ITEM MOT 00-04236

VILLAGE OF DOWNERS GROVE
REPORT FOR THE VILLAGE COUNCIL MEETING
AUGUST 17, 2010 AGENDA

SUBJECT:	TYPE:	SUBMITTED BY:
2011-2013 Long Range Financial Plan	Resolution Ordinance ✓ Motion Discussion Only	David Fieldman Village Manager

SYNOPSIS

A motion has been prepared to approve the 2011-2013 Long Range Financial Plan.

STRATEGIC PLAN ALIGNMENT

The Five Year Plan and Goals identified *Steward of Financial Sustainability*.

FISCAL IMPACT

The approved Long Range Financial Plan will be used as a guiding document for the preparation of the FY11-FY13 municipal budgets. The proposed plan for the General Fund is summarized below. The plan to increase the General Fund revenues was revised based on the Village Council review and discussion at the June 29, 2010 meeting. Specifically, the proposed plan now calls for increasing revenues by $500,000 in 2011 and 2012 by increasing one or more revenue sources. The original plan called for increasing revenues by $500,000 by increasing the property tax levy.

<u>General Fund Plan, 2011-2013</u>

2011
- Contain Expenses
- Increase General Fund revenues by up to $500,000 using one or more revenue sources such as utility taxes, food & beverage tax, liquor tax, hotel tax, vehicle stickers and property tax levy
- Capture a full year of HRST revenues -$1 million in revenue enhancement
- Maintain Reserves

2012
- Contain Expenses
- Increase General Fund revenues by up to $500,000 using one or more revenue sources such as utility taxes, food & beverage tax, liquor tax, hotel tax, vehicle stickers and property tax levy
- Maintain Reserves

2013
- Contain Expenses
- Capture Revenue Recovery
- Adjust the Property Tax Levy as Necessary
- Begin Replenishing Reserves

With regards to the capital projects, staff recommends following the existing long range plan to meet the Village's ongoing infrastructure and facility needs:

<u>Beginning in 2012</u>
- Prioritize Infrastructure and Facility Needs
- Issue Debt to Pay for the Prioritized Infrastructure Improvements (Pay As You Use)
  - Regular Intervals, 3 Years

    - Maintain Moderate Debt Level
- Pledge Revenue Sources to Retire the Debt
    - Use Existing Revenue Sources
    - Consider Alternative Revenue Sources (Stormwater Utility)

RECOMMENDATION
Approval on the September 7, 2010 active agenda.

BACKGROUND
In 2009, the Village Council met with staff members for a series of Long Range Financial Planning sessions. The purpose of these meetings was to develop long-term financial strategies and build consensus for the solutions that would become the basis for future financial decisions. Through these meetings, the Village produced a three-year Long Range Financial Plan that guided the preparation of the 2010 annual budget. The LRFP process facilitated an ongoing dialogue among the community, the Council and staff. In addition, the Long Range Financial Plan process created an awareness of the Village's financial issues, identified strategies and solutions for these issues, and established a three-year plan. The Village prepared the 2010-2012 Long Range Financial Plan (LRFP) that identified financial trends and issues, and developed strategies and solutions to guide financial decisions over the next three years (available online at http://www.downers.us/story/view/230).

In 2010, staff prepared the proposed 2011-2013 Long Range Financial Plan update, which consists of the following four sections:

1. A summary of the 2010 LRFP
2. A summary of the 2010 LRFP implementation efforts
3. Identification of new financial trends and issues
4. Recommendations for updates for the 2011-2013 LRFP

The proposed plan was reviewed and discussed by the Village Council on Tuesday, June 29th. Prior to the June 29th meeting, staff prepared a report for Council and public review. The plan was published in advance of the June 29th meeting and the Village provided multiple avenues for resident and Council input. Beginning in May, civic engagement was solicited primarily through the Village's website. Residents were provided the opportunity to submit comments, questions, thoughts and suggestions to the Village. All comments and questions were provided to the Village Council.

The complete 2011-2013 Long Range Financial Plan is attached. The key findings of the plan are as follows:

- General Fund revenues have been declining since 2006 falling from $41.5 million in 2006 to $39 million in 2009. Sales tax revenues as a percentage of General Fund revenues have been declining since the mid 1990's.

- General Fund expenses have declined since 2007 falling from$42.7 million in 2007 to $39.3 million in 2009. Non-personnel expenses have remained flat since the 1990's. Personnel expenses as a percentage of General Fund expenses have increased since the 1990's while the total number of employees has decreased.

- A continuation of current practices of "Business as Usual" would result in a $4.5 million financial gap in 2010 growing to about $6 million in 2012.

- Seven strategies to address the General Fund gap were identified and were implemented in 2010.
    - Implement Operating Efficiencies

- Enhance the Revenue Base
- Reduce/Eliminate Services, Events & Programs
- Increase/Enhance Property Tax Revenue
- Increase/Enhance Other Revenue Sources
- Reduce Personnel Expenses
- Strategically Use Reserves

- The implementation of the first year of the Long Range Financial Plan per the FY10 budget is working as described in the plan. The expected $4.5 million gap was reduced to $834,000 (the amount of planned use of reserves in the FY10 budget).

- State Shared Income Tax and Telecommunications Tax revenues and grant funding opportunities are expected to decline in future years.

- Infrastructure and facility investment needs significantly exceed the revenue generated from existing revenue sources earmarked for infrastructure.

- The Village maintains a strong bond rating of AA+ and has the capacity to issue debt in the future.

ATTACHMENTS
2011-2013 Long Range Financial Plan Update

Introduction

In 2009, the Village prepared the 2010-2012 Long Range Financial Plan (LRFP) that identified financial trends and issues, and developed strategies and solutions to guide financial decisions over the next three years (available online at http://www.downers.us/story/view/230). Staff is preparing the 2011 Long Range Financial Plan update, which will culminate with a meeting of the Village Council on Tuesday, June 29th.

