

VILLAGE OF DOWNERS GROVE
Report for the Village Council Meeting
12/19/2017

SUBJECT:	SUBMITTED BY:
FY18 Budget Implementation Actions	Judy Buttny Finance Director

SYNOPSIS

The following budget implementation actions have been prepared:

1. A resolution to amend the Police and Fire Pension Funding Policy to update the interest rate based on the recommendation of the Police and Fire Pension Boards.
2. An ordinance to increase the stormwater utility rate from \$10.53 per ERU to \$11.43 per ERU. The increase is consistent with the FY18 Budget, approved on December 5, 2017, pursuant to direction by the Village Council provided during Long Range Planning and the [2016 Stormwater Utility Report](#).
3. An ordinance to delete the special rates for the sale of water to residents on Roslyn Road to reflect the changes made by the Intergovernmental Agreement (IGA) with Westmont in March of 2017.

STRATEGIC PLAN ALIGNMENT

The goals for 2017-2019 include *Steward of Financial, Environmental and Neighborhood Sustainability*.

FISCAL IMPACT

The Police and Fire Pension Funding policy change in interest rates for the current year reduction of the return assumption will result in an increase in the recommended contribution reflecting lower long-term market expectations. However, this adjustment reduces the risk of unanticipated contribution increases in the future to compensate for lower than expected returns.

The updated stormwater utility fee is expected to generate \$4.2 million of revenue in the Stormwater fund. This is consistent with the FY18 Budget approved on December 5, 2017.

The change in water rates will have no impact on the Village of Downers Grove. The water in the Roslyn Road area is purchased from Westmont, and any increase in fees will be remitted to Westmont.

UPDATE & RECOMMENDATION

This item was discussed at the December 12, 2017 Village Council meeting. Staff recommends approval on the December 19, 2017 consent agenda.

BACKGROUND

Pension Policy Update

Both Pension Boards have recommended to decrease the assumption for investment returns from 7.25 % to 7.00%. This was done after extensive discussion with the Boards' investment consultant and actuary. Reduction of the return assumption will result in an increase in the recommended contribution for the 2018

levy reflecting lower long-term market expectations. However, this adjustment reduces the risk of unanticipated contribution increases in the future to compensate for lower than expected returns.

Stormwater Rates

Per the approved FY18 budget, the stormwater rate will be increased to align with the recommendations of the 2012 Stormwater Study, and the 2016 Stormwater Utility Report. The plan called for a stormwater fee that would cover the cost of future capital projects, debt service related to those projects, as well as operational and maintenance costs. The utility model represents an equitable method to collect revenue from those properties that place a demand on the system. Revenue is generated by charging all property owners a monthly stormwater fee, based on the property's impact to the stormwater system. At that time, the Village created a plan for establishing stormwater fees that would increase revenues over a 15-year period, allowing the Village to move from the current level of service to the recommended level within that time frame. The plan calls for annual increases in the stormwater utility fee of approximately 8.5% per year, which would increase the annual revenue available for stormwater management fees from its current level of \$3.9 million in 2017 to about \$11.4 million in 2028. This fee is expected to produce \$4.2 million in revenues in 2018.

The following table shows the proposed stormwater rate that will go into effect for bills received after January 1, 2018:

Monthly Fee	2017 Fee	2018 Proposed Fee
Per Equivalent Runoff Unit (ERU)	\$10.53	\$11.43

The following table shows how the new stormwater rates will impact a single family residence, a typical commercial user, and a typical industrial user in 2018:

User Category	ERU	Current Annual Fee	Proposed Annual Fee
Single Family Residence (2,501-4,000 s.f. of impervious area)	1	\$126.36	\$137.16
Typical Commercial User	20	\$2,527.20	\$2,743.20
Typical Industrial User	19	\$2,400.84	\$2,606.04

Westmont Water

In March of 2017, the Village Council approved an Intergovernmental Agreement with Westmont for water main service on Roslyn Road. This agreement streamlined the permit process and standardized the water rates for residents on Roslyn to be equal to the rate paid by all other Downers Grove residents. The Roslyn Road residents have been notified of the change and their new rates will go into effect for bills sent out after January 1, 2018.

ATTACHMENTS

Police and Fire Pension Funding Policy Resolution
Stormwater Rate Ordinance
Water Rate Ordinance



Village of Downers Grove

Official Village Policy Approved by Village Council

Description:	Police and Fire Pension Funding Policy	
Res. or Ord. #:	Res. 2014-67	Effective Date: 11/18/14 10/03/17
Category:	<input checked="" type="checkbox"/> New Council Policy <input checked="" type="checkbox"/> Amends Previous Policy Dated: 11/18/14 Description of Previous Policy (if different from above): 	

RESOLUTION NO.

