

## Introduction

The Municipal Budget is the Village's annual implementation plan of its mission and strategic goals. The purpose of the budget is to align everyday operations and Village resources with community priorities outlined in planning documents such as the Long-Range Plan and the Comprehensive Plan. The FY18 Adopted Budget is consistent with the Village's strategic goals, specifically the goal to be a *Steward of Financial, Environmental and Neighborhood Sustainability*.

The adopted budget was reviewed and discussed over several months in an open, transparent and participative process. The budget review process provides ample opportunity for dialogue among community members, the Village Council and staff in a series of public meetings.

### *Budget Review and Approval Schedule*

<b>Budget First Reading - General Fund at Village Council Meeting</b>	<b>Tuesday, October 3</b>
<b>Budget First Reading - Capital Funds at Village Council Meeting</b>	<b>Tuesday, October 10</b>
<b>Budget First Reading - Other Funds, at Village Council Meeting</b>	<b>Tuesday, October 17</b>
<b>Coffee with the Council (Fire Station 2)</b>	<b>Saturday, October 21</b>
<b>Budget Discussion (additional discussion option if needed)</b>	<b>Tuesday, October 24</b>
<b>Budget Public Hearing</b>	<b>Tuesday, November 7</b>
<b>Motion to Estimate Levy/Budget Discussion</b>	<b>Tuesday, November 14</b>
<b>Budget Discussion</b>	<b>Tuesday, November 21</b>
<b>Tax Levy Public Hearing/Budget Adoption</b>	<b>Tuesday, December 5</b>
<b>Adopt Tax Levy</b>	<b>Tuesday, December 12</b>

### *Village Budget Reflects Planning Documents and Reports*

The Village's annual budget is the implementation document for plans and studies that have already been discussed or approved including:

- Long-Range Plan 2017-2019
- Comprehensive Plan (2017 Update)
- 2014 Stormwater Project Analysis
- 2012 Stormwater Utility Study
- 2010 Water Rate Study

## Summary

The FY18 Adopted Budget consists of 22 funds. Section 4 of this report includes the adopted budget for each of the funds. The key points of the budget are as follows:

### **Balanced General Fund with Recommended Fund Balance:**

The General Fund is balanced with revenues and expenses at \$47.37 million. The General Fund balance will be maintained at the recommended level of 40% of annual expenses - an amount consistent with Standard & Poor's guidelines to maintain the Village's [AAA bond rating](#). (See page 4-3).

**Revenue from Newly Implemented Food & Beverage Tax:** The FY18 Adopted Budget includes \$1.5 million in General Fund revenue from the food and beverage tax. At the [July 18, 2017](#) Village Council meeting, the Village Council adopted a 1% Food and Beverage Tax to replace the declining sales tax revenue brought on by the increase in online retail purchases. This tax, which will go into effect January 1, 2018, applies to the purchase price of prepared foods and non-alcoholic and alcoholic beverages for immediate consumption, as well as packaged alcohol sales.

**No Increase in the Property Tax Levy for Operations:** For the seventh year in a row, the adopted budget does not increase the property tax levy for operations (See page 4-4).

**Property Tax Levy Increase for Required Contributions to Public Safety Pensions:** The adopted budget includes a \$553,850 increase in the levy for police and fire pensions - a 9.3% increase in this portion of the levy (a 4.3% increase in the total levy). The Village's required funding level for pensions is set by state statute. The increase for FY18 is related to both pension funds lowering their actuarial model assumptions for investment return interest rates from 7.25% to 7%. (See page 4-4).

**Reduction in Staffing:** The staffing plan includes a net reduction of 2.0 FTE. A new 0.5 FTE Accounting Specialist is proposed to perform work attributed to the newly adopted food and beverage tax. The reduction comes from the elimination of three currently vacant positions (Building Maintenance Worker, Community Development Administrative Secretary and Communications Specialist. See page 4-3 and the staffing plan starting on page 7-2).

