

2021-23 Long Range Plan

6/21/2022

2022 Update Report #1

June 21, 2022

INTRODUCTION AND OVERVIEW

The 2021-23 Long Range Plan, approved by the Village Council in September 2021, identifies and addresses issues affecting the long-term future of the Village. The Plan establishes the Village's goals and priority actions that guide annual budgets, daily operations and delivery of services.

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

- Strategic Goals for 2021 to 2023 and beyond
- Key trends and issues affecting the long-term future of the Village
- Strategies and solutions to address the key trends and issues
- Priority Action Items to be completed by April 2023.

The Village Council will hold public meetings from June through August 2022 to update the LRP. The update will:

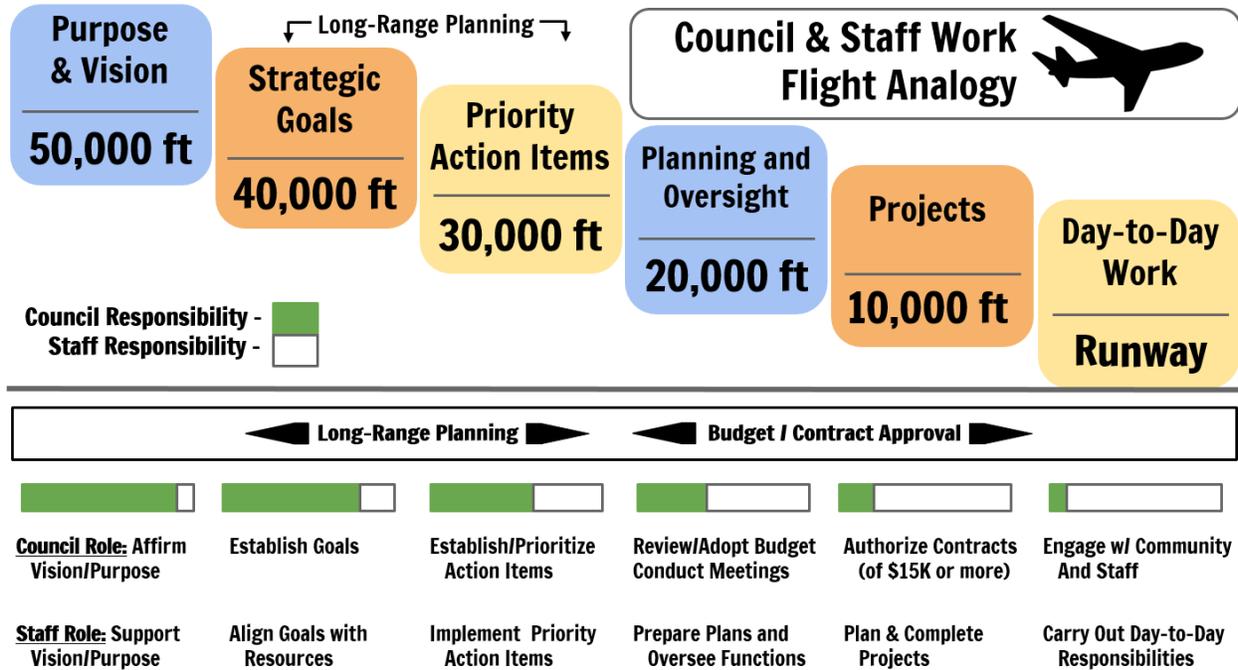
- Identify key trends and issues which may affect the Village in 2022 and beyond
- Establish strategies to address the key issues
- Determine the Priority Action Items for the next 8 to 12 months

Long Range Plan Update Meeting Schedule

Date	Topics
June 21	<ul style="list-style-type: none"> ● Introduction and Overview ● Strategic Goals ● General Fund Sustainability
July 19	<ul style="list-style-type: none"> ● Key Issues <ul style="list-style-type: none"> ○ Water Fund Sustainability ○ Parking Fund Sustainability
August 16	<ul style="list-style-type: none"> ● Priority Action Items

Flight Analogy

The graphic below compares the roles of the Village Council and staff with 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 Community
- Continual Innovation

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 and all 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 residents. 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, stormwater system and water supply and distribution. 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 and achieving the following:

- Strengthen the Sales Tax Base
- Strengthen the Commercial and Industrial Tax Base
- Increase Hotel Tax Revenue
- Increase the Employment Base

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 five-year Strategic Plan adopted in 2014. The DGEDC is currently in the process of updating their Strategic Plan, which will be completed this summer.

