

5/15/2018

**Update  
to the  
2017-2019 Long Range Plan**

**May 15, 2018**

### 2017--19 Long-Range Plan Update

On September 19, 2017, the Village Council approved the [2017-19 Long Range Plan](#). The plan, developed during the seven--month period of February to August 2017, consists of the Strategic Goals, solutions and strategies to address key issues affecting the future of the Village and a list of Priority Action Items that will serve as the work plan from September 2017 to April 2019.

The purpose of Long Range Plan update is to:

- Identify and discuss key issues which may affect the FY19 budget and beyond
- Provide a progress report on priority action items

Below is the 2017-19 Long-Range Plan meeting schedule:

Meeting Date	Topic
May 15	General Fund Key Issues and Solutions & Strategies
June 19	Priority Action Items
July 10	Other Post Employment Benefits (OPEB) Action Item

### STRATEGIC GOALS

The following five Strategic Goals were developed to guide Village actions from 2017 to 2019 and beyond.

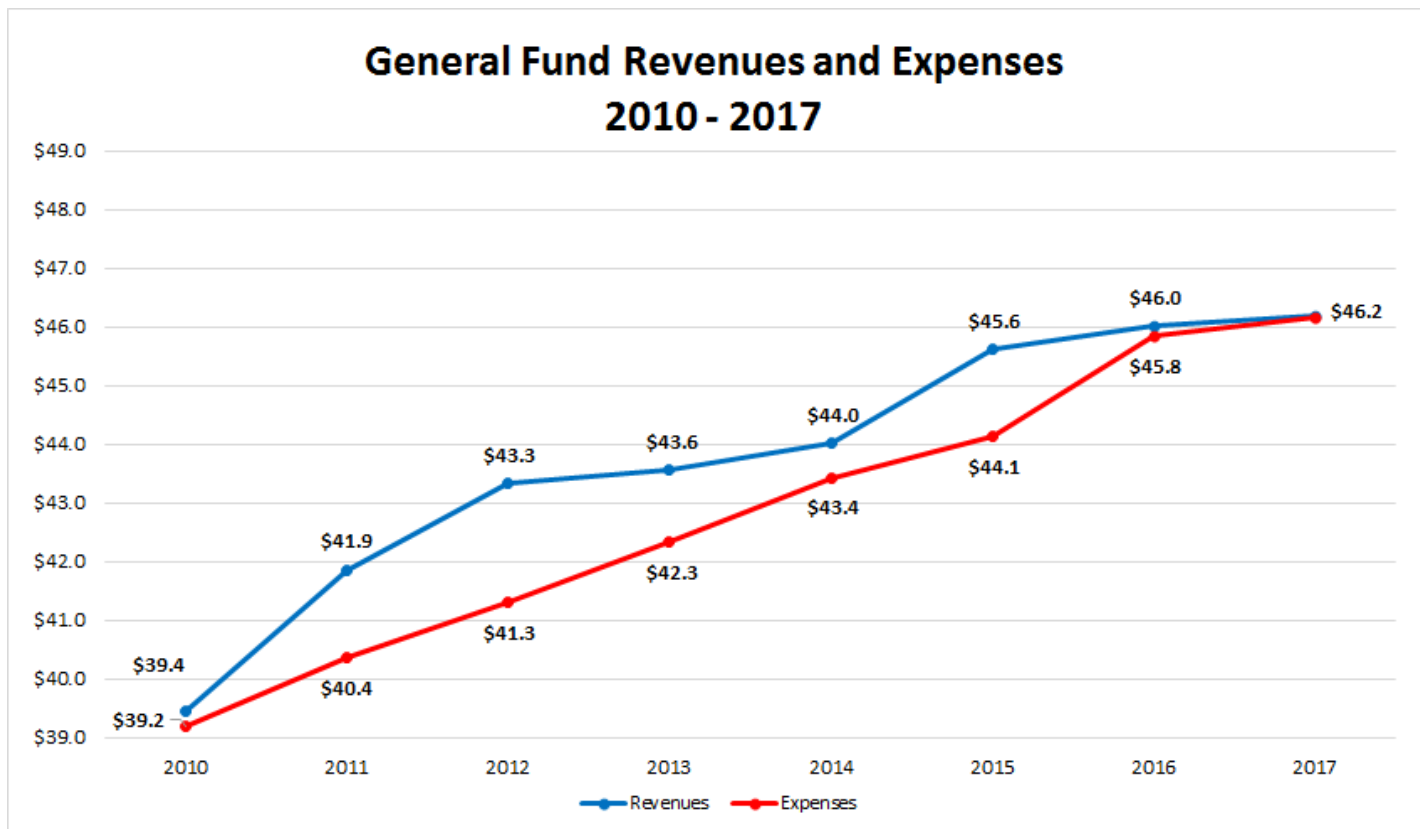
- Steward of Financial, Environmental and Neighborhood Sustainability
- Exceptional Municipal Services
- Top Quality Infrastructure
- Strong, Diverse Local Economy
- Continual Innovation

