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Identifying and Examining Challenges to Fund Balance Management in Union County, Illinois

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IDENTIFYING AND EXAMINING CHALLENGES TO FUND BALANCE MANAGEMENT IN UNION COUNTY, ILLINOIS

by

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CHAPTER 1

INTRODUCTION

As much as ever, citizens and researchers are interested in maximizing cost-efficiency in the delivery of services to the public by their governments. The populace generally complains about the rising taxes, yet also seems firmly opposed to reductions in government services. This juxtaposition is certainly evident throughout all levels of government. Beyond the demands of annual operations, however, governments also must consider a plan for future fiscal challenges that may be both difficult to anticipate and beyond the control of the entity itself.

While great interest and study has been given to the funding and reserve strategies of the federal and state governments (Building State Rainy Day Funds, 2014), greater scrutiny must be given to the strategies and principles espoused by the roughly 90,000 local governments nationwide (Public Information Office, United States Census Bureau, 2012), where locally-based revenues may be limited by statutes and by small, self-contained economies. Other sources of revenue, namely payments from the federal and state governments are, in many places, under a constant threat of reduction or elimination (New York State Office of the State Comptroller, 2013).

This research aims to provide greater insight by identifying and describing the challenges that face some small, rural, less-educated counties with respect to reserve fund balances strategies. Additionally, this study will expose the effects of these challenges.

In the process, this research will give further meaning and purpose to raw, expansive numbers used in previous studies; what resources, indicators, and rules are misinterpreted or ignored by leaders of entities such as these, and the resulting effect on reserve fund balances. This may serve as a call-to-action for further study or even development of strategies of how to help educate local government officials and the constituencies they serve.

Union County's Fiscal History

Union County is located in deep southern Illinois, fewer than thirty miles from the confluence of the Mississippi and Ohio Rivers at southern tip of the state. In 2010, Union County had a population of 17,808 (United States Census Bureau). This was down 2.65% from the 2000 census, and roughly equal to the population in 1980. The 2000 U.S. Census showed that the median income for a household in Union County was $30,994. About 10.8% of families and 16.5% of the population were below the poverty line, including 19.8% of those under age 18 and 12.1% of those persons age 65 or over. Current estimates are that 84.5% of the population has a high school degree, while 21.3% hold a bachelor's degree or higher (United States Census Bureau).

For most of the past decade, Union County has been consistently covered by area media outlets for major financial shortfalls (Barker, Union County running out of funds, 2010). During this period, Union County suffered from a lack of functional reserves and generally routine misallocation of funds (Hale, Union County owes itself almost $1 million in loans, 2006). This resulted in the County making across-the-board budget cuts in the middle of a fiscal year, which included, amongst other measures, layoffs of County personnel (Barker, Union County cuts 5 percent, 2010). Meanwhile, specific *restricted funds*[1] were accumulating balances that far exceeded the respective documented expenses.

[1] *Restricted funds* are defined by the Governmental Accounting Standards Board as "Imposed by law through constitutional provisions or enabling legislation," and in this case specifically refer to revenues from "Taxes dedicated to a specific purpose" (Governmental Accounting Standards Board of the Financial Accounting Foundation, 2009).

CHAPTER 2

LITERATURE REVIEW

Purpose of Reserve Funds

Existing research of the reserve funding strategies of local governments has successfully identified how reserves fluctuate from year to year. The conclusions have had success in showing what has happened, and have found correlation with economic events, local demographics, or other stimuli (Stewart L. S., 2009).

Marlowe, in his expansive studies, found that slack resources in local governments in Michigan and Minnesota, either in the form of formal stabilization funds or end-of-year free cash balances, often significantly exceeded amounts projected based on previous state-based research (Marlowe, 2005). According to Marlowe, "a typical municipality may demand fund balance as high as three to five months, or approximately 25-40 percent of current expenditures," yet in reality the average municipality boasts a total general fund balance closer to 53 percent. Marlowe suggested that the large amount of slack resources may be kept to protect against revenue shortfalls. He specifically mentioned revenue estimation errors as a possible revenue shortfall, suggesting that a lack of data and/or administrators to interpret information could contribute to a feeling of uncertainty and a perceived need to hedge against it. He recommended that future research give consideration to factors, such as demographics, that could influence expenditure and reserve funding behavior.

Similarly, Hendrick noted the importance of slack resources to local governments in suburban Chicago, and observed that actual reserve balances often did not follow expectations (Hendrick, 2006). In some instances, such as home rule municipalities, governments see greater reserves. In other situations, some municipalities hold reserves far less than anticipated. In some cases like this she posited that this may be due to these governments not recognizing threatening conditions—"such as dependence on intergovernmental revenue, which may be detrimental in the long run."

Cultural and Socio-Economic Influence on Government Reserve Fund Balances

Gianakis and Snow identified that the creation and maintenance of reserves by local governments in Massachusetts was largely determined by financial management strategies developed by each respective municipality (Giankakis & Snow, 2007). They called for "further research… on the statutory, demographic, cultural, and organizational determinants of the decision rules employed by local government financial managers in implementing these strategies."

These findings were supported by Hendrick, who found that the level of professionalism of the fiscal decision makers is important to preserving adequate reserves and the overall condition of a municipality's finances, and that this became even more true during challenging economic times (Hendrick, 2006). She noted, "a government's immediate environment and managerial structure are more central to determining its reaction to fiscal stress than its external environment of voters and residential culture."

Stewart (2009) moved the focus of this research to rural Mississippi counties. The populations served by these governments were decidedly smaller, less affluent, and less educated than those of the previous studies. Of interest to this case study, Stewart expected to find an inverse relationship between unreserved fund balances and the percentage of nonwhite population, as demands on a local government's annual revenues would be greater due to a tendency for the non-white population to experience lower earnings than whites. Notably, save for race itself, other socio-economic statistics (including education and earnings) would suggest that Union County possesses a similar cultural environment to those Mississippi counties studied by Stewart.

