Village of Glen Ellyn
Five Year Forecast, February 2012
Based on FY2011/12 Budget information

Why are we discussing this?

Before the FY2011/12 budget process began, the Village of Glen Ellyn's first five year forecast was developed to identify long term trends and issues facing the community. This effort was focused on the General Fund, the main operating fund for providing government services, such as police protection, and routine maintenance of our streets and sidewalks. This forecast identified a glaring divergence in our current revenue sources and our expenditures, leading to a $6 million deficit over the five year span.

Since then, the Village has embarked on efforts to shore up the tax base by attracting a high-end grocery store, which should generate notable sales and property tax revenue, enhancing the façade grant program to encourage business investment, and establishing a tax increment financing district (TIF) in the central business district to help fund necessary projects to support the business community. The Village continues to control costs by (utilizing the Volunteer Fire Company, controlling health insurance costs, and utilizing part time employees. In fact, Glen Ellyn has the lowest use of Full-time employees in DuPage County.) Other cost savings measures remain in place, and will continue as future budgets remain structurally imbalanced.

The information provided in the five year forecast is prepared on a budget basis. Not all data will equal information provided in the comprehensive annual financial report as that includes audit accruals and other differences.

What are the main goals of conducting a long term forecast?

The key goals of Glen Ellyn's 5-year forecast:
1) Understand long term trends in revenue sources
2) Understand long term trends in expenditures
3) Identify future imbalances in revenues and expenditures (deficits)
4) Develop and implement programs now to avoid future deficits
5) Use tables and graphs to summarize and highlight info and trends

What is different this year?

This five year forecast has changed focus from just the General Fund to all governmental funds. That is, the funds that are funded primarily by taxes and are used to account for traditional government services, such as public safety, roads, sidewalks, and facilities. This analysis incorporates capital and debt forecasts to assure a more complete picture of the Village government as a whole.

This forecast excludes our business type activities, such as the water/sewer fund and Village Links golf course as those enterprises are funded most notably by direct user fees. Other internal service funds are also excluded as they are a service provider to the government, its enterprises, and other government customers.

Introduction

What was the approach to preparing this forecast?

The five year forecast uses the most recent adopted budget, for FY2011/12. Using historical information and current economic circumstances, we identify trends and traditional growth rates. This information is coupled with known information (such as changes in state pensions laws) to arrive at continued growth rate assumptions. Assumptions are specific to the revenue or expenditure. Whenever possible, future planning tools are included, such as the existing street resurfacing program. The baseline for fund balances is the annual audit for the fiscal year ended April 30, 2011. The information contained in this report will approximate, but not tie out exactly, to the numbers contained in the Village's annual audit as there can sometimes be a difference in reporting. Further, many interfund transfers, which are a regular part of government operations, are excluded to capture all governmental activity in aggregate instead of specific funds.

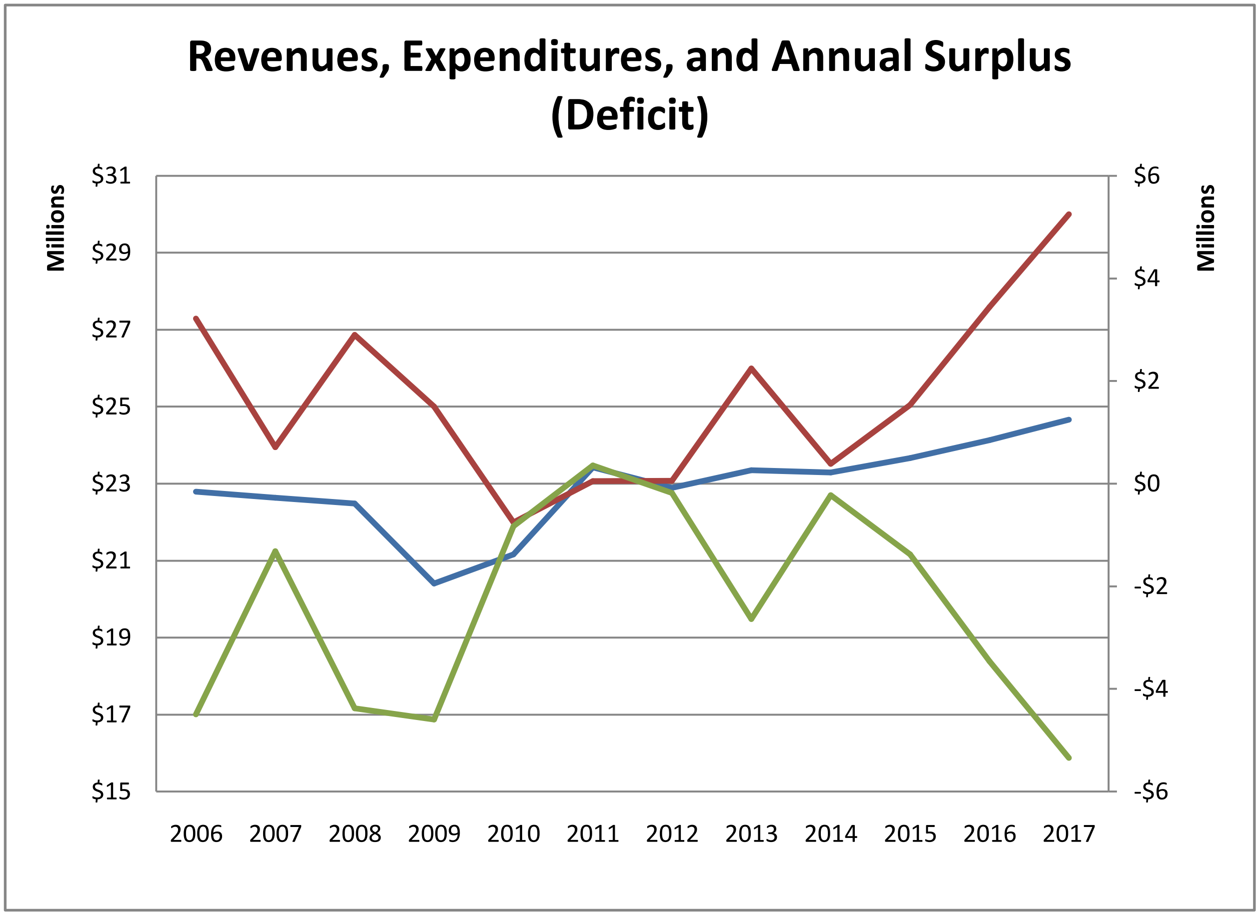
What is included in this analysis?

