

**MINUTES OF LONG RANGE FINANCIAL PLANNING
VILLAGE WORKSHOP MEETING
VILLAGE OF DOWNERS GROVE**

August 4, 2009

**Solutions and Strategies,
Alternative Revenues**

Mayor Ron Sandack called the meeting to order at 7:58 p.m. in the Committee Room.

Council Members Present: Mayor Ron Sandack; Commissioners Marilyn Schnell, William Waldack, Sean P. Durkin, Bruce E. Beckman, Bob Barnett, Geoff Neustadt

Staff Present: Dave Fieldman, Village Manager; Judy Buttny, Finance Director; Mike Baker, Deputy Village Manager; Tom Dabareiner, Community Development Director; Doug Kozlowski, Communication Director; Kurt Bluder, Deputy Police Chief; Bob Porter, Police Chief; Jamie Belongia, Intern; Nan Newlon, Public Works Director; Andy Matejcak, Director, Counseling and Social Services; Jim Black, Deputy Police Chief; Mary Scalzetti, Director Community Events; Steve Sanderson, Budget Officer; April Holden, Village Clerk

Village Manager Dave Fieldman said this is the fifth long range financial planning meeting. The focus is Solutions and Strategies, Alternative Revenues.

Mr. Fieldman said long range financial planning offers multiple opportunities for input and discussion, allows for a dialogue among the community, Council and staff, creates awareness of issues and potential solutions, consensus for solutions and strategies, and creates a three to five year plan.

Mr. Fieldman said some of the issues are difficult and challenging but manageable in that issues and potential solutions are presented and discussed early in the process.

In terms of the General Fund strategies exercise, the Manager reiterated that the issue is that the current expenses exceed current revenues. He reviewed the potential strategies: Implement operating efficiencies; enhance the revenue base; reduce/eliminate Village services; reduce/eliminate Village funding programs; reduce/eliminate Village events; increase/enhance property tax revenue; and increase/enhance other revenue sources. He provided a summary of the results of this exercise. All Council member indicated support for using a mix of expense reduction and revenue enhancement efforts. A majority prefer a balance of expense reduction and revenue enhancement efforts. A majority indicated support for reductions or eliminations to services, events and programs. Some indicated preference for expense reduction efforts. Some indicated preference for revenue enhancement efforts. There were varying levels of support for the degree to which the property tax levy and other revenues should be increased. There was good consensus and direction that all the strategies presented are still under

consideration.

Mr. Fieldman then turned to strategies staff is recommending. They are directly related to the financial issues presented and are consistent with the exercises results. No strategies were eliminated and no new strategies were introduced; however, specificity was added to move toward a three-year action plan.

With respect to the strategies, Mr. Fieldman said there are four basic concepts: 1) expense reductions; 2) property tax increases; 3) other revenue increases; and 4) use of reserve. He then discussed using those concepts to solve the financial gap. The specific action plan recommended for this session is to solve the General Fund structural gap going forward in the next three years. In 2010, reduce general fund expenses by \$2 million, and increase the property tax levy for General Fund operations by \$500,000. There are other components to the property tax levy including storm water, pensions, and debt service in some years. Also in 2010, increase other revenue sources by \$1 million in six months. In the transition period in 2010, use \$1 million from reserves to get through the next year.

In 2011, the Manager said staff will work to contain expenses, increase the property tax levy for General Fund operations by \$500,000, use the extra \$1 million from other revenue sources, and maintain the reserve level. In 2012, the plan would be to contain expenses, enter the third installment of the \$500,000 property tax levy for the General Funds, and begin to replenish the reserves. He showed that by following the Plan, expenses will drop dramatically and revenues will increase. The impact of the property tax levy increases of \$500,000 per year is about \$20 per year on an EAV of \$100,000.

Commissioner Schnell asked what effect the reassessments would have in 2011. The Manager said because they levy an amount, the mix would change. If all property drops, all would pay their fair share. The rate would be an adjustment on the EAV. The rate would go up if the EAV drops.

Commissioner Neustadt asked whether the \$1 million in the reserves keeps the Village within the policy guidelines. The Manager said that staff is confident it would. It would be within the policy of having two to four months of operating reserves. There are two components, to the reserve: rainy day components and catastrophic components. Staff feels the use of \$1 million in a one-year period with a plan to begin replenishing in two years would be appropriate. Commissioner Neustadt said it is significant that other communities have already used a portion of their reserves without going through this process.

Commissioner Beckman asked about the contained expenses in 2011 and 2012. The Manager said that there is still an upward slope to the expense line, but they are looking for cost containment. They have the duty of looking for operating efficiency to keep the expense line as flat as possible.