Stewart discovered that the relationship between unreserved fund balances and a population that is expected to have greater demand on government services was more complex than expected, and not directly inverse. The savings depended largely on whether the government was experiencing revenue abundance or revenue scarcity. Governments with largely nonwhite populations tended to spend during times of abundance, and save when experiencing threats to cash flow.

A significant relationship was observed between unreserved fund balances and the sophistication of a government. The total of the balance and how those funds were deployed was often determined by whether a government “possess(ed) the skills and educational background to assess the county’s economic health critically,” or if it “lacked the staff, skills, and tools necessary” (Stewart L. S., 2009). Stewart’s findings echoed those of Hendrick, suggesting that “if local governments recognized risk, they built a budgetary cushion.”

Value of Information and Role of the Public

Stewart, et al. dived deeper into fund balances, questioning how balances should be determined and maintained with consideration for ethics and financial best practices (Stewart, Hildreth, & Antwi-Boasiako, The Fund Balance Conundrum: An Ethical Dilemma, 2015). They specifically questioned the sometimes unusually large size of these balances. Ultimately, acknowledging that many financial reports are difficult for the public and even users to fully understand, Stewart, et al. advised that greater, albeit limited, transparency was essential to proper management of these unreserved fund balances. Information made public should include explicitly specifying the intent, function, and amount of these balances and adopting guidelines for their governance.

CHAPTER 3

METHODOLOGY

This research employs a case study design to narrow the focus to the fund reserve-related behaviors and strategies specific to Union County. The approach is motivated by the hope that the results will augment current research and provide a more in-depth and contextually rich understanding of the factors and decisions moving local governments to maintain, what has been found to be in many instances, higher unreserved fund balance levels than uncertainty alone would require. The more qualitative approach sets out to identify, generally, the events and decisions that impact fund balances of local governments. The single-case design is especially effective when attempting to investigate specific events or series of events, and the environments that created them. Yin calls studies like these revelatory cases, “when an investigator has an opportunity to observe and analyze a phenomenon previously inaccessible to scientific investigation” (Yin, 1984).

In this study, covering the years 2002 through 2016, the research is facilitated by an individual with intimate exposure to the operation and practices being investigated. This access and familiarity provides the unique opportunity to examine the effects of events and decisions over a period of decades and multiple administrations. The research will explore the challenges of the Union County Government with respect to developing an adequate reserve fund plan, while also considering related factors and affects (including debts and surpluses, alternate reserve strategies, statutory restrictions and opportunities, etc.).

Ultimately, by employing the single-case design, the goal of this study is to take advantage of a unique opportunity to look closely into the current and historic operations of one specific rural local government to bring to light unique circumstances that have guided or may continue to guide its decision-makers.

CHAPTER 4

OBSERVATIONS

Challenges to Reserve Planning

Historically, Union County has begun work on its annual budget roughly three months before the November 30 end of each fiscal year (County of Union, Illinois, 2015). The process starts with the collection of departmental requests as submitted by each elected official and department head. This information is aggregated and combined with revenue projections for the upcoming fiscal year to form “a comprehensive budget request as a whole to be presented to the County Board” (County of Union, Illinois, 2015). Department heads and elected officials are then invited to formally present their requests and engage with the County Board in advance of final decisions being made. State statute requires the budget to be posted and available to the public “at least fifteen days prior to final action” (State of Illinois, 2016). For a budget to be enacted at the start of the new fiscal year, the preliminary document must be on display by November 15 of each year.

Throughout much of the past several decades, the decision-makers of the county government lacked subject-matter expertise and exposure to best practices with regards to government finance. A review of annual budgets from Fiscal Year (FY) 2006 through FY 2012 show no evidence of dues being paid to professional organizations on behalf of the Union County Board of Commissioners[2]. The budget for FY 2013 shows that $1000 was appropriated for dues out of the department designated for commissioners’ expenses (County of Union, Illinois, 2012). Those budgets do not

[2] (County of Union, Illinois, 2005) (County of Union, Illinois, 2006) (County of Union, Illinois, 2007) (County of Union, Illinois, 2008) (County of Union, Illinois, 2009) (County of Union, Illinois, 2010) (County of Union, Illinois, 2011) (County of Union, Illinois, 2012)

contain a separate line designated for training in the department designated for commissioners' expenses, though one does exist for travel. During the five-year period from FY 2006 through FY 2010, the total expenditure out of the travel line was just $699.94. Union County had three commissioners during this period.

Audits throughout this period consistently highlighted material weaknesses including the failure to include bank accounts and funds in financial statements (Kerber, Eck & Braeckel, LLP, 2006) and misreporting of debt and revenue (Hale, Union County fails to report $800,000 in outstanding debt, according to audit, 2007). In 2005, facing considerable fiscal challenges, and considering hiring a former chairman as a financial consultant, a member of the County's board of commissioners "admitted neither he nor the other two board members had enough knowledge to know what warnings signs are coming down the road" and "hinted at a lack of confidence in (the then-treasurer's) ability to help the situation" (Hale, Union County balks on hiring Tweedy, 2005). In both FY 2006 and FY 2007, $6,600 was appropriated for a financial consultant, but it wasn't until FY 2014 that Union County hired a full-time County Administrator (County of Union, Illinois, 2005) (County of Union, Illinois, 2006) (County of Union, Illinois, 2013).

