



April 30, 2010

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

Subject: Budget Summary for Fiscal Year 2010/11

Introduction

Transmitted with this letter is the adopted budget of the Village of Glen Ellyn for fiscal year 2010/11, which begins on May 1, 2010. 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 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 fall. 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 26th, the proposed draft budget had been the subject of two Village Board workshop discussions and a number of additional public information forums, including a public hearing which was conducted on April 12, 2010.

A Personal Perspective

The formulation of the FY2010/11 Village budget was once again a challenge as the organization experienced the second year of decreasing revenues and hard choices. The repeat nature of this exercise warranted new levels of financial creativity. The result was a balanced General Fund budget that will continue to provide the services and programs desired by the community.

There is a lot of credit to go around for the preparation and adoption of a balanced budget in tough economic times. Through financial wizardry, Director Jon Batek once again deserves individual recognition for his efforts in successfully coordinating the budget process and providing the necessary answers. The management team efforts need to be applauded for their efforts to separate *needs* from *wants*. The President & Village Board deserve accolades for their challenge to the management team to *explore all options*.

I wish to also provide a special recognition to the Glen Ellyn police officers who are represented by the Fraternal Order of Police. During recent contract negotiations, the bargaining team understood the financial situation of the Village and collaborated with management to craft a labor agreement that met the economic constraints of the organization. Our ability to balance the FY2010/11 budget was greatly assisted by the team-orientation displayed during those negotiations.

Organizational Goals and Objectives

The Village has observed a longstanding tradition whereby its elected officials serve a single four year term of office. Because of this tradition and the many citizen volunteers who come to serve on the Village Board, the Village has engaged in a biennial strategic planning process to formulate and prioritize organizational goals and objectives on both a near-term and long-term basis.

In April, 2009, the Village Board, along with management staff and newly elected officials, engaged in another strategic planning work session. The resulting short and long-term goals and priorities resulting from this exercise are identified immediately following this transmittal memorandum. These have been updated to reflect implementation progress which has been made since that time as Village continues to shape its future.

Budget Priorities and Issues

The principal issues facing Glen Ellyn in the development of the FY10/11 budget are not dissimilar to those faced by most of our municipal peers given the current economic environment. Among these include:

1. Decline and stagnation in a number of key revenues including sales taxes, state shared revenues (such as income taxes and personal property replacement taxes), building permits, real estate transfer taxes, motor fuel taxes, and investment income.
2. Identification and prioritization of expenditure cutbacks needed to reduce budget gaps and to eliminate non-essential costs or services.
3. Planning for current and future year unfunded expense mandates, particularly escalating pension funding costs in response to unprecedented investment losses in the previous 2008/09 fiscal year. While investment returns of these pension systems have rebounded to some degree in FY09/10, this continues to be an area of long-term concern.
4. Continuing a focus on the efficient delivery of core Village services to the community in light of revenue declines.
5. Identification of new revenues, as appropriate, to ensure maintenance of core

Village services and appropriate fund reserve levels.

6. Planning for the timely replacement and rehabilitation of the Village's expansive network of infrastructure assets in conjunction with established long-range capital improvement plans.
7. Maintaining a watchful eye on actions in Springfield which would further diminish Village revenues.

Budget priorities for the new year have changed from the current budget due to the depth of the current economic recession. Based on the current year (FY09/10) performance, which included the planned use of significant cash reserve balances in many of our operating and capital funds, reserve levels have now been utilized to the extent possible and in many funds are nearing minimum policy levels. Given continued expectations of economic downturn, the FY10/11 budget shifts organizational priorities to be more protective of remaining reserves and begins the introduction of some new revenue streams to partially compensate for revenues lost and to also help fund future unfunded cost increases anticipated in coming years.

