

**ORDINANCE 2015-034**

**PASSED: AUGUST 10, 2015**

**AMENDING CHAPTER 54 "FINANCIAL ADMINISTRATION" OF THE CITY OF DEKALB, ILLINOIS MUNICIPAL CODE AS IT PERTAINS TO ADOPTING A PURCHASING MANUAL AND FINANCIAL POLICIES.**

**WHEREAS**, the City of DeKalb, DeKalb County, Illinois is a home rule community with those powers granted under the provisions of the Illinois Constitution and the Illinois Municipal Code, 65 ILCS 5/1-1-1, *et. seq.*; and,

**WHEREAS**, the City of DeKalb currently maintains Chapter 54 of the City Code, which relates to the Financial Administration of the City of DeKalb; and,

**WHEREAS**, the City Council finds that certain updates to Chapter 54 are required to properly promote the public health, safety, welfare and morals; and,

**WHEREAS**, the City Council also seeks to adopt a Purchasing Manual and Financial Policies;

**THEREFORE BE IT ORDAINED** by the Mayor and City Council of the City of DeKalb, DeKalb County, Illinois, as follows:

**Section 1.** Ordinances Amended; Policies Adopted.

**Chapter 54 shall be amended in the form attached hereto as Exhibit A (and staff is directed and authorized to prepare a clean (i.e. not redlined) version of the same.**

**The Financial Policies attached hereby as Exhibit B, and the Purchasing Manual attached hereto as Exhibit C, may be approved by the Council by separate Resolution. All authority provided under the terms of the Financial Policies and Purchasing Manual shall be expressly delegated, authorized and approved upon their passage and approval by the Council.**


**Section 2.** All ordinances or portions thereof in conflict with this ordinance are hereby repealed.



**Section 3.** Should any provision of this Ordinance be declared invalid by a court of competent jurisdiction, the remaining provisions will remain in full force and affect the same as if the invalid provision had not been a part of this Ordinance.

**Section 4.** This Ordinance shall be in full force and effect after passage and publication pursuant to law. Publication date: August 11, 2015. Effective date: August 21, 2015.

PASSED BY THE CITY COUNCIL of the City of DeKalb, Illinois, at a regular meeting thereof held on the 10th day of August, 2015 and approved by me as Mayor on the same day. First reading July 27, 2015. Passed by a roll call vote of 6-1-1. Aye: Finucane, Marquardt, Snow, Noreiko, Baker, Rey. Nay: Jacobson. Absent: O'Leary.

**ATTEST:**

  
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JENNIFER JEEP JOHNSON, City Clerk

  
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JOHN A. REY, Mayor

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**Chapter 54**

**FINANCIAL ADMINISTRATION  
(2015-34)**

Latest Revision: 2-2-15

**Sections:**

- 54.01 FINANCE DEPARTMENT**
- 54.02 FINANCE DIRECTOR (2014-25)**
- 54.03 DUTIES OF THE FINANCE DIRECTOR (2014-25)**
- 54.04 BUDGET OFFICER**
- 54.05 MUNICIPAL AND FISCAL YEAR (2014-25)**
- 54.06 ANNUAL BUDGET (2014-25)**
- 54.07 FINANCIAL PLAN (2014-25)**
- 54.08 INTENTIONALLY OMITTED**
- 54.09 DEPOSIT OF CITY FUNDS (2014-25)**
- 54.10 INTENTIONALLY OMITTED**
- 54.11 PROPERTY TAX LEVY ORDINANCE (2014-25)**
- 54.12 ANNUAL AUDIT (2014-25)**
- 54.13 INTENTIONALLY OMITTED**
- 54.14 INTENTIONALLY OMITTED**
- 54.15 DISPOSITION OF PERSONAL PROPERTY (2014-25)**
- 54.16 FINANCE ADVISORY COMMITTEE (10-12, 2014-25)**

**54.01 FINANCE DEPARTMENT**

There is hereby established a Finance Department of the City of DeKalb which shall consist of the Finance Director and other positions as may be authorized by the City Council. The Finance Department shall be organized and supervised as determined by the City Manager. (2014-25)

**54.02 FINANCE DIRECTOR (2014-25)**

a) There is hereby created the position of Finance Director who shall be appointed and removed at the discretion of the City Manager. The Finance Director shall have responsibility and supervision over all employees assigned to the Finance Department subject to the overall authority of the City Manager. The Finance Director may designate others within this department to exercise powers and perform functions in this Chapter.

b) In the event of a vacancy in the position of Finance Director, whether by virtue of the resignation, illness or other unavailability of the Finance Director, the City Manager may appoint one or more persons to serve as Acting Finance Director or may otherwise delegate the authority of the Finance Director as he/she sees fit.

c) The Finance Director, serving as Treasurer, shall have a bond in an amount sufficient to satisfy the requirements applicable under 65 ILCS 5/5-3-9.

d) The Finance Director shall not have an interest directly or indirectly in any contract, work or

business for or with the City, or in the sale of any article to the City, or in the purchase of any property belonging to the City.

e) The Finance Director shall keep all monies belonging to the City separate and distinct from the Director's own monies, and is prohibited from using, either directly or indirectly, the City money in the Director's custody, or any interest collected thereon, for his/her own use and benefit or for that of any other person, and shall ensure that these same prohibitions and requirements apply to all other employees of the Finance Department.

### **54.03 DUTIES OF THE FINANCE DIRECTOR** (2014-25)

The Finance Director shall devote the Director's entire time to the duties of the City at all reasonable hours and in particular shall: (2014-25)

a) Exercise and perform all the financial powers and duties of the City Treasurer, Collector or Comptroller pursuant to ordinance or the Illinois Compiled Statutes. (2014-25)

b) Exercise and perform all financial powers and duties now or hereafter granted or assigned by ordinance, Illinois Compiled Statutes or by the City Manager.

c) Maintain custody of monies belonging to the City of DeKalb and ensure that all funds of the City are properly deposited or invested in accordance with deposit and investment policies set forth in the City's then-current Financial Policies.

d) Maintain the City of DeKalb's financial records in accordance with City ordinances, State or federal regulations, generally accepted municipal financial management and accounting principles and practices and as otherwise directed or authorized by the City Manager.

e) Pay all warrants, bills or orders properly presented to the Finance Department in a reasonable and timely manner with checks drawn upon the proper funds signed by the Mayor and countersigned by the Finance Director. (2014-25)

f) Ensure the proper, efficient, and effective receipt and disbursement of all City funds, maintain proper, efficient, and effective systems for accounts receivable, accounts payable, payroll, financial reporting, internal financial, administrative and accounting controls, and financial records, and otherwise maintain the City of DeKalb's financial systems and perform such activities as necessary and as required by State or Federal law or regulation, ordinance or as directed by the City Manager.

g) Make such recommendations to the City Council and City Manager as the Director shall deem appropriate to ensure compliance with applicable laws or regulations, City policies or ordinances or best financial or management practices. (2014-25)

h) Exercise control and management, and direct, supervise, and coordinate all activities of all personnel, contractors and other persons within the Finance Department or otherwise under his/her direction, subject to the authority of the City Manager. (2014-25)

i) Perform such other duties and prepare such other reports or recommendations as may be directed by the City Manager. (2014-25)

j) Keep the City Council, City Manager and City Attorney apprised at all times of any actual or potential financial irregularity. (2014-25)

k) Serve as signatory and account representative for the City on financial, investment, retirement fund or other similar accounts maintained or established by the City, as may be directed by the City Manager. (2014-25)

l) Comply with the applicable terms of the then-current Financial Policies and Purchasing Manual adopted by the City Council. The Financial Policies and Purchasing Manual shall initially be adopted by the City Council by Resolution, and may subsequently be amended by Resolution of the City Council.

#### **54.04 BUDGET OFFICER**

The Finance Director is hereby designated to serve as Budget Officer and is authorized to empower or delegate to other city officials all or part of the authority and responsibilities of Budget Officer. The Budget Officer or designee shall have the power and duties as set forth in the Illinois Compiled Statutes as may be amended, including the following powers and duties: (2014-25)

a) Permit, encourage and establish the use of efficient planning, budgeting, auditing, reporting, accounting, and other fiscal management procedures in all city departments, boards, commissions and funds;

b) Compile an annual budget in accordance with Section 54.06 of this chapter; (2014-25)

c) Examine all books and records of all city departments, boards, commissions or funds which relate to monies received by the City and paid out by the City, debts and accounts receivable, and amounts owed by or to the City.

d) DELETED (2016-001)

#### **54.05 MUNICIPAL AND FISCAL YEAR** (2014-25)

The municipal and fiscal year of the City of DeKalb shall commence the first day of January of each year and end on the last day of the next succeeding December. This section shall not affect the beginning or ending terms of any licenses or permits issued by the City of DeKalb unless expressly so provided in chapters dealing therewith. (2016-001)

#### **54.06 ANNUAL BUDGET** (2014-25)

The City's annual budget for each fiscal year beginning upon each January 1 shall be compiled and acted upon pursuant to the requirements and procedures as set forth in the Illinois Compiled Statutes, Chapter 65, Paragraphs 5/8-2-9.1 through 5/8-2-9.10, which are hereby adopted. These statutory provisions, and the use of the authority granted therein, are generally set forth as follows: (2016-001)

a) The Budget Officer shall compile an annual budget containing estimates of revenues available to the City for the fiscal year for which the budget is drafted, together with recommended expenditures for the City and its departments, boards, commissions and funds. Revenue estimates and expenditure recommendations shall be presented in a manner which is in conformity with good fiscal management practices. The budget shall contain actual or estimated revenues and expenditures for the two years immediately preceding the fiscal year for which the budget is prepared. The budget shall show the specific fund from which each anticipated expenditure shall be made.

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b) Passage of the annual budget by the City Council shall be in lieu of passage of an appropriations ordinance. The annual budget need not be published except in a manner provided for in paragraph (f) below. The annual budget shall be adopted by the City Council before the beginning of the fiscal year to which it applies.

c) In the preparation by the budget officer of the annual budget, an amount as established by the City Council from time to time may be accumulated in a separate fund for the purpose or purposes of specific capital improvements, repairs, and/or replacement of specific types of municipal equipment or other tangible property, both real and personal, to be designated as the "Capital Projects Fund". Expenditure from this fund shall be budgeted in the fiscal year in which the capital improvement, repair or replacement will occur. (2014-25)

d) The City Budget is organized in the following structure: Budget, Fund, Department, Expense Category and then Line Item. Subject to the limitations of (d)(1) and (2) below, the City Council authorizes the City Manager and the Manager's designees to modify the budget: 1) by deleting, adding to, changing or creating new line items to the approved budget; or, 2) to transfer monies within a given Fund, Department or Expense Category.

- 1) No modification to the City Budget shall occur without the approval of the City Council if the net result would be to cause a fund to be over-budget.
- 2) Any modification that is proposed for a capital expenditure in excess of the City Manager's spending authority shall require the approval of the City Council.

The City may revise the approved annual budget for the purposes set forth in (d)(1) or (d)(2) above, or for any other reason, by a vote of two-thirds of the members of the corporate authorities then holding office. No revision of the budget shall be made increasing the total budget in the event funds are not available to effectuate the purpose of the revision.

e) The City Council shall make the tentative annual budget conveniently available to public inspection for at least ten days prior to the passage of the annual budget, by publication in the journal of the proceedings of the City Council or in other such form as the City Council may prescribe. Not less than one week after the publication of the tentative annual budget, and prior to final action on the budget, the City Council shall hold at least one public hearing on the tentative annual budget, after which hearing or hearings the tentative budget may be further revised and passed without further inspection, notice or hearing. Notice of this hearing shall be given by publication in a newspaper having a general circulation in the municipality at least one week prior to the time of the hearing.