An internal review of financial reports upon a change in leadership found the same failures, and uncovered a systemic failure of the entirety of Union County's financial operations and financial reporting systems (Union County Treasurer, 2014). Even as recently as 2010 Union County was largely relying-upon paper ledger books to account for the dozens of checking accounts which the County held (Union County General Ledger Books, 2000-2010). The fiscal year 2013 audit (Tanner Marlo CPAs, Inc, 2014) reported that:

> Reporting capabilities are restricted within the County due to the lack of a *(sic)* properly functioning financial reporting software. County officials are restricted in their capability to monitor controls in relation to the financial reporting function of the County. This increases the risk of fraud and misappropriations of funds occurring without proper detection. As a result, management is limited in ability to achieve financial reporting goals (p. 6).

Payments were made to vendors using at minimum of five different methods—an electronic payroll system; handwritten checks on unsecured, stubbed check stock; handwritten checks on unsecured blank, loose, electronic check stock; handwritten checks on bank-issued business account checkbooks; and a manual ribbon check writer—all without the presentation of invoices or receipts (Tanner Marlo CPAs, Inc, 2014). None of these methods communicated with the ledger system the County used nor the backup software system used solely to generate reports.

The lack of fundamental accounting knowledge and a robust, thorough, and functioning accounting system led the financial office to "account" by bank account statements. This required a 1:1 ratio of funds to checking accounts. As recently as 2014, Union County held at least sixty-four checking accounts (Union County Treasurer, 2014). Dozens of other accounts were found over a period of years to be in operation without reconciliation or record (Union County General Ledger Books, 2000-2010) (Tanner Marlo CPAs, Inc, 2014).

Effectively, the Union County Board of Commissioners knew neither what it had nor what it needed to operate. Facing a specific crisis in 2010, commissioners felt the need to address, "the issue of communication, claiming they had not received direct knowledge of the severity of the situation in a timely manner" (Barker, Union County running out of funds, 2010). In developing a response to that situation, the chairman acknowledged that "revenues are lagging 10 percent behind our expenses." Even if it were to be considered, planning for the future was not a realistic goal. The focus was on "making payroll" and avoiding layoffs—a goal they were not always able to accomplish (Barker, Union County cuts 5 percent, 2010) (Barker, Union County commissioners see improvement in ability to pay bills, 2010) (Barker, Union County government sees relief, 2010).

Effects of Lack of Reserves

Interfund loan obligation.

The Property Tax Extension Limitation Law (PTELL) first took effect in Illinois in 1991, and was adopted in Union County by referendum in November, 1996 (Illinois Department of Revenue - Local Government Division, 2016). PTELL "is designed to limit the increases in property tax extensions (total taxes billed) for non-home rule taxing districts" (Office of Local Government Services, 2012). It aims to accomplish this goal by applying a formula to the property tax extension process of local governments. This formula effectively limits the annual increase in a local government's property tax extension to five-percent or the annual percentage increase in the consumer price index (CPI) over the total aggregate extension of the previous levy year-- whichever is less (while also accounting for economic growth by factoring-in any new property or increased value in existing property).

Beginning with the tax year 2006, an important provision was added to PTELL (Illinois Department of Revenue, 2012-2013):

> Notwithstanding the provisions, requirements, or limitations of any other law, any tax levied for the 2005 levy year and all subsequent levy years by any taxing district subject to this Law may be extended at a rate exceeding the rate established for that tax by referendum or statute, provided that the rate does not exceed the statutory ceiling above which the tax is not authorized to be further increased either by referendum or in any other manner. (35 ILCS 200/18-190) *(Illinois General Assembly, 2006)*

This allowed local governments to exceed voter-approved tax rates for individual statutory tax funds, up to the maximum rate allowable under the statute governing this fund. PTELL's limit would instead be applicable to the total extension of each taxing district.

For example, Illinois state statutes set the rate for a specific fund at six cents. That rate may be exceeded, however, by voter approval, up to a statutory maximum of fourteen cents. "Sample County" has a voter-approved limit of nine cents for the tax fund supporting this specific fund. Because it is a PTELL-affected entity, Sample County may tax for this specific fund at a rate of thirteen cents without getting additional voter approval. The PTELL limit then requires that Sample County's total property tax extension not exceed its limit (either five percent or the annual percent increase in CPI over the total aggregate extension of the previous levy year).

This statutory change provided an important advantage to taxing districts, including county governments. Instead of putting a referendum on the ballot to reallocate a property tax extension authority due to a change in operational or planning needs, a county board could move its taxing authority quickly and fluidly between funds to most accurately address its needs through the levying process by forecasting year-end fund balances and future years' fund requirements, and raising or lowering respective property tax levies to more appropriately meet the revenue needs of each fund.

The leadership in Union County, however, did not take advantage of this important change. Instead, the County continued to tax at the maximum rates the voters had already approved for each tax fund (County of Union, Illinois, Board of Commissioners, 2009). This resulted in tax revenues and fund balances that failed to meet the operational needs of Union County (Kerber, Eck & Braeckel, LLP, 2008).

The annual audit report for the fiscal year 2010 shows the Liability Insurance Fund held a balance of $711,119 in cash and cash equivalents (Tanner Marlo CPAs, Inc, 2011). That same audit report shows FY 2010 expenses of $85,780. Revenues in the Liability Insurance Fund for this fiscal year totaled $334,764, outpacing spending by $248,984, reflecting an overage of over 290% of annual expenses. Property tax revenues alone for this fund totaled $305,848.

A similar story is found when reviewing the financial activity of the fund responsible for meeting Union County's Illinois Municipal Retirement Fund (IMRF) obligations. The FY 2010 audit shows a cash and cash equivalent balance for the IMRF Fund totaling $716,344. Expenses for this fiscal year totaled $570,274, while revenues totaled $675,039 (of this, $658,626 were property tax revenues) (Tanner Marlo CPAs, Inc, 2011). The total excess revenue for this period totaled $104,765. Both the IMRF and Liability Insurance Funds are considered by Union County to be "Special Revenue" Governmental Funds, meaning the use of these funds is restricted to the purpose designated by the specific laws generating the revenues (County of Union, Illinois, 2015).

