VILLAGE OF GLEN ELLYN

Five Year Financial Forecast

December 2010

Prepared by
Village of Glen Ellyn
Finance Commission

This Forecast was finalized and approved by the Finance Commission on December 10, 2010.

Introduction & Overview

- The historical data and financial projections herein were prepared by village management.
- Like many municipalities, Glen Ellyn is challenged with expenses growing faster than revenues.
- By focusing on key financial drivers now, Glen Ellyn has the opportunity to address issues and achieve a balanced budget in the future without relying solely on property taxes fill the void.
- This is going to require continued hard work, creativity and determination on the part of management and the Village Board.

Key Revenue Assumptions

	Fiscal 2011 ($ millions)	Average Annual Growth 2002-2010	Projected Annual Growth 2012-2016
Sales Tax & Home Rule Sales Tax	$4.7	0.9%	2.2%
Property Taxes	$2.7	3.9%	4.1%
Income Taxes	$2.1	1.9%	1.3%
Service Charges	$1.7	1.1%	1.8%
Total Revenues	**$15.0**	**2.9%**	**2.5%**

Growth rate in Sales Tax & Home Rule Sales Tax for 2002-2010 includes Sales Tax only.

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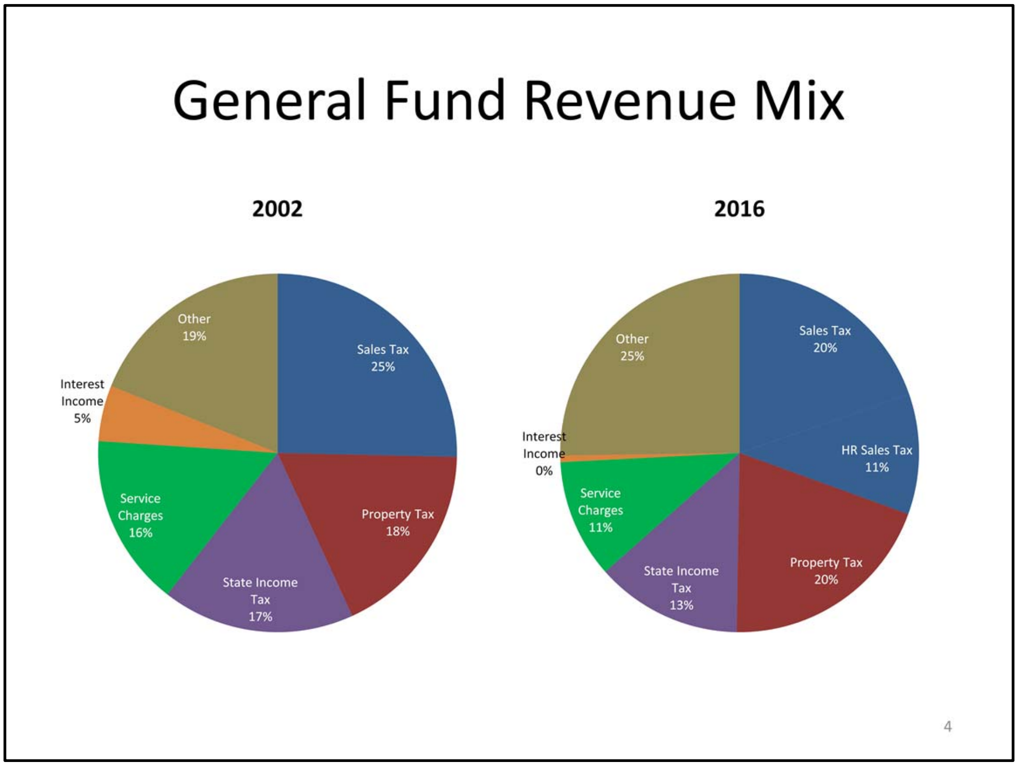
At first glance it may seem aggressive to assume sales taxes will grow at twice the rate they have in the past…but with signs of improvement in the economy and recent increases in sales tax receipts, the FC is comfortable with the 2.2% growth rate.

