

October 1, 2019



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

Subject: Budget Transmittal for Fiscal Year 2020—Recommended Draft Budget

Introduction

Transmitted with this letter is the recommended draft budget of the Village of Glen Ellyn for Fiscal Year 2020 (FY20), which runs from January 1, 2020 through December 31, 2020. 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 document, in many ways, acts as the corporate plan for the Village over the next twelve months. The budget formation was again conducted through a zero-based budget process. The FY20 budget process required all departments to justify all line items and summarize the need for all expenses incorporated in their respective department budgets. This process, allocating scarce resources and prioritizing programs and projects, is difficult each year because the demand for municipal services often exceeds the revenues available to pay for those services.

The budget consists of 17 different funds, many summarized below. The General Fund continues to be a main focus of the annual budget process. This year, the General Fund is balanced with a small surplus of \$244.

The 2020 budget can be bifurcated into capital and operating components. The operating components provide consistent Village services, and the Village has budgeted to maintain the same level of service to the residents as in prior years. The capital component fluctuates from year to year and is based upon the Village's capital plan. The 2020 budget has a capital focus as the Village continues many high profile capital projects, while also maintaining current street and infrastructure programs. Highlighted by the table below, the major change from the FY19 to FY20 budget is in the capital plan.

	2019 original budget	2020 proposed budget	\$ Change	% Change
Operating (net of transfers)	\$38,245,432	\$40,088,450	\$1,843,018	4.82%
Capital & Debt Service	\$23,662,202	\$37,298,794	\$13,686,592	57.63%

During this process, staff 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.

Background (Financial Scorecard and Five Year Forecast)

In order to provide context for the merits and challenges of the Village's financial standing as the Village prepares its budget for Fiscal Year 2020, it is important to review the highlights of the Village's Scorecard and Five Year Forecast. The Scorecard compares and contrasts the Village's financial performance to its peers. In the Scorecard, the Village was identified to have a strong financial position with less debt and lower pension liabilities than its peers. The Village was also shown to have lower spending for fire, police, and administration as compared to the peer group.

The Village also fared well in its ranking for property taxes going to the Village/Library for a median value home. The Scorecard did underscore the need for the Village to stimulate economic development to increase the non-residential property tax base. Increasing the non-residential property tax base could shift the property tax burden from the residential properties and may also increase sales tax and home rule sales tax revenues to the Village. The Scorecard is currently being updated, reviewed with the Finance Commission, and is anticipated to be available late Fall 2019.

In contrast to the Scorecard which looks at current and historical trends, the Five Year Forecast is a look into the Village's financial future. It is important to note that the Five Year Forecast is not a prediction of the future; it is a financial model for the Village to identify and understand potential imbalances in revenues and expenditures in order to take strategic action to mitigate those imbalances. The Five Year Forecast identified that the General Fund revenues are growing at a slower rate than General Fund expenditures. Revenues are forecasted to grow at 2.0% while expenditures grow at 4.7%, which creates a forecasted imbalance in the General Fund. Personnel costs, including salaries, FICA, health insurance, and pension costs are the majority of expenditures in the General Fund (65% of General Fund Expenditures). Personnel costs are projected to increase 2-6%, depending on department, over the next five years. Also, the Five Year Forecast provides a warning with respect to unfunded pension liabilities estimated at over \$25.2 million at the end of FY2020. The contribution required to the Police Pension Fund is estimated to grow by 5% annually over the next five years, staying with the current actuarial model.

Budget Guidelines, Discussion Topics and Challenges

Total recommended budget (net of interfund transfers) is \$77.4 million, about \$15.5 million more than the FY19 original budget (a 25.0% increase). This increase is largely due to the budgeted parking garage of \$16.0 million. The FY20 proposed budget projects an overall decrease in net position (i.e. net income) of \$11,385,322, largely due to the capital program. In some years, such as the prior year, a surplus is budgeted as the Village saves for large capital projects. In other years, such as FY20, there is a decrease in net position as the Village uses saved dollars for capital projects. The General Fund expenditures increased \$696,488 or 3.7% from the 2018 original budget.