For most local governments, the General Fund experiences the greatest activity and burden, as it is responsible for the expenses for the vast majority of services and goods purchased. The General Fund is considered a Governmental Fund, meaning that the various revenue streams that comprise it are non-dedicated in purpose (County of Union, Illinois, 2015). The Fiscal Year 2010 audit found that Union County saw revenues of $3,123,712 in the General Fund, and spent $3,077,812 during the same period (Tanner Marlo CPAs, Inc, 2011). This resulted in an excess of just $45,900, or just 1.49% of the annual spend. This highlights a lack of slack resources, and given that such a large portion of annual revenues (property tax revenues) come within a three month period at the end of the fiscal year, it comes as no surprise that Union County suffered from a cash flow crisis (Barker, Union County running out of funds, 2010).

Before 2006, solving this problem might have required the Union County Board of Commissioners to take a referendum to the public to increase the tax rate limit for the tax fund responsible for the General Fund. In turn, it could have then lowered the tax extensions for Liability Insurance and IMRF. After the 2006 PTELL legislation change, the reallocation of property tax revenues could have been executed during the property tax levying process. This reallocation of tax levies did not occur until 2010, however, with the success of the process fully appreciated two years later, as seen by the FY 2012 year-end fund balance *(see Tables 1 and 6)*. Instead, to address Union County's cash flow crisis, "Previous county boards began borrowing from IMRF and the liability fund in the mid-1990s. County officials were later told the practice is illegal and the money must be repaid," according to a previous county board chairman (Hale, Union County fails to report $800,000 in outstanding debt, according to audit, 2007). The commissioners also borrowed from the General Assistance Fund—also a special revenue fund, partially supported by a State grant program, and historically carrying a much smaller balance than the IMRF and Liability Insurance funds (County of Union, Illinois, 2016) (Tanner Marlo CPAs, Inc, 2010).

The State's Attorney during that period agreed, saying, "We don't have any choice but to pay it back, but it shouldn't have been borrowed to begin with" (Hale, Union County owes itself almost $1 million in loans, 2006). He explained that:

> The issue raises two problems - one is repayment of the loan; the second is why the county borrowed money from those accounts in the first place. State statute… forbids counties from borrowing from their liability insurance or IMRF for other purposes. …County boards can occasionally take money from general assistance funds, but it's considered the best practice to pay back the loan entirely within the same year.

The FY 2010 audit shows $515,000 owed from the General Fund to the Liability Insurance Fund (Tanner Marlo CPAs, Inc, 2011). When considered along with the cash –on-hand, revenue, and expense figures, the Liability Insurance Fund held a true balance of $1,226,119 at the end of FY 2010. The General Fund, on the other hand, ended FY 2010 with a balance of (-)$244,379 *(see Table 1)*. One could conclude that reserves were not a part of Union County's plans at this point.

Table 1
General Fund - Fiscal Year-End Fund Balance 2002-2014[3]

FY 2002	$ (923,845)
FY 2003	$ (1,055,571)
FY 2004	$ (967,565)
FY 2005	$ (681,577)
FY 2006	$ (507,753)
FY 2007	$ (590,982)
FY 2008	$ (622,548)
FY 2009	$ (308,954)
FY 2010	$ (244,379)
FY 2011	$ (396,331)
FY 2012	$ 1,974,790
FY 2013	$ 1,088,501
FY 2014	$ 1,192,171

The situation markedly improved from just a few years before. At the end of FY 2003, the General Fund owed a total of $993,715 to other restricted funds *(see Table 2)*. Of this, $702,000 was owed to the Liability Insurance Fund and $191,715 was owed to the IMRF Fund. An additional $100,000 was owed to the General Assistance Fund.

[3] (Clarke CPA Consulting, Ltd., 2004) (Kerber, Eck & Braeckel, LLP, 2005) (Kerber, Eck & Braeckel, LLP, 2006) (Kerber, Eck & Braeckel, LLP, 2007) (Kerber, Eck & Braeckel, LLP, 2008) (Kerber, Eck & Braeckel, LLP, 2009) (Tanner Marlo CPAs, Inc, 2010) (Tanner Marlo CPAs, Inc, 2011) (Tanner Marlo CPAs, Inc, 2012) (Tanner Marlo CPAs, Inc, 2013) (Tanner Marlo CPAs, Inc, 2014) (Hudgens & Meyer, LLC, 2015)

Table *2*

General Fund - Owed to Restricted Funds FY 2003-2012[4]

Year	Liability Insurance Fund	IMRF Fund	General Assistance Fund	Total
FY 2003	$ 702,000	$ 191,715	$ 100,000	$ 993,715
FY 2004	$ 595,000	$ 300,000	$ 100,000	$ 995,000
FY 2005	$ 595,000	$ 300,000	$ 100,000	$ 995,000
FY 2006	$ 595,000	$ 170,000	$ 100,000	$ 865,000
FY 2007	$ 595,000	$ 70,000	$ 100,000	$ 765,000
FY 2008	$ 565,000	$ -	$ 100,000	$ 665,000
FY 2009	$ 515,000	$ -	$ -	$ 515,000
FY 2010	$ 515,000	$ -	$ -	$ 515,000
FY 2011	$ 465,000	$ -	$ -	$ 465,000
FY 2012	$ -	$ -	$ -	$ -

In FY 2004, the total owed to other funds increased to $995,000, but the composition of the interfund loan obligation changed considerably (Kerber, Eck & Braeckel, LLP, 2005). The General Assistance Fund was still owed $100,000, and the Liability Insurance Fund obligation had been reduced to $595,000. The interfund loan obligation to the IMRF Fund, however, had increased to $300,000. The audit, however, shows no transfers into the Liability Insurance Fund, or any transfers out of the IMRF Fund during FY 2004, highlighting the lack of accurate financial reporting.

Departmental-level savings contributing to crisis.

