

2021-2023 Long Range Plan

5/18/2021

Report #2 General Fund Sustainability and Police Operations

May 18, 2021

GENERAL FUND FINANCIAL SUSTAINABILITY

The General Fund is the Village's main operating fund. Most Village services including Police, Fire, Community Development and most Public Works services are accounted for in this fund. Because the Village is a service organization, the vast majority of costs are related to the people delivering those services.

Trends & Issues	<p>Total revenues and expenses are projected to be aligned in FY22 and FY23. No strategic changes to revenue sources and expenses appear to be necessary to maintain balanced budgets from now until FY23.</p> <p>Revenues and expenses (excluding those related to public safety pension contributions) are projected to increase at 2% to 3% per year.</p> <p>Sales Tax revenue, the Village's top revenue source, is expected to increase in 2021 and beyond due to the new state law requiring payment of sales tax on on-line purchases.</p> <p>Food & Beverage tax revenue is expected to increase significantly in 2021 and beyond driven by strong economic performance in this sector.</p> <p>Some key revenues are flat or declining and not keeping pace with expenses. Hotel tax declined sharply in 2020 and is projected to recover slowly over the next three years.</p> <p>The State of Illinois may reduce or slow the increase of Income Tax revenue (Local Government Distributive Fund) as it works to address State budget issues.</p> <p>The cost of required contributions to public safety pensions has increased significantly in the past several years and is projected to continue to increase each year.</p>
Background and Key Facts	<p>Continued cost control efforts have resulted in small increases in annual expenses; an average of 2.2% per year (2014 to 2019) prior to the pandemic.</p> <p>2020 expenses were cut by \$2 million (actual expenses of \$47.7 million, budgeted expenses of \$49.7 million) during the pandemic.</p> <p>Improvements to risk management have reduced General Fund expenses over the past several years.</p> <p>The Village has made adjustments to the types of revenue sources and rates to improve bottom line revenue performance. Total revenue has increased at average of 2.5% per year (2014 to 2019) prior to the pandemic</p> <ul style="list-style-type: none"> • Introduced a 1% Food & Beverage Tax in 2018 • Increased the Food & Beverage Tax rate to 1.5% in 2021 • Levied property taxes for the cost of required contributions to public safety pensions for the past several years • Adjusted ambulance fees in 2020 and 2021. <p>Revenue performance declined during the COVID-19 pandemic, but was better than originally anticipated. Total General Fund revenue in 2020 was down by \$1.3 million (2.6%).</p>

Strategies & Solutions

- Continue to implement cost-control measures
- Monitor state budget actions that could impact the Village and work to protect municipal revenues
- Continue to reduce reliance on state-shared revenues
- Maintain reserve balances at the recommended level
- Continue to pay for increases in the required contributions to public safety pensions by increasing the property tax levy for pensions
- Consider increasing the property tax levy for operations as necessary
- Use Asset Forfeiture Fund to pay for camera systems for Police Department use

Implementation of the COVID-19 Financial Response Plan in 2020

The COVID-19 pandemic negatively affected significant sectors of the local economy and therefore, negatively affected revenues in the General Fund. The Village prepared and implemented a COVID-19 financial response plan which positioned the Village for continued financial sustainability. FY20 revenues were \$1.3 million lower than budgeted. Cost control measures resulted in expenses \$2.0 million lower than budgeted. Further the Village obtained a CARES Act grant for \$2.5 million.

Revenue Down by \$1.3 Million (2.6%)
 Expenses Down by \$2.0 Million (4.0%)
 CARES Act Grant of \$2.5 Million

Financial sustainability has been a long-standing Village goal. This goal has been achieved in the General Fund with revenues exceeding expenses each year for the past twelve years. FY09 was the last year in which expenses exceeded revenues. The General Fund balance has been maintained at the recommended level of 38% to 40% of annual expenses during the same period. In FY20, the Village maintained financial sustainability by developing and implementing a COVID-19 Financial Response Plan. Expense reductions were greater than the revenue shortfall. In addition, the Village secured a grant of \$2.5 million.

