



April 28, 2008

Honorable President and Board of Trustees
Village of Glen Ellyn

Subject: Budget Summary for Fiscal Year 2008/09

Transmitted with this letter is the adopted budget of the Village of Glen Ellyn for fiscal year 2008/09, which begins on May 1, 2008. This document presents a comprehensive look at major financial goals and priorities for the Village both from a near-term as well as a long-range perspective.

This financial road map for the coming fiscal year is the culmination of months of planning and prioritizing which began last December. During this process, we have 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. Prior to final adoption on April 28th, the proposed draft budget has been the subject of two Village Board workshop discussions (March 3rd and 17th) as well as a public hearing which was conducted on April 14, 2008.

Foundation of the Annual Budget

The annual budget is built upon a series of basic financial policies and guiding principles as established by the Village Board. Although these policies are fundamental in nature, they have contributed significantly to the historical financial strength of the Village and demonstrate the Village's commitment to being a responsible steward of the public's finances. Some of these principles include:

1. Maintaining a diverse and stable revenue base to protect operations from short-term fluctuations in any one revenue source.
2. Paying for current operating expenditures from available operating revenues where possible.
3. Avoiding budget practices which balance current costs at the expense or detriment of future years, such as deferring or postponing necessary expenses.

4. Providing for the timely maintenance and eventual replacement or rehabilitation of operating equipment and facilities.
5. Developing a long-range plan for capital and infrastructure replacements to ensure the Village can pay for these improvements when needed.
6. Providing for the responsible funding of required employee pension plans.
7. Reducing costs or creating additional revenues if warranted so that planned expenditures do not exceed available resources.
8. Maintaining minimum cash reserve balances in certain funds where needed to ensure adequate liquidity to meet anticipated expenditures.

Fund Accounting

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that make up its assets, liabilities, fund equity, revenues and expenditures. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The FY08/09 Budget is composed of 14 individual funds, each of which can be classified into one of three categories: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental Funds** are generally used to account for functions which are principally supported by taxes and intergovernmental revenues. We typically associate these functions with the core services provided to the general public at large including items such as public safety, roadway and storm sewer maintenance and replacement (and other public works related services), and general administration (including administration, finance, building and zoning). The FY08/09 budget includes 7 governmental funds:

- General Fund
- Corporate Reserve Fund
- Motor Fuel Tax Fund
- Special Programs Fund
- Debt Service Fund
- Capital Projects Fund
- Facilities Maintenance Reserve

2. **Proprietary Funds.** The Village maintains two types of proprietary funds: enterprise funds and internal service funds. **Enterprise funds** are used to report functions which are intended to recover most or all of its costs through the imposition of user fees and charges. These funds are accounted for in a manner much similar to private-sector businesses. The FY08/09 budget includes 4 enterprise funds:

- Water and Sewer Fund
- Parking Fund
- Residential Solid Waste Fund
- Recreation Fund

Internal Service Funds are an accounting mechanism designed to accumulate and allocate costs internally among other Village funds. Revenues of internal service funds consist primarily of transfers in from other funds to accumulate financial resources to pay for items which benefit those funds. For example, the Village maintains an Insurance Fund to pay the costs of its employee health benefits plan and to provide general insurance coverage. Each department/fund pays into the Insurance Fund, as an internal transfer, an amount calculated to provide coverage for its employees and its general insurance risk. The FY08/09 budget includes 2 internal service funds:

- Insurance Fund
- Equipment Services Fund

3. **Fiduciary Funds** are used to account for resources accumulated for the benefit of parties outside of the primary Village government. The Village maintains one fiduciary fund, the Police Pension Fund, which is established by State statute, to collect resources to pay the retirement benefits of retired Glen Ellyn police officers. These resources are accumulated through salary deductions made by police officers, interest income generated from the Police Pension Fund's portfolio of investments, and an annual contribution made by the Village based on an actuarial study. These assets are held in trust for the sole benefit of retired Glen Ellyn police officers and are not available for use by the Village.

- Police Pension Fund

Economic Climate and Overview

While planning and preparing for the 2008/09 fiscal year, we find ourselves in a period of economic uncertainty and instability, much of which has precipitated from the sub-prime mortgage situation and related housing market problems.

Dramatic changes in short-term interest rates over the past 6 months (3.0 percentage point reduction in the Fed Funds rate since September 2007) will have a significant impact on the Village's projected investment returns for the coming year.

Further, we are seeing a slowing in the level of growth in our share of State shared revenues such as the State Income Tax, of which 10% is shared with municipal government units. We are also experiencing continued erosion in taxes generated from telecommunication services and real estate transactions in our Capital Projects Fund which pays for street and storm sewer reconstruction and rehabilitation expenses. These reductions are directly linked to recent economic downturns.