Budget Guidelines: Management developed the budget under the following guidelines:

- **General Fund Balanced Budget** – Over the many years since the recession, the Village has been successful in balancing the General Fund budget before presenting the budget to the Village Board as the goal is for the annual General Fund budget to be balanced. For FY2020, the General Fund has again been balanced.
- **Cash Reserves** – The budget maintains the targets outlined in the Village's cash reserve policy. The General Fund policy is 30% of operating expenditures. Water and Sewer Fund cash reserve policy will increase to \$2.354M with a 1.9% CPI increase. For certain other funds, the policy calls for cash reserves of at least 25% of operating costs. Only one fund, the Village Links/Reserve 22 is budgeted to remain below its cash reserve level, due to two years of challenging spring weather and necessary capital investment.
- **Special Service Areas (SSA) for Economic Development**– The SSA rate will remain the same at 12.5 cents per \$100 of EAV.
- **Home Rule Sales Tax** – The Home Rule Sales Tax is budgeted at 1.25%, the rate that went into effect July 2018. The State of Illinois has continued its 1.5% collection fee, which will cost the Village approximately \$40,000 FY2020.

- Income Tax – The income tax experienced a 10% reduction in FY18, a cost of \$290,000 to the General Fund. In FY19, this was reduced to 5%, a cost of \$145,000, which WILL continue into FY20. The combination of state reductions as well as tax law changes has erased any positive gains in this revenue stream since FY2013, over 5 years ago. FY19 began to see some positive gains in income tax, potentially due to federal tax law changes. The FY20 budget for income tax is increased 3.61% from FY19.
- Personnel Costs - These costs are the largest expense for any municipality, so we pay special attention to all components of personnel. We continue to be one of the lowest users of full-time employees per capita in DuPage County. Job sharing and the utilization of seasonal employees and part-time employees allow us to control health insurance and pension costs.
 - Overall personnel costs (salaries, overtime, FICA, and pension) are increased by 3.5% from FY2019 to FY2020.
 - The Village is in the sixth year of a merit based pay system for non-union employees that allows Management to establish a scale and reward top performers more effectively. The FY20 budget recommends a merit pool of 2.75%, at a cost of approximately \$275,000, which includes payroll tax and pension costs. The budget also includes a 2.75% increase for the police union effective November 1, 2019 and a 2.25% increase effective November 1, 2020, which are part of the police contract.
 - IMRF pension costs (or pensions for non-sworn employees) have decreased for several years. However, in FY2020, IMRF is decreasing its investment rate return assumption which increases the IMRF contribution rate for the Village from 7.15% to 9.09% of covered payroll. The FY20 rate is still lower than the rate of 9.89% in FY18. The IMRF expense for the Village is anticipated to increase by \$170,000 from FY19 to FY20.
 - The Village has been fortunate for many years to have below market health insurance premium increases. The FY19 budget includes a 2% increase in health insurance premiums, effective July 2020.
 - The budget includes personnel changes made throughout FY19, including making the Economic Development Coordinator position full-time to further the Village's commitment to economic development. Also, an Administrative Assistant in Public Works was transitioned from part-time to full-time as part of a succession plan. New in FY20, the budget proposes adding one sworn police officer and allowing the police department to over hire by two officers. The 2020 budget also includes a Senior Building Inspector in Community Development to help distribute the project load felt by a good building market as well as several large projects anticipated in the downtown. These costs will be offset to some degree by decreasing the dependence on outsourcing some plan reviews.