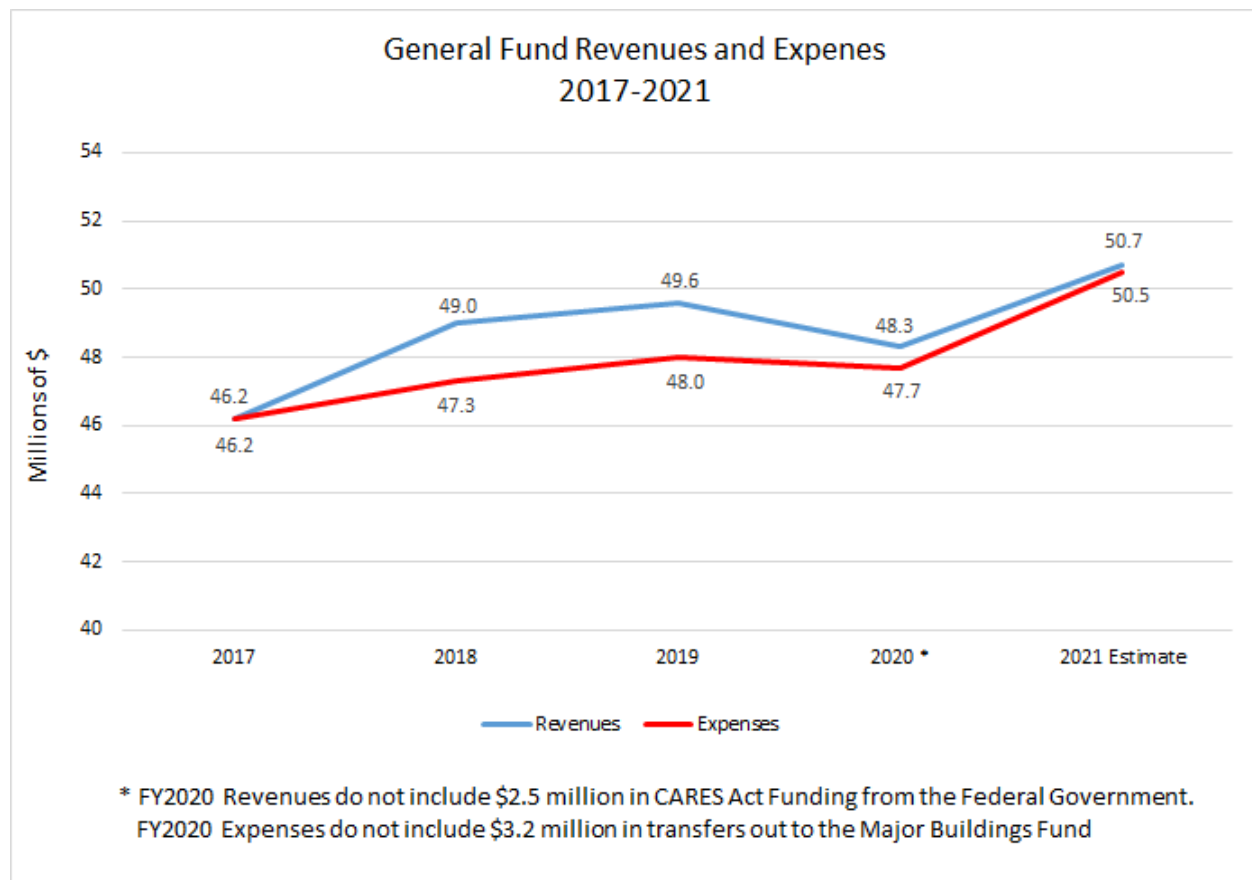
The American Rescue Plan Act

The American Rescue Plan Act, signed into law in February, 2021, provides direct funding to municipalities. These funds may be used for qualifying expenses detailed in the Act. The Village of Downers Grove is expected to receive about \$5 million; \$2.5 million in 2021 and \$2.5 million in 2022. This report does not address the impact of the ARP on the General Fund. The Village Council will develop a plan for the use of the ARP funds in conjunction with the Long Range Plan. If the plan for the use of the ARP substantially affects the General Fund, this section of the report will be updated accordingly.

Comparing 2017 actuals to 2021 current estimates, revenue has increased by \$4.5 million (9.7% total; an average of 2.4% per year) while expenses have increased by \$4.3 million (9.3%

total; an average of 2.3% per year). During the same period, the General Fund balance has remained within the recommended range of 38% to 40% of annual expenses.