Property taxes are assumed to grow at nearly the same rate as in the past. Note – Glen Ellyn self-imposes a limitation on the increase in property taxes that is equivalent to the increase available under the Illinois property tax cap.

Income taxes are projected to growth at a slower pace which seems logical given the present economic environment and the likelihood that income increases will lag the upturn in sales tax receipts.

Total Revenues are projected to grow at 2.5%



Two factors are responsible for the change in the revenue mix from 2002 to 2016:
a) the addition of the Home Rule Sales Tax as a revenue source.
b) the near elimination of interest income as a source of revenue – this is due to low interest rates and to decreasing cash balances.

Key Expenditure Assumptions

	Fiscal 2011 ($ millions)	Average Annual Growth 2003-2010	Projected Annual Growth 2012-2016
Salaries & Overtime	$7.4	3.4%	3.8%
Police Pension Contributions	$0.9	11.4%	10.0%
IMRF Pension Contributions	$0.4	40.4%	4.9%
Health Insurance	$0.8	1.7%	10.0%
Total Payroll & Benefits	**$9.5**	**4.0%**	**5.1%**
Total Expenditures	**$15.0**	**3.1%**	**4.8%**

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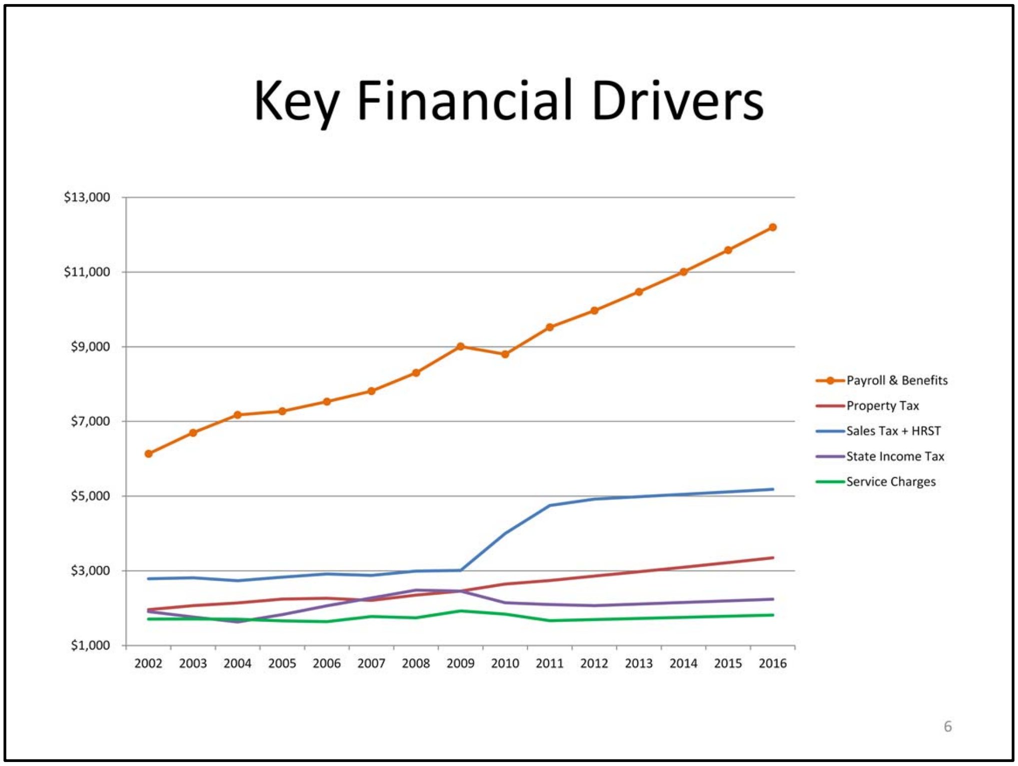
Salaries are projected to grow slightly faster than they have in the recent past.