Prior to the June 29th meeting, staff will prepare a report for Council and public review. The 2011 LRFP report will include of the following four sections:

1. A summary of the 2010 LRFP
2. A summary of the 2010 LRFP implementation efforts
3. Identification of new financial trends and issues
4. Recommendations for updates for the 2011-2013 LRFP

Staff will publish the four sections for Council and public review and consideration prior to the June 29th meeting. The first two sections will be made available by May 14. Section three will be published by May 21. Section 4 will be published by June 11.

The 2011 LRFP approach will provide multiple avenues for resident and Council input but will differ significantly from last year's approach. Beginning in May, civic engagement will be solicited primarily through the Village's website. The four sections of this report will be posted on the Village's website. Residents will be provided the opportunity to submit comments, questions, thoughts and suggestions to the Village. Staff will then review the comments and questions submitted and will update the website with answers to frequently asked questions. All comments and questions will be provided to the Village Council. Staff will summarize the comments received. Staff will also provide alternative avenues for residents to view updates and submit feedback at public facilities in the Village. This will allow the Council and staff to read statements posted and submitted by residents in response to this report and incorporate resident feedback into the decision-making process. Opportunities for public comment will be provided at the June 29 LRFP meeting with the Village Council. More information about this event will be made available on the Village website in the coming weeks.

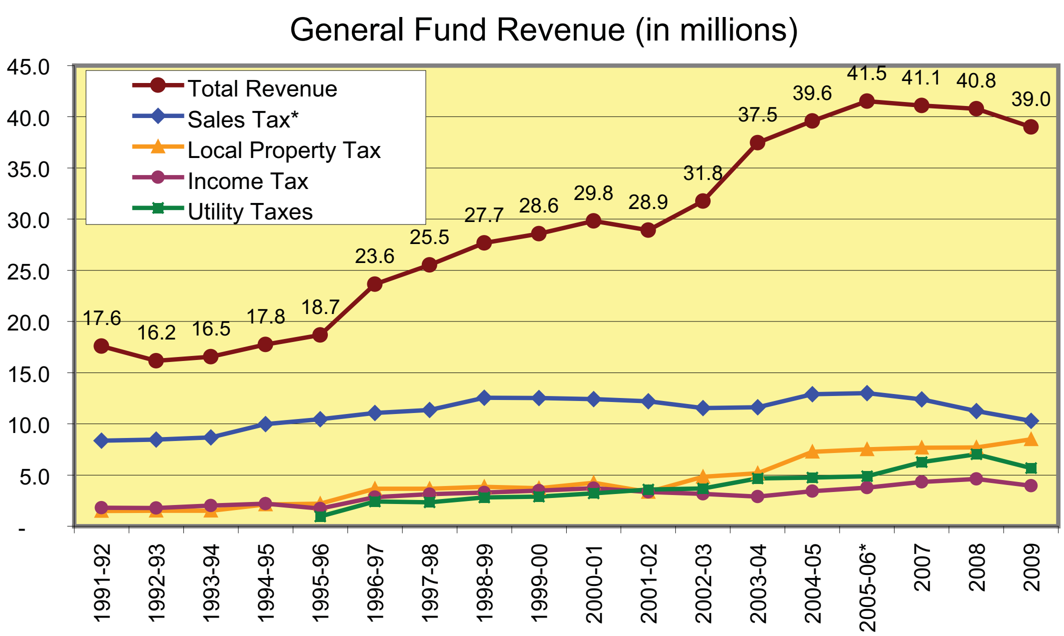
In 2009, the Village Council met with staff members for a series of Long Range Financial Planning sessions. The purpose of these meetings was to develop long-term financial strategies and build consensus for the solutions that would become the basis for future financial decisions. Through these meetings, the Village produced a three-year Long Range Financial Plan that guided the preparation of the 2010 annual budget. The LRFP process facilitated an ongoing dialogue among the community, the Council and staff. In addition, the Long Range Financial Plan process created an awareness of the Village's financial issues, identified strategies and solutions for these issues, and established a three-year plan. This section outlines a summary of the 2010 Long Range Financial Plan and includes an overview of the following issues and solutions:

- General Fund Revenues
- General Fund Expenses
- General Fund Projections
- General Fund Strategies
- General Fund Three-Year Plan
- Infrastructure and Facilities
- Debt Capacity
- Infrastructure and Facilities Strategies

General Fund Revenues

The figures below show the Village's top four General Fund revenue sources and total GF revenue. Figure 1 depicts historical information from 1992 through 2009 and Figure 2 compares FY 1996/97 to FY 2009.

Figure 1



* Sales tax does not include Home Rule Sales Tax

Figure 2

General Fund Major Revenue Category Comparison FY 1996/97 and FY 2009				
	1996/97 Actual		2009 Actual	
Major Revenue	**Revenue**	**% total**	**Revenue**	**% total**
Sales Tax	11,056,758	47%	10,300,409	26%
Property taxes	2,775,280	12%	9,174,755	24%
Utility Tax	2,421,642	10%	5,694,903	15%
Income	2,848,984	12%	3,960,237	10%
All Other	4,543,226	19%	9,821,140	25%
Total Revenue	**23,645,890**	**100%**	**38,951,444**	**100%**

Sales tax revenue represents 26% of revenue in the $39.0 million General Fund. Sales Tax remains the largest revenue source, but has been generally flat over time and has shown signs of significant decline in recent years. Sales tax revenue remained generally flat since 1999 at about $12 million, but began declining in 2007 to roughly $10.3 million in 2009. 2009 sales tax revenue was the lowest since 1996.

Property tax is the most reliable revenue source while others are variable. Property taxes have been a predictable and stable revenue source for the Village. Income tax revenue is cyclical and varies with economic conditions. During the last recession, unemployment peaked more than a year after the official end of the recession. Income tax collections lag behind changes in income. The State of Illinois controls and distributes the local share of the income tax.