#### **54.07 CAPITAL PLAN**

The City shall endeavor to create and periodically update a five year capital plan, projecting the City's capital needs and the estimated funds or resources necessary to provide for the orderly operation of the City's infrastructure and operations.

#### **54.08 INTENTIONALLY OMITTED**

#### **54.09 DEPOSIT OF CITY FUNDS** (2014-25)

The Finance Director shall retain at least one financial institution in the City of DeKalb corporate limits to act as a qualified depository of public funds in compliance with State statute. The institution must maintain its main office or a branch office within the City of DeKalb corporate limits. If the headquarters

of the institution is not located within the City limits, the branch office must be able to offer the full range of banking services required by the City. Nothing herein shall be construed as requiring the deposit of all City funds in a bank or financial institution located within the City. The Finance Director shall establish written procedures for reviewing the effective deposit of City funds in regards to safety, convenience, services, costs, and other pertinent factors. (2014-25)

#### **54.10 INTENTIONALLY OMITTED**

#### **54.11 PROPERTY TAX LEVY ORDINANCE** (2014-25)

The City Council shall annually, on or before the second Tuesday in December in each year, adopt an ordinance levying property taxes for that year in compliance with all applicable State laws and regulations. A certified copy of such ordinance shall be filed with the County Clerk of DeKalb County on or before the last Tuesday in December in each year, and said taxes shall be collected in the manner provided for by the laws of the State of Illinois.

#### **54.12 ANNUAL AUDIT** (2014-25)

At the close of each fiscal year, an independent audit of all City of DeKalb accounts shall be conducted independently of the City Manager and Finance Director. Such audit shall be made by Certified Public Accountants, selected by the City Council, licensed by the State of Illinois, and fully experienced in municipal accounting. Said audit shall be completed in all respects and submitted to the City Council by June 30 of each year unless an extension to that date is approved by the City Council. Copies of said audit shall be made available for public inspection and filed with the County Clerk. Any audit findings shall be reported by the auditor to the City Council, and the City Manager and Finance Director shall be responsible for any and all corrective actions and the reporting of same to the City Council. (2016-001)

#### **54.13 INTENTIONALLY OMITTED**

#### **54.14 INTENTIONALLY OMITTED**

#### **54.15 DISPOSITION OF PERSONAL PROPERTY** (2014-25)

The City Manager shall be responsible for authorizing the disposition of equipment, materials, supplies and such other personal property of the City, of a value of \$20,000.00 or less. The City Council shall be responsible for authorizing or delegating the authority to authorize the disposition of equipment, materials, supplies and such other personal property of the City, of a value of \$20,000.01 or more. The disposition of personal property may be by sale, transfer, trade-in, exchange or salvage. The City Manager, department head or such other staff member as may be familiar with the personal property shall first make a determination that the personal property is no longer necessary, appropriate, required for the best use of, profitable to, or in the best interests of the City. Competitive bidding is not required for the disposition of personal property. (07-83)

#### **54.16 FINANCE ADVISORY COMMITTEE** (10-12, 2014-25)

a) Creation. There is hereby created a Finance Advisory Committee whose purpose it shall be to assist the City Council and City staff in analyzing the City's financial policies, long term financial stability, options for greater efficiencies and possible revenue and expenditure modifications. (10-12)

b) Membership. The Finance Advisory Committee shall consist of seven (7) members appointed by

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the Mayor, on the basis of their particular fitness for their duty on said Finance Advisory Committee, and subject to the approval of the City Council. Members of the Finance Advisory Committee shall reside within the City. The chairman shall be appointed by the Mayor with the advice and consent of the City Council for a term of two (2) years.

c) Initial Terms of Office. Initial terms of office shall be structured as follows: Two terms expiring June 30, 2010, two terms expiring June 30, 2011, two terms expiring June 30, 2012 and one term expiring June 30, 2013. (10-12)

d) Terms of Office. All terms of office after the initial terms referenced in Subsection (c) shall be four (4) years with terms expiring June 30<sup>th</sup> each year. No members shall serve for more than two (2) consecutive terms except when a vacancy has been created by the resignation or death of an appointed member of the Committee. In the event of such a vacancy, an appointment of a new member shall be made. If the remainder of the unexpired term is two (2) years or less, the newly appointed member shall be entitled to two (2) consecutive full four (4) year terms. Should the remainder of the unexpired term exceed two (2) years, then the remainder of the unexpired term shall be considered a full term of the newly appointed member. No member shall be allowed to serve more than ten (10) consecutive years regardless of the circumstances of appointment. All members of the Committee shall serve without compensation. (10-12)

e) Role and Duties. The Finance Advisory Committee shall be advisory to the Council. As such, the Finance Advisory Committee's role is to provide well-reasoned, financially sound recommendations to the Council. Meetings and reporting shall be on a project-by-project basis or as otherwise assigned by the City Council. The Finance Advisory Committee shall work in cooperation with the City Council and the City Manager to analyze the City's financial policies, long term financial stability, options for greater efficiencies and possible revenue and expenditure modifications. (10-12)

f) Staffing and Support. The City Manager shall provide sufficient staff support to the Committee. Support shall include professional and clerical assistance as needed to sustain the Finance Committee activities required. (10-12)



# Budget Policy

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**Policy Number:** 01-01

**Date:** July 27, 2015

**Purpose:** The City Manager shall submit an annual budget to the City Council which is within the City's ability to pay. The annual budget should provide for the following:

1. Management shall prepare a draft of the annual budget for review by the Finance Advisory Committee in April of each year. The recommended budget should be submitted to the City Council for review in May of each year. The final budget document shall be submitted to the full membership for approval prior to June 30 of each year.
2. The annual budget should effectively communicate meaningful and understandable information to the City residents, City Council, City Staff, and other readers.
3. The annual budget shall be monitored on a monthly basis. Revenue and expenditure budget reports shall be prepared and made available to City management staff for departmental review on a monthly basis. A quarterly budget summary report (Treasurer's Report) shall be presented to the City Council.
4. The annual budget should allow for the implementation of as many of the City Council's goals and objectives as financially possible.
5. The annual budget should provide for the adequate funding of all pension plans (IMRF, Police Pension Fund, and Firefighters Pension Fund). An independent actuary should be used to determine the annual City contributions to the Police Pension Fund and the Firefighters Pension Fund and determine if these pension funds are adequately funded.
6. The annual budget should provide funding for the adequate maintenance of municipal equipment, municipal facilities, and infrastructure.
7. The annual budget should set aside-adequate funding (pay-as-you-go funding) for the replacement of major equipment. Annual funding (depreciation funding) for these replacements will eliminate major expenditure jumps in the annual budget when these acquisitions are made.
8. During the budget process, the City will assess the need for contingency funds to be included in the budget to fund unanticipated expenditures that might arise.

9. The annual budget should finance current operating expenditures, excluding major capital expenditures, with current revenues. The use of reserve funds to finance current operating expenditures should be carefully considered and avoided if possible.
10. The City should limit the use of the reserve fund to nonrecurring operating expenditures or capital expenditures, specifically if our anticipated fund balance is below our Fund Balance Reserve Policy of 25%. This fund reserve will be calculated by comparing the difference between current assets and current liabilities to current annual budget operating expenses, excluding enterprise expenditures.
11. When the City is required to undertake a budget amendment and/or execute expenditure transfers to ensure that actual expenditures are within approved budgetary limits as authorized by City Council the following procedures will be followed. Administration of these procedures will be the responsibility of the City's Finance Director and the Finance Director will sign off that these procedures have been adhered to for any budget amendments and/or expenditure transfers undertaken by the City. Those procedures are as follows:
12. Upon knowledge that a budget amendment and/or expenditure transfer will be required, the City's Finance Director will inform both the Finance Committee and the City Council.
13. Documents will be drafted by the Finance Director with the reason for the required budget amendment and/or expenditure transfer, including the specific accounts affected and the dollar amounts of said amendments and/or expenditure transfers.
14. Formal City Council review and approval of proposed budget amendments and/or expenditure transfers will be required before any amendments and/or transfers are executed by the Finance Director.

# Fund Balance Policy

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**Policy Number:** 01-02

**Date:** July 27, 2015

**Purpose:** Fund balance measures the net financial resources available to finance expenditures of future periods. Fund balance reserve policies are established to avoid cash flow interruptions, generate investment income, and reduce the need for borrowing. The fund balance reserves identified within this policy are the minimum balances necessary to accomplish these objectives.

While keeping in mind the uneven nature of the City's cash flows, should the projected ending fiscal year fund balance fall below the desired percentage or amount, the City should create a plan to restore the appropriate levels.

## **Part II – Governmental Funds**

This section only applies to fund balances reported in the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, and Permanent Funds.

### **1. Definitions**

The five fund balance classifications outlined in GASB Statement 54 follows:

**Nonspendable Fund Balance:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This would include items not expected to be converted to cash including inventories and prepaid amounts. It may also include the long-term amount of loans and receivables, as well as property acquired for resale and the corpus (principal) of a permanent fund.

**Restricted Fund Balance:** This classification should be reported when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed Fund Balance:** This classification reflects specific purposes pursuant to constraints imposed by formal action of the district's highest level of decision-making authority (generally the governing board). Also, such constraints can only be removed or changed by the same form of formal action.

**Assigned Fund Balance:** This classification reflects amounts that are constrained by the government's intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint.

Unassigned Fund Balance: This classification is the residual classification for the general fund only. It is also where *negative residual amounts for all other governmental funds* would be reported.

## **2. Fund Balance Commitments & Assignments**

Committed fund balance for a specific use must be taken by formal action of the City Council. Amendments or modifications of the committed fund balance must also be approved by formal action of the City Council. In order to be recognized in the annual Audit Report, commitments of fund balance must be enacted prior to the end of that Report's particular fiscal year.

Assigned Fund Balance is intended for specific purposes not imposed by external parties or City Council's formal action. The City Council authorizes the City Manager and/or his/her designee(s) to assign fund balance. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular Fund.

## **3. Reserves**

General Fund: Unassigned fund balance will be maintained at a minimum level equal to 25% of annual expenditures. The City's unassigned General Fund balance will be maintained to provide the municipality with sufficient working capital and a margin of safety to address emergencies without borrowing.

TIF Funds: The City currently has two budgeted TIF Funds (the Central Area TIF and TIF II). These Funds should be self-supporting and should maintain a fund balance equivalent to meet the planned improvements identified in a multi-year capital schedule(s).

Capital Projects Fund: This Fund is used for resources accumulated and used in right of way improvements such as street repair, street reconstruction, and curb and gutter replacement. Costs associated with this Fund must not be State MFT eligible and must cost over \$5,000 and have a useful life of at least three years. The funding source for this Fund will be the local home rule motor fuel tax. The Capital Projects Fund should maintain a fund balance of the planned improvements for the current fiscal year.

Special Revenue Funds: These Funds are used to account and report the proceeds of specific revenue sources which are restricted or committed toward expenditures for specific purposes other than debt service or capital projects. In general, all these Funds should maintain the least fund balance necessary to cover current fiscal year expenditures, plus an amount to pay for those expenditures of the subsequent fiscal year needed to avoid a cash deficit position.

## **4. Fund Balance Classification**

Fund balance classifications depict the nature of the net resources that are reported in a governmental fund type. An individual governmental fund may include nonspendable

resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The General Fund may also include an unassigned amount.