The five year forecast includes information generally as follows:

- Big picture
    - Governmental revenues, expenditures, and fund balance
    - Fund balance projections
- Revenues
    - Key revenue sources and assumptions
    - Makeup of governmental revenue sources
    - Key revenue relative growth rates
- Expenditures
    - The largest areas of expenditures, including growth rates and assumptions
    - Expenditures by type (includes debt)
    - Personnel and other operating expenditures
    - Personnel expenditures, by category
    - Salaries and overtime, by category
    - IMRF, police pension, and health insurance as a percentage of salaries and overtime
    - The capital plan
- Contributions to the deficit
- How much would it take to balance?
- Potential solutions

Governmental revenues, expenditures and fund balance

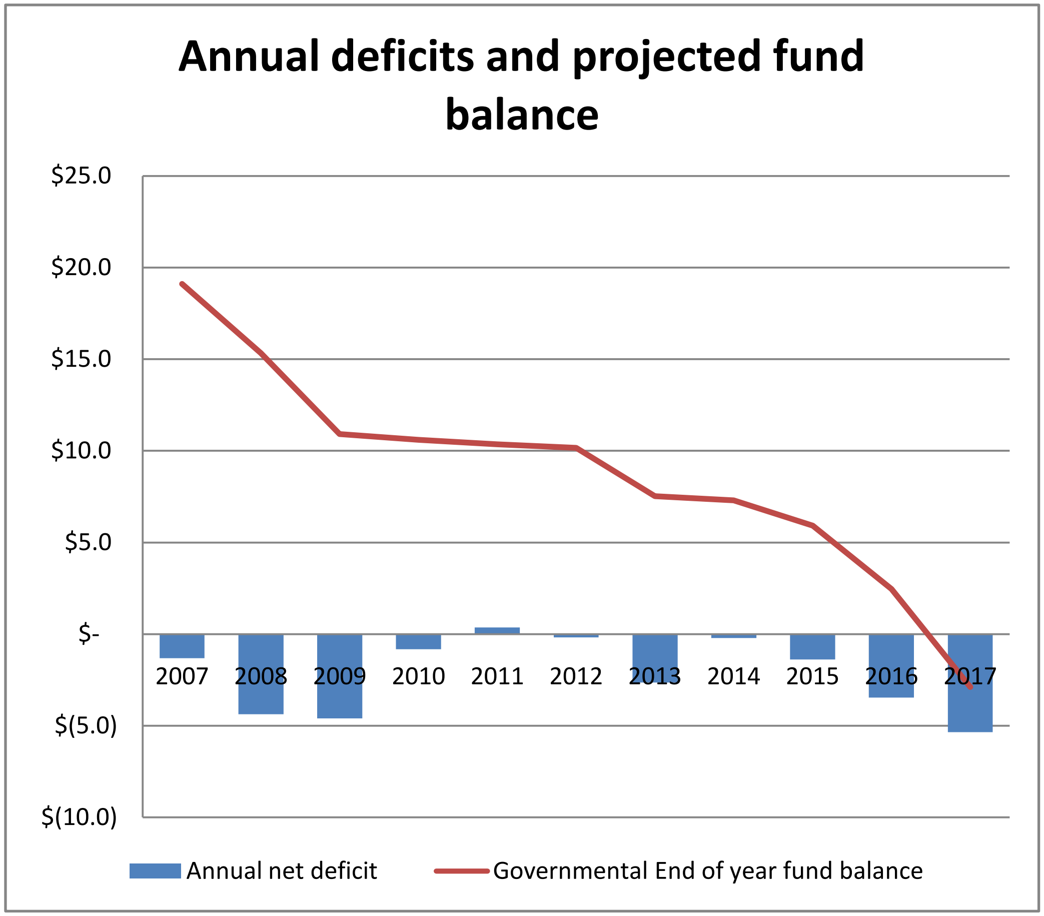
Governmental revenues grow at a relatively flat pace overall. Expenditures grow at the pace of capital investment (through the capital improvement planning process) and the faster growth of personnel and benefits. The end result is depletion of fund balance over time.



There are important items to note about these projections. For example, the Village aggressively pursues grants. Significant grant dollars are likely, but are excluded as we do not know how much grant revenue will be awarded, or for which projects. Grants are typically provided only for capital projects. From 2007 to 2013, the Village has secured close to $300,000 in operating grants, and more than $6.2 million in grants for capital projects.

Fund balance projections

As of the end of FY2010/11 (the most recent audited financial statements) the overall fund balance available for governmental uses was $10.4 million.The total shortfall over the next five years is $13.0 million, or $2.6 million per year, if current trends continue and if no corrective action is taken.



All governmental funds				
In millions	Total revenues	Total expenditures	Surplus (deficit)	End of year fund balance
2013	$23.4	$26.0	($2.6)	$7.5
2014	23.3	23.5	(0.2)	7.3
2015	23.6	25.0	(1.4)	5.9
2016	24.1	27.6	(3.5)	2.4
2017	24.7	30.0	(5.3)	(2.9)
2013-2017 total	$119.1	$132.1	($13.0)	
2013-2017 average	$23.8	$26.4	($2.6)	

Key revenue sources and assumptions

It is important to know how we arrived at the revenue projections and their historical growth rates.

	FY2012 (in millions)	Average annual growth (2005-2012)	Projected annual growth (2013-2017)
Property tax	$7.1	2.0%	3.5%
Sales tax and home rule sales tax*	5.4	8.2%	2.0%
State shared revenues	3.4	1.4%	0.9%
Utility taxes	3.0	0.5%	0.5%
User fees and charges **	1.6	5.1%	1.0%
Total Revenues	**$22.9**	**0.9%**	**1.3%**

**The Village begain collecting home rule sales tax in FY2010. Without that new revenue, 2005-2012 growth would be 1.7% and FY2012 revenue would be $3.0 million.*

***Includes ambulance user fees, which began in FY2010. Without those user fees, 2005-2017 growth would be -3.1%, and FY2012 revenue of $920,000.*

Property tax grows at the rate of CPI-U or 5% whichever is less, plus new growth. The December 2011 CPI-U increase was 3.0%, and has averaged 2.4% over the past three years. New growth and development has recently remained at about 1.0% per year.

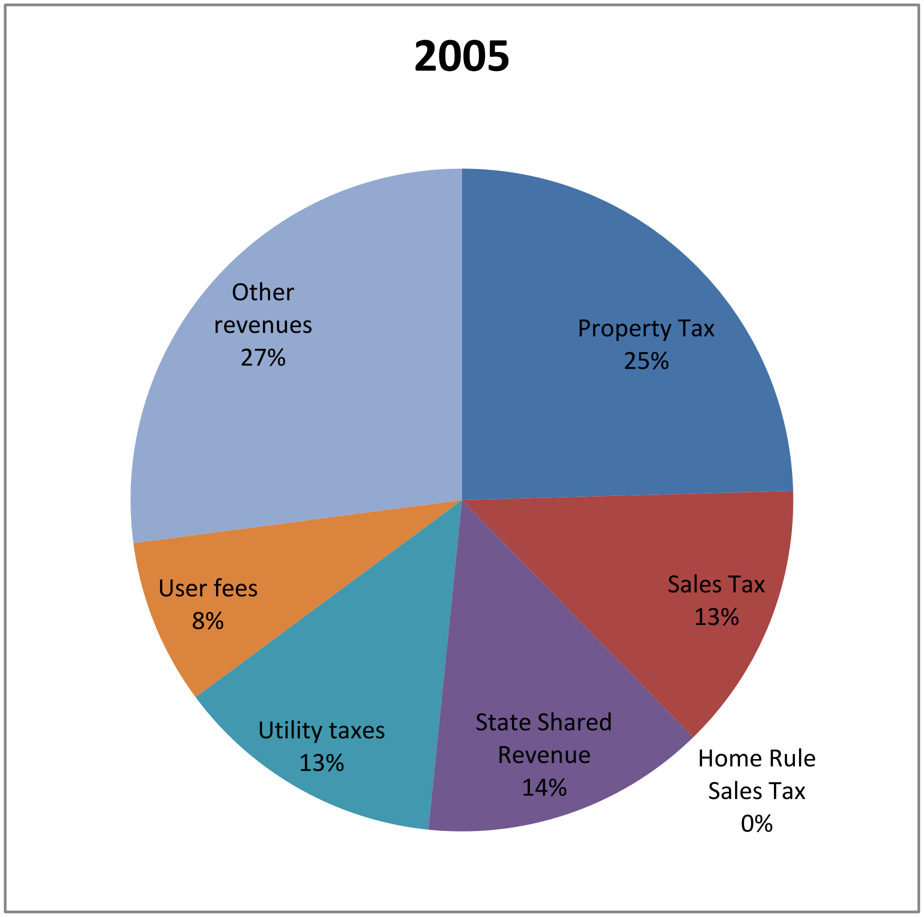
Sales tax revenue, without the home rule sales tax, has grown by just under 2% per year. With the increased focus on economic development within the Village and some slow improvements in the economy, this projection is within range, but could increase with any national economic recovery.

