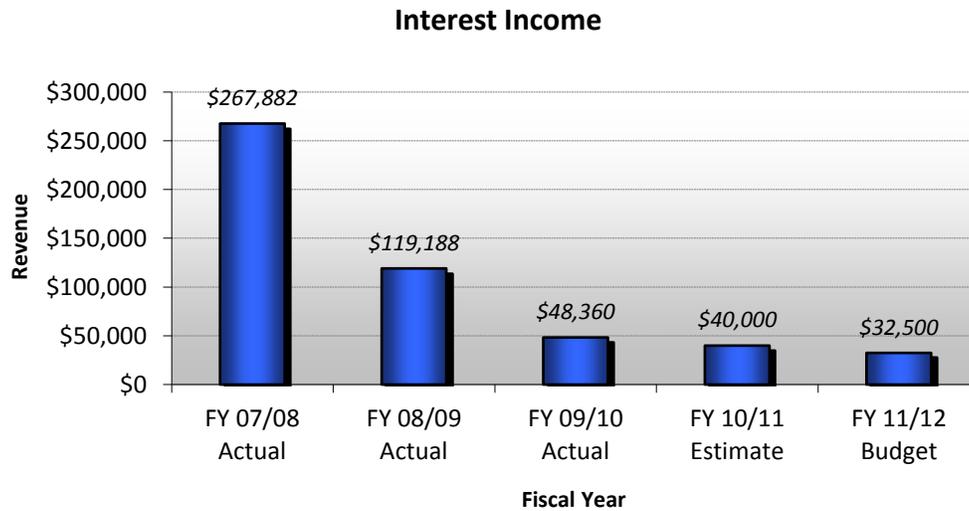
10. Sale of Surplus Equipment

Surplus property that is approved for sale through auction includes motor vehicles, outdated computer equipment and other equipment. A total of \$10,000 is projected to be received in FY 11/12 which is 21 percent less than FY 09/10 actual but equal to the estimated actual in FY 10/11.



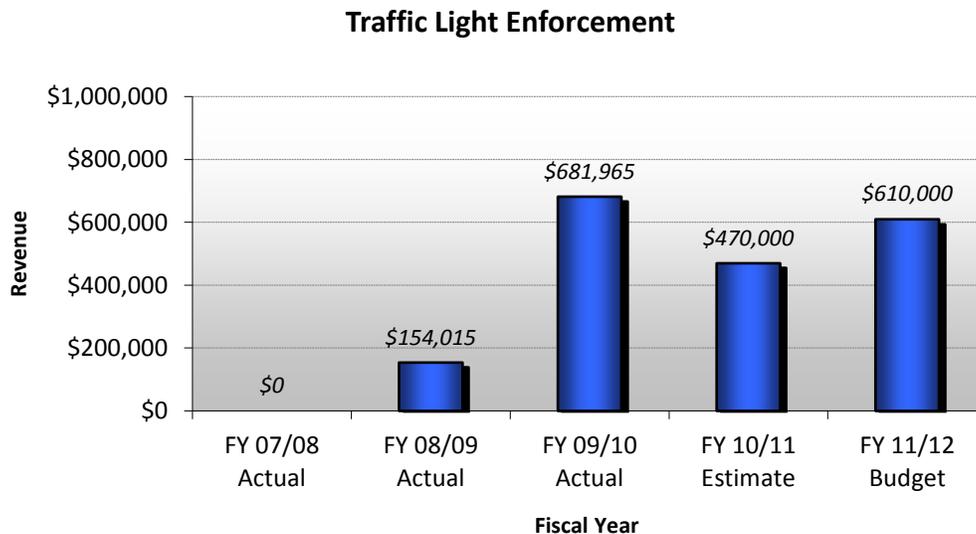
11. Interest Income

Interest income in the General Fund is budgeted at \$32,500 which continues the downward trend of investment income since FY 07/08. The current policy of the Federal Reserve regarding the Federal Funds Rate unfavorably impacts our investment yields for certificates of deposit and other interest bearing accounts.



12. Traffic Light Enforcement

The red light camera enforcement program was implemented in the fall of 2009 and was designed to improve public safety at intersections with a history of high accident and traffic light violations. Citations are issued based on camera and video evidence of violations that exceed the standards set by the Police Department. The program was initiated late in FY 08/09. The FY 11/12 budget is 30 percent higher than FY10/11 but 10 percent less than FY09/10. It appears that the public has begun to adjust their driving habits because of the possibility of traffic tickets.

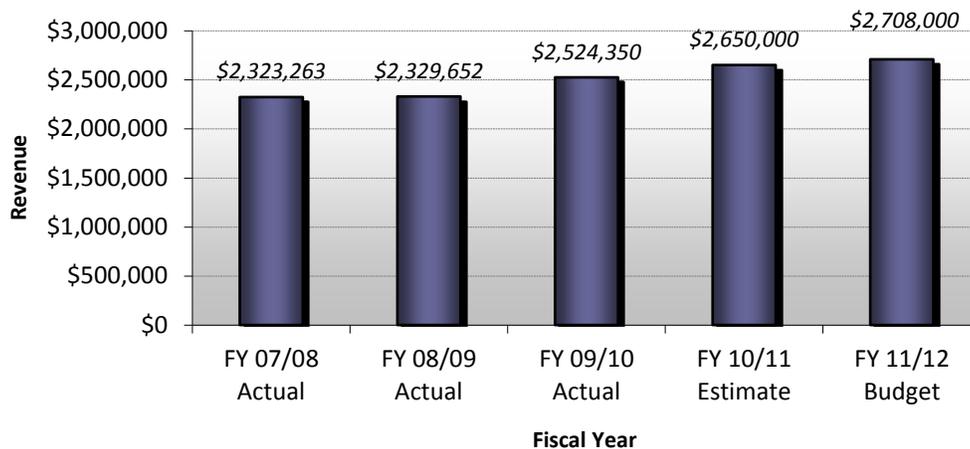


Water and Sewer Fund

1. Water Fees

The current rate of \$3.50 per 1,000 gallons became effective on February 1, 2011 and is an increase of 7 percent over the previous rate. The rate is scheduled to increase again by 7 percent on February 1, 2012 as step 4 of a 5 step schedule. The FY 11/12 budget of \$2,708,000 is 7.3 percent higher than the FY 09/10 actual and 2.2 percent higher than estimated for FY 10/11. Water usage in the village has flattened and is believed to be attributable to the soft economy with its impact on family budgets and home foreclosures.

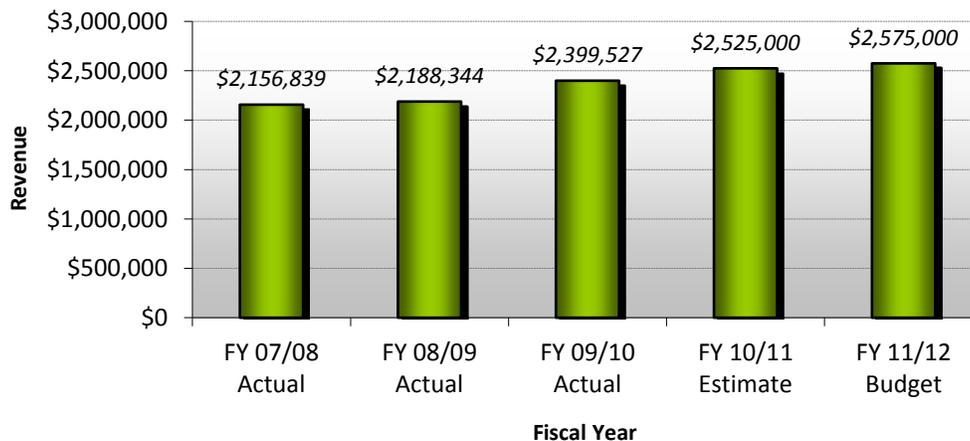
Water Fees



2. Sewer Fees

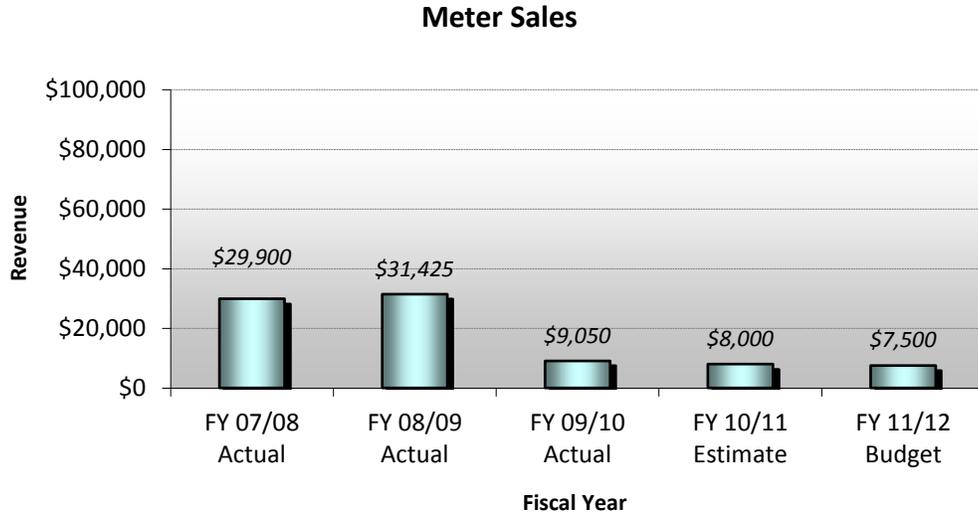
The current rate of \$3.32 per 1,000 gallons is an increase of 6.8 percent. The rate is scheduled to increase again by 6.9 percent on February 1, 2012 as step 4 of a 5 step schedule. The FY 11/12 sewer fee budget of \$2,575,000 is 7.3 percent higher than the FY 09/10 actual and 2 percent higher than FY 10/11 estimated actual for the same reasons as water fees.

