

**VILLAGE OF DOWNERS GROVE**  
**REPORT FOR THE VILLAGE COUNCIL WORKSHOP**  
**SEPTEMBER 9, 2008 AGENDA**

SUBJECT:	TYPE:	SUBMITTED BY:
Long Range Financial Plan – Draft	Resolution Ordinance Motion ✓ Discussion Only	David Fieldman Acting Village Manager

**SYNOPSIS**

A partial draft of the Long Range Financial Plan has been prepared for the Village Council's review and discussion. A complete draft of the Long Range Financial Plan will be presented to the Village Council in conjunction with the FY09 Recommended Budget.

**STRATEGIC PLAN ALIGNMENT**

The Management Agenda 2007-2008 identifies *Financial Plan (5 Years) and Policies: Development* as a Top priority.

**FISCAL IMPACT**

N/A.

**RECOMMENDATION**

Discussion only. Approval of the Long Range Financial Plan should be considered in conjunction with the review of the FY09 budget.

**BACKGROUND**

The Long Range Financial Plan applies forecasting and analysis to the Village's financial condition, identifies potential long-term financial issues and develops financial strategies to ensure long term financial stability. The Long Range Financial Plan along with the Village's Strategic Plan should assist the Village Council and staff in the preparation of annual budgets.

The schedule for review and consideration of the draft Long Range Financial plan provides multiple opportunities for public input and discussion (August 19 staff introduction, August 26 presentation of a working draft, September 9 review and discussion and on-going review and discussion in conjunction with the review of the proposed FY09 budget), allows for a dialogue among the community, Village Council and staff and is intended to create public awareness of potential financial areas and potential solutions. The Long Range Financial Plan should be updated on an annual basis and is likely to evolve.

The Long Range Financial Plan will contain the following items.

*Economic Environment and Conditions* – This section contains a brief summary of the general economic conditions that may affect the Village in the short and long terms. This information was prepared in conjunction with the Downers Grove Economic Development Corporation.

*Five-Year Financial Outlook and General Fund Expenditures* – This section briefly will summarize the projected General Fund revenues and expenses for a five-year period.

*Financial Planning for Ten Significant Areas* – This section includes the discussion and analysis of ten significant areas that may substantially affect the Village’s future financial condition. The selected areas are

- Infrastructure
- Personnel Expenses
- Retail Sector Performance
- Risk Management Fund
- Transportation Fund
- Post-Employment Benefits
- Maintenance of the Urban Forest
- Village Fleet
- Electricity Costs
- Interoperable Radio Systems

*Revenue Analysis* – This section summarizes and analyzes the current major Village revenue sources and identifies other potential revenue sources that may be available for Village use in the future.

*Long Range Financial Strategies* – This section identifies potential strategies designed to ensure the long term financial stability for the Village by specifically addressing the potential issues identified in the Long Range Financial Plan. At this early stage in the preparation of the Plan, the recommended strategies have not been finalized. Instead, this section contains a list of options and alternatives to be considered by the Village Council during the public review and discussion. These strategies should be finalized at the time the Long Range Financial Plan is approved by the Village Council. The options identified in the first draft have been placed into the following three categories.

Cost Controls and Operating Efficiencies: These options focus on operational items that the Village staff could pursue to reduce the costs of providing Village services. Village staff is continuously identifying and implementing ways to control costs.

Changes in Service Level and Policies: These options focus on potential changes to the services provided by the Village and potential change to Village Council policies.

Enhanced and Diversified Revenues: These options focus on potential changes to the Village’s revenue sources. The options include shifts among and changes to existing revenue sources and use of other available revenue sources. These revenue options should be considered in conjunction with the Cost Controls and Operating Efficiency and Changes in Service Level and Policies noted above.

Options for specifically addressing significant areas are also provided.

## **ATTACHMENTS**

Long Range Financial Plan – Draft

Village of Downers Grove  
Long Range Financial Plan – DRAFT

Presented to the Village Council  
August 26, 2008

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## **Executive Summary**

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*TO BE PRESENTED WITH THE FY09 MUNICIPAL BUDGET AND INCORPORATED AT THAT TIME*

### **Economic Environment and Conditions**

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#### **Retail Sales**

Between the fiscal year ending April 30, 2002, and the fiscal year ending December 31, 2007, the local share (one percent) sales tax for the Village of Downers Grove grew from \$12.4 million to \$13.1 million, just over one percent per year. This slow growth is attributable to several factors affecting the local economy over this period of time, including limited growth in the retail real estate sector, competition from surrounding municipalities and the increase in internet sales. In reviewing monthly sales tax revenues through August 2008, staff is projecting a five to 10 percent drop in this revenue source during the current fiscal year, due in part to increased fuel and food prices that have resulted in lower consumer spending in other areas. The retail sector that has benefited during this period, large discount and general merchandise retailers located just outside of Downers Grove's corporate boundaries, create a significant sales tax leakage and have exacerbated this decline in sales tax revenue. Retail sales activities are anticipated to continue to decline or remain constant over the next few years.

#### **Real Estate**

During the mid-2000's the Village experienced significant increases in real estate value. The Village's Equalized Assessed Valuation (EAV) during the five-year period between 2002 and 2007 increased from \$1.64 billion to \$2.41 billion, or approximately 9.5 percent annually. This trend has continued into 2007 with an 8.6 percent increase in EAV during the most recent levy year, despite a struggling regional and national real estate market. The manner by which property is assessed, based on a three-year average, has helped to keep EAV growth strong, but this trend is expected to slow in future years. Unlike many communities in the region, Downers Grove has not experienced a decline in overall property values, based on information provided by the local assessor, though the time required for property in the Village to sell has increased.

#### **Commodity Price Increases**

Costs for petroleum-based products and other commodities have been increasing over the past several months. This trend is expected to continue. The Village of Downers Grove, like many similar organizations, is heavily impacted by the increase in costs of commodities, most notably petroleum. Diesel and unleaded fuel costs used to operate a significant portion of the Village's fleet have increased nearly 40 percent between July 2007 and July 2008. While staff has been sensitive to these price increases and employed strategies to address them, including more efficient use of vehicles and the purchase of alternative fuel vehicles, ongoing service demands mean that most of this additional cost must be absorbed within existing Village operating budgets. These cost increases also challenge the Village's ability to adequately maintain its infrastructure, as the cost associated with contracts to perform infrastructure maintenance activities has risen, meaning that less infrastructure can be repaired or replaced on an annual basis with existing resource allocations.

#### **Employment**

Employment within the Village of Downers Grove has increased slightly over the past five years, from 25,783 to 27,229, growing by just over one percent annually, according to the Illinois Department of Employment Security. This growth is closely related to the expansion of Class A office space in the Village that has been steady over recent years and also maintained some of the lowest vacancy rates in

DuPage County, which stood at nine percent at the end of the first quarter of 2008. The construction of a new five-story 230,000 square foot office building has pushed that rate to 17 percent for the second quarter. The unemployment rate in the Village is currently 5.6 percent for the second quarter of 2008, up from 3.4 percent in the first quarter. This increase is consistent with the overall performance of the economy in recent months.

## **Five-Year Financial Outlook**

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*TO BE PRESENTED WITH THE FY09 MUNICIPAL BUDGET AND INCORPORATED AT THAT TIME*

## **Financial Planning for Ten Significant Areas**

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The Village's Management Team, composed of the Village Manager's Office and Department Directors, identified ten significant areas that may significantly affect the Village's future financial condition.

- Infrastructure
- Personnel Expenses
- Retail Sector Performance
- Risk Management Fund
- Transportation Fund
- Post-Employment Benefits
- Maintenance of the Urban Forest
- Village Fleet
- Electricity Costs
- Interoperable Radio Systems

## Infrastructure

The Village is responsible for building and maintaining public infrastructure, including facilities, roads, sidewalks, water storage and distribution systems, stormwater management system and street lights. During recent years, the Village placed a strong emphasis on maintaining the Village's existing infrastructure and constructing any necessary improvements. In FY06, the Village Council rededicated the half cent of the Home Rule Sales Tax for infrastructure needs. In FY08, the Village Council approved a quarter cent increase in the Home Rule Sales Tax rate, a property tax levy of \$2,130,000 and the pre-existing detention variance fee as well as a \$25 million General Obligation bond for the purpose of funding stormwater improvements.

The Community Investment Program (CIP) includes all major capital projects planned over the next five fiscal years. The table below provides an overview of the financial needs of the Village in terms of capital investment, as contained within the FY08-FY12 CIP. The recommended FY09-FY013 CIP will be presented to the Village Council for approval with the FY09 Municipal Budget. There is \$20 to \$25 million of planned annual expenses over the next five years. In addition, there are substantial capital project costs expected to be incurred after 2012 including on-going implementation of the Watershed Infrastructure Improvement Plan and Sidewalk Matrix, planned improvements to the Village's street system and construction of new Village building facilities.

