

2023-2025 Long Range Plan Update

Report #1

General Fund & Related Funds Sustainability

June 11, 2024

INTRODUCTION AND OVERVIEW

The [2023-25 Long Range Plan](#) (LRP), approved by the Village Council in September 2023, identifies and addresses issues affecting the long-term future of the Village. The Plan establishes the Village's goals and priorities that guide annual budgets, daily operations and delivery of services. The Long Range planning process is one of many strong management practices that has led Standard & Poor's to grant the Village their highest bond rating of AAA.

The Long Range Plan consists of:

- Strategic Goals for 2023 to 2025 and beyond
- Key trends and issues affecting the long-term future of the Village
- Strategies and solutions to address key trends and issues
- Priority Action Items to be completed by April 2025

To prepare the Long Range Plan, the Village Council met multiple times in a workshop format from May through September 2023. The meetings provided an opportunity for dialogue and collaboration among the Village Council, community members, and staff.

The Village Council will hold public meetings from June through August 2024 to update the LRP. The update will:

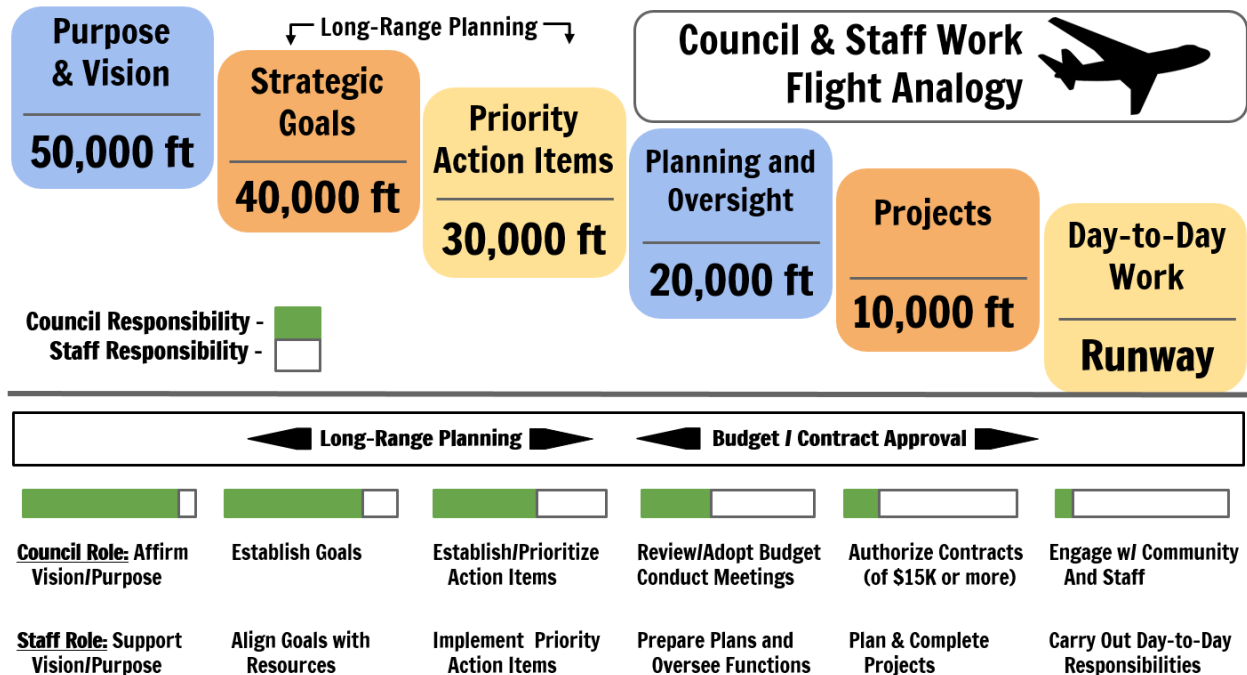
- Identify key trends and issues which may affect the Village in 2024 and beyond
- Establish strategies to address the key issues
- Review and confirm the Priority Action Items for the next 8 to 12 months, and consider making adjustments to the work plan

Long Range Plan Update Meeting Schedule

Date	Topics
June 11	<ul style="list-style-type: none">● Introduction and Overview● General Fund and Related Funds Sustainability
July 9	<ul style="list-style-type: none">● Public Safety Pension Funds Contributions● Water Fund Sustainability
August 20	<ul style="list-style-type: none">● Review of Priority Action Items

Flight Analogy

The graphic below compares the roles of the Village Council and staff to an airline flight. The Long Range Planning process takes place at the 30,000-40,000 foot level. The Council and community also have opportunities for input at the lower levels throughout the rest of the year, such as during regular Council Meetings, as part of the budget process, and in communicating formally and informally with members of the Village Council and staff.