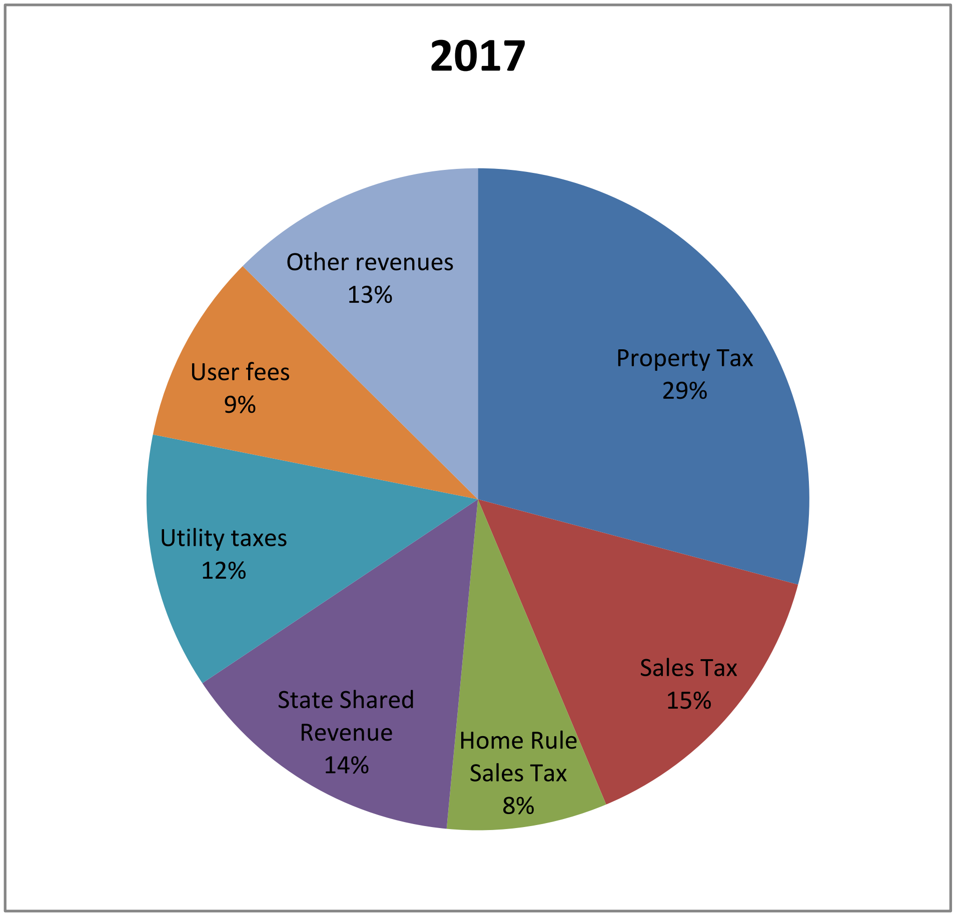
State shared revenues include income tax and motor fuel tax and are generally tied to the state-wide economy. These are collected by the state and distributed to local governments based on population. A moderate growth rate of 1.0% is conservative. The largest threat to state shared revenues is the state government redirecting these dollars to balance the state budget.

Utility taxes includes natural gas, electricity, and cable. This is a function of use (for electricity and natural gas) and rates (for cable).

User fees includes vehicle stickers, licenses and other charges for services. The Village periodically reviews rates to ensure that our costs to provide the services are in line.

