

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

September 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.

From May through July 2018, the Village Council created this update to the Long Range Plan. The update:

- Identifies and discusses key issues which may affect the FY19 budget and beyond
- Provides a progress report on priority action items

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STRATEGIC GOALS

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

General Fund Sustainability

*Presented at the
May 15, 2018 Council Meeting*

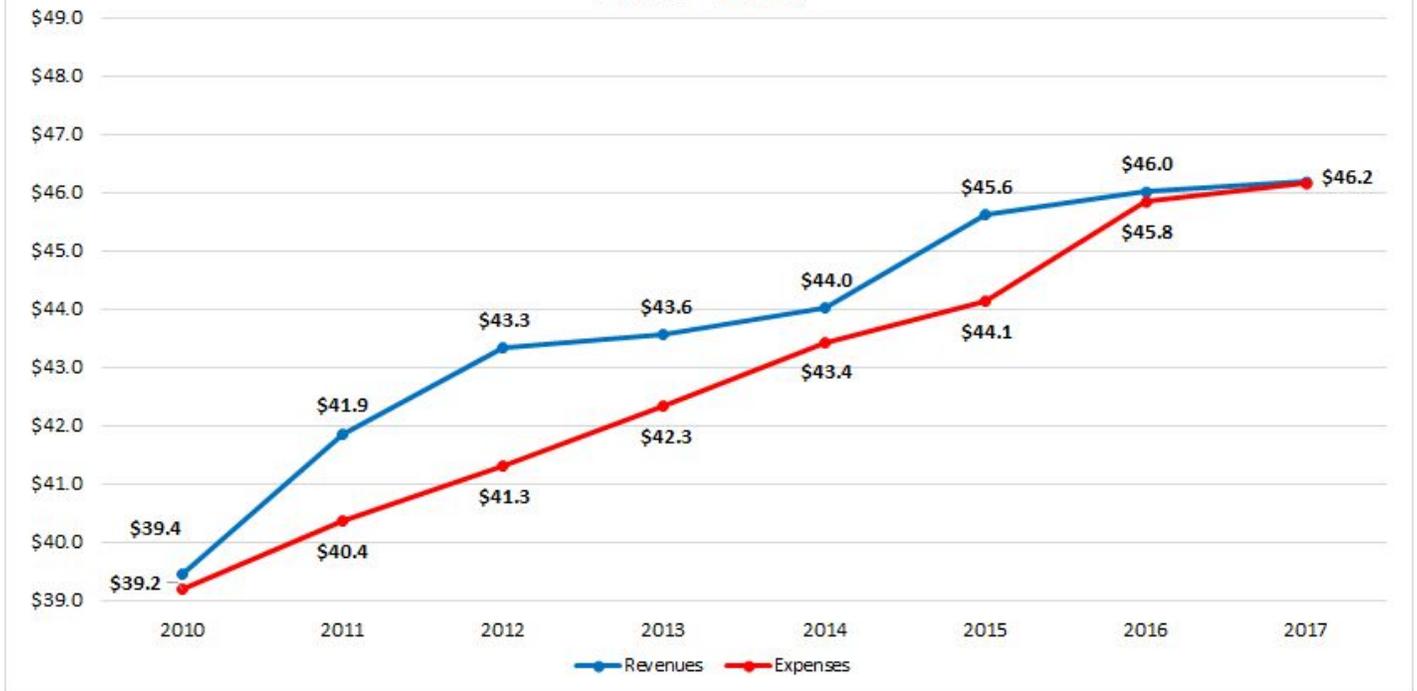


General Fund Sustainability

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.

<p>Issues</p>	<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>
<p>Solutions & Strategies</p>	<p>Continue to:</p> <ul style="list-style-type: none"> ● Reduce personnel expenses ● Increase operating efficiencies ● Enhance the existing revenue base ● Work with the Downers Grove Economic Development Corporation to increase the sales tax base and sales tax revenue ● Seek new and sustainable revenue sources ● Reduce reliance on state shared revenues
<p>Recent Actions</p>	<p>Restructured Police Department staffing & operations resulting in a reduction of 2.6 FTE and \$400,000 in annual expenses</p> <p>Implemented a 1% Food & Beverage tax, effective on January 1, 2018</p> <ul style="list-style-type: none"> ● 2018 projected revenues of \$1.5 million (same as FY18 budget) ● Expected to increase at 3% per year <p>Completed the <i>Revenues Consistent with the Modern Economy</i> priority action item</p>
<p>Actions for 2019 & Beyond</p>	<ul style="list-style-type: none"> ● Continue to eliminate positions which become vacant due to retirements and other voluntary separations, when appropriate ● Consider increasing the rate for existing revenue sources including the food & beverage tax and the property tax levy, as necessary ● Consider adopting new revenue sources such as real estate transfer stamps and vehicle stickers, if necessary ● Implement the recommendations of the Other Post Employment Benefits (OPEB) plan which will be presented at the July 10, 2018 Village Council meeting.