**Funding to Implement Facilities Plan Direction:** After a lengthy discussion of the Facilities Sustainability Plan, the Village Council directed that the Village:

- In 2019, reevaluate options for the replacement of the Police Station and Village Hall with a new building in conjunction with a private sector redevelopment project.
- Maintain the existing buildings at the lowest cost possible until replacement options are reevaluated.
- Continue saving money now to be used for building improvements in 2019 and beyond.

Funding for the facilities plan is provided in the Asset Forfeiture Fund. Approximately \$2 million in the Asset Forfeiture Fund has been earmarked for future improvements to the Police Station. The Department of Justice recently indicated that these funds do not have to be spent within a certain time frame. The amount of money in the Asset Forfeiture Fund available for future police station improvements is expected to increase in 2018 and beyond. (*See page 4-40*).

**Contribution to Other Post Employment Benefits (OPEB) Unfunded Liability:** The FY18 Adopted Budget provides initial funding for Other Post Employment Benefits (OPEB) unfunded liability in a newly created OPEB Trust Fund. This fund will be used to cover the costs of providing required health benefits to retirees including the accrued unfunded liability. The FY18 Adopted Budget includes a \$300,000 contribution from the Capital Fund. A complete plan to address OPEB unfunded liability will be presented for Council consideration in 2018. (*See page 4-18*)

**Continued Investment in Infrastructure:** The FY18 Adopted Budget allows for continued substantial improvements in the Village's infrastructure, including \$5.7 million in streets, \$4.6 million in stormwater (including annual bond payments) and \$8.6 million for water. The improvements are designed to reduce the total life cycle cost of owning and operating the infrastructure systems. (*See page 6-5 to 6-6.*)

**Balanced General Fund with Recommended Fund Balance:**

The General Fund is the main operating fund of the Village and includes funding for the majority of Village services. With revenues and expenses at \$47.37 million, the adopted budget is balanced. The General Fund balanced will continue to be maintained at the recommended level, equal to approximately 40% of annual expenses. Table 1 below shows the budgeted revenues, expenses and fund balance in the General Fund.

**Table 1: General Fund Revenues & Expenses, FY13 to FY18 (in millions)**

Fiscal Year	Revenues	Expenses	Difference	Fund Balance	Fund Balance % of Expenses
<b>FY18 Adopted Budget</b>	<b>\$47.37</b>	<b>\$47.37</b>	<b>--</b>	<b>\$18.92</b>	<b>40.00%</b>
<b>FY17 Estimate</b>	\$45.61	\$45.57	\$0.04	\$18.93	41.54%
<b>FY17 Budget</b>	\$46.88	\$46.86	\$0.02	\$18.90	40.34%
<b>FY16 Actual</b>	\$46.02	\$45.84	\$0.18	\$18.88	41.19%
<b>FY15 Actual</b>	\$45.60	\$44.12	\$1.48	\$18.70	42.39%
<b>FY14 (Actual) - Includes \$3.8 million transfer to Risk Fund and Transportation Fund</b>	\$44.01	\$47.23	(\$3.22)	\$17.21	36.44% without transfer 39.63%
<b>FY13 (Actual)</b>	\$43.56	\$42.33	\$1.23	\$20.43	48.26%

**Revenues**

The General Fund derives its revenue from several sources, with the top four sources being property tax, sales tax, utility tax and state-shared revenues including income tax. Total General Fund revenue is budgeted to be \$47.37 million, an increase of about \$496,000 compared to the FY17 budget (1.1% increase) and about \$1,757,000 compared to the FY17 estimated revenues (3.7% increase). Notable changes in revenues include:

- \$1.5 million of new revenue from the 1% Food & Beverage Tax which will be in place on January 1, 2018
- \$553,850 increase in the property tax levy for required contributions to the Police and Fire pension funds
- \$900,000 decrease in sales tax revenue compared to the FY17 budgeted amount
- \$600,000 decrease in State income tax revenue compared to the FY17 budgeted amount due in part to the State's holdback of 10% of income tax until June 30, 2018.

### Food & Beverage Tax Revenue

The Village adopted an ordinance implementing 1% Food and Beverage Tax effective January 1, 2018. The tax is projected to bring about \$1.5 million in revenue for the General Fund. Sales tax, the largest revenue source for the Village has been in decline and income tax is also declining. These revenues make up 35% of the General Fund revenue base. The food and beverage tax revenue is replacing the revenue lost due to these declines, and to help create a sustainable General Fund. The budgeted amount of \$1.5 million is based on a review of gross sales generated by businesses in the *Eating & Drinking Establishments* category established by the State.