Staff projects that both revenues and expenses, except those related to public safety pension contributions, will increase at 2% to 3% annually for the next few years. Therefore, it appears that the Village will not have to make any policy level changes to revenues or expenses to achieve balanced budgets in FY22 and FY23.



Expenses

Expenses, excluding the required contributions to public safety pensions, are projected to increase at 2% to 3% annually for the next three years.

General Fund expenses have been increasing at an average of 2.3% per year for the past several years, increasing by \$4.3 million from \$46.2 million in 2017 to an estimated \$50.5 million in 2021.

Personnel costs, primarily public safety pension expenses, have been and will continue to be the key expense driver. The required contributions to public safety pensions increased by \$2.78 million (46%) from \$6.02 million in 2017 to \$8.80 million in 2021, accounting for 64% of the total increase.

One of the key strategies to reduce expenses over the past decade has been staffing reductions. Total staffing has been reduced by 71.4 Full-Time Equivalent (FTE) positions from 374.8 FTE in 2008 to 303.4 FTE in 2021. These staffing reductions have been coupled with process improvements and efficiency enhancements to maintain service levels while reducing expenses, whenever possible. While the Village will continue to seek out and implement process improvements and efficiency enhancements, it is not likely that the Village will be able to reduce staffing while maintaining service levels.

The Village's focus on risk management over the past decade has not only improved safety for its employees but has been a key factor in controlling General Fund expenses. As the Village has reduced risk related expenses the General Fund expenses have decreased substantially. The Village will continue to focus on risk management for the foreseeable future.

Required Contributions to Public Safety Pensions

The Village's required contributions to the public safety pension funds are projected to increase substantially for the next several years. Based on a recently prepared actuarial projection an increase of over \$1 million per year is projected in the next three years. Provided that the Village continues with the practice of levying property taxes for the required contributions, the levy for public safety pensions is projected to increase from the current \$8.8 million to over \$11 million in 2024.

FY22 Budget Preview

The Downers Grove Police Pension and Fire Pension Boards recently met to review and discuss the 2022 required Village contribution to the funds. The required Village contributions to the pension funds are summarized in the table below.

	2021 Contribution	2022 Contribution	Increase
Police Pension Fund	\$4,011,185	\$4,990,964	\$979,779
Fire Pension Fund	\$4,785,434	\$4,903,198	\$117,764
Total	\$8,796,619	\$9,894,162	\$1,097,543

As noted in the graphs below, while the Village's contributions to police and fire pension funds have increased dramatically since 2012, the percent funded for these funds decreased. The percent funded number will begin increasing in 2022 and will continue to do so until 2040 when it will meet or exceed the State's funding requirements.

Pursuant to the Pension Consolidation Act adopted in 2020, police and fire pension fund investments will be managed by State Boards. These boards, one for police pensions and one for fire pensions, will pool funds from each individual fund and place the investments. This pooled approach is intended to increase investment returns and reduce administrative expenses. If these objectives are accomplished, the future required contributions to the public safety pension funds may be lower than currently projected. The State Boards will also make decisions about the actuarial model which determines the required contributions. If the State Board establishes an investment rate of return percentage assumption that is lower than those currently in place for the Downers Grove pension funds, the future required contributions to the public safety pension funds may be higher than currently projected.

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?