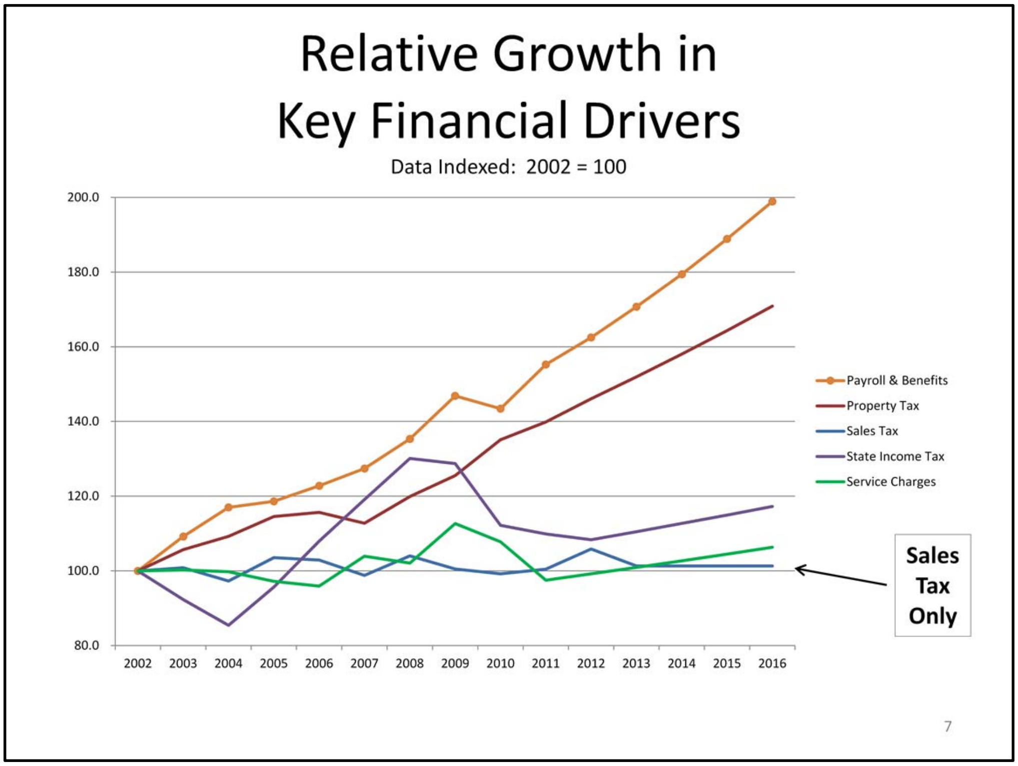
The historical growth rate for the IMRF Pension Contributions is distorted by an early retirement program that was initiated by the Village several years ago.

The historical growth rate for the Health Insurance costs is distorted by Village's switch to a self-insurance program and then back to a traditional insurance program.

Total Expenditures will grow at 4.8% - this in comparison to the 2.5% growth rate for Total Revenues.