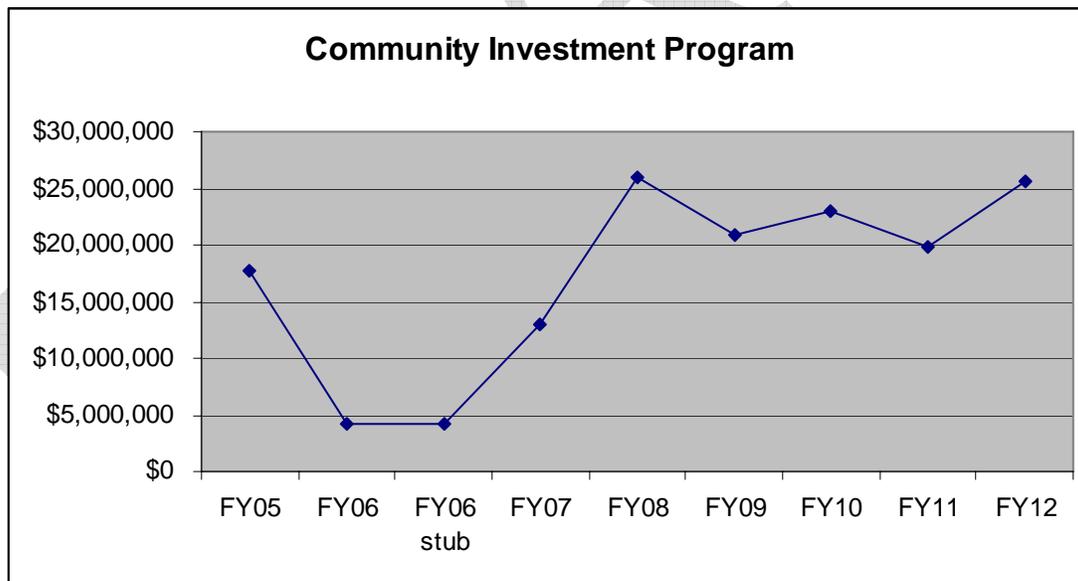
Program <sup>1</sup>	FY05	FY06	FY06 stub	FY07	FY08
Maj. Buildings	\$0	\$0	\$608,048	\$4,438,088	\$2,638,000
Street Lights	\$27,154	\$0	\$0	\$60,650	\$90,000
Sidewalks	\$504,351	\$873,218	\$351,879	\$663,220	\$2,291,900
Streets	\$1,644,589	\$1,583,039	\$2,161,887	\$4,922,737	\$8,759,200
Drainage	\$156,766	\$0	\$0	\$1,111,626	\$6,811,500
Traffic	\$0	\$0	\$265,647	\$10,432	\$805,000
Bikeways	\$0	\$7,143	\$10,445	\$6,125	\$112,000
Parking	\$13,630,119	\$751,150	\$271,483	\$0	\$77,500
Water Pump. & Treatment	\$0	\$313,717	\$268,117	\$0	\$275,000
Water Trans. & Distribution	\$1,798,433	\$640,691	\$328,676	\$1,708,861	\$4,023,497
Total	\$17,761,412 <sup>2</sup>	\$4,168,958	\$4,266,182	\$12,921,739	\$25,883,597

<sup>1</sup> All program totals include grant funding.

<sup>2</sup> The FY05 total includes expenses for the construction of the downtown parking deck.

Program	FY09	FY10	FY11	FY12	Future <sup>3</sup>	Total
Maj. Buildings	\$220,000	\$25,000	\$25,000	\$25,000	\$72,297,951	\$75,230,951
Street Lights	\$0	\$0	\$0	\$0	\$300,000	\$390,000
Sidewalks	\$681,495	\$712,570	\$685,198	\$719,458	\$0	\$5,090,621
Streets	\$5,385,000	\$8,937,500	\$12,180,000	\$10,330,000	\$16,400,000	\$61,991,700
Drainage	\$10,950,000	\$9,650,000	\$3,625,000	\$10,575,000	\$262,241,000	\$303,852,500
Traffic	\$485,000	\$100,000	\$100,000	\$100,000	\$0	\$1,590,000
Bikeways	\$231,000	\$604,000	\$0	\$0	\$0	\$947,000
Parking	\$0	\$0	\$40,000	\$725,000	\$600,000	\$1,442,500
Water Pump. & Treatment	\$130,000	\$225,000	\$60,000	\$600,000	\$550,000	\$1,840,000
Water Trans. & Distribution	\$2,740,000	\$2,755,000	\$3,115,000	\$2,500,000	\$500,000	\$15,633,497
<b>Total</b>	<b>\$20,822,495</b>	<b>\$23,009,070</b>	<b>\$19,830,198</b>	<b>\$25,574,458</b>	<b>\$352,888,951</b>	<b>\$468,010,769</b>

During the FY08 budget process, the Village Council developed a strategy to address the stormwater needs of the Village. The FY08 Municipal Budget created a Stormwater Improvement Fund that is supported by a quarter cent increase in the Home Rule Sales Tax, a property tax levy of \$2,130,000 and the pre-existing detention variance fee. In July 2008, the Village Council approved the issuance of a \$25 million General Obligation bond for the purpose of constructing 15 High priority projects over the next three years. It is anticipated that additional General Obligation bond issuances will take place in FY12 and FY15 to fund the remaining High priority projects as outlined in the Watershed Infrastructure Improvement Plan.



<sup>3</sup> Future year totals include projects that have not yet been assigned a year as well as future costs beyond 2012.

## **Personnel Expenses**

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The Village currently employs approximately 375 full-time equivalent employees. Personnel expenses include salaries, overtime, pensions, medical insurance and government-mandated expenses. These costs are increasing annually at approximately 3.5 percent. This rate of increase exceeds the growth rate of most of the Village's revenue sources. Personnel expenses account for approximately 70 percent of General Fund expenditures. Salary related expenses increase annually due to general market conditions and the Village's salary obligations included in the Village's two collective bargaining agreements.

<b>Year</b>	<b>Total Personnel Expenses</b>
FY05	\$ 30,201,222
FY06	\$ 31,089,242
FY06 stub	\$ 22,958,152
FY07	\$ 33,490,481
FY08 budget	\$ 33,038,614
FY08 estimate	\$ 33,800,000
FY09	\$ 34,983,000
FY10	\$ 36,207,405
FY11	\$ 37,474,664
FY12	\$ 38,786,277
FY13	\$ 40,143,797

Fire and Police pension benefit levels are set by State of Illinois statute. In recent years, changes to the statute have resulted in an increase in the number of duty disability pension awards. In addition, the Village is required by statute to levy the actuarial determined amount computed by an actuary. The cost to the Village of providing pensions has been increasing. Medical insurance-related expenses are increasing at a rate higher than inflation. This rate is estimated to be 12 percent annually. The Village provides medical, dental, vision and life insurance for active employees of the Village and Library as well as for retirees. Also included in the Village's medical insurance programs are the Park District, SEASPAR and the EDC, whose participants pay 100 percent of their premium costs as well as minimal administrative fees.

## Retail Sector Performance

Downers Grove's retail sector is critical to the success of the Village due to the heavy reliance on sales tax revenue to fund essential public services. Downers Grove is located within a highly competitive retail trade area. Surrounding communities employ many economic tools to attract and retain a diverse range of sales tax generating businesses. Recent trends and development activity in the local retail market suggest that Downers Grove is competing with surrounding municipalities for attraction and retention of retail businesses. While retail sales have slowed regionally, some municipalities located within the same retail trade area as Downers Grove have experienced increases in sales tax activity while Downers Grove has experienced a decline.

Municipality	Sales Tax Activity	
	(Jan.-May 06 v. Jan.-May 07)	(Jan.-May 07 v. Jan.-May 08)
Bolingbrook	Up 3.54%	Up 11.06%
Downers Grove	Down 0.96%	Down 6.05%
Lombard	Up 71.46% <sup>4</sup>	Up 9.22%

*Outdated Retail Centers.* Many of the Village's retail centers are outdated and dilapidated. Multiple property owners make coordinated redevelopment efforts difficult. Despite their appearance, many retail centers continue to realize profits, so property and business owners have little incentive to maintain or improve the appearance of the centers. Sales per square foot, generally, decline as a mall ages, so when new shopping centers come on the market, older regional malls have to be "reconfigured, refreshed and re-tenanted" in order to compete.<sup>5</sup> Much of the older mall stock on the market does not meet the shopping needs or experience requirements of modern consumers. Differentiation is essential, particularly in terms of value, entertainment experience or size. Urban Land Institute suggests that malls need to reinvent themselves every five to 10 years to remain competitive. Older malls that have not experienced renewal through reinvestment may be less desirable to prospective tenants.

