May 1, 2006

Honorable President and Board of Trustees
Village of Glen Ellyn

Subject: Village Manager's Budget Message for FY 2006/07

Transmitted with this letter is the adopted budget for the Village of Glen Ellyn for fiscal year 2006/07, which begins May 1, 2006. This budget represents the end of a preparation process that began last November with the Village Board's adoption of the annual property tax levy. Two special Village Board workshops were held to discuss the proposed budget, plus a public hearing and public presentation of the proposed budget on March 27, 2006.

The total net expenditure budget for FY06/07 is $46,845,000. The total budget is made up of 15 individual "funds", each having a specific purpose and providing specific functions or services.

A brief, one page summary of the 2006/07 fiscal year budget "at a glance" identifies major sources of funding and scheduled programs and services and can be found on page 2 of this document.

BASIC BUDGET OBJECTIVES

During preparation of Village budgets, certain basic objectives are followed. These objectives are outlined below:

1. The budget is much more than columns of numbers and figures. Through the addition of substantial narrative, charts and footnotes, we strive for a document which is intended to assist the reader in understanding how and from where revenues are received, how they are spent, and what types of services and projects are delivered to the public.

2. Reliance on property taxes is minimized. Of the $46.8 million net budget, $5.3 million or 13% will be collected from property taxes. A total of $3.1 million, almost 60% of the total property taxes collected, will pay off capital improvement bonds approved by voter referendum in 1987 ($15 million) and 2000 ($18 million). These various bonds will be paid off beginning in 2007, with final ones in 2013. The remaining $2.2 million, or 40% of total property taxes, will be used to partially support the daily operations of the Police Department budgeted expenses for FY06/07.

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This year, the Village Board continued its commitment to minimizing property taxes in Glen Ellyn by abating a total of $500,000 in bond principal and interest payments in February, 2006. This continues a long-standing commitment made by a prior Village Board to abate (not levy or collect) a total of $10 million in principal and interest on bonds issued in 1987, 1988 and 1989 prior to voter-approval of the $15 million 1987 street, water, storm sewer improvement bond referenda. To date, a total of almost $9.8 million in property taxes have been abated or taken off of the tax rolls over the past 19 years. Our Fiscal 2006/07 budget provides for the continuation of this abatement.

The Village Board furthered its commitment to minimizing the use of property taxes by approving an additional property tax abatement/reduction of $200,000 in February, 2006. This abatement marks the second consecutive year in which property taxes collected by Village government will be reduced. Total property tax dollars received by the Village in 2006 will be less than in each of the last two years.

Two years ago in 2004, the Village's portion of all property taxes paid by Glen Ellyn residents was 8.1%. As of late March, 2006, the DuPage County Clerk's office has indicated that this percentage will decrease to 7.3% of the total 2006 property tax bill (see page vii). More than 75% of all property taxes paid support elementary schools, high schools, and the College of DuPage.

3. The key General Fund budget is balanced so that planned expenses do not exceed expected current revenues. That is, recurring expenditures are paid from recurring revenues.

4. Adequate cash reserve levels are maintained. Village Board policy is to maintain a cash reserve for daily operating funds of no less than 25% of the operating budget. In the General Fund, this 25% is about $3.1 million. Assuming no extraordinary revenue losses or emergency expenses, it is expected that the General Fund cash balances will total about $5.9 million at the end of FY06/07, an amount equal to 48% of the operating expenses of the General Fund. Cash reserves provide a buffer for changes in cash flows, provide interest income, contribute toward the Village's high quality Aa2 bond rating, and protect against the unexpected that can happen with either income or expenses.

5. Enterprise Funds are self-supporting through their separate revenues/rate structures with no financial subsidies from other funds or property taxes. Enterprise funds, including Water/Sanitary Sewer, Recreation, Parking, and Residential Solid Waste, also pay the General Fund a service fee to pay for the costs of general administrative services such as accounting, personnel, and insurance.