Though Union County as a whole, and specifically the General Fund, struggled with negative year-end fund balances, one individual department maintained its own proprietary reserves (Kerber, Eck & Braeckel, LLP, 2005). This can be seen by the

[4] (Clarke CPA Consulting, Ltd., 2004) (Kerber, Eck & Braeckel, LLP, 2005) (Kerber, Eck & Braeckel, LLP, 2006) (Kerber, Eck & Braeckel, LLP, 2007) (Kerber, Eck & Braeckel, LLP, 2008) (Kerber, Eck & Braeckel, LLP, 2009) (Tanner Marlo CPAs, Inc, 2010) (Tanner Marlo CPAs, Inc, 2011) (Tanner Marlo CPAs, Inc, 2012) (Tanner Marlo CPAs, Inc, 2013) (Tanner Marlo CPAs, Inc, 2014) (Hudgens & Meyer, LLC, 2015)

purchasing of certificates of deposit in the name of the Ambulance Service. Incomplete County records do not allow certainty in when this practice began, but certificates of deposits were included in audits as early as the fiscal year 2003—the earliest audit reports available (Clarke CPA Consulting, Ltd., 2004).

Even in 2016, the Union County Ambulance Service held multiple certificates of deposit worth a total of $273,309.60 (Union County Treasurer, 2016). This total represented 24.5% of the Ambulance Service's annual appropriation for FY 2016—a far greater ratio than that held by the County as a whole at the time. Additionally, the Ambulance Service enjoyed a large carryover fund balance from the end of one fiscal year to the beginning of the next *(see Table 3)*. In fact, over the eleven year period from FY 2006 to 2016, these slack resources of the Ambulance Service averaged a total of 51.5% of its annual budget.

Table 3
Ambulance Service - Beginning (Residual) Fund Balance 2006-2016[5]

Year	Beginning Fund Balance	Percent of Total Budget
FY 2006	$ 450,000	62.4%
FY 2007	$ 600,000	63.2%
FY 2008	$ 550,000	46.8%
FY 2009	$ 500,000	39.5%
FY 2010	$ 636,000	65.8%
FY 2011	$ 533,442	52.6%
FY 2012	$ 350,970	35.7%
FY 2013[6]	$ 156,452	13.4%
FY 2014	$ 618,414	59.2%
FY 2015	$ 556,791	53.3%
FY 2016	$ 519,296	46.6%

It should be understood that the success of the Ambulance Service to build fund reserves came at the direct expense of the rest of the County government. The Union County Ambulance Service bills for its services, yet also receives an allotment of property tax revenues. In FY 2016, the Ambulance Service was 23.1% subsidized by property taxes (County of Union, Illinois, 2015) *(see Table 4)*. This represents a dramatic drop in property tax revenues since FY 2013 ($257,000 in FY 2016, down from $384,000 in FY 2013), and a 56% drop from the recent high-point in FY 2009 ($584,000).

[5] (County of Union, Illinois, 2005) (County of Union, Illinois, 2006) (County of Union, Illinois, 2007) (County of Union, Illinois, 2008) (County of Union, Illinois, 2009) (Anna-Jonesboro National Bank) (County of Union, Illinois, 2015)

[6] Due to low cash flow in the General Fund, the disbursement of property taxes to the Ambulance Service and other “proprietary” funds were delayed until January 2013. When adding this disbursement to the beginning fund balance listed above, the balance grows to $488,451, which represents 41.8% of the FY 2013 budget. (Anna-Jonesboro National Bank)

Table *4*

Ambulance Service - Expected Property Tax Revenues 2006-2016[7]

Year	Property Tax Revenues	Percent of Budget
FY 2006	$ 323,520	44.9%
FY 2007	$ 323,000	34.0%
FY 2008	$ 578,445	49.2%
FY 2009	$ 584,000	46.1%
FY 2010	$ 343,000	35.5%
FY 2011	$ 379,000	37.4%
FY 2012	$ 379,000	38.5%
FY 2013	$ 384,000	32.8%
FY 2014	$ 294,250	28.1%
FY 2015	$ 284,250	27.2%
FY 2016	$ 257,000	23.1%

It has been identified that in two years, FY 2006 and FY 2010, the sum of the fiscal year beginning balance and the expected property tax revenues surpassed the annual budget *(see Figure 1)*.

[7] (County of Union, Illinois, 2005) (County of Union, Illinois, 2006) (County of Union, Illinois, 2007) (County of Union, Illinois, 2008) (County of Union, Illinois, 2009) (County of Union, Illinois, 2010) (County of Union, Illinois, 2011) (County of Union, Illinois, 2012) (County of Union, Illinois, 2012) (County of Union, Illinois, 2013) (County of Union, Illinois, 2014) (County of Union, Illinois, 2015)