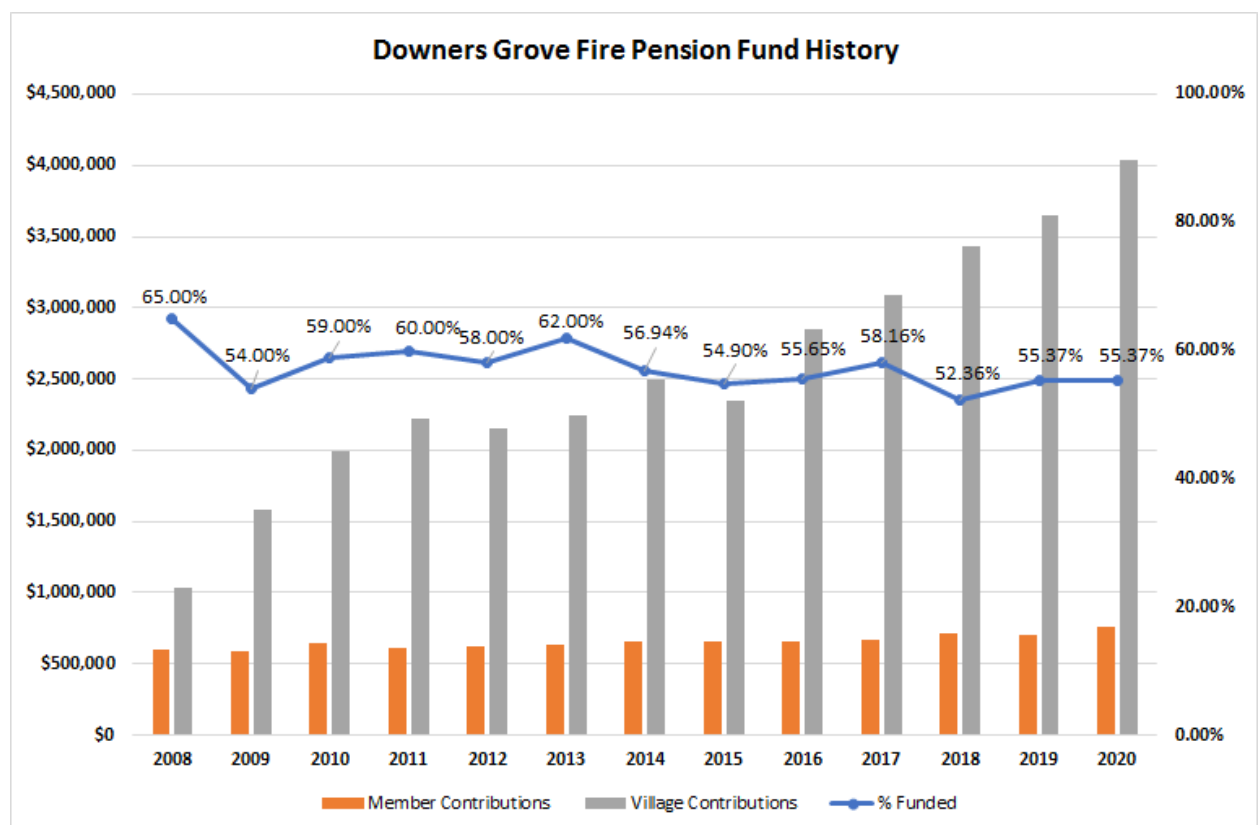
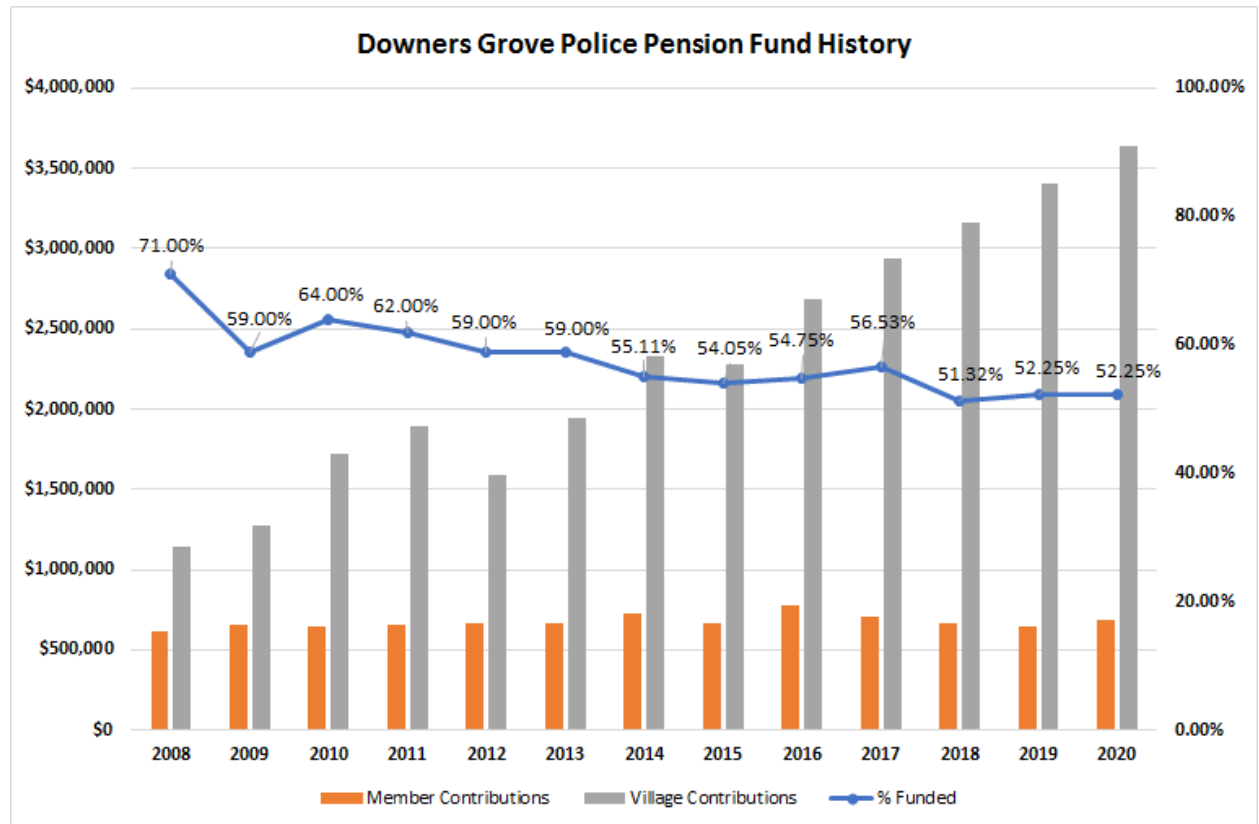
Both the employer and the employee are responsible for funding the public safety (police and fire) pension funds. Police officers contribute 9.91% and firefighters contribute 9.455% of their salary toward their pensions. This percentage is governed by State statute. The Village makes an annual contribution 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, excluding the property tax levy for required contributions to public safety pensions, are projected to increase at 2% to 3% annually for the next three years. Key revenue drivers include sales tax and home rule sales tax (projected to increase due to economic recovery and on-line sales), and food & beverage tax.