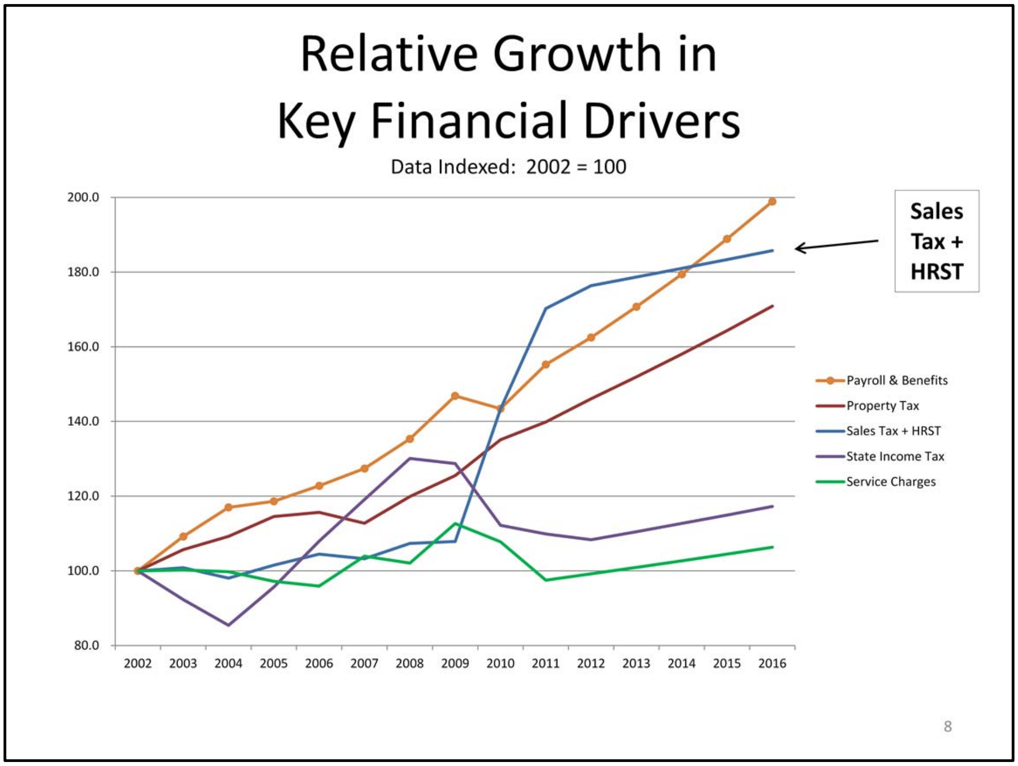


This chart shows the historical results for several key revenue items and for total Payroll & Benefits. It is relatively easy to see that Payroll & Benefits is growing faster than the revenue sources…but the next slide make the comparison even more clear.



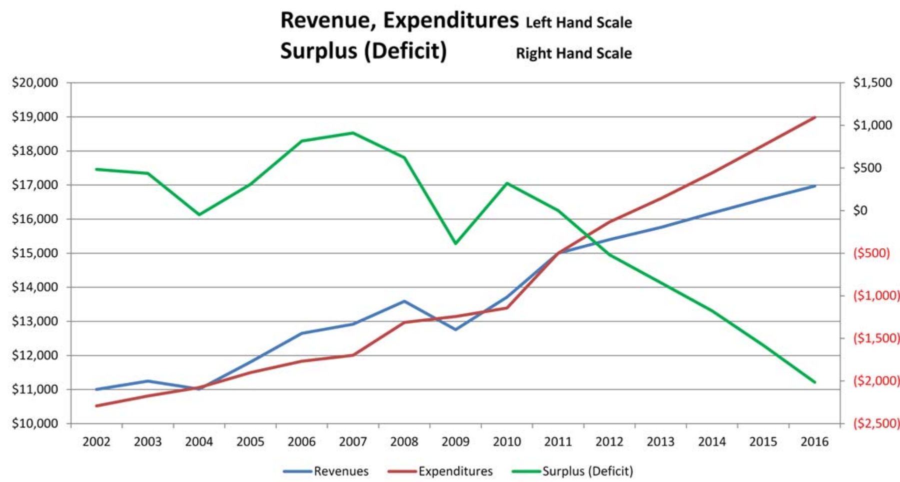
In this chart, all items are indexed to their value in 1999 and the growth from there forward is presented in slope of the various lines. It is important to note that the only line which is approaching the slope (growth rate) of Payroll & Benefits is the Property Tax revenue line. Other revenue sources are not keeping pace with the growth in employee costs.

This chart excludes the implementation of the 1% home rule sales tax.



The 1% home rule sales tax is included here and as the blue line demonstrates, the new revenue source provided a step function increase in total sales tax dollars. However, the projected growth rate in home rule sales tax revenues is less than the growth rate for Payroll & Benefits so this provides only temporary budget relief.