2016	\$150.2 million
2015	\$143.2 million
2014	\$137.2 million
2013	\$132.8 million
2012	\$128.4 million

Table 2 below summarizes the General Fund revenue for the FY18 budget and previous years.

**Table 2: Top Ten General Fund Revenues**

Rank	Source	FY 2018 Adopted Budget	FY 2017 Estimate	FY 2017 Budget	FY 2016 Actual	FY 2015 Actual
1	Sales Tax	\$11,400,000	\$11,360,000	\$12,300,000	\$11,468,741	\$11,994,828
2	Property Taxes - Pensions	\$6,530,165	\$5,976,315	\$5,976,315	\$5,534,009	\$4,618,976
3	Property Taxes - Operations	\$5,847,145	\$5,847,145	\$5,847,145	\$5,912,318	\$5,887,788
4	Utility Taxes	\$4,870,000	\$4,750,000	\$5,100,000	\$4,793,517	\$5,083,496
5	State Income Tax	\$4,400,000	\$4,500,000	\$5,000,000	\$4,756,910	\$5,199,605
6	Home Rule Sales Tax	\$1,950,000	\$1,990,000	\$2,050,000	\$1,989,897	\$1,955,389
New	Food and Beverage Tax	\$1,500,000	--	--	--	--
8	Building Related Permits	\$1,400,000	\$1,450,000	\$1,350,000	\$1,431,718	\$1,321,686
9	Ambulance Fees	\$1,340,000	\$1,300,000	\$1,265,000	\$1,342,002	\$1,236,125
10	State Shared Local Use Tax	\$1,250,000	\$1,200,000	\$1,200,000	\$1,186,902	\$1,086,895
	Sub-total	\$40,487,310	\$38,373,460	\$40,088,460	\$38,416,014	\$38,384,788
	All Other Total	\$6,884,150	\$7,240,719	\$6,786,641	\$7,607,552	\$7,220,977
	Total General Fund Revenues	\$47,371,460	\$45,614,179	\$46,875,101	\$46,023,566	\$45,605,765

**FY17 Revenue Shortfall and One-Time Expense Reductions**

During 2017, the Village has experienced a projected \$1.3 million reduction in General Fund revenues. This shortfall is driven primarily by declines in sales tax revenue and State Income Tax (10% State holdback beginning on July 1, 2017). In response, the Village is taking specific steps to address the \$1.3 million shortfall:

- Reduction in transfers to other funds = \$600,000 in savings
- Reduction in staff travel and training = \$75,000 in savings
- Limit to only essential purchases = \$150,000 in savings
- Capturing savings from the mild winter = \$150,000 in savings
- Other strategic operational decisions = \$300,000 in savings

The expense reductions are effective in the short run. However, these practices are not sustainable. Continuing with these practices over the long term will negatively affect the ability to deliver services and the Village's overall financial condition.

**Expenses**

Total General Fund expenses are budgeted to be \$47.37 million. This is an increase of approximately \$521,509 compared to the FY17 budget (1.1% increase) and about \$1.8 million compared to the FY17 estimate of actual expenses (3.8% increase).

General Fund expenses fall into two major categories - Personnel and Non-Personnel. Personnel expenses account for about 76% of total expenses. Table 3 summarizes these expenses.

**Table 3: General Fund Expenses by Category FY17 vs. FY18**

Category	FY18 Budget	FY17 Budget	Change	% Change
Personnel	\$36,159,997	\$35,733,064	\$426,933	1.19%
Non-Personnel	\$11,215,628	\$11,121,052	\$94,576	0.85%
<b>Total</b>	<b>\$47,375,625</b>	<b>\$46,854,116</b>	<b>\$521,509</b>	<b>1.11%</b>

The FY18 Adopted Budget aligns with the Long-Range Plan goal to limit personnel-related cost increases. While total personnel expenses are budgeted to increase by about \$427,000 compared to the FY17 budget, many components of personnel expenses are budgeted to decrease. The budgeted expenses include an increase of \$553,850 in the required contribution to the police and fire pension funds. This increase accounts for more than the total expense increase of \$521,509 compared to the FY17 budget. The adopted budget includes many off-setting decreases in personnel expenses.