A RESOLUTION AMENDING THE POLICE AND FIRE PENSION FUNDING POLICY

1.0 Applicability

This policy applies to the calculation of the Village of Downers Grove's "annual required contribution" (ARC) to the Downers Grove Police and Fire Pension Funds. The police pension trust fund is organized under Article III of the Illinois Pension Code and the fire pension trust fund is organized under Article IV of the Illinois Pension Code.

2.0 Background

The financial objective of a defined benefit pension plan is to fund the long-term cost of benefits provided to the plan participants. In order to assure that the plan is financially sustainable, the plan should accumulate adequate resources in a systematic and disciplined manner over the active service life of benefitting employees. This funding policy outlines the method the Village will utilize to determine its actuarially determined contribution to the Downers Grove Police and Fire Pension Funds to fund the long-term cost of benefits to the plan participants and annuitants.

The Village believes that this funding policy meets the guidelines for state and local governments set by the Pension Funding Task Force convened by the Center for State and Local Government Excellence. The guidelines set by this task force outline the following objectives for pension funding policy:

- **Actuarially Determined Contributions.** A pension funding plan should be based upon an actuarially determined annual required contribution (ARC) that incorporates both the cost of benefits in the current year and the amortization of the plan's unfunded actuarial accrued liability.
- **Funding Discipline.** A commitment to make timely, actuarially determined contributions to the retirement system is needed to ensure that sufficient assets are available for all current and future retirees.

- **Intergenerational equity.** Annual contributions should be reasonably related to the expected and actual cost of each year of service so that the cost of employee benefits is paid by the generation of taxpayers who receives services from those employees.
- **Contributions as a stable percentage of payroll.** Contributions should be managed so that employer costs remain consistent as a percentage of payroll over time.
- **Accountability and transparency.** Clear reporting of pension funding should include an assessment of whether, how, and when the plan sponsor will ensure sufficient assets are available for all current and future retirees.

3.0 Policy

3.1 *Village Annual Required Contribution (ARC)*

The Village will determine its ARC to the Downers Grove Police and Fire Pension Funds using the following principles:

- a. The ARC will be calculated by an enrolled actuary.
- b. The ARC will include the normal cost for current service and amortization to collect or refund any under- or over-funded amount.
- c. The normal cost will be calculated using the entry age normal level of percentage of payroll actuarial cost method using the following assumptions:
 - i. The investment rate of return assumption will be ~~7.25%~~7.00% per year.
 - ii. The salary increase assumption will be 4.75% per year.
 - iii. Non-economic assumptions, such as rates of separation, disability, retirement, mortality, etc., shall be determined by the respective pension boards in consultation with the actuary to reflect current experience.
- d. The difference between the accrued liability and actuarial value of assets will be amortized to achieve 100% funding in 2040 (a 30 year closed period that began in 2011) based upon a level percentage of payroll.
- e. Actuarial assets will be determined using market valuation.

The Village will make its actuarially determined contribution to the Downers Grove Police and Fire Pension Funds in two equal installments in or around June and September of each year.

3.2 *Transparency and Reporting*

Funding of the Downers Grove Police and Fire Pension Funds should be transparent to vested parties including plan participants, annuitants, the Downers Grove Police and Fire Pension Fund Boards of Trustees, the Village Council, and Downers Grove residents. In order to achieve this transparency, the following information shall be distributed:

- a. A copy of the annual actuarial valuation for the Downers Grove Police and Fire Pension Funds shall be made available to the Village Council and the Downers Grove Police and Fire Pension Fund Boards of Trustees.
- b. The Village's Comprehensive Annual Financial Report shall be published on its website. This report includes information on the Village's annual contribution to the Downers Grove Police and Fire Pension Funds, and funded status of the Downers Grove Police and Fire Pension Funds.

- c. Each year, the Village Council shall approve the Village's annual contribution to the Downers Grove Police and Fire Pension Funds.
- d. The Village's annual operating budget shall include the Village's contribution to the Downers Grove Police and Fire Pension Funds as well as a budget for the Downers Grove Police and Fire Pension Funds. The budget for the Downers Grove Police and Fire Pension Funds are controlled by the respective Pension Fund Board of Trustees, in accordance with state law. The budget document shall be published on the Village website and made available for public inspection at the Civic Center and Downers Grove Public Library.

3.3 *Review of Funding Policy*

Funding a defined benefit pension plan requires a long-term horizon. Assumptions and inputs into the policy should focus on long-term trends, not year-to-year shifts in the economic or non-economic environments. Generally, assumptions or inputs should be evaluated and changed if long-term economic or noneconomic inputs have fundamentally changed or are no longer reasonable. As such, the Village will review this policy at least every five years to determine if changes to this policy are needed to ensure adequate resources are being accumulated in the Downers Grove Police and Fire Pension Funds. The Village reserves the right to make changes to this policy at any time if it is deemed appropriate.

Martin T. Tully, Mayor

Passed:
Published:

Attest: _____
Village Clerk

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