6. Each staff position vacancy is carefully reviewed to determine possibilities for changing to part-time or elimination. The General Fund supports 76, or 70%, of our 108 full-time employees, including 48 in the Police Department, some public works staff, Planning and Development and Finance. Total full-time positions for FY06/07 have been reduced by 2. Since 1992, total full-time Village staff have decreased by 20 positions or 16% (see page viii). Glen Ellyn has the lowest ratio of full-time

employees to total population of all DuPage County municipalities having a population greater than 2,500.

7. Capital investment is a significant and ongoing part of the Village's annual budget. The Village recognizes the importance of maintaining a regular investment in its capital infrastructure assets (e.g. streets, storm sewers, water mains, sanitary sewers, sidewalks, public buildings and vehicles) so that these systems can be replaced, repaired or expanded as the need arises. Specific revenue sources have been specifically restricted for use in completing capital additions/replacements, ensuring that regular funding is available for capital and not entirely used for Village daily operating expenses.

REVENUE HIGHLIGHTS

1. The 2005/06 fiscal year ending April 30, 2006 has shown some positive results in terms of recovery in some of our key General Fund revenues.

    - Our receipt of **State-shared Income Taxes** have increased in FY05/06 by 12.0% compared to the prior fiscal year. We anticipate additional growth of 4.5% for our new fiscal year beginning May 1. Revenues from the State income tax represent 17% of total General Fund revenues.

    - **Interest income** earned on invested cash balances has begun to turn around during FY05/06 as the Federal Reserve has begun to gradually increase interest rates. Expected interest income for FY05/06 will be more than double the amount earned in our 2004/05 fiscal year. We remain conservative in our estimates of interest earnings, using a general interest rate assumption of 4.5% on invested cash balances for FY06/07. Even with this estimate, interest earnings in the coming year should increase by 15%.

    - Glen Ellyn's 1% local **sales tax**, which makes up nearly 25% of our General Fund revenue budget, has shown very little growth. As a result, we have projected FY06/07 revenues conservatively at an increase of only 1.75% over expected FY05/06 year end revenues.

2. The 2003 Capital Improvements Commission (CIC) Water and Sanitary Sewer Fund capital infrastructure study and recommendations included a water and sanitary sewer rate adjustment of 22.5% which was implemented on July 1, 2003 (15%) and May 1, 2004 (7.5%), with an additional adjustment of 5% effective May 1, 2006. These rate adjustments were recommended to pay for:

    - ✓ Water and sanitary sewer system improvements associated with the 20 year street and storm sewer improvement program.
    - ✓ Capital improvements resulting from our water system master plan (12/02), and sanitary sewer evaluation study (SSES) (12/02).
    - ✓ Increased operating costs of the fund (The Consumer Price Index has increased by 22% in the last nine years, the last time water and sanitary

sewer rates were increased).

We have deferred the recommended 5% May 1, 2006 rate adjustment due to the DuPage Water Commission wholesale water rate reduction of $0.20 per 1,000 gallons (a $200,000 reduction to our operating budget) which began May 1, 2005. This 5% rate adjustment will be likely needed on May 1, 2007 and is reflected accordingly in our long-term water and sanitary sewer capital plan.

An additional $1 per month flat fee is recommended for May 1, 2006 which will provide an additional $100,000 annually to support the implementation of our cost-share program to reduce the amount of "clear water" (rain water) which infiltrates our sanitary sewer system through "illegal" private sump pump hook-ups. This program is currently in the design phase with a one-year cost-share incentive program to begin October 1, 2006.

$2.6 million in low-interest loans from the IEPA are planned for FY06/07 to finance the construction of the Hill Avenue water main extension and to install sanitary sewers in the Lambert Farms Subdivision. Costs of the Hill Avenue Water extension project will be recovered as properties make service connections – but will only be constructed if the IEPA loan is received. The costs of the Lambert Farms sanitary sewer construction are planned to be repaid through a 20 year special service area property tax. If the special service area property tax is not approved, the proposed improvements will not take place.