Sewer Fees



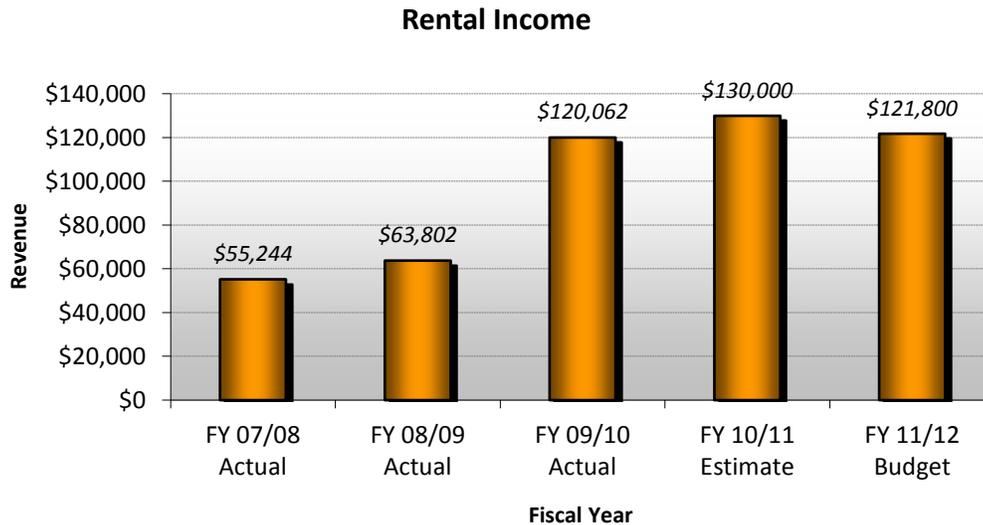
3. Meter Sales

The FY 11/12 meter sales budget of \$7,500 is 17 percent less than FY 09/10 actual and 6.3 percent less than FY 10/11 estimated actual. The number of new home building permits issued in recent years has softened considerably due to the economy.



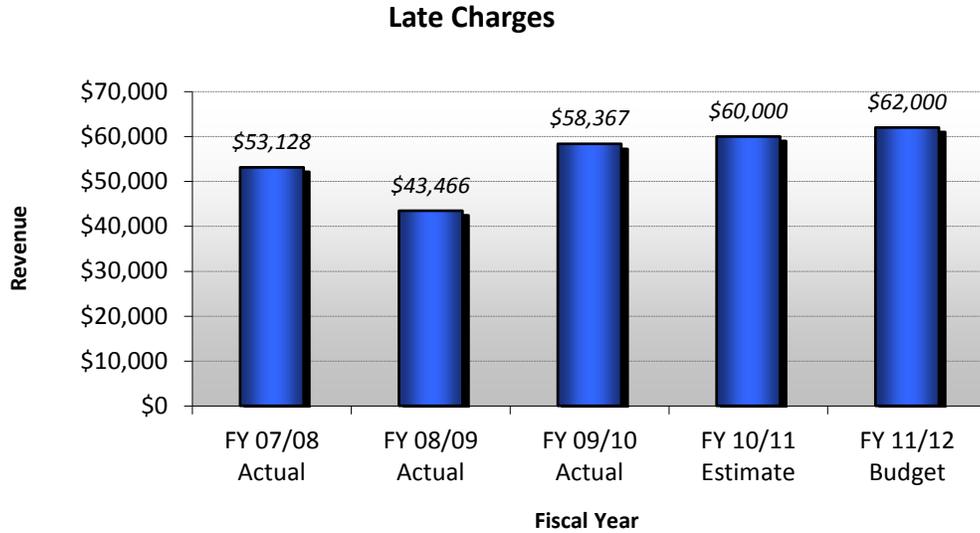
4. Rental Income

The FY 11/12 budget of \$121,800 is 1.4 percent higher than FY 09/10 actual and 6.3 percent lower than estimated actual for FY 10/11 due to the termination of one agreement. The rental income is fees paid annually by wireless service providers for antenna placed on Village utility property. The increase through FY 09/10 had been due to additional agreements.



5. Late Charges

The FY 11/12 late charges budget of \$62,000 is 6.2 percent higher than FY 09/10 and 3.3 percent higher than FY 10/11 estimated actual. The fees are assessed when utility bill payments are received after the due date.



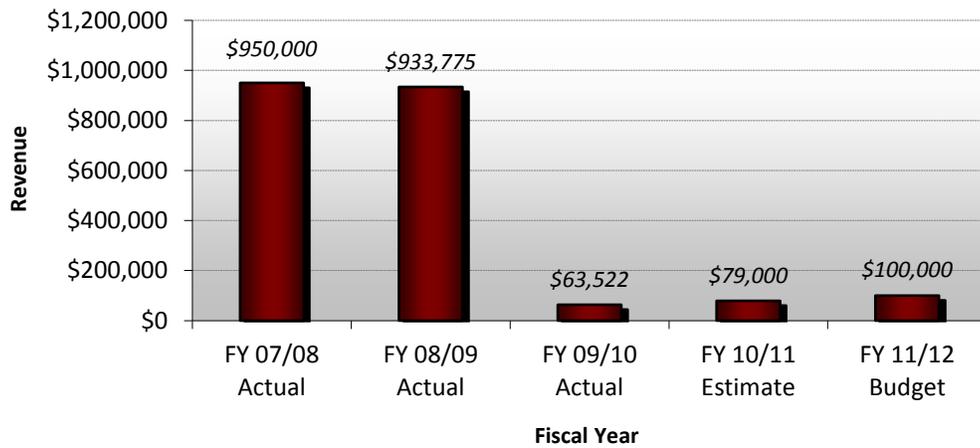
Water and Sewer Improvement and Construction Fund

1. Connection Fees

Water Tapping Fees for homes connecting to the Village’s water mains are assessed fees based on the number of bedrooms in the dwelling unit. The FY 11/12 budget is \$50,000 in the Water & Sewer Improvement and Construction Fund this year as residential and commercial construction since 2008 continues to be soft. The FY 11/12 budget is \$50,000 vs. \$37,700 in FY 09/10 and \$35,245 estimated for FY 10/11.

Sewer Tapping Fees for homes connecting to the Village’s sewer mains are assessed fees based on the number of bedrooms in the dwelling unit. The FY 11/12 budget is \$50,000 as there is a lack of development at this time. The FY 11/12 budget is approximately double that of FY 09/10 and the estimate for FY 10/11. The reduction is due to the lack of commercial permits and reflects the lack of building activity expected in residential subdivisions.

Connection Fees

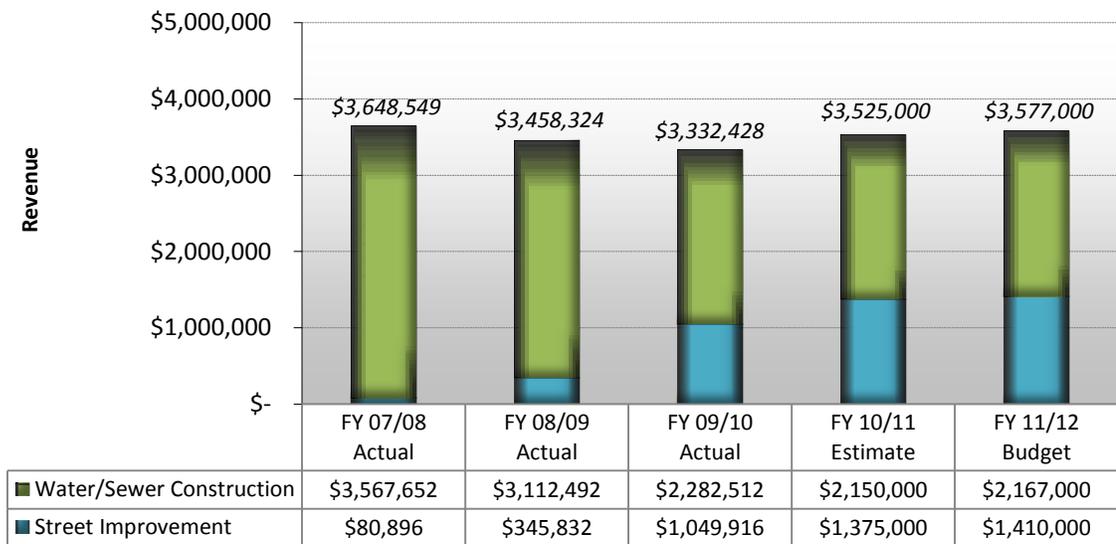


2. Home Rule Sales Tax

The Village of Algonquin is a home rule municipality. State statutes allow home rule municipalities the ability to impose an additional sales tax on all retail sale items except certain food, drugs and licensed vehicles. As of July 1, 2006, a home rule sales tax of 0.75 percent was implemented in the Village. The funds are allocated to capital projects and debt service.

60 percent of Home Rule Sales Tax Revenues, or \$2,167,000, will be allocated to the Water & Sewer Improvement and Construction Fund this year to partially finance well improvements and related raw water line and other capital projects. This is 1 percent more than FY 10/11 estimated actual (same allocation percentage) but 5 percent less than FY 09/10 when the allocation was 66.7 percent.