Not only are we faced with challenges in generating adequate revenues, we have experienced increases in the cost of providing services to the public, particularly in the area of our capital improvement program. Increases in material and construction costs have significantly outpaced revenue growth and our ability to pay for needed improvements in our capital infrastructure.

Despite the pessimistic economic forecasts, the Village remains financially strong and has sufficient reserves in place to weather this latest economic storm, some of which will be called upon in the coming year. While the adopted budget has been scaled back to maintain spending in line with projected available financial resources, it presents an uncompromised complement of services and projects for the betterment of the community, including keeping pace with our 20 year street improvement program, which was a commitment made by the 2000 Village Board in connection with the successful bond referendum in that year.

The approved expenditure budget for FY08/09 (all 14 funds) totals \$46.35 million. In comparison to last year's FY07/08 net budget of \$47.17 million, this represents a decrease of \$0.82 million or 1.7%. When reviewing the budget, we frequently make distinctions between operating and capital components.

FY08/09 Budget – Operating Component (58%)

Village operations make up 58% of the total net budget for FY08/09. 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 expenses related to the maintenance of Village owned assets and rights of way. Some examples of Village operating expenses include:

- Police and fire protection
- Purchase of Lake Michigan Water
- Economic development
- 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
- Retirement benefits administration (Police Pension Fund)

For FY08/09, the Village staffing complement is made up of 110 full-time employee positions and is increased by a net of one position from the prior fiscal year. A new position of Administrative Analyst has been created on the Village Manager's staff. A second full-time Planner position will be added to the Planning and Development Department to address increased development review activity. A full-time Arborist position in the Recreation Department has been eliminated.

Pension costs, which are largely dictated by legislative and market actions, continue to increase well beyond revenue growth which would be needed to pay for them. This means that over time, other services decline so that we can meet our pension obligations. In FY08/09, Village funding of the various pension systems it is required to offer will increase by 9.1%.

We need to be very watchful of legislative proposals in Springfield which will enhance future pension benefits as Illinois municipalities will bear the direct cost of funding these enhancements.

Total personnel costs, including retirement and health benefits, make up 46% of total budgeted operating costs for FY08/09.

General Fund

The General Fund pays most of the day-to-day operating costs of the Village and makes up approximately 30% of the total net budget excluding a one-time transfer of \$3 million in cash reserves to the Capital Projects Fund. Planned operating expenses total \$13.4 million and represent no increase from the prior year approved budget.

General Fund revenues are not projected to increase in total in the coming year. Most of the major revenue sources of the General Fund, including the sales tax and State income tax, are projected to increase in the range of 3.0% to 3.5% based on current trend. These modest increases have been erased by a projected reduction of more than 40% in interest income resulting from sharp declines in interest rates and the transfer of cash reserves to assist the Capital Projects Fund.

The General Fund employs 83 (75%) of the Village's 110 full-time staff positions, 52 of which are in the Police Department. Operating expenses have been kept to a minimum to maintain the budget within projected available revenues. Transfers from the General Fund to the Insurance Fund for the employee health benefits plan and general insurance have been reduced to help balance the General Fund budget. The Insurance Fund has adequate cash reserves on hand to accommodate reduced transfers over the short-term. Contributions in subsequent years will likely need to return to their full scheduled levels.

Water and Sanitary Sewer Fund

The Water and Sanitary Sewer Fund is the second largest of the Village's operating funds and the largest Village enterprise fund. This utility manages a potable water distribution system consisting of more 147 miles of water main, including the purchase and delivery of 1 billion gallons of Lake Michigan Water each year. The Fund is also responsible for the maintenance of a sanitary sewer collection system of more than 85 miles of sanitary sewers to convey and treat wastewater at the Glenbard Wastewater Authority.

Notable changes for FY08/09 include:

1. The City of Chicago recently approved a significant increase in the rate charged to our supplier of Lake Michigan water (DuPage Water Commission). This rate hike is expected to be passed through to Water Commission customers and will increase our cost of purchasing water by more than 50% over the next three years.

2. Due to increases in operating costs for the coming year (such as our cost to purchase Lake Michigan water), a water and sanitary sewer service rate increase of 3.7% and 3.5% respectively is planned to be implemented on June 1, 2008.
3. Now that the 1987 bonds will be retired in FY08/09, there are no more abatements which are needed from the Water and Sanitary Sewer Fund and Capital Projects Fund to pay for the 1987 Village Board pledge to abate \$500,000 from these funds annually. This will free up \$250,000 in each of these funds which can now be applied toward continued capital infrastructure improvements and rehabilitations.
4. A total of \$640,000 in Community Development Block Grant (CDBG) funding will be received in connection with improvements in the Braeside area scheduled for 2008. This is one of the largest grant awards to be approved through this program.
5. Total operating costs budgeted for FY08/09 represent an increase of 4.8% over the estimated actual operating costs for FY07/08.

