



April 30, 2011

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

Subject: Budget Transmittal for Fiscal Year 2011/12

Introduction

Transmitted with this letter is the adopted budget of the Village of Glen Ellyn for fiscal year 2011/12, which began on May 1, 2011. 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 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 25th, the budget was the subject of five public meetings including a formal public hearing conducted on April 11, 2011.

Budget Priorities and Issues

The principal issues facing Glen Ellyn in the development of the FY11/12 budget were:

1. Continued decline and stagnation in a number of key revenues including state shared revenues (such as income taxes), utility 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 prior years. While investment returns of these pension systems have rebounded to some degree in the last two years, 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 constraints.
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.

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 FY11/12 budget is composed of 13 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 FY11/12 budget includes 6 governmental funds:

- General Fund
- Corporate Reserve Fund
- Motor Fuel Tax 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 FY11/12 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 FY11/12 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

Budget Summary

- **Total proposed budget** (net of interfund transfers) is \$39.8 million, about \$2.5 million less than the FY10/11 adopted budget (a 5.9% decrease).
- The proposed budget for FY11/12 relies less on the use of cash reserves to maintain services and capital investment. The FY11/12 proposed budget projects a small surplus of about \$83,000 overall, compared to the approved budget for FY10/11, which included utilizing about \$1.9 million in cash reserves. This is due in part to our overall lower level of available cash reserves following some draw downs in the last few years to fund capital programs, including the 20 year street replacement program.
- **Village operations** make up 73% of the total net budget for FY11/12. 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)

- **The total authorized staff level** for the Village will decrease slightly in FY11/12 due to continued elimination of vacant positions. This follows staff reductions, both voluntary and involuntary, over the past three years in which the Village's full time equivalent employees have fallen from about 184 to 159. The proposed FY11/12 budget includes not filling a current Police Officer vacancy. This is in addition to three authorized Police Officer positions that have remained unfilled since FY07/08 due to lack of funding.
- **Personnel costs**, including retirement and health benefits, make up 49% of total budgeted operating costs for FY11/12.
- **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 FY11/12, Village funding of the various pension systems it is statutorily required to offer (Illinois Municipal Retirement Fund and Glen Ellyn Police Pension Fund) will increase in total by 10% over the prior year budget.
- **Total capital investment** for next year is lower, down by \$2.8 million from \$11.3 million in the current year to \$8.5 million proposed for FY11/12. This component makes up 21% of the proposed FY11/12 budget compared to 27% of the approved FY10/11 approved budget. Some of this decrease is due to the wind down of our extensive infrastructure improvement program over the last decade. However, it is also a sign that our reserves are not at levels where we can continue capital investment at the same pace. There are a number of project deferrals which were necessary for FY11/12 due to a lack of funding.

General Fund

- The General Fund pays most of the day-to-day operating costs of the Village and makes up 41% of the total net budget.
- The General Fund budget is balanced as proposed at \$16,109,000.
- Beginning in FY11/12 the Special Programs Fund will be consolidated into the General Fund. The Finance Commission made this recommendation to the Village Board following a review of the Special Programs Fund budget process last year. The intent of merging the two funds is to eliminate inefficiencies within the budget process and to allow the Village Board to focus additional time on the rest of the Village budget. Coincidentally, this consolidation also conforms with a new Governmental Accounting Standards Board (GASB) pronouncement that requires funds such as our Special Programs Fund be reported as part of the General Fund in our audited financial statements.

All of the revenues and expenditures previously allocated within the Special Programs Fund are now included within the General Fund. This adds approximately \$730,000 in expenditures to the FY11/12 proposed General Fund budget. For this transition year we are proposing that all these newly incorporated expenditures be balanced with the additional revenue that was formerly dedicated to the Special Programs Fund.

The draft budget includes calculations and footnotes as part of the budget schedules, which allow for an “apples to apples” comparison of the General Fund with prior fiscal years by removing the effect of the transferred Special Programs Fund revenues and expenditures.