- Village Operations make up 51% of the total budget for all funds in FY20. 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 expenditures related to the maintenance of Village owned assets and rights of way. Some examples of Village operating expenditures/expenses include:
 - Police and fire protection
 - Purchase of Lake Michigan water
 - ED Awards
 - 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 contract
 - Retirement benefits administration (Police Pension Fund)

In many ways, these costs are non-discretionary, if we want to maintain the same level of services we currently provide. The discretionary portion of the budget: materials, dues and subscriptions, training, supplies, uniforms, postage, etc., has remained flat for many years which limits our ability to control overall costs.

- Capital improvement plan (CIP) – The capital plan was presented to the Village Board in September 2019. The budget is based off of this plan and the pertinent details of the capital plan are outlined below.

Discussion Topics for the Fiscal Year 2020 Budget Process. In addition to the background presented on the Scorecard and Five Year Forecast, Management feels that several items are important to communicate regarding the Fiscal Year 2020 budget:

- Property Tax – Historically, the Village voluntarily abides by the tax caps laws, meaning the Village historically increases the tax levy based on the lesser of CPI or 5% as well as new growth. In 2014, the Village Board did not increase property taxes towards the General Fund or the Capital Improvement Plan budget. In 2015, the Village Board only increased the levy to account for new growth/annexations, but did not increase the levy for a CPI factor. This was also the path chosen for the 2016 levy (2017 budget). In 2017 (2018 budget), the operating levy was increased only by new growth, but the Capital levy was increased in accordance with tax cap guidance. The culmination of these decisions has created a savings of \$562,000 to the taxpayers, or approximately \$70 per property owner. In 2018 (2019 budget), both the operating levy and the capital levy were increased by both CPI (2.1%) and new growth (0.7%).

The current budget includes a 1.9% growth factor for CPI and a 0.9% growth factor for new construction and annexations. The 1.9% is the CPI growth factor that is set by DuPage County for all taxing bodies. The 0.9% growth factor includes 0.01% for annexations and 0.8% for new construction. Management is recommending that the levy be increased by CPI for the FY2020 budget for the following reasons.

- In order to meet the debt service and continue to fund the community's capital needs, the capital levy should be increased. The capital plan projections include a 2% annual increase in property tax revenue to meet our capital plan. Also, the increase in CPI helps the Fund's revenues keep pace with construction cost increases due to similar price inflation.

- The General Fund levy would increase by \$97,741 or 2.8%. The General Fund levy supports the Police Department; yet the proposed General Fund levy of \$3,595,818 only covers 39% of the General Fund police budget. The police pension contribution of \$1.959 million is 10% of the General Fund budget. This small increase insures that we continue to meet our public safety obligations. If the General Fund levy was only increased by new growth, then the increase would be \$31,277.
- The Five Year Forecast highlights that the growth of revenues is not forecasted to meet the Village's growing expense needs. Increasing the property tax by CPI is a very small measure to ensure that this gap does not widen. By sustaining this revenue source today, we avoid the need to find a different revenue source to fill the projected compounded gap in the future.
- Sales Tax and Home Rule Sales Tax – The budget numbers for sales and home rule sales tax do not include any increase to the base sales tax revenue. However, in September 2019, Pete's Market opened. The budget includes \$150,000 in new sales tax revenue and \$10,000 in new home rule sales tax revenue for FY20. It is anticipated that lost revenue to the Mariano's in both Wheaton and Lombard will return to the Village once Pete's Market opens. The Village also entered into a sales tax incentive agreement with the shopping plaza owner. The 2020 budget includes \$151,400 in sales tax incentive to be rebated back to the shopping plaza owner. The budget also includes \$45,000 in new sales tax revenue and \$45,000 in new home rule sales tax revenue from new restaurants such as Raising Cains, Buona Beef, Andy's Frozen Custard, and Two Hound Red.
- Water and Sewer Rates –The draft FY20 budget does not include a rate change for water and sewer rates. The fund currently has a healthy net position; however, several large capital projects do decrease that position over the five year forecast.
- Capital Funding Plan – During FY18, the Board and staff worked together to determine a funding plan for several projects which were previously unscheduled and unfunded. Those projects include Civic Center HVAC improvements, a Central Business District (CBD) parking garage, CBD street and streetscape, train station and pedestrian underpass, and Roosevelt Road access improvements. The Civic Center HVAC improvements and Roosevelt Road access improvements were completed in FY19. The hallmarks of this plan are included in FY20 budget as follows:
 - \$16 million is included in the Parking Fund for construction of the parking garage.
 - \$800,000 in engineering for the CBD street and streetscape project is included in the Capital Projects Fund and \$300,000 is budgeted in the Water & Sewer Fund.
 - \$9.5 million in bonds is planned to be issued in FY20 to support these capital projects.
 - A full year of food and beverage tax is budgeted for 2020, estimated at \$1.3 million. A \$50,000 annual collection fee is budgeted to be transferred to the General Fund to account for the cost of collecting and enforcing the tax.
 - \$500,000 in engineering is budgeted for the train station/pedestrian underpass in the Capital Projects Fund.