Total General Fund revenues have increased by \$4.5 million over the past four years from \$46.2 million in 2017 to a projected \$50.7 million in 2021 (9.7% total increase; 2.4% average annual increase). Revenues are projected to increase by 2 to 3% per year for the next few years. The table below shows the Village's key General Fund revenues from 2017-2021.

Revenue Source	2017	2018	2019	2020	2021 Est.	Outlook
Sales Tax	11.7	11.5	11.4	10.9	11.5	Slow Increase Driven by On-Line Sales Tax
Property Tax - Ops	5.9	5.9	5.9	6.0	6.0	Discretion of Village Council
Income Tax	4.5	4.7	5.2	5.3	5.5	Slow Increase
Utility Taxes	4.5	4.5	4.4	3.9	3.7	Gas & Electric Flat, Telecom Declining
Building Permits	1.9	2.0	1.3	1.2	1.0	Cyclical; Expect Modest Growth
Home Rule Sales	2.0	1.9	1.9	1.7	1.7	Slow Increase Driven by On-Line Sales Tax
Food & Beverage	--	1.9	2.0	1.6	2.6	Moderate Increase Driven by Strong Performance and Rate Increase in 2021
Ambulance Fees	1.1	1.6	1.4	1.5	1.9	Modest Increase Driven by Rate Changes in 2020 and 2021
Local Use Tax	1.3	1.4	1.6	2.1	1.8	Slow Increase
Cellular Equip Rental	1.1	1.1	1.2	1.2	1.2	Flat
Hotel Tax	0.9	0.9	1.0	0.4	0.6	Slow Recovery

Sales Tax Revenue from On-Line Sales

The State of Illinois recently enacted the "Leveling the Playing Field for Illinois Retailers Act" which requires certain remote retailers to collect and remit state and locally-imposed sales taxes for the jurisdiction where the product is delivered (destination) starting on January 1, 2021. This

is a structural change in state sales tax law which should increase the Village's annual sales tax revenue. More information about the Act can be found [here](#):

[Illinois Municipal League Summary](#)

[Illinois Retail Merchants Association Summary](#)

Staff projects that Sales Tax and Home Rule Sales Tax for the Village will increase in 2021 and beyond based primarily on the taxes generated from on-line purchases made by Village residents (destination rates). The sales tax revenue for the month of January, 2021 included \$60,000 in revenue from on-line sales. Staff will continue to monitor performance and update revenue projections.

