

2013-2015 Long Range Financial Plan Update May 1, 2012

Each year the Village updates the Long Range Financial Plan (LRFP) to identify financial trends and issues and to develop strategies and solutions to guide financial and operational decisions. The LRFP, which has a three to five year horizon, is used to prepare annual municipal budgets and to guide day to day operations. The Village has been preparing Long Range Financial Plans in this manner since 2009. The financial planning process is a key component to achieving the Village's Strategic Plan goal *Steward of Financial & Environmental Sustainability*.

The Village Council will meet on Tuesday, May 8, 2012 following the Village Council meeting to review and update the Long Range Financial Plan. Staff will provide an overview of the current plan including the issues and recommended strategies, outline the key actions taken during the past 12 months in support of the plan, discuss the results of these key actions and present the recommended updates to the plan. Staff will present the information as shown on the attached 2013-2015 Long Range Financial Plan Summary.

Long Range Financial Planning History

Since 2010 the Village has successfully implemented the recommendations of the LRFP. The plan has resulted in:

- the elimination of a structural gap in the General Fund
- expense reductions in the General Fund of over \$5 million
- the restructuring of the Water Fund to achieve long term sustainability
- the authorization to create a stormwater utility to fund all components of the stormwater management system
- the issuance of a \$25 million bond to reconstruct streets that have fallen into disrepair
- the elimination of the operating deficit for the Grove Commuter Shuttle bus system

Standard & Poor's commented on the Village's financial planning and management practices in a recent bond rating report which affirmed the Village's AA+ rating stating that:

Downers Grove's financial management practices are considered 'strong' under Standard & Poor's Financial Management Assessment, indicating that practices are strong, well embedded, and likely sustainable.

The stable outlook reflects Standard & Poor's expectation that Downers Grove will continue to maintain balanced operations and very strong reserves. The village has consistently demonstrated an ability to make structural budget adjustments in response to adverse conditions, and we expect this to continue. The Village's close monitoring of daily operations, combined with an emphasis on identifying long-term budget challenges and strategies, supports our expectation that balanced operations will continue.

Summary of the Current LRFP

The current version of the LRFP, 2012-2014, identifies trends and issues and includes strategies to address the issues in four major areas including:

- General Fund
- Water Fund
- Transportation Fund
- Capital & Infrastructure

General Fund

Issue: Expenses, which consist primarily of personnel related expenses, are projected to increase at a rate of 3 to 4% per year while revenues are projected to increase at a rate of 1 to 2% per year.

Strategies: The LRFP recommends that the Village pursue the following strategies to address the potential gap between revenues and expenses.

- Increase Operating Efficiencies
 - Continuous Improvement
 - Culture of Lean
 - Increase Use of Technology
- Reduce Personnel Expenses
 - Monitor & Adjust Health Benefit Plan As Needed
 - Change Post Employment Benefit Plan
 - Create Employee Wellness Program
 - Create Risk Reduction Program
- Partner with Others
 - Capture Economy of Scale
 - Enhance Revenues
 - Reduce Net Operating Expenses
- Enhance Revenue Base
 - Economic Development
 - Annexation Initiative
- Adjust Property Tax Levy as Needed
- Consider Other Revenue Enhancements as Needed

Key Actions: During the past year, the Village has taken many steps in support of the recommended strategies. Four of the key action items are summarized below:

Annexed Properties – On January 1, 2012 the Village annexed over 430 properties. These properties were annexed to ensure that Village services are provided in an efficient manner and paid for equally by those who benefit from them. The Village's property tax base was increased by \$28.4 million. Revenue from state shared revenue sources and other population based revenues will increase in the coming years.

Changed Responses to Certain Fire Calls for Service - In February, the Fire Department revised its response guidelines to reduce the number of vehicles that respond to certain calls for service (activated fire alarms not accompanied by a 9-1-1 call or other signs of smoke or fire). The change was made to reduce the number of vehicles responding to calls while sending only the vehicles likely to be used. With this change, the Village is now sending one engine to respond to certain activated fire alarms call. Under the previous response guideline the Village was sending five Village vehicles and mutual aid vehicle to these calls. The change is designed to reduce fuel expenses, reduce vehicle maintenance expenses, extend the life of the vehicles and reduce the number of mutual aid responses from other fire departments. However, the response guidelines still ensure that the appropriate number of vehicles will be ready to respond in the case of a fire. From February 6 to March 29, the Fire Department reduced the number of vehicle responses by 189 and mutual aid responses by 42.