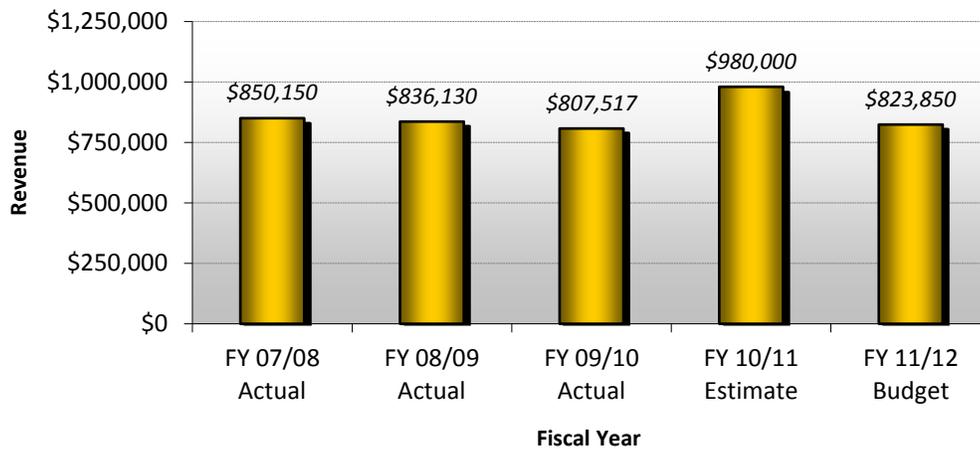
Home Rule Sales Tax



Motor Fuel Tax Fund

This is a state shared revenue source that is based on state taxes collected on gasoline and diesel fuels. The revenue is directly affected by the consumption of motor fuels and is sensitive to fluctuation in fuel prices when increasing prices may curtail the use of motor vehicles. The state distribution to municipalities is based on population and the funds can be used for the construction, maintenance, and extension of municipal streets as well as other authorized uses. The Village must comply with strict standards and regulations for the use of these funds. The IML monitors collections and distributions received by local governments from the Illinois Department of Transportation. IML also provides local government with a per capita estimate of the future distributions for their planning purposes. The FY 11/12 per capita amount has been estimated at \$25.78 which is 0.7 percent more than the FY 10/11 budget. The Village also participates in the state's High Growth City Distribution which will result in additional funds of approximately \$38,800 and total budgeted distributions of \$823,850. This would be a decrease of 16 percent from FY 10/11 estimated actual due to a one-time Capital Program distribution from the state but 2 percent more than FY 09/10 actual.

Motor Fuel Tax Fund

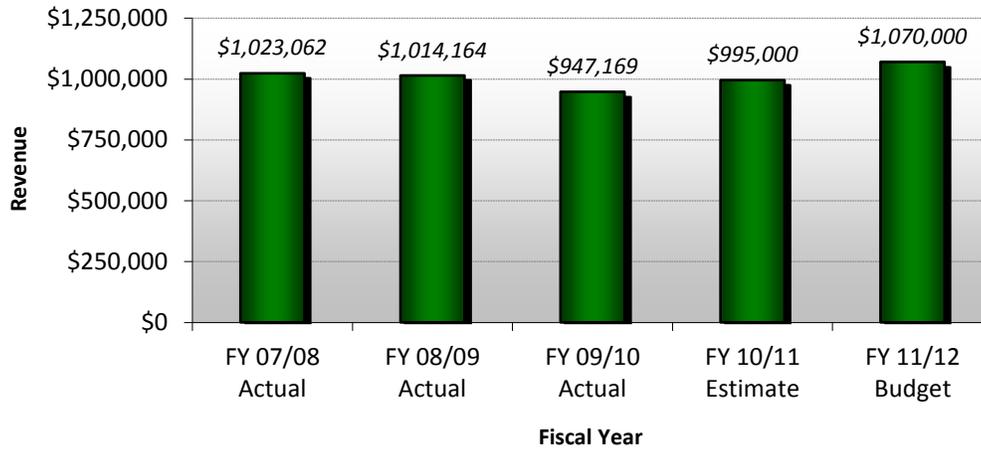


Street Improvement Fund

1. Utility Tax Receipts

The FY 11/12 budget for Utility Tax is \$1,070,000 attributable to the 4 percent tax on electric kilowatt usage and a 1 percent use tax billed on natural gas therm usage. Since growth in the Village has slowed, changes in the Utility Tax revenues depend on energy usage by existing customers and seasonal temperatures. The utility tax budget is 13 percent and 7.5 percent higher than FY 09/10 actual and FY 10/11 estimated actual respectively.

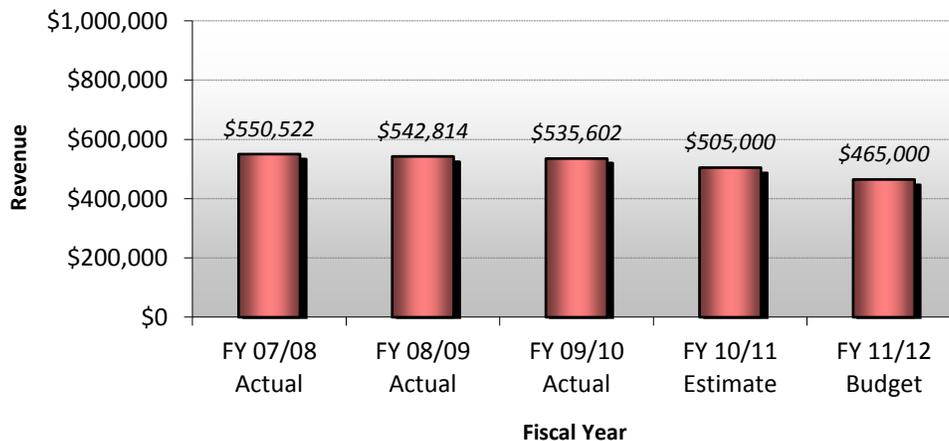
Utility Tax Receipts



2. Telecommunications Tax

The Telecommunications Tax has been administered by the State of Illinois Department of Revenue since January 1, 2003 as part of the Simplified Municipal Telecommunications Tax. The tax is collected by the state and remitted only to the participating municipalities. The receipts have been flat or slowly decreasing since FY 07/08. The FY 11/12 budget of \$465,000 is 8 percent less than estimated actual for FY 10/11 and 13 percent less than FY 09/10 actual. There is no information available for analysis at the municipal level.

Telecommunications Tax

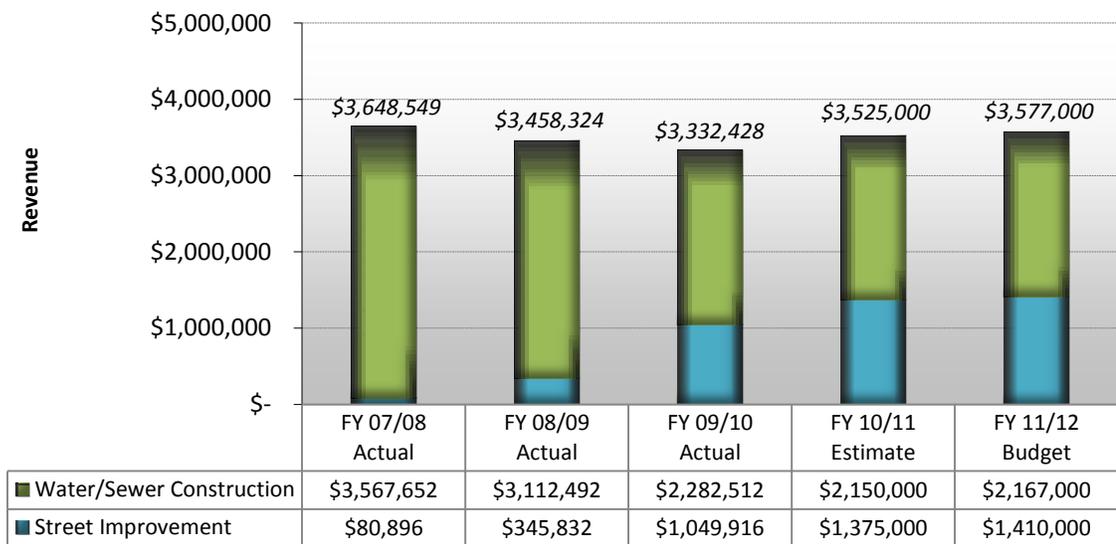


3. Home Rule Sales Tax

The Village of Algonquin is a home rule municipality. State statutes allow home rule municipalities the ability to impose an additional sales tax on all retail sale items except certain food, drugs and licensed vehicles. As of July 1, 2006, a home rule sales tax of 0.75 percent was implemented in the Village. The funds are allocated to capital projects and debt service.

The allocation of Home Rule Sales Tax to this fund for the FY 11/12 budget is 40 percent of receipts or \$1,410,000. The allocation in FY 07/08 was 10 percent, 33 percent in FY 09/10, and 40 percent in FY 10/11 as more revenues are being directed to this fund.

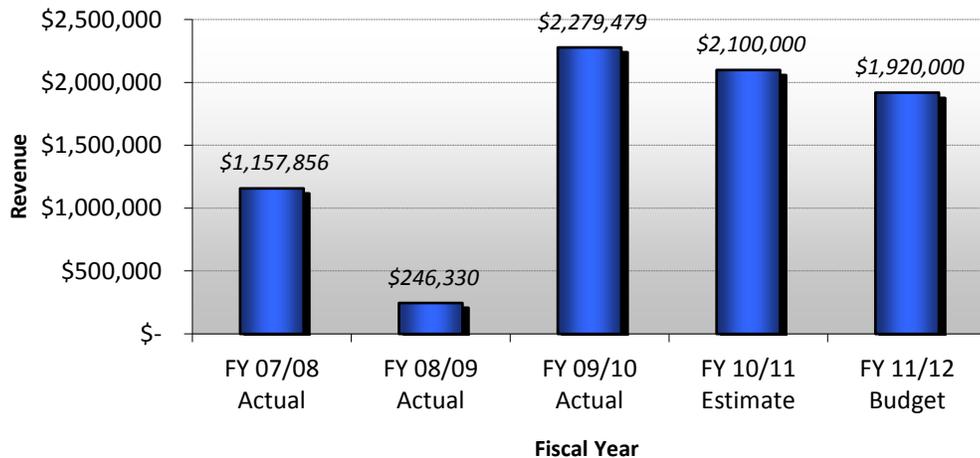
Home Rule Sales Tax



Police Pension Fund

The major revenues in this fund fall into three categories: Employer Contributions, Investment Income, and Employee Contributions. The employer contribution of \$934,000 is determined by the annual independent actuarial study. This amount is used in the tax levy and becomes the employer contribution to the Pension Fund when collected via property taxes. The FY 11/12 budget is 2 percent higher than the FY 10/11 budget and estimated actual. The negative return on investments in FY 08/09 contributed to the Employer Contribution increase in the following years. Investment income of \$579,000 is estimated by an analysis of existing investments and the current market conditions which influence the expected return on investment. The budget is 25 percent higher than the FY 10/11 budget due to improved market conditions and expectations by economists. The final major revenue of \$407,000 is contributions from officer salaries at 9.91 percent which is set by state statute. The FY 11/12 budget is 3 percent higher than the FY 10/11 budget. The general increases in police salaries are offset by one open position that will not be filled during this fiscal year. The total FY 11/12 revenue budget of \$1,920,000 is an increase of 8 percent over the FY 10/11 budget but 9 percent less than estimated actual attributable to improved market conditions in the financial industry at this point in FY 10/11.