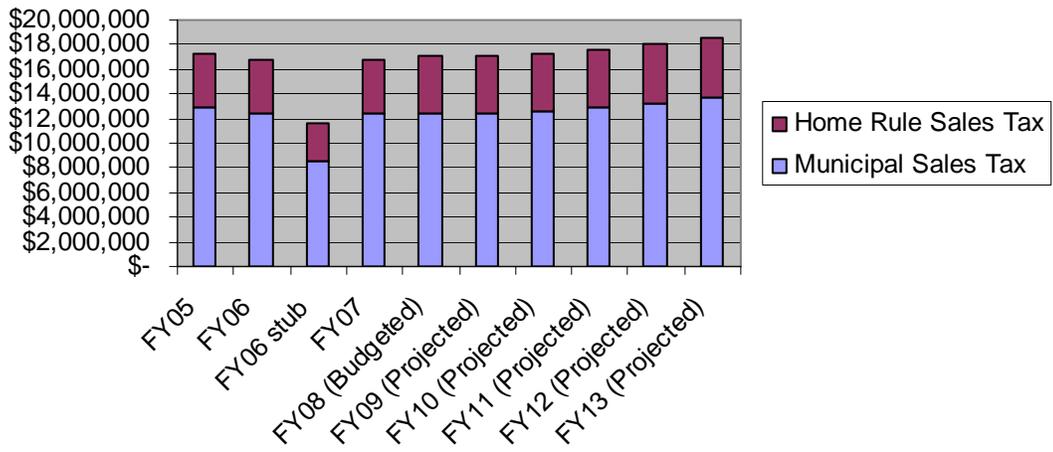
*Dependence on Auto Dealerships.* Approximately 22 percent of the Village's sales tax revenues come from automobile-related sales activity. Recent downturns in the automobile industry have led to predictions that the industry will not recover until 2010. Sales tax revenues for the first quarter of 2008 are down about six percent.

Year	Municipal Sales Tax	Home Rule Sales Tax	Total
FY05	\$ 12,896,383	\$ 4,298,931	\$17,195,314
FY06	\$ 12,381,489	\$ 4,334,791	\$16,716,280
FY06 stub	\$ 8,483,995	\$ 3,131,674	\$11,615,669
FY07	\$ 12,389,441	\$ 4,442,108	\$16,831,549
FY08 (Budgeted)	\$ 12,500,000	\$ 4,600,000	\$17,100,000
FY09 (Projected)	\$ 12,500,000	\$ 4,600,000	\$17,100,000
FY10 (Projected)	\$ 12,625,000	\$ 4,625,000	\$17,250,000
FY11 (Projected)	\$ 12,875,000	\$ 4,700,000	\$17,575,000
FY12 (Projected)	\$ 13,260,000	\$ 4,800,000	\$18,060,000
FY13 (Projected)	\$ 13,700,000	\$ 4,900,000	\$18,600,000

<sup>4</sup> Lombard implemented a one percent Business District Tax on January 1, 2007. For Yorktown Mall, the rate is currently 9.25 percent.

<sup>5</sup> Ben Johnson, "Mall Wars," *Urban Land*, February 2002.

### Sales Tax Revenue



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## Risk Management Fund

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The Village self-insures for a substantial amount of property risk (e.g. vehicles) and purchases reinsurance for catastrophic exposures on Village property. The purposes of the Risk Management Fund are to administer the Village's worker's compensation and liability insurance program, to handle all Village liability claims, to coordinate safety training programs and to handle the legal issues of the OMNIBUS testing for all commercial drivers.

At the end of each fiscal year, the Risk Management Fund must account for the total costs of the fund. Included in the total costs should be the salary of the Risk Manager, all premium payments, claims paid and all incurred but not recorded (IBNR) liability estimates. The IBNR liability is an estimate for claims that have not yet been paid but for which a liability has been identified for claims that will be paid in the future. In the Risk Management Fund, it is not uncommon for certain claims to take several years to be paid, typically as a result of litigation. In FY07, the Village's IBNR was \$1.9 million. Historically, the Village has funded the Risk Management Fund on a "pay-as-you-go" basis to cover only the annual cash outlays. This approach does not cover future claims (IBNR). As a result, there is a deficit balance in the Risk Management Fund. In FY07, \$200,000 was transferred to the Risk Management Fund from the General Fund to begin to address this deficit. The FY08 Municipal Budget included a \$250,000 transfer from the General Fund to the Risk Management Fund. The deficit balance in this fund was identified in this year's Management Letter. The Village experienced a substantial increase in Risk Management Fund expenses in 2007 and 2008. Staff anticipates these expenses to continue to increase in future years.

Year	Risk Fund Expenses	Anticipated Add'l Funding from General Fund	Ending Fund Balance
FY99	\$ 1,275,677		\$ (838,107)
FY00	\$ 1,103,318		\$ (1,082,127)
FY01	\$ 1,359,539		\$ (1,016,734)
FY02	\$ 1,285,965		\$ (799,874)
FY03	\$ 1,680,201		\$ (1,163,906)
FY04	\$ 1,999,087		\$ (983,386)
FY05	\$ 1,185,822		\$ (509,970)
FY06	\$ 1,625,158		\$ (519,587)
FY06 stub	\$ 1,731,887		\$ (1,093,658)
FY07	\$ 2,327,573	\$ 200,000	\$ (1,459,551)
FY08 (Projected)	\$ 2,500,000	\$ 250,000	\$ (1,238,341)
FY09 (Projected)	\$ 2,600,000	\$ 250,000	\$ (988,341)
FY10 (Projected)	\$ 2,750,000	\$ 250,000	\$ (738,341)
FY11 (Projected)	\$ 2,900,000	\$ 250,000	\$ (488,341)
FY12 (Projected)	\$ 3,100,000	\$ 250,000	\$ (238,341)
FY13 (Projected)	\$ 3,250,000	\$ 250,000	\$ 11,659

## Transportation Fund

The Transportation Fund includes full- and part-time employees and is classified as a *Special Revenue* Fund. As noted in the Village audit of financial statements, this fund has a deficit balance in its Net Assets, and as a part of the Management Letter from this year and prior years, it was recommended the Village develop a plan or strategy for addressing this deficit balance. The 2006 re-classification of the Fund from an *Enterprise* Fund to a *Special Revenue* Fund was a first step in addressing the fund. In FY07, the Village Council adopted an increase in the gasoline tax of one cent per gallon to establish a dedicated funding source for the Grove Commuter Shuttle. In addition, the Village Council directed that expenses/revenues associated with the taxi subsidy program be moved from the Transportation Fund to the General Fund. As such, the budget for FY08 is consistent with that direction and the primary purpose of the fund is related to the operations of the Grove Commuter Shuttle. Despite these actions, the Village must continue to address the lack of sufficient revenues to cover expenses in this fund.

The FY08 Transportation Fund budget provides \$299,932 in revenue (which includes the estimated annual gasoline tax revenue of \$184,000). Expenditures in the FY08 Transportation Fund budget are \$464,559 and provide for an ending fund balance of -\$1.8 million. The deficit in this fund is paid for by the General Fund.

The Grove Commuter Shuttle has been providing weekday morning and evening feeder service to the Main Street and Belmont Road Metra stations since 1974. There are four fixed routes including the North, West, Southeast and Southwest Routes. These routes also have Pace designations and are included on its system map.

Year	Revenue	Expenses	Change in Net Assets <sup>6</sup>	Ending Fund Balance
FY05	\$ 213,702	\$ 539,957	\$ (326,255)	\$(1,045,928)
FY06	\$ 190,051	\$ 639,934	\$ (449,883)	\$(1,495,811)
FY06 stub	\$ 164,498	\$ 552,398	\$ (387,900)	\$(1,883,711)
FY07	\$ 714,641	\$ 477,264	\$ 237,377	\$(1,646,334)
FY08 (Budgeted)	\$ 299,932	\$ 464,559	\$ (164,627)	\$(1,810,961)
FY09 (Projected)	\$ 375,000	\$ 490,000	\$ (115,000)	\$(1,925,961)
FY10 (Projected)	\$ 380,000	\$ 330,000	\$ 50,000	\$(1,875,961)
FY11 (Projected)	\$ 390,000	\$ 345,000	\$ 45,000	\$(1,830,961)
FY12 (Projected)	\$ 400,000	\$ 362,000	\$ 38,000	\$(1,792,961)
FY13 (Projected)	\$ 410,000	\$ 385,000	\$ 25,000	\$(1,767,961)

<sup>6</sup> The Change in Net Assets projections accurately reflect the decreased costs of maintaining the Grove Commuter Shuttle buses due to the purchase of six new vehicles.