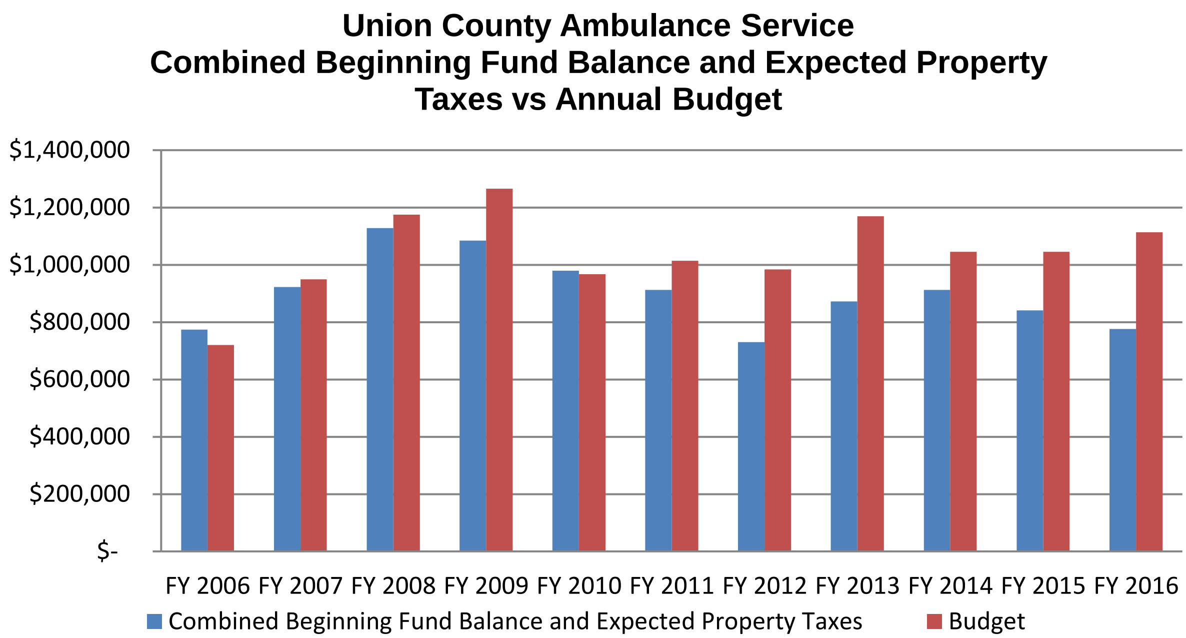

Figure 1. Property Taxes

[8]

Revenues, however, were also collected via payments for services rendered *(see Table 5)*. In fact, the total anticipated revenues for the Union County Ambulance Service never eclipsed the budgeted expenses by less than $330,000. Not only were revenues far outpacing expenses, but a portion of those expenses was a targeted reserve strategy (namely, the budgeted line items for the purchasing of certificates of deposit in the name of the Ambulance Service). While the Ambulance Fund is considered by Union County to be a special revenue fund because property taxes are levied and collected for the specific purpose of funding the Ambulance Service, the revenues from the services provided by the Ambulance Service do not, necessarily, have to follow the

[8] (County of Union, Illinois, 2005) (County of Union, Illinois, 2006) (County of Union, Illinois, 2007) (County of Union, Illinois, 2008) (County of Union, Illinois, 2009) (County of Union, Illinois, 2010) (County of Union, Illinois, 2011) (County of Union, Illinois, 2012) (County of Union, Illinois, 2012) (County of Union, Illinois, 2013) (County of Union, Illinois, 2014) (County of Union, Illinois, 2015)

same procedure, and do so only at the discretion of Union County's leadership (County of Union, Illinois, 2015).

Table 5 *Ambulance Service - Expected Revenues From Services Rendered 2006-2016*[9]		
FY 2006	$	400,000
FY 2007	$	540,000
FY 2008	$	550,000
FY 2009	$	585,000
FY 2010	$	595,000
FY 2011	$	605,000
FY 2012	$	605,000
FY 2013	$	630,000
FY 2014	$	630,000
FY 2015	$	657,102
FY 2016	$	854,800

So during the same period that the Union County General Fund was facing cash-flow crises, laying-off employees to make payroll, and illegally borrowing from restricted funds to patch shortfalls, one department sat on large reserves, held long-term assets, and were funded, at times, at roughly 150% of expected expenses.

The 2006 legislative changes to PTELL would have allowed the County Board of Commissioners to reduce the property tax subsidy to the Ambulance Service, requiring it to use more of its billed services (not shared with the rest of the County at this time) to fund its operation, though that strategy was not enacted until the tax year 2013, collected in FY 2014 *(see Table 6)*. The property tax levy was reduced from $365,000 in FY 2013 to $260,000 in FY 2014. During that same period, the Corporate tax fund (funding the General Fund) was increased by roughly $110,000—from $1,075,000 to

[9] (County of Union, Illinois, 2005) (County of Union, Illinois, 2006) (County of Union, Illinois, 2007) (County of Union, Illinois, 2008) (County of Union, Illinois, 2009) (County of Union, Illinois, 2010) (County of Union, Illinois, 2011) (County of Union, Illinois, 2012) (County of Union, Illinois, 2012) (County of Union, Illinois, 2013) (County of Union, Illinois, 2014) (County of Union, Illinois, 2015)

$1,185,338. In FY 2015 and FY 2016 the Ambulance tax levy was reduced again to $250,000. The Ambulance Service revenues for billable services increased to more than make up the difference, and the fund balance of the Ambulance Service has not suffered, holding over $630,000 at the end of 2016 (Union County Treasurer, 2016).

Attempts to Develop Strategies and Reserves

Institution of data-based reviews and fund stabilization.

As the financial reporting system began to improve around 2011, historical revenue and expense trends were added to the projection and budgeting process (Union County Treasurer, 2011). Inefficiencies were identified through this process. Specifically, the Corporate property tax levy, which provides property tax level to the General Fund, for the tax year 2009, collected in FY 2010 was just $470,000, even though it entered FY 2010 with a negative fund balance of nearly a quarter of a million dollars (County of Union, Illinois, Board of Commissioners, 2009). PTELL effectively allowed rates to be raised and lowered as needed (within individual statutory and total levy limits), and as a result, the levy for some restricted funds were lowered to more appropriate levels based on anticipated need, and the balance was moved into the Corporate levy. For the tax year 2010, payable in 2011, the Corporate tax levy was increased to $1,060,000, and the process was repeated annually to reallocate property tax levies to the funds that needed the revenue; most notably the General Fund via the Corporate tax fund (*see Table 6)*.