Governmental revenue sources

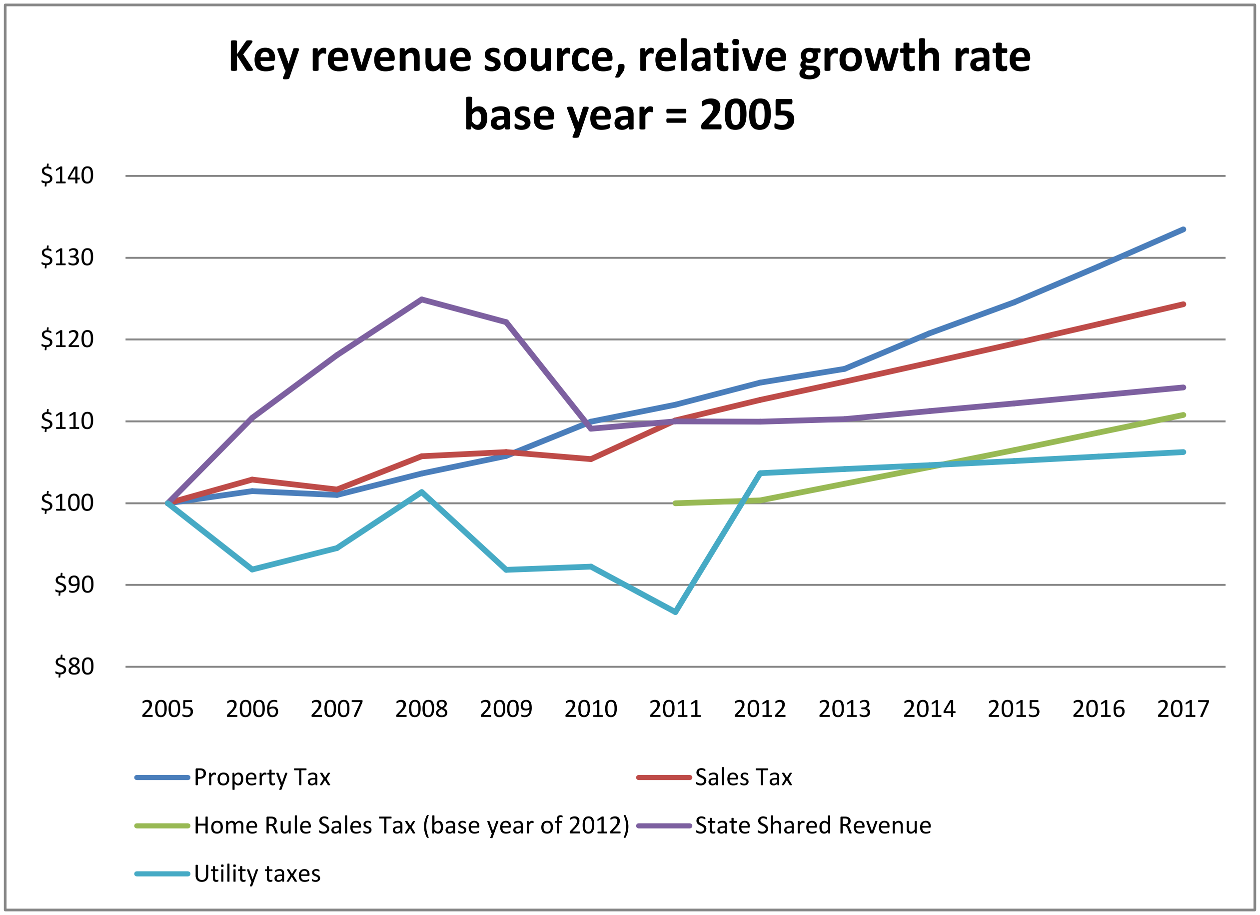




Revenues continue to be diverse and the Village is not over-dependent on one revenue source. Traditionally, the Village is not overreliant on property taxes (less than 7% of residents' property tax bills is used for Village government services). Without higher increases to other revenue sources, over time, the Village risks becoming slightly more reliant on property taxes. Sales taxes, home rule sales tax , and state shared revenues remain key revenue sources.

User fees include building permits, user fees and services charges.
Other revenue includes other taxes, miscellaneous revenue, interest income, and transfers from other agencies or non-governmental funds.

Key revenue relative growth rates



To understand that relative growth rates, each revenue source is set at baseline of $100 in 2005 (2012 for home rule sales tax, the first full year of that revenue source). Each revenue is tracked relative to its base year to identify relative growth rate over time. It is clear that some revenue sources, such as state shared revenues and utility taxes, are erratic, and are projected to grow at a slower rate than sales taxes or property tax.

Expenditures

It is important to know how we arrived at the expenditure projections and their historical growth rates.

	FY2012 (in thousands)	Average annual growth (2006-2012)	Projected annual growth (2013-2017)
Salaries and Overtime	$7,356	3.1%	3.9%
Police Pension	1,036	9.3%	10.0%
IMRF Pension	389	28.8%	2.4%
Health Insurance	900	13.3%	10.0%
Total Payroll and benefits	**$10,031**	**4.9%**	**5.1%**
Other operating expenditures	$5,999	4.4%	3.8%
Other operating expenditures (without ambulance)	$5,070	2.4%	3.7%

Salaries and overtime are projected to grow slightly faster than they have in the past. In a typical year, there is often position turnover, resulting in lower annual costs. A large driver for this cost is the police union contract, which is up for renewal in fall, 2012.

The Village continues to make the annual required contributions to the pension plans. Glen Ellyn's Police Pension fund is better funded than most, but still has a$12 million unfunded liability (close to 400% of covered payroll).

A large part of the IMRF increase relates to an early retirement program from several years ago, coupled with severe investment losses in 2008. The Village's costs for this retirement program are set annually as a percentage of covered earnings.

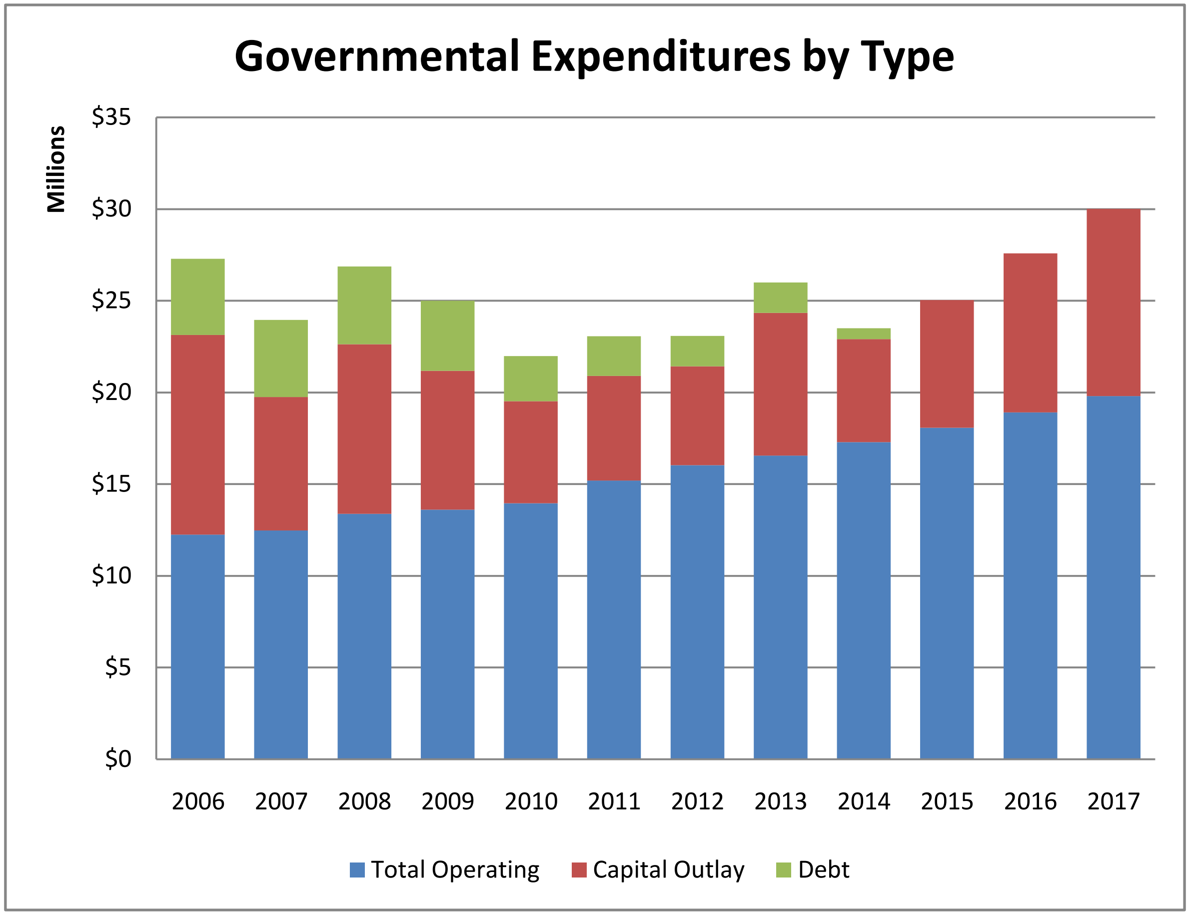
Health insurance continues to be large cost increase driver. The Village switched to an insurance pool a few years ago, and it appears as though the 2012 renewal rates will be favorable. However, the impact of federal health care laws has yet to be fully realized.

The cost to provide the pension and health insurance benefits drive the overall payroll and benefits costs to about 5% per year.

Total governmental expenditures have actually declined from 2006 to 2012 due to large capital investment that was occuring in 2006. Annual growth rates going forward are 3.7%, compared to revenues at 1.3% Of the other operations, the higher growth rate expenditures include police and fire dispatch (5%), equipment services transfer (4%), and liability insurance (6%).

