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The Simon Review

State Oversight and Local Government Savings: An Analysis of Illinois County Fund Balance Policies

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THE SIMON REVIEW

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Abstract

This paper assesses Illinois county government policies pertaining to the size, use, and replenishment of unreserved funds. As political forces push for reductions in taxes and in government itself, incentives for local governments to use less transparent means for managing finances increase. A better understanding of the impact which fund balance policies have on the amount of financial slack local governments keep on the one hand, and how counties use the funds on the other, is of increasing importance. This work expands on previous analyses of budgetary uncertainty and the possibility of using slack to stabilize service provision through times of revenue abundance and scarcity (Marlowe, 2004, 2005; Stewart, 2009, 2011a; Stewart, Hamman, and Pink-Harper, 2018; Tyer, 1993; Wang and Hou, 2012; Wolkoff, 1987).

1. Introduction

In the face of sustained anti-government sentiment, governments often must get by with fewer financial resources. Many taxpayers complain that too much personal income is paid to the government, only to be wasted; however, taxpayers also push back against service cutbacks that result from tax reductions. As a result, state and local governments can experience serious cash flow shortfalls since they are required, by either statute or constitutional provision, to balance budgets. Standards set forth by organizations such as the National Association of State Budget Officers (NASBO), the National Conference of State Legislatures (NCSL), and the Government Finance Officers Association (GFOA) recommend state and local governments maintain at least 5% of annual general fund expenditures as savings. The GFOA recommends even more slack for local government, up to 15% or two months of operating expenditures. Whereas typically states set back such funds in formally designated “rainy day” accounts, local governments rely on informal approaches such as holding fund balances in unreserved

designations. Widely varying fund levels maintained by local governments suggest that there are general guidelines at best and local governments may have additional purposes in mind for these funds. Consequently, a proper accounting of fund balances in a local government's financial statement helps to assess the extent of its financial viability more accurately. For instance, unreserved fund balance analysis can show whether resources are available for funding programs and paying debt. High fund balances at the local level may show economic security and the ability to economize. Indeed, the Governmental Accounting Standards Board (GASB) views moderately sized positive balances in unassigned general funds as a hedge against uncertainty, funds that may be drawn down to spend counter-cyclically to stabilize government services through economic business cycles, and a means to ensure stable tax rates. However, large amounts of funds set aside in this way may also point to opportunities for reevaluating revenues and tax policies. Such surplus funds may trigger political pressure for tax cuts and/or increased spending.

The National Association of Counties (2016) reports that most states (32) require local governments to follow Generally Accepted Accounting Principles (GAAP) from the Federal Accounting Standards Advisory Board. Counties in other states also choose to comply such that a total of over 70% of U.S. counties follow GASB standards. Approximately 19% of counties use other reporting formats decided by the state. Another 10% of counties use GAAP approved statements but do not follow accrual accounting. This is the case mainly for counties under 50,000 in population. Like local governments elsewhere, Illinois counties typically exceed these recommended levels of unreserved funds. For instance, if you include all Illinois counties from for the decade of 2000 to 2010, unreserved funds as a percentage of total assets in real dollars range from about -600 to 100%. As a percent of total net assets in real dollars, these funds range

from -1000 to 153% of annual expenditures. However, in both cases, just a handful of counties for a few years are at these extremes (Pulaski and Union counties in the case of unreserved as a percentage of total assets - Champaign, Jefferson, Pulaski, and Williamson in some years if the base is total net assets). Still, more than half of Illinois counties from 2000 to 2010 had large savings of more than 50% of total assets. Like other states, most Illinois counties far exceed the spirit of the GFOA recommendations of two months or the 5 to 15% level of savings.

Public accountability concerning unreserved funds depends on transparency and reporting finances in ways that enable local officials and taxpayers alike to understand more clearly how government assets and liabilities are intended for different purposes. Clearly understandable financial reports can facilitate the public debate needed by elected government officials and citizens to work toward balancing local government policy obligations with constituent interests. This paper focuses on one important way, using policies to manage unreserved general fund balances, for maintaining transparency and accountability. Like many people, governments save and set aside monies for unforeseen circumstances. In fact, professional organizations like the GFOA recommend that local governments set money aside to be used for contingencies, budget stabilization, maintaining service levels, etc. For these practices, GFOA recommends that governments develop and adopt formal policies to manage unassigned or carry over revenues to assist in properly utilizing these tax revenues.

2. Literature Review

2.1 Unreserved General Fund Levels in Local Government

Compared to what is known about the states, budget scholars know considerably less about local government savings through budget cycles. There are ample studies of state government savings and rainy day funds (Joyce, 2001; Navin & Navin, 1997; Vasche and Williams, 1987) and assessments of the impact of uncommitted funds on state budgets (Douglas and Gaddie, 2002; Hou and Moynihan, 2008; Knight and Levinson, 1999; Pollock and Suyderhoud, 1986). In contrast, just a few studies investigated these issues at the local level even though counties also budget unreserved funds (Stewart, 2009; Stewart, 2011; Stewart, 2011a; Stewart and Hamman, 2015; Wang and Hou, 2012) and cities do also (Hendrick, 2006; Marlowe, 2004, 2005; Tyer, 1993; Wolkoff, 1987).

Studies find that local government unreserved general fund balances vary considerably across jurisdictions. Many exceed the GFOA's recommended benchmark of 5-15% or two months of operating expenses. With such variation, many argue it is not surprising that that GFOA's one-size-fits-all benchmark does not apply to all jurisdictions in all circumstances. Rather, appropriate fund levels likely depend on numerous unique factors and contexts (Wolkoff, 1987, 53). Still, there is a point for each jurisdiction at which fund balances exceed the community's contingency needs and at which point tax burdens increase unnecessarily (Massey and Tyer, 1990).

A growing body of research investigates factors affecting local government unreserved general fund balance levels and for what purpose the money is set aside. Generally, they find that economic, financial, demographic, and institutional factors explain some of the variation among cities and counties, but much of the variation is unexplained (Gianakis and Snow, 2007;

Hendrick, 2006; Marlowe, 2005; Massey and Tyer, 1990; Stewart, 2009, 2011a; Wang and Hou, 2012). Given the large amounts maintained by some governments, researchers also questioned whether the monies were used for stabilization purposes (Marlowe, 2005; Wang and Hou, 2012). Marlowe, for example, found that although cities in Minnesota maintained a fund balance average of about 45%, these funds made only a marginal impact on expenditures and he questioned if there were other purposes for which these savings were maintained. Studying local governments in North and South Carolina Shelton and Tyner found the range of fund balances was "considerably higher than most of the targets suggested by conventional wisdom and policy statements examined". They suggested it was "tempting to conclude that this means that cities are systematically maintaining excessive levels of fund balances", but they conducted follow-up interviews and identified legitimate reasons for building large amounts of savings. Local governments were building savings, for example, to replace capital equipment, for self-insurance, and the construction of a major facility (Shelton and Tyner, 1999, 5).