Table 6
Union County Property Tax Levies Tax Year 2009-2016 (PTELL affected only)[10]

Tax Fund	2009	2010	2011	2012	2013	2014	2015
Corporate	***470,000***	***1,060,000***	***1,090,000***	***1,075,000***	***1,185,338***	***1,585,370***	***1,564,906***
County Highway	110,000	180,000	80,000	80,000	135,000	130,000	138,469
County Bridge	70,000	61,500	62,000	62,000	61,500	60,000	64,068
Federal Aid Matching	70,000	70,000	70,000	70,000	70,000	67,000	71,523
Hard Road Fund	70,000	-	-	-	-	-	-
IMRF	***764,303***	***50,000***	***250,000***	***441,000***	***416,000***	***200,000***	***213,459***
Tuberculosis	12,000	12,769	12,000	6,000	-	-	6,000
General Assistance	***5,000***	***8,000***	***8,000***	***1***	***1***	***10***	***1***
Regional Health	50,000	50,000	50,000	32,000	54,000	54,000	43,000
Mental Health	15,000	15,000	15,000	6,000	-	-	6,000
County Ambulance	***329,000***	***365,000***	***365,000***	***365,000***	***260,000***	***250,000***	***250,000***
County Unit Road District	115,000	115,000	115,000	115,000	115,000	228,000	243,240
County Unit Road District Bridge	70,000	70,000	70,000	70,000	70,000	70,000	74,695
Liability Insurance	***341,000***	***25,000***	***2,000***	***1,000***	***100,000***	***100***	***130,469***
Extension Education	42,550	42,550	40,000	22,000	32,000	21,000	40,000
Senior Citizens Services	35,000	35,000	35,000	1,000	20,000	20,000	20,000

It was also discovered that the tax for what was called in Union County the Hard Road Fund was being improperly levied. The tax, referred to by the Illinois State Department of Revenue as a fund for “Highway (Special for Gravel and Rock)”, is allowable under Illinois General Assembly Public Act 87-767 (Illinois Department of

[10] (County of Union, Illinois, Board of Commissioners, 2009) (County of Union, Illinois, Board of Commissioners, 2010) (County of Union, Illinois, Board of Commissioners, 2011) (County of Union, Illinois, Board of Commissioners, 2012) (County of Union, Illinois, Board of Commissioners, 2013) (County of Union, Illinois, Board of Commissioners, 2014)

Revenue - Taxpayer Services Bureau, 2013). The law allowed a county board of commissioners to levy a tax not to exceed 0.05% for a period not to exceed five years "for the purpose of constructing or maintaining gravel, rock…, or other hard roads, etc." (State of Illinois, General Assembly, 1991). A review of the resolutions setting Union County's real estate property tax levies shows that the tax was first levied in the 1990 tax year, collected in 1991, and is present each year through the tax year 2009, collected in 2010 (County of Union, Illinois, 1990) (County of Union, Illinois, Board of Commissioners, 2009). Once eliminated in the tax year 2010, collected in FY 2011, the $70,000 previously levied in this tax fund was free to be moved to the Corporate tax fund (County of Union, Illinois, Board of Commissioners, 2010).

Establishment of long-range planning.

At the beginning of FY 2012, the outstanding interfund loan obligation, due entirely to the Liability Insurance Fund, stood at $465,000 (Tanner Marlo CPAs, Inc, 2012). It was determined that to ease the burden on the still-improving General Fund, this remaining interfund loan obligation would be retired over a three-year period. Near the end of FY 2012, it was determined that the remaining $313,000 would be retired before the start of FY 2013 (Tanner Marlo CPAs, Inc, 2012). The local newspaper, the Gazette-Democrat, added that "the issue was resolved a full year ahead of originally scheduled plans" (Skinner, Noteworthy Achievement, 2012). The County's auditors added, "It's the first time in a number of years that the general fund isn't operating with a negative fund balance" (Skinner, Report Shows County Out Of Debt, 2013).

In FY 2015, the Board of Commissioners included in its annual budget the first appropriated contributions to reserves in Union County's known history. The Union

County Government imposed rules of its highest order on itself for spending money from these funds, limiting them to "emergency or anticipated County expenses" (County of Union, Illinois, 2015).

Table 7
Union County Budgeted Reserve Fund Contributions (FY 2015-2017) [11]

Fund	**FY 2015**	**FY 2016**	**FY 2017**
Capital Improvement Fund	$ 125,000	$ 125,000	$ 350,000
Courthouse Repair and Maintenance	$ 25,000	$ 25,000	$ 25,000
General Fund Reserves	$ 200,000	$ 818,140	$ 50,000
Compensated Absences Fund	$ 50,000	$ 50,000	$ 50,000
Totals	$ 400,000	$ 1,018,140	$ 475,000

The reserve strategy continued to evolve through FY 2016. The County decided that the surplus General Fund balance from FY 2015, in the amount of $418,140, would be added to the originally budgeted amount of $400,000 to make a total of $818,140 to be transferred to the General Fund Reserves fund (County of Union, Illinois, 2016). The County also included in its FY 2017 budget contributions totaling $475,000 to its various reserve funds (County of Union, Illinois, 2016).

[11] (County of Union, Illinois, 2014) (County of Union, Illinois, 2015) (County of Union, Illinois, 2016)

CHAPTER 5

FINDINGS

Based upon the observations above, there are several significant findings that reveal that the government of Union County, Illinois, during the majority of the last two decades, lacked the subject-matter expertise and exposure to best practices supported by more successful peer organizations. This had a negative impact on its ability to develop an efficient and accountable reserve fund strategy.

County Government Payables Process and Fund Structure

Lax control over the bill paying process, in addition to not understanding and being able to implement fund accounting made it very difficult for the financial decision makers in Union County to ever truly know how much money they needed, how much they controlled, and how those balances could be used. At one point, Union County cut checks via five independent processes, none of which provided the information needed to properly account for the transactions in the paper ledger books still in use in 2010.