Revenue, Expenditures & Bottom Line Results



Total Revenues, Total Expenditures and Net Surplus (Deficit) are presented here. The projection begins in balance for 2011 with $15 million of revenues and $15 million of expenditures. However, the imbalance in growth rates quickly leads to deficits as demonstrated by the green line.

Revenue, Expenditures & Bottom Line Results

	2012	2013	2014	2015	2016
Revenue	$15.4	$15.8	$16.2	$16.6	$17.0
Expenditures	$15.9	$16.6	$17.4	$18.2	$19.0
Surplus (Deficit)	($0.5)	($0.8)	($1.2)	($1.6)	($2.0)

Cumulative Deficit 2012–2016 = $6.1 million

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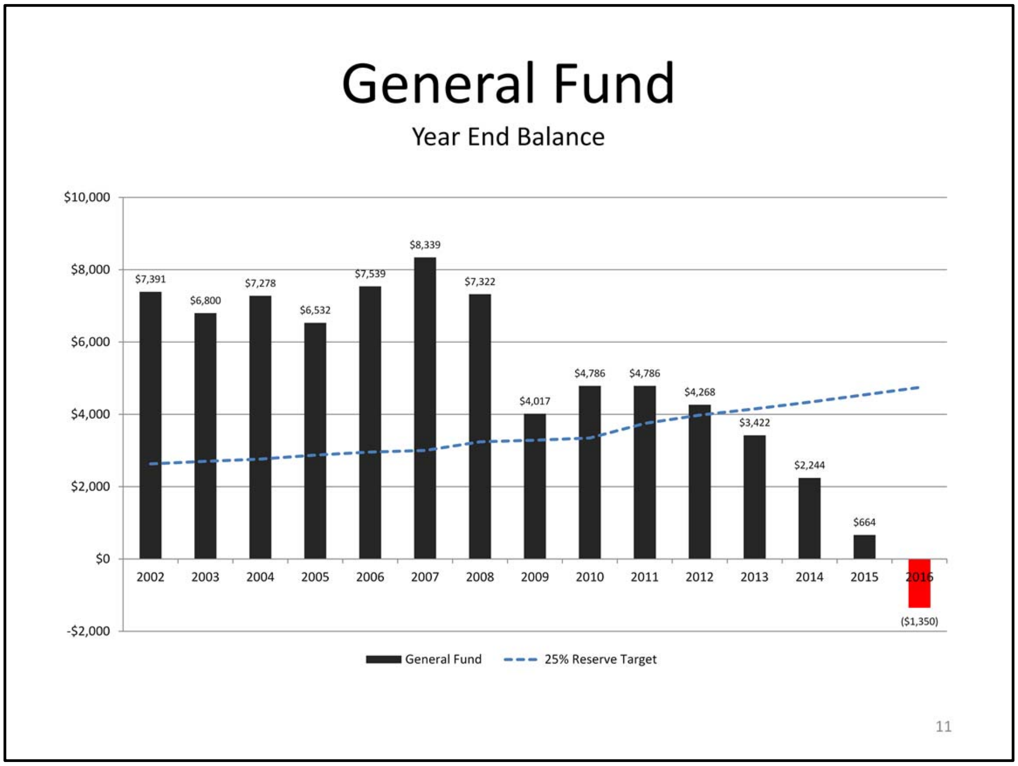
The result is a $6 million total deficit over 5 years – starting at $500,000 per year and reaching $2 million per year by year 5.



Funding the deficits with existing reserves will only work for four years before reserves are depleted.

How to Close the $6 Million Gap

- There are three key drivers on which Glen Ellyn must focus:
  - Sales Taxes (and the Home Rule Sales Tax)
  - Salaries (headcount and rate of salary increases)
  - Healthcare Costs
- In addition, Glen Ellyn and other municipalities must encourage major changes in state mandated pension programs or face an unsustainable financial burden in the future.