Perhaps just as or even more concerning than the high fund balance levels that exceed GASB targets is the lack of transparency characterizing the processes for managing these slack resources. Unreserved fund balances typically are not published in the budget and are documented only in audit reports or other financial statements. These statements may be hard to understand or even locate. Local elected officials unfamiliar with government finance may not be aware of these reserves (Stewart, Hildreth, and Antwi-Boasiako, 2015; Tyer, 1993). Tyer (1993) suggested that local governments need to develop a comprehensive plan on how these funds should be managed and suggested that funds would be vulnerable to political influences without a plan. He further added that having a plan would possibly result in citizens' acceptance of savings and assisting with countering forces that could work against maintaining the funds as

well as curbing the appetites of spending agents. The Government Finance Officers Association also recognized how vital planning was concerning these funds and developed a model to assist local governments with the creation of fund balance policies (GFOA, 2016).

It has been hypothesized that both the motivations of elected officials and governmental structure may influence savings. Blackley and Deboer highlight this issue of why states increased discretionary revenues during fiscal years 1991 and 1992. They argued that despite the unpopularity of most discretionary revenue growth, there were "several motivations for elected official to increase revenues…. elected officials may feel that the marginal electoral benefits of expanded services outweigh the marginal electoral costs of higher discretionary revenues" (Blackley and Deboer, 1993, 2). Stewart (2011) found that a political form of government (Beat systems) in Mississippi maintained more savings than an administrative form (Unit Systems). Consistent with Marlowe (2004), Stewart argued that finding was "contrary to the view that politicians are more concerned with short-term parochial needs to help with reelections" (Stewart, 2011, 20). Evidence suggests that local elected officials are behaving more bureaucratically looking to longer-term policy goals rather than spending reserves on programs for which they can take more immediate credit.

2.2 Illinois Counties and the Maintenance of Unreserved General Fund Balances

Illinois counties are governed and administrated as they have been for over a century. Progressive reforms that altered and modernized local government over the 20th century have not affected Illinois county governments until relatively recently. Historically, there have been two types of county structure and administration in Illinois. Non-township counties, as the name implies, do not have townships (Walzer, Baird, and Gruild, 1990). These are governed by three

commissioners elected at-large. This elected commission then appoints a chairperson to preside over the commission (Walzer et. al, 1990). Seventeen counties have non-township county governments. Township counties have county boards consisting of five to twenty-nine elected members. While regulated in previous constitutions, the 1970 constitution and statutes permit township counties to decide, within limitations, the size of the county board and whether the officials will be elected at-large or by districts (Kenney & Brown, 1993). These members then make one of three choices. The members can either choose to retain both the executive and legislative functions, elect a board president to assume executive functions, or hire a professional administrator (Walzer et. al, 1990). Currently, only 20 Illinois counties employ professional administrators.

Townships are an important factor in county government since they can absorb some county government responsibilities dealing with general assistance to the poor, social welfare, and property assessment as well as construction and maintenance of roads and bridges (Hamilton, 2008). They are typically one of the lowest level taxing bodies and generally have limited responsibilities, only providing services that municipal governments fail to provide to unincorporated areas. In commission form counties, the county government itself has to maintain the services provided by townships (Walzer et. al, 1990).[1] Therefore, commission counties are expected to spend more pro-cyclically since they are more pressured to respond to an immediate need, particularly when unemployment increases during economic downturns.

[1] Cook County is an exception as the only home-rule Illinois county with a county-executive form of government while Will County elected to adopt an executive form without home rule.

In Illinois, a newer form of township county government, “the county administrator form” (Banovetz & Peters, 2006b), enables counties to adapt to modern demands. It has been adopted by 20 Illinois township counties. In these township counties, a county administrator form of government consolidates administrative operations into a single office that reports directly to the county board. The position is then filled with a professional administrator that serves at the pleasure of the board in much the same fashion as city managers serve city councils in the council manager form. County administrators in Illinois are responsible for directing the day-to-day functions of administrative departments under the county board’s jurisdiction (Banovetz and Peters, 2006). They are also responsible for approving and administering budgets for all elected county office holders and the county court system.

The question of how much counties should carry over in cash is not new. In fact, in Illinois, this issue has been addressed many times through the years as the state legislature and watchdog groups recognized the need to set some guidelines (Federation, 2009). Like 15 other states, Illinois does not formally require county governments to follow GAAP. However, in practice, annual state comptroller audit reports comply with GAAP. (https://illinoiscomptroller.gov/services/local-government-division/). From 2000 to 2010 on average, township counties maintained the largest proportion, .64, administrative professional and non-township county types maintain .57 and .56 of annual total expenditures, respectively.

2.2.1 Illinois Constitution

Article 7 of the 1970 Illinois Constitution creates municipalities and units of local government, while Article 9 empowers the state and units of local government to levy and collect taxes. Within the legal language, there is the strict requirement that non-property tax revenue, as

well as property tax revenue, must be reasonable. For example, under Article IX, Section 2 of the Illinois Constitution addressing Non-Property Taxes, it states, “In any law classifying the subjects or objects of non-property taxes or fees, the classes shall be reasonable and the subjects and objects within each class be taxed uniformly.” The issue of defining what is reasonable has led to further clarification in state statutes and court opinions. As part of this definition, there is legal guidance on how taxes can be levied and what services can be appropriated and spent on, as well as language addressing the amount of cash reserves that can be carried over under the “reasonable” doctrine (Grotto, 2008).

2.2.2 Illinois Court Decisions

Illinois courts have warned against accumulating excessive amounts in unreserved fund balances (Grotto, 2008). In one case pitting the citizens of the Lisle Township Road District against the district itself, the court ruled that without proper justification a unit of local government could not accumulate excess revenues (*Allegis Reality Investors, Inc. v. Novac*, 2008). While the term “excess" was left to the discretion of the courts, many courts have ruled that holding two to three times the amount of annual expenditures was illegal (Grotto, 2008). This issue for local governments, particularly for counties and townships located outside of Cook County that are authorized to levy taxes without limits, has been tested in the Illinois Supreme Court. Through court cases, specifically *Toynton v. Commonwealth Edison*, the Illinois court system ruled against the unnecessary accumulation of tax money in the public treasury. According to a 1969 Illinois court case, *Central Illinois Public Service Co. v. Miller*, 42 Ill. 2d 542, units of local government are limited in their maximum cash reserves to approximately 200% of the average expenses incurred over the past three years, and anything over this may be

considered excessive. There have been multiple lawsuits brought forth in Illinois objecting to the cash accumulated by units of local governments citing the Miller threshold to question excessive taxing because of large cash accumulations.