Expenditures by type

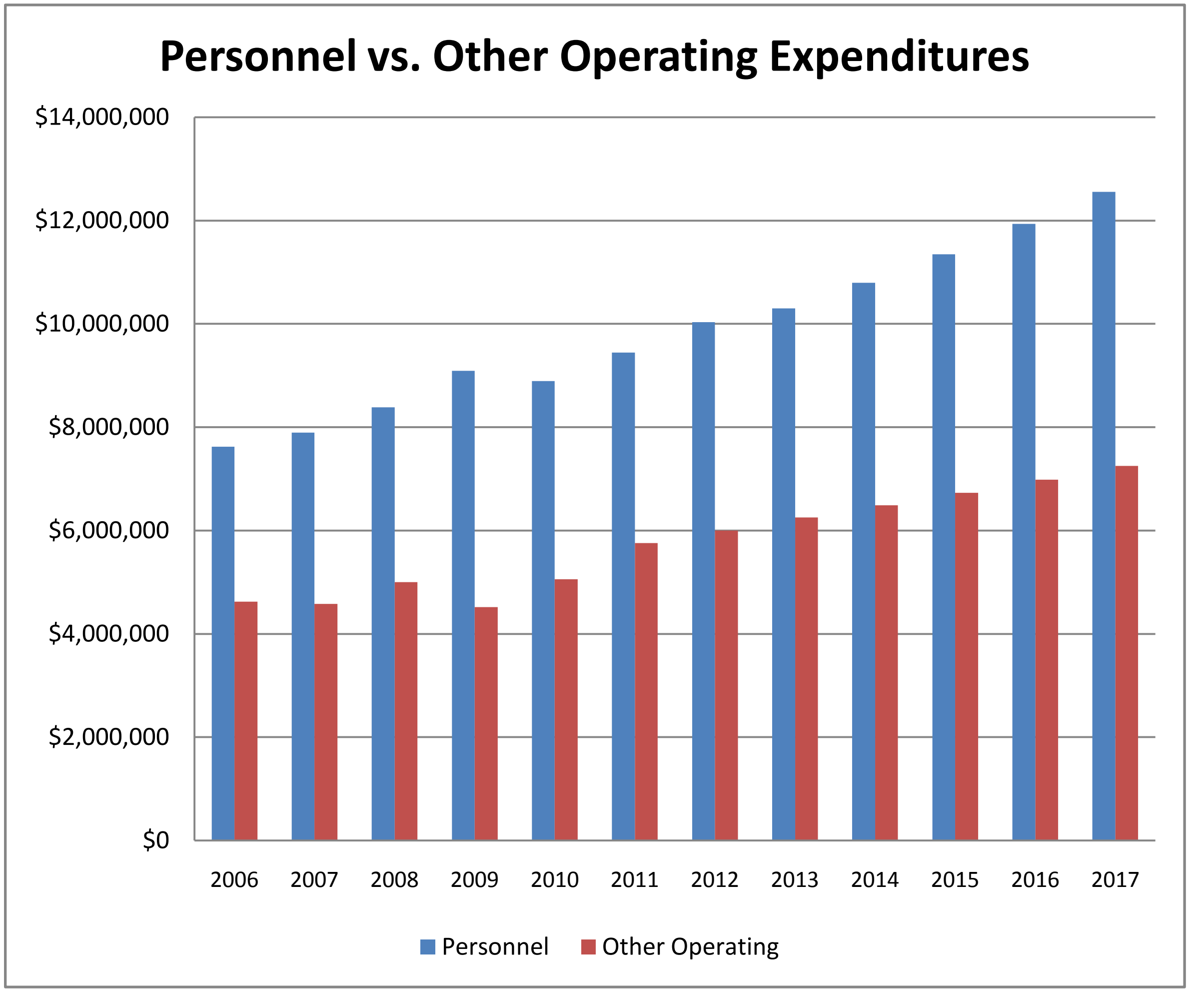
Governmental expenditures can be characterized as operating, capital outlay, and debt. For purposes of this analysis, we have excluded transfers from one governmental fund to another. We have retained transfers to internal service funds as that is an outlay from governmental services.



The debt service payments are diminishing as the remaining bonds are paid off. Capital expenditures vary with the annual capital program (i.e. some years are higher due to scheduling more expensive projects.) Operating expenditures funds wages and benefits, along with contractual costs and supplies that are needed to provide government services. Operating expenditures are the largest area of expenditure, so we will drill down in this area to better understand trends.

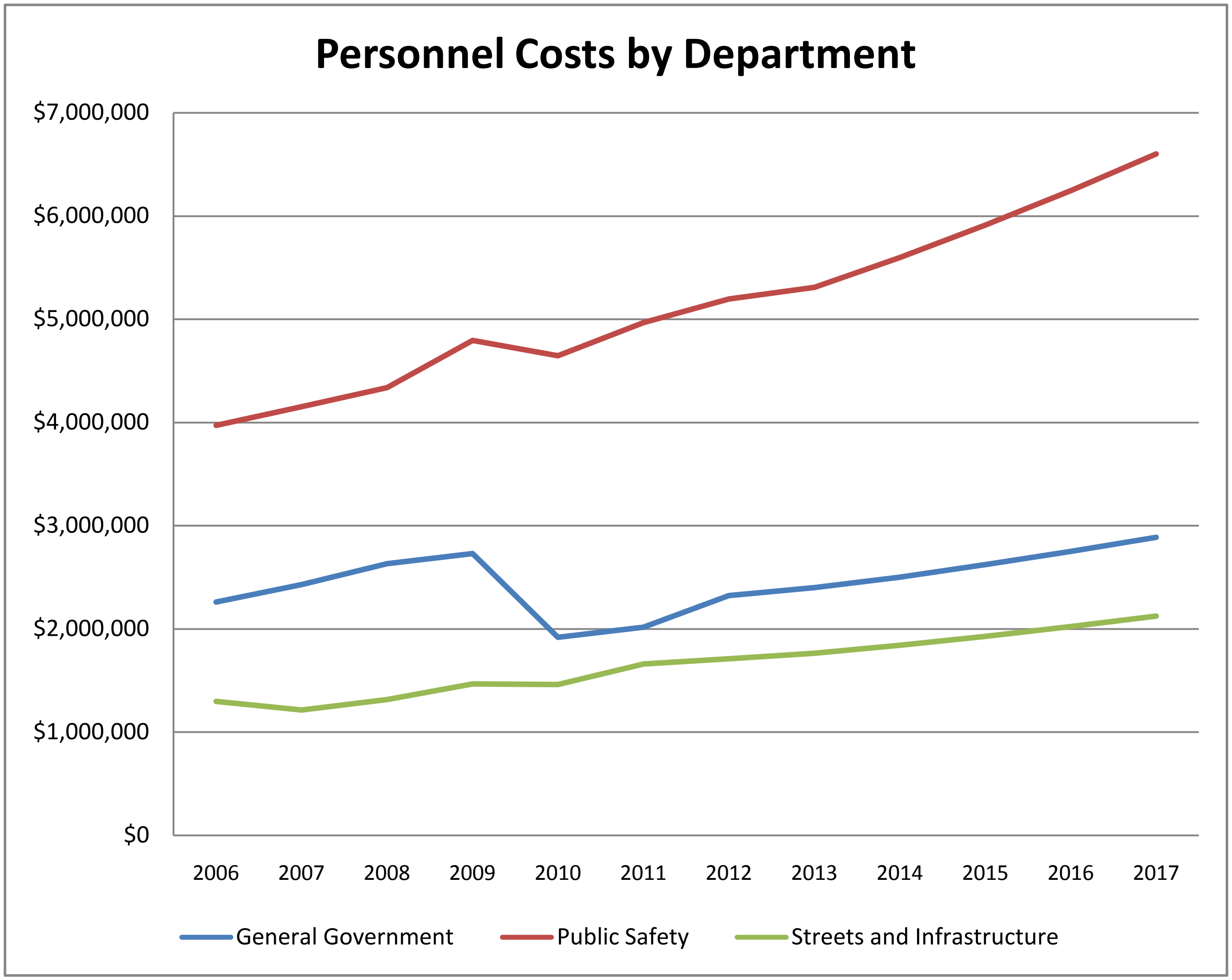
In 2001, 10 year bonds were issued following a referendum to authorize $18M bonds for sewer projects. As those bonds are retired, the property taxes previously levied for the debt is being redirected to the capital projects fund to use a pay as you go approach to future projects.