Strategic Goals

The Village Council developed the following strategic goals:

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

Achievements and Results

In the past several years, the Village has completed many key accomplishments and achieved significant measurable results to further the Strategic Goals. Prior year [Annual Reports](#) summarize these accomplishments and results.

Vision, Goals & Objectives

The Strategic Goals are supported by and applied in conjunction with the Village's Vision and Goals and Objectives. The [Comprehensive Plan](#) articulates the community's vision for the desired physical, social, and economic characteristics of the Village for the next 15 to 20 years. The Comprehensive Plan includes a Vision Statement that provides a basis for identifying many of the specific Goals and Objectives needed to lead the Village of Downers Grove in the direction of implementation.

Steward of Financial, Environmental and Neighborhood Sustainability

The Village should act as a steward of public resources to achieve financial, environmental and neighborhood sustainability. Financial sustainability can be achieved by aligning expenses with revenues on a long-term basis. The Village should control increases in expenses and implement revenue sources that withstand short-term uncertainty and provide long-term stability.

Environmental sustainability refers to the Village's responsibility to deliver its services in a way that protects or enhances natural resources. The Village seizes opportunities to 'green' its operations when possible, whether by seeking grants to introduce new environmentally friendly practices or by seeking the most environmentally friendly option for existing services.

Neighborhood Sustainability refers to the Village's role in crafting and applying policies and codes that help in maintaining or achieving the desired character of existing neighborhoods.

Exceptional Municipal Services

The services provided by the Village to residents, businesses, visitors, and all other stakeholders should be of the highest quality and exceed expectations. Village services should be delivered at a value to the community and should reflect the needs and desires of the community as a whole. This is achieved through maximizing the value of public dollars by partnering with overlapping and adjacent government entities. The value of the Village's services should be regularly communicated to the public. The Village should be transparent and accessible, and residents should be engaged and able to interact with their local government. The Village achieves this by producing timely communications in multiple media formats, publishing financial information in a way that is clear and understandable, and seeking and implementing new ways to gather input from residents and other stakeholders.

Top Quality Infrastructure

The Village owns and operates several infrastructure systems including streets, a stormwater management system, and a water supply and distribution system. Specific performance and maintenance standards have been identified for each infrastructure system. The Village should continue to invest in infrastructure systems so that they meet or exceed performance and maintenance standards.

Strong, Diverse Local Economy

The Village should continue to strengthen and diversify the local economy by working with the Downers Grove Economic Development Corporation (DGEDC) and implementing the recommendations of the Village's Comprehensive Plan. The DGEDC, a private not-for-profit agency, is committed to strengthening and diversifying the local economy by retaining existing businesses and attracting new businesses. They strive to strengthen the commercial and industrial property tax base and the sales tax base, increase hotel tax revenue and grow local employment.

The Comprehensive Plan, adopted in 2011 and updated in 2017, serves as a tool for improving the community in many areas, including economic development. The Village continues to work with the DGEDC to implement the recommendations of their Strategic Plan.

A Safe and Welcoming Community

The Village should strive to provide and maintain a safe and welcoming community where people feel a sense of belonging. Safety should be a priority when providing services and constructing infrastructure. The services and infrastructure systems provided by the Village should work together to further this goal. All community members should be safe while participating in daily activities such as spending time in their house and neighborhood, driving a vehicle, riding a bike and going for a walk. The Village should enjoy a low crime rate along with a low occurrence of fires and injuries. Buildings, both private and public, should be constructed in a manner that provides a safe environment for all occupants. All stakeholders, longtime residents, newcomers and visitors should feel a sense of belonging in the community.

A Beautiful Community

The Village should strive to enhance the appearance of the community. The built environment should be visually pleasing, of an enduring design and instill a sense of pride among residents, visitors and stakeholders. Public spaces should be inviting & engaging while providing a comfortable and welcoming place for people. Any project or improvement constructed or installed by the Village, large or small, should consist of a high-quality design aesthetic.