An analysis of Village revenue sources concluded that total Village revenue has been declining since 2006. The Village has achieved greater diversification among major revenue sources over time and the current economy will threaten future revenue growth in the major revenue categories

General Fund Expenses

Figure 3 denotes the Village's total General Fund expenses over time, the Village's General Fund personnel expenses over time and non-personnel expenses in the General Fund over time. Total General Fund expenses have decreased during the past three years. Personnel costs are the primary expense driver in the General Fund. Non-personnel expenses have been relatively flat over time and have decreased steadily since 2007.

Figure 3

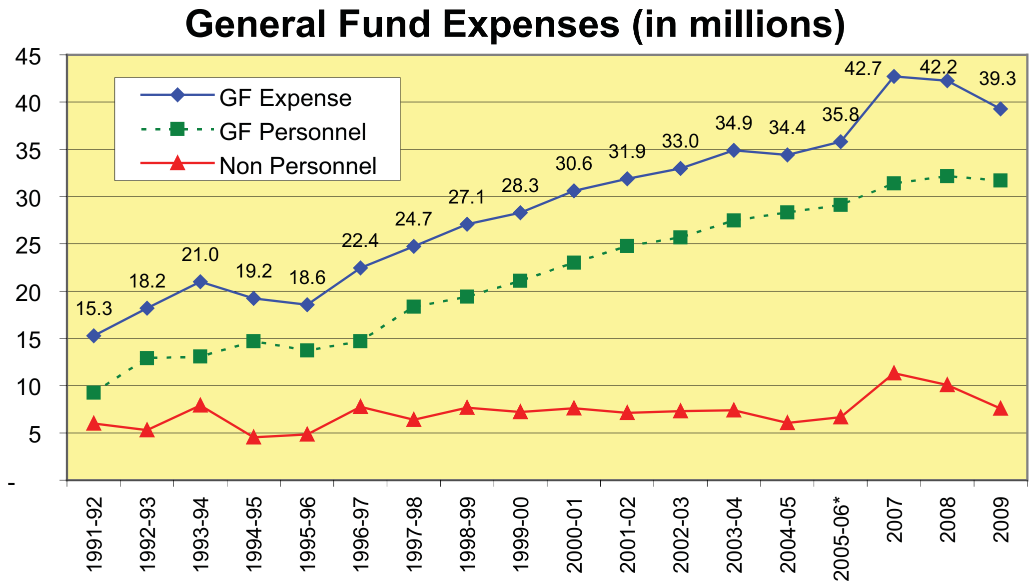


Figure 4

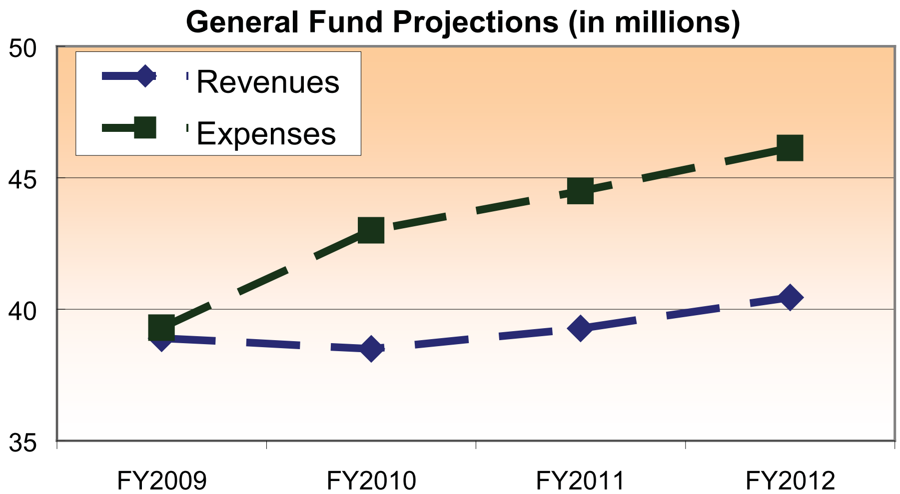
General Fund Staffing Comparison		
FY 1996/97 and FY 2009		
	1996/97 Actual	**2009 Actual**
Total FTE	364	358
GF Personnel Expenses	$ 14,690,574	$ 29,745,746
% of Total Expenses	65%	74%

Figure 4 compares General Fund staffing in 1996 to 2009 General Fund staffing and shows that at 74% of total General Fund Expenses, personnel costs are the major expense driver. Despite a decline in the number of employees, personnel expenses have increased steadily due to increasing personnel costs in the areas of wages, other benefits and pension costs.

General Fund Projections

Figure 5 below depicts “business as usual” revenue and expense projections for FY 2010 through FY 2012. As shown, the projected “business as usual” gap between revenues and expenses was about $4.5 million for 2010 and grows to $6 million in 2012. Existing revenues are not growing at a rate to support the growth of existing expenses. These projections indicate that significant change to expenses and revenues must occur to ensure that the Village maintains its strong financial position.

Figure 5



<u>General Fund Strategies</u>

During the LRFP, the following strategies were identified to address the gap between Village revenues and expenses:

- Implement Operating Efficiencies
- Enhance the Revenue Base
- Reduce/Eliminate Services, Events & Programs
- Increase/Enhance Property Tax Revenue
- Increase/Enhance Other Revenue Sources
- Reduce Personnel Expenses
- Strategically Use Reserves

Implement Operating Efficiencies refers to the provision of selected services, programs and events at existing levels but at reduced costs. Staff noted that this strategy will focus on implementing operating efficiencies that reduce personnel costs. The second strategy, Enhance the Revenue Base, refers to implementing the Economic Development Plan to increase property values and the sales tax base. This strategy also includes actively pursuing annexations with a net positive financial impact to the Village.