2.2.3 Illinois State Statutes

The Illinois State Statutes authorize counties to levy and collect taxes as well as to invest these revenues in financial instruments including bonds, savings accounts, certificates, money markets, securities, and public investment pools. All such investments and deposits must meet strict criteria to protect the public's interest (55 ILCS 5 Counties Code). According to the 2013 Illinois Property Tax Rate and Levy Manual, produced by the Illinois Department of Revenue, non-home rule counties with a population of 500,000 or more may create a property tax rate of .02% and or sell bonds for the purpose of developing a Working Cash Fund, "to enable the county to have in its treasury at all times sufficient money to meet demands for ordinary and necessary expenditures for general corporate purposes" (55 ILCS 5/6-2001). The fund may not exceed an aggregate amount of $20,000,000. Similarly, counties under 500,000 may create working cash funds with a slightly higher property tax rate not to exceed .025% for the same purpose of enabling the county to accumulate sufficient money to meet its operational needs. However, the statute does not set a maximum aggregate amount (55 ILCS 5/6-27003, 5/6-27004). Some state departments have weighed in on the question of what is an appropriate level of savings. The Illinois State Comptroller's office has acknowledged that maintaining positive unreserved fund balances may be beneficial for local governments but it has not set definite parameters as to how much should be saved (Illinois State Comptroller's Office, 2004). The Illinois Department of Commerce and Economic Opportunity recommended maintaining a

minimum cash reserve of six months operating expenses (Township Officials of Illinois web-post. www.toi.org/Resources/FAQ/).

2.3 Professional Reporting Standards for Local Government Finance Reports

Professional norms and standards illuminate county budgetary and auditing practices within the boundaries established by the statutes and court rulings of a given state. Generally accepted accounting principles set requirements for financial reporting and provide guidelines for supporting assessments of finances – to provide uniform financial reports. Private sector businesses often abide by these guidelines although they are not required to do so. Generally accepted accounting principles originate from efforts by the federal government in conjunction with professional accounting groups to create standards to prevent the manipulative role shady financial reporting played in bringing about the Great Depression of 1929. Enforcement of provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934 by the U.S. Securities and Exchange Commission (SEC) laid a foundation for continued oversight. Currently, state financial reports comply with GAAP that is monitored and updated by the independent FASB. About half of the states officially require local governments to follow GAAP guidelines and as many as 70% of local governments comply (Governmental Accounting Standards Board, 2008).

Independent agencies keep principles and reporting standards up-to-date. The Financial Accounting Foundation (FAF) was formed in 1972 and oversees Financial Accounting Standards Board (FASB). The independent FASB was formed in response to recommendations from the American Institute of CPAs (AICPA) and has seven full-time members. It is further overseen by a 30-person Financial Accounting Standards Advisory Council. The FAF appoints members of

FASB and the Governmental Accounting Standards Board and monitors actions to ensure transparency and fairness.

The GASB is an organization established in 1984 charged with creating GAAP for state and local government organizations. It aims to establish and improve standards of state and local governmental accounting (Government Accounting Standards Board, 2015). It utilizes GAAP to ensure greater accountability and well-informed decision making (Government Accounting Standards Board, 2015). Throughout the years, GASB has released over 80 statements and hundreds of recommendations for state and local governments (GAAP, 2017). We highlight two of the more relevant statements below.

2.3.1 GASB Statement No. 34

Issued in June of 1999, Statement № 34 was found in one study to be ineffective in shaping financial report standards to achieve more clarity and consistency. While the conditions for maintaining reserved fund balances were better understood by the users since it implied assigning assets for specific purposes, the unreserved fund balance brought confusion and inconsistency into the reporting process (Kelly, 2013). As shown in Figure 1, the fund balance is the difference between assets and liabilities. It may also be viewed as the difference between revenues and expenditures and is reported in governmental accounts (Kelly, 2013). This money is sometimes appropriated or carried forward to fund portions of the budget for the following year. Under GASB 34, some portions may be formally reserved or legally restricted by law while other portions may be left as an informal reserve or unreserved fund balance. However, the GASB believed the reserved and unreserved categories created confusion and was not well understood and resulted in inconsistent use in the application of the terms (Kelly, 2013). Figure 1

further shows that some portions of the unreserved fund balance are not designated and are treated as a “general operating reserve” or money received by governments but not spent (Massey and Tyer, 1990, 40).

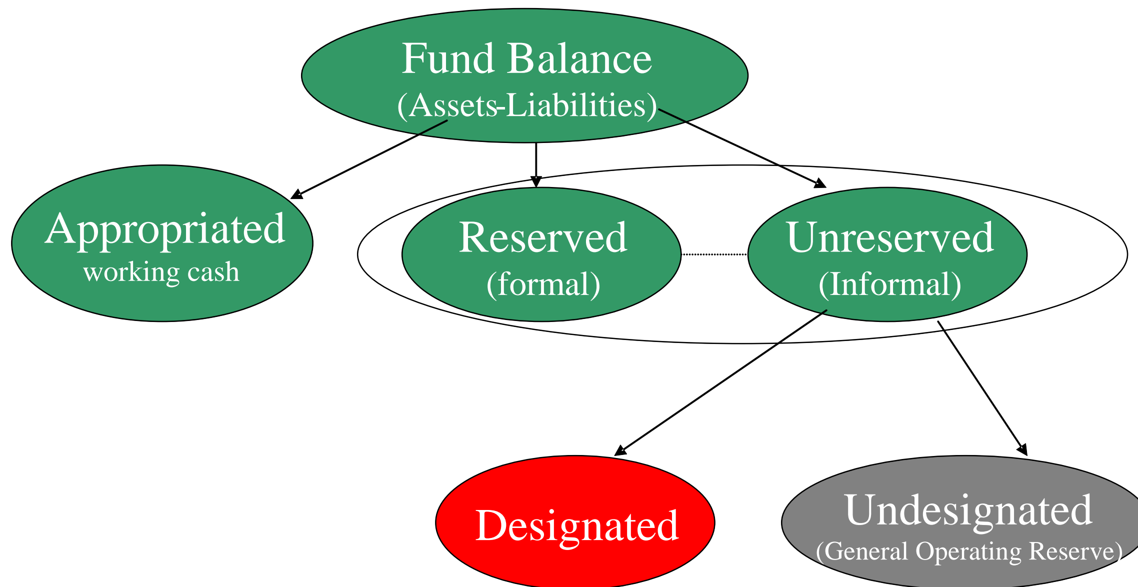

Figure 1. Fund Balance Depiction under GASB 34.

Since governments had an unclear level of discretion in determining whether funds should be designated for specific purposes or left undesignated to be spent at will, a great number of financial officers reported problems and errors in dealing with the unreserved fund balance (Kelly, 2013). In light of complaints and requests from users, the GASB conducted a survey following the implementation of Statement № 34 to learn that governments demonstrate significant differences in understanding the principles of fund balance accounting (Governmental Accounting Standards Board, 2006).

2.3.2 GASB Statement No. 54

In response to the above-discussed issue, the GASB released statement № 54 in February of 2009. The objective of the statement was to spell out government fund type definitions in detail, and to provide new fund balance classifications in order to improve financial reporting and make it easier to understand (Government Accounting Standards Board, 2009). It eliminated reserved and unreserved categories in favor of non-spendable, restricted, committed, assigned, and unassigned fund balances. Moreover, governments were now required to disclose information about policies that regulate the distribution of funds between categories, constraints that are imposed on the amounts, as well as a designation within the fund in the notes to the financial reports (Government Accounting Standards Board, 2009).