**Fund Balance Maintained at the Recommended Level**

The General Fund balance is budgeted to be maintained at the recommended level, equal to approximately 40% of annual expenses. This balance is consistent with Standard & Poor's guidelines to maintain the Village's [AAA bond rating](#). As shown in Table 1 above, the fund balance is budgeted to be \$18.92 million which is about 40% of the budgeted expenses. This balance is also compliant with the Village's [cash balance policy](#).



**Property Tax Levy**

The total municipal budget relies on several sources of revenues, but the property tax levy is one of the most significant sources of funding. Property taxes account for approximately 25% of the General Fund budget. The Village's property tax is comprised of five components that support specific services and obligations of the Village. The two most significant components of the levy are the levy for operations and the levy for pension obligations.

The adopted property tax levy for the FY18 budget is \$13.35 million. This is an increase of \$553,850 over the FY17 property tax levy. The increase is due entirely to the levy for required public safety pension contributions (See table 4 below).

**Table 4: Village Property Tax Levy FY18 vs. FY17**

Tax Levy Component	FY18	FY17	Change	Percent Change
Corporate Levy	\$2,997,145	\$2,997,145	--	--
Fire Protection	\$2,850,000	\$2,850,000	--	--
Fire Pension	\$3,400,165	\$3,060,616	\$339,549	11.1%
Police Pension	\$3,130,000	\$2,915,699	\$214,301	7.3%
Capital	\$971,524	\$971,524	--	--
<b>Total</b>	<b>13,348,834</b>	<b>12,794,984</b>	<b>\$553,850</b>	<b>4.3%</b>

### **Levy for Operations**

The property tax levy for operations, which consists of the Corporate Levy and Fire Protection Levy, will not increase in FY18. This is the seventh consecutive year of a flat or decreasing levy for operations. This reflects the Village's commitment to controlling operating expenses and aligns with the Long-Range Plan strategies.

### **Levy for Public Safety Pensions**

In FY18, the Village will be required to contribute \$553,850 more than in FY17, an increase of approximately 9.3%. This increase is driven by a change by both pension boards to lower their interest rates from 7.25% to 7%. The Fire Pension Board will lower their interest rate immediately, while the Police Pension Board will transition the rate change over a five-year period.