Police Pension Fund

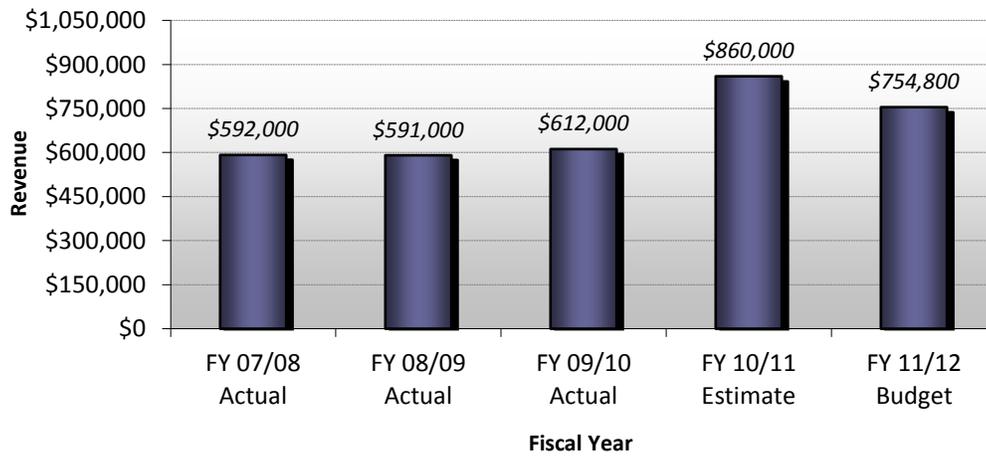


Debt Service Fund

The Village has one debt service fund which is used for the retirement of debt issued for construction of buildings in the general fund. Inter-fund transfers provide funding for all expenditures in the Debt Service Fund. The budgeted debt service transfer from the General Fund in FY 11/12 is \$754,800 which is 2 percent higher than the FY 10/11 budget.

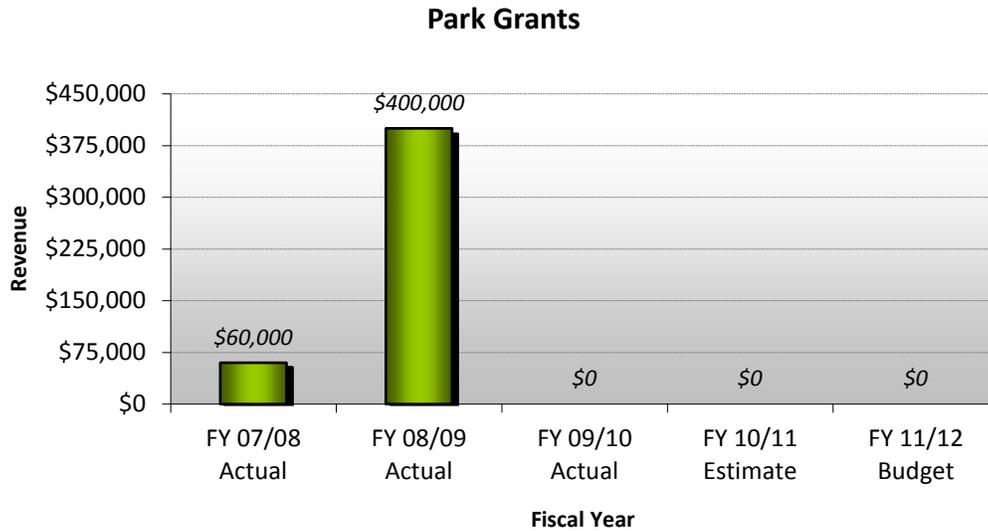
Interest income is budgeted at \$125,000 which is 7.5 percent less than last years' budget reflecting current Fed Fund rates which unfavorably impact our investment income. Debt service payments for water /sewer bond issues are now reported in the Water & Sewer Operating Fund.

Debt Service Fund



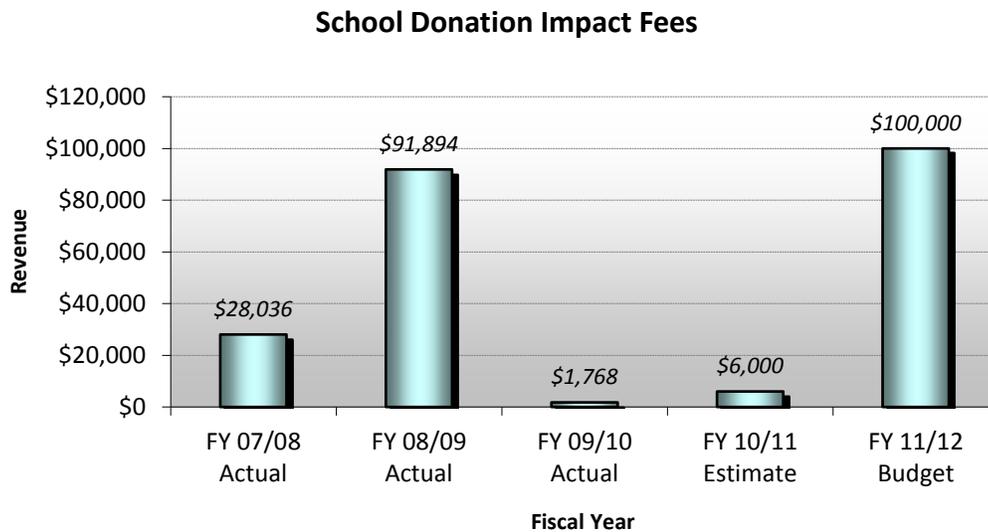
Park Grants

There are no grants presently budgeted in this fund. The \$400,000 grant associated with Spella Park construction is the last development grant received by the village.



School Donation Impact Fees

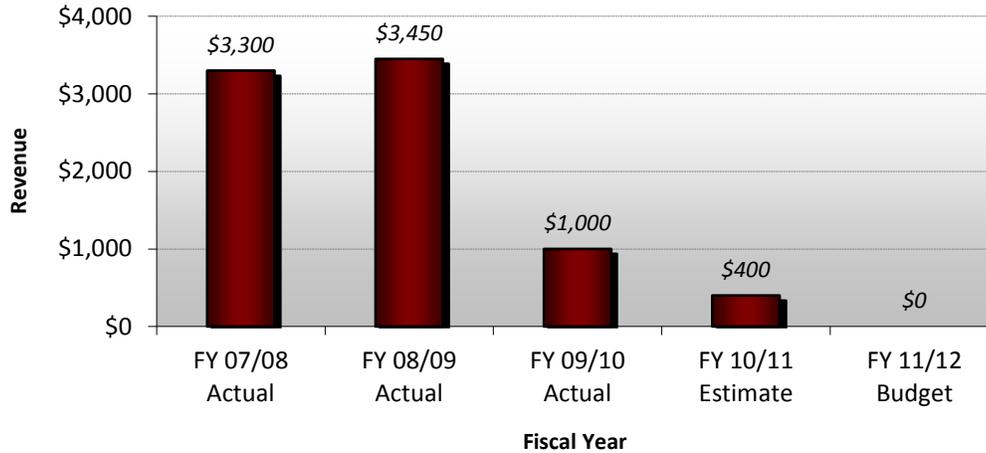
School Donation Impact Fees are collected by the Village according to our ordinances and paid to the school districts upon request. The FY 11/12 budget is \$100,000. The estimated actual for FY 10/11 is \$6,000 reflecting the lack of residential housing permits,



Municipal Facility Fee

There is no construction planned that will generate fees in this fund during FY 11/12. Estimated actual for FY 10/11 is \$400 reflecting fewer permits for new homes.

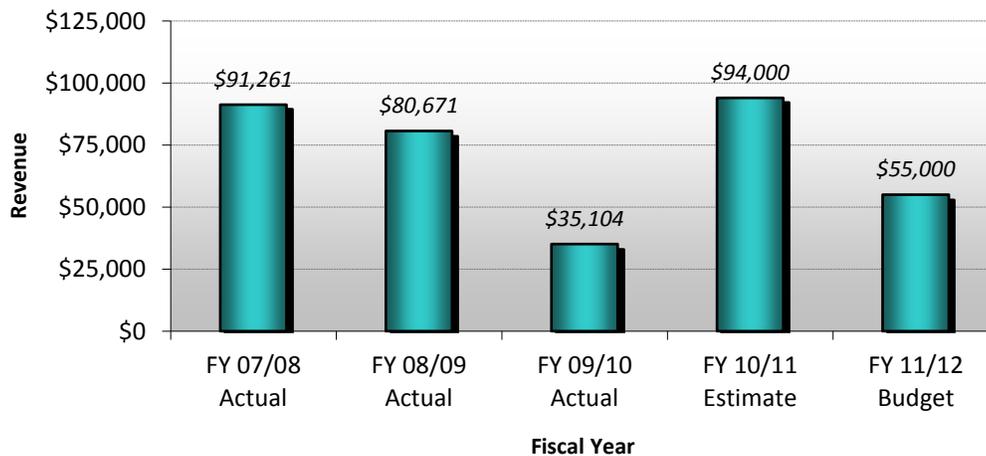
Municipal Facility Fees



Hotel Tax Fund

The hotel tax is 5 percent of hotel room billings and the FY 11/12 budget is \$55,000 which is 41 percent less than the FY 10/11 estimated actual budget. These revenue receipts have softened recently due to general economic conditions.