Table 1 shows that the non-spendable category includes items (e.g., prepaid expenses and inventory) that are "not in spendable form or legally or contractually required to be maintained intact" (Government Accounting Standards Board, 2009, 3). The Restricted category includes funds externally imposed by grantors, creditors, or other governments. These resources are also "imposed by law through constitutional provisions or enabling legislation" (Ibid). The Committed fund balance encompasses "amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority" (Ibid, 5). The Assigned Fund Balance encompasses those funds "intended to be used for a specific purpose either by the action of the governing body or the delegation of that authority to another official (i.e., the city manager)" (Kelly, 2013, 728). The Unassigned Fund Balance includes monies "unassigned, or available to spend without restrictions. This would include most nonspecific stabilization funds" (Ibid).

Table 1.

New Categories of Fund Balance

GASB 34	GASB 54
Reserved	Nonspendable Restricted Committed
Unreserved	Assigned Unassigned

Not only has this issue recently captured the attention of academic researchers, but also in 1990 the GFOA, a professional association of state and local finance officers that served the public finance profession since 1906 (www.gfoa.org/main/about.shtml), acknowledged a lack of research and literature in this area; in part because public officials did not disclose this information to the public. Interestingly, research suggests that public officials themselves do not pay adequate attention to fund balances or may not even be aware of these funds. Even those public officials who are aware tend to focus more on the legal requirements of maintaining an annual balanced budget (Massey and Tyer, 1990; Tyer, 1993). Tyer (1993) posits that, "when you talk to local government managers and finance officers, they will tell you that many local governments use reserve funds, although in some cases not given that formal designation, to plan for the future and avoid frequent tax increases" (Tyer, 1993, 75). By contrast, prior research indicated that this money often was unspent and not shown in the budget but rather in other financial documents like audits reports that were not readily accessible to the public (Tyer, 1993).

For the most part, however, it is a common practice for local governments to maintain an unreserved fund balance rather than a formal reserve such as a rainy day fund (Tyer, 1993). In

fact, they are encouraged by GFOA to do so. It was not until 2002 that the GFOA officially put on record a recommended practice for local governments to maintain no less than 5 to 15% of the general fund operating expenditures as an unreserved fund balance (Gauthier, 2002).

3. Illinois Local Government "Saving" via Unreserved Fund Balances

Some slack resources in the budget are necessary for local governments' fiscal health (Marlowe, 2013). Convention holds that such slack helps stabilize expenditures and the provision of important local services through good and bad good economic times by tempering revenue volatility as well as helping meet unexpected service demands. Not surprisingly, studies find most local governments hold unreserved or unassigned funds, but in many instances these funds may be in amounts far greater than necessary to meet revenue volatility or economic downturns. For instance Hembree et al. (1999) found in a study of North Carolina and South Carolina municipalities that nearly all municipalities held some portion of the fund balances in reserve. Carter and Vogt (1989) similarly found in an analysis of county and city fiscal responsibility that all jurisdictions maintained slack resources. (Hembree et al., 1999) concluded that it was in almost every locality's best interest to accumulate unreserved balances noting that the ideal amount was dependent on each government's unique situation.

It is less well understood why local governments often hold large reserves and/or the roles these large fiscal reserves play in local government finance. It is not clear whether the amount of slack many local governments maintain is appropriate. Studies of local governments in several states, as well as in Illinois, suggest there are a number of factors and circumstances that may affect the size and use of unreserved or unassigned fund balances and this makes it difficult to

assess whether slack resources are excessive or not (Hendrick, 2006; Marlowe, 2005; Stewart, 2009; Stewart, 2011; Stewart and Hamman, 2015; Stewart et al., 2018; Wang and Hou, 2012).

Most studies assess the effect that some combinations of socio-economic and institutional factors have on slack resources. The relevant factors vary depending upon which study is considered. For instance, in a study of North Carolina counties, Wang and Hou (2012) tested whether volatility in revenue flow occurred over business cycles and intergovernmental factors affect the creation and use of slack resources in local government finance. They found that property and sales tax effort as well as capital outlays relate positively to the size of budgetary slack. Population size and unemployment had a negative impact. Marlow's analyses of Minnesota and Michigan municipalities found that government perception of and response to its fiscal environment were the most important determinant and property tax revenues, rates of home ownership, and the burden of debt service mattered most (Marlowe, 2004 and 2005). Similarly, Gianakis and Snow (2007), who also focused on municipalities, found that wealthier communities more likely to hold unreserved fund balances and municipalities usually instituted these funds after experiencing a deep recession. In addition, the funds were often used more to stabilize budgets when state aid decreased, rather than during economic downturns alone.

Other studies find similar dynamics at play in Mississippi counties' unreserved fund balances (Stewart, 2009; Stewart, 2011). Counties in Mississippi maintain anywhere from negative balances to over 100% of annual expenditures in slack resources. To assess whether Mississippi counties use slack to stabilize expenditures, the study analyzed county finances during economic upturn and downturn years. This allowed the formulation of a more complete view of what and how certain variables impacted unreserved fund balances. Property taxes, other revenues, and county per-capita income contributed positively to the size of unreserved fund balances during

times of economic prosperity. This analysis also showed that counties with more debt per capita had smaller unreserved fund balances in both periods. Counties with larger minority populations maintained smaller unreserved fund balances in economic downturns. Faster growing counties tended to have less need for unreserved fund balances in both periods of resource abundance and scarcity. The study also found that the form of county government affected unreserved fund balance levels. Moreover, a significant relationship exists between the types of government, Beat or Unit, and the amount of fund balances held. The Unit system models on more professional types of local government and institutionally separates political and administrative responsibilities by requiring that an elected board of supervisors appoint a county administrator to execute policy decisions. The Beat system is the more traditional form that combines legislative and executive functions. Typically, the Unit system holds fewer unreserved funds than Beat systems (Stewart, 2009; Stewart, 2011).

The findings for Illinois local government mirrors those found in other states. Analyzing the effects of variables such as revenue diversification, level of dependence on intergovernmental revenues, debt per capita, population change, and political ideology, Hendrick's analysis of Chicago suburban municipalities found fiscal performance (i.e., operating surplus or deficit) most affected fund balances. She argued that recognition of increased risk and a lack of "fiscal flexibility" resulted in more unreserved resources (Hendrick, 2006, 42). The study concluded that unreserved fund balances were most important during fiscal downturns when maintaining reserves to compensate for risks became less important.

Fewer studies focus on the extent to which slack stabilizes budgets over business cycles and systematic evidence that local governments save money in good times and draw down slack in bad times is mixed. In a study of North Carolina counties, Wang and Hou (2012) found no

evidence that North Carolina counties used slack counter-cyclically to stabilize expenditures over business cycles. Alternatively, in his panel study of Minnesota cities, Marlowe (2005) found that unreserved general funds bolstered expenditures during economic downturns. A recent panel study of Illinois counties reported similar findings. Taking a similar analytical approach, Stewart et al. (2018) found that Illinois counties used unrestricted fund balances in governmental activity funds counter-cyclically. These results were also consistent with Hendrick who found slack to be most significant in downturns.