Needing one account for every fund caused chronic cash flow crises. Money was held in at least sixty-four checking accounts at one time, not allowing for unused balances in some funds to temporarily cover for low balances in other. Dozens of other accounts were later found, operating “off the books”, and therefore not being recorded or reconciled.

County Government Taxing Authority

The County also suffered from a lack of understanding of its taxing authority and responsibilities. Though the Property Tax Extension Limitation Law (PTELL) was enacted in 1991 (with another important provision passed in 2006) and provided Union

County decision makers the ability to more freely adjust individual tax levies to more appropriately fit the needs of the government, they did not take advantage of the power until 2010. This meant that some restricted funds were receiving tax levies exceeding the expenses by as much as 290% in a single year. The County also continued to levy on its citizens the Hard Road tax fourteen years after its temporary authority to do so had expired.

Because such large portions of the County's overall taxing authority was dedicated inefficiently to these restricted funds, the Corporate tax fund—largely responsible for funding the County's vital General Fund—was severely under-levied. This exacerbated the cash flow problems created by the 1:1 account ratio.

County Government Operations

The inefficient taxation and poor record keeping led Union County to suffer in a situation where it simultaneously could not access enough money to fund the government while over-taxing its population in restricted funds that grew balances of a magnitude of four times greater than annual expenses. To address this problem, decision makers began to illegally borrow from restricted funds dedicated to funding the County's pension obligation and protect the County from potential lawsuits and other liabilities.

The real and perceived inability of the County's leadership to provide a financial security led one individual department to take its own actions. By not adjusting its property tax levy to a more appropriate level when it had "slack" resources averaging 51.5% of its annual budget carrying-over each year while retaining all of its revenues from services rendered, the County allowed the Ambulance Service to enjoy revenues never dipping below $330,000 over expenses, guaranteeing that it would add to its reserves each year.

This arrangement allowed the Ambulance Department to use dedicated property tax dollars to purchase certificates of deposit in its name, rendering those funds unavailable to the rest of the struggling government. Specifically, while the County General Fund suffered repeated cash-flow crises, mass layoffs, and participated in illegal borrowing, one department realized combined reserves and revenues totaling approximately 150% of expected expenses.

County Government Fiduciary Responsibilities and Preparedness

The general lack of understanding of its fund status, operating powers, and fiduciary responsibilities put Union County's financial future is jeopardy. In 2010, Union County's General Fund ended the fiscal year with a surplus of just $45,900. This represented 1.49% of its total operation cost for the year. With such a small margin of flexibility, it is no wonder that any change to the fiscal plan (e.g. an unanticipated expense or a delay in a state transfer payment) led to a significant cash flow crisis. In fact, 2012 was the first year in at least a decade that the County ended the year with a positive General Fund balance, and in 2015 the first known reserve fund was established.

CHAPTER 6

CONCLUSION

This research gives greater insight into the challenges that may face some rural county governments with respect to the financial decision making that leads to adequate reserve funding. As Stewart found, “From a practical perspective, applying a standard benchmark across all jurisdictions is unacceptable. Each jurisdiction is different politically, financially, and environmentally” (Stewart L. S., 2009). Stewart’s work focused on Mississippi counties that were small, rural, and majority non-white. Union County, Illinois, while having a different racial makeup, faced many of the same cultural challenges.

In this case, a general lack of professionalism—competency, integrity, and expert base of knowledge—was pervasive within the County government, and contributed to a dire fiscal situation (Hale, Union County balks on hiring Tweedy, 2005). For most of the last few decades, it suffered from poor financial reporting, ineffective financial operations, and a general lack of understanding and appreciation for the rules, requirements, powers, and limitations of government accounting and other components that impacts its financial situation. Such an environment would have troubled even expert budget makers; that Union County’s leadership struggled to find success with its budgets and reserve planning does not surprise (Barker, Union County running out of funds, 2010).

This research emphasizes the impact that data and knowledge can have on local governments—especially those in rural areas— and the citizens they serve. The factors that challenged Union County’s ability to provide an adequate financial reserve and financial planning may be considered symptoms of the greater struggle that is likely to be found within many local governments throughout rural America—a general lack of knowledge and understanding resulting from a lack of exposure to other successful, professional organizations.

This phenomenon can be compounded by an uninformed populace. It is perhaps unreasonable to expect the majority of citizens to possess a robust understanding of government finance, as Stewart, et al. found (Stewart, Hildreth, & Antwi-Boasiako, The Fund Balance Conundrum: An Ethical Dilemma, 2015), or, perhaps, to know what are reasonable expectations of its government. In Union County, citizens were dependent on the media to sound the alarm when debt began to mount and normal operations and services were threatened (Hale, Union County fails to report $800,000 in outstanding debt, according to audit, 2007). It was after information had been widely disseminated within the context of newspaper articles that the Union County government began to see improvements to its financial operations and reporting, and eventually with retirement of debt and long-term reserve fund planning.

Future research should consider the disparate levels of knowledge and professionalism amongst local governments and how that affects the financial health of the organization and the services it provides. Additionally, consideration should be given to the education level of the populace served by local governments, and the effect on those governments—both in the constitution of the governing bodies and other elected officials and with regard to the accountability to which that government is held by its people.

Current research in this field has often found results that run counter to hypotheses. Marlowe found reserve balances in Michigan and Minnesota far outpacing expectations based on earlier work (Marlowe, 2005); Hendrick had similar results in suburban Chicago (Hendrick, 2006); and Stewart's work in Mississippi resulted in no significant relationship between savings and financial factors expected to influence them (Stewart L. M., Governmental Influence on Unreserved Fund Balances for Mississippi Counties, 2011). Ultimately, this study provides more understanding as to why financial decisions may be made, or not made, in some local governments. The socio-economic and cultural environment within which a government exists largely shapes if and how it reacts to challenges. Improving the distribution and understanding of information to both decision makers and citizens could be essential in helping to ensure the sustainability of these local governments and their populations.

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