



# from your Associate Director

By Jerry B. Crabtree

TOI Associate Director / Education Coordinator

## *Capital Fund / Surplus Funds (Questions and Answers):*

**A**PRIL IS HERE, and we hope that the Spring temperatures come along with it. I know that I speak for many of you when I say that this winter season has been cold and provided a great experience of living in the Midwest. However, it is time to move on to other seasons.

Township and road districts are preparing their annual budget and appropriation ordinance (budgets). Budgets are important and provide the financial GPS for the township for the upcoming year. Remember that NO budget is final. All budgets can be amended and even changed as long as proper procedures are followed. Most township and road districts across Illinois have a fiscal year that starts April 1, state law requires that budgets be adopted by the end of the first quarter of the fiscal year which is June 30, 2019.

As you have seen this past year, there has been a great deal of discussion on the topic of surplus funds in township government. Excessive funds balances or surplus funds are defined as those fund balances that equal to or greater than 2.5 times the annual average expenditures of the previous 3 fiscal years.

To determine if excessive funds exists, a township budget should average the last three (3) years of expenditures and divide that number into its fund balance. If your end total is more than 2 percent and those funds

are not dedicated, then the fund has a surplus or excessive balance.

In 2017, the Illinois General Assembly passed HB 1896 (P.A. 100-0474) that regarding township funds, EXCLUDING CAPITAL FUND, they are not to exceed an amount equal to 2.5 times the annual average expenditures of the previous 3 fiscal years. (60 ILCS 1/30/22). This new law replaces our previous best practice application of case law provided by TOI.

The Township Official of Illinois promote the creation of a CAPITAL FUND under the 2002 new law that established a mechanism in state law for township and road districts to accumulate monies for a specific capital project or equipment. Prior to 2002, state law did not provide this avenue.

The law from 2002, that remains in effect states: "Accumulating moneys in a dedicated fund for a specific capital construction or maintenance project or a major equipment purchase. The annual budget and appropriation ordinance for the township shall state the amount, purpose and duration of any accumulation of funds authorized under the Sections, with specific reference to each project to be constructed or equipment to be purchased."

To clearly identify a CAPITAL FUND in township budget documents, township and road districts alike

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are required to provide the following in the budget and appropriation ordinance when adopting this budget strategy.

1. List the amount of money being dedicated for the project or equipment
2. List the purpose of the dedicated funds
3. List the duration of the accumulation of funds (expected date of completion)
4. Make sure this information gets into the minutes of the township board meeting too.

Please note that TOI has been advised by our attorneys that dedicated funds (i.e.; general assistance) are not subject to the capital fund strategy due their designed structure. Therefore, if a surplus exists in general assistance or other dedicated fund a capital fund to address the surplus is NOT an option.

It is important to remember that when a township or road district is completing the Annual Financial Report (AFR) that the funds within the CAPITAL FUND should be reported as reserved (dedicated). This provides a clear interpretation of the excessive fund balance intention.

### Common Budget and Appropriation Questions:

**Question:** Does the road district budget and appropriation ordinance have to be adopted at the public hearing?

**ANSWER:** YES: 605 ILCS 5/6-502 states that “the township board at the public hearing shall adopt the tentative budget and appropriation ordinance, or any part thereof as such board of trustees deem necessary”

**Question:** Does the township budget and appropriation ordinance have to be adopted at the public hearing?

**ANSWER:** No. The budget Must be adopted at the public hearing or a board meeting thereafter as long as it is adopted by the end of the first quarter of the fiscal year (60 ILCS 1/80-60).

**Question:** Does the notice of the budget and appropriation hearing have to be published in the newspaper?

**ANSWER:** The notice of the hearing must be published at least 30 days before the date and time of the hearing. (60 ILCS 1/80-60 and 605 ILCS 5/6-501).

**Question:** Who is responsible for scheduling the public hearing?

**ANSWER:** state law states that it is the duty of the township /road district clerk to schedule the hearing.



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