### **General Fund Sustainability**

The General Fund is the Village's main operating fund. Most Village services are accounted for in this fund including Police, Fire, Community Development and most of Public Works services. Because the Village is a service organization, the vast majority of costs are related to people delivering those services. The Village strives to create long-term sustainability in the General Fund by balancing revenues and expenses and maintaining a strong fund balance.

### **General Fund Sustainability Summary**

<b>Issues</b>	<p>Major revenue sources are declining or not keeping pace with the growth in expenses</p> <p>Required contributions to the public safety pension funds are expected to increase by about \$400,000 in 2019</p> <p>The State may permanently reduce income tax revenue by 10% by extending the temporary withholding of this revenue</p>
<b>Solutions &amp; Strategies</b>	<p>Continue to:</p> <ul style="list-style-type: none"> <li>● Reduce personnel expenses</li> <li>● Increase operating efficiencies</li> <li>● Enhance the existing revenue base</li> <li>● Work with the Downers Grove Economic Development Corporation to increase the sales tax base and sales tax revenue</li> <li>● Seek new and sustainable revenue sources</li> <li>● Reduce reliance on state shared revenues</li> </ul>
<b>Recent Actions</b>	<p>Restructured Police Department staffing &amp; operations resulting in a reduction of 2.6 FTE and \$400,000 in annual expenses</p> <p>Implemented a 1% Food &amp; Beverage tax, effective on January 1, 2018</p> <ul style="list-style-type: none"> <li>● 2018 projected revenues of \$1.5 million (same as FY18 budget)</li> <li>● Expected to increase at 3% per year</li> </ul> <p>Completed the <i>Revenues Consistent with the Modern Economy</i> priority action item</p>
<b>Actions for 2019 &amp; Beyond</b>	<ul style="list-style-type: none"> <li>● Continue to eliminate positions which become vacant due to retirements and other voluntary separations, when appropriate</li> <li>● Consider increasing the rate for existing revenue sources including the food &amp; beverage tax and the property tax levy, as necessary</li> <li>● Consider adopting new revenue sources such as real estate transfer stamps and vehicle stickers, if necessary</li> <li>● Implement the recommendations of the Other Post Employment Benefits (OPEB) plan which will be presented at the July 10, 2018 Village Council meeting.</li> </ul>



- Revenues have exceeded or equaled expenses each year
- Annual expenses have increased by an average of 2.35% per year
- In 2017, expenses increased by less than 1% compared to 2016
- Growth in annual revenue has slowed in the past two years
- Revenues have increased by \$600,000 since 2015

#### Expenses

As noted in the 2017 Long-Range Plan, expenses are increasing faster than revenues. The three General Fund strategies identified were:

- Increasing operating efficiencies
- Reduce personnel expenses
- Look for opportunities to enhance the revenue base

The graph above shows the Village's General Fund revenues and expenses from 2010 to 2017. During 2017, the Village was responding to an approximately \$1 million reduction in General Fund revenues. This expected shortfall was driven primarily by declines in sales tax revenue and State Income Tax (10% State holdback beginning on July 1, 2017). Due to very strong performances in permit revenues from commercial building activity, 2017 General Fund revenues and expenses ended the year balanced at \$46.2 million.