## **Post-Employment Benefits**

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In 2004, the Governmental Accounting Standards Board issued Statement 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions," which requires public agencies to report their costs and obligations pertaining to health and other benefits of current and future retired employees much like they now report pension plan obligations. These other post-employment benefits (OPEB) must be recognized as a current cost during the working years of an employee, much like depreciation expense allocates a cost of a capital asset over its useful life. The Village must disclose the OPEB as an expense and, to the extent that it is not pre-funded, as a liability on the financial statements. The expense must be calculated by an actuary under the GASB 45 guidelines. The effective date for implementation of the GASB 45 requirements for the Village of Downers Grove is FY08.

As was done by virtually every other government across the nation prior to GASB 45, the Village has followed a "pay-as-you-go" accounting approach, in which the cost of benefits is not reported until after employees retire. This approach fails to account for costs and obligations incurred during the years the employees provided services to the Village in exchange for those benefits. For example, in 2007 the amount paid was \$252,000 out of a total liability of \$3.0 million.

In implementing GASB 45, the Village will, for the first time, report annual OPEB costs and the unfunded actuarial accrued liabilities for past service costs. GASB 45 establishes standards for accounting and financial reporting but does not require immediate recognition of the unfunded actuarial accrued liability as a financial statement liability. At the beginning of the year of implementation, the Village would start with zero financial statement liability. The net OPEB obligation will be recorded on the books of the Village. The net OPEB for the Village would be \$2.75 million, which is the \$3.0 million total liability less the \$252,000 paid. The net OPEB obligation will increase rapidly over time if the financing policy remains as pay-as-you-go, and the amounts paid for current premiums are much less than the annual OPEB cost. GASB 45 does require the disclosure of information about the funded status of the plan, including the unfunded actuarial accrued liabilities, in the notes to the financial statements and the presentation of multi-year funding progress trend information as a required supplementary schedule.

The Village offers life and medical insurance post-retirement benefits. Life insurance premiums are paid by the retirees and have no financial impact to the Village. To be eligible for the Village's health benefits, an individual has to be receiving a retirement or disability pension. For this insurance, retirees pay 100 percent of the health insurance premium until they reach the age when they are eligible for Medicare (at age 65). Once they are eligible for Medicare, the retiree premium is reduced by 50 percent, with the Village paying the remaining 50 percent. A significant amount of the Village's liability is due to the fact that the Village subsidizes premiums for retirees who are eligible for Medicare. In addition to providing coverage for Village employees, the Village also provides coverage for the Library, the Park District and EDC.

Though GASB 45 requires reporting of OPEB expense and liability, it does not require the Village to fund the liability. In the long run, however, if the liability is funded at the current pay-as-you-go levels, the Village will have an ever increasing balance sheet liability. This could indicate a lack of fiscal soundness, which could affect future bond ratings.

The Village hired an actuary to calculate the GASB 45 expense and unfunded liability. Per the actuarial calculation, the annual expense for the Village is \$3.0 million. The Unfunded Liability is \$30.0 million. The summary, as of January 1, 2008, is as follows:

<b>Year</b>	<b>Expense</b>	<b>Pay-As-You-Go</b>	<b>Liability</b>
FY08 (Actual)	\$3,000,000	\$ 252,000	\$ 3,000,000
FY09 (Projected)	\$3,250,000	\$ 259,560	\$ 5,990,440
FY10 (Projected)	\$3,500,000	\$ 267,347	\$ 9,223,093
FY11 (Projected)	\$3,750,000	\$ 275,367	\$12,697,726
FY12 (Projected)	\$4,000,000	\$ 283,628	\$16,414,098
FY13 (Projected)	\$4,250,000	\$ 292,137	\$20,371,961

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## Maintenance of the Urban Forest

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The Village maintains an urban forest consisting of approximately 23,700 trees. At present, the urban forest is threatened by two destructive species of insects. The emerald ash borer has not yet been found in Downers Grove but has been discovered in towns as close as Naperville, Illinois. The gypsy moth was most recently found in Downers Grove in 2001 and now infests approximately 4120 parkway trees and an unknown number of private trees.

*Emerald Ash Borer.* The emerald ash borer has the potential to decimate the Village's entire ash tree population. Twenty percent of the Village's trees are ash; it is unknown how many ash trees are located on private property. Staff estimates the emerald ash borer will be in Downers Grove by 2009. Significant funds are required to remove all ash trees on Village property in anticipation of the emerald ash borer's arrival and subsequent death of ash trees. The FY08 Municipal Budget includes \$250,000 for 440 ash trees to be removed; this request will be included in the FY09 Recommended Budget.

In April 2008, a new chemical product was approved for the prevention of emerald ash borer infestation on individual trees. The FY09 Recommended Budget will include a request to purchase the chemical in order to test its effectiveness on a few young ash trees and study the application process in terms of staff time. The chemical application is in its early stages, and staff would like to test the product before altering the current EAB strategy. The chemical requires a re-application every one to two years, which may prove to be a more significant cost to the Village than removing and replacing ash trees.

Even with the chemical application, the removal of ash trees in poor form and condition remains the recommended strategy for combating the emerald ash borer. Overall, surrounding municipalities have maintained the strategy of tree removal; at this time staff has not found any municipalities that will exclusively rely on the new chemical application.

*Gypsy Moth.* The gypsy moth re-emerged in Downers Grove in 2001. From 2002 to 2005, the Village was a participant in the Federal *Stop the Spread Program*, which included an aerial spray administered by the Illinois Department of Agriculture (IDA). Because the prevalence of the gypsy moth in northeastern Illinois has worsened, the Village is no longer eligible to participate in this preventative program. The gypsy moth caterpillars defoliate both deciduous and coniferous trees. Consecutive years of defoliation can weaken trees, leaving them more susceptible to other stresses, such as drought, disease and other tree insects (e.g. emerald ash borer). Large scale suppression of gypsy moths is possible through springtime aerial sprays.

Year	Forestry Expenses
FY05	\$ 1,046,525
FY06	\$ 942,221
FY06 stub	\$ 671,105
FY07	\$ 1,168,743
FY08 (Budgeted)	\$ 1,533,559
FY09 (Projected)	\$ - <sup>7</sup>
FY10 (Projected)	\$ -
FY11 (Projected)	\$ -
FY12 (Projected)	\$ -
FY13 (Projected)	\$ -

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<sup>7</sup> Staff is currently attempting to quantify the impact of these issues. Costs will include removal of and/or the application of pesticides to trees affected by the emerald ash borer and the gypsy moth and replacement trees.

## Village Fleet

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The Village owns 216 vehicles and an additional 36 pieces of vehicle-related equipment. The total cost of owning, operating and maintaining the Village fleet has increased by approximately 24 percent over the past five years. During the last economic downturn at the beginning of the decade, vehicle replacement purchases were reduced. The effect of this delay in the purchase of new vehicles resulted in significant increases in maintenance costs to the vehicles whose useful life had expired in the early years of the 2000's.

Year	Purchases	Fuels	Maintenance	Total <sup>8</sup>
FY05	\$ 414,499	\$ 166,216	\$ 1,708,856	\$ 2,289,571
FY06	\$ 952,217	\$ 235,286	\$ 1,446,923	\$ 2,634,426
FY06 stub	\$ 549,474	\$ 318,314	\$ 755,537	\$ 1,623,325
FY07	\$ 1,377,850	\$ 531,737	\$ 1,225,455	\$ 3,135,042
FY08 (Budgeted)	\$ 1,026,414	\$ 610,840	\$ 1,198,325	\$ 2,835,579
FY09 (Projected)	\$ 988,250	\$ 859,160	\$ 1,234,681	\$ 3,082,091
FY10 (Projected)	\$ 900,707	\$ 878,491	\$ 1,310,000	\$ 3,089,198
FY11 (Projected)	\$ 1,115,968	\$ 898,257	\$ 1,349,000	\$ 3,363,225
FY12 (Projected)	\$ 763,591	\$ 918,468	\$ 1,390,000	\$ 3,072,059
FY13 (Projected)	\$ 627,000	\$ 939,133	\$ 1,431,000	\$ 2,997,133

In completing an inventory of the Village's fleet, staff discovered that many vehicles are not used on a regular basis and many vehicles are larger than they need to be for their current uses. Downsizing would eliminate under-used or non-essential vehicles. Rightsizing would better fit a vehicle's service need and the vehicle's size. Staff has already begun evaluating the fleet in this way and will be presenting a fleet replacement schedule as part of the FY09 Municipal Budget to reflect these improvements in fleet management.