Three new General Fund divisions have been created as part of the reallocation of Special Program Fund expenditures. The new Senior Services and History Park divisions are included within the Administration Department and the new Economic Development division is included in the Planning and Development Department. The remaining expenditures have been included in the Village Manager’s Office budget with the exception of a counseling line item, which is now allocated in the Police Department’s budget.

The funding of community groups is now a lump sum line item within the Village Manager’s Office budget. For FY11/12, \$30,000 has been proposed to fund these grants. A new application procedure is planned, which will occur outside of the Village’s budget process. The Village will be advertising the available grant funds in upcoming communications. Applications will be due in May and grants awarded in July. This change in process was recommended by the Finance Commission to make

the funding of community groups more efficient and transparent. With these changes, we will no longer dedicate an entire budget workshop to the Special Programs Fund, allowing more time for other budget discussions.

- FY11/12 Budgeted expenditures (excluding the Special Programs consolidation) increase by \$379,200 or 2.5% compared the FY10/11 budget.
- 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 \$900,000.
- The General Fund budget includes the full-funding of required employer pension costs to both the IMRF and the Police Pension Fund. This includes a 4% increase in our budgeted rate to IMRF (from 12.5% to 13.0% of payroll), and a 9.9% increase in our annual contribution to fund the Glen Ellyn Police Pension Fund (from \$943,000 to \$1,036,000).
- There are no scheduled funding transfers from the General Fund to our Facilities Maintenance Reserve Fund for FY11/12. This fund pays for significant rehabilitations of municipally owned buildings and components. This is the third consecutive year we have not provided for transfers to this fund. We cannot continue to underfund this operation in upcoming years without jeopardizing our facilities.

Capital Projects Fund

- The Capital Projects Fund will receive an additional infusion of property tax revenue as over \$500,000 in taxes previously utilized for debt service are reallocated towards maintaining our capital program. This is following the Capital Improvements Commission's 2008 recommendation to transition to a pay-as-you-go program over the next several years as our remaining infrastructure debt is paid off.
- Other key revenues in this Fund, primarily utility taxes, are showing little sign of growth and will likely continue to remain stable at best. Real estate transfer taxes are recovering after setting an all-time low in FY09/10.
- The FY11/12 proposed budget includes a full complement of improvement projects, however, we remain concerned about the low level of cash reserves. We have targeted a reserve balance of \$500,000 to ensure adequate cash flow during the upcoming year.

Facilities Maintenance Reserve Fund

- No funding contributions from other funds are planned for FY11/12 due to continued lack of supporting revenues. This will be the third year we have deferred contributions.
- Despite no funding, a few small high priority safety related projects have been included which will draw from fund reserves.

Water and Sanitary Sewer Fund

- Water consumption continues to decline and costs are projected to increase for both purchasing water from the DuPage Water Commission and for wastewater treatment by the Glenbard Wastewater Authority.
- 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.
- Proposed for May 1, 2011 are customer rate increases of 5% for water and 10% for sewer. This fund has relied on cash reserves for several years and the rate increases are recommended to bring the fund into balance, continue restoring cash reserves, and prevent future larger spikes in rates.

Residential Solid Waste Fund

- We have utilized recycling rebates for customer price stability and did not increase rates to customers in the first four years of the initial five year solid waste hauler contract. A 5% rate increase was implemented in both FY09/10 and FY10/11 to counter the sudden collapse of the recyclables market and elimination of rebates.
- Recycling rebates have recovered during FY10/11 and our use of cash reserves will likely be half of what we originally projected in the adopted budget.
- Our current waste hauling contract extension includes a 2% increase in August 2011. Recycling rebates are still below half of their peak levels and we have included a 5% increase in refuse rates as part of the proposed FY11/12 budget. The rate increase is recommended in order to maintain adequate cash reserves and to prepare to fund the FY12/13 clean sweep event. If recycling rebates continue to improve, we will revisit the need for a rate increase prior to the scheduled change in August.

Looking Ahead

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

Larry Noller
Interim Finance Director