3. Data and Analysis

3.1 Illinois County Government Unreserved General Fund Balances

Figure 2 shows that Illinois counties maintained unassigned fund balances with considerable variability in FY 2015. The table presents the unreserved or unassigned fund balance for only 100 Illinois counties, data for two of the counties, Edwards and Scott, were not available. Specifically, the table shows that counties maintained a UFB level ranging from below 0% to 134% of general fund expenditures. Specifically, three counties had amounts below 0%, 36 counties maintained amounts between 0% to 24%, Twenty-eight counties maintained 25 to 45%, and 33 counties maintained amounts between 46 to 134%. It is also noteworthy to mention that the GFOA suggests that the adequacy of the amount maintained should be based on the "government's own specific circumstances," but recommends that "at a minimum, that general-purpose governments, regardless of size, maintain unreserved fund balance in the general fund of no less than 5 to 15% of regular general fund operating revenues, or no less than one to two months of regular general fund operating expenditures." They also acknowledge that a government's particular situation may require them to maintain amounts that exceed this

recommendation (http://www.gfoa.org/services/rp/caafr/caafr-appropriate-level.pdf). Further analysis shows that 14 of the 36 counties that fell within the 0 to 24% range met the GFOA recommendation and maintained the benchmark of 5 to 15%. Overall, however, it appears that most of the counties (86) maintained levels that exceed or fall below the GFOA recommendation (Carter and Vogt, 1989; Hembree et al., 1999; Marlowe, 2005; Stewart, 2009, 2001a; Wang and Hou, 2012).

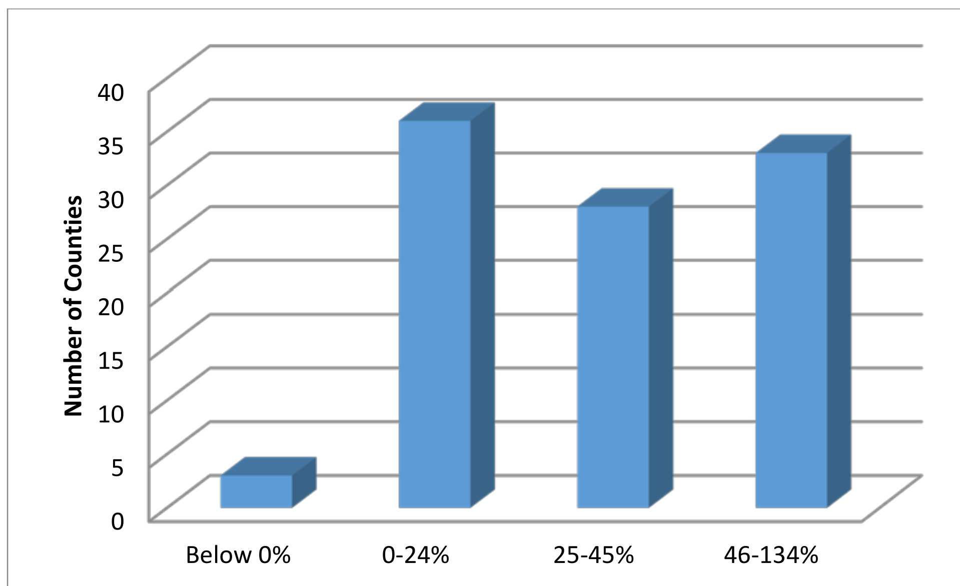

Figure 2. UFB as a percent of GF Expenditures for 2015. Source: County CAFRs for 2016. N = 100.

What seems clear is that many counties maintain savings well in excess of the GFOA recommendations. There is concern that currently there may be too much room for abuse and lack of transparency as a result of a lack of adequately stringent legal or policy guidelines (Stewart et al., 2015).

3.2 Illinois County Unreserved General Fund Balance Policy Characteristics

This analysis uses the GFOA Unreserved Reserve Fund sample policy as the basis for assessing Illinois counties' unreserved general fund balances. The Government Financial Officers Association recognize the need for governments to maintain sufficient levels of reserve funds to mitigate financial risks, such as revenue shortfalls, drastic budget cuts, and unanticipated emergency expenditures but also seeks to promote transparency and public accountability. To these ends, it created a model policy to assist governments in formalizing the practice of holding a reserve fund. In addition, the GFOA advocates that such funds may help stave off potential swings in tax rates caused by the lack of planning. In developing a policy to govern unreserved fund balances, GFOA asks units of government to consider that more unreserved funds are needed if revenues are unpredictable and/or expenditures are volatile. Governments should also anticipate substantial one-time outlays brought about by disasters, immediate capital needs, or state budget cuts. In setting unreserved fund levels, it is also important to consider covering the potential drain upon general fund resources from other funds as well as the availability of resources in other funds. It is also important to consider the potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds as well as the commitments and assignments (i.e., governments may wish to maintain higher levels of unreserved fund balances to compensate for any portion of an unreserved fund balance already committed or assigned by the government for a specific purpose) (GFOA, 2016. *Best Practice: Appropriate Level of Unreserved Fund Balance in the General Fund.* www.gfoa.org).

Based on these considerations, we applied five essential criteria in an analysis of Illinois county policies. If a county adopted a formal policy, we also determined whether the policy contained language explaining the need for the fund to the public. Next the policy was analyzed

to see if it recommended a specific funding level. Third, the analysis determined whether the policy conformed to GFOA's recommended funding level of always having no less than two months of operating funds on hand. Policies were also checked to see whether there was language regulating how the unreserved reserves funds could be spent. Finally, the policy was checked to see whether there was language addressing how the unreserved reserve fund was to be replenished if it was expended. The five GFOA variables in this analysis include:

- evidence of the county adopting a formal unreserved reserve fund policy;
- policy language explaining the need for an unreserved reserve fund;
- policy language specifying the fund level of two months of operations or greater;
- policy language that regulates how the unreserved reserve fund may be spent; and
- policy language that specifies how the unreserved reserve fund is to be replenished.

In addition, we assessed whether the policy addressed any of these three additional financial details:

- policy language specifying the minimum unreserved fund balance;
- policy language specifying the maximum unreserved fund balance; and
- fiscal year 2014 unreserved fund balances as reported in the annual financial audit.

Illinois has 102 counties with only 18 that have fund balance policies (see the map in Appendix 1). The fund policy analysis of these eighteen counties was derived by applying these criteria, including the five based upon the GFOA recommendations for county unreserved reserve fund policies. The additional criteria identify greater financial details of unreserved reserve fund policies and practices at the county level.

3.2 Unreserved Fund Balance Policy Findings

Table 2 shows that of the 102 Illinois counties, only 18 (Carroll, Champaign, Cook, DeKalb, Douglas, DuPage, Jo Daviess, Kane, Kankakee, Kendall, Lake, Macoupin, McHenry, Peoria, Rock Island, Tazewell, Vermillion, and Will) have some form of an official public policy or published public statement directing the County Board on its use of Unreserved/Unassigned reserve funds. Thus, only 18% of Illinois counties have adopted an unreserved/unassigned reserve fund policy or statement. Most of these counties are in Northeastern Illinois and include Cook and the five Collar Counties, or in Northwestern Illinois with a scattering of other counties in Central Illinois. There are no Metro-East or southern Illinois counties included.