The generation of sales taxes from the sale of goods housed within Village limits presents an economic development opportunity. The Village, with the partnership of the Downers Grove Economic Development Corporation (DGEDC), should work to attract these types of revenue producing businesses. This strategy is likely to be included in the DGEDC Strategic Plan, which is being prepared now.

VoDG Revenue Based on a \$100 Purchase

Retailer Types	Types of Purchasers		
	Purchased by VoDG Resident	Purchased by Illinois Resident, Not a VoDG Resident	Purchased by a Non-Illinois Resident
Remote Retailer (no presence in Illinois)	\$2.00 (destination rate)	--	--
Marketplace Facilitator with Inventory Housed in VoDG	\$2.00 (origin rate)	\$2.00 (origin rate)	--
Marketplace Facilitator Located Outside of Illinois	\$2.00 (destination rate)	--	--
Marketplace Facilitator with Inventory Housed in IL, Not in VoDG	--	--	--

Food & Beverage Tax

The Village introduced a 1% food and beverage tax in 2018. The rate was increased to 1.5% effective as of March 1, 2021. This tax generated \$1.9 million in its initial year and is projected to

generate \$2.6 million in 2021. This sector of the economy has grown steadily for the past decade (with the exception of the impact of the COVID-19 pandemic) and is expected to continue to increase over the next several years.

State Shared Income Tax

Revenue from the Village's portion of State Income Tax has increased from \$4.5 million in 2017 to \$5.3 million in 2020. This revenue is expected to continue to increase over the next few years. However, the State of Illinois is considering changing the municipal share of the income tax to reduce the amount of revenue distributed to municipalities. If such a change is made, the State will use these funds to address its own budget issues.

POLICE OPERATIONS

The Police Department will be making operational changes to comply with the Criminal Justice Reform Act and is considering the use of fixed-location license plate reader cameras to help reduce the risk of violent crimes committed in the Village.

Trends & Issues	<p>Prompted by Criminal Justice Reform Act, the Police Department will experience an increase in administrative work and costs driven by:</p> <ul style="list-style-type: none"> • significant increase in officer training • additional reporting and administrative tasks including an expected increase in Freedom of Information Act requests • the purchase, installation and operation of a body camera system <p>Like many other DuPage County municipalities, the Village has experienced and is likely to continue experiencing an increase in potentially violent crimes committed by people driving stolen vehicles.</p>
Background and Key Facts	<p>The Criminal Justice Reform bill was signed into law February 22, 2021 by Governor Pritzker. Some key components of the act include:</p> <ul style="list-style-type: none"> • Requires all law enforcement agencies to employ the use of body-worn cameras and submit an annual report summarizing the use of the system. The Village must begin using a body-worn camera system by 1/1/25 • Expands training requirements for officers on use of force, duty to intervene, duty to render aid and responding to mental health related incidents • Expands reporting requirements on training, use of force, mental health crises, firearm discharges, in-custody deaths and crime reports • Allows people to file complaints without submitting an affidavit or sworn statement • Requires all records related to complaints, investigations and adjudications of police misconduct to be permanently retained • Establishes a state-level process for officer certification • Prohibits agencies from suspending drivers licenses for unpaid parking and traffic violations • Eliminates use of monetary bail for certain offenses <p>The Village, like many other DuPage County and suburban municipalities, has experienced an increase in potentially violent crimes committed by people driving stolen vehicles. There has been an increase in vehicle thefts and car-jackings in Chicago and suburbs in the past several months.</p>
Strategies & Solutions	<p>Increase civilian administrative staff by 1 to 2 full-time equivalent positions in FY22 and FY23. The estimated cost of two full-time positions is \$150,000 per year. These costs will be included in the General Fund and are reflected in the expense projections in this report.</p> <p>Purchase, install and begin operating a body-worn camera system. The system should be operational in FY22 or 23. The estimated cost to purchase and operate the system for the first five years is \$350,000 to \$450,000. The Asset Forfeiture Fund should be used for these expenses.</p> <p>Consider purchasing and installing a fixed-location license plate reader system</p>

	with cameras located at several key entrances to the Village. The estimated cost for this system for the first five years is \$200,000 to \$300,000. The Asset Forfeiture Fund could be used for these expenses.
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Criminal Justice Reform Act

In February 2021, Governor Pritzker signed into law the Criminal Justice Reform Act. This act will significantly impact Police Department operations and the Village's annual expenses and revenues. The department has already implemented practices to comply with the Act. The financial impacts are expected to affect annual budgets starting in FY22.