#### **5. Prioritization of Fund Balance Use**

When an expenditure is incurred for a purpose which can be paid from multiple fund balance classifications, the City will spend the most restricted dollars before less restricted, in the following order:

- Nonspendable (if funds become spendable)
- Restricted
- Committed
- Assigned
- Unassigned

### **Part III – Enterprise, Internal Service, & Fiduciary Funds**

This section applies to Funds outside the scope of GASB 54.

#### **1. Definitions**

Restricted Net Assets: The component of net assets restricted by external parties, constitutional restrictions, and enabling legislation.

Net Assets Invested in Capital Assets, Net of Related Debt: A component of net assets calculated by reducing capital assets by accumulated depreciation and the principal portion of related debt.

Unrestricted Net Assets: The portion of net assets that is neither restricted nor invested in capital assets net of related debt.

#### **2. Reserves**

Water Fund: The unrestricted net assets of the Water Fund will be maintained at a minimum level equal to 25% of the annual budgeted operational expenses, plus the budgeted capital improvements (stemming from the water system construction impact fees).

Airport Fund: The unrestricted net assets of the Airport Fund will be maintained at a minimum level equal to 25% of annual budgeted operational expenses, plus the budgeted capital improvements for the current fiscal year.

Other Specified Funds: The Health Insurance Fund should maintain unrestricted net assets of one month of IPBC premium. Any amount above this threshold may be transferred to the Workers' Compensation Fund or Liability/Property Insurance Fund to be used toward claims, eliminate potential deficits, or maintain net asset policy in these other Funds.

The Workers' Compensation Fund should maintain unrestricted net assets of \$1,000,000 collectively (or 1 year premium for reinsurance plus the average annual retention costs associated with that premium).

The Liability/Property Insurance Fund should maintain unrestricted net assets approximately equivalent to 25% of annual budgeted expenses.

The Fleet Replacement Fund will account for revenue and expenditures associated with the acquisition of City vehicles and major equipment (i.e. trailers and plows). A chargeback system from each division and Fund requiring vehicles will be utilized as the main revenue source. The Fleet Replacement Fund should maintain unrestricted net assets of the planned replacements for the current fiscal year.

The Equipment Fund is used to track the resources collected for and used in obtaining major improvements to equipment which costs over \$5,000 and has a useful life expectancy of at least three years. Equipment to be funded includes computer equipment, office furniture, copy and facsimile machines and other like equipment. A chargeback system from each division and Fund requiring equipment will be utilized as the main revenue for the Fund. The Equipment Fund should maintain unrestricted net assets of the planned replacements for the current fiscal year.

#### **Part IV – Other**

##### **1. Cash Deficits**

Should any Fund incur a cash deficit by the end of the fiscal year, an interfund loan will be created with a Fund or Fund(s) which have a cash surplus (unless restricted by statute or Fund Balance policy).

##### **2. Reporting**

Year to date revenues and expenditures for the General Fund will be issued to the City Council by their second regular meeting of each month.

On a quarterly basis, the City Council shall receive an update on the General Fund with a year-end forecast for the fiscal year and also receive a summary of major fund balances.

TIF Funds will be reported in greater detail to Council by the end of March and by the end of September of each year.

The City Council shall receive an update on Workers' Compensation claims through December 31 by the end of March and claims through June 30 by the end of September of each year.

A semi-annual report on economic development incentives will be reported to Council by the end of March and by the end of September of each year. An update on retiree insurance costs will be reported annually by the end of March of each year.

# Revenue and Expenditure Policy

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**Policy Number:** 01-03

**Date:** July 27, 2015

**Purpose:** Revenues

The City desires to maintain a diversified and stable revenue base to reduce the impacts of fluctuations in any one revenue source. The revenue mix combines elastic and inelastic revenue sources to minimize the effects of an economic downturn. The City also incorporates the following principles related to revenues as it furthers its financial planning and fulfills its fiscal responsibilities:

1. The City prefers to keep its property tax rate as low as possible. The following components shall be followed in priority order each year when establishing the property tax levy:
  - a. Levy for Police, Fire and IMRF pensions per actuary calculations. If the actuarial reports indicated a higher employer contribution is needed, said increase will need to be added to the City's overall previous year levy request to avoid underfunding problems.
  - b. Levy for FICA.
  - c. Levy for general obligation bond principal and interest less abatements.
  - d. Levy to support General Fund operations including Police, Fire, Public Works, Community Development, Finance, Human Resources, I.T. and Administration. The annual increase for this component should not exceed the rate of inflation.
  - e. Levy to fund additional personnel as determined by the City Council.
2. User charges and tap-on fees will be sufficient to finance all operating and debt service costs for the Water Fund.

3. The City Manager should impose spending limits if, in his/her judgment, revenues will be below original estimates. Staff should review and monitor on a monthly basis expenditures to assure control of spending within available revenues.
4. Ongoing transfers will be made from the General Fund to the Fleet Replacement fund on an annual basis to help plan for the purchasing of large capital equipment needs.

### **Expenditures**

The City will strive to adhere to the following policies:

1. The City will consistently budget the minimum level of expenditures which will provide for the public well-being and safety of the residents and businesses of the community.
2. Expenditures will be within the confines of generated revenue. Fund balances will not be used to pay for operating expenditures except in the case of emergencies and after careful consideration.



# Accounting, Auditing and Financial Reporting Policy

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**Policy Number:** 01-04

**Date:** July 27, 2015

**Purpose:** The City shall have an annual audit conducted on its financial records by a qualified, independent public accounting firm. The City should request proposals from qualified independent accounting firms to conduct an annual audit of its financial statements every five to six years by the use of a request for proposal (RFP) process. In accordance with Government Finance Officers Association's (GFOA's) Best Practice Guidelines, the current auditors can be included in the RFP process, however, it is recommended changing the audit team if the same firm came in with the best proposal.

The audit shall be conducted on an annual basis to be completed and filed within six months after the end of each fiscal year.

The City should submit its Comprehensive Annual Financial Report (CAFR) to the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting Program.

The City's financial statements shall be prepared according to generally-accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Council (GASB).

The City should contract with an independent actuary to determine the City's annual contribution to the Police and Fire Pension Funds.

When the City prepares monthly significant account reconciliations, prepares the year-end adjustments, and prepares the year-end financial statements, the following procedures will be followed. Administration of these procedures will be the responsibility of the City's Finance Director and the Finance Director will sign off that these procedures have been adhered to on a monthly and year-end basis. Those procedures are as follows:

The Finance Department, under approval of the Finance Director, will prepare a listing of all significant accounts of the City that are to be reconciled on a monthly basis. These accounts are to include at a minimum all balance sheet accounts at month-end, all grant related revenue and expense accounts, all restricted use revenue accounts and all other accounts deemed necessary by the Finance Department to be reviewed on a monthly basis. A monthly checklist of these accounts will be prepared and signed off by the Finance Director.

Within 90 days after the close of the fiscal year the Finance Department will be required to submit to the Finance Director all required year-end close adjustments. These adjustments are to be approved and reviewed by the Finance Director and posted to the general ledger prior to the auditors beginning audit fieldwork.

The City's auditors assist in the preparation of the City's financial statements, including the footnote disclosures, in accordance with generally accepted accounting principles. Further, the City will review a complete initial draft and final draft of the financial statements as prepared by the auditors. The City Finance Director will be responsible for a final complete review of the financial statements, including the footnotes disclosures, to ensure that the financial statements are prepared in accordance with generally accepted accounting principles. Any questions or concerns related to the financial statements will be discussed with the City's auditors.

The City's audited financial statements will be approved by the City Council and available for distribution no later than six months after the close of the City's fiscal year-end.

# Capital Asset Policy

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**Policy Number:** 01-05

**Date:** July 27, 2015

**Purpose:** Capital assets purchased or acquired with an original cost of \$25,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. Infrastructure such as streets, traffic signals and signs are capitalized. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by the governmental activities) the government chose to include all such items regardless of their acquisition date. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement costs.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation on all assets is computed and recorded using the straight-line method of depreciation over the following estimated useful lives:

|                                     |                |
|-------------------------------------|----------------|
| Buildings and Building Improvements | 40 to 50 Years |
| Equipment                           | 10 to 20 Years |
| Vehicles                            | 3 to 20 Years  |
| Infrastructure                      | 25 to 50 Years |
| Water Distribution System           | 40 to 65 Years |

When capital assets are purchased with the use of federal funds the following procedures will be completed by the City. Administration of these procedures will be the responsibility of the City's Finance Director and the Finance Director will sign off that these procedures have been adhered to for the purchase of every federal funded capital asset. Those procedures are as follows:

Capital assets purchased with federal funds will be tagged with a special notation of "F" in addition to the regular identification number system used by the City.

The description of the capital asset in the City's capital asset records will also include the words "federally funded" before the description of the specific asset acquired.

The source of federal funds must be noted and include a description of who holds title to the assets, along with the asset acquisition date, the asset cost, location of the asset, condition and use/purpose of the asset.

The portion of the asset that is federally funded must also be noted in the City's capital asset records. Upon disposition of any federally acquired assets, the City must note in the capital asset records the disposition date and sale price.

A physical inventory of all assets acquired with federal funds will be performed on a biennial basis. The results of the City's inventory of federally funded capital assets will be reconciled to the City's capital asset records to ensure accuracy. This inventory will be overseen and approved by the City's Finance Director.

# Debt Management Policy

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**Policy Number:** 01-06

**Date:** July 27, 2015

**Purpose:** The City of DeKalb developed this Debt Management Policy to help ensure the City's credit worthiness and to provide a functional tool for debt management and capital planning.

The City of DeKalb faces continuing capital infrastructure requirements to meet the increasing needs of its citizens. The City limits long-term debt to only those capital improvements that cannot be financed from current revenues. The City of DeKalb will not use long-term debt to fund operating programs.

The costs of the capital requirements will be met through the issuance of various types of debt instruments. Consequently, the City needs to anticipate increases in debt levels based upon historical data. With these increases, the effects of decisions regarding the type of issue, method of sale, and payment structure become ever more critical to the City's financial well-being. To help ensure the City's credit worthiness, an established program of managing the City's debt becomes essential.

To this end, the City Council recognizes this "Debt Management Policy" to be financially prudent and in the City's best economic interest. This policy will provide a functional tool for debt management and capital planning, and enhance the City's reputation for managing its debt in a conservative and prudent manner.

## **Goals Related to the Issuance of General Obligation and Revenue Bond Debt:**

The City shall pursue the following goals below when issuing debt. Though the City may not have achieved all these goals as of yet, these are long term objectives for which we must continue to strive toward.

1. Maintain at least an Aa3 (Moody's) or equivalent credit rating for each general obligation debt issue.
2. Take all practical precautions to avoid any financial decision which will negatively impact current credit ratings on existing or future debt issues.
3. The City should attain a General Fund unassigned balance equal to a minimum of twenty five percent (25%) of total annual appropriations, exclusive of inter fund transfers.
4. Consider market timing.

5. Determine the amortization (maturity) schedule which will best fit with the overall debt structure of the City's general obligation debt and related tax levy at the time the new debt is issued. The City may choose to delay principal payments or capitalized interest during project construction. For issuance of revenue bonds, the amortization schedule which will best fit with the overall debt structure of the fund and its related rate structure will be considered. Consideration will be given to coordinating the length of the issue with the lives of assets, whenever practicable, while considering repair and replacement costs of those assets to be incurred in future years as an offset to the useful lives, and the related length of time in the payout structure.
6. Consider the impact of such new debt on overlapping debt and the financing plans of local governments which overlap, or underlie the City.
7. Assess financial alternatives to include new and innovative financing approaches, including whenever feasible, categorical grants, revolving loans or other state/federal aid.
8. Minimize debt interest costs.