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How to Close the $6 Million Gap Using One Lever at a Time

	Fiscal 2011 ($ millions)	Average Annual Growth 2002-2010	Projected Annual Growth 2012-2016	Required Annual Growth 2012-2016
Sales Tax & Home Rule Sales Tax	$4.7	0.9%	2.2%	**9.5%**
Property Taxes	$2.7	3.9%	4.1%	**15.7%**
Payroll & Benefits	$9.5	4.7%	5.1%	**1.0%**

Growth rate in Sales Tax & Home Rule Sales Tax for 2002-2010 includes Sales Tax only.

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This chart shows the results of changing one variable at a time to erase the $6 million deficit. None of these moves in isolation is realistic, but it helps to understand the magnitude of the increase or decrease that would be required for each line item.

For example, if the entire budget deficit was to be eliminated by increasing property taxes and making no other changes, Glen Ellyn would need to increase property taxes by 15.7% per year for each of the five years – this means that property taxes going to the village would double in five years.

How to Close the $6 Million Gap Without Additional Property Tax Increases*

Action Plan for 2012 – 2016	Cumulative Bottom Line Impact
Increase Growth in Sales Tax and Home Rule Sales Tax from 2.2% to 5.0%	$2.3 million
Decrease Growth in Salaries & Overtime from 3.8% to 2.5%	$1.5 million
Decrease Growth in Healthcare Insurance from 10.0% to 5.0%	$0.8 million
TO BE DETERMINED	$1.5 million ($300k per year)

* Beyond the base case forecast.

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This provides a combination of more realistic solutions to erase the deficit.

If all three of these steps can be achieved, $4.5 million of the $6 million deficit would be eliminated.

Conclusion/Recommendation

- Now is the time to address the coming imbalance in revenues and expenses.
- Property tax increases beyond the rates available under the Illinois tax cap must be avoided.
- Glen Ellyn must move immediately to jump start its economic development program to drive major increases in sales taxes and commercial property taxes.
- Glen Ellyn must make further reductions in staff or slow the rate of salary increases.
- Glen Ellyn must take action to slow the rate of growth in the Village’s share of healthcare expenses.
- Glen Ellyn should continue to work with other municipalities to enact pension reform on a state-wide basis.
- Glen Ellyn should consider organizing a resident-driven effort to pressure state legislators for pension reform.

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Appendix

Component Contribution to the $6.1 Million Deficit

Salaries – Police	$1.4 million
Pension – Police	$0.4 million
Salaries – Other Employees	$1.5 million
Pension – Other Employees	$0.1 million
Healthcare Expenses	$0.3 million
10 Other Expense Line Items	$2.4 million
Cumulative Deficit 2012-2016	**$6.1 million**

Contribution to deficit was calculated by determining growth in each line item exceeding the 2.5% average growth in Total Revenues.