Entered Into Agreements for Vehicle Maintenance – The Village entered into agreements with School District 58 and SEASPAR to provide maintenance services for their vehicles. These agreements reduce the net cost of operating fleet maintenance services. Under this partnership, the other entities can access services that lower their costs and the Village can share the fixed cost for maintenance services that are already being provided.

Implemented Joint Dispatching Center – In June 2011 the Villages of Downers Grove and Westmont began operating consolidated dispatching services for police and fire 9-1-1 emergency calls. By reducing overhead costs and sharing operational expenses, the joint dispatch center results in an annual savings of \$300,000 for Downers Grove and \$220,000 for Westmont. In addition to reducing costs, this joint operation provides an enhanced level of service via a "fire-desk." This mode of operation features trained personnel, on duty at all times, to handle the intricacies of dispatching fire and EMS (paramedic) related calls. An intergovernmental agreement approved by both municipalities in September 2010 provides the framework in which Downers Grove receives and dispatches Westmont police and fire 9-1-1 calls and monitors police and fire radio traffic on a 24-hour per day basis. Under the agreement, Westmont pays for 40% of the total cost of the consolidated dispatch center and Downers Grove pays 60%, based on call volume. Using this innovative approach, Downers Grove's dispatching center went from serving a residential population of approximately 50,000 to serving a residential population of approximately 77,000. The Village of Westmont has eliminated its physical dispatch center and moved operations to the Downers Grove Police Department.

Results: These key actions in conjunction with the implementation of the broader set of goals have resulted in the following:

- An increase in the General Fund balance (reserves) of \$1.5 million in 2011
- A balanced General Fund budget for 2012 with revenues equal to expenses
- Budgeted expenses in 2012 that are \$1.4 million less than 2007 actual expenses

Recommended Next Steps: Continue to implement strategies

Water Fund

Issue: Water rates as of 2010 were not generating adequate revenues to cover the costs of operating and maintaining the water system in 2011 or during subsequent years.

Strategies: In 2010 the Village Council approved a Water Rate Study Report which included the following recommendations:

- Restructure the water rates to include a fixed rate fee based on meter size
- Increase water rates by 14% in 2011, 2012 and 2013 and lesser amounts in 2014 and 2015
- Make needed improvements to the water system
- Issue bonds at regular intervals to pay for water system improvements

Key Actions: The Village changed the water billing structure in 2011 and increased rates in 2011 and 2012. The 2012 rate increase covered the increased cost of purchasing water from the DuPage Water Commission triggered by unexpected rate increases by the City of Chicago. Recently the Village issued a \$10 million bond to construct replacement watermain throughout the system. The debt service payments on the bond will be funded by the revenue from water rates. In 2012 the Village will be replacing watermain in the Knottingham and Valley View subdivisions and in other areas throughout the Village.

Results: The Water Fund is financially sustainable with revenues from water rates that will cover the costs of operating and maintaining the water system in 2012 and future years.

Recommended Next Steps: Continue to implement recommendations of 2010 Water Rate Study

Transportation Fund (Grove Commuter Shuttle)

Issue: Annual operating expenses are exceeding revenues resulting in an annual operating deficit. There is an accumulated deficit of approximately \$1.9 million.

Recommended Strategies: The LRFPP recommends the following strategies:

- Amend the Village's agreement with PACE so that revenues from PACE grants and bus rider fares cover all annual operating expenses.

- Dedicate General Fund interest income to retire the accumulated deficit over time.

Key Actions: On March 11, 2012 the Village entered into an agreement with PACE. Under this agreement, no Village funds will be used to operate the system - it will be paid entirely by farebox revenue and PACE funding. The FY12 budget includes an interest income payment from the General Fund to the Transportation fund. General Fund interest income in excess of \$100,000 will be transferred to the Transportation Fund to reduce the accumulated deficit.

Results: The Transportation Fund is financially sustainable. The annual operating deficit has been eliminated as bus rider fares and PACE grant funding pay for all annual operating expenses. The accumulated deficit will be retired over time beginning in 2012.