In reviewing the 18 policies, Kankakee County is the only county to meet all five GFOA unreserved reserve fund policy recommendations that include: explaining the need for the fund policy, specifying the fund level, keeping no less than two months of operating reserves in the fund, language regulating how the fund is to be spent, and language that specifies how the fund is to be replenished if spent. Thus, only 1% of Illinois counties have adopted an unreserved/unassigned reserve fund policy or statement that meets all five recommended policy specifications per GFOA guidelines.

Table 2.

Illinois Counties with Fund Balance Policies

County	*Formal Policy	*Explains Need for Fund	*Specifies Fund Level	*> 2 Months of Operating Revenue	Minimum Specified	Maximum Specificed	*Regulates Expenditures	*Specifies Replenishment	Professional County Administrator	Fund Balance as a Percentage of Expenditures
Carroll	Yes- ordinance	Yes- avoid revenue shortfall	Yes- 30%	Yes	Minimum 30% of annual operations	No	No	Yes- create plan to restore	No	43%
Champaign	Yes- published policies	Yes- meet reserve policy, avoid future debt, repay debt	Yes- 12.5%	No	45 day minimum or 12.5%	No- will create plan to spend surplus	No	Yes- will create plan to restore	Yes	14%
Cook	Yes- published policies	Yes- protect against reducing services, raising taxes, revenue shortfalls, or 1 time	1 to 2 months audited operating expenditures	Yes- 2 months is maximum	Yes- 1 month is minimum	Yes- 2 months is maximum	No	Yes- a plan must be developed to replace	No	5%
DeKalb	Yes- published policies	Primary reason is to plan for contingencies (emergencies)	Yes	Yes	Yes- 4 months is minimum	No	No	No plan to restore	Yes	28%
Douglas	Yes- published policies	Yes- lists several objectives to ensure fiscal stability	Yes	No- 1 month	Yes-1 month	No- specifies how surplus MAY be spent	No	Yes- create a plan to restore	No	19%
DuPage	Yes- published as part of annual	Yes- for major emergency or economic distress	Yes	Yes	Yes- 3 months (25%)	No	No	No	No	49%
Jo Daviess	Yes- annual ordinance	Yes- to ensure sufficient revenues against shortfalls, unforeseen emergencies, and	Yes	Yes	Yes- 3 months of operating expenses	No	Yes-says it's not scheduled for expense during FY17.	No	Yes	55%
Kane	Yes- published policies	Yes- operating contingencies, unforeseen capital expenditures, emergencies, and protect against	Yes-County Corporate Fund No- Special Reserve Fund, Emergency Reserve Fund, Property Tax Freeze Protection	Yes- Corporate Fund	Yes- Corporate Fund: 3 months of operating expenses	No	No- Corporate Fund Yes-Special Reserve, Emergency Reserve, and Property Tax Freeze Protection Funds	No	No	69%
Kankakee	Yes- published policies via resolution	Yes- mitigate current & future risk, revenue shortfalls, unanticipated	Yes- 20%	Yes	Yes- 15% to 20%	Yes-20% is max, spend on non-recurring	Yes- order of expenditures from accounts	Yes-reduce expenditures, increase revenue	No	-17%
Kendall	Yes- Board Resolution	Yes- to fund current and future operations, capital needs, and cash flow	Yes- 6 to 7 monts of reserves	Yes	Yes- 6 months (50% of operating cost)	Yes- 7 months, transfer overage to capital fund	No	Yes- reduce expenditures, increase revenue	Yes	71%
Lake	Yes- printed in annual budget	Yes- to maintain financial stability due to temporary revenue shortfalls, emergencies, economic	Yes- 15% of annual operations	No- 1.5 months	1.5 months	No- balance may exceed 15% of annual operations for capital projects or other one	Yes- after contingency funds are exhausted and per a plan to address the situation	No	Yes	19%
Macoupin	Yes- printed in annual budget	Yes- to preserve services	Yes- 15% of General Funds annual operations	No- slightly less	No	yes- not to exceed 15% of County's most recent General Fund budget	Yes- by a 2/3rds vote of Board, can NOT be used for capital projects	No	No	34%
McHenry	Yes- annual budget resolution and published	Yes- concerns over general economic conditions and reality imposed by the Property Tax	Yes- 150 days of operations	Yes- 5 months	Yes- 100 days of operations	Yes- will approve plan to spend down balance above 150 day reserve	No	Yes- if below 100 day operations, Finance & Audit will develop plan to restore	Yes	47%
Peoria	Yes- annual budget & audit	Yes- to maintain credit rating, meet shortfalls	Yes- 24% of annual operations	Yes- 3 months	Yes- 24% of annual operations	No- specifies how surplus MAY be spent	No	Yes- if falls below 24%, County shall rebuild the balance within 1 yr.	Yes	20%
Rock Island	Yes- Annual Budget	Yes- to guard against service disruption due to unexpected revenue shortfall or unpredicted	Yes- 20% of annual expenditures	Yes-slightly more	Yes- 20% of annual expenditures	No	No	Yes- acknowledge ok to fall below and may take time to rebuild	No	12%
Tazewell	Yes- statement in annual audit	No	Yes-33% of projected expenditures	Yes- 4 months	Yes- 33% or 4 months	No	No	No	Yes	71%
Vermilion	Yes- annual budget	No	Yes	Yes	25% of annual appropriation	No	No	No	No	77%
Will	Yes- statement in annual CAFR	No	Yes-25% (3 months of operations)	Yes- 3 months	22%	Yes- if exceeds 26% Finance Committee shall recommend	No	Yes- if falls below 22%, Finance Committee will recommend corrective action	No	28%

Note: * GFOA Recommended

As shown in Table 3, nine counties (Carroll, Champaign, Cook, DeKalb, Douglas, Kane, Kankakee, Kendall, and McHenry) have identifiable formal unreserved reserve fund polices either through fiscal policy statements or via published board resolutions or ordinances per the recommendation of the GFOA. The remaining nine counties (DuPage, Jo Daviess, Lake, Macoupin, Peoria, Rock Island, Tazewell, Vermillion, and Will) have formal policy statements published in annual budgets, financial plans, or audits.