Personnel and other operating expenditures



The majority of our operating expenditures relate to personnel, increasing by 5.1% as previously discussed. The largest area of personnel expenditure relates to public safety. From 2009 to 2010, there was a decline in personnel spending due to staffing reductions in various departments. Other operating costs are projected to grow at 3.7%.

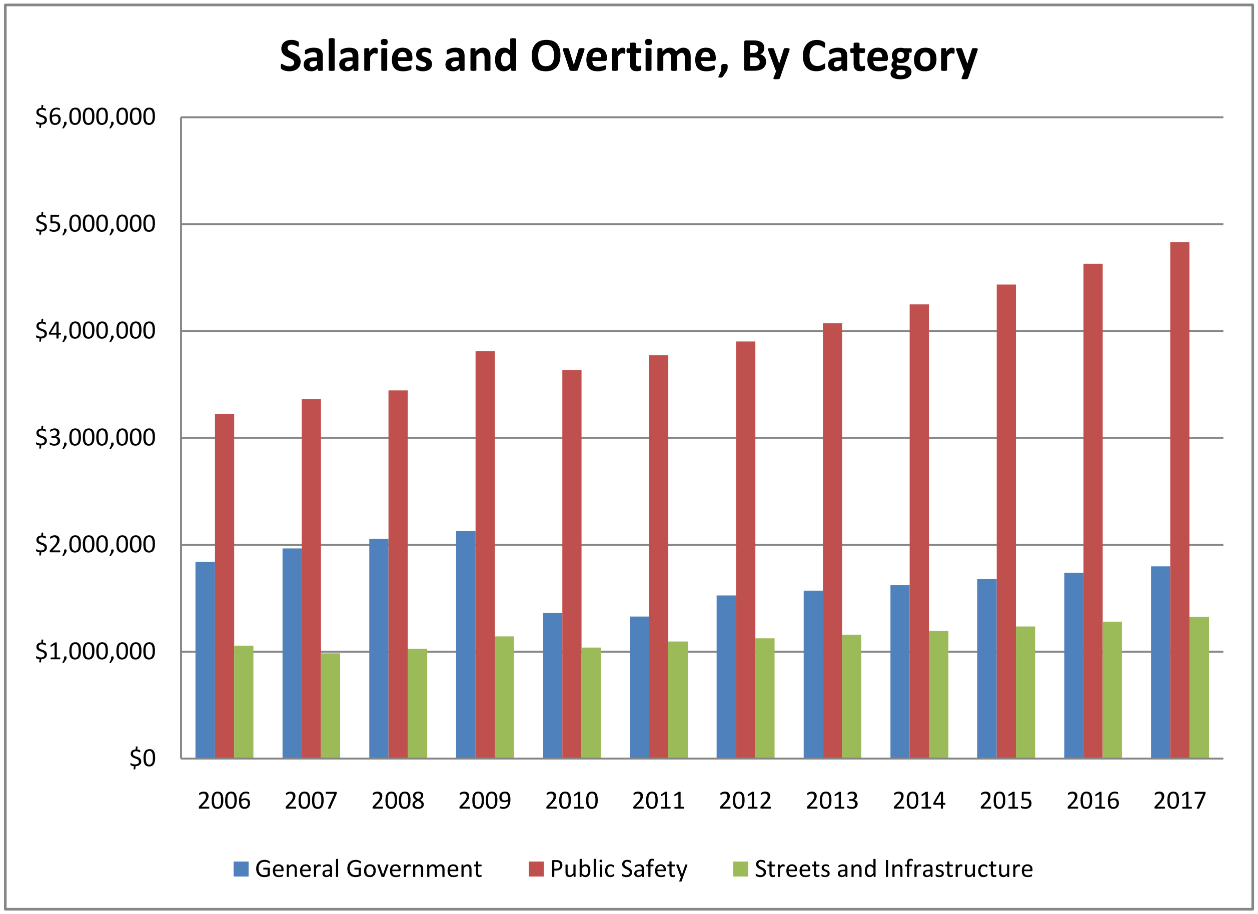
Personnel expenditures, by category



We also can detail the operating expenditures by the type of service that those expenditures support. For Glen Ellyn, those categories are General Government, Public Safety, and Highways and Streets.

The largest category of governmental services is public safety. In addition, there was a decline in both General Governmental and Public Safety spending in FY2009 and FY2010. This is due in part to police pension cost increases, but also reduced non-public safety spending.