#### **Debt Issuance in General:**

##### **1. Authority and Purposes of the Issuance of Debt**

The laws of the State of Illinois authorize the issuance of debt by the City. The Local Bond Law confers upon municipalities the power and authority to contract debt, borrow money, and issue bonds for public improvement projects as defined therein. Under these provisions, the City may contract debt to pay for the cost of acquiring, constructing, reconstructing, improving, extending, enlarging, and equipping such projects or to refund bonds. The City Charter authorizes the City Council to incur debt by issuing bonds for any lawful municipal purpose as authorized by the State Constitution or its Home Rule Powers.

##### **2. Short-Term Debt (three years or less)**

The City may issue short-term debt to finance projects or portions of projects for which the City ultimately intends to issue long-term debt. This will be used to provide interim financing which will eventually be refunded with proceeds of long-term obligations, which may include, but not be limited to, bond anticipation notes or variable rate demand notes. The City will have an estimated timeframe when any short-term debt issue will eventually be converted into long-term debt.

- a. Line of Credit

The City may also issue debt instruments to meet cash flow requirements. With the approval of the City Council, the City may establish a tax-exempt line of credit with a financial institution selected through a competitive process. This line should have a limit of \$2,500,000. Draws should be made on the line of credit when the need for financing is needed to meet **operating** expenditures on a temporary basis. Draws made on the line of credit must be requested by the Finance Director and approved by the City Manager and the City Council.

### **3. Long-Term Debt (more than three years)**

The City may issue long-term debt which may include, but not limited to, general obligation bonds, certificates of participation, capital appreciation bonds, special assessment bonds, self-liquidating bonds and double barreled bonds.

Level or declining debt service should be employed unless operational matters dictate otherwise, or except to achieve overall level debt service with existing bonds.

The City shall be mindful of the potential benefits of bank qualification and will strive to limit its annual issuance of debt to \$10 million or less when such estimated benefits are greater than the benefits of exceeding the bank qualification limit. Should subsequent changes in the law raise this limit, then the City policy will be adjusted accordingly.

The cost of issuance of private activity bonds is usually higher than for governmental purpose bonds. Consequently, private activity bonds will be issued only when they will economically benefit the City.

The cost of taxable debt is higher than for tax-exempt debt. However, the issuance of taxable debt is mandated in some circumstances and may allow valuable flexibility in subsequent contracts with users or managers of the improvement constructed with the bond proceeds. In addition, there may be circumstances in which the issuance of taxable debt may be more cost effective than the issuance of tax-exempt debt. Therefore, the City will usually issue obligations tax exempt, but may occasionally issue taxable obligations.

#### **a. Capital Leasing**

The City may also enter into long-term leases for public facilities, property, and equipment with a useful life greater than one year that costs less than \$500,000. The City should be limited to issuing a capital lease of no more than \$1,000,000 in a fiscal year.

Whenever a lease is arranged with a private sector entity, a tax-exempt rate should be sought. Whenever a lease is arranged with a government or other tax-exempt entity, the City should strive to obtain an explicitly defined taxable rate so that the lease will not be counted in the City's total annual borrowing subject to arbitrage rebate.

The lease agreement should permit the City to refinance the lease at no more than reasonable cost should the City decide to do so. A lease which can be called at will is preferable to one which can merely be accelerated.

#### **4. Capital Improvement Program**

The Capital Improvement Program (CIP), approved by the City Council as part of the annual budget, should determine the City's capital needs. The program should be a five-year plan for the acquisition, development and/or improvement of the City's infrastructure. Projects included in the CIP should be prioritized; and the means for financing each should be identified. If the current resources are insufficient to meet the needs identified in the CIP, the City Council may consider incurring debt to fund the shortfall. The City Council may also consider incurring debt to fund multiple years of the Capital Improvement Program. The CIP should be revised and supplemented each year in keeping with the City's stated policies on debt management.

#### **5. Structure of Debt Issues**

The duration of a debt issue should not remain outstanding beyond the asset's useful life. Each new bond issue should be structured to be callable in 10 years. The City should design the financing schedule and repayment of debt so as to take best advantage of market conditions and, as practical, to recapture or maximize its credit capacity for future use, and moderate the impact to the taxpayer. In keeping with the stated goals of this debt management policy, the City should structure each general obligation issue (except refunding and mini-bond issues) to comply with the rapidity of debt repayment provisions in Section III. E-4 following.

#### **6. Credit Enhancements**

Credit enhancements are mechanisms which guarantee principal and interest payments. Typically they include bond insurance and/or a line or letter of credit. Usually this will bring a lower interest rate and a higher rating from the rating agencies, thus lowering costs.

The City may enter into agreements with commercial banks or other financial entities for the purpose of acquiring credit enhancements when their use is judged cost effective or otherwise advantageous. Any such agreements shall be approved by the City Council.



## **7. Inclusion of Local Institutions**

Whenever practical and in the best interest of promoting the City of DeKalb, local financial institutions are to be offered the opportunity to bid on debt instruments.

### **Legal Constraints and Other Limitations on the Issuance of Debt**

#### **1. State Law**

30 ILCS 305/0.01, et. seq.: the short title is "The Bond Authorization Act."

#### **2. Authority for Debt**

The City may, by bond ordinance, incur indebtedness or borrow money, and authorize the issue of negotiable obligations, including refunding bonds, for any capital improvement of property, land acquisition, or any other lawful purpose with approval by the City Council.

#### **3. Debt Limitation**

The City of DeKalb is a home rule community. As such, the debt limitations of the bond laws are not applicable because the General Assembly has set no limits for home rule municipalities.

#### **4. Methods of Sale**

When feasible and economical, obligations should be issued by competitive rather than negotiated sale. A sale may be negotiated when the issue is predominantly a refunding issue or in other non-routine situations which require more flexibility than a competitive offer allows. Whenever the option exists to offer an issue either for competition or for negotiation, analysis of the options should be performed to aid in the decision-making process. When a sale is not competitively bid, the City will publicly present the reasons and select the underwriter or direct purchaser. If a Financial Advisor is hired to assist the City in bond issuance, the Financial Advisor will not underwrite any debt issues on which it is advising.

The criteria used to select an underwriter in a competitive sale should be the true interest cost. In a negotiated sale, the underwriter may be selected with or without a request for proposals (RFP). The criteria used to select an underwriter in a negotiated sale should include the following:

- Overall experience
- Marketing philosophy
- Capability

- Previous experience as managing a co-managing partner
- Financial statements
- Public Finance team and resources
- Underwriter's discount

When cost/beneficial, the City may privately place its debt. Since no underwriter participates in a private placement, it may result in lower costs of issuance. Private placement is sometimes an option for small issues.

## 5. Credit Implications

When issuing new debt, the City should strive not to exceed credit industry benchmarks where applicable. Therefore, the following factors should be considered in developing debt issuance plans:

- a. Ratio of Gross Bonded Debt to Full Market Value of Taxable Property  
The formula for this computation is Gross Bonded Debt, which is the total outstanding debt, divided by the current Full Market Value of Taxable Property as determined by the Township Assessors. The City should not exceed 2% of Gross Bonded Debt per Full Market Value of Taxable Property.
- b. Gross Bonded Debt Per Capita  
The formula for this computation is Gross Bonded Debt divided by the current population as determined by the most recent U.S. Census. The City should not exceed \$1,200 for Gross Bonded Debt per capita.
- c. Ratio of Annual Debt Service to General Fund Expenditures  
The formula for this computation is annual debt service expenditures divided by General Fund expenditures (excluding certain interfund transfers). The City should not exceed 10% of General Fund expenditures for annual debt service.
- d. Rapidity of Debt Service Repayment  
The City's general obligation bond issues should be so structured whereby the duration of the debt should not exceed 120% of the life of the asset.
- e. Current Fund Balance General Fund Cash Reserve  
The City should maintain a General Fund unassigned balance equal to a minimum of twenty five percent (25%) of total annual appropriations, exclusive of interfund transfers. Such calculation, including a projection to June 30th (of the current fiscal year), should be made on an annual basis by the Finance Director (or designee) during the budget process.

## **Debt Administration**

### **1. Financial Disclosures**

The City shall prepare appropriate disclosures as required by the Securities and Exchange Commission, the federal government, the State of Illinois, rating agencies, underwriters, investors, agencies, taxpayers, and other appropriate entities and persons to ensure compliance with applicable laws and regulations.

### **2. Review of Financing Proposals**

All capital financing proposals that involve a pledge of the City's credit through the sale of securities, execution of loans or lease agreements and/or otherwise directly involve the lending or pledging of the City's credit shall be referred to the Finance Director who shall determine the financial feasibility, and the impact on existing debt of such proposal, and shall make recommendations accordingly to the City Manager.

### **3. Establishing Financing Priorities**

The Finance Director shall administer and coordinate the City's debt issuance program and activities, including timing of issuance, method of sale, structuring the issue, and marketing strategies. The Finance Director along with the City's bond consultants shall meet, as appropriate, with the City Manager and the City Council regarding the status of the current year's program and to make specific recommendations.

### **4. Credit Rating**

The City should endeavor to maintain and/or to improve its credit rating and staff will specifically discuss with the City Council any proposal which might cause that rating to be lowered.

Before a general obligation bond is issued, the City will update its rating from at least one national rating agency. The City Manager, Finance Director, and the City's bond consultants should meet with a rating agency to disclose the City's capital plans, debt issuance program, and other appropriate financial information as required by the rating agency.

### **5. Refunding Policy**

The City should consider refunding outstanding debt when legally permissible and financially advantageous. When refunding for savings purposes, a net present value debt service savings of at least two percent or greater must be achieved. Depending on the time to maturity and the absolute level of interest rates of the refunding candidate this target may change. For longer maturities the target can be higher, for shorter

maturities, lower. For higher interest rates the target may be higher, for lower rates it could be lower. There may be circumstances where the City may refund bonds for restructuring purposes that may not generate any savings.

## **6. Investment of Borrowed Proceeds**

The City acknowledges its ongoing fiduciary responsibilities to actively manage the proceeds of debt issued for public purposes in a manner that is consistent with Illinois statutes that govern the investment of public funds, and consistent with the permitted securities covenants of related bond documents executed by the City. The management of public funds should enable the City to respond to changes in markets or changes in payment or construction schedules so as to (i) optimize returns, (ii) insure liquidity, and (iii) minimize risk. The City will invest bond proceeds in accordance with the City's investment policy and federal arbitrage requirements.

### **Glossary of Terms:**

**Ad Valorem Tax** - A direct tax based "according to value" of property.

**Advanced Refunding Bonds** - Bonds issued to refund an outstanding bond issue prior to the date on which the outstanding bonds become due or callable. Proceeds of the advanced refunding bonds are deposited in escrow with a fiduciary, invested in United States Treasury Bonds or other authorized securities, and used to redeem the underlying bonds at maturity or call date.

**Amortization** - the process of paying the principal amount of an issue of bonds by periodic payments either directly to bondholders or to a sinking fund for the benefit of bondholders.

**Arbitrage** - Usually refers to the difference between the interest paid on the tax-exempt securities and the interest earned by investing the proceeds in higher yielding taxable securities. Internal Revenue Service regulations govern arbitrage (reference I.R.S. Reg. 1.103-13 through 1.103-15).

**Arbitrage Bonds** - Bonds which are deemed by the I.R.S. to violate federal arbitrage regulations. The interest on such bonds becomes taxable and the bondholders must include this interest as part of gross income for federal income tax purposes (I.R.S. Reg. 1.103-13 through 1.103-15).

**Assessed Value** - An annual determination of the just or fair market value of property for purposes of ad valorem taxation.