Maintenance of vehicles is a significant cost that is directly related to the age and use of the fleet. Staff continues to research opportunities to minimize the cost of maintaining Village vehicles. Staff will continue to pursue opportunities to purchase fuel cost-effectively and has banned the idling of Village vehicles. The Village operates its own fueling stations, which include gasoline, compressed natural gas (CNG), ultra low sulfur diesel and ethanol (E-85). During the preparation of the FY09 fleet replacement schedule, all vehicle lives will be updated. The updated replacement schedule will incorporate capital costs and maintenance costs to determine the point when it is most financially appropriate to sell the vehicle.

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<sup>8</sup> Purchases are accounted for in the Equipment Replacement Fund; all maintenance and fuel costs are accounted for in the Fleet Services Fund. The financial objective of the Equipment Replacement Fund is to maintain a cash balance necessary to make all vehicle, fleet and computer-related purchases in a timely manner, without adverse impacts on the departments' annual operating budgets. Over time, this fund is projected to accumulate cash reserves to be used for abnormally large expense obligations occurring in a single year.

## Electricity Costs

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The Village has a franchise agreement with Commonwealth Edison (ComEd) for the supply of electricity through 2054. The franchise agreement states the Village is responsible for the costs of electricity that power revenue-generating facilities (e.g. the parking deck), heating purposes, street lights, water pumping and other such power purposes; all other electricity costs are at no charge to the Village.

ComEd recently announced a revised rate structure, which includes changes in rates for municipal street lighting, and rates for street, highway and traffic signal lighting. Currently, the rate structure is a flat rate per streetlight per month. The rate changes that will go into effect on May 1, 2010, will change from a flat rate to an hourly usage rate. This rate change will affect Downers Grove and comparably sized municipalities. The Village of Lombard has already experienced this rate increase and has seen its budget for street lighting double in two years.

The Village has 832 streetlights owned by ComEd, 1580 streetlights owned by the Village and 15 meters that have multiple lights. The Village pays approximately \$200,000 annually for electricity for these street lights. It is likely the rate change will cause this amount to double.

With the deregulation of electricity, ComEd has decided to scale back its business of supplying electricity; however, ComEd does wish to remain in the business of transmitting electricity, building/maintaining power plants and servicing its customers. ComEd is beginning with its commercial customers first and requesting that they find alternative electricity suppliers/resellers. The Village has been proactive and found an alternative supplier for a majority of its electricity needs. At present, there are very few electricity suppliers/resellers for street lighting since ComEd's pricing has traditionally been significantly under market pricing.

Year	Commonwealth Edison Payments
FY05	\$232,590
FY06	\$245,299
FY06 stub	\$158,414
FY07	\$318,754
FY08 (Projected)	\$348,255
FY09 (Projected)	\$380,115
FY10 (Projected)	\$470,493
FY11 (Projected)	\$594,018
FY12 (Projected)	\$614,809
FY13 (Projected)	\$639,401

## Interoperable Radio Systems

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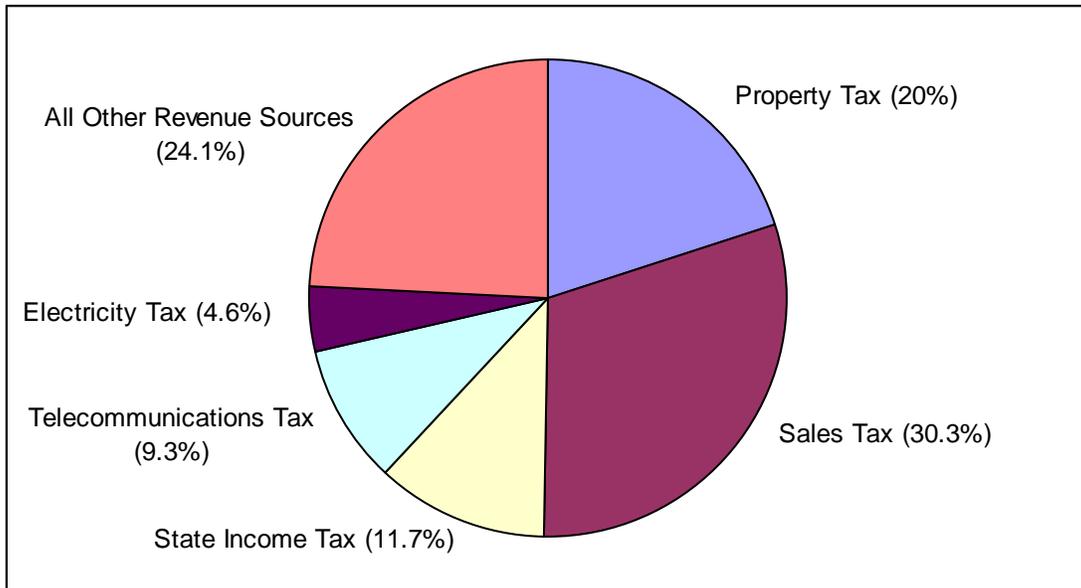
The DuPage County Emergency Telephone Safety Board (ETSB) has proposed an option for full interoperability for County emergency response agencies through a 700 MHz system. The ETSB has agreed to cover the entire infrastructure costs associated with this new 700 MHz system and has retained the services of Motorola Inc. of Schaumburg, Illinois, to design and develop the new system. It is anticipated the 700 MHz system could be functional for police operations as early as 2009. Development of this technology has not been successful to-date for fire operations. Total costs for a 700 MHz transition is expected to be approximately \$1.8 million. It is still unknown if the County or the State of Illinois will require all emergency response agencies to use the 700 MHz system in the future.

FY08	FY09	FY10	FY11	FY12	FY13
\$ -	\$ -	\$ -	\$ -	\$1,800,000	\$ -

## Revenue Analysis

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The Village of Downers Grove currently relies on a variety of revenue sources to fund its day-to-day operations. A summary of the FY08 revenue for the general fund has been provided in the graph below. (Please note additional revenue information for other funds will be provided with the presentation during the FY09 budget discussions.)



Several of the Village's major revenue sources are detailed in the following section. The section also includes projections for potential incremental revenue enhancements in an effort to provide a complete picture of the possible areas in which future revenue generation may be increased. These enhanced revenue projections are based on a variety of assumptions in the context of current and forecasted economic conditions. The Village Revenue Summary not only outlines current revenue sources, but also identifies alternative sources of revenue which may be explored by the Village in an effort to address future local and global economic concerns.

### Existing Major Revenues for the Village of Downers Grove

*Home Rule Sales Tax:* Tax imposed on the sale of tangible property within the Village of Downers Grove. The Village's current Home Rule Sales Tax rate is 0.75 percent. Half a cent is allocated to the Capital Improvement Fund; a quarter cent is allocated to the Stormwater Improvement Fund. The table below provides a history of the Village's Home Rule Sales Tax revenues and the projections for future years assuming the current rate:

Year	Home Rule Sales Tax
FY05	\$ 4,298,931
FY06	\$ 4,334,791
FY06 stub	\$ 3,131,674
FY07	\$ 4,442,108
FY08 (Budgeted)	\$ 4,600,000
FY09 (Projected)	\$ 4,600,000
FY10 (Projected)	\$ 4,625,000
FY11 (Projected)	\$ 4,700,000
FY12 (Projected)	\$ 4,800,000
FY13 (Projected)	\$ 4,900,000

The table below compares the Village's Home Rule Sales Tax Rate with those of other communities in DuPage County:

Community	Home Rule Sales Tax
Addison	0.75%
Aurora	1.25%
Bartlett	0
Bloomington	0.50%
Carol Stream	0.50%
<b>Downers Grove</b>	<b>0.75%</b>
Elmhurst	0.25%
Glendale Heights	0.75%
Glen Ellyn	0
Hanover Park	0.50%
Naperville	0
Schaumburg	1%
Wheaton	0.50%
Woodridge	0.50%

A summary of the fiscal impact of each subsequent increase of 0.25 percent, assuming constant sales activity, is provided in the table below:

Home Rule Sales Tax (HRST) Increase	New HRST Generated from Increase
\$ 0.0025	\$ 2,300,000
\$ 0.0050	\$ 4,600,000
\$ 0.0075	\$ 6,900,000
\$ 0.0100	\$ 9,200,000

*Property Tax:* Taxes that an owner of real estate or other property pays on the value of their own property. The local townships (Downers Grove, Lisle, York and Milton) perform an appraisal of the monetary value of the property, and tax is assessed in proportion to that value. The Village's property tax revenue is divided into the following categories: general property taxes and police and fire pensions. When combining these categories, the total property tax collected by the Village accounts for

approximately 20 percent of its entire General Fund revenue. The table below indicates the Village's historical total Equalized Assessed Value (EAV), from which the property tax rate is levied.