General Fund Revenues and Expenses 2010 - 2017



- 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

	Position	FTE
Eliminated	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)
Added	Support Services Manager	1.0
	Public Education Specialist	1.0
Net Change		(3.13)

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 fund 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 Adopted 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

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
Total	17.5	26.7	33.9	46.9	54.5	59.7

The red highlighted figures indicate a drop in revenues over the previous year.

Local Economic Sectors Projected to Increase

	Projected Growth Rate	Revenue Generation	Est. Rev.	Notes
Income	2.3%*	Local Income Tax	NA	Not permitted under State Law
Service Businesses	Data not available at the municipal level	Local Service Tax	NA	Not permitted under State Law
On-Line Retail Sales		Local Sales Tax	NA	Not permitted under State Law
Property Values	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%
Revenue Increase	\$58,471	\$116,943	\$175,413	\$233,884	\$292,355
Increase in Tax Bill for Typical Residential Property	\$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

Priority Action Items

*Presented at the
June 19, 2018 Council Meeting*



Priority Action Items Update

The list of Priority Action Items that serve as the work plan from September 2017 to April 2019 contains 12 action items. An update on each of those items is shown in the table below.

Criteria for Priority Action Items

Priority Action Items reflect Council priorities for new policies or revisions to existing programs and policies. The criteria for a Council Priority Action Item include:

- **Support of Strategic Plan Goals and Key Issues** - the action should achieve a measurable result that supports one or more of the Strategic Plan Goals and/or Key Issues addressed during Long-Range Planning.
- **Village Council Policy Direction Required** - the action requires the Village Council to provide policy level direction to be completed.
- **Six Months or More to Complete** - the action requires significant staff and/or Village Council time; six months or more from the time staff begins work on the action to the time the action is completed.
- **Multi-Departmental Effort** - the action requires effort from more than one Village department.

Priority Action Item	Description <i>This Action Item consists of...</i>	Notes
COMPLETED		
Identify and Adopt New Revenue Sources Aligned with the Modern Local Economy	This project consisted of explaining significant changes to the Village's revenue sources (most created in the post WWII economy) to include new revenue sources aligned with the current economic trends. New revenues should grow at a rate consistent with Village expenses.	This item was presented at the May 15, 2018 Village Council meeting and is included in this report.
Develop a Coherent, Pro-active & Transparent Approach to Economic Development Tools	This project consists of creation of pro forma TIF districts and/or sales tax overlay districts for catalyst sites. Also, the creation of at least one TIF District to facilitate economic development.	This project, as originally described, was intended to develop Village Council support of tools and approaches for economic development. Since the adoption of the LRP, the Council has indicated support for the tools and approaches included in the Sales Tax Plan (see page 14). This project has been completed.
Enhance Engagement of Boards & Commission Members	This project includes a "Board & Commission Retreat" which would include training sessions, alignment discussions and recognition & acknowledgement of board and commission member contributions.	Three components of this project are not yet started: <ul style="list-style-type: none"> ● Applicant Open House ● Annual Recognition