A number of actions have been implemented to assist the Village in addressing its primary budgetary issues in FY10/11. Among these include:

1. At the March 8, 2010 workshop meeting, the Village Board elected to continue an additional 1% home rule sales tax which was first implemented July 1, 2009 in order to maintain core community services and to primarily assist in meeting our long-term pension funding obligations.
2. Two new Special Service Areas (SSAs) were established in unincorporated areas to the north and south of the Village limits which are served by our Volunteer Fire Company. These SSAs were established to recover a proportionate share of fire and emergency services costs which were not previously realized through the Fire Company's annual fundraising efforts. Tax proceeds from these SSAs will be held for the future replacement and rehabilitation of emergency response apparatus.
3. Initiated an administrative towing ordinance as well as a program to internally adjudicate local ordinance violations which will result in improved recovery of Village costs associated with administering its local codes.
4. Staffing reductions of 14.4 full-time equivalent positions, as well as a number of deferrals of requested expenditures were implemented to ensure that total budgeted costs were reduced to the extent possible without significantly impairing the current level of service provided to the community.
5. Completed an exercise which focused on the identification, assessment and prioritization of the Village's core services. The results of this effort provide a useful tool for the Village Board and management identify areas where further

cost cutting efforts could be made if needed, and to focus remaining resources on programs and services which are most highly valued and desired by the community.

6. Completed an initiative across all Village departments which appealed to our vendor partners for price reductions for goods and services acquired by the Village. Also began a process of searching for additional purchasing economies through interdepartmental as well as intergovernmental collaboration and coordination.
7. Expense monitoring and contingency planning should any legislative changes reduce or eliminate revenues shared with municipalities by the State of Illinois.

Development of the Budget

Throughout the 2009/10 fiscal year, we continued to experience the financial impacts of the worsening global economic climate. This has contributed to significant declines in a number of our key revenue streams which fund general operating services. These events set the tone for the development of the new FY10/11 fiscal year budget.

Given the revenue climate, we knew at the outset of preparing the new year budget that we would continue to be pressured by shifts in the balance between daily operating revenues and expenditures and that we would continue to be faced with difficult decisions needed to bring our primary operating fund (General Fund) into balance.

Short-term initiatives which guided the development of the FY10/11 annual budget included:

- Selective staff hiring freeze / hold or eliminate certain position vacancies.
- Vendor price renegotiations.
- Negotiation of a new collective bargaining agreement with the FOP.
- Deferral of most operating fund equipment replacements.
- Elimination/deferral of funding transfers for municipal building major repairs
- Limit introduction of new projects and initiatives.
- Explored and recommend new revenues as needed to preserve service levels (added Fire Company Special Service Areas, administrative towing, contractor registration and administrative adjudication).

The implementation of these initiatives resulted in an approved General Fund budget for FY10/11 which is balanced, with projected revenues equal to budgeted expenditures.

Funds and Fund Structure

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 FY10/11 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. **All Village funds are subject to appropriation and all budgeted funds are included in the audited financial statements.**

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 FY10/11 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 Fund

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 FY10/11 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 FY10/11 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 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

Total Net FY10/11 Budget

The approved expenditure budget for FY10/11 (all 14 funds) totals \$42.28 million. In comparison to last year's FY09/10 net budget of \$43.88 million, this represents a decrease of \$1.60 million or 3.6%. Compared to the Village's FY07/08 net budget of \$47.17 million three years ago, this is a decrease of \$4.89 million or 10.4%. When discussing the annual budget, we frequently make distinctions between operating and capital components.

FY10/11 Budget – Operating Component (68%)

Village operations make up 68% of the total net budget for FY10/11. 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)

Staffing - For FY10/11, the Village staffing complement is made up of 103 full-time employee positions and is reduced by a total of 3 full-time positions from the current fiscal year. In terms of full-time equivalent (FTE) positions, the new budget includes a total staffing reduction of 14.4 FTE. These reductions were necessary in light of significant revenue declines experienced across a number of key revenue streams during 2008/09 which continued into FY09/10. Among the vacant full-time positions eliminated in FY10/11 are the Deputy Village Manager and Village Collector in the Administration Department and Grounds Supervisor in the Recreation Department.