#### **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?**

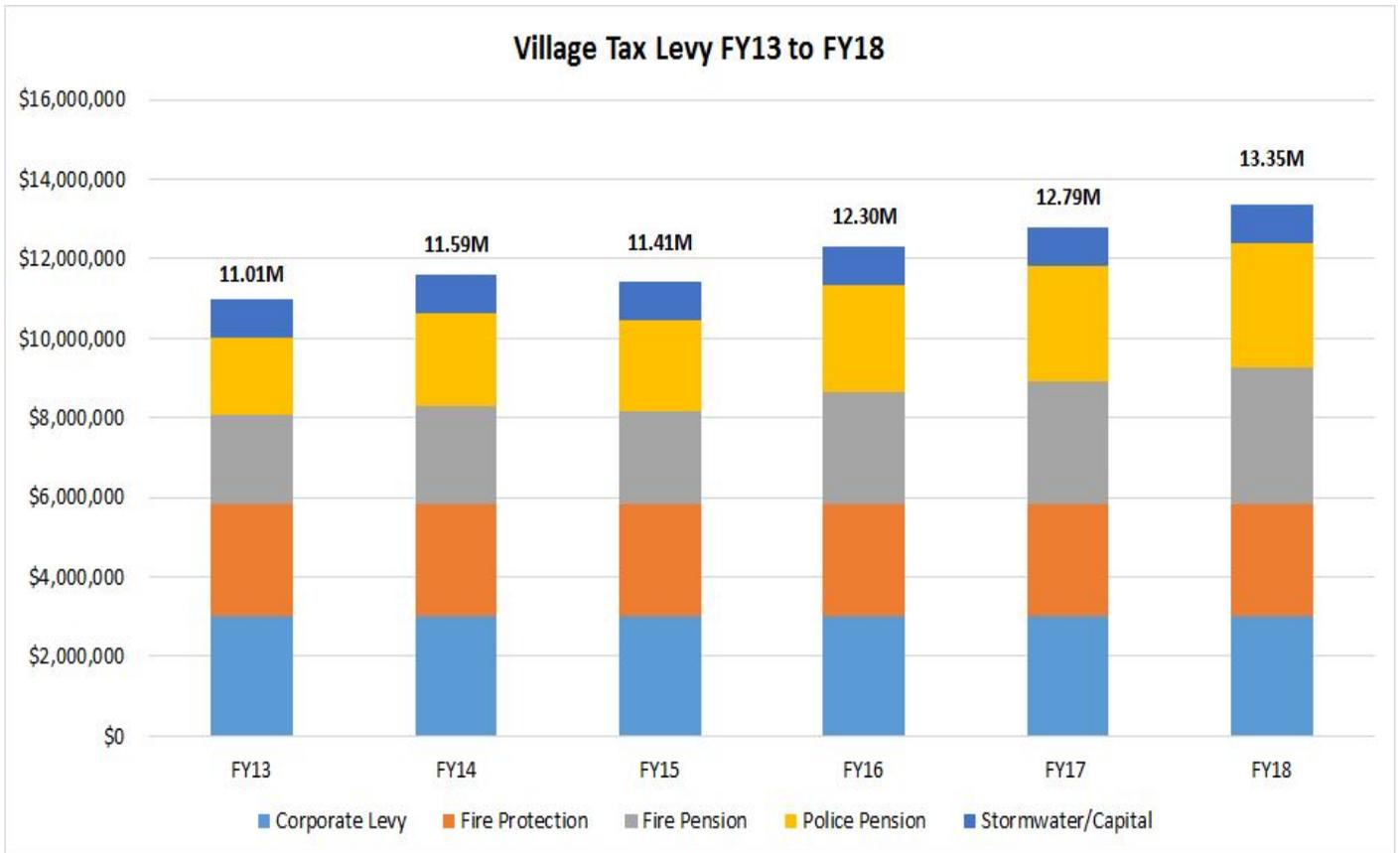
Both the employer and the employee are responsible for funding the public safety (police and fire) pension funds. Police officers contribute 9.91% and firefighters contribute 9.455% of their salary toward their pensions. This percentage is governed by State statute. The Village makes an annual contribution 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.



**Equalized Assessed Valuation**

Based on conversations with the Township Assessor’s Office, the total Equalized Assessed Valuation (EAV) of all taxable property in the Village is expected to increase by 4.8%. Since the increase in EAV will be greater than the increase in the Village’s total levy, the tax rate is projected to decrease slightly.