Commissioner Waldack asked for clarification that over a three-year period they expect to raise taxes about \$60 for a typical home. He asked whether anything would impact that, such as an increase in sales taxes, or is it the intention to move ahead with the tax levy, because it is steady planned revenue. Mr. Fieldman responded that he had a graph of the four major revenue sources from 1992-2009. The revenue sources are relatively flat over time. Staff recommends changing the business model to put more reliance on the property tax as a steady predictable revenue source. If any other revenue sources change sufficiently, a change in the property tax levy would be a policy level call by Council. He hopes they will be in that position to have a policy level discussion.

Commissioner Barnett said, with respect to expenses, roughly 22% of operating expenses comes from property taxes. He asked whether the increase in the property taxes will result in a change in the pie chart. The Manager responded that he thinks the reliance on property taxes will grow. He said staff would provide a percentage breakdown for three years.

Commissioner Schnell said that she would want to make sure the community is affordable for everyone, and they do not make it too expensive for people.

Commissioner Barnett said that \$20 comes to \$1.80 per month. He thinks \$500,000 seems a small amount. They want to continue providing core services. If the property tax increases from 22% to 24%, that is not a lot of money.

Commissioner Durkin agreed that \$500,000 is not a lot of money. He asked if there is \$500,000 somewhere in the budget that they can shave so as not to increase the tax levy. The economy is down, and there has been success in economic development. Within three years \$1.5 million is not a lot of money in revenue. He thinks there has to be a way to still cut money from the budget.

With respect to a recovery in sales tax dollars, Mr. Fieldman said that sales tax has been flat since 1992. Regarding expense reductions, the Plan calls for \$2 million of expense reductions. He said \$2 million in 2010, after over \$2 million was cut last year, is \$4 million on a \$40 million budget, or 10%. That is a significant expense reduction over a two-year period. He noted that 75% of costs are in personnel expenses. To capture more would result in significant personnel cuts and service cuts.

The Mayor noted that they are trying to be long-term, not budget-to-budget. This does not take away from the budget process. At the end, the Village has to figure out what residents want in services. What services do they want and how will they be paid for, from a philosophical perspective.

Commissioner Durkin said before he would support raising the tax levy, he would want to know what tools will be used to show cuts and what items have been shaved. There are luxury items that can be cut. He knows that an increase would be money well spent, but he wants to know how they will tell residents what has been accomplished and what still needs to be done. He commented on the fact that the buses are still running. He doesn't want this to be the Council that keeps raising taxes.

Mr. Fieldman said staff is looking for guidance for preparing 2010, 2011 and 2012 budgets. They need a consensus in the next few meetings. Once staff has direction, they will work at getting the message out to the public.

Commissioner Neustadt said that this process is part of an education. He agrees that the Village should take this to the next level.

Commissioner Durkin said information should be placed on the Internet, and any other means to inform the public.

Commissioner Beckman said that first they need to agree on the Plan. He sees this Plan as establishing a base line, and determining how to reach that base line. He would expect that there will be some

adjustments made in the future, either upward or downward.

The Mayor said if the Council had done this in 2004, there would have been no way anyone could have anticipated everything that happened in 2008. This process as recommended will be adjusted. They are making a deliberate and aggressive attempt to grow the tax base by attracting new businesses, but it takes time to see an impact. He said that there will be a series of short term gains. Philosophically, he said they need to ask what services do we provide and how do we pay for them. They have to attach revenue streams, and attract revenue sources for services.

Commissioner Beckman said he senses that they all agree that everything is on the table.

Commissioner Waldack referenced the graph shown at another meeting with a comparison of the Village to other communities. He understood their goal as having room to move if necessary. The property taxes of some of the best communities in the country, as stated in Money Magazine, showed property tax as 25% of their budget. If the goal is to be a good community, they have to determine what else is needed, outside of core services, to make the Village the best it can be.

Commissioner Schnell said that it is important that they keep it balanced, and that the community remains affordable. She said that they have to keep that philosophy in mind. We also need to look at what makes up the additional \$1 million in revenue.

Mayor Sandack said affordability is a bit of a platitude. We are talking about the Village's component and whether that component is rendering enough revenue to provide services that the residents expect. They would have to bring in all other taxing bodies when looking at affordability, including schools, park districts, etc. He will not handcuff himself when they can't control other expenses,

Commissioner Barnett said that the core services reported out at \$30 million. He asked that staff show that number versus the property tax projected over the next three years.

Mr. Fieldman said that about \$1 million a year is spent in secondary services. Commissioner Barnett said that people are interested in receiving something for what they pay. He doesn't think people necessarily want the cheapest way.

Mr. Fieldman then discussed the Capital and Infrastructure Plan. He said first they must prioritize needs, issue debt, and pledge a revenue source. He said one of the things the public asks is "if there is such a budget gap, why is the roadwork [or other project] being done?" Staff believes that it is not fiscally sound as a long-term strategy to decrease those services.