A Safe Community

The Village should strive to provide and maintain a safe and welcoming community by prioritizing safety in services and infrastructure. The services and infrastructure systems provided by the Village should work together to further this goal. 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.

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 FINANCIAL SUSTAINABILITY

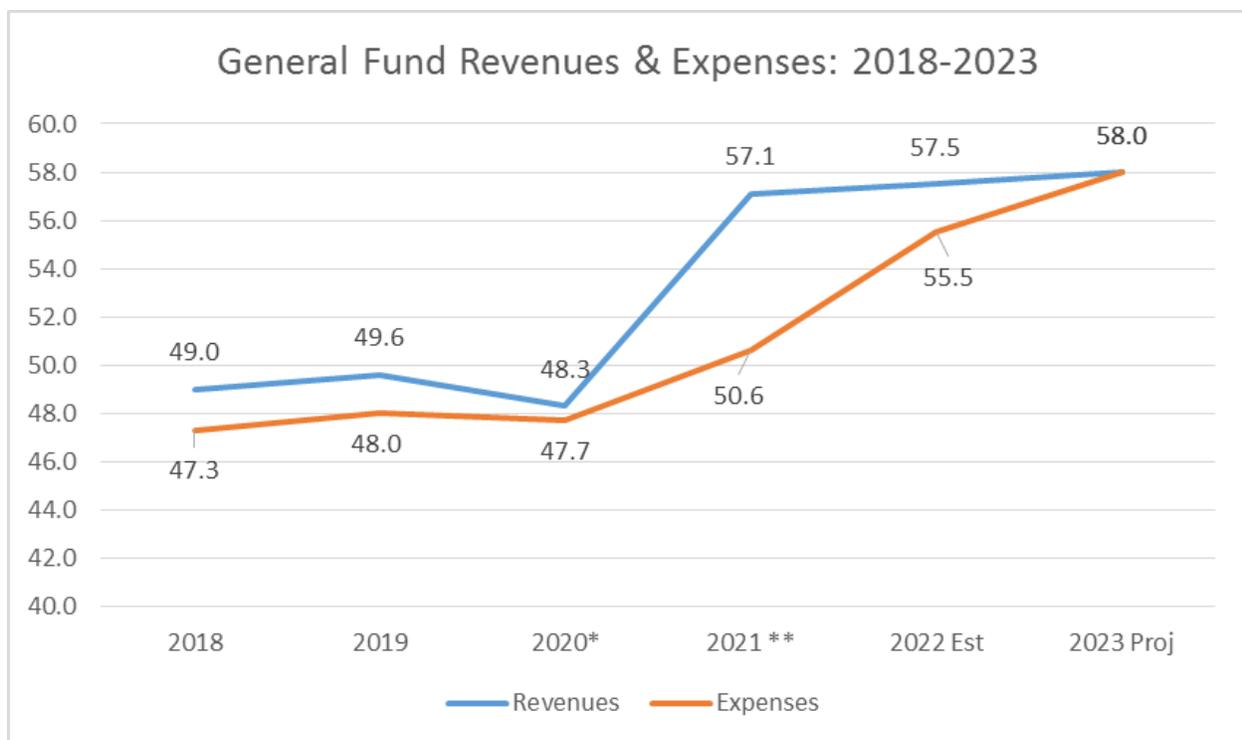
The General Fund is the Village's main operating fund. Most Village services including Police, Fire, Community Development and most Public Works services are accounted for in this fund. Because the Village is a service organization, the vast majority of costs are related to the people delivering those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