Continual Innovation

Innovation refers to the discovery, development and implementation of leading ideas and practices. Continual innovation leads to increased value of each dollar of investment in Village operations. It is achieved by emphasizing a leadership philosophy that is issue-focused and builds on the skills and talents of all employees within the organization. Village staff carefully considers the benefits of innovative practices to ensure success and value to the organization.

GENERAL FUND AND RELATED FUNDS SUSTAINABILITY

The General Fund is the Village's central operating fund that accounts for most services including Police, Fire, Community Development, and most Public Works services. The Village's primary purpose as a service organization means the vast majority of costs are related to the personnel delivering those services.

There are some funds directly related to the General Fund including the Health, Risk, and Equipment Replacement Funds. Generally speaking, most revenues in these funds are contributions from the General Fund (transfers which are categorized as expenses).

Funds Related to the General Fund

The **Health Fund** accounts for financial activity related to the Village's self-insured medical, dental, vision and life insurance plans. Claims and program administration are managed through a combination of internal staff and contractual support.

The **Risk Fund** accounts for financial activity related to the Village's workers' compensation and liability insurance program, management of all Village liability claims, and employee safety training programs. The Village is self-insured for health insurance and risk. This means that it pays for claims (healthcare costs, workers compensation claims and other liabilities) on a cash basis, rather than by paying premiums to an insurance company. The Village sets aside money each year to pay for claims.

The **Equipment Replacement Fund** provides a dedicated funding source for equipment that is replaced on a routine basis. It allows for items to be replaced when warranted versus when funds are available. Village departments "pre-fund" for equipment purchases by making payments to this fund for equipment that they use. This fund is used to purchase vehicles, computer equipment and fire equipment.

General Fund Summary

<p>Trends & Issues</p>	<ul style="list-style-type: none"> ● From 2020 to 2023 revenues exceed expenses allowing significant amounts to be transferred from the General Fund to other funds to address other financial and strategic needs including: <ul style="list-style-type: none"> ○ Civic Center Project - approximately \$6.1 million ○ Replacing Vehicles and Equipment - approximately \$4.0 million ○ Risk Related Expenses - approximately \$3.9 million ○ Health Related Expenses - approximately \$1.5 million ● From 2020 to 2023: <ul style="list-style-type: none"> ○ Revenues increased from \$50.9 to \$63.7 million ○ Expenses, prior to the unplanned transfers noted above, increased from \$47.7 to \$56.3 million. ● Revenues are projected to exceed expenses in 2024 and 2025 <ul style="list-style-type: none"> ○ Revenues are projected to increase 1% to 3% annually ○ Expenses are projected to increase 3% to 5% annually ● Expenses have increased 15% from 2020 to 2023 due to inflation, supply chain issues, and public safety pension contributions. ● Required contributions to the public safety pension funds are projected to increase over the next several years from the current \$10.1 million to about \$20 million in 2040. ● The FY25 required contributions to the public safety pension funds are expected to increase by \$562,918 (5.6%) ● Effective January 1, 2026, the sales tax revenue on grocery items will be eliminated and total annual sales tax revenue will decline by approximately \$1.3 million. The Village could enact a local sales tax on grocery items to restore this revenue.
<p>Background & Key Facts</p>	<ul style="list-style-type: none"> ● The Village saw significant increases in revenues from 2020-2022. FY23 revenues increased 1.9% over FY22. ● The Village saw increases in expenses from 2020-2022 and projects modest increases over the next few years. FY23 expenses increased 5% over FY22.
<p>Strategies & Solutions</p>	<ul style="list-style-type: none"> ● Continue to manage expenses within budgeted amounts. ● Continue to maintain the General Fund balance at the recommended level of 38% of annual expenses. ● If revenues exceed expenses continue to transfer some of these funds to the Civic Center Debt Service Fund, Health Fund, Risk Fund and Equipment Replacement Fund. ● Prior to January 1, 2026, adopt a local 1% sales tax on grocery items to avoid a \$1.3 million decline in annual sales tax revenue.

General Economic Conditions and Trends

The United States has continued to benefit from strong macroeconomic-level growth, with gross domestic product growing between an annualized rate of 2%-5% in each quarter since September of 2022. Inflation remains stubbornly above the Federal Reserve recommended annual rate of 2%, though price increases have substantially fallen from their highs; dropping to 3.1% in January of 2024 compared to 6.4% in January of 2023. Economic market performance remains uncertain due to geopolitical unrest, an election year and anticipated Federal Rate adjustments. Village staff will continue to monitor macroeconomic conditions, and adjust if necessary in the spirit of fiscal responsibility.