Levy Year	Equalized Assessed Value (EAV)
1998	\$ 1,271,167,828
1999	\$ 1,337,005,487
2000	\$ 1,410,133,731
2001	\$ 1,506,500,043
2002	\$ 1,635,536,214
2003	\$ 1,747,691,905
2004	\$ 1,885,248,351
2005	\$ 2,057,634,957
2006	\$ 2,222,875,166
2007	\$ 2,413,044,414
2008	\$ 2,533,696,635
2009	\$ 2,609,707,534
2010	\$ 2,687,998,760
2011	\$ 2,822,398,698
2012	\$ 2,963,518,633
2013	\$ 3,111,694,564

The table below provides a historical context for the property taxes collected by the Village on an annual basis. As mentioned earlier, property taxes are levied by a rate based on the Village's EAV, displayed above. Property taxes are collected the year after the amount is levied, so taxes levied in 2008 will be collected in 2009. As with Village EAV, property tax revenues are projected to increase by five percent annually in future years:

Levy Year	Property Tax Levy
1998	\$ 3,705,000
1999	\$ 4,007,000
2000	\$ 3,083,000
2001	\$ 4,570,000
2002	\$ 6,243,000
2003	\$ 7,867,000
2004	\$ 8,595,000
2005	\$ 8,745,000
2006	\$ 8,679,000
2007	\$ 11,148,000
2008	\$ 11,705,400

The Village of Downers Grove currently levies a property tax rate of \$0.4630 per \$100 of the property's EAV. The chart below indicates the Village's property tax rate history since 2003 and compares the rates with other DuPage County communities:

Municipality	2003	2004	2005	2006	2007
Oak Brook	-	-	-	-	-
Elmhurst	0.3259	0.3077	0.2958	0.2799	0.2636
Hinsdale	0.3338	0.3111	0.3066	0.2902	0.2773
<b>Downers Grove</b>	<b>0.4367</b>	<b>0.4393</b>	<b>0.4137</b>	<b>0.3799</b>	<b>0.4630</b>
Westmont	0.4740	0.4546	0.4382	0.4224	0.4318
Glen Ellyn	0.5461	0.5011	0.4580	0.4375	0.4041
Naperville	0.5476	0.5036	0.4721	0.4664	0.4935
Lombard	0.5200	0.4983	0.4947	0.4789	0.3576
Willowbrook *	0.5826	0.5524	0.5296	0.5227	0.5068
Clarendon Hills	0.6877	0.6480	0.5918	0.5679	0.5416
Carol Stream *	0.6336	0.6037	0.5923	0.5792	0.5731
Darien *	0.7597	0.7188	0.6720	0.6486	0.6283
Oakbrook Terrace *	0.7229	0.7372	0.7307	0.7531	0.7196
Bensenville	0.8810	0.8469	0.7789	0.3575	0.6408
Villa Park	0.8891	0.8356	0.8010	0.7695	0.7256
Wheaton	0.7204	0.7980	0.8302	0.8111	0.7695
Woodridge *	0.9241	0.9018	0.8875	0.8634	0.8345
Lisle *	1.0601	1.0354	1.0175	0.9832	0.9579
Addison *	1.1118	1.0748	1.0608	1.0389	1.0375

\* Municipalities served by a separate Fire Protection District

Based on the Village's 2007 EAV of \$2,413,044,000, each \$0.01 increase in the property tax rate would produce an increase in revenue of approximately \$241,000 on an annual basis. The table below indicates the associated revenue generated from each subsequent \$0.01 increase in the Village's property tax rate at 2007 EAV levels:

Property Tax Increase	New Property Tax Revenue Generated from Increase
\$ 0.01	\$ 241,304
\$ 0.02	\$ 482,608
\$ 0.03	\$ 723,912
\$ 0.04	\$ 965,216
\$ 0.05	\$ 1,206,520
\$ 0.06	\$ 1,447,824
\$ 0.07	\$ 1,689,128
\$ 0.08	\$ 1,930,432
\$ 0.09	\$ 2,171,736
\$ 0.10	\$ 2,413,040
\$ 0.11	\$ 2,654,344
\$ 0.12	\$ 2,895,648
\$ 0.13	\$ 3,136,952
\$ 0.14	\$ 3,378,256
\$ 0.15	\$ 3,619,560
\$ 0.16	\$ 3,860,864
\$ 0.17	\$ 4,102,168
\$ 0.18	\$ 4,343,472
\$ 0.19	\$ 4,584,776
\$ 0.20	\$ 4,826,080

*Telecommunications Tax:* Imposed on gross charges for all intrastate and interstate messages. This tax includes charges for home phones, cellular phones, internet and pagers. The Village currently levies a

tax of six percent for all messages taking place within Downers Grove. This is the maximum tax that the Village may levy under the State Statute. Five percent is allocated to the General Fund, and one percent to the Capital Improvements Fund. The table below illustrates the historical Telecommunications Tax revenue. The table also provides a five-year projection for the Telecommunications Tax, which assumes revenue to remain flat based in out-years:

Year	Actual/Projection
FY04	\$ 3,903,262
FY05	\$ 4,045,555
FY06	\$ 3,873,004
FY06 stub	\$ 3,442,824
FY07	\$ 4,011,563
FY08	\$ 3,656,616
FY09 (Projected)	\$ 3,656,616
FY10 (Projected)	\$ 3,656,616
FY11 (Projected)	\$ 3,656,616
FY12 (Projected)	\$ 3,656,616
FY13 (Projected)	\$ 3,656,616

The table below indicates the Telecommunications Tax rates for several nearby communities:

Community	Telecommunications Tax Rate
Addison	6%
Aurora	6%
Bartlett	6%
Bloomington	0%
Carol Stream	6%
<b>Downers Grove</b>	<b>6%</b>
Elmhurst	6%
Glendale Heights	6%
Glen Ellyn	6%
Hanover Park	6%
Naperville	5%
Schaumburg	6%
Wheaton	6%
Woodridge	6%

*Natural Gas Use Tax:* The Gas Tax is imposed on persons in the business of distributing, supplying, furnishing or selling natural gas for use or consumption (not for resale). Propane gas is taxed under this act providing it is delivered by pipeline to the consumer. Municipalities may impose a tax on persons engaged in the business of distributing, supplying, furnishing or selling natural gas for use or consumption (and not for resale) within the corporate limits of the municipality. The rate cannot exceed five percent of gross receipts or \$0.05 per therm (eight percent in cities with populations greater than 500,000). The Department of Revenue does not collect these locally imposed taxes. Below is a comparison of the Village's current Natural Gas Use Tax rate with those of other nearby communities:

Community	Natural Gas
Addison	0
Aurora	\$0.01/therm
Bartlett	0
Bloomington	0
Carol Stream	\$0.025/therm
<b>Downers Grove</b>	<b>\$0.015/therm</b>
Elmhurst	\$0.015/therm
Glendale Heights	4%
Glen Ellyn	\$0.02/therm
Hanover Park	\$0.015/therm
Naperville	5%
Schaumburg	0
Wheaton	\$0.02/therm
Woodridge	5%

The Village currently charges \$0.015 per therm for natural gas. Average residential usage totals approximately 1,200 therms per year. The table below indicates historical and projected Natural Gas Use Tax revenues.

Year	Actual/Projection
FY04	\$ 386,105
FY05	\$ 356,960
FY06	\$ 347,834
FY06 stub	\$ 187,760
FY07 <sup>9</sup>	\$ 469,624
FY08	\$ 444,217
FY09 (Projected)	\$ 450,000
FY10 (Projected)	\$ 450,000
FY11 (Projected)	\$ 450,000
FY12 (Projected)	\$ 450,000
FY13 (Projected)	\$ 450,000

Utilizing the FY07 revenue as a baseline, the table below illustrates the projected revenue generated for various natural gas use rates to the maximum \$0.05 per therm charge:

Per Therm Rate	Revenue
\$ 0.015	451,267
\$ 0.020	601,689
\$ 0.025	752,112
\$ 0.030	902,534
\$ 0.035	1,052,956
\$ 0.040	1,203,379
\$ 0.045	1,353,801
\$ 0.050	1,504,223

<sup>9</sup> The substantial increase in Natural Gas Use Tax revenues between FY06 and FY07 is due to a change in calculation methods.

