October 3, 2016

Honorable President Demos and Village Board of Trustees
Village of Glen Ellyn

Subject: Budget Transmittal for Fiscal Year 2017—Recommended Draft Budget

Introduction

Transmitted with this letter is the recommended draft budget of the Village of Glen Ellyn for Fiscal Year 2017 (FY17), which runs from January 1, 2017 through December 31, 2017. This document presents a comprehensive look at major financial and non-financial goals and priorities for the Village both from a near-term as well as long-range perspective. This document, in many ways, acts as the corporate plan for the Village over the next twelve months. The budget formation was again conducted through a zero-based budget process. The FY16 budget process required all departments to justify all line items and summarize the need for all expenses incorporated in their respective department budgets.

The budget consists of 16 different funds, many summarized below. The General Fund continues to be a main focus and is in balance with a small operating surplus of $2,823. This operating surplus is before a transfer of $300,000 from the General Fund to the Capital Projects Fund. This purpose of the transfer is to allocate forfeiture dollars to the Capital Projects Fund to fund the Police Station project.

The Capital budget includes projects that have been conceptually approved by the Village Board: completion of the Police Station and the Taylor Street underpass. General street work, CBD street and streetscape, purchase of a ladder truck for the Volunteer Fire Company, and other projects are included consisting of an overall capital budget of $28.3 million.

By keeping the General Fund spending in line, keeping pace with aging infrastructure replacement and maintenance, the Village is able to maintain service levels and invest in the community in a responsible way. During this process, we spent considerable time shaping and refining the budget plan to meet the community's demand for high quality services while delivering these services in an efficient and economical manner.

Background (Financial Scorecard and Five Year Forecast)

In order to provide context for the merits and challenges of the Village's financial standing as the Village prepares its budget for Fiscal Year 2017, it is important to review the highlights of the Village's Scorecard and Five Year Forecast. The Scorecard compares and contrasts the Village's financial performance to its peers. In the Scorecard, the Village was identified to have a strong financial position with less debt and lower pension liabilities than its peers. The Village was also shown to have lower spending for fire, police, and administration as compared to the peer group.

The Village also fared well in its ranking for property taxes going to the Village/Library for a median value home. The Scorecard did underscore the need for the Village to stimulate economic development to increase the non-residential property base. Increasing the non-residential property tax base would shift the property tax burden from the residential properties and may also increase sales tax and home rule sales tax revenues to the Village.

In contrast to the Scorecard which looks at current and historical trends, the Five Year Forecast is a look into the Village's financial future. It is important to note that the Five Year Forecast is not a prediction of the future; it is a financial model for the Village to identify and understand potential imbalances in revenues and expenditures in order to take strategic action to mitigate those imbalances. The Five Year Forecast identified that the General Fund revenues are growing at a slower rate than General Fund expenditures. Revenues are forecasted to grow at 3.0% while expenditures grow at 4%, which creates a forecasted imbalance in the General Fund. Personnel costs, including salaries, FICA, health insurance, and pension costs are the majority of expenditures in the General Fund (68% of General Fund Expenditures). Personnel costs are projected to increase 2-6%, depending on department, over the next five years. Also, the Five Year Forecast provides a warning with respect to unfunded pension liabilities estimated at over $20 million at the end of FY2017. The contribution required to the Police Pension Fund is estimated to grow by 5-18% over the next five years, due to anticipation of decreasing the investment return assumption. Increasing this contribution will put substantial pressure on the General Fund and will make providing a balanced General Fund budget each year increasingly difficult. A presentation of the Village's Five Year Forecast can be found in the FY2017 budget appendix.

Budget Guidelines, Discussion Topics and Challenges

Total recommended budget (net of interfund transfers) is $67.8 million, about $0.3 million less than the FY16 revised budget (less than 1% decrease). The FY17 proposed budget projects an overall net deficit of about $13.2 million overall. This is due to timing of the police station project. The Village issued $13.5 million in General Obligation Bonds in FY15, which creates an estimated surplus of $13.8 million for FY15. The majority of the payments for construction will occur in FY2017 (approximately $10.4 million of the facility's $13.5 million cost) and thus the costs will be realized in FY17.