Pension costs, which are largely dictated by legislative and market actions, continue to increase well beyond the level of revenue growth which would be needed to pay for them. This means that over time, financial resources must be diverted away from other services so that we can meet our required pension obligations. In FY10/11, Village funding of the various pension systems it is required to offer (Illinois Municipal Retirement Fund and Glen Ellyn Police Pension Fund) will increase in total by 24.5% over the current year budget. This funding requirement is expected to increase again in FY11/12 as we will continue to recognize significant deferred investment losses experienced by these funds in 2008.

Total personnel costs, including retirement and health benefits, make up 44% of total budgeted operating costs for FY09/10.

General Fund

The General Fund pays most of the day-to-day operating costs of the Village and makes up 35% of the total net budget. Planned operating revenues and expenses total \$15.0 million and represent a 6.2% increase from the prior year approved budget.

The principal drivers behind the increase in the total General Fund budget for FY10/11 include:

1. Two new Special Service Areas were created in 2009 in unincorporated areas to the north and south of the Village limits which are serviced by our Volunteer Fire Company. Beginning in FY10/11, the Village will collect an additional property tax from these areas (totaling approximately \$190,000) to assist our Fire Company with the replacement of its emergency response apparatus. These funds will be accumulated by the Village and deposited into our Equipment Services Fund where they will eventually be disbursed to the Fire Company as equipment is replaced.
2. FY10/11 represents the first full year of collections of the 1% home rule sales tax which was implemented on July 1, 2009. The FY10/11 budget includes a full-year projection of revenue collections which is increased by \$875,000 or twice that of the FY09/10 budget. This additional revenue source was implemented primarily to assist the Village in meeting its mandatory obligations with respect the funding of State-imposed pension systems. The General Fund's funding requirement to the Illinois Municipal Retirement Fund (IMRF) and the Police Pension Fund will

increase by 21.0% in FY10/11.

3. The new budget year also includes the first full year of ambulance service fee collections and related service provider costs, which were changed out in June 2009 following the completion of a request for proposals process and the implementation of a new service provider. The revenue-side increase to the FY10/11 budget based on a full year of estimated service collections is \$187,500.
4. Beginning with the FY10/11 budget, we have eliminated some internal subsidies to the General Fund which were made possible through the use of available cash reserves in our Insurance Fund (an internal service fund). These subsidies were provided through a reduction in the amount of transfers required from the General Fund to the Insurance Fund to support the employee health insurance program and the Village's participation in the MICA risk pool which provides the Village's general, liability, workers compensation and related insurance coverages. We have discontinued these subsidies in the current FY10/11 budget which has resulted in an increase to the health insurance and risk management programs of 35% and 48% respectively. The General Fund, and other operating funds, now reflect the full cost of providing these benefits without cash reserve subsidies from the Insurance Fund.

The General Fund has been significantly impacted by the continuing global economic recession, having sustained losses in a number of key revenues during FY08/09 and FY09/10. The budget for FY10/11 does not anticipate any improvement in many of our key revenues over the FY09/10 fiscal year budget.

We are projecting no growth in the General Fund's largest revenue source, our local 1% **sales tax**, which fell just short of our FY09/10 budget projection. Our share of **State Income taxes** is projected to decline by an additional 1.2% next year following a 13.6% decline over FY08/09 collections. Furthermore, the State is approximately 4 months behind schedule in disbursing the municipal share of income taxes due to their worsening financial situation and cash flow problems. Due to a drop-off in construction activity, **permit revenues** are expected to continue to be sluggish throughout the new fiscal year. Finally, due to historical lows in short-term interest rates, we are anticipating significantly reduced **interest earnings** will be generated on invested cash balances.

A number of significant spending cutbacks and revenue enhancements were necessary throughout the preparation of our now-expiring FY09/10 budget in order to achieve our goal of matching operating expenditures with available operating revenues. Additional expenditure cutbacks and deferrals were necessary mid-year as we witnessed further erosion in our State income tax receipts.