<p>Trends & Issues</p>	<p>Total revenues and expenses are projected to be aligned in FY22 and FY23. No strategic changes to revenue sources or expenses appear to be necessary to maintain balanced budgets through FY23.</p> <p>Revenues increased significantly in 2021 and are projected to increase by 1.5% annually in 2022 and 2023.</p> <p>Sales, Home Rule Sales, Food & Beverage and Income Tax revenue are expected to increase modestly in the next two years.</p> <p>Some key revenues are flat or declining and not keeping pace with expenses. Utility taxes have remained flat. The hotel tax declined sharply in 2020 and is projected to recover slowly over the next several years.</p> <p>Expenses increased by nearly 6.1% in 2021 and are projected to increase by nearly 10% in 2022 and 4.5% in 2023. Key expense drivers include expected increases in personnel expenses (wages, salaries and required pension contributions), contributions to the Equipment Replacement Fund (increasing prices of vehicles and equipment) and support of the Parking Fund.</p> <p>Continuing global supply-chain disruptions may impact Village operations. Continued high inflation may also impact Village operations and cost and is reflected in the expense projections. Uncertain economic conditions may also impact the Village budget. Staff will continue to monitor these 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 over the next 18 years.</p>
<p>Background and Key Facts</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.</p> <ul style="list-style-type: none"> • 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>Strategies & Solutions</p>	<ul style="list-style-type: none"> • Continue to implement cost-control measures • Monitor supply chain issues and purchase vehicles and equipment earlier than originally planned to adjust for long lead times • 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

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.

Staff projects that revenues and expenses will be aligned in FY22 and FY23. Therefore, it appears that the Village will not have to make any policy level changes to revenues or expenses to achieve balanced budgets in this time frame. Revenues increased significantly in 2021 and are projected to increase by 1.5% annually in 2022 and 2023. Expenses increased by nearly 6.1% in 2021 and are projected to increase by nearly 10% in 2022 and 4.5% in 2023.

Comparing 2018 actuals to 2022 current estimates, revenue has increased by \$8.5 million (17% total; an average of 4.25% per year) while expenses have increased by \$8.2 million (17% total; an average of 4.25% per year). During the same period, the General Fund balance has remained within the recommended range of 38% to 40% of annual expenses.



* FY2020 revenues do not include \$2.6 million in CARES Act funding from the Federal government

FY2020 expenses does not include \$3.2 million in transfers out to the Major Buildings Fund

** FY2021 expenses do not include \$5.4 million in transfers out to the Major Buildings Fund or \$0.2 million in transfers to Equipment Replacement or Fleet funds

	2021 Act	2022 Bud	2022 Est	2023 Proj
Revenue	\$57.1	\$54.4	\$57 - \$58	\$57 - \$59
Expenses	\$50.6 *	\$54.4	\$55 - \$57	\$57 - \$59

*NOTE: Expenses do not reflect \$5.4 million transfer to Major Building Fund for the Facilities Replacement & Sustainability Plan

Expenses

Expenses increased by nearly 6.1% in 2021 and are projected to increase by nearly 10% in 2022 and 4.5% in 2023. Key expense drivers include expected increases in personnel expenses (wages, salaries and required pension contributions) contributions to the Equipment Replacement Fund (increasing prices of vehicles and equipment) and support of the Parking Fund.

Required Contributions to Public Safety Pensions

The Village's required contributions to the public safety pension funds are projected to increase substantially in the long-term. The required contributions to public safety pensions increased by \$2.27 million (35%) from \$6.53 million in 2018 to \$8.80 million in 2021, accounting for 69% of the total increase in expenses. The levy for public safety pensions is projected to increase from the current \$8.80 million to over \$11 million in 2024. Public safety pensions are projected to be 99% funded in 2040. Village contributions are expected to increase to over \$20 million by then.

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 through 2020. In 2021 the percent funded began to increase and should continue to go up 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.

The state board for the firefighters pension, [IFPIF](#), has been established and is operating. Beginning with FY22, actuarial reports will be prepared by the IFPIF and will include the annual required contribution (ARC) using assumptions from the Illinois Pension Code. Pursuant to state law, the Village Council may levy a tax based on the ARC in the IFPIF report however, the funding requirements in the Illinois Pension Code (90% funded by 2040) are less stringent than the Village's, which would create ARCs that are not consistent with Village practices (100% funded by 2040).