**Basis Point** - 1/100 of one percent.

**Bond** - Written evidence of the issuer's obligation to repay a specified principal amount on a date certain, together with interest at a stated rate, or according to a formula for determining that rate.

**Bond Anticipation Notes (BANS)** - Short-term interest bearing notes issued by a government in anticipation of bonds to be issued at a later date. The notes are retired from proceeds of the bond issue to which they are related.

**Bond Counsel** - An attorney retained by the City to render a legal opinion whether the City is authorized to issue the proposed bonds, has met all legal requirements necessary for issuance, and whether interest on the bonds is, or is not, exempt from federal and state income taxation.

**Bonded Debt** - The portion of an issuers total indebtedness represented by outstanding bonds.

Direct Debt or Gross Bonded Debt - The sum of the total bonded debt and any unfunded debt of the issuer.

Net Direct Debt or Net Bonded Debt - Direct debt less sinking fund accumulations and all self-supporting debt.

Total Overall Debt - Net direct debt plus the issuer's applicable share of the direct debt of all overlapping jurisdictions.

Net Overall Debt - Net direct debt plus the issuer's applicable share of the net direct debt of all overlapping jurisdictions.

Overlapping Debt - The issuer's proportionate share of the debt of other local governmental units which either overlap or underlie it.

**Callable Bond** - A bond which permits or requires the issuer to redeem the obligation before the stated maturity date at a specified price, the call price, usually at or above par value.

**Capital Appreciation Bonds (CAB)** - A long-term security on which the investment return is reinvested at a stated compound rate until maturity. The investor receives a single payment at maturity representing both the principal and investment return.

**Certificates of Participation** - Documents, in fully registered form, that act like bonds. However, security for the certificates is the government's intent to make annual appropriations during the term of a lease agreement. No pledge of full faith and credit of the government is made. Consequently, the obligation of the government to make basic rental payments does not constitute an indebtedness of the government.

**Commercial Paper** - Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank.

**Coupon Rate** - The annual rate of interest payable on a coupon bond (a bearer bond or bond registered as to principal only, carrying coupons evidencing future interest payments), expressed as a percentage of the principal amount.

**Debt Limit** - The maximum amount of debt which an issuer is permitted to incur under constitutional, statutory or charter provision.

**Debt Service** - The amount of money necessary to pay interest on an outstanding debt, the serial maturities of principal for serial bonds, and the required contributions to an amortization or sinking fund for term bonds.

**Demand Notes (Variable Rate)** - A short-term security which is subject to a frequently available put option feature under which the holder may put the security back to the issuer after giving specified notice. Many of these securities are floating or variable rate, with the put option exercisable on dates on which the floating rate changes.

**Double Barreled Bonds (Combination Bonds)** - A bond which is payable from the revenues of a governmental enterprise and are also backed by the full faith and credit of the governmental unit.

**Enterprise Funds** - Funds that are financed and operated in a manner similar to private business in that goods and services provided are financed primarily through user charges.

**General Obligation Bond** - A bond for whose payment the full faith and credit of the issuer has been pledged. More commonly, but not necessarily, general obligation bonds are payable from ad valorem property taxes and other general revenues.

**Lease Purchase Agreement (Capital Lease)** - A contractual agreement whereby the government borrows funds from a financial institution or a vendor to pay for capital acquisition. The title to the asset(s) normally belongs to the government with the lessor acquiring security interest or appropriate lien therein.

**Letter of Credit** - A commitment, usually made by a commercial bank, to honor demands for payment of a debt upon compliance with conditions and/or the occurrence of certain events specified under the terms of the commitment.

**Level Debt Service** - An arrangement of serial maturities in which the amount of principal maturing increases at approximately the same rate as the amount of interest declines.

**Long-Term Debt** - Long-term debt is defined as any debt incurred whose final maturity is more than three years.

**Maturity** - The date upon which the principal of a municipal bond becomes due and payable to bondholders.

**Mini-bonds** - A small denomination bond directly marketed to the public.

**Net Interest Cost (NIC)** - The traditional method of calculating bids for new issues of municipal securities. The total dollar amount of interest over the life of the bonds is adjusted by the amount of premium or discount bid, and then reduced to an average annual rate. The other method is known as the true interest cost (see "true interest cost").

**Offering Circular** - Usually a preliminary and final document prepared to describe or disclose to investors and dealers information about an issue of securities expected to be offered in the primary market. As a part of the offering circular, an official statement should be prepared by the City describing the debt and other pertinent financial and demographic data used to market the bonds to potential buyers.

**Other Contractual Debt** - Purchase contracts and other contractual debt other than bonds and notes. Other contractual debt does not affect annual debt limitation and is not a part of indebtedness within the meaning of any constitution or statutory debt limitation or restriction.

**Par Value or Face Amount** - In the case of bonds, the amount of principal which must be paid at maturity.

**Parity Bonds** - Two or more issues of bonds which have the same priority of claim or lien against pledged revenues or the issuer's full faith and credit pledge.

**Principal** - The face amount or par value of a bond or issue of bonds payable on stated dates of maturity.

**Private Activity Bonds** - One of two categories of bonds established under the Tax Reform Act of 1986, both of whom are subject to certain tests and State volume caps to preserve tax exemption.

**Ratings** - Evaluations of the credit quality of notes and bonds, usually made by independent rating services, which generally measure the probability of the timely repayment of principal and interest on municipal bonds.

**Refunding Bonds** - Bonds issued to retire bonds already outstanding.

**Registered Bond** - A bond listed with the registrar as to ownership, which cannot be sold or exchanged without a change of registration.

**Reserve Fund** - A fund which may be used to pay debt service if the sources of the pledged revenues do not generate sufficient funds to satisfy the debt service requirements.

**Self-Supporting or Self Liquidating Debt** - Debt that is to be repaid from proceeds derived exclusively from the enterprise activity for which the debt was issued.

**Short-Term Debt** - Short-term debt is defined as any debt incurred whose final maturity is three years or less.

**Spread** - The income earned by the underwriting syndicate as a result of differences in the price paid to the issuer for a new issue of municipal bonds, and the prices at which the bonds are sold to the investing public, usually expressed in points or fractions thereof.

**Tax-Exempt Bonds** - For municipal bonds issued by the City tax-exempt means interest on the bonds are not included in gross income for federal income tax purposes; the bonds are not items of tax preference for purposes of the federal, alternative minimum income tax imposed on individuals and corporations; and the bonds are exempt from taxation by the State of Illinois.

**Tax Increment Bonds** - Bonds secured by the incremental property tax revenues generated from a redevelopment project area.

**Term Bonds** - Bonds coming due in a single maturity.

**True Interest Cost (TIC)** - Also known as Canadian Interest Cost. A rate which, when used to discount each amount of debt service payable in a bond issue, will produce a present value precisely equal to the amount of money received by the issuer in exchange for the bonds. The TIC method considers the time value of money while the net interest cost (NIC) method does not.

**Yield to Maturity** - The rate of return to the investor earned from payments of principal and interest, with interest compounded semiannually and assuming that interest paid is reinvested at the same rate.

**Zero Coupon Bond** - A bond which pays no interest, but is issued at a deep discount from par, appreciating to its full value at maturity.



# Investment Policy

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**Policy Number:** 01-07

**Date:** July 27, 2015

**Purpose:**

**1.01 Policy**

It is the policy of the City of DeKalb to invest public funds in a manner that will conform to state statute, maximize security, meet daily cash flow demands, and attempt to attain a market rate of \_\_\_\_\_ return.

**1.02 Scope**

This policy includes all funds governed by the City Council and, except for cash in certain restricted funds, the City of DeKalb will consolidate cash balances to maximize investment earnings. Investment income will be allocated to the various individual funds based on their respective participation. Interest income derived from non-fund specific consolidated bank accounts will be attributed to the General Fund.

**1.03 Objectives**

The primary objectives of the City of DeKalb's investment activities are, in order of priority:

- A. **Safety of principal** Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio, while mitigating credit and interest rate risks, as defined below:
  - 1. **Credit Risk**, that is, the risk of loss due to the failure of the security issuer or backer. It may be mitigated by:
    - Limiting investments to the safest types of securities;
    - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business; and
    - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
  - 2. **Interest Rate Risk**, that is, the risk that the market value of securities in the portfolio will fail due to changes in general interest rates. It may be mitigated by:
    - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
    - By investing operating funds primarily in shorter-term securities

- B. **Liquidity**, so as to meet all operating requirements that may be reasonably anticipated, the portfolio shall consist largely of securities with active secondary or resale markets (dynamic liquidity).
- C. **Yield**, with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments shall be limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:
1. a declining credit security could be sold early to avoid loss of principal;
  2. a security swap would improve the quality, yield, or target duration in the portfolio; or,
  3. liquidity needs of the portfolio require that the security be sold.

#### **1.04 Standards of Care**

##### **A. Prudence**

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers and employees of the City of DeKalb, while acting in good faith in accordance with this investment policy and any written procedures as might be established, shall be relieved of personal liability for an individual security's credit risk or market price changes.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

##### **B. Ethics and Conflicts of Interest**

City of DeKalb employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. They shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

##### **C. Delegation of Authority**

Authority to manage the investment program is granted to the authorized municipal official described in Chapter 54 of the DeKalb Municipal Code. Responsibility for the operation of the investment program is hereby delegated to the Finance Director or his/her designee, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. These procedures shall include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements collateral/depository agreements and banking services

contracts. All investments shall follow the investment plan designed and approved by the Finance Director or his/her designee prior to execution.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the DeKalb City Council. The Finance Director, as Chief Financial Officer, shall be accountable for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

#### **1.05 Safekeeping and Custody**

All trades where applicable will be executed by Delivery vs. Payment (DVP). This shall ensure that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

#### **1.06 Authorized Financial Dealers and Institutions**

A list shall be maintained of financial institutions authorized to provide investment services to the City of DeKalb, as well as a list of approved security broker/dealers (or their respective custodial clearing firm) selected for creditworthiness (minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following (as appropriate):

1. audited financial statements
2. proof of National Association of Securities Dealers (NASD) certification
3. proof of state registration
4. completed broker/dealer questionnaire
5. certification of having read the City of DeKalb's investment policy and that all investments will comply with the policy

An annual review of the financial condition and registration of qualified bidders will be conducted by the Finance Director or his/her designee.

#### **1.07 Internal Controls**

The Finance Director or his/her designee is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the Finance Director or his/her designee shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Prevention of collusion
2. Separation of transaction authority from accounting and record keeping.
3. Custodial safekeeping (Securities purchased from any bank or dealer including appropriate collateral, as defined by State Law, shall be placed with an independent third party for custodial safekeeping).
4. Avoidance of physical delivery securities.
5. Clear delegation of authority to subordinate staff members.
6. Written confirmation of telephone transactions for investments and wire transfers (may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures).
7. Development of a wire transfer agreement with the lead bank or third party custodian, which shall outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

### **1.08 Suitable and Authorized Investments**

#### **Investment Types**

Consistent with the GFOA Recommended Practice on State Statutes Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state law where applicable:

1. U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations
2. Repurchase agreements
3. Certificates of deposit
4. Savings and loan association deposits
5. Investment-grade obligations of state, provincial and local governments and public authorities
6. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of domestic securities
7. Statewide investment pools

Use of repurchase agreements should be consistent with GFOA Recommended Practices on Repurchase Agreements (see attached "GFOA Recommended Practices").

Consistent with the GFOA Recommended Practice on Use of Derivatives by State and Local Governments, extreme caution shall be exercised in the use of derivative instruments (see attached "GFOA Recommended Practices").