The expenditure cutbacks we made during the preparation of the FY09/10 budget continued to assist us in balancing the General Fund into FY10/11 however, additional reductions in spending were necessary to meet income projections for the coming fiscal

year.

Total staff salary costs (excluding pensions and benefits) which make up 47% of the total General Fund budget (63% including pensions and benefits) have been reduced by 0.9% compared to the current year budget. This was achieved through the elimination of 3.4 full-time equivalent positions. Other expenditure reductions included elimination or postponement of a number of equipment and capital replacements and CBD beautification projects. Additionally, transfers to our Facilities Maintenance Reserve Fund were cancelled for the second consecutive year and will need to be made up in future years if we are to protect our ability to adequately maintain municipally owned facilities on a long-term basis.

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 nearly 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 FY10/11 include:

1. The City of Chicago in 2008 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% from 2008 to 2010.

Effective May 1, 2010, the Village's cost of purchasing Lake Michigan water through the Water Commission will increase by 22%, from \$1.70 to \$2.08 per 1,000 gallons purchased. This will add approximately \$416,000 to our annual operating costs compared to our estimated final water purchase costs in the FY09/10 budget. This increased rate incorporates the third and final year of the City of Chicago planned rate hikes as well as additional charges related to the Commission's recent cash flow crisis.

2. Total budgeted operating costs for the Water/Sewer Fund for FY10/11 are projected to increase by \$823,000 or 11.6% over the approved FY09/10 budget. 85% of this increase is attributable to the increase in water purchase cost and our contribution to the Glenbard Wastewater Authority for the completion of previously deferred collection system improvements.
3. Effective June 1, 2010, the combined water and sewer rate charged to customers will increase by 10.0% to help cover the additional operating costs associated with purchasing water from the Water Commission and to the Glenbard Wastewater Authority for additional capital improvements.

4. A total of 31% of the combined water/sewer budget for FY10/11 or more than \$3.5 million will be dedicated to capital infrastructure repairs and replacements. Key projects identified for FY10/11 include water and sanitary sewer improvements associated with the Bryant Avenue / Thain's Addition project and Riford Road reconstruction project.

FY10/11 Budget – Capital Component (32%)

The approved FY10/11 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 not kept pace with construction price inflation and expansions in the scope of work required on individual projects over the past several years. Not surprisingly, collections from the real estate transfer tax are of particular concern as these have been diminished significantly as a result of the turmoil in the real estate market. Cash reserves totaling \$7 million have been authorized and used from the General Fund and Corporate Reserve Fund over the past several years to maintain pace with our 20 year program. No additional reserve balances are presently available to bridge any future funding gaps caused by the economic downturn. Beginning in the new 2010/11 fiscal year, the Capital Projects Fund is now on a pay as you go funding basis. Completion of budgeted projects will be dependent upon the availability of current year revenues.

Major improvement projects planned for the 2010/11 fiscal year include the reconstruction

of Riford Road between Crescent and St. Charles Road, rehabilitation of 2.2 miles of roadways and significant storm sewer improvements in the Bryant Avenue / Thain's Addition project improvement area, resurfacing of Park Boulevard between Roosevelt Road and Raintree Drive, and installation of a right turn lane at northbound Lambert Road at Roosevelt Road.

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 FY10/11, 31 cents of every dollar spent in the Water/Sewer Fund will be dedicated to capital reinvestment.

Major system improvements for the FY10/11 fiscal year include water main and sanitary sewer replacements or rehabilitations associated with 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).

Looking Ahead

Although the current economic climate and forecast for the upcoming fiscal period continues to be one of pessimism, 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.

Respectfully submitted,



Steve Jones
Village Manager

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the Village of Glen Ellyn, Illinois for the Annual Budget beginning May 1, 2009. In order to receive this award, a government unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

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**Village of Glen Ellyn
Illinois**

For the Fiscal Year Beginning

May 1, 2009

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Executive Director