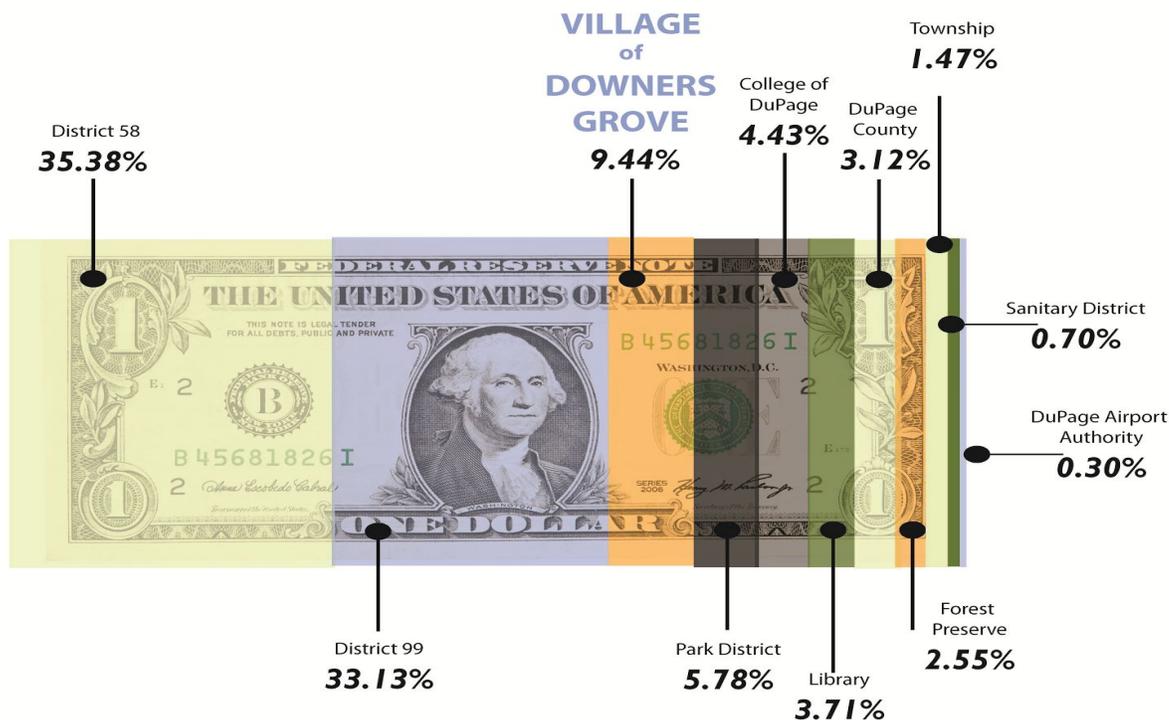
**Village Tax Levy on a Typical Residential Property**

In 2017, a typical residential property with a market value of \$300,000 (taxable value of \$100,000) paid \$559.60 to the Village. The taxable value of the same property is expected to increase by 4.8% in 2018. With the increase in the Village property tax levy, a typical residential property is expected to pay about \$583.84 in Village property taxes, an increase of about \$24.24 (4.3%).

**Table 5: Impact of Property Tax Levy on a Typical House**

	FY18	FY17	Difference
Equalized Assessed Value	\$104,800	\$100,000	\$4,800
Village Tax Rate	.5571	.5596	.0025
<b>Village Tax Amount</b>	<b>\$583.84</b>	<b>\$559.60</b>	<b>\$24.24</b>

The Village portion of the property tax bill is generally about 9% of the total tax bill. Below is a breakdown of the percentage of distribution to local government entities from a typical tax bill. The information, as well as the property tax history of each parcel, is available on the DuPage County website at [www.dupageco.org](http://www.dupageco.org).



### Reduction in Staffing

The FY18 Adopted Budget calls for a net reduction of 2.0 FTE positions. The changes in staffing levels are due to two retirements in the Building Services department and Communications department and a the elimination of a part-time administrative position in Community Development department which was created in 2017 but not filled due to budgetary conditions. The Accounting Specialist has been added to address the increased workload from the administration of the food and beverage tax.

#### Eliminated Positions (2.50 FTE)

- (1) Building Maintenance Worker I
- (0.5) Administrative Secretary I (Community Development)
- (1) Communications Specialist (Communications)

#### Added Positions (0.5 FTE)

- (0.5) Accounting Specialist 1

With the FY18 staffing reductions, total staffing is 307.48 FTE positions, down 67.30 FTE since 2008 (18% reduction).

### ***Funding to Implement Facilities Plan Direction***

After a lengthy discussion of the Facilities Sustainability Plan, the Village Council directed that the Village:

- In 2019, reevaluate options for the replacement of the Police Station and Village Hall with a new building in conjunction with a private sector redevelopment project.
- Maintain the existing buildings at the lowest cost possible until replacement options are reevaluated.
- Continue saving money now to be used for building improvements in 2019 and beyond.

The FY18 Adopted Budget supports the Council direction. Funding for the facilities plan is provided in the Asset Forfeiture Fund. Nearly \$2 million in the Asset Forfeiture Fund has been earmarked for future improvements to the Police Station. The Department of Justice recently indicated that these funds do not have to be spent within a certain time frame, provided that they are ultimately spent on the building improvements. The amount of money in the Asset Forfeiture Fund available for future police station improvements is expected to increase in 2018 and beyond. Due to the unique nature of this fund with unpredictable revenues which cannot appear in the budget according to federal rules, the adopted budget does not reflect the expected increase in fund balance over the next few years.