The 5 year Capital Improvement Plan (CIP) plots these projects over the next five years. This document can be found in the Capital section of the budget.

- Cost Control and Evaluation – The Village continually evaluates cost control opportunities. Service modifications or eliminations over the last few years include:
 - Health Insurance Pool
 - Eliminated Community Grants and eliminated separate Economic Development Corporation
 - Shifted legal in-house and consolidated Village Clerk/Switchboard operations
 - Shifted to a turnkey EMS Operation
 - Shifted towards outsourcing GIS model
 - Implementation of administrative adjudication for certain violations
 - Embraced partnerships with COD (College of DuPage) to offset costs to renovate the Civic Center (\$2.5M), Lombard to share future costs of water main improvement on Hill Ave., Lombard to share revenue for a new gas station in unincorporated Lombard on Roosevelt Rd., School District 41 to share costs of water main upgrade near Hadley School; County Forest Preserve to lease building on St. Charles Rd. for salt storage; and other partnerships.

- Police Staffing – The budget includes a sworn staff level of 40, an increase of one officer over the prior year. Additionally, the Police Department is proposed to have the ability to over hire by two officers. The department has struggled to remain at a full staffing level for many years due to retirements, resignations, and leaves of absence. The budget includes the cost of one additional officer, a salary and benefits cost of approximately \$83,000. The budget also includes over-hiring by two officers to alleviate some of the pressures caused by turnover. Additional funds have not been added to the budget for this over-hire, as it is anticipated that reduced salary costs due to turnover would fund the over-hire. Once the department reaches and maintains full staffing, the over-hire positions would be eliminated.

In 2019/2020, the staff is recommending hiring a consultant to conduct a police staffing study to evaluate and recommend levels of staffing for the police department. The Village will fund this study with forfeiture dollars, if available. Once this study is complete in 2020, the Village will determine if and what changes need to be made to the current model and also how to fund those changes.

- Police Pension Funding – The FY20 budget recommends maintaining the same contribution level to the Police Pension Fund of \$1.959 million. Based upon the current actuarial model, the pension contribution could decrease by \$34,000 for FY20. However, the recommended budget proposes keeping the contribution constant and moving towards a 15 year open amortization model rather than the current closed model. By moving towards an open model, year-to-year volatility should be reduced and more consistent funding of the police pension will be achieved. Also, any additional monies contributed today will lower the future liability by reducing interest cost. By adding officers, the Village does add to its pension obligations now and in the future, so staffing increases must be made with understanding the full financial impact of those shifts.