*Gasoline Tax:* A local tax imposed on the sale of fuel within the municipal boundaries. The Village currently charges a total Local Motor Fuel Tax of \$0.025 per gallon of gasoline sold. One cent of the tax is allocated to the maintenance of the Village’s commuter bus system. The remaining \$0.015 is allocated to the retirement of the Fairview Avenue debt service fund, to be retired in 2014. The table below compares the Village’s gasoline tax with those of other communities:

<b>Community</b>	<b>Local Gasoline</b>
Addison	0
Aurora	0
Bartlett	0
Bloomington	\$0.01
Carol Stream	0
<b>Downers Grove</b>	<b>\$0.025</b>
Elmhurst	0
Glendale Heights	0
Glen Ellyn	0
Hanover Park	0
Naperville	\$0.02
Schaumburg	0
Wheaton	0
Woodridge	\$0.025

The table below indicates the historical and projected revenue for the Motor Fuel Tax. It should be noted that this revenue source is projected to decrease in future years as gas prices increase and individuals purchase more fuel efficient vehicles and less gas in general:

<b>Year</b>	<b>Actual/Projection</b>
FY04	\$ 308,405
FY05	\$ 283,040
FY06	\$ 273,855
FY06 stub	\$ 302,600
FY07	\$ 397,820
FY08	\$ 385,885
FY09 (Projected)	\$ 381,641
FY10 (Projected)	\$ 377,443
FY11 (Projected)	\$ 373,291
FY12 (Projected)	\$ 369,185
FY13 (Projected)	\$ 365,124

Below is a summary of the revenue generated from each \$0.005 increase in the Local Motor Fuel Tax, assuming constant 2007 level revenues:

<b>MFT Tax</b>	<b>Revenue Generated from Tax</b>
\$ 0.005	\$ 79,564
\$ 0.010	\$ 159,128
\$ 0.015	\$ 238,692
\$ 0.020	\$ 318,256
\$ 0.025	\$ 397,820
\$ 0.030	\$ 477,384
\$ 0.035	\$ 556,948
\$ 0.040	\$ 636,512
\$ 0.045	\$ 716,076
\$ 0.050	\$ 795,640

*Electricity Tax:* Paid by incorporated residents for the use of electricity in their homes. Consumers pay the electricity tax to the public utility, which in turn pays the Village its portion of the tax. The electricity rate is charged on a tiered calculation based on the kilowatt hours (KWh) of usage, which is equivalent to roughly three of gross charges. This rate was increased from 2.3 percent in April 2003. The maximum rate is set by Illinois Municipal Code at five percent. The table below provides a revenue history and future year projection for the Village's Electricity Tax:

<b>Year</b>	<b>Actual/Projection</b>
FY04	\$ 1,423,752
FY05	\$ 1,494,641
FY06	\$ 1,568,120
FY06 stub	\$ 1,287,015
FY07	\$ 1,981,566
FY08	\$ 1,981,566
FY09 (Projected)	\$ 2,041,013
FY10 (Projected)	\$ 2,102,243
FY11 (Projected)	\$ 2,165,311
FY12 (Projected)	\$ 2,230,270
FY13 (Projected)	\$ 2,297,178

The table below compares the Village's electricity rate with the rates of several other communities:

<b>Community</b>	<b>Electricity Tax</b>
Addison	0
Aurora	2.5%
Bartlett	0
Bloomington	0
Carol Stream	5%
<b>Downers Grove</b>	<b>3%</b>
Elmhurst	5%
Glendale Heights	3.5%
Glen Ellyn	5%
Hanover Park	2%
Naperville	4.5%
Schaumburg	0
Wheaton	3%
Woodridge	5%

*Hotel Tax:* A tax is levied and imposed upon the use and privilege of renting, leasing or letting a hotel room within the Village. The current gross rate for the hotel tax is 4.5 percent, with an exemption for customers that live in a hotel for over thirty consecutive days. After thirty days, the individual is considered a resident. The table below provides Hotel Tax data and projects future year revenues:

Year	Actual/Projection
FY04	\$ 767,625
FY05	\$ 724,025
FY06	\$ 876,076
FY06 stub	\$ 714,378
FY07	\$ 999,177
FY08	\$ 950,000
FY09 (Projected)	\$ 950,000
FY10 (Projected)	\$ 950,000
FY11 (Projected)	\$ 950,000
FY12 (Projected)	\$ 950,000
FY13 (Projected)	\$ 950,000

The Village is authorized to raise the current Hotel Tax rate to a maximum of five percent of the gross room rental rate. The table below compares the Village’s current Hotel Tax rate with those of other communities:

Community	Hotel Tax
Addison	4%
Aurora	3%
Bartlett	0
Bloomington	5%
Carol Stream	5%
<b>Downers Grove</b>	<b>4.5%</b>
Elmhurst	4%
Glendale Heights	5%
Glen Ellyn	5%
Hanover Park	3%
Naperville	4.4%
Schaumburg	8%
Wheaton	5%
Woodridge	1%

In 2007, the Village generated \$999,177 in revenue as a result of the 4.5 percent Hotel Tax rate. Utilizing this amount, the table below illustrates the projected additional revenue generated by each 0.1 percent increase in the Hotel Tax up to the maximum five percent rate:

Hotel Tax Increase	Revenue Generated from Increase
0.10%	\$ 22,204
0.20%	\$ 44,408
0.30%	\$ 66,612
0.40%	\$ 88,816
0.50%	\$ 111,020

Alternate Revenues for the Village of Downers Grove

The following is a summary of some of the available revenue sources which are not currently being used by the Village.

*Real Estate Transfer Tax:* The real estate transfer tax is levied on the sale of residential and commercial property. Property transfer taxes are highly reflective of the housing market and are generally more volatile than overall property-related taxes. Appreciation or depreciation in property values and sales volume in the local real estate market specifically affect property transfer tax revenues. The general slowdown in housing demand combined with increased supply would serve to lower any potential real estate transfer tax which could be imposed.

There are several sample models for implementing a real estate transfer tax. However, it should be noted that a Real Estate Transfer Tax must be passed by referendum. Below is a list of Real Estate Transfer Tax Rates of several nearby communities per \$1,000 of transfer cost, in addition to the individual who is responsible for paying the tax:

Community	Real Estate Transfer Tax per \$1,000 of Sale	Real Estate Transfer Tax Paid By
Addison	\$2.50	Buyer
Aurora	\$3.00	Seller
Bartlett	\$3.00	Seller
Bloomingtondale	0	NA
Carol Stream	\$3.00	Seller
<b>Downers Grove</b>	<b>0</b>	<b>NA</b>
Elmhurst	\$1.50	seller
Glendale Heights	\$3.00	Seller
Glen Ellyn	\$3.00	Seller
Hanover Park	\$3.00	Seller
Naperville	\$3.00	Seller
Schaumburg	\$1.00	Seller
Wheaton	\$2.50	Buyer
Woodridge	\$2.50	Seller

The following table indicates the potential revenue generation for each \$1 increase per \$1,000 in sale price of the real estate transfer tax, should the policy be adopted. The projection was generated by annualizing the Village’s 2008 year-to-date real estate transfer volume and calculating the revenue generation from each increase based on these estimates.

Real Estate Transfer Tax Amount per \$1,000	Revenue Generated from Increase
\$ 1.00	\$ 184,227
\$ 2.00	\$ 368,454
\$ 3.00	\$ 552,680
\$ 4.00	\$ 736,907
\$ 5.00	\$ 921,134

*Stormwater Utility:* All parcels, regardless of their location in a watershed, have an impact on the Village’s water resources. Pervious surfaces, such as lawns, allow rain to seep into the ground. Impervious surfaces, such as roofs and parking lots, block this absorption, which increases runoff volumes. The creation of the Stormwater Management Utility allows the Village to establish a major source of dedicated revenue, which could adequately support stormwater management through a fair and equitable billing system.

Stormwater utility charges fees to all property owners for their fair share of the cost of operating a stormwater management system. The fees are based on the physical characteristics of the site and how these characteristics affect the stormwater system instead of basing fees on the taxable value of the property.

Currently stormwater expenses are being paid for out of the General Fund and the newly created Stormwater Fund. If the Village would implement a stormwater utility, it would be shifting revenues from property taxes.