The Downers Grove Fire Pension Board received a preliminary actuary report from their actuary showing a reduction in ARC for 2023. The Board directed them to review potential changes to the assumptions used in the report. The final actuary report, including the ARC, is expected to be completed in late summer.

The state board for the police pensions is not yet managing pooled investments. The Downers Grove Police Pension Board is expected to review and approve their actuary report in late summer. The preliminary report included a \$21,000 increase in the ARC.

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?

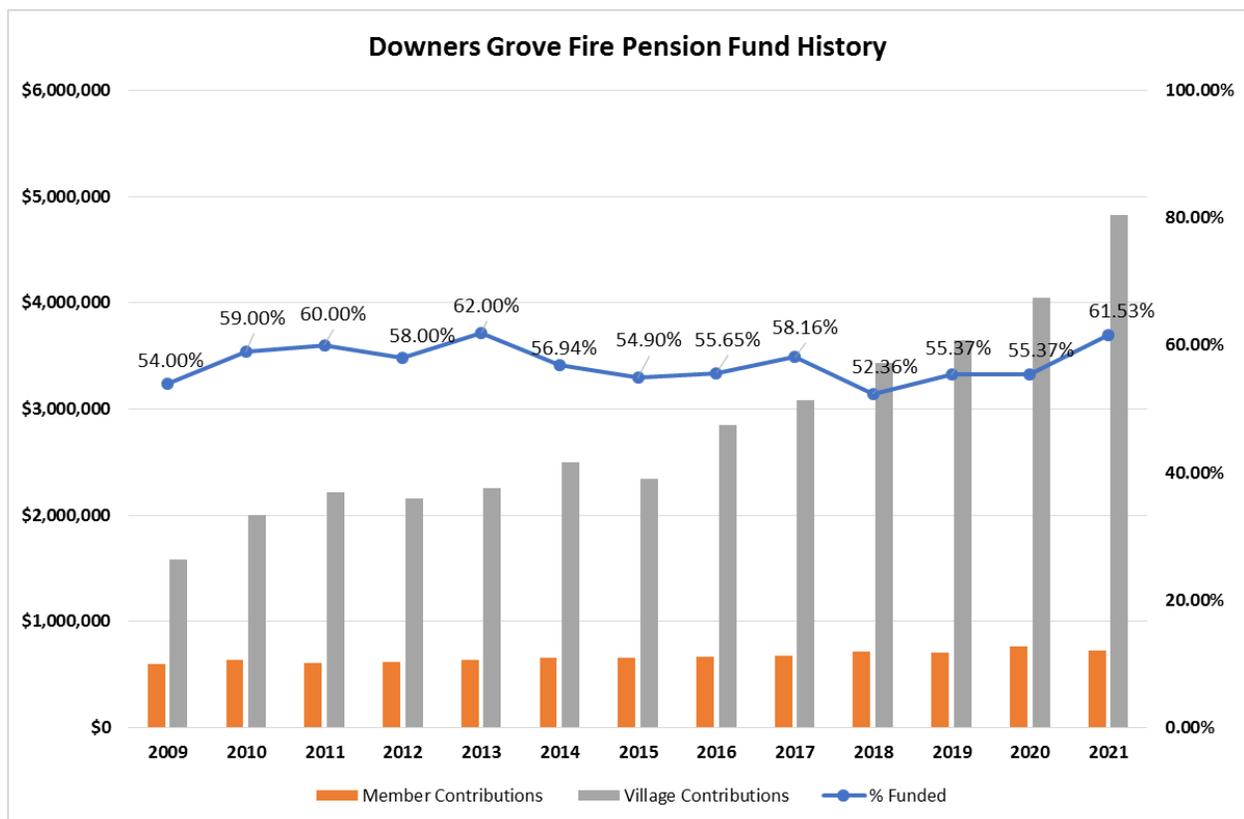
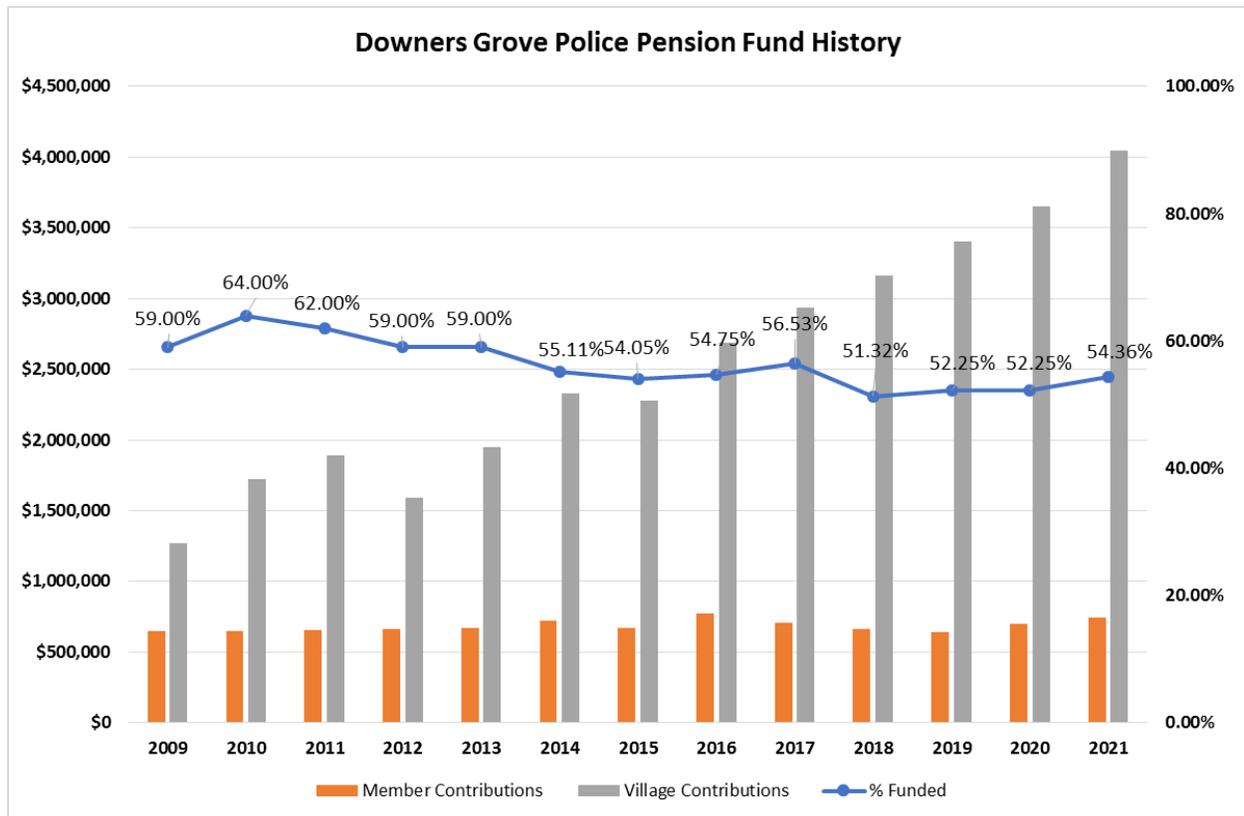
Both the employer and the employee are responsible for funding the public safety (police and fire) pension funds. Police officers contribute 9.91% and firefighters contribute 9.455% of their salary toward their pensions. This percentage is governed by State statute. The Village makes an annual contribution 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 increased significantly in 2021 and are projected to increase by 1.5% annually in 2022 and 2023. Sales, Home Rule Sales, Food & Beverage and Income Tax revenue are expected to increase modestly in the next two years. Some key revenues are flat or declining and not keeping pace with expenses. Utility taxes have remained flat. The hotel tax declined sharply in 2020 and is projected to recover slowly over the next several years.