General Fund Performance

Financial sustainability has been a long-standing Village goal. The Village has achieved this goal in the General Fund with revenues exceeding expenses each year for the past fourteen years. FY09 was the last year that expenses exceeded revenues. Since 2020 the Village has seen unprecedented revenue growth. Revenues increased almost 30% from 2020 to 2022 primarily due to several factors related to pandemic relief. In FY2023, revenue growth continued to increase over 2022 but at a much smaller increment (1.9%). Revenues appear to be leveling off with a continued possibility of an economic slowdown by the end of 2024 or beginning of 2025.

Elimination of State Sales on Groceries & Opportunity to Enact VoDG Grocery Sales Tax
The General Assembly passed a bill which eliminates the 1% sales tax on grocery items, effective on January 1, 2026 and provides municipalities the authority to enact a local sales tax on grocery items. The Village currently receives about \$1.3 million in revenue from sales tax on grocery items. Beginning in 2026, the General Fund revenue would decline by this amount. The Village could restore this lost revenue by adopting a Village 1% sales tax on grocery items. The revenue projections for 2026 included in this report assume that the Village will adopt a local 1% sales tax on grocery items.

Revenue

Revenue has been significantly higher than budgeted amounts in both 2022 and 2023. In 2022, revenues were budgeted at \$54.4 million and came in at \$62.5 million, while in 2023, revenues were budgeted at \$58.4 million and came in at \$63.7 million. Drivers of the exceptional revenue returns include sales tax, home rule sales tax, income tax, food & beverage tax, local use tax and ambulance fees. For the next few years, revenue increases are projected to be about 1% to 3% annually. Overall 2024 revenues may be slightly higher than budgeted for 2024.

Table 1 - General Fund Revenues, 2019 to 2025

Revenue Source	2019	2020	2021	2022	2023	2024 PRJ	2025 Outlook
Sales Tax	11.4	11.0	13.7	14.1	14.7	15.0	+/- 2% annual increase expected
Property Tax (OPS)	5.9	6.0	6.0	6.0	6.4	6.0*	Discretion of Village Council
Income Tax	5.2	5.3	6.5	8.2	8.0	8.4	Modest Increase
Utility Taxes	4.4	3.9	3.6	3.6	3.4	3.3	Gas & Electric Flat; Telecom Declining
Building Permits	1.3	1.2	1.1	1.9	1.1	1.3	Cyclical
Home Rule Sales	1.9	1.7	2.2	2.3	2.4	2.4	Flat
Food & Beverage	2.0	1.6	3.0	3.6	3.7	3.8	+/- 2% annual increase expected
Ambulance Fees	1.4	1.5	3.7	3.8	3.7	3.8	+/- 2% annual increase expected
Local Use Tax	1.6	2.2	1.9	2.0	2.0	1.9	Slight decline expected
Cellular Equip Rental	1.2	1.2	1.2	1.0	1.0	1.0	Flat
Hotel Tax	1.0	0.4	0.6	0.8	0.8	0.8	Flat net effect of returning to pre-pandemic levels & change of hotel ownership

**NOTE: The increase in Property Tax (OPS) from 2022 to 2023 was due to Council's direction to implement a flat levy approach to smooth the impact of expected increases in the FY 24 pension levy.*

Expenses

The Village continues to effectively manage expenses to be able to respond quickly in this unpredictable environment. In 2022, expenses were budgeted at \$54.4 million and came in at \$53.9 million while in 2023 expenses were budgeted at \$58.0 million and came in at \$56.3 million.

The Village's ability to closely manage its expenses within and/or below budgeted amounts has allowed for unplanned contributions to other funds that have demonstrated financial needs. Since 2021 over \$18 million has been transferred (see Table 2 below).