In reviewing the 18 counties with a formal statement, 15 (Carroll, Champaign, Cook, DeKalb, Douglas, DuPage, Jo Daviess, Kane, Kankakee, Kendall, Lake, Macoupin, McHenry, Peoria, and Rock Island) have language explaining the need for the fund per the recommendations of the GFOA. This equates to only 15% of Illinois counties having adopted an unreserved/unassigned reserve fund policy or statement to explain the need for the fund in accord with GFOA guidelines. Moreover, 14 counties (Carroll, Cook, DeKalb, DuPage, Jo Daviess, Kane, Kankakee, Kendall, McHenry, Peoria, Rock Island, Tazewell, Vermillion and Will) have language that meets the GFOA recommendations of specifying a reserve fund balance of two months or more of operating revenues. This leaves us with four counties (Champaign, Douglas, Lake, and Macoupin) with policy statements failing to meet the minimum reserve fund threshold of no less than two months of operations. Thus, we find that only 14% of Illinois counties meet GFOA guidelines with a formal policy to hold at least two months of operating revenue in reserve. When it comes to policy language regulating how the unreserved reserve fund is to be spent, only four counties (Jo Daviess, Kankakee, Lake, and Macoupin) include language regulating expenditures per GFOA guidelines, however 10 counties (Carroll, Champaign, Cook, Douglas, Kankakee, Kendall, McHenry, Peoria, Rock Island, and Will) have language built into

policy statements specifying how the unreserved reserve fund is to be replenished if funds fall below the minimum balance expended per GFOA guidelines. It is noteworthy that only four counties out of 18 or 4% of Illinois counties have an unreserved/unassigned reserve fund policy or statement adopted language that regulated how the unreserved/unassigned reserve fund could be spent in accord with the recommendations of GFOA guidelines, while 10% of Illinois counties adopted language that specified how the reserve fund was to be replenished per the recommendations of the GFOA guidelines.

Further analysis found that six Illinois counties (Cook, Kankakee, Lake, Macoupin, McHenry, and Will) in the sample of those with some GFOA unreserved reserve fund policy language, adopted language placing a cap on the **maximum** amount that may be accumulated in the unreserved reserve fund. The maximum reserve fund cap ranges from no more than two months of reserves (Cook County) to no more than seven months per Kendall County. Thus, it is surprising that only 6% of all Illinois counties adopted some type of regulatory language placing a cap on the maximum amount of tax dollars that that may be accumulated in an unassigned/unreserved reserve fund.

To understand why certain counties adopted unassigned/unreserved reserve fund policies or statements, we examined whether those counties had professional county administrators. Of the 18 counties with an unreserved/unassigned reserve fund policy or statement, eight, or almost half, (Champaign, DeKalb, Jo Daviess, Kendall, Lake, McHenry, Peoria, and Tazewell) operated with a professional county administrator. Statewide, there are 24 counties that have a professional county administrator. Therefore, it does not appear that by hiring a professional county administrator a county is necessarily more likely to adopt an unassigned/unreserved reserve fund policy. Lastly, when it comes to the form of county government, commissioner vs.

non-commissioner, all 18 (Carroll, Champaign, Cook, DeKalb, Douglas, DuPage, Jo Daviess, Kane, Kankakee, Kendall, Lake, Macoupin, McHenry, Peoria, Rock Island, Tazewell, Vermillion, and Will) with an unreserved/unassigned reserve fund policy or statement operate in a non-commission form of county government. Given there are 102 counties that may choose what form of government for which to operate, it is noteworthy that 100% of Illinois counties that adopted an unreserved/unassigned reserve fund policy or statement operate in a non-commission form of government.

To deepen our analysis, we ranked the 102 Illinois counties and pulled out the 18 counties with an unassigned/unreserved reserve fund policy or statement by five variables: population, per capita income, median household income, unreserved fund balance, and unreserved balance as a percent of total annual expenditures as presented in Table 3. When reviewing state population by county, the top six counties in population (Cook, DuPage, Lake, Will, Kane, and McHenry) account for 65% of the total Illinois population as of 2010 census; and these all have an unreserved reserve fund policy. When we expand this ranking, 15 out of the 18 counties (Champaign, Cook, DeKalb, DuPage, Kane, Kankakee, Kendall, Lake, Macoupin, McHenry, Peoria, Rock Island, Tazewell, Vermillion, and Will) account for 69% of the total Illinois population and have an unreserved reserve fund policy. Thus, the higher the county population, the more likely it is to have an unreserved reserve fund policy.

Table 3.

Illinois Counties Rankings with Fund Balance Policies and Statements

County	Population	Per Capita Income	Median Household Income	Unassigned Fund Balance	UFB as Percent of Total Annual Expenditure
Carroll	75	22	48	58	41
Champaign	10	35	64	23	77
Cook	1	9	18	1	88
DeKalb	20	41	23	18	58
Douglas	58	74	35	76	72
DuPage	2	2	2	2	31
Jo Daviess	54	17	30	29	26
Kane	5	7	7	3	19
Kankakee	18	55	34	96	102
Kendall	16	5	1	8	17
Lake	3	1	3	6	71
Macoupin	32	51	36	40	52
McHenry	6	3	4	5	33
Peoria	12	12	37	15	67
Rock Island	14	26	47	37	81
Tazewell	15	15	15	7	16
Vermillion	21	85	82	14	14
Will	4	6	5	4	59

Sources: (Census, 2016) and (Services, 2013).

The per capita income variable ranking shows that the top 5 out of 6 counties (Lake, DuPage, McHenry, Kendall, and Will) have an unreserved reserve fund policy. If we expand this ranking slightly, the top 10 out of 17 counties (Cook, DuPage, Jo Daviess, Kane, Kendall, Lake, McHenry, Peoria, Tazewell, and Will) in per capita income have an unreserved reserve fund policy. Thus, just like our population variable, the higher the county per capita income, the more likely a county is to have an unreserved reserve fund policy.

When we looked at Illinois income data by household, we found similar results as with per capita income in that 16 of the 18 counties (Carroll, Cook, DeKalb, Douglas, DuPage, Jo Daviess, Kane, Kankakee, Kendall, Lake, Macoupin, McHenry, Peoria, Rock Island, Tazewell, and Will) with an unreserved reserve fund policy are in the top 50% of county rankings. Again, the higher the county median household income, the more likely the county is to have an unreserved reserve fund policy.

Similarly, we expected to find that the county with larger unassigned/unreserved reserve fund balance would also be more likely to have a formal reserve policy. Not surprising, eight out of the top nine counties (Cook, DuPage, Kane, Kendall, Lake, McHenry, Tazewell, and Will) with the largest unreserved/unassigned reserve fund balances adopted a reserve fund policy. As expected, the higher the unreserved reserve fund balance, the more likely that county is to have an unreserved reserve fund policy.

However, when we ranked all 102 counties by unassigned/unreserved reserve fund balance as a percent of total annual expenditures, our expectations did not hold. No county with an unreserved/unassigned reserve fund balance equal to or greater than 80% or more of annual operating expenditures had an unreserved reserve fund policy. Of the 18 counties with unreserved/unassigned reserve fund policies, the average balance equaled 35.7% of total annual expenditures for all counties. This contrasts with average balance of 38.7% of the total annual expenditures for the remaining 84 counties with unreserved/unassigned reserve fund but no formal policy or statement. Therefore, it appears that the higher the unreserved/unassigned reserve fund balance as a percent of annual expenditures, the less likely a county is to have an unreserved reserve fund policy.