From time to time, the City may choose to invest in instruments offered by minority and community financial institutions. These financial institutions may not meet all the criteria under this section. All terms and relationships will be fully disclosed and authorized by the City Manager prior to purchase and shall be consistent with state or local law.

#### **1.09 Collateralization**

Funds on deposit (checking accounts, certificates of deposit, etc.) in excess of FDIC or SIPC limits, excluding interest, must be secured by some form of collateral, witnessed by a written agreement

(see the attached "GFOA Recommended Practices"). Pledged collateral shall be held in safekeeping by the Federal Reserve Bank of Chicago (or other independent third party designated by the Finance Director or his/her designee) in the name of the municipality. In addition, the value of the pledged collateral must be marked to market monthly, or more frequently depending on the volatility of the collateral pledged. Last, the City requires that the amount of collateral pledged equal 110% of the uninsured amount on deposit.

#### **1.10 Diversification**

The City of DeKalb shall attempt to diversify its investments appropriate to the nature of the funds, the purpose for the funds, and the amount available to invest. Diversification can be by type of investment, number of institutions invested in, and length of maturity.

#### **1.11 Maximum Maturities**

To the extent practicable, the City of DeKalb shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of DeKalb will not directly invest in securities maturing more than 3-years from the date of purchase.

Reserve funds may be invested in securities exceeding 3-years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Regardless of the foregoing, no funds may be invested in securities maturing in excess of 7-years from the date of purchase unless authorized by the City Council.

#### **1.12 Reporting**

The Finance Director or his/her designee shall prepare a monthly investment and bank balance report for City Council that provides:

1. Cash balances held at the end of the month;
2. A listing of individual securities and corresponding maturities held at the end of the reporting period;
3. The percentage of the total portfolio which each type of investment represents;
4. Inception-to-date yields for each individual security;
5. Average weighted inception-to-date yield to maturity of the entire portfolio as compared to applicable benchmarks.

#### **1.13 Performance Standards**

This investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should attempt to obtain a comparable rate of return during a market/economic environment of stable interest rates. The portfolio performance should be benchmarked to the return of the 90-day Treasury bill.

#### **1.14 Investment Policy Adoption**

The investment policy shall be adopted by the City Council.

### **1.15 Policy Exemption and Amendment**

#### **Exemption**

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

#### **Amendment**

This policy shall be reviewed on an annual basis. Any changes must be approved by the City Manager and any other appropriate authority, as well as the individual(s) charged with maintaining internal controls.



**PURCHASING MANUAL**

**CITY OF DEKALB  
PURCHASING MANUAL  
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## Section I - Overview

### Introduction/Statement of Policy

The City of DeKalb is governed by both state laws and local ordinances with regards to purchasing policies and procedures. Many of these laws and ordinances have been enacted to conserve tax dollars and to protect the public from fraudulent practices. While laws and ordinances can help to achieve these goals, a higher public purchasing standard must be implemented to protect the public trust. The purchasing policies and procedures of the City of DeKalb have been developed with this standard as the highest priority.

The City of DeKalb has adopted the provision of Illinois Statutes commonly called the “Budget Officer Act” whereby an annual budget is adopted in lieu of an appropriation ordinance. The annual budget includes all City operating units and is made up of line items for each object of expenditure. When adopted by the Mayor and City Council members, the budget becomes the legal authorization to expend resources for providing City services. Accordingly, all City expenditures must be authorized in the approved budget or in a subsequent amendment.

The goal of the City’s purchasing program is to obtain quality goods and services at the lowest possible price. The purpose of this manual is to establish guidelines to achieve this goal within the philosophy stated above. Therefore, the procedures contained in this manual will assist the City Manager and Department Heads in procuring necessary goods and materials in a manner that is consistent with the highest standards of public service.

This purchasing manual provides guidelines and directions for the procurement of goods and services. When used with good judgment and common sense, the policies and procedures conveyed within this manual will allow the City to procure required supplies and services efficiently and economically. All purchasing by the City will be in accordance with the Municipal Code, City policy and Illinois law. City employees are expected to conduct themselves in a manner which will lead to public confidence in the integrity of the City’s procurement procedures.

The City utilizes a decentralized purchasing process. Purchasing activities (specification preparation, bid reviews, telephone quotation solicitation, and requisition preparation) are the responsibility of each department and must be conducted within procedures established by this policy.

The City will make every effort to purchase services, commodities, or materials from vendors located in DeKalb if these vendors are competitive in price and quality.

The City encourages the use of environmentally friendly products. Priority shall be given to these products provided the products are competitive in price and quality.

It shall be the policy of the City to participate in joint purchasing cooperative such as the State of Illinois joint purchasing program to the extent such program provides an economic advantage to the City.

This manual is designed to be a fluid document and will be amended from time to time to conform to changes in legislation, technology and actual practice. Employees who need assistance with

specific purchasing situations not covered by the Purchasing Manual should contact the Finance Director.

## **Section II – Purchasing Policies**

### **Code of Ethics**

All City personnel engaged in purchasing and related activities shall conduct business matters with the highest level of integrity. Transactions relating to expenditure of public funds require the highest degree of public trust to protect the interests of residents and business owners of the community. City employees are expected to conduct themselves in the following manner:

1. Ensure that public money is spent efficiently and effectively and in accordance with statutes, regulations, and City policies.
2. Not accept gifts or favors from current or potential suppliers, which might compromise the integrity of their purchasing function.
3. Specify generic descriptions of goods whenever possible in lieu of brand names when compiling specifications.
4. Never allow purchase orders for similar or like goods or services to be split into smaller orders to avoid required approval or in any manner that would circumvent this Policy or applicable law.
5. Purchase without favor or prejudice.
6. Ensure that all potential suppliers are provided with adequate and identical information upon which to base their proposal or quotation and that any subsequent information is made available to all bidders.
7. Establish and maintain procedures to ensure that fair and equal consideration is given to each proposal or quotation received and selection is based upon the lowest total cost compliant bid.
8. Provide a prompt and courteous response to all inquiries from potential or existing suppliers.

It shall be the responsibility of the City Manager or his/her designee to determine if a violation of this Code of Ethics has occurred and if any disciplinary action is necessary.

## **Section II – Purchasing Policies**

### **Conflict of Interest Policy**

It shall be a breach of ethical standards for any employee or elected official to participate directly or indirectly in the purchasing process when:

1. The employee or elected official is an owner of, or is contemporaneously employed or is an independent contractor by/of a bidder, vendor or contractor involved in the procurement transaction; or

2. The employee or elected official, the employee's or elected official's domestic partner, or any member of the employee's or elected official's immediate family holds a position, including as an independent contractor, with a bidder, proposer or contractor such as an officer, director, trustee, partner or the like, or is employed in a capacity involving personal and substantial participation in the procurement transaction, or owns or controls an interest in the company; or
3. The employee or elected official, the employee's or elected official's domestic partner, or any member of the employee's or elected official's immediate family has a financial interest arising from the procurement transaction; or
4. The employee or elected official, the employee's or elected official's domestic partner, or any member of the employee's or elected official's immediate family is negotiating or is retained as an independent contractor, or has an arrangement concerning, prospective employment with a bidder, vendor or contractor; or
5. The employee or elected official must disclose immediately to his/her manager and/or the City Manager or his/her designee if the company providing services to the City is a family member of the current employee(s) or elected official(s).
6. Where any party serving as an independent contractor for the City of DeKalb has any economic interest in another company, contractor or subcontractor who is proposed or contracted to provide services to the City on a project in which the party is involved, or in which that party has any role in recommending selection of subcontractors, the party shall disclose such interest to the City in writing, based upon the same standards utilized for City staff and elected officials as outlined above.

The employee's or elected official's immediate family shall be defined as a spouse, children, parents, brothers and sisters, and any other person living in the same household as the employee.

It shall be the responsibility of the City Manager or his/her designee to determine if a violation of this Conflict of Interest policy has occurred and if any disciplinary action is warranted for the employee or elected official.

## **Section II – Purchasing Policies**

### **Gifts and Gratuities – City Guidelines for Accepting**

City personnel should be aware that offers of gratitude from vendors could be designed to compromise objective judgment in product or service selection. Accordingly, it is City policy to observe the highest standards of ethics and to shield the employee, the City and the vendor from any suggestion or appearance of conflict of interest.

No employee shall permit any influence by vendors, which could conflict with the best interest of the City, or prejudice the City's reputation. Expenditures of City funds to vendors shall not by intention personally benefit any person employed with the City. Employees shall strive to follow the following guidelines:

1. Tangible gifts or gratuities shall not be accepted where their value suggests something more than merely a social gesture. Such gifts should be returned with a statement of City policy. Promotional or advertising items of nominal value such as key chains, pens, coffee mugs, calendars and holiday candy are acceptable, to the extent permitted by Illinois law. Gifts that are capable of being shared, such as a box of chocolates, shall be shared within the office or section where the recipient works.
2. Association with vendor representatives at business meals or business organization meetings is occasionally necessary and is neither questionable nor unethical, provided the individual keeps himself/herself free of obligation.
3. Personal loans of money or equipment are not to be accepted from a vendor or an individual associated with a vendor doing business with the City.
4. Solicitation of vendors for merchandise or certificates to serve as door prizes or favors is normally prohibited. However, the City Manager or his/her designee may approve exceptions.
5. Corporate discounts granted to City employees are acceptable only if they are offered to all City employees and other corporate clients of the vendor.

If in any doubt about the propriety of accepting a gift, the matter should be referred to the Department Head who will, if necessary, discuss the matter with the City Manager or his/her designee.

## **Section II – Purchasing Policies**

### **Capital Assets**

Certain purchases will be recorded in the City’s records as capital assets. Capital assets shall include land, land right-of-way, land improvements, buildings, building improvements, construction in progress, machinery, equipment, furniture, vehicles, software, easements, and infrastructure such as roadways, storm sewers, water mains, etc. that meet the following criteria:

1. The asset must be either tangible, software, or an easement.
2. The asset must provide a benefit for more than one fiscal year.
3. The acquisition cost of the asset must be greater than or equal to \$20,000.00.

## **Section II – Purchasing Policies**

### **Approval of City Purchases**

No employee shall purchase goods or services on behalf of the City without first seeking approval as required by this policy. All purchases shall require advance approval of the appropriate Supervisor, Department Head, the Finance Director or his/her designee and the City Manager or his/her designee in accordance with the guidelines described below:

| <u>Dollar Limits</u> | <u>Required Approvals</u>  |
|----------------------|--|
| Under \$5,000        | Supervisor and Department Head   |
| \$5,001-\$10,000     | Supervisor, Department Head and Finance Director or his/her designee   |
| \$10,001 - \$19,999  | Supervisor, Department Head, Finance Director or his/her designee and City Manager or his/her designee           |
| \$20,000 & Above     | Department Head, Finance Director or his/her designee, City Manager or his/her designee and City Council members |

Approval for purchases shall occur before the purchase is made. At the discretion of the Department Head, approval levels for Supervisors may be increased to an amount not to exceed the Department Head’s authority. In addition, any person responsible for approving purchases at any level may delegate his or her approval authority to a designee in the event he or she is unavailable to approve purchases.

The Finance Director or his/her designee, is responsible for determining if an item is budgeted, if adequate funds are available and if proper purchasing procedures have been followed. The Finance Director or his/her designee shall also be responsible for reviewing and initialing all purchase orders prior to the order being placed to ensure accurate authorization. If any City purchase increases the total over \$20,000 for the current fiscal year, the contract must be presented to Council for approval prior to the order being placed.

The City Manager or his/her designee is further authorized to execute and comply with the terms of any settlement agreement or Court Order, provided that any expenditure required therein has been properly budgeted and approved by the City Council.

