

Summary of Long-Range Financial Plan Meeting Tuesday, May 24, 2011

The Village Council met with staff members on Tuesday, May 24 for the first in a series of meetings to discuss the Village's Long-Range Financial Plan. The purpose of these meetings is to develop long term strategies and solutions that will be used in financial decision making including the preparation of annual budgets.

The General Fund, Transportation Fund and Downtown TIF were topics presented at the first session.

1. General Fund

History

In 2009 the data driven analysis used for the LRFP identified a General Fund Structural Gap (projected expenses greater than projected revenues). Key findings included:

- Most Existing Revenues are Flat or Declining
- Personnel Expenses are Increasing
- Projected Deficit in Future Years
- Suggested Need to Make Changes to Our Business Model

The successful implementation of the LRFP in 2010 and 2011 consisted of \$5.0 Million in expense reductions including:

- Operating Efficiencies
- Elimination or Reduction of Services/Programs /Events
- Elimination of 45.6 FTE Positions (13.3% of Staff)
- Changes to the Health Benefit Plan
- Changes in Health Plan Provider Network

The following revenue enhancements were also implemented:

- Increased Property Tax Levy by \$1 Million
 - \$500,000 per year
 - Operational Expenses
- Increased Home Rule Sales Tax Rate by ¼ cent
 - Effective July 1, 2010
 - \$1 Million in 2010
 - \$2 Million in 2011

The Village's long range financial plan is working. The structural gap identified in 2009 was closed primarily by expenses reduction and modest increases in revenues. There was no use of reserves in 2010 and no planned use of reserves in 2011.

Trends and Issues

Expenses in the General Fund are projected to increase at a rate of 3 to 4% per year for the next several years. The projected increase is driven primarily by personnel related expenses such as health benefits, pensions, other post employment benefits and salaries. Revenues are projected to increase at a rate of 1 to 2% per year as major revenue sources such as utility taxes and income taxes are projected to remain flat. Slow growth in sales tax revenue is expected.

Solutions and Strategies

The Village should continue with its efforts to achieve long term financial sustainability. Key strategies for achieving sustainability include pursuing operating efficiencies, partnering with other governments to reduce overlapping or redundant services, reducing personnel expenses and enhancing the Village's revenue base through economic development activities.

Actions for 2012 & Beyond

Recommended actions for 2012 and beyond that are consistent with the long term strategy include:

- Increase Operating Efficiencies Through Continuous Improvement, a Culture of Lean and Expanded Use of Technology
- Reduce Personnel Expenses by Monitoring and Adjusting Health Benefit and Post Employment Benefit Programs, Instituting an Employee Wellness Program and a Risk Reduction Program
- Partner with Others in the Public and Private Sectors to Create Economies of Scale
- Adjust User Fees Regularly to Cover the Cost of Providing Services
- Create a Stormwater Utility
- Enhance the Revenue Base Through Annexation and Economic Development Activities
- Adjust Property Tax Levy As Needed
- Consider Other Revenue Enhancements As Needed

2. Transportation Fund

Summary & History

This fund is used for the operation of the Grove Commuter Shuttle which has been operating since 1974. The annual cost of this service is about \$270,000. The service is supported by rider fares (42%), a local gasoline tax (48%) and an operating grant from PACE (10%).

Trends and Issues

In 2010, the transportation fund operated at a break even point with revenues equal to expenses. This is expected to be the case in 2011. However, prior to 2010, annual expenses exceed revenues and the fund accumulated a \$1.9 million deficit. In 2012 and beyond, expenses are expected to increase faster than the current revenues.

Solution and Strategies

To address the projected annual operating deficit the Village should partner with PACE to make sure that all operating expenses are covered by rider fares and the annual contributions by PACE. The accumulated deficit should be paid off over time in a manner that does not negatively impact the Village's bond rating and maintains a sufficient fund balance in the General Fund.

Actions for 2012 & Beyond

- Specific actions for 2012 and beyond include:
- Executing a revised agreement with PACE that ensures that all operating expenses are covered by rider fares and the annual contributions by PACE.
- Using the existing local gasoline tax revenues to pay off the accumulated deficit over an 8-year period.

3. Downtown TIF Fund

History

- Downtown TIF created in 1997, 23 year life
- *TIF – economic development tool used to facilitate qualifying improvements*
- Initial strategy – use of debt to fund public improvements and land acquisition
- Total debt service gradually increased over time to be paid with TIF/other revenues

Issues

- Recent declines in value of real estate has affected TIF financial projections
- Updated projections indicate that TIF and other revenues may not be sufficient to meet total expenses beginning in FY2015

Solutions and Strategies

- Monitor TIF Performance and Regularly Update Projections
- Pursue actions that defer and minimize any use of the general property tax levy to fund gap

Actions for 2012 and Beyond

- Control TIF expenses
- Explore parking fee adjustments to provide additional revenue in future years (w/ DT Parking Study recommendations)
- Continue pursuing \$500,000 state grant
- Pursue redevelopment and reinvestment opportunities in TIF
- Identify other options to fund gap
- Adjust property tax levy as needed