General Fund

As with other municipalities, the majority of General Fund costs are borne by the largest departments of Police and Public Works, as well as providing funding to the Volunteer Fire Company including ambulance services. When totaled, these three departments make up almost 70% of General Fund expenditures. The expenditures in our General Fund are dominated by salaries, pensions, and benefits (65%). The Village of Glen Ellyn has a diverse revenue stream; however, much of the revenue base is derived from sales and home rule sales taxes, income tax, and property taxes (64%). Below is a comparison of the FY2020 draft budget to the FY2019 original budget

	FY20 Budget	FY19 Budget	Difference	Percent Change
Revenues*	\$19,557	\$18,902	\$655	3.3%
Expenditures*	\$19,557	\$18,860	\$697	3.7%
Net*	\$0	\$42	\$(42)	

**In thousands*

The revenue changes are attributable to the following factors:

- Sales taxes and home rule sales taxes were increased due to the new Pete’s Market which opened in September 2019. Sales tax increased by \$150,000 and home rule sales tax increased \$10,000 in anticipation of bringing grocery dollars back into Glen Ellyn from Lombard and Wheaton. The sales and home rule sales tax also include growth due to new restaurants in Glen Ellyn that opened in 2019.
- Use Tax is budgeted to increase by \$167,000, based on estimates from the Illinois Municipal League. Use Tax is a per capita tax received from the State of Illinois. The recent growth in this revenue is due to an increase from internet sales as well as an increase in retailers remitting tax to the State.
- The budget for building permit revenue was increased to \$1 million due to two large developments anticipated in the Central Business District.
- Due to laddering out certificates of deposit to increase interest income, the budget for interest income has increased by \$30,000, consistent with 2019 estimated actual results.
- The General Fund has three new revenue streams in FY20. Overweight truck permits are anticipated to bring \$10,000 to the General Fund. Also, the College of DuPage began occupying space in the Civic Center in 2019. An annual fee of \$30,000 is due to the Village to cover facilities costs. Lastly, a \$50,000 transfer will be made from the Capital Projects Fund to the General Fund to cover the cost of collecting and enforcing the Food and Beverage Tax. In the FY19 budget, the Food and Beverage budgeted revenue was estimated net of this collection cost.

General Fund Expenditures are budgeted to increase by 3.7%. The chart below by category highlights the changes from the prior year budget:

(in thousands)	FY20 Budget	FY19 Budget	Difference	Percent Change
Personnel Services	\$10,609	\$10,214	\$395	3.9%
Contractual Services	\$3,709	\$3,481	\$228	6.5%
Commodities	\$263	\$273	\$(10)	(3.7)%
Capital Outlay	\$131	\$224	\$(93)	(41.5)%
Transfers Out	\$4,845	\$4,669	\$176	3.8%

Personnel Services include a 2.75% merit pool for non-union employees as well as an additional \$25,000 to be awarded to employees based upon merit. The union contract includes 2.75% increase effective November 1, 2019 and a 2.25% increase effective November 1, 2020 for union employees along with step increases allotted in the contract. The IMRF pension rate for 2020 also increased 27% from 2019. The 2020 budget also includes one additional police officer at an estimated cost of salary and benefits of \$83,000.

Contractual Services includes a new incentive rebate to the owner of the Baker Hill shopping plaza associated with the opening of Pete’s Market. The rebate is budgeted at \$150,000 for FY20. The Village has also budgeted \$10,000 associated with the 2020 Frida Kahlo exhibit and a \$5,000 contribution to the Chamber of Commerce. Inspection and plan review costs in the Community Development department are also anticipated to increase by \$60,000 due to development downtown.

Capital Outlay for the General Fund is incidental in nature. In FY2019, the Police Department budgeted to update its DACRA records software, a cost of \$70,000. In FY2020, most capital purchases are incidental in nature and include computers, furniture for Clayton and Room 301, as well as equipment needed by Public Works.

Transfers out increased by \$176,000. The transfer to the Insurance Fund increased by \$138,000. Three additional General Fund employees will be covered by health insurance in 2020. The budget also includes a 2% increase in premium, effective July 2020.

Water and Sanitary Sewer Fund

The draft FY20 does not include a rate change for water and sewer rates. The fund currently has a healthy net position; however, several large capital projects do decrease that position over the five year forecast. The Village will undertake a rate study in 2019/2020 to further evaluate our long term needs and associated rates.