Staff continues to implement the General Fund strategies through:

- Reductions in Staffing
- Reductions in the Village Fleet

### *Staffing Reductions*

The staffing plan presented in the FY18 Budget included a net reduction of 2.0 FTE positions, reducing total staffing to 307.48 FTE positions, an 18% decrease from 2008 levels (67.30 FTE positions). In the first quarter of 2018, staffing and operations in the Police Department at the management level and in public education as well as a reduction in the Communications Department have reduced staffing by an additional 3.13 FTE positions and annual expenses by approximately \$400,000. Total staffing levels now stand at 304.63 FTE.

### **2018 Staffing Reductions**

	<b>Position</b>	<b>FTE</b>
<b>Eliminated</b>	Operations Manager	(1.0)
	Sergeant	(1.0)
	Lieutenant of Administration	(1.0)
	Public Education/Information Supervisor	(1.0)
	Crime Specialist	(0.63)
	Communications Specialist	(0.50)
<b>Added</b>	Support Services Manager	1.0
	Public Education Specialist	1.0
<b>Net Change</b>		<b>(3.13)</b>

### *Vehicle Reductions*

In conjunction with the staffing and operational changes in the Police Department, three squad cars will be eliminated from the vehicle fleet. A trailer will also be eliminated. These eliminations will reduce expenses in the Equipment Replacement by about \$100,000 in the next two years.

### *Increasing Public Safety Pension Expenses*

Preliminary information from the Police and Fire Pension fund actuary shows a total increase in the Village's required contributions for 2019 of about \$400,000. In turn, the 2019 Proposed Budget will include an increase in the Village's property tax levy by about \$400,000 for these required contributions.

By contrast, Village contributions to the pension fund for non-public safety personnel decreased by approximately \$200,000 in 2018 compared to 2017.

## **FAQ on Public Safety Pensions**

### **What Does "Public Safety Pension" Mean?**

Police officers and firefighters are eligible for pension benefits upon retirement if they meet certain eligibility criteria which are set by State of Illinois law. Each municipality that employs police officers and firefighters must maintain a fund to pay the pensions. The pension funds are invested using parameters established by the State of Illinois to increase the value of the fund over time. The level of pension benefits is determined by State law.

### **Who Pays for Public Safety Pensions?**

Both the employer and the employee are responsible for funding the public safety (police and fire) pension funds. Police officers contribute 9.91% and firefighters contribute 9.455% of their salary toward their pensions. This percentage is governed by State statute. The Village makes an annual contribution to each pension fund. The amount is based on an actuarial calculation that is determined by figuring the potential cost of the system based on statistical analysis which considers investment returns, employee contributions, and pension benefit payout costs

### **Does the Village Fund the Pensions at the Required Amount?**

Yes, each year the Village makes the required annual contribution to both the Police and Fire Pension Funds.

### **What Does "Pension Levy" Mean?**

The Village must contribute a minimum amount to its pension funds to meet the funding level required under state law. The funding level refers to the amount in the pension fund compared to the potential liability. This amount is the Village's annual property tax levy for pension contributions.

## Revenues

### *Revenues from the Food and Beverage Tax*

The 1% Food and Beverage Tax was implemented January 1, 2018 to replace declining sales tax revenue. The FY18 budget includes revenue of \$1.5 million from this tax. Based on historical performance of this sector of the local economy, food and beverage tax revenue is expected to increase steadily over the next few years.

For the first quarter of 2018, the revenues for the new tax are estimated at \$400,000, averaging \$133,000 per month, consistent with the budgeted amount.

### *Sales Tax Revenue*

General Fund sales tax revenue has been flat over the past five years with annual revenues fluctuating between \$11.4 (2014) and \$12.0 million (2015). As noted in the FY18 Budget, the retail purchasing environment is continuing to change with more purchases made online rather than in physical stores located within the Village and actual sales tax revenue could be lower than the budgeted amount. The Village has received only the January and February sales tax numbers for FY18 at this time, which are flat compared to January 2017 revenues. Staff will continue to monitor the sales tax revenues.