The FY18 Adopted Budget transfers the \$150,000 in local gasoline tax revenue formerly used for debt service on Fairview Avenue reconstruction in the Major Buildings Fund to the General Fund. Additionally, the annual \$500,000 contribution from the Capital Fund to the Major Buildings Fund is suspended in 2018. Given the recent Department of Justice decision about the use of asset forfeiture funds, the temporary suspension should not have a negative impact on the future implementation of the facilities plan and will allow the Village to pay for the construction of new sidewalks in the Northwest Belmont neighborhood.

### ***Contribution to OPEB Unfunded Liability***

*Develop a Plan to Address Other Post Employment Benefits Unfunded Liability* is a Priority Action Item for 2018. While the complete plan will be presented to the Council for consideration in 2018, the FY18 Adopted Budget provides initial funding for this initiative in a newly created Post Employment Benefit Trust Fund. This fund will be used to cover the costs of providing required health benefits to retirees including the accrued unfunded liability. The FY18 Adopted Budget includes a \$300,000 revenue contribution from the Capital Fund.

## **Continued Investment in Infrastructure**

The Village's strategic goal to provide *Top Quality Infrastructure* requires a commitment to ongoing investment in maintenance, as well as investment in replacing or building new infrastructure. Since 2010, the Village has created and followed plans for sustainable funding for infrastructure. As a result, the Village has made major investment in streets, the stormwater system, the water systems and sidewalks.

The FY18 Adopted Budget includes \$21.05 million for continued investment in the Village's water, streets, stormwater, sidewalk and other systems.

The Village maintains several major infrastructure systems: streets, sidewalks, stormwater and water. In addition, the Village manages public facilities, traffic and streetlight systems and the parking deck and parking lots. The Village has both long and short-term spending plans for each of its major systems. Short-term spending plans are in the annual Community Investment Plan. (See Section 6)

**Streets** - The FY18 budget includes \$5.7 million for street maintenance projects, including resurfacing, crack-filling and patching. Street maintenance projects are funded by the Motor Fuel Tax, Home Rule Sales Tax, Property Tax and Telecommunications Tax. (See pages 4-28 to 4-31)

**Stormwater** - The FY18 budget includes \$6.5 million of investment in the stormwater management system including \$4.6 million for stormwater capital projects and \$1.9 million for annual maintenance activities. Over \$4.2 million in revenues for stormwater expenses are provided by stormwater utility fees. The fees are budgeted to increase by 8.5% in FY18 (\$11.43 per ERU up from 10.53 per ERU) pursuant to the [2016 Stormwater Utility Report](#). (See page 4-21)