Budget Guidelines: Management developed the budget under the following guidelines:

- General Fund Balanced budget – The General Fund must be balanced, on an operating basis, whereas other funds might be out-of-balance based on capital investment and timing of projects, provided we follow the long-range capital plans.
- Cash Reserves – Maintain the same cash reserve policy. The General Fund policy is 30% of operating expenditures for FY17, increasing by one percentage point per year up to 35%. Water and Sewer Fund cash reserve policy will increase to $2.214M with a 0.9% CPI increase. For certain other funds, the policy calls for cash reserves of at least 25% of operating costs.
- Special service areas for economic development – Rate will remain the same at 12.5 cents per $100 of EAV.
- Home Rule Sales Tax – Home Rule Sales tax rate will remain unchanged.
- Personnel Costs - These costs are the largest expense for any municipality, so we pay special attention to all components of personnel. We continue to be one of the lowest users of full-time employees per capita in DuPage County. Job sharing and the utilization of seasonal employees and part-time employees allow us to control health insurance and pension costs.
  - The Facilities Maintenance Division includes the recent decision to hire a full-time Maintenance Worker to meet the demand of aging Village facilities and help manage the construction of the new Police Station, renovations of the Civic Center and to account for the added services being provided to the Fire Company, Historic Center over the last few years. The division is also budgeting to add another part-time Custodian to provide services at the new police station. This position is only budgeted for four months of FY17 to coincide with the opening of the new facility.
  - Over the next two years, the Public Works department will see the retirement of several key employees. Management is actively structuring succession plans for those positions.

- In addition, we continue to see some turnover and vacancies in many department budgets. These savings and the sixth year of below-market health insurance cost increases, has allowed us to beat the Five Year Forecast projections again.

- The current police contract was extended for two years, providing for a 3.0% cost-of-living adjustment in November 2016 and a 2.75% increase in November 2017. The recommended budget for other non-sworn Village employees includes a compensation merit pool of funds based on the same 3.0% increase. The Village is in the third year of a merit based pay system that allows Management to establish a scale and reward top performers more effectively. The FY2017 budget does include a .7%increase to the pay range scales in line with CPI. In the current year, additional categories have been added at the low end of the scale to accurately classify the Village Links/Reserve 22 employees.

- Capital improvement plan (CIP) – Management has updated the Five Year CIP, which is included in the budget document. The Village issued debt in 2015 to fund a new Police Station and Lake Ellyn stormwater improvements and will continue funding other capital projects on a pay-as-you-go basis.

  Unfunded/Unbudgeted projects include pedestrian bridge and train station improvements, vehicular underpass, fire station improvements, Civic Center improvements and potential downtown parking garage (likely as a public/private partnership). The Village, with the direction of the Board, will need to determine if and how these projects will be factored into the Fiscal Year 2017 budget.

Discussion Topics for the Fiscal Year 2017 Budget Process. In addition to the background presented on the Scorecard and Five Year Forecast, Management feels that several items are important to communicate regarding the Fiscal Year 2017 budget:

- *Property Tax* – Typically, the Village voluntarily abides by the tax caps laws, meaning the Village historically increases the tax levy based on the lesser of CPI or 5%. In 2014, the Village Board did not increase property taxes towards the General Fund or the Capital Improvement Plan budget. In 2015, the Village Board only increased the levy to account for new growth/annexations, but did not increase the levy for a CPI factor. This created a savings of $213,500 to the taxpayers. The current budget includes a 0.7% growth factor for CPI and a 1.1% growth factor for new construction and annexations. The 0.7% is the CPI growth factor that is set by DuPage County. The 1.1% growth factor includes 0.1% for annexations and 1.0% for new construction. The annexation amounts were based on the most recent assessment data. For new construction, last year, the Village Board opined that the levy should be based on known growth from the prior year rather than estimate a growth factor for the current year. The levy was prepared with this approach to new construction. Management is recommending that the levy be increased by CPI for the FY2016 budget for the following reasons.
  - In order to meet the debt service and continue to fund the community's capital needs, the capital levy should be increased. The Police Station and stormwater improvements benefit the entire community as does the Capital Fund overall and should be increased at the rate of inflation to meet our obligations.
  - Given the pressures local governments are under with the State and a possible reduction in income tax and possible property tax freeze, increasing the tax levy 0.7% for CPI is an incremental step towards meeting the challenge of balancing the General Fund budget annually.
  - The Five Year Forecast highlights that the growth of revenues is forecasted to meet the Village's growing expense needs. Increasing the property tax by CPI is a very small measure to ensure that this gap does not widen.

- *Fire Services Fee* - The Village Board approved a new fire service fee that went into effect on May 1, 2014 that has sustained the volunteer model for the community. When it was approved, there was discussion about how the capital needs of the Fire Company, *i.e.*, apparatus and facilities, were not fully addressed with the projected revenue. In addition, the Village had to exclude a portion of town, east of I-355, from the fire service fee because they are served by the Lombard Fire Department through a contract with a small "paper" Fire District. Therefore, the Village Board may want to consider an increase to this fee to meet some of the capital needs of the Fire Company.
- *Water and sewer rates* – In 2013, in response to increased rates from the City of Chicago and DuPage Water Commission, the Village formulated a multi-year plan to cover the increased costs, maintain our facilities and infrastructure and build cash reserves to an appropriate level. In FY2016, due to strong reserves in the Water & Sewer Fund, rates were not increased. Management will be presenting a water/sewer rate analysis at a future Village Board meeting over the next few months and will propose any changes to the budget necessary at that time. Currently, a 1.5% rate increase is contemplated for FY2017.
- *Unbudgeted and Unfunded Capital Plans* – See above for list of Unfunded/Unbudgeted positions
- *Cost Control and Evaluation* – Service modifications or eliminations over the last few years include:
  - Health Insurance Pool
  - Eliminated Community Grants and eliminated separate Economic Development Corporation
  - Shifted legal in-house and consolidated Village Clerk operations
  - Shifted to a turnkey EMS Operation
  - Reduction in Force (RIF)-15 full-time positions in last 10 years (12% of workforce)
  - Shifted towards outsourcing GIS model
- *Changes/Initiatives for FY17* –
  - Implementing administrative adjudication for certain violations
  - Parking fund evaluation and automation
  - Overall fee/fine analysis throughout organization include building permits, parking permits, parking fines, etc.
  - Implementing online options for certain permits

Challenges/Opportunities:

1. State of Illinois: The State of Illinois continues to mismanage its finances and this has a potential to impact local governments. As the State of Illinois budget impasse continues, the potential property tax freeze and potential reduction of Local Government Distributive Fund (LGDF) will apparently not be determined leaving municipalities with a great deal of uncertainty. Building reserves and controlling costs in preparation for state decisions has been the Village's response to this. Management will continue to monitor this situation closely and take action through the DuPage Mayors and Managers Conference (DMMC) and Illinois Municipal League (IML) as necessary.