3. Total net Village revenues for FY06/07 are expected to increase by $2.3 million or 6%. This is primarily the result of proposed borrowing for capital projects (IEPA loans) in our Water and Sanitary Sewer Fund.

EXPENDITURE HIGHLIGHTS

1. The budget continues a significant focus on our capital improvement program, scheduling an investment of $22.2 million, including capital improvement bond repayments. Capital projects comprise 48% of the $46.8 million total Village budget. FY06/07, which covers the calendar 2006 construction season, will mark the final year of our Village budgets since 2001 with a "capital intensive" focus, as we plan on completing the last of the planned 17 storm sewer and related street, water, and sanitary sewer system improvement work connected with the 2000 bond referendum (see page ix).

   Major projects include:

   - Water system improvements in the amount of $2,952,000.

     Hill Avenue Water Main Extension - $1,550,000
     Prospect Avenue Reconstruction - $378,000
     Sunset Avenue Reconstruction - $372,000

- Sanitary sewer system improvements in the amount of $3,951,000.

  Lambert Farms Sanitary Sewers - $1,475,000
  Sanitary Sewer Lining Project - $700,000
  Sunset Avenue Reconstruction - $675,000
  Duane Street Reconstruction - $660,000

- Storm sewer improvements totaling $2,320,000, representing the final construction year, six of six, and completing the Village's storm sewer network as proposed in the 2000 storm sewer referendum – paid from $18 million in General Obligation bond proceeds.

  Lambert Farms / Lambert Road - $1,230,000
  Kenilworth Basin - $590,000
  East Panfish Basin - $475,000

- Street and other roadway improvement projects in the amount of $5,932,000.

  Sunset Avenue / Manor Woods - $2,400,000
  Prospect Avenue Reconstruction - $1,200,000
  Duane Street Reconstruction - $950,000
  North Regional Storm Water Project - $350,000
  Annual Street Maintenance Program - $320,000
  Engineering Design of future projects - $230,000
  Annual Sidewalk Replacement Program - $150,000

- Community Enhancement Fund improvements in the amount of $545,000 to complete Five Corners Village entryway enhancements and the undergrounding of overhead utility lines.

The balance of the capital improvements includes other improvements and equipment purchases throughout the Village. A summary of planned capital expenditures for FY06/07 can be found later in the Introduction section of this budget document.

2. Following the successful rollout of a new residential solid waste contract on August 1, 2005, which included the conversion to standardized wheeled refuse carts purchased by the Village (with a resident choice from three different sizes), the FY06/07 budget identifies funding of $275,000 to look into the possibility of purchasing a similar-type of wheeled cart for weekly recycling.

3. The FY06/07 budget includes a salary schedule increase of 4.0%. All Village staff pay increases are subject to a merit-based evaluation system. The total amount budgeted for personnel costs, including salary, pension and health insurance is $11.3 million, or approximately 24% of the total net budget of $46.8 million. This covers 108 full-time staff, and represents only a 1.8% increase over last year's budget, partly due to the reduction of 2 additional Village staff positions.

ORGANIZATION OF THE BUDGET DOCUMENT

The budget is an annual work plan and major policy document of the Village Board. It outlines funding for services, programs and projects that will be undertaken in the upcoming year.

As indicated earlier, the document includes extensive narrative, charts, graphs and footnotes, the intent of which is to help explain the various line items and functions. The document is organized along our functional and departmental lines, and is presented in four main parts:

1. Summary of Revenues and Resources - Section I, Introductory Section.
2. Summary of Expenses, Section I, Introductory Section.
3. Department narrative and expense budgets by function. Sections II through IX.
4. Other activities and supplementary information, Section X.

Sincerely,

Gary Webster,
Village Manager