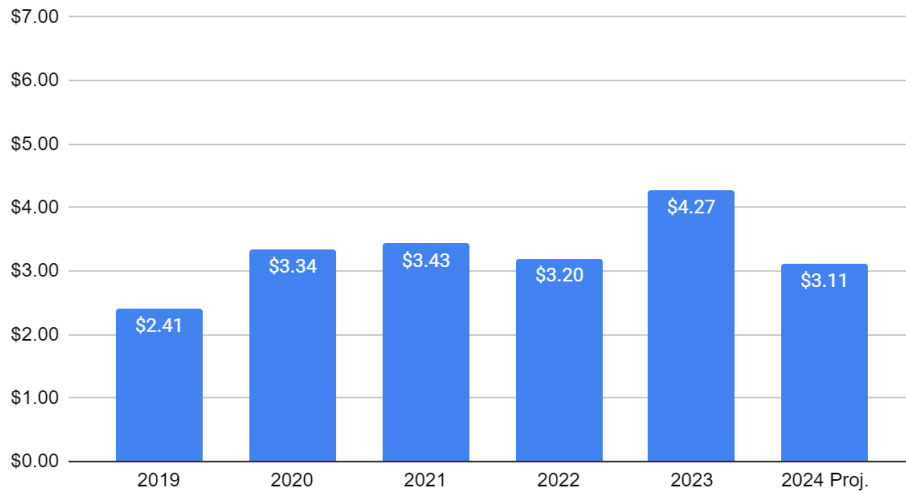
Expenses increased by 5.0% in 2023 over 2022. Comparing 2018 actuals to 2023 actuals, revenues have increased by \$14.7 million (30% total; an average of 5.0% per year) while expenses have increased by \$6.0 million (12.2% total; an average of 2.0% per year). The Village has maintained its General Fund Balance at the recommended level of 38% to 40% of annual expenses during this same period.

General Fund expenses are projected to increase 3% to 5% annually. Personnel costs, primarily public safety pension expenses, have been and will continue to be the key expense driver.

Table 2 - Transfers from the General Fund 2021-2023

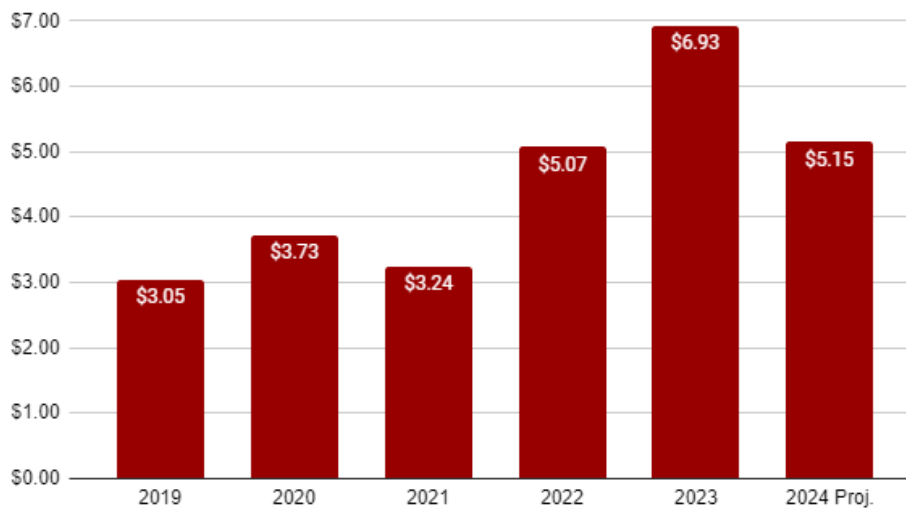
Fund	Description	2021 Transfer	2022 Transfer	2023 Transfer	2023 Cash/Fund Balance
Equipment Replacement	Pays for new equipment and vehicles using a pre-funding approach. The transfers addressed the issue of cost increases due to supply chain issues, inflation, and the scheduled purchase of a new ladder truck.	\$0.086 M	\$2.9 M	\$1.0 M	\$7.0 M
Fleet Services	Pays the costs to maintain, fuel, and service all vehicles in the Village's Fleet. The transfers addressed the issue of cost increases due to higher fuel and vehicle parts prices.	\$0.086 M	\$1.0 M	N/A	\$1.9 M
Risk	Accounts for financial activity related to the Village's workers' compensation and liability insurance program, management of all Village liability claims, and employee safety training programs. The Village is self-insured for risk, meaning it pays for claims, (workers compensation claims and other liabilities) on a cash basis, rather than by paying premiums to an insurance company. The transfers addressed expected cost increases due to anticipated higher claims in 2024.	N/A	\$2.4 M	\$1.5 M	\$6.9 M
Health	Accounts for financial activity related to the Village's self-insured medical, dental, vision and life insurance plans. Since the Village is self-insured for health insurance meaning it pays for claims on a cash basis, rather than by paying premiums to an insurance company. The transfers addressed the issue of expected cost increases due to anticipated higher claims in 2024.	N/A	N/A	\$1.5 M	\$4.3 M
Capital	Accounts for general construction and capital improvement activity of several capital-related programs including roadway maintenance, sidewalks, bikeways, traffic signals and other projects. These transfers are to increase funding for capital projects in the Downtown and Fairview Focus areas expected to be included in the streetscape plans.	N/A	N/A	\$1.8 M	\$10.3 M
Major Buildings (Civic Center)	Beginning in FY2022, this Fund was designated to account for the construction and design costs of the Civic Center Project. Money in this fund consists of the initial equity and bond proceeds used for the project. The transfers helped pay for the construction costs.	\$5.4 M	N/A	N/A	\$17.0 M
Debt Service Fund	The financing for the Civic Center Project consists of 25 years of debt service payments. These payments are scheduled to be made through a combination of available funds and revenue sources detailed in a separate financial plan. Transfers made to this fund all go towards the debt service payments and reduce the likelihood that a property tax levy increase will be required.	N/A	\$0.5 M	\$231,964	\$3.6 M