A third strategy included reducing or eliminating low priority services, events and programs. However, reducing or eliminating higher priority services, events and programs may be considered if there is a significant financial benefit to the Village. Fourth, increasing or enhancing property tax revenue would increase the levy such that it results in a tax rate near the average tax rate of DuPage County municipalities and would pledge the increase in the property tax levy for covering the costs of services provided by the Village. Next, increasing or enhancing Village revenue sources other than the property tax was considered as a strategy. This included identifying and implementing new revenue sources in addition to increasing other current revenue sources. These revenue sources, when possible, should be complimentary to the property tax.

The sixth strategy identified was reducing personnel expenses through changes in employee benefit levels and through a reduction of the number of employees when operating efficiencies are achieved and when services, events and programs are reduced or eliminated. Finally, a strategic use of reserves to assist in the transition to the new business model would be considered as a strategy. Following a strategic use of reserves, the Village would increase reserves to approximately 40% of General Fund expenses.

The following strategic concepts were preferred by the Village Council for closing the General Fund structural gap over a three year period:

- Expense Reductions
- Property Tax Levy Increase
- Other Revenue Increases
- Strategically Use Reserves

General Fund 3 Year Plan

The following specific three-year plan was identified.

2010

- Reduce Expenses by $2.0 Million
- Increase the Property Tax Levy for General Fund Operations by $500,000
- Increase Other Revenue Sources by $1,000,000 (6 months)
- Use $1.0 Million of Reserves

2011

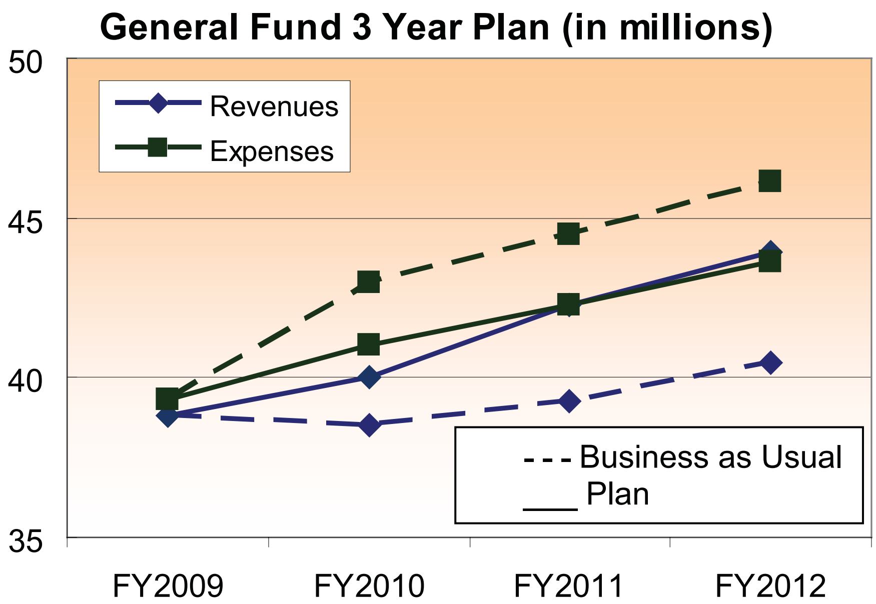
- Contain Expenses
- Increase the Property Tax Levy for General Fund Operations by $500,000
- Capture Full Year of Other Revenue Increases (Additional $1 Million)
- Maintain Reserves

2012

- Contain Expenses
- Increase the Property Tax Levy for General Fund Operations by $500,000
- Begin Replenishing Reserves

Figure 6 depicts the closure of the projected revenue and expense gap assuming implementation of the Long Range Financial Plan above.

Figure 6



Infrastructure and Facilities

There are multiple components of infrastructure and facilities including facilities, streets, stormwater, water, parking, streetlights, sidewalks and traffic infrastructure.