**Section II – Purchasing Policies**  
Signing of Contracts

All contracts must be executed by the City Manager or his/her designee, except as may be directed by the City Council. It must be remembered that a contract is a legal document and must follow a prescribed procedure for implementation.

All contracts, to be valid, must be signed by an authorized representative of the company to supply the services and an authorized representative of the City. The City Manager or his/her designee, or such other person as may be authorized by the City Council members, may enter into a contract for the City, provided that all applicable procedures (such as formal bidding, bid waivers, and quotations) have been met. A copy of the contract is to be immediately forwarded to the City Manager’s Office and Finance Director or his/her designee, after being executed.

### Section III – Competitive Quotes and Exceptions to the Policy

#### General Policy for Soliciting Quotes

Employees are responsible for obtaining quotes for purchases in the instances outlined below. When submitting a purchase requisition prior to purchase, all quotes shall be attached to the requisition. These requisitions are to be sent to the Finance Director or his/her designee for review. The limits shall include all costs involved with a purchase, including shipping, installation, etc. Requisitions submitted without the required quotes or a satisfactory explanation of why quotes were not obtained (e.g. sole source, emergency, standardized vendor, etc.) will be returned to the originator without approval.

|                             |  |
|-----------------------------|--|
| <u>Up to \$5,000</u>        | Day-to-day purchasing may be done without prior approval; the responsibility still exists for making the most economical purchases. Price checks and surveys must be made from time to time to ensure that the price being paid is the best price available and that the quality is the best that is required.   |
| <u>\$5,001 - \$19,999</u>   | Three (3) written quotes. The quotes must be listed in purchase order as well as attached. Hard copies shall be obtained and retained in the department's files for auditing purposes.   |
| <u>\$20,000 &amp; Above</u> | Must be competitively bid where required in accordance with State law and City ordinances. City Council approval is required for all contracts above \$20,000. For projects requiring competitive bidding under State law, if circumstances do not permit competitive bidding (e.g. sole source provider), City Council waiver of competitive bidding is required. |

Items purchased more than once during a fiscal year (e.g. forms, copier supplies, etc.) do not need quotes every time a purchase is made. However, competitive quotes for these items shall be sought at least once each year to ensure that vendors are competitive. With that information a vendor list will be developed annually for purchasing assistance to ensure all Departments are gaining from this competitive pricing.

### Section III – Competitive Quotes and Exceptions to the Policy

#### Joint Purchasing

#### State of Illinois

The State of Illinois Purchasing Program develops specifications, conducts bid processes, makes awards, creates contracts and publishes contracts on the Illinois Procurement Bulletin. When available through the State program, City employees may consult with the City Manager or his/her designee to enter into purchases for these items. However, employees shall be responsible for ensuring that the goods or services are of a quality sufficient to meet the City's needs and that pricing is competitive.

Other Units of Government

Periodic checks of what other municipalities are paying can confirm whether the City is receiving a good price. If a neighboring municipality is contemplating the bidding of a particular item, which is also to be bid by the City of DeKalb, the joining of the two municipalities could result in a lower price. The City Manager or his/her designee should be consulted before entering into any purchases for these items.

**Section III – Competitive Quotes and Exceptions to the Policy**  
Sole Source Purchases

The following purchases or contracts whose estimated cost is in excess of \$5,000 shall not require written specifications or competitive bidding.

1. Purchases which may only be made from a single source;
2. Purchases for additions to and repairs and maintenance of personal property owned by the City which may be more efficiently added to, repaired or maintained by a specific person;
3. Purchases of personal property which are compatible with the existing equipment or systems owned by the City;
4. Purchases which can be made at a public auction, close-out sale, bankruptcy sale or other similar sale at a cost below the market cost in the community;
5. Purchases where an emergency immediately affects the public health, safety or welfare if authorized by the Department Head and City Manager or his/her designee. Upon cessation of the emergency, the Department Head and City Manager or his/her designee shall inform the corporate authorities by a full written account of the contracts entered into or purchases made pursuant to this subsection;
6. Contracts for the services of individuals possessing a high degree of professional skill;
7. Contracts for the printing of bonds, tax warrants and other evidences of indebtedness;
8. Purchases, which because of the unique characteristics of the personal property or the needs of the City are not susceptible to competitive bidding;
9. Contracts with options to renew for additional periods of time at a fixed price.

**Section III – Competitive Quotes and Exceptions to the Policy**  
Emergency Purchases Policy

Emergencies are defined as events that could not have been foreseen where immediate action is necessary to safeguard the public's health and safety. In the event of an emergency affecting the public



health and safety, the Department Head and City Manager or his/her designee may authorize a vendor to perform work necessary to resolve such emergency without formal bid solicitation.

If an “emergency” has been declared by the City Manager or his/her designee and/or Mayor, the following guidelines will be observed:

1. All emergency purchases up to \$5,000 in estimated cost can be consummated by employees designated to purchase by their department head.
2. Those emergency purchases with an estimated cost of \$5,000 to \$10,000 for good and services require verbal approval of the Finance Director or his/her designee prior to expenditure.
3. Those emergency purchases with an estimate cost of \$10,000 to \$20,000 for goods and services require the verbal approval of the City Manager or his/her designee prior to expenditure. Purchases in excess of \$20,000 for goods and services require the verbal approval of the City Manager or his/her designee with immediate notification to the City Council.
4. Documentation of the verbal approval from the City Manager or his/her designee is required either by a voicemail or email. This documentation must be printed and attached to the requisition and submitted to the Finance Department for development of the purchase order.
5. A purchase order must be completed for purchases greater than \$5,000. All purchase orders and receipts related to the emergency must be noted so.

### **Section III – Competitive Quotes and Exceptions to the Policy** Request for Qualifications

A Request for Qualification (RFQ) can be used as a pre-qualification stage of the procurement process. Only those proponents who successfully respond to the RFQ and meet the qualification criteria will be included in subsequent Requests for Proposals (RFP) solicitation process. This two stage approach can both streamline the solicitation process and assist in gathering information about candidates for future use.

### **Section III – Competitive Quotes and Exceptions to the Policy** Request for Professional Services

Certain professional service contracts and agreements may be accomplished through requests for professional services which are considered by the City to be those which, by their nature, are not adapted to award by competitive bidding; although should the City have an existing and satisfactory relationship with a firm, contractually present or not, this provision may be waived upon City Manager or his/her designee approval. This would include such services as auditing, engineering, planning, legal, appraising, architectural, medical, psychological, marketing, risk management, bond issuance, and similar type services of individuals possessing a high degree of professional skill where the ability of the individual plays an important role. These contracts or

agreements may be entered into without formal bidding with the approval of the City Manager or his/her designee for amounts up to \$20,000. The City Council must specifically approve any contract in excess of \$20,000.

#### Request for Quotation (RFQ)

An RFQ is used for sealed bids and best suited with products and services that are as standardized and commoditized. Supplier decisions are typically made by the procurement department following a comparison and analysis of the RFQ responses.

#### Request for Proposal (RFP)

An RFP is a solicitation sent to potential supplier with whom a relationship is being considered. RFP's state the strategy, objectives, and details that will assist the supplies with the ability to offer a bid.

### **Section III – Competitive Quotes and Exceptions to the Policy**

#### **Service Contracts**

The purposes of these contracts are varied and often require bids or bid waivers. Contracts are often entered into without bids. When bids are waived, a contract is entered into through negotiation or acceptance of a proposal from the vendor who wishes to supply the service. In most cases where bids are waived, the same legal requirements as in a bid situation still apply.

It must be remembered that a contract is a legal document and must follow a prescribed procedure for implementation.

All contracts, to be valid, must be signed by an authorized representative of the company to supply the services and an authorized representative of the City. The City Manager or his/her designee, or such other person as may be authorized by the City Council members, may enter into a contract for the City, provided that all applicable procedures (such as formal bidding, bid waivers, and quotations) have been met. A copy of the contract is to be immediately forwarded to the City Manager's Office and Finance Director or his/her designee after being executed.

A non-expiring contract may be entered into in the same manner as a contract with an expiration date provided that a clause is inserted into the contract allowing the City to terminate the contract within 30 to 90 days upon proper notification by the City to the vendor to do so.

All contracts must have their terms, such as dates and fees, defined. Procedures for applying for cost overruns of the contract must be specifically spelled out.

The vendor must agree to protect, indemnify, hold and save harmless and defend the City of DeKalb against any and all claims, costs, actions and expenses, including but not limited to attorney's fees incurred by reason of a lawsuit or claim for compensation arising in favor of any person, including the employees or officers or independent contractors or subcontractors of the first and second parties, on account of personal injuries or death, or damages to property occurring, growing out of, incident to, or resulting directly or indirectly from the performance by the vendor

hereunder, whether such loss, damage, injury or liability is contributed to by the negligence of the City of DeKalb whether latent or patent, or from causes whatsoever, except that the vendor shall have no liability or damages or the costs incident thereto caused by the sole negligence of the City of DeKalb. Only the person with the spending authority has the ability to waive strict compliance with those requirements, where deemed to be in the best interest of the City.

To keep in force, to the satisfaction of the City of DeKalb, at all times during the performance of the work referred to above, Commercial General Liability Insurance and Automobile Liability Insurance with Bodily Injury limits of not less than \$1,000,000 and Property Damage Insurance with limits of not less than \$1,000,000. The vendor agrees that at any time upon the demand of the City of DeKalb proof of such insurance coverage will be submitted to the Finance Director or his/her designee. There shall be no additional charge for said insurance to the City of DeKalb. The Finance Director or his/her designee shall review the required insurance specifications annually and adjust when necessary.

### **Section III – Competitive Quotes and Exceptions to the Policy** Waiver of Competitive Bidding

In certain circumstances, a Department Head may believe that the best interests of the City would be served by a purchase from one particular vendor despite the amount of the purchase being in excess of \$20,000. In this instance, a Request for Bid Waiver must include adequate justification and be forwarded to the City Manager or his/her designee. After review and concurrence, a Request for Bid Waiver shall be forwarded to the City Council for final consideration.

### **Section III – Competitive Quotes and Exceptions to the Policy** Local Vendors

When securing price quotations, Department Heads shall, to the extent practicable, solicit quotations from qualified vendors located in the City of DeKalb. No price preference will be given to local businesses; however, if everything else is equal between two or more possible vendors, the City shall make every effort to choose the DeKalb-based vendors. Local vendor preference cannot be used if using federal funds for the project.

### **Section IV – The Bidding Process** Bidding Procedures

Having recognized the need for formal bid letting, the following process is to be followed:

The requesting department prepares the specifications for the item to be let for bid.

The department head arranges the specifications into proper format and prepares the other needed documents to complete the bid invitation package. Required documents of a bid invitation package are:

- Cover letter / Invitation to Bid
- Specifications of the item / service to be bid (including maps drawings and/or any other pertinent documents)

- Proposal Form
- General instructions to bidders
- Bidder's Certification Form(s) (i.e. non-collusion, bid rigging or bid rotation, sexual harassment, tax compliance, etc.)
- Special Provisions

The department head arranges for a bid opening date. The date must be at least ten calendar days from the published notification date, but not more than 45 calendar days.

The department head is responsible for placing a legal notice concerning the bid in a local newspaper of general circulation at least ten calendar days prior to the bid opening.

The department head sends bid invitations to all known responsible vendors on the bidder's list for the particular item as well as to any other prospective bidder. If a bid package is costly to reproduce, a nominal charge for the package may be assessed.

The department head (or designee) and the Administrative Associate in the City Manager's Office are present at the bid opening.