2. Pension Liability: See Pension summary below.

3. Unfunded/Unbudgeted CIP Projects
   - Fire Station(s) improvements
   - Train Station and pedestrian bridge & Vehicular Underpass
   - Civic Center improvements

- Downtown Parking Garage-Potential

General Fund

As with other municipalities, the majority of General Fund costs are borne by the largest departments of Police and Public Works, as well as providing services to the Volunteer Fire Company including ambulance services. When totaled, these three departments make up 72% of General Fund expenditures. The expenditures in our General Fund are dominated by salaries, pensions, and benefits (68%). The Village of Glen Ellyn has a diverse revenue stream; however, much of the revenue base is derived from sales and home rule sales taxes, income tax, and property taxes (66%). The recommended General Fund budget includes a $2,823 operating surplus before a transfer to the Capital Projects Fund. The FY2017 budget includes a $300,000 transfer from the General Fund to the Capital Projects Fund. This is to transfer Federal Forfeiture Dollars which are collected in the General Fund, to the Capital Projects Fund to fund construction of the police station. The Village Board allotted $1.2 million in Federal Forfeiture dollars to be designated to the police station. Management is budgeting to transfer the first $300,000 in FY2017 and continuing to transfer $300,000 per year until the full $1.2 million is transferred. Below is a comparison of the FY2017 budget to the FY2016 original budget

(in thousands)	FY16 Budget	FY17 Budget	Difference	Percent Change
Revenues*	$17,275	$17,940	$665	3.9%
Expenditures*	$17,272	$17,938	$666	3.9%
Transfer out to Capital Projects Fund*	$0	$300	$300	
Net*	$3	$(298)	$(301)	

**In thousands*

The increases in revenues are driven by an increase in sales tax (5.0%) and income tax (5.5%). Sales tax has grown 4-6% over the last three years and income tax has grown by 6-11% over the past 5 years. A small decline will be noted in income tax in FY2016 as many income tax filers received refunds in April 2016. The Illinois Department of Revenue cited this was due to many employers not updating their payroll systems to reflect a reduced Illinois income tax rates. Cable Franchise Fees are also anticipated to increase by 12.7% as current year taxes are trending well above the budgeted amount.

Expenditures are budgeted to increase by 5.6%. The chart below by category highlights the changes from the prior year budget:

(in thousands)	FY16 Budget	FY17 Budget	Difference	Percent Change
Personnel Services	$9,558	$9,704	$146	1.5%
Contractual Services	$3,236	$3,356	$120	3.7%
Commodities	$226	$235	$9	4.0%
Capital Outlay	$163	$192	$29	17.8%
Transfers Out	$4089	$4,751	$662	16.2%

Transfers Out represent the largest increase for the General Fund. Included in this amount is an increase to the transfer to the Police Pension Fund of $321,000. The second transfer of $300,000, as mentioned before, is a transfer to the Capital Projects Fund of Federal Forfeiture dollars for the Police Station.

- **Village Operations** make up 63% of the total budget for all funds in FY17. Operating costs typically are associated with the provision of day-to-day basic Village services. This includes all staffing costs, various contract and consulting services, the purchase of a number of materials and commodities, and expenditures related to the maintenance of Village owned assets and rights of way. Some examples of Village operating expenditures/expenses include:
    - Police and fire protection
    - Purchase of Lake Michigan water
    - ED Awards
    - Volunteer Fire Company support
    - Golf course maintenance
    - Street sweeping
    - Tree planting, maintenance, removal
    - Parking facilities
    - Employment benefits
    - Police and fire dispatch services
    - Treatment of sanitary sewage by the Glenbard Wastewater Authority
    - Weekly garbage pick-up
    - General, liability, property and workers compensation insurance
    - Snow and ice control
    - Water and sewer system maintenance
    - Pavement patching, line striping, and roadway signage
    - Ambulance service contract
    - Retirement benefits administration (Police Pension Fund)

  In many ways, these costs are non-discretionary, if we want to maintain the same level of services we currently provide. The discretionary portion of the budget: materials, dues and subscriptions, training, supplies, uniforms, postage, etc., has remained flat for many years which limits our ability to control overall costs.

- The Village continues to proactively seek economic development opportunities to increase sales tax revenues and create vibrant and diverse commercial districts. The Village established two TIF districts and enhanced the Award program. This year, Management is recommending utilizing $125,000 in TIF funding to support these award programs. In addition, the General Fund will continue to support $30,000 of requests in non-TIF areas. Overall award funding will be increased by $25,000. Given the new Fire Alarm program as well as increased commercial activity, Management believes this increase is necessary.