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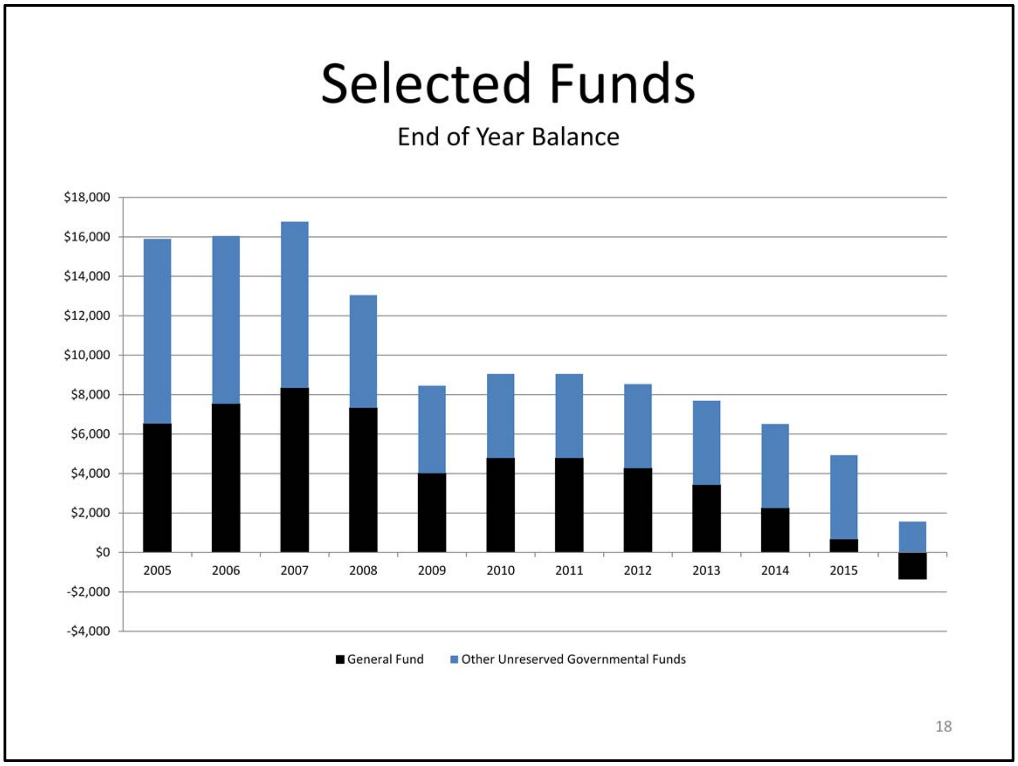
Selected Funds
End of Year Balance
$18,000
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
-$2,000
-$4,000
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
General Fund
Other Unreserved Governmental Funds
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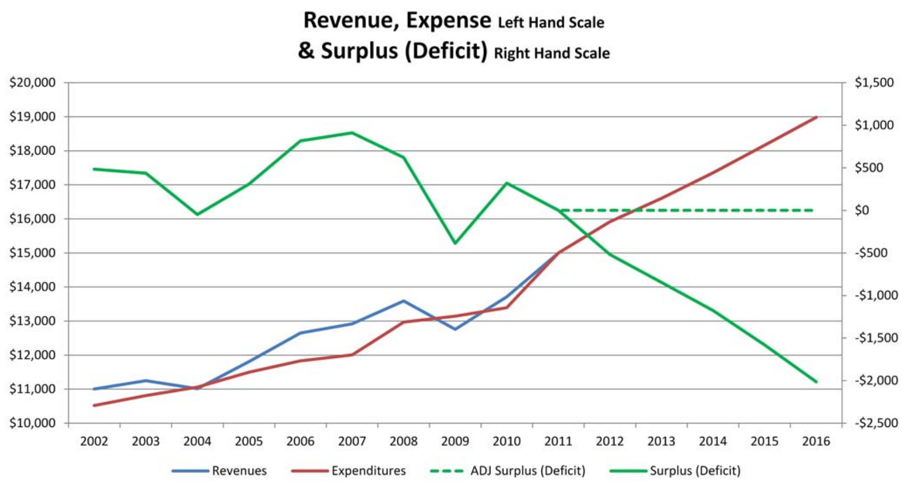
Revenue, Expenditures & Bottom Line Results

Using Only Property Taxes to Balance the Budget



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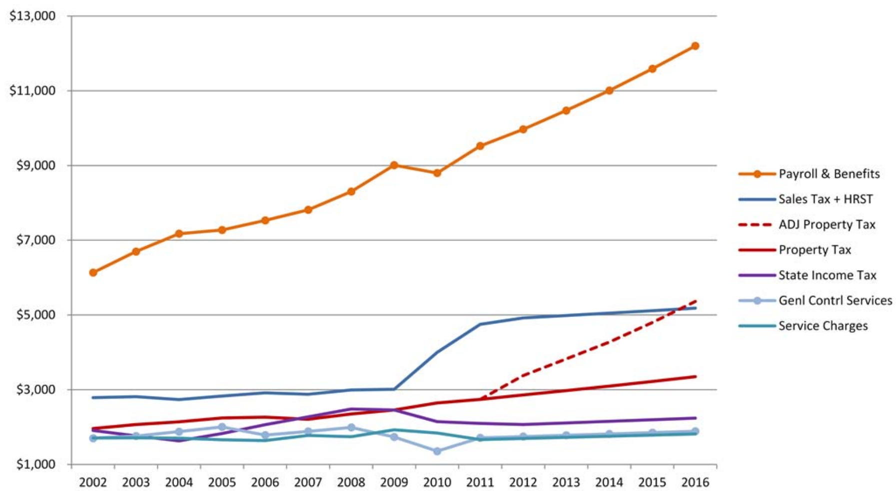
Key Financial Drivers