Figure 7

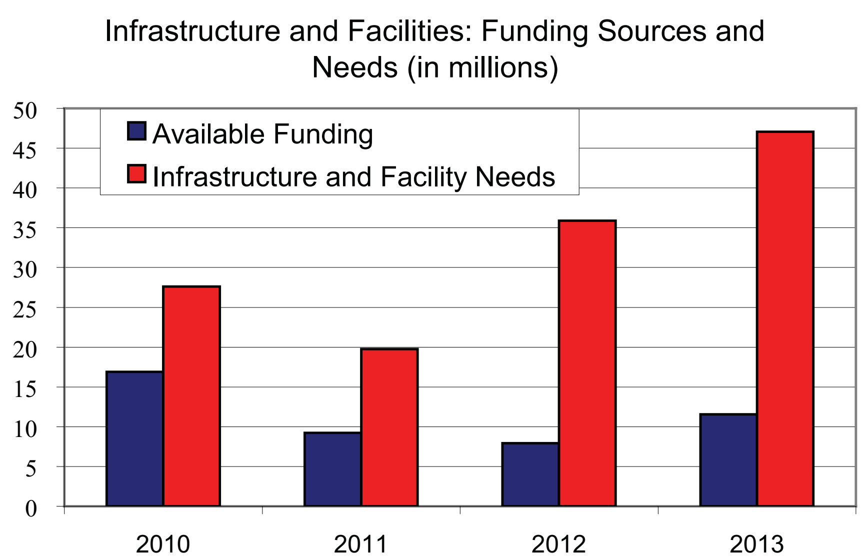
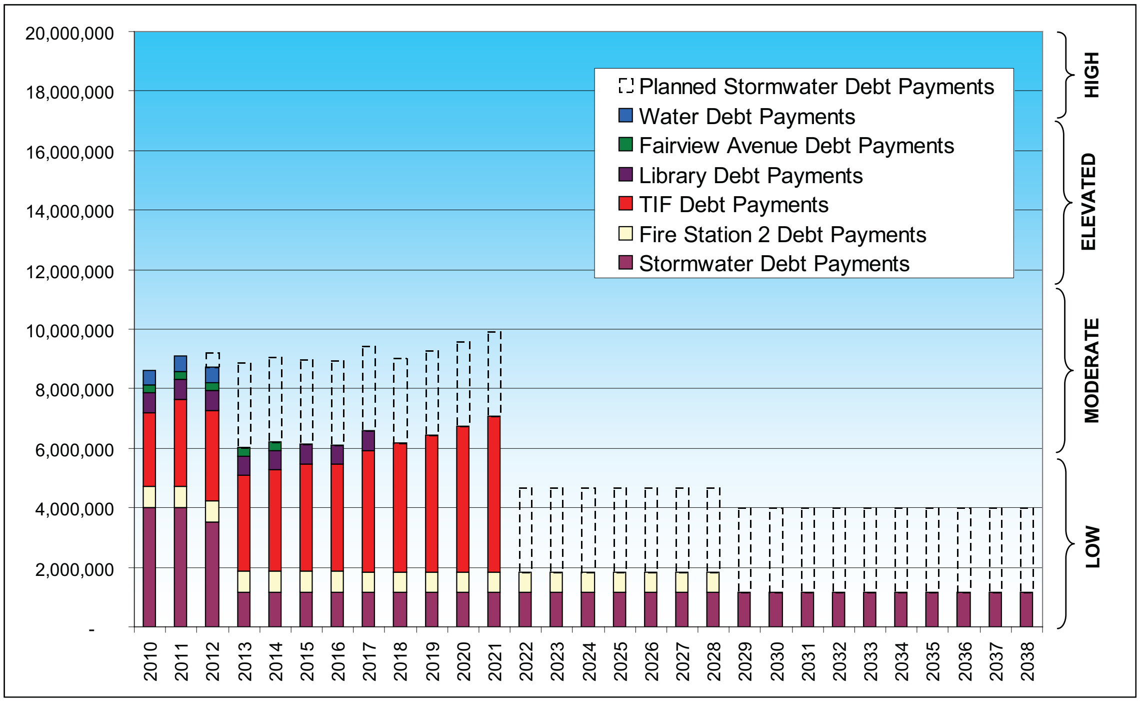


Figure 7 shows future, identified infrastructure and facility needs and available funding assuming the use of current funding sources. The analysis incorporated a funding need for both the construction of new facilities, as well as on-going maintenance of existing facilities. Infrastructure and facilities currently have multiple sources of funding including home rule sales tax, motor fuel tax, property tax, telecommunications tax and grant funding. Long Range Financial Planning concluded that infrastructure and facilities investment needs are significant and vary over time and that infrastructure and facilities investment needs exceed existing sources of funding.

Debt Capacity

Figure 8 shows the Village's existing and future debt service payments and categorizes a typical municipal debt obligation as high, elevated, moderate or low. The Village currently has a moderate debt level.

Figure 8



The planned stormwater debt payments (shown as dashed lines), reflect the payments associated with the two remaining $25 million bond issuances planned to occur in 2012 and 2015 as part of the original funding strategy for the Watershed Infrastructure Improvement Program. Should those bond issues proceed as planned, the Village can expect debt service payments through 2038 as shown on the graph, including the dashed sections of the columns.

The Village has a strong financial position with a AA+ bond rating. As the chart indicates, current debt obligations are within moderate levels and drop to low levels in future years. Debt capacity is available in future years but the Village must pledge a revenue source or sources to pay off future bond issuances.

Infrastructure and Facilities Strategies

The strategies identified for infrastructure and facilities include prioritization of infrastructure and facility needs. Then, the Village will issue debt in regular intervals at a moderate debt level to pay for the highest priority infrastructure improvements. The plan also called for pledging existing revenue sources or alternative revenue sources to pay for debt and called for implementation beginning in 2012.

The 2010 Long Range Financial Plan implementation occurred during the 2010 budget process and adoption and varied slightly from the plan outlined above. The LRFP called for the following initiatives:

- Reduce GF expenses by $2 million
- Increase the levy by $500,000
- Increase other revenues by $1 million
- Use $1 million of reserves

The 2010 budget implementation resulted in:

- Net reduction of General Fund expenses by $2.17 million
- Increased levy by $500,000
- Home Rule Sales Tax rate increase of .25% going into effect on July 1, 2010 expected to generate about $1 million
- Use $834,000 of reserves

These actions resulted in a slight deviation from the original LRFP as depicted in Figure 9. A summary of the FY 2010 Budget can be found at http://www.downers.us/story/view/295.