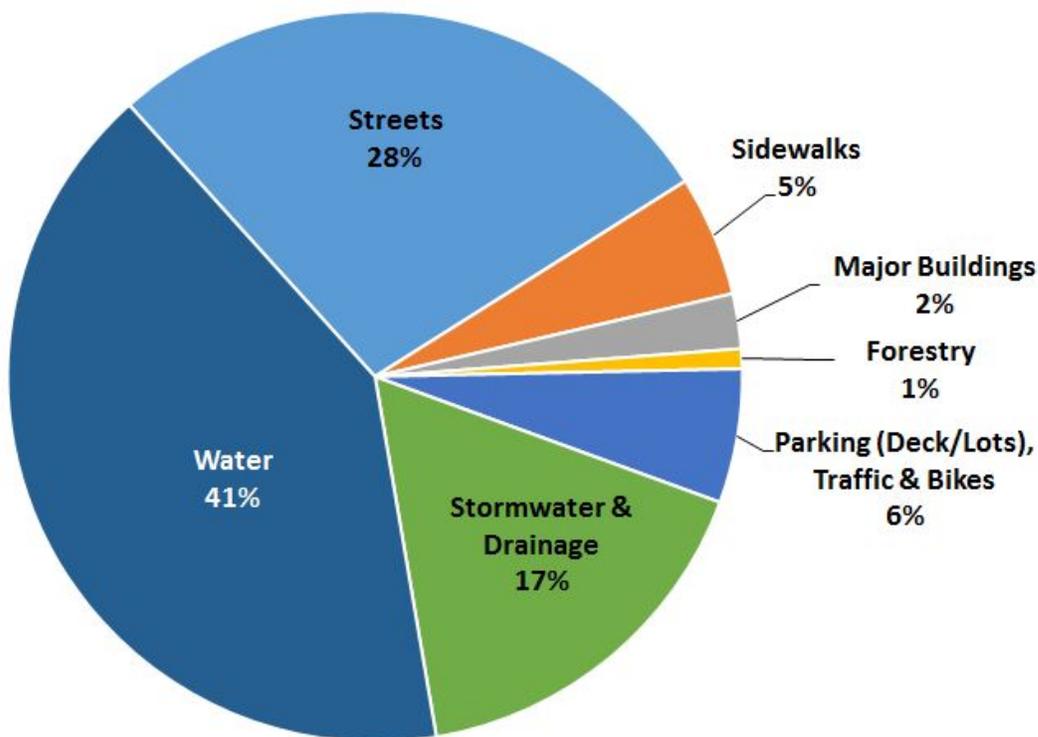
**Water** - The FY18 budget includes \$8.6 million for water infrastructure projects. The 2010 Water Rate Study calls for regular rate increases to cover the costs of purchasing water from the DuPage Water Commission and the costs of maintaining the system infrastructure. There is no planned rate increase for the cost of maintaining the Village infrastructure. This is because the Village has reduced the cost of replacing watermains by financing the work with Illinois Environmental Protection Agency low-interest loans instead of traditional bond issuances. There may be a small increase in rates to cover the cost of purchasing water. The DuPage Water Commission indicated that they are planning to increase their rates in 2018 in response to expected increases in purchasing water from the City of Chicago. If the DuPage Water Commission does increase their rates in 2018, the Village may propose a rate increase to cover the cost of purchasing water. (See page 4-25).

**Village Manager's Budget Message**

**Sidewalks** - The FY18 budget includes includes \$244,000 for sidewalk maintenance and repair, \$300,000 for Ogden Avenue sidewalks, \$330,000 for West Burlington area sidewalks and \$250,000 for crosswalk and accessibility improvements. (See pages 4-28 to 4-30 and 4-36)

**Parkway Trees** - The FY18 budget includes \$185,000 for the installation of new parkway trees including funding for the removal and replacement of trees affected by the Emerald Ash Borer.

**FY18 Capital Budget by Major Program Type - \$21.05 Million**



## ***Risks to the Budget***

The FY18 Adopted Budget was prepared with great care and attention to detail and reflects staff's best assessment of the revenues and expenses in each fund. However, there are several factors which could affect the budget, both positively and negatively over the course of the year.

Staff has identified three items which could pose a risk to the FY18 Adopted Budget.

**Food & Beverage Tax Revenue** - Since 2018 will be the inaugural year of the Food & Beverage Tax, the actual revenue generated could be different than the budgeted amount.

**Sales Tax Revenue** - If the retail purchasing environment continues to change with more purchases made online rather than in physical stores located within the Village, the actual sales tax revenue could be lower than the budgeted amount.

**Actions by the State of Illinois** - The State of Illinois controls many of the Village's revenue sources. Given the State's on-going financial challenges, the General Assembly could take actions in 2018 which reduce the Village's revenue. Staff will continue to monitor the state budget or other legislation that could severely impact the Village's revenues. If actions by the General Assembly reduce Village revenues, the Village will again implement short term cost reduction efforts such as filling only essential staff vacancies, reducing or eliminating staff training, and deferring all but the most essential purchases as was done in 2015 & 2017. In addition, the Village may choose to use some of the General Fund balance to continue with essential functions. Further, the Village would engage the Council and community in a policy-oriented discussion to effectively prioritize services and address these revenue reductions in a sustainable manner. Similar discussions were held in 2017 in response to rapidly declining revenues.