Using Only Property Taxes to Balance the Budget



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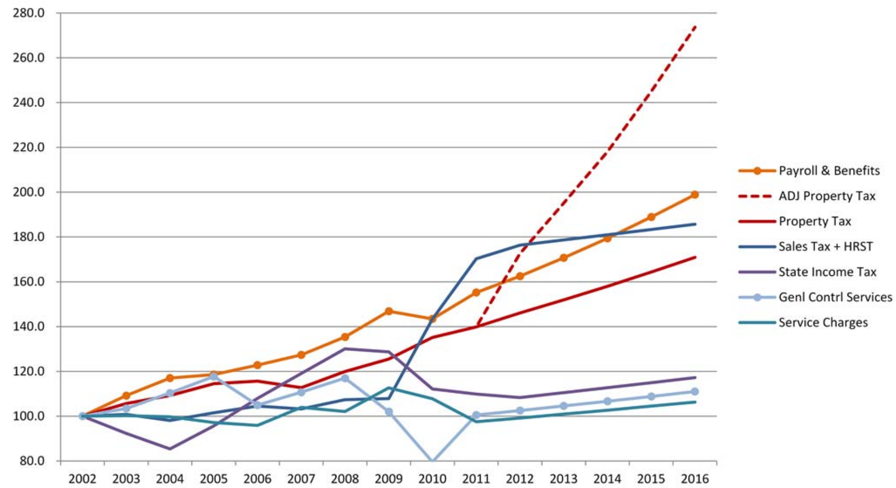
Growth in Key Financial Drivers

Using Only Property Taxes to Balance the Budget

Data Indexed: 2002 = 100



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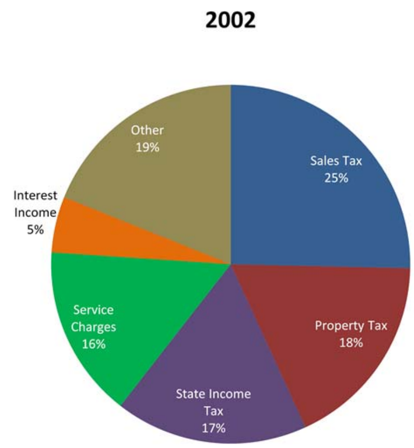
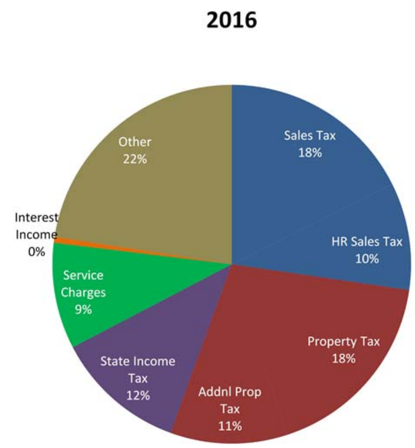
General Fund Revenue Mix

Using Only Property Taxes to Balance the Budget





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Using Property Taxes to Balance the Budget 2012-2016

- Total property taxes in 2016 for the General Fund would need to increase from $3.3 million in the base case to $5.4 million.
- For a homeowner with a $400,000 property, this would mean an additional $190 in property taxes paid to the Village in 2016.

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