		<p>Reception</p> <ul style="list-style-type: none"> • Applicant Orientation
Develop a Plan to Address OPEB Unfunded Liability	This project consists of the creation of a long term plan to pay for the unfunded liability of providing health benefits to retired employees.	This item was presented at the July 10, 2018 Village Council meeting and is included in this report.
IN PROGRESS		
Create a Plan for the Future of the Downtown	<p>The project will result in a plan, prepared at the 20,000 foot level, addressing:</p> <ul style="list-style-type: none"> • Infrastructure maintenance needs. • Services and operations to be provided. • Roles & responsibilities. • Funding sources. • Implementation of Comprehensive Plan recommendations. 	The final meeting of the Future of the Downtown ad hoc Committee met in early June. A final report will be delivered to the Village Council in the fall.
Update the Downtown Zoning Regulations	This project consists of updates to development regulations affecting the downtown area. The regulations should support the recommendations of the recently updated Comprehensive Plan.	This item will be presented at the June 19, 2018 Village Council meeting. Following the approval of that report, staff will work to rezone the Downtown.
Consider Amendments to Stormwater Regulations	Substantial work on this project was completed in 2016 and 2017. The project includes more stringent development regulations intended to mitigate the negative impacts of development. This project may also include amendments to regulations for Localized Poor Drainage Areas. Additional information can be found by clicking here .	Further discussion on this item is planned for an August 2018 Village Council meeting.
Identify & Implement One Major Service Consolidation, Cooperation or Collaboration	This project consists of drafting an operating process to reinstate the Peer Jury program as previously implemented and to identify potential improvements and efficiencies	This item will be presented at the July 17, 2018 Village Council meeting.
Increase Sales Tax Base and Sales Tax Revenues by Implementing the "Sales Tax Plan" and EDC Strategic Plan	This project, to be completed by the Downers Grove Economic Development Corporation, with assistance from the Village, consists of implementing two plans previously prepared by the DGEDC. The objective is to further enhance the local economy and increase Village revenues, focusing on sales tax revenue.	See attached EDC report.
NOT YET STARTED		
Update the Village Zoning Map	This project consists of amending certain portions of the Zoning Map to align with the recommendations of the recently updated Comprehensive Plan.	Likely to be completed by Fall 2018 if the "Update the Downtown Zoning Regulations" item is completed as scheduled.

<p>Consider Amendments to the Stormwater Utility Credits & Incentives</p>	<p>This project consists of changing the amount and structure of credits and incentives to increase the development and use of private stormwater management facilities and best practices.</p>	<p>This project will be begin after the completion of the “Consider Amendments to Stormwater Regulations” item and should take approximately six months to complete.</p>
<p>Implement the Comprehensive Plan Recommendations for the Fairview Focus Area</p>	<p>This project consists of the Village taking an active role in facilitating the redevelopment of the Fairview Focus Area as described in the recently updated Comprehensive Plan.</p>	<p>This item will not be completed with this scheduled work plan.</p>

Plan to Address OPEB Unfunded Liability

*Presented at the
July 10, 2018 Council Meeting*



Plan to Address OPEB Unfunded Liability

Issue

All municipalities in Illinois are required to provide retired employees access to the employee health benefit program. The required provision of health benefits is known as Other Post Employment Benefits (OPEB).

While retirees pay health benefit premiums to help cover the cost of the benefits, the cost to the Village of providing the health benefits to retirees exceeds the amount paid to the Village in premiums. This difference creates a liability for the Village. The unfunded liability for OPEB is the actuarially calculated difference between the amount paid to the Village by retirees and the amount the Village will have to pay to provide their health benefits.

The Government Accounting Standards Board (GASB) requires municipalities to calculate financial liability of OPEB. The unfunded liability will appear in the Village's financial statements beginning in 2018.

Failure to create a plan to fund the OPEB liability will likely negatively impact the Village's bond rating, which would increase the cost of issuing bonds for capital improvement projects.

The Village's OPEB unfunded liability is \$12.3 million. The annual actuarially determined contribution to address the unfunded liability is estimated to be approximately \$800,000.

Recent Actions

The Village has been aware of the OPEB unfunded liability issue for several years and has been taking actions to reduce the liability. In 2012, the Village reduced the OPEB unfunded liability by \$7.2 million by using a fully insured Medicare Supplement plan to provide health benefits to retirees 65 years of age and older. As part of the FY18 Budget, the Village created an OPEB Fund and placed \$300,000 in the fund.

The 2017-2019 Long Range Plan identified OPEB Unfunded Liability as a key issue. The LRP recommends a strategy of establishing an OPEB trust to fund current and future liabilities similar to a pension fund. The LRP includes *Develop a Plan to Address OPEB Unfunded Liability* as a Priority Action Item.