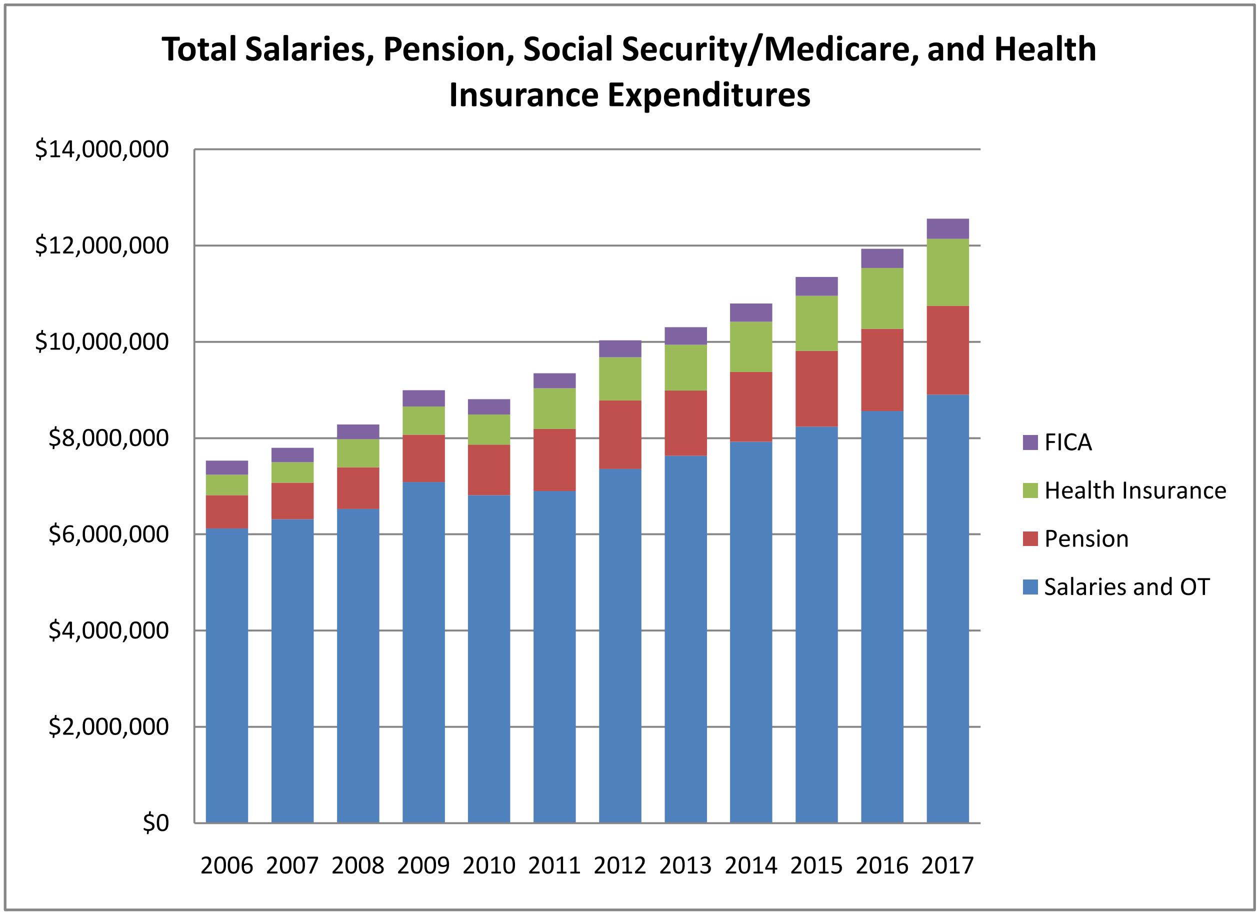
Salaries and overtime, by category



Isolating just salaries and overtime by category (excluding pension and other benefit costs), the public safety costs continue to increase.

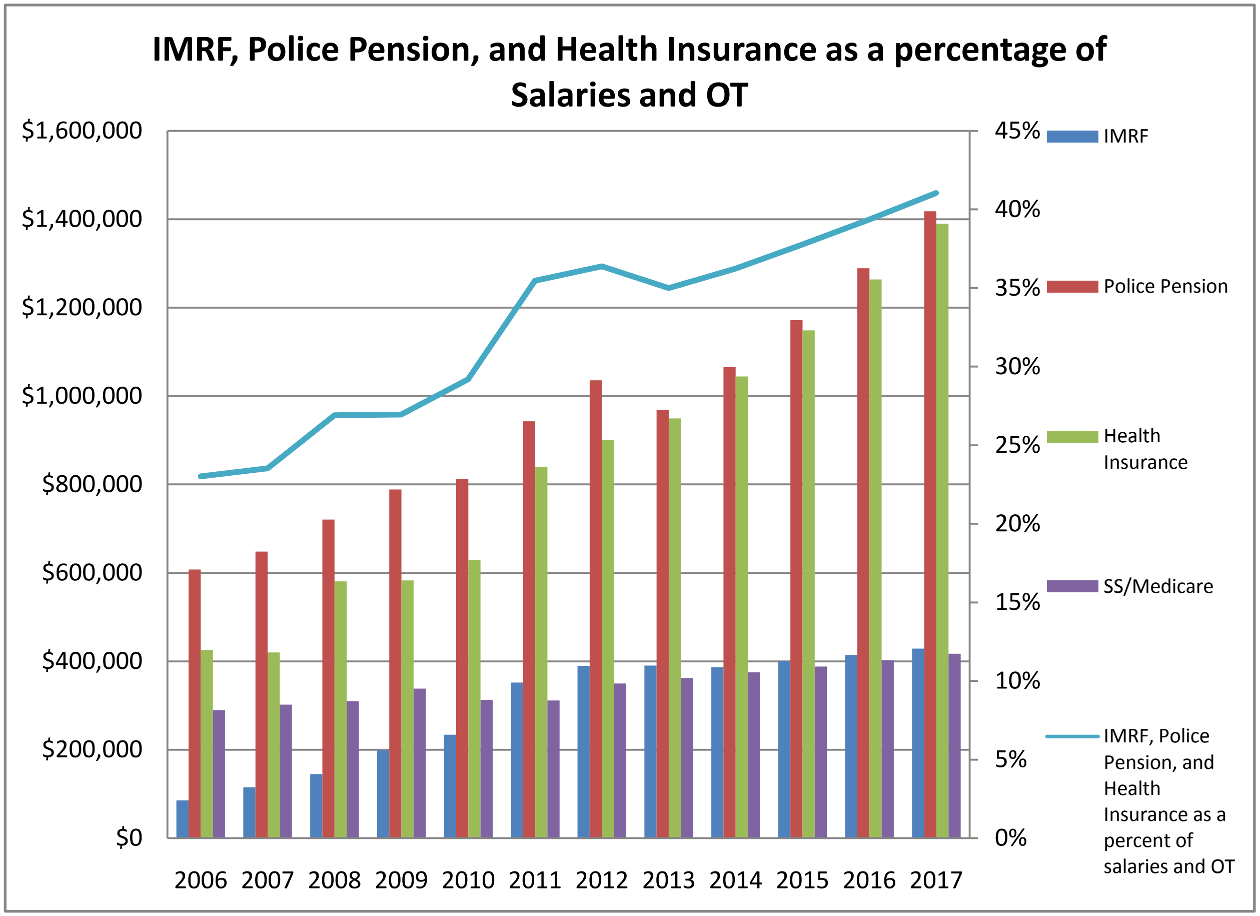
Projections assume current staffing levels.

Personnel costs over time



In aggregate, the costs for personnel increase over time. Each of of these costs are increasing, notably salaries and overtime, health insurance, and pensions.