Figure 9

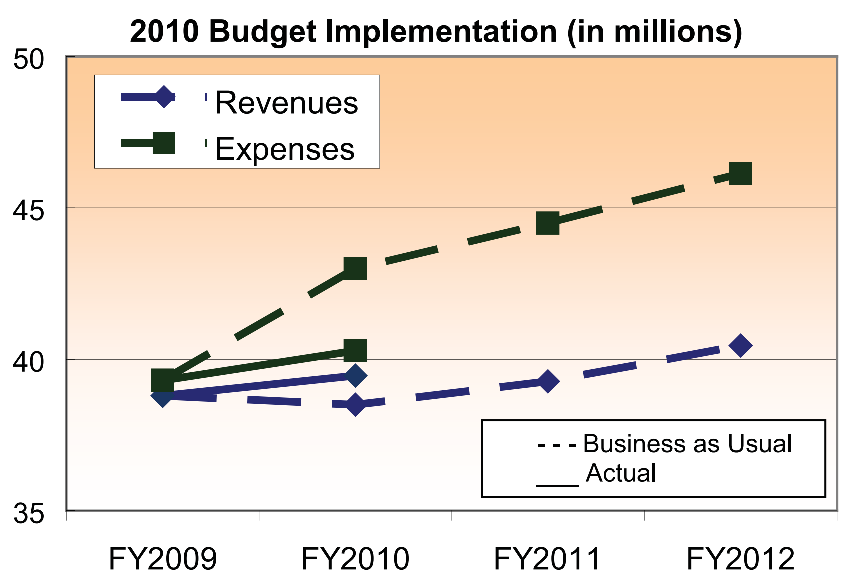


Figure 10

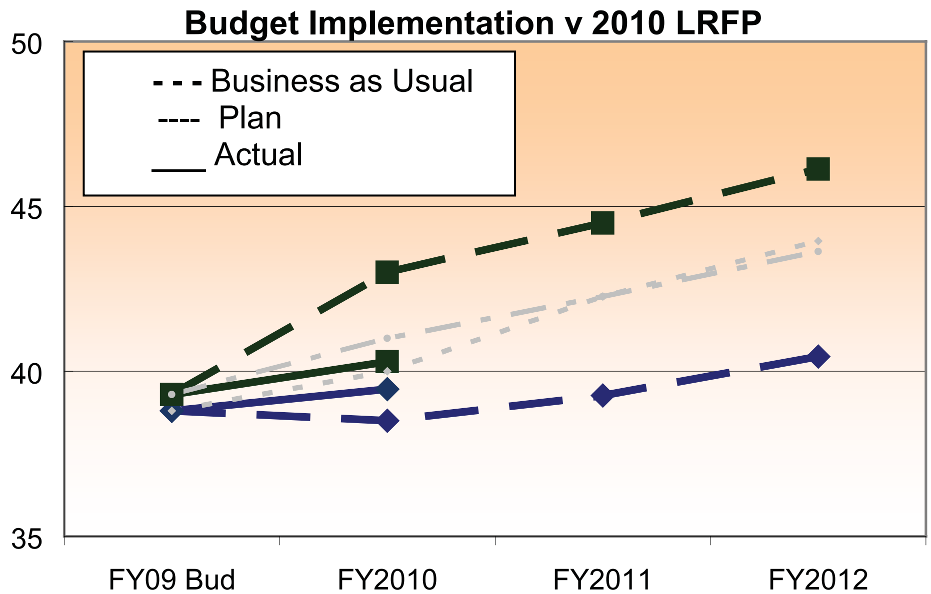
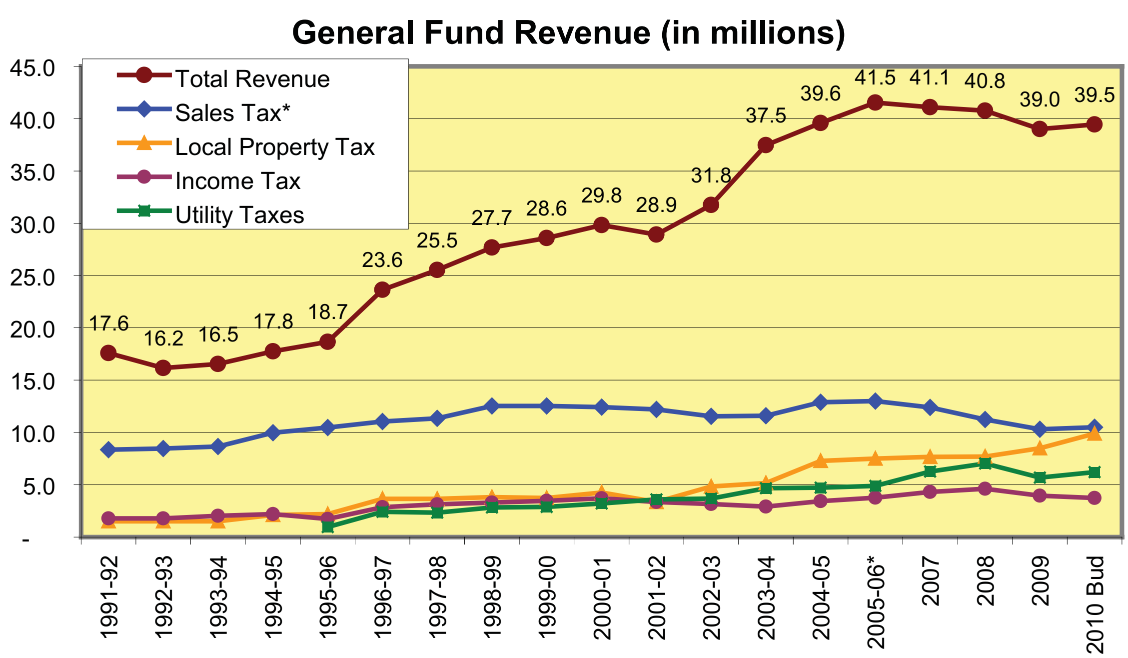
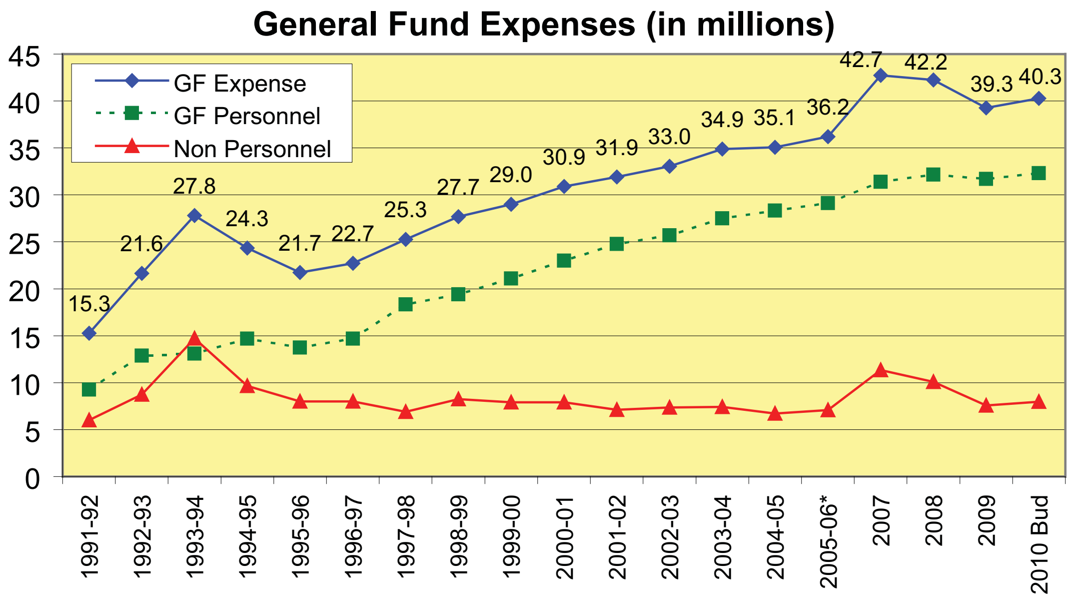