FY08/09 Budget – Capital Component (42%)

The approved FY08/09 budget continues the Village's strong commitment to invest in the improvement and rehabilitation of its aging capital infrastructure assets which mainly consist of roadways, storm water drainage/detention, water distribution, sanitary sewage collection and public parking systems. Specific revenue sources have been dedicated for use in completing capital additions/replacements, ensuring that regular funding is available for capital reinvestment.

The approved budget includes long-range financial plans for each of the major capital funds (Capital Projects Fund and Water and Sanitary Sewer Fund) which identify key revenues and project costs over the coming decade.

Capital Projects Fund

The successful 2000 street and storm sewer referendum not only authorized \$18 million in new capital bonds to finance the construction of 17 distinct storm sewer improvement projects throughout the Village, but also set a course to transition the Village's street resurfacing program from a 30 year to a 20 year cycle to better improve the overall quality and functionality of roadway surfaces. This accelerated program included a number of assumptions about the future costs associated with completing the required projects on schedule as well as revenues required to fund the program.

The key revenues dedicated to the Capital Projects Fund include a utility tax on natural gas, electricity and telecommunications services as well as a tax on the transfer of real estate within the Village. These key revenues have shown little or no growth over the past several years. The telecommunications tax and real estate transfer tax are of particular concern as these revenues have been in steady decline.

Further exacerbating the problem, since 2000, we have experienced significant increases in

construction cost inflation, well above related growth in revenues. We have also experienced increases in the scope of work (and funding) required on many of the projects. Unanticipated additional work was often necessary to repair the excessively deteriorated roadway base prior to completing the new pavement surface. This has resulted in the depletion of most of the available cash reserve balances in the Capital Projects Fund.

Staff had reworked the long-range financial plan in both 2006 and 2007 to project costs of the 20 year plan at a more realistic level, based on bid, project scope and inflation experience. Given stagnant and declining revenues, and increases in forecasted project expenses, it became very clear that additional funding sources would be needed in order to sustain our 20 year street program. After reviewing the funding gaps in the plan, the Village Board affirmed its desire to continue pace with the accelerated street program as committed through the 2000 referendum.

Included in the long-term capital plan in this budget is a proposal to begin using property tax dollars to supplement revenues in the Capital Projects Fund to maintain our 20 year street improvement plan. These “re-dedicated” property taxes will replace property taxes which are scheduled to decrease as previous capital bond issues are paid off. By providing additional recurring and reliable revenues, our plan is to avoid the need for additional borrowing, and the related interest costs associated with borrowing, to transition our capital funding program to a “pay as you go” philosophy.

Major improvement projects planned for the 2008/09 fiscal year include the reconstruction of the Parkside/Summerdale area, storm water drainage and roadway improvements at Essex Court, completion of a regional storm water detention basin in the northern area of the Village, a host of individual street improvement projects, and street and utility improvements in the Braeside/Surrey Drive area which will be funded in large part from a Federal Community Development Block Grant.

Water and Sanitary Sewer Fund

Significant capital improvements will continue to our more than 100 year old water system and sanitary sewer collection system. In FY08/09, about 40% of every dollar spent in the Water/Sewer Fund will be dedicated to capital reinvestment.

Our long-range forecast for the Water and Sanitary Sewer Fund shows that we will be challenged to meet operating cost increases while also providing the appropriate amount of investment in capital replacement to ensure the ongoing reliability of these essential public services. Our last year receipt of \$1.3 million in rebates from the DuPage Water Commission has been essential to reinstating needed liquidity reserves in this fund, however, projected capital and operating demands on the Fund over the next several years will continue to erode reserve balances. Future rate increases to users of these services will be necessary to maintain the scheduled pace for capital improvements and replacements over the next decade.

Major system improvements for the FY08/09 fiscal year include water main and sanitary sewer replacements or rehabilitations associated with many of the roadway improvement projects identified above, as well as furthering our goal of reducing the inflow/infiltration of

ground water into our sanitary sewer system (Clear Water Reduction Program). Additional scheduled system improvements include repainting of the Cottage Avenue water tank, retirement of the Saddlewood Lift Station, and the upgrade of the computerized water SCADA system.

Looking Ahead

Although the current economic climate and forecast for the upcoming fiscal period is not one of particular optimism, we have developed this financial plan in keeping with our traditional focus on long-term fiscal stewardship and accountability to the public for the responsible application of its resources. The Village Board's historical emphasis on sound fiscal management has permitted the Village the ability to weather economic turbulence and better plan for the future.

I would like to express my appreciation to the Village Board, Finance Director, and various departmental staff who have spent considerable time and effort in preparing this financial plan and annual budget for our new fiscal year.

Respectfully submitted,

Curt Barrett
Acting Village Manager