Hotel Tax Receipts





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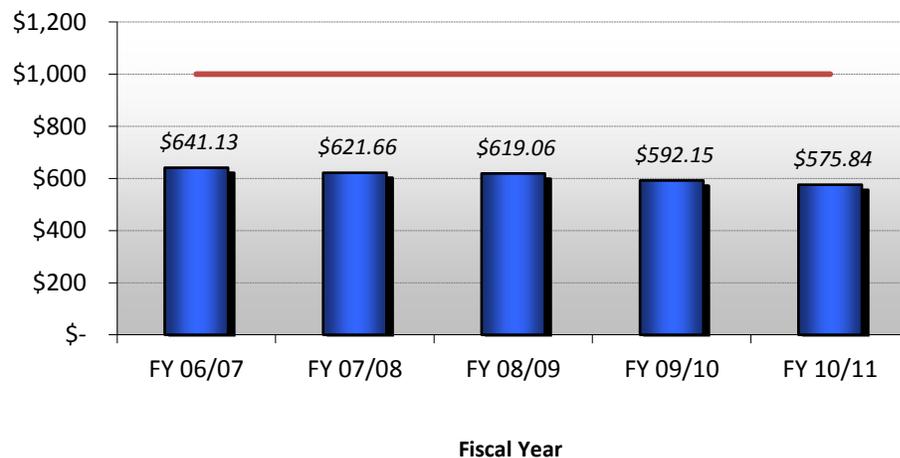
Debt Management Trends

The following information displays the financial limit ratios set forth by the Village in its debt management policy adopted in 2009. The charts below display a five year history of debt management trends and aid Village staff in future capital financing and validating compliance with the financial limit ratios set forth by the Village. This information is continually tracked to monitor the Village's debt service and position.

General Obligation Debt per Resident

The graph below illustrates General Obligation (G.O.) debt per Village resident. This graph does not include debt of overlapping jurisdictions (school districts, fire protection districts, library districts, etc.). In FY 04/05, the Village issued debt for the expansion of its Wastewater Treatment Facility. The decreasing trend in debt per resident shown below is expected to continue as the Village pays down existing debt.

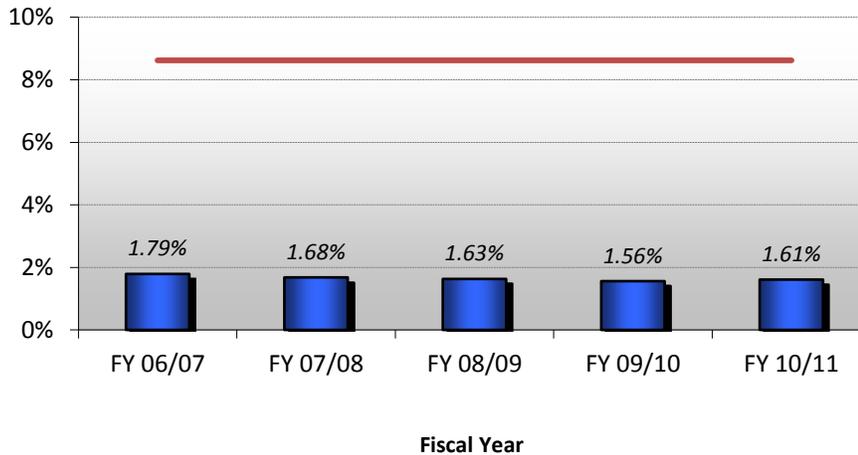
G.O. Debt per Resident



Ratio of General Obligation Debt to EAV

This graph illustrates the ratio of G.O. debt to the Village's equalized assessed value (EAV). As a home rule community, the Village has adopted a threshold set forth by State Statutes for non-home rule municipalities' limitation of the amount of debt that may be legally incurred. The limitation set by Statute is 8.625 percent of the most recent EAV of the real estate in the Village's boundaries. The ratio of G.O. Debt to EAV is well below this threshold and is generally decreasing. In 2011 the Village's EAV decreased, accounting for the slight increase in this ratio.

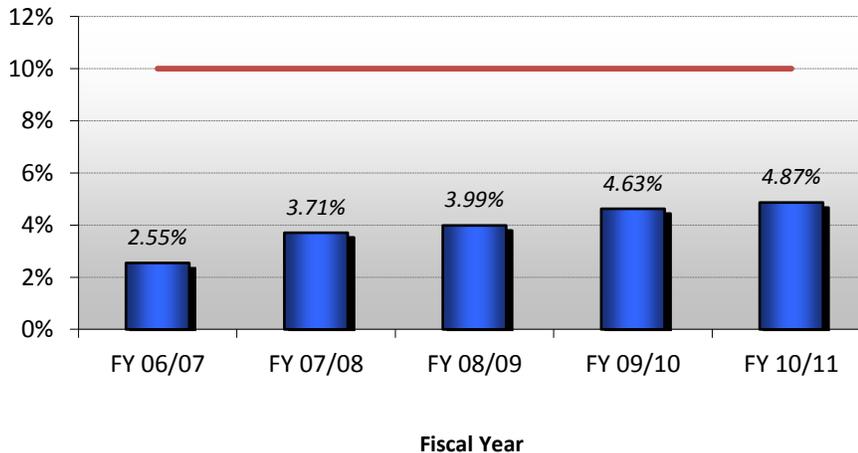
Ratio of G.O. Debt to EAV



Ratio of General Obligation Debt Expenditures to Total Budget Expenditures

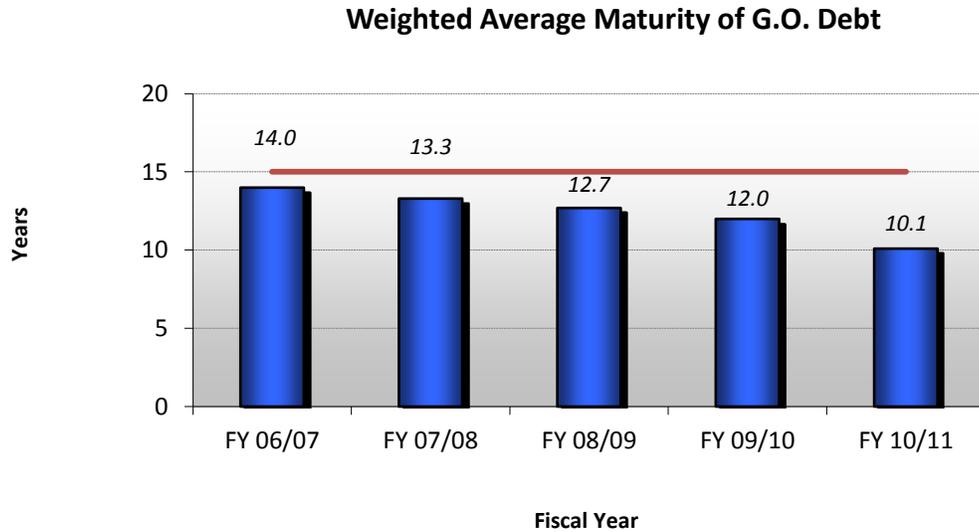
The ratio of G.O. Debt expenditures to total budget expenditures monitors what portion of the Village's operating budget is dedicated to debt service. The increasing trend shown below is expected to continue until 2015 when Bond Series 2010 will be retired. This trend has been exaggerated during the most recent fiscal years as revenues and expenditures have generally been flat. Despite this trend, the Village is well within its self-imposed 10 percent limit.

Ratio of G.O. Debt Expenditures to Total Budget Expenditures



Weighted Average Maturity of General Obligation Debt

When practical, the Village utilizes an even annual debt service pattern in its capital financing. During high growth periods of the late 1990s and early 2000s, the Village issued debt to construct facilities to serve the growing population. As such, this measure peaked in FY 06/07 and continues to decrease as the Village pays down existing debt. This trend is expected to continue in the near future, creating a larger margin between the weighted average maturity of G.O. debt and the 15-year limit set by the Village.



Revenue Debt Coverage

The Village of Algonquin does not have any revenue debt outstanding.



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Financial Policies

The Village of Algonquin has a tradition of sound municipal financial management. The Annual Budget includes a set of policies to be followed in managing the financial and budgetary affairs of the Village. These policies will allow the Village to maintain its strong financial condition, as well as quality services now and in the future.

Budget Policies

1. Budget System

The Village of Algonquin adopted the budget system for spending limits via Ordinance 92-O-82 pursuant to 65 ILCS 5/8-2.9.1 through 5/8-2-9.9 as authority. The budget system provides for the following:

By a vote of two-thirds of the corporate authorities then holding office, a budget officer may be appointed in every city or village. The budget officer shall be designated by the president with the approval of the corporate authorities. The designated budget officer in the Village of Algonquin is the Village Manager.

Among other duties, the budget officer has the responsibility to complete an annual budget which the corporate authorities must adopt before the beginning of the fiscal year to which it applies. The budget must include estimates of revenues available to the municipality for the fiscal year together with recommended expenditures for the municipality and all of the departments, commissions and boards.