Total General Fund revenues have increased by \$8.5 million over the past four years from \$49.0 million in 2018 to a projected \$57.5 million in 2022 (17% total increase; 4.25% average annual increase). The table below shows the Village's key General Fund revenues from 2018-2022.

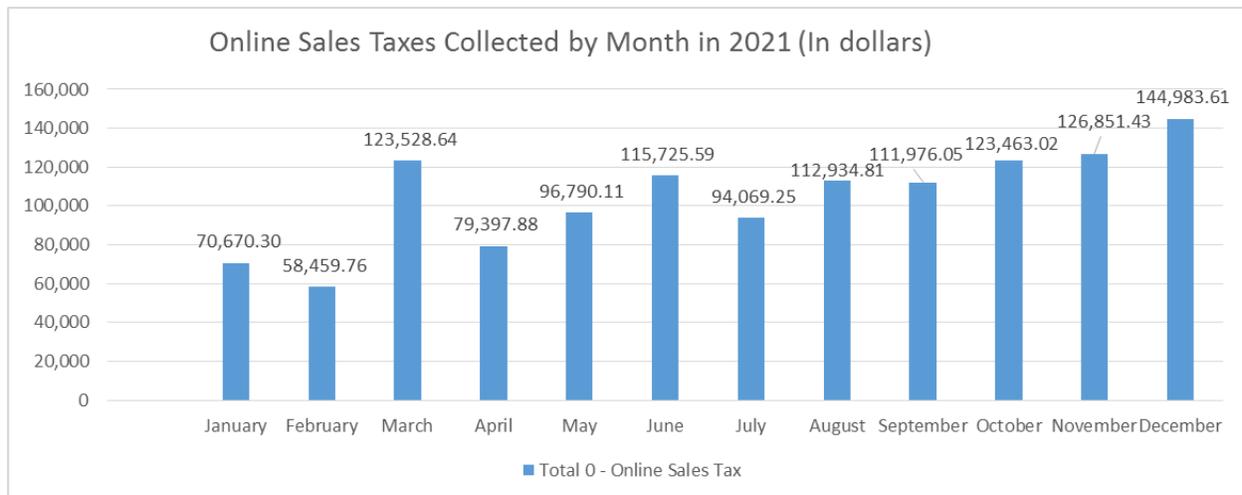
Revenue Source	2018	2019	2020	2021	2022 Bud	2022 Est.	Outlook
Sales Tax	11.5	11.4	11.0	13.7	12.2	13.9	Modest Growth
Property Tax - Ops	5.9	5.9	6.0	6.0	6.0	6.0	Discretion of Village Council
Income Tax	4.7	5.2	5.3	6.5	6.1	6.7	Modest Growth
Utility Taxes	4.5	4.4	3.9	3.6	3.7	3.6	Gas & Electric Flat, Telecom Declining
Building Permits	2.0	1.3	1.2	1.1	1.3	1.4	Cyclical; Expect Modest Growth
Home Rule Sales	1.9	1.9	1.7	2.2	2.1	2.3	Modest Growth
Food & Beverage	1.9	2.0	1.6	3.0	3.0	3.1	Modest Growth
Ambulance Fees	1.6	1.4	1.5	3.7	2.0	3.9	Modest Growth
Local Use Tax	1.4	1.6	2.1	1.9	1.6	1.6	Flat
Cellular Equip Rental	1.1	1.2	1.2	1.2	1.3	1.3	Flat
Hotel Tax	0.9	1.0	0.4	0.6	0.6	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.

In 2021, the Village received \$2.3 million in revenue from online sales tax revenue. Staff projects that Sales Tax and Home Rule Sales Tax for the Village will increase in 2022 and beyond based primarily on the taxes generated from on-line purchases made by Village residents (destination rates). Staff will continue to monitor performance and update revenue projections.



Food & Beverage Tax

The food & beverage tax rate was increased to 1.5% effective as of March 1, 2021. This sector of the economy has grown steadily for the past decade. Food & beverage tax revenue is expected to continue to increase over the next several years. This revenue source has bounced-back as pandemic concerns recede and the restaurant industry continues to grow in Downers Grove.