Mike Baker, Deputy Village Manager then addressed enhanced and alternative revenue sources. Potential revenue enhancements are in the areas of Home Rule Sales Tax, Natural Gas Use Tax, Electricity Tax, and Hotel Tax. Fees should also be considered. He said that Home Rule Sales Tax is 0.75% with the source coming from the sale of general merchandise in the Village. If that was increased by .25%, it would bring the Home Rule Sales Tax to 1% and generate \$1,990,000. He showed comparisons between Downers Grove and surrounding communities. Lombard, Glen Ellyn and Wheaton have an HRST rate of 1% or more.

Mr. Baker then discussed the Natural Gas Use Tax which is currently at \$0.015 per therm, from the Natural Gas Consumption within the Village. An increase to \$0.005 would result in an additional \$163,000. Downers Grove's current rate is below Wheaton, Glen Ellyn, Carol Stream, Naperville and Lombard. He then applied similar potential rate increases to the electricity tax and the hotel tax. Commissioner Barnett asked if there is an administrative role in these taxes. Mr. Baker said there is not. Commissioner Barnett said ramping up these taxes affects the ability of someone to live in Downers Grove and yet it is not tied to any particular service. Mr. Baker emphasized that these are options available to the Village. Staff will provide more detailed analysis and any change will require Council approval.

Commissioner Beckman asked if Commissioner Barnett would prefer to see no increase on any of these taxes. Commissioner Barnett said he doesn't agree with trying to raise revenue by piggybacking on other services that the Village does not administer, because no value is being added. The Mayor noted that this assumes consistent use as well. Commissioner Waldack said maximizing these taxes would still put the Village at the bottom of our comparable community tax rates, but noted that property taxes are deductible and these taxes are not.

John Schofield commented that it is justifiable to tax utilities since the Village is granting utilities access to Village parkway or public easements, which is essentially rent for crossing Village land.

Commissioner Barnett commented that homeowners and businesses are paying the Village rent to allow the utilities to use

As for Hotel Tax, Commissioner Durkin asked how high the Village can go with the tax. Mr. Baker responded that there is no limit. Commissioner Durkin said he would be in favor of raising this as those paying are not Downers Grove residents.

Commissioner Neustadt said he thinks they need to look at the comparisons.

Commissioner Beckman said there is not much room to move if we want to stay competitive with neighboring communities.

Commissioner Neustadt commented that if this tax is raised, the Village is still in line with other communities and shows that it has taken every step before raising property taxes.

Mr. Baker then reviewed the concept of fee adjustments, saying they are being evaluated based on the objectives of simplification, competitiveness, and cost recovery. Other alternative revenue sources can include a food and beverage/liquor tax, vehicle stickers, and real estate transfer taxes. He reviewed the food and beverage/liquor tax, stating it would have to be locally administered. Revenue potential could range from \$650,000 to \$1,950,000.

Mark Thoman asked about administrative costs associated with this tax, and Mr. Baker responded that they are relatively low.

Commissioner Durkin noted that on some of the comparisons, Oak Brook is not included. Mr. Baker said he would look into this and provide that information.

Another potential source of revenue reviewed by Mr. Baker was vehicle stickers on vehicles principally housed within the Village owned by Downers Grove residents. Proposed sticker prices of \$20 to \$40 could result in revenue of \$729,000 to \$1,458,000. He indicated that the figures are based on two cars per household. Rentals were also factored in. Administrative costs would be high as the Village would have to administer this, and enforcement would be challenging.

The final source of revenue reviewed by Mr. Baker is the Real Estate Transfer Tax. This tax would have to be adopted by referendum. Revenue, based on figures in other municipalities, ranges between \$3.00 and \$1.50 per \$1,000 of the selling price.

Mr. Fieldman said that the question is whether we have maxed out revenue options and enhancements. The Plan shows what is available if the Council is not comfortable with the property tax increase.

Commissioner Waldack said there are other alternatives, including modifying current parking rates, to at least see whether costs are covered. Mr. Baker said that would fit under the fee analysis review.

Commissioner Waldack then referred to a potential gasoline tax, and Mr. Baker said that the Village is at the highest level of other communities.

Commissioner Waldack proposed looking at grants and being more aggressive. Mr. Baker said that they are keeping the Grants Coordinator very busy.

Mr. Fieldman said that staff will continue to work toward a consensus. The next meeting will include a review of TCD-3 in the context of the Strategic Plan, and changes in the Strategic Plan goals. He said they may need to have one last meeting to wrap up everything so the long range plan can be in place before the 2010 budget is presented. He indicated that the Long Range Financial Plan will be placed on a Workshop agenda.

Mr. Schofield asked whether any explorations have been made of economies of scale and pooling accounts. The Manager said that one of the key elements of the operating efficiency project is exactly that idea.

Mr. Thoman asked about annexations, and they would this mitigate some of the other increases being considered. The Manager said it absolutely would.

Mr. Thoman then suggested other fees such as developer fees and demolition fees. Mr. Fieldman said that everything is on the table; however, staff didn't feel it was significant enough to affect a \$4.5 million gap.

The Mayor said the next meeting will be held in two weeks.

The meeting was adjourned at 9:12 p.m.

April K. Holden

Village Clerk