Recommended Next Steps: Continue to implement strategies

Capital & Infrastructure Systems

Issue: Currently the Village's infrastructure investment needs exceed the revenue that is available from existing sources.

- An additional \$2.9 million in annual revenue is required to maintain the major components of the Village infrastructure systems.

Infrastructure System Maintenance Annual Funding Gap

Street Maintenance	(\$1.3 Million)
Stormwater System Maintenance	(\$1.3 Million)
Streetlight Maintenance	(\$0.1 Million)
<u>Facilities Maintenance</u>	<u>(\$0.2 Million)</u>
Total	(\$2.9 Million)

- Streets in 9 neighborhoods are in need of reconstruction. The estimated cost of the reconstruction projects is \$25 Million.
- Additional stormwater capital improvements identified in the Watershed Infrastructure Improvement Plan (WIIP) as High Priority should be constructed

Recommended Strategies: The LRFP recommends the following strategies:

- Issues \$25 Million in bonds to pay for the street reconstruction projects
- Make the debt service payments using the existing revenues put in place in 2008
- Use the remaining proceeds from 2008 stormwater bond issuance to construct the High Priority WIIP projects
- Enhance revenues to address the \$2.9 million annual maintenance gap
 - Consider creating a stormwater utility
 - Consider other alternative revenues
- Phase in revenues over time

Key Actions: The Village has taken the following key actions in the past 12 months:

Authorized the Creation of a Stormwater Utility: On April 10, 2012 the Village Council adopted a motion directing staff to implement a stormwater utility system. The stormwater utility will pay for all stormwater costs including the debt service payments on the 2008 stormwater bonds. Beginning in 2013, all property owners in the Village can expect to pay a monthly fee based on a property's impervious area.

Issued \$25 Million in Bonds for Street Reconstruction Projects: On April 10, 2012, the Village Council approved the issuance of \$25 million of bonds to pay for street reconstruction projects. The debt service on the bonds will be paid with existing revenues that were put in place in 2008. Due to an extremely low interest rate of 3.487%, the annual debt service payments on these bonds are approximately \$300,000 less than was projected in the current LRFP.

Continue to Construct High Priority WIIP Projects: In 2012 the Village will continue to construct the remaining high priority WIIP projects. The FY12 budget provides \$6.57 million from the 2008 bond issuance proceeds for this continued investment.

Commenced Facilities Maintenance Plan: During the Village Council Strategic Planning discussion in September 2011, the development of a Facility Maintenance & Management Plan was identified as one of the Village’s 2012 High Priority Action Items. Funding was included in the FY2012 Budget to support the use of a firm with strong expertise in the area of facility condition assessments and development of such a plan. On April 3, 2012 the Village hired the ISES Corporation to perform a condition assessment of all major Village facilities and provide recommendations and cost estimate for long-term facility maintenance. After performing the assessment, the data and recommendations determined by ISES Corporation will be entered into a database that will allow the Village to develop better long-term plans and make more informed facility maintenance decisions.

Dedicated Local Gasoline Tax to Street Maintenance: In 2012, the 1% local gasoline tax that originally funded Grove Commuter Shuttle operating expenses was moved to the Capital Projects Fund to fund street maintenance activities.

Results: The key actions have resulted in the following:

- Approximately \$1.7 million of the \$2.9 million annual infrastructure maintenance gap has been addressed.

Infrastructure System Maintenance Annual Funding Gap

Street Maintenance	(\$1.3 Million)
Stormwater System Maintenance	(\$1.3 Million)
Streetlight Maintenance	(\$0.1 Million)
<u>Facilities Maintenance</u>	<u>(\$0.2 Million)</u>
Total	(\$2.9 Million)

Creation of Stormwater Utility	\$1.3 Million
Contribution from Local Gas Tax	\$0.1 Million
<u>Debt Service Payment Savings</u>	<u>\$0.3 Million</u>
Total Contributions to Gap	\$1.7 Million

Remaining Annual Funding Gap \$1.2 Million

- The stormwater system will be financially sustainable beginning with the implementation of the stormwater utility in 2013.
- Street reconstructions will be completed within 3 to 5 years.

Recommended Next Steps:

- Implement the Stormwater Utility in 2013
- Identify new revenues during 2013 LRFP meetings
- Phase in any new revenues beginning in 2014