

**MEMORANDUM
FINANCE DEPARTMENT**

TO: Thomas Thomas, City Manager
SUBJECT: Calendar Year End

Number: 013 - 14
Date: 08-14-13

Some Cities within the Illinois have changed from a fiscal year end to a calendar year end. Within the Quad City area, the City of Moline made this change in 2002 and the City of East Moline made this change this year. Staff has researched the effects of this change. Like any change, there are advantages and disadvantages for making this change. Staff has identified the following list of pros and cons.

Pros:

- Changing to a calendar year end coincides with the property tax levy setting process.
- By adopting the budget earlier, projects are bid earlier, thus saving significant amounts of money because contractors bid more competitively earlier in the season. The Village of Lombard recently made the change to a calendar year from a May 31st year end. Like the City of Moline, Lombard also identified this as an advantage and further commented that this will also provide better lead time for planning projects for the spring and summer months.
- Reports published by some City Departments, such as Public Works, Fire, Police, and Community Development for public information are based on calendar year. Changing to a calendar year will simplify the data collection process.
- Motor Fuel Tax audits conducted by the State of Illinois are based on calendar year; therefore, it will be easier for staff to comply with the audit process.
- Annual W-2 and 1099 tax forms, which are based on a calendar year, will coincide with the City's fiscal year.
- Health insurance deductibles are based on a calendar year. Converting to a calendar year would be less confusing for employees.
- Most, if not all of the construction projects will be completed and paid in full by December 31st. This has eliminated the need for reviewing projects to determine Construction in Progress and Retainage Payable at year end.
- There is a one-time benefit with property tax levy in that a full year of levy will support a shortened nine month budget year.

Cons:

- Changing to a calendar year can make the tax levy more confusing because the tax levy recommendation and final operating budget will be reviewed at the same time. With our current fiscal year, we are able to adjust our levy in March after the County provides us with the final property valuations. This means if the valuations go down, and we want to keep our rate the same, we can adjust the levy to keep this same rate. In December, the valuations are still preliminary.
- The City's union contracts are based on a fiscal year beginning April 1 to March 31. As these contracts expire, it will be more convenient to change these to coincide with the City's calendar year fiscal year. Until then, there will be a difference in the application of some benefits, such as pay increases.
- The City will have to pay for one nine month audit in order to get us on a calendar year audit schedule. Our current auditing firm, Bohnsack and Frommelt, LLP, has agreed to honor their pricing for this stub period.
- Calendar year end is a common year end, particularly for for-profit corporate entities. As a result, our audit fees would most likely increase due to the increased demand.
- For the first year, it will be difficult to conduct an analysis comparing revenues and expenditures

from one year to the next due to the shortened fiscal year.

- The initial change will present some challenges for those processes that are currently tied to the City's fiscal yearend and will need to be converted to the new calendar year end. This includes such things as:
 - The Health Insurance Committee in setting health insurance premiums.
 - The setting of inter-fund self-insurance premiums.
 - We need to address employee leave time usages for vacation, personal, bonus and comp as it relates to carry over to the new fiscal year.
 - The payment of tuition reimbursement, which is included in some union contracts.
 - Insurance Open enrollment
- Since Block Grant dollars are not finalized until later in the year, we will be operating for approximately nine months using estimated amounts.
- Software costs will be incurred to make necessary revisions to the City's current software packages. This is estimated at \$15,000.

Recommendation: City Council approve changing the City's year end to December 31 and (1) direct the City Attorney to prepare an ordinance changing the City's yearend to December 31 and (2) direct staff to adjust future contracts to reflect the new year and (3) authorize a budget adjustment of \$15,000 for software changes.

Submitted by: Cynthia Parchert, Finance Director

Approved: Thomas Thomas, City Manager