The budget system has two significant improvements over the appropriation system which is another method of setting spending limits for the municipality. First, revision of the annual budget is permitted by a vote of two-thirds of the members of the corporate authorities then holding office. The budget may be revised by deleting, adding to, changing or creating sub-classes within object clauses and object clauses themselves. No revision of the budget shall be made increasing the budget in the event funds are not available to effectuate the purpose of the revision.

Second, the budget system authorizes the accumulation of funds over a period of years to be used to construct capital improvements along with a fund for contingency purposes.

2. Reserve Policy

The Village will maintain an operating cash reserve of at least 25 percent with a future goal of 50 percent of the total General Corporate Fund annual budgeted expenditures. The reserve shall be the minimum cash and cash equivalent unencumbered monies created and maintained to provide the capacity to:

- A. offset unexpected downturns or revision in any general corporate fund revenue.
- B. provide a sufficient cash flow for daily financial needs at all times.
- C. offset unexpected increases in general corporate fund expenditures.

The Village will maintain a Vehicle Replacement Cash Reserve with the funds designated for replacement of vehicles (with the exception of police squad cars) in the General Fund. The intention

is to smooth the impact of high cost vehicle purchases with annual monies set aside to provide funds for replacement of vehicles as follows:

- A. The vehicle replacement schedule with values will be determined by the Internal Services Superintendent.
- B. The funding source will not increase tax rates or debt burden.
- C. The funding will come from unencumbered cash surpluses that exceed the requirements for a 25 percent operating cash reserve.
- D. Funds for purchases will come from the Vehicle Replacement Cash Reserve.

Comment: The FY 11/12 Vehicle Replacement budget is \$0 due to the recessionary economy.

The Village will maintain a Water and Sewer Operating Fund cash reserve of at least 25 percent of the total Water and Sewer Operating Fund annual budgeted expenditures less debt service.

The Village will maintain a Village Construction Fund operating cash reserve for the construction of village facilities other than water & sewer related structures. Funding is provided from a Municipal Facility Fee on new home permits as well as transfers from the General Fund that will not impair the cash reserve policy of the General Corporate Fund. The cash reserve is expected to assist the pay-as-you go policy as referenced in Section 12. Debt Administration.

If fund balances are used to support one-time capital and one-time non-operating expenditures, the funds must be specifically budgeted by the Village Board.

3. Contingencies

The annual budget may contain funds set aside for contingency purposes not to exceed 10 percent of the total budget without the amount set aside for contingency purposes. The budget officer shall have authority to make changes to the budget using the contingency budget.

Comment: The FY 11/12 expenditure budget contains a \$0 working capital contingency due to the economic difficulties in the local area as well that of the State of Illinois. The economy in Illinois began to deteriorate in the state's FY 08/09 and FY 09/10 as reflected in reductions in the per capita allocation of state income tax. Further, the State continues to manage its cash flow difficulties by delaying payment of the income tax allocations to municipalities, presently three months in arrears.

4. Cash Basis of Accounting

Budgets are prepared on the cash basis of accounting with only transactions involving the source and use of cash being budgeted. Non-cash transactions such as depreciation and revenue accruals are not recognized in the budget. Refer to the Basis of Accounting (Section 10) for further explanation of this basis of accounting.

5. Balanced Budget

A balanced budget exists when revenues are equal to or in excess of expenditures for operating expenses and/or a cash reserve exists to offset large capital expenses.

6. Revenue Policies

The Village endeavors to maintain a diversified and stable revenue base to shelter it from short-term fluctuations in any one revenue source. The revenue mix combines elastic and inelastic revenue sources to minimize the effect of an economic downturn.

- A. Through the Village's economic development program, the Village will strive to strengthen its revenue base.
- B. Each existing and potential revenue source will be reexamined annually.
- C. The Village will maintain a revenue monitoring system to assist in trend analysis and revenue forecasting.
- D. The Village will oppose state and/or federal legislation that will mandate costs to units of local government without providing a new or increasing an existing revenue source to pay those costs.
- E. The Village follows a "cost of service" approach which results in user fees, rates and customer charges being sufficient to cover the cost of providing the service. Each year the Village will establish user fees, rates and charges at a level related to the cost of providing the service and to adjust for the effects of inflation.
- F. The Village will set fees and user charges for each enterprise fund, such as Water and Sewer, at a level that fully supports the total direct and indirect cost of the activity.
- G. The Village will not use one-time revenue for continuing expenses. All new and continuing expenses will be based on known and conservatively projected revenue sources. The identification of new, but one-time revenue opportunities (i.e. state and federal grants) will be used to fund one-time expenses such as capital equipment, purchases and small capital projects not involving on-going operating expenses.

7. Expenditure Policies

- A. The Village will maintain a level of expenditures which will provide for the public well-being and safety of the residents of the community.
- B. Expenditures will be within the confines of generated revenue and/or cash reserves.
- C. The Village will maintain expenditure categories according to state statute and administrative regulation.
- D. Services will parallel and adjust to the Village's inelastic revenue sources in order to maintain the highest level of service. During period of economic upturn, long term expansion of core services will be limited to the anticipated increase of those sources.
- E. Expenditure forecasts will be cognizant of the elastic and inelastic structure of revenues.
- F. Annual operating budgets should provide for adequate design, construction, maintenance and replacement of the Village's capital plant and equipment.
- G. A performance based employee compensation package consistent with sound economic policies of the Village of Algonquin is maintained to recruit and to retain qualified employees.

8. Cash Management

- A. An investment policy has been adopted by the Village Board. The investment policy provides guidelines for the prudent investment of the temporary idle cash and outlines the policies for maximizing the efficiency of the cash management system. The ultimate goal is to enhance the economic status of the Village while protecting its pooled cash.
- B. The cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the Village to invest funds to the fullest extent possible. The Village attempts to match funds to projected disbursements.
- C. In order to maximize interest earnings, the Village commingles the cash of all funds with the exception of the Police Pension Fund. Interest revenue derived from commingled cash is allocated to the participating funds monthly based on the relative cash balance of each fund.
- D. Criteria for selecting investments and the order of priority are:

- i. Legal - The investment program must be in conformance with federal laws, state statutes, local ordinances, and internal policies and procedures. State statutes govern the investment of public funds and provide the general framework for investment activity and fiduciary responsibilities.
- ii. Safety - The safety and risk associated with an investment refers to the potential loss of principal, interest or a combination of these amounts. The Village only invests in those investments that are considered safe.
- iii. Liquidity - This refers to the ability to "cash in" at any moment in time with a minimal chance of losing some portion of principal and interest. Liquidity is an important investment quality especially when the need for unexpected funds occur occasionally.
- iv. Yield – This is the potential dollar earnings an investment can provide, and is sometimes described as the rate of return.
- v. All monies that are due to the Village shall be collected as soon as possible. Monies that are received shall be deposited in an approved financial institution no later than the next business day after receipt by the Village.

9. Accounting, Auditing and Financial Reporting Policies

The Village will establish and maintain a high standard of accounting practices in conformance with Generally Accepted Accounting Principals (GAAP) for governmental entities as promulgated by the Governmental Accounting Standards Board (GASB). The following summarizes significant accounting policies of the Village.

- A. Reporting Entity - the Village is a municipal corporation under Illinois Compiled Statutes governed by an elected Board of Trustees and Village President.
- B. Fund Accounting - the accounts of the Village are organized on the basis of funds and account groups, each considered to be a separate set of self-balancing accounts comprising assets, liabilities, fund balance or equity, revenue, and expenditures or expenses as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The funds are grouped as follows:

General Fund – the General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is divided into the following functional areas:

- Village Board/Clerk/Commissions/Committees
- General Services Administration
- Police Department
- Public Works Department
- Community Development Department
- Multidepartmental

Special Revenue Funds – the Special Revenue Funds are used to account for the accumulation of revenues that are legally restricted to expenditures for specific purposes. The special revenue funds include 1) Cemetery Fund – to account for the operations of the Village owned cemetery with funding from fees, donations, and Cemetery Trust cash and transfers from the General Fund. 2) Motor Fuel Tax Fund – accounts for motor fuel tax revenues and expenditures for the maintenance and construction of street related purposes/programs and capital projects authorized by the Illinois Department of Transportation. Financing is provided from the Village’s

share of State motor fuel taxes. 3) Street Improvement Fund – to account for infrastructure maintenance and improvements with funding provided by home rule sales tax, utility taxes and the telecommunications tax. 4) Swimming Pool Fund – accounts for the operations of the municipal swimming pool with funding from seasonal passes and daily fees, 5) Park Fund – to account for the acquisition and development of new park sites financed by state grants and developer contributions. 6) Special Revenue Fund – includes the Community Development Block Grant - accounts for the use of State grant monies earmarked for small business loans; Cul de Sac – to account for the maintenance of cul-de-sacs within the Village with funding provided by developer impact fees; Hotel/Motel Tax – to account for village and tourism related uses with funding provided by hotel/motel taxes; and School Donations – to account for revenue from developer impact fees that the Village transfers to the appropriate school district.

Debt Service Funds – Debt Service accounts for the accumulation of resources for the payment of general obligation/alternate bond debt service and related costs. Water & Sewer Bond & Interest is accounted for in the Water & Sewer Operating Fund. Debt service for Series 2005A is accounted for in the Water and Sewer Improvement and Construction Fund while debt service and related costs for other village properties is accounted for in a separate Debt Service Fund.

Capital Project Funds – Village expansion projects are accounted for in the Village Construction Fund and are financed by cash reserves, debt issuance, the allocation of the home rule sales tax and/or development fees. Village expansion projects in the enterprise fund are accounted for in the Water and Sewer Improvement and Construction Fund with funding from debt issuance, developer tapping fees, and the allocation from the home rule sales tax and donations.

Enterprise Fund – Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, with the intent that the cost of providing goods or services to the general public on a continuing basis be financed through user charges. The Water and Sewer Operating Fund accounts for water and sewer services to the residents and businesses of the Village. The activities necessary to provide such services are accounted for in this fund and include administration, water and sewer operations, maintenance, financing, related debt service and billing and collection.