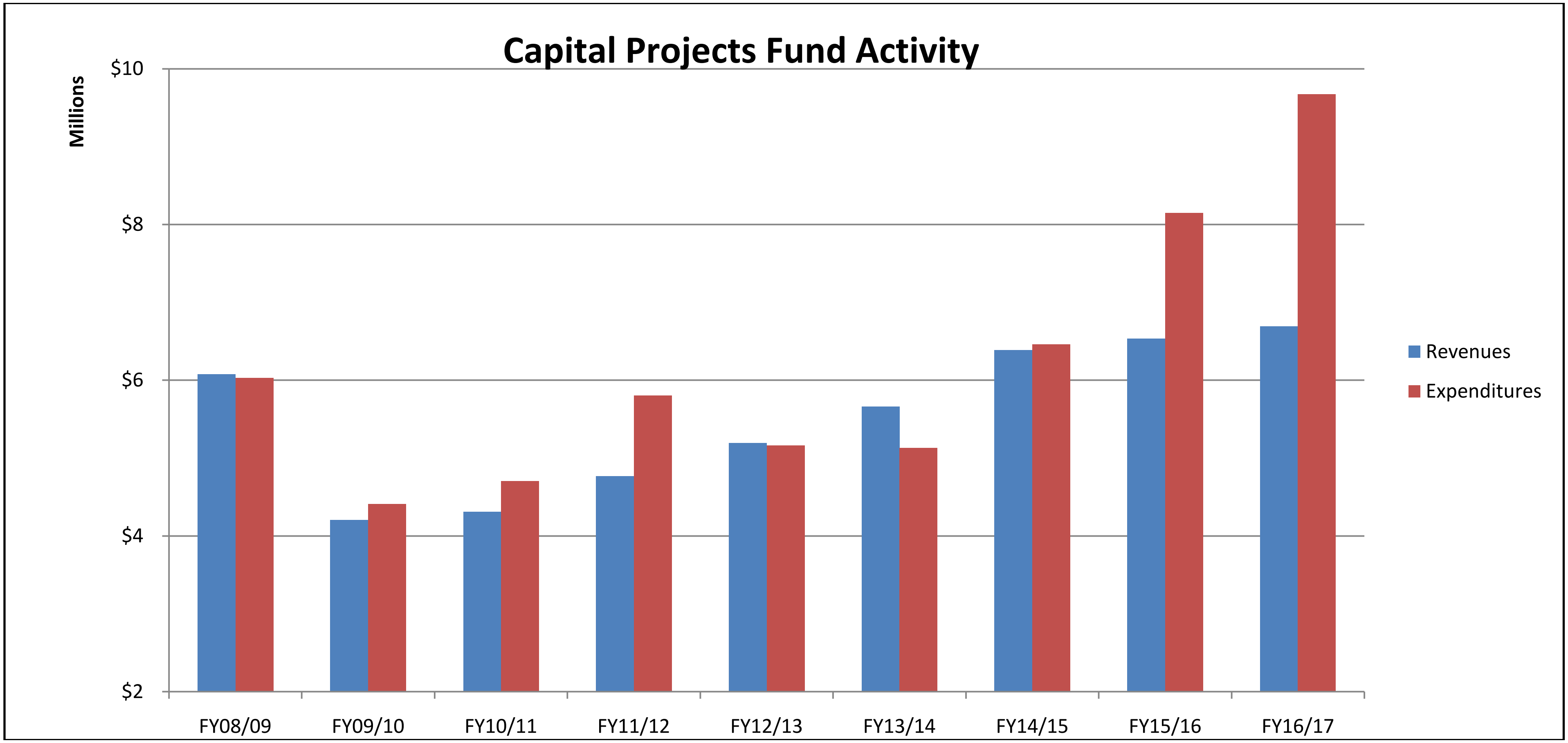
IMRF, police pension and health insurance as a precentage of salaries and overtime



This graph shows the dollar cost of Police Pension, Health Insurance, IMRF, Social Security and Medicare each year from 2006 to 2017. Further, this compares the total cost to provide these benefits (excluding Social Security and Medicare) as a percent of the salaries and overtime. In 2006, those benefits cost about 23% of paid salaries and overtime. In 2012, that number has grown to 36%, and is projected to grow to 41% in 2017. This is due to significant annual cost increases, primarily in health insurance and pensions.

The capital plan

A large driver to deficits included in this projection relates the capital plan. Major revenue sources in the capital projects fund include property taxes (as bonds are retired, as previously discussed), utility taxes, real estate transfer taxes, and grants. 90% of our capital projects fund is spent on the street program. The report below summarizes a majority of the capital project fund plan. The capital plan is continuously monitored, but is reviewed and revised every few years. The long term street program is scheduled to be reviewed in the next few years to assure that expenditures more closely align with revenues. Capital spending will remain within available resources, supplemented by grants whenver possible.



Contributions to the defict

From 2013 to 2017, the following areas contribute to the overall deficit. The calculations below are the dollar cost over 1.3% growth rate from the FY2012 budget numbers.

	Component contribution to the $13 million Deficit
Police Salaries and overtime	$1.8 million*
Salaries and overtime for other employees	$1.2 million*
Employee benefits	$1.8 million*
Economic development	$0.8 million (high end grocery store)**
Capital Outlay	$5.1 million (deficit from capital projects fund)
All other	$2.4 million (includes liability insurance, ambulance contracts and various other operating items)

*Computed as the difference for each projected expenditures at its anticipated growth rate and the total revenue growth rate of 1.3%.
**We expect to re-coup this over time through additional sales taxes.

How much would it take to balance?

To provide a baseline for analysis, we have calculated the amount that would be required from any one of these areas (revenues or expenditures) on their own, to make up the projected deficit.

	Current 2013-17 projected growth rate	2013-17 growth rate needed to fill the gap	2013-17 growth rate needed to fill the gap, without the $4.1 million capital projects fund deficit
Sales tax (includes home rule sales tax)	2.0%	16%	7%
Property tax	3.5%	24%	11%
Payroll and benefits	4.9%	-4.5%	-1.5%

Potential solutions

There are several solutions that could occur. Each of these solutions has benefits and drawbacks.

Expenditures

- **Health Insurance controls**. If we were to keep our health insurance costs flat (after our July 1, 2012 renewal), the Village would save an average of $200,000 per year. If we no longer provided health insurance starting with FY2012, the premium savings would be about $1.16 million per year. This would still leave a shortfall of $5.8M, leaving a 5 year net shortfall of $5.1M
- **Continue to rely on part time employees.** Glen Ellyn utilizes many part time employees, which helps to minimize benefits costs. Whenever possible, the Village should continue to use part time employees to provide service.
- **Control salary increases**. Current projections include a total of 4.5% annual increases for police patrol (which includes step increases) and 3% to 3.5% for all other employees. Lowering these projections by 1 percentage point in each year equals about $250,000 in annual savings, or $1.27M over the 5 years due to compounding. By not making any wage adjustments (if existing staff were to remain), the 5 years savings would be about $4.6M, or $925,000 per year.
- **Evaluate future capital spending and revenues to take advantage of 20 years of investment**. The Village continues to invest heavily in the capital plan. Management will be reviewing the long term plan to determine how best to fund infrastructure projects in the future. The investment made over the last two decades and the availability of grant funds may allow us to decrease funding levels in future years.
- **Evaluate service levels.** While we continue to seek operating and cost efficiencies, significant cost decreases would lower or eliminate some services that the Village currently provides.
- **Intergovernmental and interdepartmental cooperation.** The Village continues to utilize joint purchasing and cooperates with other governments to achieve economies of scale. These efforts should be expanded and explored whenever possible.

Revenues

- **Economic development.** The Village has a number of economic development initiatives underway, such as the downtown TIF, grant programs, and taking a more active role in attracting new development.
- **Implement new revenue sources**. The Village could implement new revenue sources, such as taxes on gasoline, food and beverages, or increase existing taxes, such as the home rule sales tax.
- **Grants**. The Village aggressively seeks grants. However, grants are typically awarded for capital projects.
- **Evaluate the fee and fine structures**. To ensure that we are appropriately covering costs, we should consider reviewing our fee and fine structures periodically.