The department head reviews the bids and decides upon the lowest, responsible, bidder. Then makes a recommendation to the City Manager or his/her designee and writes the Council Agenda Memo for this purpose.

If the bid falls under the guidelines necessary for credit checks, the recommended bidder may be subject to those guidelines.

Bids received by way of facsimile machine and email are unacceptable and will not be acknowledged.

Bids received after the due date and time are to be returned unopened to the bidder with a cover letter stating date and time the "Bid" was actually received.

#### Premature opening of bids

In the event of a sealed bid being opened prior to the determined date and time for such opening, the person shall submit a written affidavit to the Finance Director or his/her designee stating the time of the premature opening and the circumstances causing such premature opening, and stating as fact that the information contained in the bid documents has not been disclosed to the public, any potential bidder, or any City employee. The Finance Director or his/her designee will then reseal the bid, to be opened at the appropriate time.

#### Criminal Compliance Code

In all areas of a public bid letting, the provisions of Public Act 85-1295, amending the criminal code of the Illinois Revised Statutes, regarding bid rigging and collusive activities shall be strictly followed.

Requirements of this act are as follows:

1. A certification form shall be included in all bid invitations packages. This form shall immediately follow the bid proposal form in the package. All bidders must properly execute this form as prescribed and attach it to the bid proposal form in their sealed envelope.
2. The failure of a bidder to submit this form with the bid shall render the bidder to be non-responsible.
  - a. The submission of the certification after the bid opening will not be acceptable.
  - b. Additionally, each bidder shall be responsible for signing a non-collusion certificate
3. Each bidder may submit written questions to be answered in an addendum shared with all prospective bidders.

The Special Provisions portion of the bid package shall state those City representatives that may speak to a potential bidder in the period between the time of the initial bid mailing and the bid opening date and time.

No more than three City employees may be designated to speak for the bid. These employees shall be:

1. Assistant City Manager
2. The affected department head
3. An employee subordinate to the department head and appointed by the department head.

Only the criteria stated in the bid invitation package may be used in the process of determining the successful bidder.

#### Change Orders

Subsequent to a bid award, change orders may be found to be necessary.

- a. All change orders must be approved by the Department Head and Finance Director or his/her designee. If the total is over \$10,000 the City Manager or his/her designee and if over \$20,000 the City Council will need to approve the change.
- b. Requests for change orders must state that the circumstances said to necessitate the change were not reasonably foreseeable at the time the contract was signed, were not within the contemplation of the contract as signed, or are in the best interest of the City of DeKalb.
- c. Notwithstanding any provision of this Policy to the contrary, a change order must be authorized by the City Council if there is an increase (decrease) in time of completion by 30 days or more, or if otherwise required pursuant to the applicable contract or agreement.

### Prevailing Wage Act

This act requires in all construction contracts entered into for public works construction projects that the prevailing wages, as issued by the Illinois Department of Labor for DeKalb County, be paid to all laborers, workers and mechanics performing work under the contract.

The bid package for such construction contracts shall contain the most recent listing of the said prevailing wages or a link to the website at which such wages are provided.

1. A certification form shall be included in all bid invitation packages. This form shall immediately follow the certification form for Public Act 85-1295. All bidders must properly execute this form as prescribed and attach it to the bid proposal form in a sealed envelope.
2. The failure of a bidder to submit this form with the bid will render the bidder to be non-responsive.

Also, all contractors conducting work for the City with Federal or State Funds shall abide by the requirements set forth in Section 135 of the Department of the Interior and Related Agencies Appropriation Act for fiscal year 1990 relating to the use of federal monies for lobbying efforts and Public Act 85-1295 relating to bid rigging. In each case, the City Manager's office shall coordinate, with the department involved in the construction, the incorporation of the appropriate documentation required by the acts.

### Public Contracts - Illinois Municipal Code

Division 42.1 of the Illinois Municipal Code, 65 ILCS 5/11-42.1-1 *et seq.*, prohibits Illinois municipalities from entering into a contract with an individual or entity that is delinquent in the payment of any tax administered by the Illinois Department of Revenue. A certification form shall be included in all bid invitation packages. This form shall immediately follow the certification form required by the statute. All bidders must properly execute this form as prescribed and attach it to the bid proposal form in their sealed envelope.

### Specifications, Preparation and Bid Award

In all cases, the requesting department is responsible for the initial specification preparation for bids. The Finance Director or his/her designee will assist the department as needed or requested but it is generally held that the requesting department has the best knowledge of what is needed. Specifications may not be developed in a manner intended to specifically exclude a potential bidder on a technicality or developed in such a manner that only one bidder is possible. Specifications must be broad enough to invite competition but yet not be so loose as to invite a potentially low bid on an item that is not desired or not in the best interests of the City.

The bid award is to be made to the lowest responsible bidder. The determination of the "lowest responsible bidder" is a matter of the sound and reasonable discretion of the City based on, among other items, the credentials, financial information, bonding capacity, insurance protection, qualifications of the labor and management of the firm, past experience, ability to meet all

specifications and ability to complete the contract in a timely manner. The responsible bidder shall not have any outstanding debts owed to the City of DeKalb in order to qualify for the bid award.

Upon execution of the agreement, the department will provide a copy to the Finance Department and City Manager's office.

Following the award of a bid by the City Council, the department head sends a purchase order to the successful bidder. If the bid was for several items or materials to be purchased over a period of time, the department head notifies the successful bidder by letter with a copy to the Finance Department so that a purchasing procedure can be established.

### **Section V – Purchasing Procedures** Regular Purchase Orders

A purchase order must be prepared for the following purchases:

1. Any purchase of goods or services of \$5,000 or above
2. Any purchase from a source determined by a formal bid, bid waiver, or formal quotation
3. All open purchase orders when it is anticipated that the cumulative purchases for the year will exceed \$5,000. A not to exceed amount needs to be included.
4. Any capital outlay item
5. Any case where the vendor requires a purchase order. In this case, purchase orders for less than \$5,000.

All purchase orders must have the price of goods stated along with an easily understood explanation of the item or service being purchased. If it is absolutely impossible to list the exact price, an estimate price may be used with the letters, "EST" placed above the price. Freight charges should be included on the purchase order or must be noted, "Includes Freight".

Capital Improvements or Contracted Services do not require a purchase order (i.e. MFT – Road Repairs, Nicor, Com Ed, Waste Management, etc.), but do require a signed contract.

### **Section V – Purchasing Procedures** Open Purchase Order Agreements

In certain circumstances, where vendors are used frequently, an open purchase order may be set up at the beginning of the year as approved by the Department head.

A purchase order form must be approved by the following before initiating any purchase:

| <u>Dollar Limits</u> | <u>Required Approvals</u>  |
|----------------------|--|
| Under \$5,000        | Supervisor and Department Head   |
| \$5,001-\$10,000     | Supervisor, Department Head and Finance Director or his/her designee   |
| \$10,001 - \$19,999  | Supervisor, Department Head, Finance Director or his/her designee and City Manager or his/her designee           |
| \$20,000 & Above     | Department Head, Finance Director or his/her designee, City Manager or his/her designee and City Council members |

**Section V – Purchasing Procedures**  
 Issuance of Purchase Orders

Purchase orders shall be requested by each City department for purchases of all materials, supplies, equipment, and services in excess of \$5,000 with the exception of those previously identified by submitting a requisition for each service for each vendor. The requisition must include all three (3) bids or quotes, approved resolution (if required), signed contract and appropriate approval levels. A purchase order shall be prepared by the Finance Director or his/her designee after the requisition has been reviewed. The review process includes verifying funds availability, appropriate approval levels are met, required attachments are present and purchasing procedures are met. In the event of emergency purchases where goods or services have already been received, the purchase order should be marked “Confirmation.”

After the goods or services have been received, the Department Head will verify the order and the unit price authorized, attach a copy of the purchase order to the authorized invoice and send to the Finance Department for payment.

**Section V – Purchasing Procedures**  
 New Vendors

New vendors will be required to provide a W-9 to the Finance Department.

**Section V – Purchasing Procedures**  
 Manual Checks

Manual checks are interim checks issued to vendors as payments for goods delivered or services performed. The checks are issued between normal accounts payable cycles when an emergency or other extenuating circumstance as determined by the Finance Director or his/her designee and makes it impractical or unreasonable to process the payment following normal payment methods. Manual checks are labor intensive and time consuming to issue; therefore, their use as a method of payment shall be restricted to unique or special circumstances.

All requests for manual checks must be accompanied by a written request with an explanation in the as to need for the check from the Department Head. If an invoice is not available, the request will need to



include the vendor's name and address, the general ledger number against which it is being charged, and a description of the item purchased. All manual checks must be approved by the Finance Director or his/her designee.

### **Section V – Purchasing Procedures** Purchasing Cards

The City may authorize the use of purchasing cards to department heads as needed, and may also issue them to certain designees within the department (supervisors, maintenance staff, etc.). The same purchasing requirements will apply as indicated above. At the time the bill is received for the month's purchases, each department head will submit the bills. Abuse of this system for personal use may lead to discipline up to and potentially including immediate termination.

### **Section V – Purchasing Procedures** Petty Cash

Petty Cash funds are established to pay for infrequent purchases that are under \$50.00 and require immediate payment. Tolls, parking, filing costs, etc. are traditional expenses that fall into this category. Department Heads must approve the Petty Cash reimbursement vouchers. Petty Cash funds have been established in the following departments: Finance, Airport, Fire and Police.

Finance Director or his/her designee will conduct quarterly audits of the Petty Cash funds established in each department. A petty cash slip must be completed, countersigned by the department head or his/her immediate subordinate, and accompanied by a receipt. These receipts should be reconciled and sent to the Finance Department by the Department Head on a monthly basis for reimbursement.

No department may establish a petty cash fund without the express consent of the Finance Director or his/her designee.

### **Section VI – Miscellaneous Purchasing Policies and Guidelines** Use of Sales Tax Exemption Number

City purchases are not subject to sales tax; therefore, employees shall make efforts to inform vendors of the City's tax exempt status and to ensure that sales tax is not paid for purchases made with petty cash or credit cards. Employees shall provide vendors with a sales tax exemption form upon request by Finance Department.

Use of the City's sales tax exemption number is restricted to purchases made on behalf of the City. State law prohibits use of the City's sales tax exemption number for personal reasons. Purchases where sales tax is charged will be the responsibility of the Department Head to work with the vendor on issuing a credit.

**Section VI – Miscellaneous Purchasing Policies and Guidelines****Use of Outside Contractors or Vendors**

Illinois Department of Revenue regulations allow contractors to use the City's sales tax exemption number to purchase materials used in construction of public improvements, which will be eventually dedicated to the City. Use of the exemption number is limited to purchases directly related to work being done on behalf of the City. Contractors are responsible for any tax due on purchases determined to be non-exempt and for purchases not made on the City's behalf.

Requests by contractors for the City's sales tax exemption number shall be forwarded to the Finance Director or his/her designee. In order to obtain the number, the contractor shall be required to complete and submit to the City a sales tax exemption authorization request, which includes the supplier's location and a list of materials to be purchased. After the proper request has been received, the City will provide the contractor with a sales tax exemption certificate.

**Section VI – Miscellaneous Purchasing Policies and Guidelines****Equal Opportunity**

When applicable, contractors shall comply with the Illinois Human Rights Act, 775 ILCS 5/1-101 et seq., as amended, and any rules and regulations promulgated in accordance therewith, including, but not limited to the Equal Employment Opportunity Clause, Illinois Administrative Code, Title 44, Part 750 (Appendix A). Furthermore, the Contractor shall comply with the Public Works Employment Discrimination Act, 775 ILCS 10/0.01 et seq., as amended.