Plan to Address OPEB Unfunded Liability

The plan to address the OPEB unfunded liability consists of three key components:

Benefits Design - The Village should design and maintain a retiree health benefit program which reduces the Village's cost of providing the benefits.

Funding - The Village should provide annual funding to reduce the unfunded liability over time.

Asset Management - The Village should invest the money in the OPEB fund to maximize the long term return on these assets, reducing the Village’s annual contributions.

Actions and Schedule

The plan to address the OPEB Unfunded Liability includes the following three actions to be completed by the end of 2019. The actions support the key components explained above.

Action	Schedule	Key Component
Establish a Health Reimbursement Account	December 2018	Benefits Design
Create an OPEB Trust Fund	December 2019	Funding
Draft and Approve a Trust Document, Funding Policy and Investment Policy	December 2019	Asset Management

Establish a Health Reimbursement Account by December, 2018

This action supports the Benefits Design key component. By creating a Health Reimbursement Account, the Village would provide financial incentives to retirees to participate in another health benefit plan instead of participating in the Village’s plan. An HRA would allow the Village and retirees under the age of 65 to put money into savings account to be used to pay premiums on a non-VoDG health benefit plan. The Village contribution amount would be less than the projected cost of providing health benefits. Retirees choosing this option could reduce their cost of purchasing health benefits.

Assistance from an OPEB Financial Management Firm

Staff plans on securing the services of a financial management firm to establish the OPEB Trust and administer the trust on an on-going basis. Staff plans issuing a Request for Proposals for these services in late 2018 or early 2019. The firm selected will provide a template trust document to be used by staff to create the Village’s OPEB Trust document, funding policy and investment policy.

Create an OPEB Trust Fund by December, 2019

Like most local governments, the Village currently pays an amount each year equal to the benefits distributed to retirees in that year. These payments are made from the Health Fund. This approach is commonly referred to as a “pay-as-you-go” basis.

With the creation of an OPEB Trust Fund, the Village would fund the OPEB benefits each year while the participant is working. Much like the operation of the public safety pension funds, the Village would use annual Village contributions to not only pay for annual benefit expenses but also invest money to pay for the future expenses of current workers. The accumulated investment returns compounded over the participant's career, are designed to fully pay for the OPEB benefits that the participant is expected to enjoy during his or her retirement. The compounded interest generates a significant amount of investment return over a participant's career, resulting in a significant reduction in the Village's contributions that are needed to fund the OPEB benefits versus the amount needed under the pay-as-you-go approach.

Under the GASB accounting standards, the actuarial valuation of the OPEB benefits must reflect an investment return assumption that is consistent with the expected long-term rate of return on the assets used to pay those benefits. If the Village continues the pay-as-you-go approach, the rate of return is limited by the investments allowed. With an OPEB trust with additional asset classes, the rate of return increases which reduces the liability and the required contribution.

Rating Agencies View of OPEB Trust Funds

Establishing an OPEB trust and consistently funding the benefits while employees are working shows the rating agencies that (1) long-term obligations are being funded, (2) the Village's ability to pay debt service is not threatened over the long term, and (3) management is aware of and responsive to the OPEB issue.

Draft and Approve a Trust Document, Funding Policy and Investment Policy by December 2019

To operate the OPEB Trust according to GASB standards, the Village should draft and approve these three documents. They should be approved prior to the creation of the OPEB Trust Fund.

Trust Document

The OPEB Trust is the mechanism through which assets are accumulated and retiree benefits are funded. It ensures that:

- the employer contributions to the trust are irrevocable
- trust assets are dedicated to providing benefits to Village retirees in accordance with the terms of the trust
- trust assets are legally protected from creditors

In addition, the Trust has broader investment powers which will enable the trust to attain a higher investment returns.

Funding Policy

The purpose of the policy is to state the funding goals and actuarial assumptions to be used for the OPEB Trust. Similar to the pension funding policy, this policy should state the amount to be contributed each year to the OPEB Trust. The current approach recommended by staff is to use a phase-in strategy with a fixed amount invested for the first few years, with funding the Actuarially Determined Contribution as the long term goal. The initial contribution would be about \$300,000.

Investment Policy

The purpose of the investment policy is to provide a clear understanding of the objectives, goals, risk tolerance, and investment guidelines established for the OPEB Trust. The Investment policy will cover permitted investments, targets and ranges for asset allocation.