Figure 11



* Sales tax does not include Home Rule Sales Tax

Figure 12


General Fund Expenses (in millions)
GF Expense
GF Personnel
Non Personnel
45
40
35
30
25
20
15
10
5
0
15.3
21.6
27.8
24.3
21.7
22.7
25.3
27.7
29.0
30.9
31.9
33.0
34.9
35.1
36.2
42.7
42.2
39.3
40.3
1991-92
1992-93
1993-94
1994-95
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06*
2007
2008
2009
2010 Bud

Overview

This section of the Long Range Financial Plan will identify trends and issues not identified in the 2010-12 LRFP but which could potentially impact the Village's financial standing in 2011 and beyond. These issues have been identified due to recent conditions and should be considered in addition to the issues identified and discussed in the 2010-2012 LRFP. Staff continually monitors and evaluates the Village's various revenue streams. Through this analysis, Village staff has identified the following three items as financial issues which should be considered during the Long Range Financial Planning Process:

- State Shared Income Tax
- Telecommunications Tax
- Grant Funding

State Shared Income Tax

State Shared Income Taxes are imposed on the privilege of earning or receiving income in or as a resident in the State of Illinois. Local government entities receive one-tenth (10%) of the net collections of all income tax received. The amount that each municipality receives is based on its population in proportion to the population of the entire State of Illinois. The State Shared Income Tax accounts for approximately 10% of the Village's total revenue and in FY10 is the Village's fourth largest General Fund revenue source. In FY08, the Village received $4.6 million in income tax revenue and $4.0 million in FY09. The recent decline in income tax revenue can be attributed to a decline in the aggregate income of state residents and businesses, reflecting the economic down turn. Staff is concerned that there may be an additional decline in income tax revenue due to a proposed change in the state's distribution of income tax revenue.

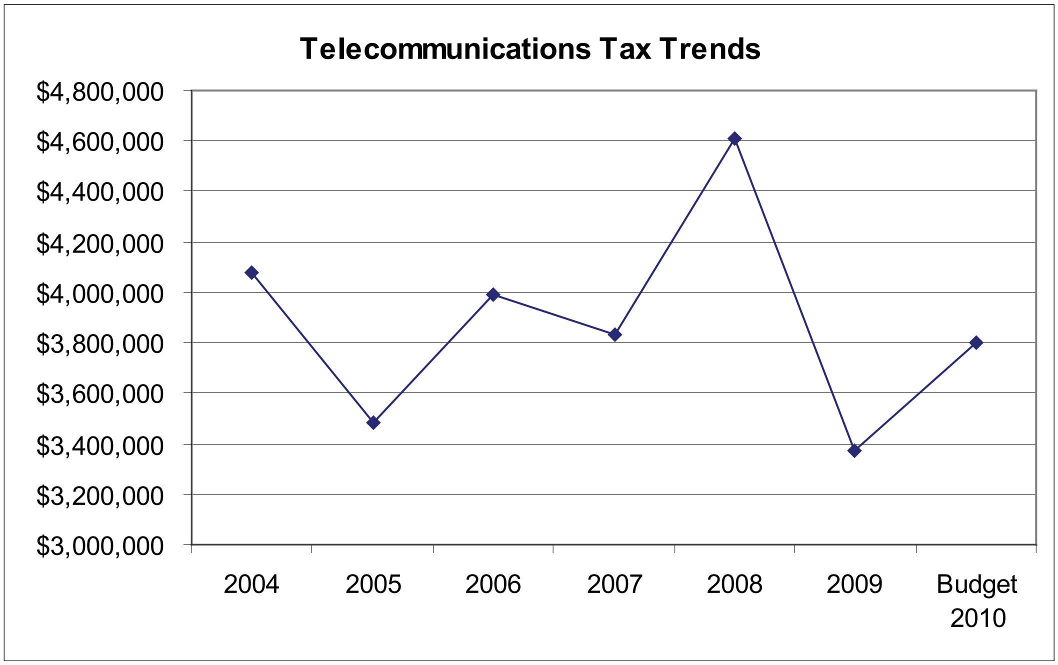
In order to balance the state of Illinois budget, the Governor is proposing to reduce the State Shared Income Tax disbursals to municipalities under the Local Government Distributive Fund (LGDF). Per the Governor's proposal, income tax disbursals to Illinois municipalities would be reduced from 10% to 7%. If approved, the Village's state shared income tax revenues would be reduced by approximately $1.1 million on an annual basis.

Telecommunications Tax

The Telecommunications Tax is imposed on all intrastate messages (i.e., those that originate or terminate in Illinois and are billed to a service address in Illinois) as well as all interstate messages. The types of telecommunications which are taxable include messages and information transmitted through use of local, toll, or wide area telephone services, including cellular phones and pagers.