The Criminal Justice Reform Act requires agencies to conduct additional police officer training on topics such as use of force, duty to intervene, duty to render aid and responding to mental health related incidents. While the Village currently trains officers in these areas to comply with accreditation standards, additional training will be required. Annual training expenses are expected to increase to pay for the cost of the training sessions and in the form of increased overtime expenses as officers train during on-duty times.

The Act also requires agencies to increase reporting on topics such as training, use of force, mental health crises, firearm discharges, in-custody deaths and general crime reports.

Current and Future Officer Training Hours

	Current Training	Required Training per Act	Increase
Officer Annual Training	73 hours	99 hours	26 hrs (35.6%)
Total Annual Department	5,110 hours	6,930 hours	1,820 hrs (35.6%)

The Act requires all law enforcement agencies to begin using body-worn camera systems by January 1, 2022 to January 1, 2025, depending on the population of the municipality. Downers Grove is required to use body cameras no later than January 1, 2025. In addition to purchasing, operating and maintaining the cameras, the Village will manage digital recordings as part of the records management system and respond to requests for these records under the Freedom of Information Act. Staff expects to receive additional record requests once the system becomes operational. The cost to purchase, operate and maintain the body-worn camera system for the first five years is estimated to be \$350,000 to \$450,000 (\$70,000 to \$90,000 per year). The Asset Forfeiture Fund should be used to cover these expenses. This fund currently has a balance of \$2.6 million and will be able to cover the costs of the body-worn camera system. Staff recommends that the Village begin using the body-worn camera system in FY22 or 23. This project will be included in the Priority Action Item project list.

Staff expects to spend an additional 2,000 to 4,000 hours per year in administrative tasks related to reporting, training and document management. In response to the expected workload increase, an additional one to two full-time equivalent staff positions will be required. The cost of two full-time civilian administrative employees is projected to be about \$150,000 per year. The additional expenses will be included in the General Fund. These expenses are included in the General Fund expense projections in this report. These positions could be added in FY22 and FY23 based on actual workload experience.

Reducing The Risk of Potentially Violent Crimes

Like many other DuPage County municipalities and suburban Chicago communities, the Village has experienced and is likely to continue experiencing an increase in potentially violent crimes committed by people driving stolen vehicles. Not only has there been an increase in vehicle thefts in the Chicago region (including car-jackings), there has been an increase in crimes such as armed robberies, burglaries and thefts committed by people driving stolen vehicles.

Local Trends Related to Stolen Vehicles

	2017	2018	2019	2020
Carjackings by Offenders in Stolen Vehicles	0	0	2	3
Stolen Vehicles	16	22	23	35
Shooting Cases Committed by Offenders in Stolen or Unknown Vehicles	0	0	0	3
Total	16	22	25	38

To help reduce the risk of crimes committed by people driving stolen vehicles, several municipalities near Downers Grove have installed fixed-location license plate reader cameras. The cameras are located at key entrances to the municipalities and read the license plates of all vehicles that enter the community. When the reader detects a reported stolen vehicle entering the municipality, the system automatically alerts the police. This allows police to immediately respond to the area where the stolen vehicle was last detected and to nearby areas where crimes may be likely to be committed. The police response is designed to reduce the likelihood of a crime being committed and to apprehend the driver of the stolen vehicle. A fixed-location license plate reader system may also provide valuable leads to aid in the follow-up investigation of violent crimes should they occur in the Village.

Staff is recommending that the Village consider purchasing and installing a fixed-location license plate reader system. The estimated cost to purchase and operate the system for the first five years is \$200,000 to \$300,000. These costs could be covered by the Asset Forfeiture Fund. Staff is currently researching this topic and may present the issue for Village Council consideration in the coming months.

Using the Asset Forfeiture Fund for Body Cameras and License Plate Readers

The Asset Forfeiture Fund can be used to purchase both the body-worn camera system and the license plate reader system. Money in this fund is generated by asset seizures from joint

investigations and operations with the federal government. Money seized from these operations can only be used for law enforcement purposes and cannot be used to replace or supplant budgeted purchases. The Asset Forfeiture Fund currently has a balance of \$2.6 million. The total 5-year cost of both camera systems is estimated to be \$550,000 to \$750,000.