*Vehicle Stickers:* Many municipalities require residents to purchase and display vehicle stickers on all vehicles principally housed within the municipality. The table below indicates the 2006-2007 passenger car rates for vehicle stickers in several nearby communities:

<b>Municipality</b>	<b>Vehicle Sticker Rate</b>
Addison	\$ 20.00
Bartlett	\$ 15.00
Bolingbrook	\$ 30.00
Carol Stream	\$ 15.00
Clarendon Hills	\$ 25.00
Elmhurst	\$ 36.00
Glen Ellyn	\$ 25.00
Glendale Heights	\$ 12.00
Hinsdale	\$ 30.00
Lemont	\$ 48.00
Lombard	\$ 15.00
Roselle	\$ 30.00
Wood Dale	\$ 30.00

According to the Village’s 2007 Annual Report, there are 18,968 households within incorporated Downers Grove. The table below illustrates the potential annual revenue generated through the implementation of the vehicle sticker program. The table estimates annual revenues if every household in the Village purchases a sticker for either one or two vehicles at the price of \$20, \$25 and \$30:

<b>Number of Households</b>	<b>Cars Per Household</b>	<b>Sticker Price</b>	<b>Annual Sticker Revenue</b>
18,968	1	\$ 20	\$ 379,360
18,968	2	\$ 20	\$ 758,720
18,968	1	\$ 25	\$ 474,200
18,968	2	\$ 25	\$ 948,400
18,968	1	\$ 30	\$ 569,040
18,968	2	\$ 30	\$ 1,138,080

*Food and Beverage Tax:* The Food and Beverage Tax is a charge on food and drinks (alcoholic and non-alcoholic) consumed on the premises where purchased. There is no limit on the amount that can be

charged for the Food and Beverage Tax. The table below illustrates some comparable community Food and Beverage Tax rates:

Community	Food and Beverage Tax Rate
Arlington Heights	1.25%
Des Plaines	1.00%
Mount Prospect	1.00%
Naperville	1.00%
Park Ridge	1.00%
Schaumburg	2.00%

Utilizing FY07 Village eating and drinking sales tax data, the table below depicts the estimated revenue which staff projects the Village would generate through the implementation of a Food and Beverage Tax at various rates. This tax can only be administered locally.

Food and Beverage Tax Rate	Projected Revenue Generation
0.50%	\$ 750,000
1.00%	\$ 1,500,000
1.50%	\$ 2,250,000
2.00%	\$ 3,000,000

*Surcharges:* The Village could include surcharges for the use of some Village services. An example of a local government surcharge which has been implemented in some communities recently is the fuel surcharge for speeding tickets. In this instance, individuals ticketed for speeding within a community are required to pay an additional fee in an effort for police personnel to recoup the cost of fuel required for enforcement. Surcharges could be applied to other Village services; however, staff would need to conduct a comprehensive evaluation of the fiscal impact of implementing such programs.

*Sponsorship:* The Village could investigate the potential for corporate funding of municipal services, facilities, programs or equipment. As a municipal government, the Village of Downers Grove delivers a wide range of programs and services to the public. Through sponsorship, private corporations and businesses may see value in associating their name with the Village itself or one its programs, services, facilities or initiatives. Through sponsorship of these various items, private corporations or businesses could potentially provide the Village with an additional source of revenue. Staff is currently researching the feasibility of implementing a sponsorship program in the Village.

## Options for Long Range Financial Strategies

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Options to address the ten significant areas have been developed and grouped into three distinct categories. The first represents operational changes in daily activities and can be almost entirely implemented at the staff level. The second category addresses service level changes and policy decisions that could be implemented by the Village Council. Further diversifying the Village's revenue base or adding new revenue sources is addressed in the third category, tying together the significant areas with the revenue analysis that is contained within this plan. In addition to general strategies, specific area-based recommendations have been prepared.

### Cost Control and Operating Efficiencies

- Continue to aggressively pursue grant opportunities
- Purchase using state contracts and other cooperatives
- Review and update fees annually and determine levels of cost recovery
- Review the Equipment Replacement Fund and departmental contributions
- Seek strategic alliances with other governments to reduce total costs to the taxpayer
- Take advantage of economies of scale whenever possible, both when purchasing and providing services

### Changes in Service Level and Policies

- Explore multi-year contracts in order to capture cost savings
- Review the cash reserve level policy
- Strategically use debt financing

### Enhanced and Diversified Revenues

#### *Enhanced Revenues*

- Home Rule Sales Tax – Any enhancement to the Home Rule Sales Tax revenues could be allocated to the Capital Improvement Fund to help construct and maintain the Village's infrastructure. Enhanced revenues could also be allocated to the General Fund.
- Property Tax – Any enhancement in property tax revenues could be dedicated to the General Fund.
- Natural Gas Use Tax – Any enhancement in Natural Gas Use Tax revenues could be dedicated to the General Fund.
- Hotel Tax – Any enhancements in Hotel Tax revenues could be dedicated to the General Fund.

#### *Diversified Revenues*

- Vehicle Stickers – Revenues generated from vehicle stickers could fund many capital projects, including roadway resurfacing and reconstruction.
- Food and Beverage Tax – A Food and Beverage Tax could be dedicated to the General Fund.
- Real Estate Transfer Tax – A Real Estate Transfer Tax could be dedicated to the General Fund.
- Surcharges – Surcharges could be dedicated to the General Fund.
- Sponsorships – Sponsorships could decrease operating costs, including the purchase of uniforms and special events.

### Area-Based Recommendations

#### *Infrastructure*

- Continue to integrate capital projects to produce strategic groupings and economies of scale
- Continue the practice established in 2007 to present the five-year CIP to the Village Council for approval in conjunction with the municipal budget
- Expand the use of the planned 2012 and 2015 General Obligation bond issuances for stormwater improvements to pay for prioritized capital projects of all types

- Explore the creation of a Stormwater Utility to fund the planned stormwater system improvements
- Implement a vehicle sticker program to fund capital improvements including improvements to local streets
- Use Tax Increment Financing funds for capital improvements located within TIF Districts

#### *Personnel Expenses*

- Explore departmental reorganization to better use staff resources
- Explore ways of reducing medical insurance costs, including health insurance pools
- Provide adequate Village information and input to assist the Police and Fire Pension Boards' investment activities
- Research the viability of sharing pools for medical insurance

#### *Retail Sector Performance*

- Consider purchasing selected properties and re-selling them to developers for retail development
- Continue the implementation of the Ogden Avenue Strategy and Downtown Revitalization Strategy
- Continue to enter into sales tax rebate agreements to attract and retain selected retail businesses
- Enhance the partnership with the Downers Grove Economic Development Corporation for business attraction and retention efforts
- Explore the use of Tax Increment Financing Districts and Business Improvement Districts for qualifying retail corridors
- Market private activity bonds to businesses
- Update the Economic Development Incentive Policy to reflect the current economic development tools available to the Village

#### *Risk Management Fund*

- Conduct an actuarial study of the Risk Management Fund to determine the appropriate funding level
- Continue with cash contributions from the General Fund to reduce the deficit (practice begun in 2007)
- Minimize risk by implementing a risk reduction and safety program
- Research the viability of participating in a risk management pool, like IRMA or MICA

#### *Transportation Fund*

- Examine bus fares and adjust when appropriate
- Increase the Motor Fuel Tax rate and dedicate the additional revenues to the Transportation Fund
- Market the Grove Commuter Shuttle to increase ridership
- Monitor the performance of the new commuter buses
- Reallocate the one and a half cent gasoline tax now funding the Fairview Debt Service Fund when the debt is retired in 2014 to reduce the existing fund deficit

#### *Post-Employment Benefits*

- Reduce the Village's reported expenses and liability by scaling back benefits and/or increasing co-pays
- Seek contributions from the Library, Park District and EDC
- Treat the OPEB like a pension and transfer funds into a Trust Fund to invest
- Continue to report the OPEB liability but fund it on a pay-as-you-go basis

### *Maintenance of Urban Forest*

- Alter parkway tree replacement and removal program for a greater emphasis on tree removal and reduced tree replacements
- Develop a cost-sharing program that would require residents to pay a portion of parkway tree replacement costs
- Examine the parkway tree removal and replacement program for cost efficiencies
- Purchase lower-cost replacement trees
- Consider use of pesticides to treat the emerald ash borer and gypsy moths

### *Village Fleet*

- Continue to purchase alternative fuel vehicles when appropriate
- Determine the optimal vehicle lifespan and purchase and maintain vehicles according to the optimal lifespan
- Evaluate the practice of ordering customized vehicles
- Examine and manage the fleet on a comprehensive basis, concentrating on fuel economy and desired service level
- Explore leasing vehicles in lieu of purchasing vehicles
- Explore providing fleet maintenance services for other units of government
- Purchase vehicles with maintenance agreements when appropriate

### *Electricity Costs*

- Explore alternative providers of electricity
- Explore the option of a Village-owned electricity-generating system to provide for street lighting (e.g. solar panels, small turbines)
- Increase the Electricity Tax rate to improve the street lighting system by installing energy efficient light fixtures in order to decrease the impact of ComEd's rate changes
- Perform an energy audit and make appropriate changes to energy usage
- Reduce/alter street light system
- Replace street lighting fixtures with more efficient ones

### *Interoperable Radio Systems*

- Consider future Police and Fire Department contributions to the Equipment Replacement Fund for the future purchase of compliant radios and upgraded counsels
- Monitor developments in the technology
- Seek grants for these purchases

### **Conclusion**

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*TO BE PRESENTED WITH THE FY09 MUNICIPAL BUDGET AND INCORPORATED AT THAT TIME*