**General Fund Sales Tax Revenue, 2014-2018**

Year	Sales Tax Revenue
2018	\$11.4 million (budget)
2017	\$11.7 million
2016	\$11.5 million
2015	\$12.0 million
2014	\$11.4 million

*Revenues Consistent with Modern Local Economy*

*Identify and Adopt New Revenue Sources Aligned with the Modern Economy* is a Priority Action Item in the 2017-2019 Long Range Plan. The results of this action item are summarized below.

Four sectors of the local economy (Income, Property Values, Service Businesses & Online Retail Sales) are projected to increase in the next few years. Current State law allows the Village to tax only one of the four sectors (property values). Because generating revenue from the three growing sectors of the economy does not appear to be feasible at this time, the Village should continue to implement current General Fund sustainability strategies and solutions as stated in this report. Adoption of traditional revenue sources such as vehicles stickers and real estate transfer stamps may be options worthy of future consideration.

**Major Village Revenues, 1993-2018 (All Funds)**

	1993	1998	2003	2008	2013	2018 Bud.
Sales Tax	8.5	11.4	11.5	11.3	11.3	11.4
Home Rule Sales Tax	--	--	--	5.0	7.6	7.8
Property Tax (Ops & Capital)	2.7	2.8	3.1	5.5	6.9	6.8
Property Tax (Pensions)	--	0.9	1.7	2.2	4.2	6.5
Utility Taxes	--	3.2	5.4	7.5	5.8	5.2
Income Tax	2.7	3.1	3.2	4.6	4.6	4.4
SWU Fee	--	--	--	--	3.3	4.2
Food & Bev	--	--	--	--	--	1.5
All Other	3.6	5.3	9.0	11.8	10.8	11.8
<b>Total</b>	<b>17.5</b>	<b>26.7</b>	<b>33.9</b>	<b>46.9</b>	<b>54.5</b>	<b>59.7</b>

### Local Economic Sectors Projected to Increase

	Projected Growth Rate	Revenue Generation	Est. Rev.	Notes
<b>Income</b>	2.3%*	Local Income Tax	NA	Not permitted under State Law
<b>Service Businesses</b>	Data not available at the municipal level	Local Service Tax	NA	Not permitted under State Law
<b>On-Line Retail Sales</b>		Local Sales Tax	NA	Not permitted under State Law
<b>Property Values</b>	2.8%*	Property Tax	\$58,000 per 1% increase	Levy for operations has not been increased for the past 7 years

\*Source: ESRI report, January 2018

### Impact of Increases to the Village Operations Levy

Increase of Levy for Operations	1%	2%	3%	4%	5%
<b>Revenue Increase</b>	\$58,471	\$116,943	\$175,413	\$233,884	\$292,355
<b>Increase in Tax Bill for Typical Residential Property</b>	\$2.56	\$5.12	\$7.68	\$10.24	\$12.80

### Traditional Revenue Sources

Revenue Source	Rate	Projected Annual Revenue
Real Estate Transfer Stamps	Implement a 0.25% tax (requires referendum)	Residential \$960,000 Commercial \$240,000 Potential Total* \$1,200,000
Vehicle Stickers	\$30 per vehicle	\$1,700,000**

\*Real Estate transaction data from Chicago Tribune database

\*\*Based on the current number of registered vehicles in the Village (56,622) reported by the IL Secretary of State.

### Options to Generate \$500,000 of Annual Revenue

Option	Impact	Variability	Administrative Burden
Increase Levy by \$500,000	\$21.90 Increase for Typical Residential Property	None	No Additional Burden
Enact \$10 Vehicle Sticker/Registration	\$10 per Vehicle	Low	Moderate / High
Enact 0.125% Real Estate Transfer Stamp	\$375 for the Sale of Typical Residential Property	High	Moderate / High

Note: Average General Fund expense increase is 2.35% - just over \$1 million per year