Village Links Reserve 22 Fund

The Village Links/Reserve 22 Fund continues to be a self-sustaining enterprise fund. Both the restaurant and golf operations suffered in FY18 and FY19 due to poor weather and the Fund sits below its cash reserve levels. The FY20 budget includes \$2.73M in revenues for Reserve 22 with expenses of \$2.45. Overall, the FY20 budget includes \$5.73M in revenues and \$5.72M in expenses for Village Links/Reserve 22. Increases in the minimum wage at January 1, 2020 and July 1, 2020 will financially impact Village Links/Reserve22.

Police Pension Fund

The Village has been working diligently to responsibly fund the Glen Ellyn Police Pension Fund while being mindful of the overall financial position and responsibilities of the Village. The Village has decreased the investment return gradually over several years, and now has an assumed rate of return of 6.5%. In FY18, the Village's actuarially determined contribution to the Glen Ellyn Police Pension Fund rose to \$1.959 million, over 10% of the General Fund budget. The FY20 budget maintains the same contribution level to the Police Pension Fund of \$1.959 million. Based upon the current actuarial model, the pension contribution could decrease by \$34,000 for FY20. However, the recommended budget proposes keeping the contribution constant and moving towards a 15 year open amortization model rather than the current closed model. By moving towards an open model, year-to-year volatility should be reduced and more consistent funding of the police pension will be achieved. The Village will continue to evaluate the open model in 2020.

Capital Plan

In many ways, FY20 will be focused on achieving the capital goals of the Village, as the Village has focused on several substantial projects (discussed previously in the memo). FY20 will be focused on moving these projects forward, including beginning engineering and/or construction and issuing bonds. These new projects do not diminish the importance of the regular maintenance and improvements to the Village's current streets and infrastructure. Other major improvements planned for FY20 include:

- 2020 street reconstruction: \$10.5 million
- Sidewalk program: \$262,000
- Hill Ave. water main extension: \$1,215,000
- Sanitary sewer lining: \$500,000
- Cumnor Ave. water & sewer improvement: \$335,000
- Route 53 water main lining: \$1.0 million

Tax Increment Financing (TIF) Funds

The Village continues to proactively seek economic development opportunities to increase sales tax revenues and create vibrant and diverse commercial districts. The Village has two TIF districts. The Central Business District (CBD) TIF was created in 2012 and the Roosevelt Road TIF district was created in 2013. In FY19, the Village has continued to budget for its popular façade, interior, and fire improvement awards. Two redevelopment agreements were approved in FY19 which provide TIF incentives to the developers. It is not anticipated that any increment would be due in FY20 as a result of those agreements.

Conclusion

The Village of Glen Ellyn's FY20 recommended budget sustains the Village's current level of services. Striking the right balance between service levels and taxes to pay for those services is debated and decided during the budget process. This process, allocating scarce resources and prioritizing programs and projects, is difficult each year because the demand for municipal services often exceeds the revenues available to pay for those services. We look forward to working with the Village Board during the budget process to build a budget which sustains the Village of Glen Ellyn and provides the services that our residents need. Strong cash reserves protect the Village from unforeseen emergencies and strengthen our bond rating and overall financial position.

In closing, we wish to extend a thank you to everyone for their hard work in preparing the FY20 budget. The development of the budget could not take place without the commitment and cooperation of many Village employees. Many Management employees actively participate in developing and reviewing budget information which leads to an award-winning budget document for many years. Management will continue to find ways to improve efficiency and control costs and work diligently to bring the FY20 in under budget.

We would also like to thank the Village Board for their responsible and progressive manner in which it conducts the fiscal affairs of the Village. Difficult budget decisions are made each year during the budget process, but those decisions are critical in that they provide a game plan for what level of municipal service the Village can provide. The understanding, cooperation and resourcefulness of everyone helps to strengthen this year's budget process.

Respectfully submitted,



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Christina Coyle
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