Health Cash Balance: 2019-2024 (In Millions)



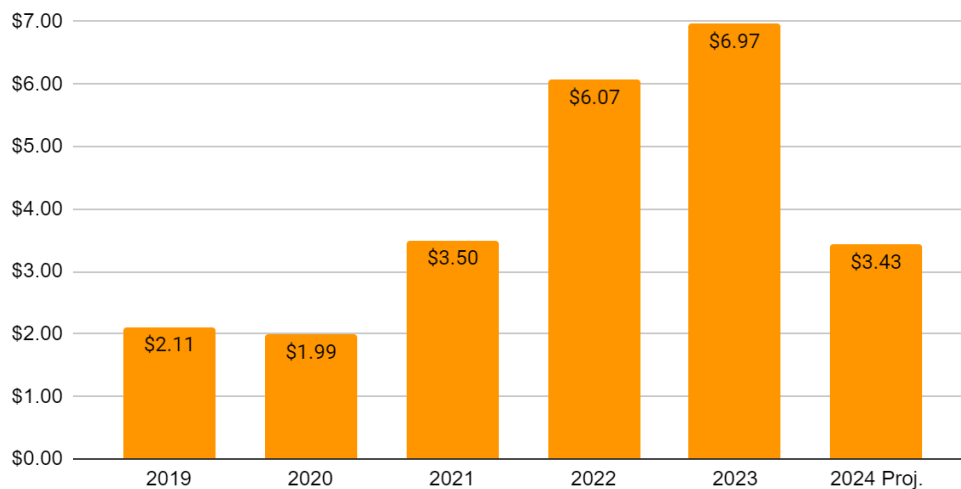
Health Fund Outlook: Staff projects the cash balance in the Health Fund will drop to \$3.11 million by the end of FY 2024 due to anticipated continued higher medical claims.

Risk Cash Balance: 2019-2024 (In Millions)



Risk Fund Outlook: Staff projects the cash balance in the Risk Fund will drop to \$5.15 million by the end of FY2024 due to anticipated claims in 2024.

Equipment Replacement Cash Balance: 2019-2024 (In Millions)



Equipment Replacement Outlook: *The cash balance in the Equipment Replacement Fund is projected to drop to \$3.43 million by December 31, 2024 due to the anticipated purchase of a ladder truck and two ambulances. Balances in this fund fluctuate and typically drop significantly in the year that a ladder truck is purchased. Balances increase in the following years building up to the purchase of the next ladder truck.*

General Fund Projected Performance

General Fund performance is expected to remain strong in the next few years, though not as strong as the previous few years. Revenues are projected to remain above expenses through FY26. Expenses are projected to increase by 3% to 5% annually driven primarily by personnel expenses, while revenues are projected to increase by 1% to 3% annually. Based on these projections, the General Fund will continue to be sustainable without the need for significant policy-level changes. If revenues grow at the lower end of the projected range and expenses grow at the higher end, the General Fund should be balanced in 2026 at approximately \$65.5 million.

Therefore, this Long Range Plan update calls for the Village to:

- Continue to manage expenses within budgeted amounts
- Continue to maintain the General Fund balance at the recommended level of 38% of annual expenses
- If revenues exceed expenses, continue to transfer some of these funds to the Civic Center Debt Service Fund, Health Fund, Risk Fund and Equipment Replacement Fund