Internal Service Funds – The Vehicle Maintenance Fund accounts for the fueling, repair and maintenance of Village vehicles and equipment. The Building Maintenance Services Fund accounts for the maintenance of the buildings, equipment and fixtures (plumbing, heating, etc.). Activities necessary to provide such services include, but are not limited to, administration, operations, maintenance, financing, and related billing and collection.

Fiduciary Funds – Trust Funds are used to account for assets held by the Village in a trustee capacity. The Police Pension Fund is a pension trust fund that was established to account for benefits to be provided to Police Officers.

10. **Basis of Accounting**

Basis of accounting refers to the timing of when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. All governmental and agency funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when measurable and available and expenditures are reported when the fund liability is incurred. A sixty day availability period is used for the majority of the Village's governmental fund revenues.

The financial statements of the enterprise and pension trust funds reflect the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred.

Because the budget is prepared on a cash basis while the financial statements are prepared on a modified accrual (governmental funds) and accrual (enterprise and pension trust funds) basis, certain differences between the two methods need to be explained. The most significant differences are 1) depreciation expense – the budget (cash) basis does not recognize depreciation expense and will, therefore, result in higher fund balance/retained earnings than the accrual basis when adjusting for depreciation expense; 2) purchase of capital items – the cash basis recognizes the full cost of a capital asset when it is purchased rather than depreciating it over time and will, therefore, result in a lower fund balance/retained earnings than the accrual basis when adjusting for the purchase of capital items; 3) revenue accruals – the cash basis does not recognize year end revenue accruals and will, therefore, result in a lower fund balance/retained earnings than the accrual basis when adjusting for year end revenue accruals; and 4) debt service principal payments and receipt of long-term debt proceeds – the GAAP basis of accounting used in proprietary funds does not report these transactions in operations while the opposite is true under our budgetary basis of accounting. The cash basis treatment of debt service principal payments will result in lower fund balance/retained earnings while the cash basis treatment of debt proceeds will result in higher fund balance/retained earnings.

Where possible, the reporting system will also provide monthly information on the total cost of specific services by type of expenditure and, if necessary, by Fund.

- A. An independent firm of certified public accountants will perform an annual financial and compliance audit according to Generally Accepted Auditing Standards (GAAS) and will publicly issue an opinion which will be incorporated in the Comprehensive Annual Financial Report.
- B. Annually, the Village will seek the GFOA Certificate of Achievement for Excellence in Financial Reporting Program.
- C. The Village will promote full disclosures in its annual financial statements and its bond presentations.

11. Debt Administration

As of May 1, 2011, the Village has four (4) General Obligation/Alternate Bonds outstanding with a principal total of \$17,301,751. The following objectives are used in managing debt:

- A. The Village will confine long-term borrowing to capital improvements that cannot be financed from current revenues or reserves.
- B. The Village will target long-term borrowing for construction of long-lived capital assets only, with the remainder financed on a pay-as-you-go basis.
- C. Long-term debt will not be used for operations.
- D. The Village will maintain good communications with bond rating agencies about its financial condition. The Village will follow a policy of full disclosure on every financial report and bond prospectus.
- E. Every project proposed for financing through general obligation debt should be accompanied by a full analysis of the future operating and maintenance costs associated with the project.

12. Outstanding Debt

The outstanding debt is comprised of the following bond issues:

- A. The Village issued \$1,708,794 GO (Capital Appreciation Alternate Revenue Source) Bond Series 2002B dated March 19, 2002, with compound accreted value amounts payable April 1, 2016-2021, amounts ranging from \$560,000 to \$700,000, and approximate yield at par of 5.10 percent to 5.40 percent. The total of the accreted value payments at maturity will equal \$3,985,000. These bonds and Series 2002A were issued to finance the construction and equipping of a new Public Works Facility. Bond Series 2005B refunded this Bond Series and redemption will occur on April 1, 2012. The principal balance as of May 1, 2011, is \$2,425,000. Funds for the call are escrowed.
- B. The Village issued \$9,000,000 GO Sewer Bond Series 2005A dated December 15, 2005, with principal maturing April 1, 2006-2021, amounts ranging from \$25,000 to \$875,000, interest payable semi-annually each October 1 and April 1, commencing October 1, 2006, at rates of 3.5 percent to 4.15 percent. The bonds were issued to partially finance Phase 6 of the expansion of the Village's sewerage treatment plant. The tax levy for debt payment is abated annually using revenues from home rule sales tax to fund the debt service. The principal balance as of May 1, 2011, is \$8,865,000.
- C. The Village issued \$2,935,000 GO Refunding Bond Series 2005B dated January 1, 2006, with principal maturing April 1, 2016-2020, amounts ranging from \$535,000 to \$650,000, interest payable semi-annually each October 1 and April 1, commencing April 1, 2006, at rates of 3.875 percent to 3.95 percent. The bonds were issued to refund the Village's GO (Capital Appreciation Alternate Revenue Source) Bond Series 2002B and pay the costs of issuing the 2005B Bonds. The proceeds from the issue paid issuance costs and the balance was escrowed. The initial interest has been paid from escrow fund investment income. In 2012, Series 2002B will be called and the Village will make the remaining debt service payments. The tax levy for debt payment is planned to be abated annually using sales tax revenues from the General Fund. The principal balance as of May 1, 2011, is \$2,935,000.
- D. The Village issued \$3,055,000 GO Refunding Bond Series 2010 dated June 1, 2010, with principal maturing April 1, 2011-2015, amounts ranging from \$275,000 to \$910,000, interest payable semi-annually each October 1 and April 1, commencing October 1, 2010, at rates of 2.00 percent to 3.00 percent. The bonds refunded General Obligation Refunding Bonds (Alternate Revenue Source), Series 2001A and the General Obligation (Alternate Revenue Source) Bonds, Series 2002A. Series 2001A had refunded Revenue Bond Series 1993 which financed extension and improvement of the combined waterworks and sewerage system of the Village. Series 2002A partially financed the construction and equipping of a new Public Works Facility. The tax levy for debt payment is abated annually and the revenues from the Water & Sewer Operating Fund are used to fund the debt service payments from the 2001A portion of debt while sales tax revenues from the General Fund are used to fund the debt service payments from the 2002A portion of debt. The principal balance as of May 1, 2011, is \$2,780,000.



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Village of Algonquin

Debt Management Policy

I. PURPOSE

The Village of Algonquin's Debt Management Policy is designed to be a management tool for debt issuance and capital infrastructure planning. The long term financial planning approach of this policy is consistent with the Village's mission statement as to providing for the needs of today and preparing for the demands of tomorrow.

The Debt Management Policy formally establishes parameters for issuing and managing debt while encompassing the Village's Capital Improvement Plan (CIP). The goals of this policy are to promote prudent financial management; preserve and enhance the Village's credit rating; ensure compliance with the CIP; maintain capital assets and plan for future needs; ensure compliance with federal and state statutes; and promote coordination and cooperation among public and private entities.

II. DEBT LIMITATIONS

A. Legal Authority

- i. The provisions set forth in this policy shall be consistent with the Bond Authorization Act (30 ILCS 305/0.01, et. seq.) of the State of Illinois.
- ii. The Village of Algonquin is a Home Rule municipality; therefore the debt limitations of bond laws are not applicable.

B. Types of Debt

- i. Long-Term Debt
 1. Long-term debt may be used when final maturities of bond are no less than thirteen (13) months and no greater than twenty (20) levy years.
 2. The Village may issue such debt which may include, but not limited to general obligation (GO) bonds, revenue bonds, tax increment bonds, alternate revenue bonds, special assessment bonds, debt certificates, and leasing in lieu of a debt issue.
 3. The Village may issue long-term debt when appropriate assessment of the need and priority of the capital improvement project has been performed; current resources are insufficient to finance the project; and when debt issuance is the optimal structure given the Village's outlook pertaining to the long range financial plan.
 4. Long-term debt shall not be used for operating costs or routine maintenance.
 5. Long-term debt shall be structured as to not exceed the expected useful life of the projects financed or twenty (20) years, whichever comes first.
- ii. Short-Term Debt
 1. Short-term debt may be used when maturities of bond are less than thirteen (13) months.
 2. The Village may issue such debt which may include, but not limited to bond anticipation notes (BANs), tax anticipation notes (TANs), revenue anticipation notes (RANs), grant anticipation notes (GANs), tax and revenue anticipation notes (TRANs), and tax-exempt commercial paper (TECP).
 3. The Village may issue short-term debt to provide interim financing which will be refunded with the proceeds of long-term obligations or to provide for

the temporary funding of operational cash flow deficits or anticipated revenues.

4. Lines of Credit should only be considered as an alternative to other short-term borrowing options. The lines of credit shall be structured to limit concerns as to the Internal Revenue Code.
- iii. Variable Rate Debt
 1. The Village may choose to issue bonds that pay a rate of interest that varies depending on market conditions, consistent with state laws and covenants of pre-existing bonds. Such market conditions include, but are not limited to:
 - a. High Interest Rate Environment
 - i. Current interest rates are above historic average trends.
 - b. Variable Revenue Stream
 - i. The revenue stream for repayment is variable, and is anticipated to move in the same direction as market-generated variable interest rates, or the dedication or revenues allows capacity for variability.
 2. The Village shall have financing structure and budgetary safeguards in place to prevent adverse impacts from interest rate shifts. Such structures may include, but are not limited to, interest rate swaps, interest rate caps, and the matching of assets and liabilities.
 3. The Village shall have no more than fifteen (15) percent of its outstanding general obligation debt in variable term debt.