Based on these observations, we further assessed these antecedents of county adoption of an unreserved fund balance policy by estimating a logistic regression equation. The dependent variable for the analysis was whether a county had a general fund unreserved fund policy. The independent variables for the analysis were 2015 estimated county population, 2015 estimated median family income, ideology (percent of the vote for Clinton in 2016), general fund unreserved fund balance as a proportion of total expenditures (2015), and the type of county government form. Based on what the analysis has shown so far, we expect that population will affect policy adoption positively. We also expect wealthier, more liberal counties will have a policy. There appears to be some findings to suggest that the form of government affects local government financial administration (Desantis and Renner, 1994; Marlowe, 2005; Stewart, 2011). Svara (1998), Marlowe (2004), and (Stewart, 2011) caution that reformed local government impacts may be difficult to disentangle as reform structures generally exhibit hybrid characteristics tempering progressivism with political accountability. While professional administrators may be on point where policymaking is concerned, elected officials tend to impact implementation of policy and its administration regardless of the type of structure.

Similarly in Illinois, the more progressive township government form supersedes the traditional, commission county government form (Banovetz and Peters, 2006). It is expected that its impact will also be positive. Finally, the preceding analysis argues that counties with larger proportions of fund balances unreserved will be less likely to have a policy. Two counties did not post CAFRs so there are 100 cases. The results are presented in Table 4.

Table 4.

Logistic Regression Predicting County Adoption of Unreserved Fund Balance Policy

Variable	Odds Ratio	Standard Error
Pop Est 2015	1.00*	.0000
Med Income	1.00**	.0000
Ideology	1.15***	.0598
Township Govt Form	4.30	4.07
Unreserved Fund as a % of Expenditures	2.06	2.37
Constant	.00001**	.000005
N=100		
LR chi^2 (5) = 44.21		
Prob > chi^2 =.0000		
Pseudo R^2 = .47		
Log Likelihood = -25.032		
* p > .10 ; ** p > .05; *** p > .001		

The overall model performs well with Chi^2 = .0000 and the pseudo R^2 = .46. Two of the variables are positive and statistically significant at the .05 level (i.e., income and ideology) and population is significant at the .10 level. We expected that township county fund balances would be more transparent – township counties as opposed to commission ones would be more likely to have policies for unreserved funds. The sign of the variable distinguishing township commission counties is positive as expected but at .12 just misses statistical significance. Unreserved fund levels as a proportion of total expenditures are not statistically significant when considering the other variables. Therefore, the findings for the most part confirm our initial expectations. Larger, wealthier counties are more likely to have a policy, as are counties that are more liberal. **The other counties in Illinois, especially the mid-sized, and even the smaller and more rural counties may well want to consider the advantages of adopting unreserved fund level policies, and certainly county officials in all Illinois counties would be prudent to pay close attention to the levels of funds available in these fund accounts.**

4. Discussion and Conclusion

This comprehensive state analysis sheds some light on the types of Illinois counties that adopt formal unreserved reserve fund policies. Even though this comprehensive review of all 102 counties in Illinois is relatively large, only a small number, 18 counties (18%) actually have unreserved/unassigned reserve fund policies or statements. The operation of 18% of Illinois counties adopting formal policies needs to be further reviewed and compared to other states. This finding should also be compared to longitudinal data to identify if there is progress or stagnation in the adoption of such policies in Illinois. For example, it would be interesting to learn if the adoption of a formal policy results from an audit finding, the demand for transparency by taxpayers, from past questionable expenditures, or from unplanned emergencies. **This information may be helpful for the GFOA as it seeks to improve transparency and for bonding agencies as they seek dedicated revenue sources.**

It is significant to note that only one county in the 102 Illinois county sample complies with all five of the GFOA recommended unreserved reserve fund policy recommendations, thus only 1% of Illinois counties completely comply with GFOA guidelines. This observation includes even some counties with a professional county administrator failing to adopt all the recommended policy language that regulates expenditures. Of particular note, only four counties out of 102 (4%) address how the unreserved reserve fund is to be spent, while 10 counties have adopted language for how it is to be replenished through formal policy. This observation could be a function of county officials and administrators not wanting to limit themselves on how to expend the funds nor bind themselves to having to rebuild the fund, but this research is

inconclusive. **Future research may wish to address that reluctance or make recommendations to improve compliance for transparency and accountability.**

Of the 24 Illinois counties with a professional county administrator (out of our sample of 102 total Illinois counties), eight adopted formal unreserved reserve fund policies. This observation contrasts with those Illinois counties without a professional county administrator adopting a formal policy by a ten to eight county ratio. Thus, in our sample, only 1/3rd or 33% of professionally managed counties adopted formal unreserved reserve fund policies. By contrast, this means that 2/3rds of professionally managed counties in Illinois have not adopted a fund policy or statement. **The findings suggest that professionally managed counties are less likely to adopt formal fund policies than counties without such professional management and guidance. Masters of Public Administration programs may wish to include training to address the need for reserve fund policies and how to develop and implement these policies.**

In a similar finding, 100% of the counties that adopted some type of unassigned/unreserved reserve fund policy or statement operated under a non-commission form of county government. Therefore, through further study, we may be able to assume that non-commission forms of governance are more likely to adopt formal fund policies than commissioner-governed counties. **This observation may assist the GFOA as it seeks to educate county governments in the need for formal policies by designing material targeting commissioners**.

One notable finding was that only six counties with a formal unreserved reserve fund policy or statement included language to set a maximum cap on the fund. This contrasts with recommended GFOA language to set a minimum balance of at least two months of operating cash, which equals 16% of the annual operations. In fact, 17 out of the 18 counties set some sort of minimum thresholds with 14 of those meeting the minimum two-month recommendation.

Future research may wish to address the need for maximum fund caps to improve public transparency and accountability and over guidelines and policy language. Future research also needs to ponder the impact that ideology has in our multivariate model and the implication this may raise for transparency and citizen participation in the budgeting process.

In relationship to the size of the county, it appears that counties with larger populations tend to have larger unreserved reserve fund balances and are more likely to adopt unreserved reserve fund policies. The top six counties in population (Cook, DuPage, Lake, Will, Kane, and McHenry account for 65% of the total Illinois population) are the same counties with the largest unreserved/unassigned reserve fund balances, all of which have an unreserved reserve fund policy. Population size and income are both positive and statistically significant variables in the multivariable model. **This observation may help associations such as GFOA and bonding agencies design and develop education and training workshops for smaller county governments to assist them with adopting formal unreserved reserve fund policies and thereby improving fiduciary responsibilities and accountability.**

Lastly, we noted that the higher the average reserve fund balance is in relationship to annual operating expenditures, the less likely that county is to have a formal unassigned/unreserved reserve fund policy. However, the variable is not statistically significant in the multivariate model. This contrasts with the finding that the higher the fund dollar amount the more likely the county is to have a formal policy. Although more research needs to be done to fully understand this relationship, it appears that a large cash balance may trigger greater audit scrutiny and the need for an unassigned/unreserved reserve fund policy, while those counties with smaller cash balances, but with a greater balance in relationship to annual expenditures, are able to avoid such

audit inquiry and retain fiscal flexibility. These are all interesting findings which should be useful for county and state level officials and to the relevant professional associations such as the GFOA as well as faculty in Master of Public Administration programs.

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Appendix 1

Map of the Counties in Illinois with Fund Balance Policies