- The General Fund budget required a number of cuts in order to bring it into balance with projected revenues. At the time we developed our first revenue estimates and received our initial budget submissions from department directors, the preliminary General Fund budget was out of balance by approximately $472,000. By working with departments to decrease budgets and reviewing revenues, this budget gap was eliminated.

Water and Sanitary Sewer Fund

From 2011 to 2015, the Village experienced rate increases due to a 115% increase in the cost to purchase water from the DuPage Water Commission. In FY2016, the Village did not increase rates. The proposed budget includes a 1.5% increase in water and sewer rates, based upon the rate analysis conducted for the Five Year Forecast. Management will update this analysis for rate discussions that will happen in late Fall. The Water/Sewer Fund continues to include capital replacement of infrastructure assets. This capital investment is closely correlated to the level of street infrastructure improvements funded through the Capital Projects Fund. The Five Year Capital Improvement Plan (CIP) has been updated and is included in this draft budget.

Village Links Reserve 22 Fund

The Village Links/Reserve 22 Fund continues to be a self-sustaining enterprise fund. The restaurant operations have been restructured and repositioned to capture a new customer base and well as continue to support the existing customers. FY2016 has seen a growth in banquets, a key component in growing Reserve 22. We are budgeting $2.475 in revenues for Reserve 22 with expenses of $2.177. Overall, we are budgeting $5.5M in revenues and $5.4M in expenses.

Pension Fund

The Finance Commission has worked with the Pension Board to develop some long-term strategies to address the growing pension cost liabilities. By identifying some modifications to the assumptions, the Village can begin to see the benefits of compound growth and is slowly addressing the problem. The following recommendations are incorporated into this draft budget:

- Set the assumption for long-term investment at 6.5% (down from 6.75%) with the goal of getting to 6.0% (6.25% if the Pension Board maximizing their investment options) over the next three years.
- The FY17 budget dedicates $1,613,000 to the Police Pension Fund an increase of $321,000 over FY16. The continued increasing cost of this pension contribution continues to put pressure on the General Fund. The increased contribution in FY2017 forced reductions in other areas of the budget.

Conclusion

The Village of Glen Ellyn's FY16 recommended budget sustains the Village's current level of services, increases funding for pensions, increasing funding for Facilities Reserves, and increases funding for economic development. Striking the right balance between service levels and taxes to pay for those services is debated and decided during the budget process. This process, allocating scarce resources and prioritizing programs and projects, is difficult each year because the demand for municipal services often exceeds the revenues available to pay for those services. We are pleased that the recommended budget continues to be balanced despite the potential challenges cited in our Five Year Forecast. We hope to continue to surpass these projections to ensure we keep balanced annual budgets, invest in our infrastructure, and add to the overall cash reserves in various funds. Strong cash reserves protects the Village from unforeseen emergencies and strengthens our bond rating and overall financial position.

In closing, I wish to extend a thank you to everyone for their hard work in preparing the FY17 budget. The development of the budget could not take place without the commitment and cooperation of many Village employees. Many Management employees actively participate in developing and reviewing budget information which leads to an award-winning budget document for the past 20+ years. Management will continue to find ways to improve efficiency and control costs and work diligently to bring the FY17 in under budget.

I would also like to thank the Village Board for their responsible and progressive manner in which it conducts the fiscal affairs of the Village. Difficult budget decisions are made each year during the budget process, but those decisions are critical in that they provide a game plan for what level of municipal service the Village can provide. The understanding, cooperation and resourcefulness of everyone helped to strengthen this year's budget process. We look forward to working with the Village Board in implementing the initiatives outlined in this budget.

Respectfully submitted,

Mark Franz
Village Manager

Christina Coyle
Finance Director