C. Capital Improvement Plan

- i. The Capital Improvement Plan, prepared under the direction of the Village Manager, and reviewed by the Village Board, shall determine the Village's capital needs. The program shall be a multi-year plan for the acquisition, development, and/or improvement of the Village's infrastructure. Projects included in the CIP shall be prioritized; and the means for financing each shall be identified. The first year of the plan shall be the Capital Budget. If the current resources are insufficient to meet the needs identified in the Capital Budget, the Village Board may consider incurring debt to fund the shortfall. The Village Board, upon advice from the Village's financial advisor, may also consider funding multiple years of the CIP by incurring debt. The CIP should be revised and supplemented each year in keeping with the Village's policies on debt management.

D. Financial Limit Ratios

- i. Direct Debt
 1. The Village's General Obligation Bonded Debt to population ratio shall not exceed \$1,000 per capita, which shall be reviewed annually to ensure compliance.
 2. The Village's General Obligation Bonded Debt to Equalized Assessed Value (EAV) ratio shall not exceed the threshold set forth by the Illinois State Statutes for non-home rule municipalities at 8.625%.
 3. The Village's General Obligation Bonded Debt to Total Budget Expenditures ratio shall not exceed ten (10) percent.
 4. The weighted average maturity of General Obligation Bonded debt shall not exceed fifteen years.
- ii. Revenue Debt
 1. The Village shall maintain one and one-quarter times coverage for all indebtedness of the Water and Sewer Fund.

III. DERIVATIVES

A. Use

- i. The Village may choose to use derivative products including, but not limited to, interest rate swaps, options on swaps, and other hedging mechanisms.
- ii. Use of derivative products shall only be used to increase the Village's financial flexibility, provide opportunities for interest rate savings, alter pattern of debt service payments, create variable rate exposure, change variable rate payments to fixed rate, and otherwise limit or hedge variable rate payments.
- iii. The use of derivative products shall only be considered upon the advice of the Village's Financial Advisor.

B. Policy

- i. Derivative products shall not be used for speculation, but only to manage risks associated with the Village's assets or liabilities.
- ii. Use of derivative products shall be consistent with the Village's financial policies that reflect the current risk tolerances and management capabilities of the Village.

IV. DEBT STRUCTURING

A. Maximum Term

- i. The maximum term of any debt issuance shall not exceed the useful life of the asset the debt is financing.

B. Debt Service Pattern

- i. Increasing Principal Debt Service
 1. When prudent and feasible, General Obligation Bonds should have an increasing principal debt service structure to realize the additional financial capacity of the Village during periods of robust growth.
- ii. Even Annual Debt Service
 1. When prudent and feasible, General Obligation Bonds should have a level debt service structure to simplify the budgeting process in future years.
- iii. Even Annual Principal Debt Service
 1. When prudent and feasible, the Village should structure debt service to obtain lower interest payments over life of debt.

C. Call Provisions

- i. Village securities may contain a call feature, which shall be no later than ten years from the date of delivery of the bonds.
- ii. The Village shall avoid the sale of non-callable bonds absent careful evaluation by the Village of the value of the call option.
- iii. The Village shall minimize call premiums to a level not to exceed three percent.

D. Credit Enhancements

- i. Bond Insurance
 1. The Village may purchase Bond Insurance when such is determined to be prudent and feasible, based upon the determination of the Village's Financial Advisor.
 2. The feasibility of Bond Insurance is less likely as long as the Village maintains a bond rating of AA or higher.
 3. The said provider shall be the bidder with the most cost-effective bid consistent with the Village's specifications.
- ii. Letters of Credit
 1. The Village may purchase Letters of Credit when such is determined to be prudent and feasible, based upon the determination of the Village's Financial Advisor.

2. Only financial institutions with long-term ratings greater than or equal to the Village's, and short-term ratings of "strong credit quality" as indicated by a rating of A-1 by Standard & Poor's or VMIG 1 by Moody's Investor Service shall be considered for providing letters of credit.

E. Capital Leasing

- i. Capital Leasing may be considered for equipment costing less than \$500,000.
- ii. Leasing shall not be considered when existing funds are available or could be made available for the acquisition unless the interest expense associated with the lease is less than the interest that can be earned by investing the existing funds available or unless it is warranted by prudent and feasible financial management.
- iii. Tax-exempt rates shall be obtained when leasing through a private entity.
- iv. Leases arranged with a government or other tax-exempt entity shall obtain an explicitly defined taxable rate so that the lease will not be counted in the Village's total annual borrowing subject to arbitrage rebate.
- v. Lease agreement shall permit the Village to refinance the lease at no more than reasonable cost should the Village decide to do so. A lease which can be called at will is preferable to one which can merely be accelerated.
- vi. The Village shall obtain at least three competitive proposals for any major lease financing. The net present value of competitive bids shall be compared, taking into account whether payments are in advance or in arrears, and how frequently payments are made.
- vii. The advice of the Village's Bond Counsel shall be sought in any capital leasing arrangement and when federal tax forms are prepared to ensure that all federal tax laws are obeyed.

V. DEBT ISSUANCE

A. Sale Method

- i. Competitive
 1. When economically feasible, the Village shall pursue a debt issue through a competitive sale. Village bonds shall be awarded to the bidder providing the lowest true interest cost (TIC) as long as the bid adheres to the requirements set forth in the official notice of sale (NOS).
- ii. Negotiated
 1. A negotiated sale may be pursued in such scenarios where the size of the issue may limit the number of potential bidders; a complex debt structure that requires a significant pre-marketing effort; a volatile interest rate market in which the Village would be best served with more flexibility.
- iii. Private Placement
 1. When economically feasible, the Village may privately place its debt. This method may be used for small debt issues or as recommended by the Village's Financial Advisor.

B. Refunding

- i. The Village may consider refunding outstanding debt when financially feasible and consistent with all applicable laws and statutes.
- ii. A net present value debt savings of at least three percent or greater must be realized unless currently callable, in which case a lower savings percentage is acceptable.

C. Financial Advisor Selection

- i. When deemed necessary by Village staff, the Village may retain a Financial Advisor to assist in its debt issuance and debt administration process.
- ii. The financial advisor shall not be permitted to underwrite the proposed negotiated sale of bonds, or resign in order to underwrite the said bond sale.

- iii. Unless an existing professional relationship exists, the Financial Advisor shall be selected by the use of a Request for Proposal (RFP) process to promote fairness, objectivity, and transparency.
- iv. Criteria to select a financial advisor may include, but is not limited to: overall experience, capability, fees, insurance, and access to current market information.

D. Underwriter Selection

- i. Competitive Sale
 - 1. The Village shall retain an outside Financial Advisor prior to undertaking competitive debt financing.
 - 2. The underwriter shall be selected based upon the lowest true interest cost (TIC) as long as the bid adheres to the requirements set forth in the official notice of sale (NOS).
- ii. Negotiated Sale
 - 1. The Village shall retain an outside Financial Advisor prior to undertaking negotiated debt financing.
 - 2. The Financial Advisor shall not be permitted to underwrite the proposed negotiated sale of bonds, or resign in order to underwrite the said bond sale.
 - 3. Unless an existing professional relationship exists, the Underwriter shall be selected by the use of a Request for Proposal (RFP) process to promote fairness, objectivity, and transparency.
 - 4. Criteria to select an Underwriter in a negotiated sale may include, but is not limited to: overall experience, capability, marketing philosophy, financial statements, underwriter's discount, and access to market information.

E. Bond Counsel Selection

- i. When deemed necessary by Village staff, the Village may retain a Bond Counsel to render an opinion on the validity of the bond offering, security for the offering and whether and to what extent interest on bonds is exempt from income and other taxation.
- ii. Unless an existing professional relationship exists, the Bond Counsel shall be selected by the use of a Request for Proposal (RFP) process to promote fairness, objectivity, and transparency.
- iii. Criteria to select a Bond Counsel may include, but is not limited to: overall experience, capability, and references.

F. Ratings

- i. The Village's debt capacity shall be maintained at a level to maintain and/or improve its rating of AA+ (S&P) as of September 2008.

VI. DEBT ADMINISTRATION

A. Investment

- i. The investment of bond proceeds shall be consistent with federal and state statutes that govern the investment of public funds.
- ii. Bond proceeds shall be invested as to minimize risk; ensure liquidity; and optimize returns.

B. Arbitrage

- i. The Village shall minimize the cost of arbitrage rebate and yield restriction while maintaining full compliance with the law.
- ii. The Village shall not issue debt except for projects identifiable in the CIP with likely prospects of timely initiation. Debt shall be issued as closely in time as feasible to the time any contracts are expected to be awarded so that the debt proceeds are spent quickly.
- iii. Bond Counsel may be retained to consult on any arbitrage rebate regulations.

- iv. Bond proceeds shall be spent before Village cash reserves.
- v. The Finance Director, or designee, shall be responsible for monitoring the amount of unspent debt proceeds including interest which is on hand and for ensuring that, to the extent feasible, the oldest proceeds on hand are spent first.

C. Law Compliance

- i. The Village and any retained counsel shall ensure compliance with the Tax Reform Act of 1986 (TRA) with respect to interest on tax-exempt securities.
- ii. The Village shall remain in compliance with Securities and Exchange Commission (SEC) Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders by October 30 each year.

D. Market and Investor Relations

- i. Rating Agencies and Investors
 - 1. The Village Finance Director, or designee, shall be responsible for maintaining the Village's relationship with Standard & Poor's and Moody's Investors Service.
 - 2. Communication with credit analysts from the aforementioned agencies shall be conducted at least once each fiscal year.
 - 3. Prior to any competitive or negotiated sale, the Finance Director, or designee, shall contact agency analysts with respect to the planned sale.
- ii. Village Board
 - 1. As appropriate, the Finance Director, or designee, shall forward communications from rating agencies and/or investors to the Village Manager regarding the Village's financial strengths and weaknesses, providing recommendations for addressing any weaknesses. Subsequently, information shall be communicated to the Village Board.

E. Policy Review

- i. The Village's Debt Management Policy shall be reviewed annually by the Village Manager and Finance Director.