Village staff has tracked Telecommunications Tax revenues and has found this revenue source has performed irregularly over the past several years as shown in Figure 14. In 2009, the Village collected approximately $3.4 million in Telecommunications Tax revenues. 2009 Telecommunications Tax revenues represent a 27% drop below 2008 levels. Staff expects a further reduction in telecommunications tax revenue due to the loss of two revenue generating businesses. Recently, two call centers located in the Ellsworth Business Park ceased operation. While the amount of telecommunications tax revenue generated by these businesses has not been determined, staff is concerned that the loss of these two businesses may negatively impact total Village revenues. Due to the highly variable and irregular performance of Telecommunications Tax revenues and the loss of two call centers, staff has identified this item as a long term financial issue. Future revenues could remain near the FY09 level of $3.4 million.

Figure 14



Grant Funding

The Village has actively pursued State and Federal grant opportunities in the past to fund various projects. However, based on recent grant disbursal trends, it is possible that State of Illinois grant funds could be significantly reduced or possibly eliminated in future years. While the Village will continue to pursue grants, the potential lack of grant funds available from the State of Illinois could impact the Village's ability to undertake certain projects in the future.

For example, the FY10 budget includes approximately $2.5 million in State and Federal grant funding to complete various capital projects throughout the Village. Of this amount, approximately $1.7 million in grant funds are considered to be secure and staff anticipates these grant funds will be collected by the Village in 2010. However, $860,000 in 2010 grant funds may be at risk as a result of the State of Illinois' financial constraints. While the Village has received letters from the sponsoring legislators stating that it will receive funding for several projects, the Village has yet to receive any official grant award notices for these items. It is possible that the Village will not receive these funds as the State has not issued the bonds that provide the money for these grants. If the Village does not receive these grant funds, it is likely that four of the five projects listed below will be deferred. Since the Illinois Commerce Commission is funding 90% of the Maple Ave Railroad Crossing project, the Village will proceed with this project even if the $75,000 grant is not received.

• Village Hall Roof Replacement	$120,000
• Downtown Sidewalk Repair	$130,000
• Downtown Pedestrian Signal Improvements	$35,000
• Ogden Avenue Sidewalks	$500,000
• Maple RR Crossing Improvements	$75,000

The purpose of Section 4 of the Long Range Financial Plan is to prepare recommendations for the 2011-2013 plan. The recommendations will consider the implementation and performance of the first year of the current plan summarized in Section 2 and will address the new financial trends and issues identified in Section 3.

As noted in Section 2, the implementation of the first year of the current plan via the FY10 municipal budget is proving to be effective. General Fund expenses were reduced by over $2 million, revenues were increased by $1.5 million and the Village expects to use approximately $835,000 of reserves. The successful implementation of the first year of the current 3-year plan suggests that the Village will be able to continue with the implementation of the recommended action plans for 2011 and 2012. Minor changes to the plan may be required to address new trends and issues.

As mentioned in Section 3 of this report, the potential decline in telecommunication tax revenue and state shared income tax revenue could negatively impact the Village's financial condition. Staff projects that the decline could be as large as $500,000 in 2011 (see table below):

Telecommunications Tax	$	(400,000)
State Shared Income Tax	$	(100,000)
TOTAL	**$**	**(500,000)**

While the potential $500,000 budget gap for 2011 is substantial, the implementation of existing strategies including operating efficiencies and personnel expense reductions should address the issue. Staff will continue to pursue new and innovative opportunities to reduce Village operational expenses on an ongoing basis. These operational efficiencies may include activities such as partnering with other local government agencies, utilization of new technology or identifying new service delivery methods. Staff will continue to evaluate these opportunities in an effort to reduce operating expenses without impacting service levels.

When staffing positions within the Village become vacant, staff conducts a comprehensive review and analysis of each newly vacated position. Through this review and analysis, staff will determine whether the duties of the vacant position can be accomplished through utilization of existing personnel. In cases where the staffing vacancy can be absorbed through utilization of existing personnel, the vacated position will remain unfilled. By continually evaluating and absorbing staffing vacancies when possible, staff will achieve on-going savings which may be used to help the Village address its 2011 budget gap.

In the event that the State reduces the amount of state shared income tax distributed to municipalities, staff recommends introducing alternative revenues to address this shortfall. These alternative revenues were presented during the August 4, 2009 Long Range Financial Plan meeting. The summary of this meeting is available at the following link: http://www.downers.us/story/view/230

Proposed 2011-2013 Long Range Financial Plan

Based on the financial analysis contained within this report, staff has developed the recommended 2011-2013 Long Range Financial Plan. For the General Fund, the proposed 2011-2013 Long Range Financial Plan is stated below. Note that the proposed plan remains largely unchanged from the existing plan. However, the current plan calls for replenishment of reserves beginning in 2012. As major revenue sources have been slow to recover, the proposed plan calls for reserve replenishment to begin in 2013.

2011
- Contain Expenses
- Increase the Property Tax Levy for Operations by $500,000
- Capture 12 Months of the Increased Home Rule Sales Tax Revenues An Additional $1,000,000 of Revenue
- Maintain Reserves

2012
- Contain Expenses
- Increase the Property Tax Levy for Operations by $500,000
- Maintain Reserves

2013
- Contain Expenses
- Capture Revenue Recovery as the General Economy Improves
- Adjust the Property Tax Levy as Necessary
- Begin Replenishing Reserves

With regards to the capital projects, staff recommends following the existing long range plan to meet the Village's ongoing infrastructure and facility needs:

Beginning in 2012
- Issue Debt (Pay As You Use)
  - o Regular Intervals, 3 Years
  - o Maintain Moderate Debt Level
- Pledge Revenue Sources
  - o Existing Revenue Sources
  - o Alternative Revenue Sources (Stormwater Utility)