Village of Downers Grove

Long-Range Plan 2013 - 2015

2014 Meeting 2

Village of
DOWNERS
GROVE
FOUNDED IN 1832

II. Risk Fund

Issue	The Village is self-insured and operates a Risk Management Fund to account for financial activities related to risk, such as Workers Compensation and general liability claims. Self-insurance means that the Village, not an insurance company, pays claims. The Village holds stop-loss coverage (re-insurance) for catastrophic claims. Therefore, claims expenses vary year to year. The Risk Fund is funded by transfers from the General Fund and other operating funds.
	
	At the end of FY13, the Risk Fund had a cash balance of negative $622,000. Expenses exceeded revenues in past two years and are projected to do so again in 2014.
	• In 2012 and 2013, transfer of funds into the Risk Fund (revenues) were insufficient to cover expenses.
	    • 2012 transfers were insufficient due to inaccurate calculation of the projected expenses while transitioning third party administrators
	    • The planned 2013 transfer of $4.2 million was delayed until the Council could discuss this issue as part of 2014 Long Range Planning
	• In FY14, the Village expects to make final payments to close out many existing claims and could spend up to $1.2 million in claims more than is budgeted.

Actions Completed	• Reduced vehicle accidents from 13 in 2011 to 4 in 2013
	• Reduced workers compensation claims from an average of 45 per year (2011 - 2013) to a projected 15 in 2014 (7 claims year to date)
	• Results achieved by the following recent actions:
	  • Hired full-time Risk Manager
	  • Changed Third-Party Administrator to track and pay claims
	  • Created Executive Safety Team
	  • Increased staff safety training and awareness
	  • Tested Drive Cam, a system designed to monitor driver performance and increase safety
	  • Purchased cot lifting system for ambulances
	  • Implemented policy prohibiting cell phone use while driving
	  • Established the Internal Risk Management Strategy team and Accident Review Team

Strategies and Solutions	• Continue to reduce risk and improve safety by continually improving risk management program and strategies • Establish and maintain a positive cash balance in the Risk Fund by transferring $1.9 million from the General Fund now and increasing the annual General Fund transfer to cover expenses. • Consider the costs and benefits of a Safety Manager position in the Public Works Department

The Village is Self-Insured

The Village manages the impact of liability and workers compensation claims in three ways:

- By maintaining a Risk Fund to pay claims (funded by transfers from other funds, primarily the General Fund)
- By proactively working to reduce claims by implementing a risk management and safety enhancement program led by a Risk Manager
- By limiting the cost of incurred claims using a Third Party Administrator

The Village is self-insured for risk and general liability. This means that it pays for claims (workers compensation claims and other liabilities) from Village funds, rather than by paying premiums to an insurance company. The Village sets aside money each year in the Risk Fund to pay for claims, such as medical expenses, salaries of injured employees and legal settlements.

The benefit of being self-insured is that the Village pays only its claims and administrative costs, rather then paying a premium to an insurance company that would include additional overhead costs and profit. To protect against catastrophic loss, the Village carries stop-loss insurance.

The money that the Village spends from the Risk Fund varies due to the unpredictability of claims, especially workers compensation claims. Some claims, such as minor injuries requiring only medical treatment, are closed quickly at a low cost, while others, such as injuries requiring therapy or surgery, take longer to close at a high cost. The Risk Fund allows General Fund expenses to be more stable and predictable because the Village makes predictable transfers from the General Fund based on estimated costs.

Workers Compensation Claims Drive Risk Fund Expenses

Workers compensation claims, which can account for up to 75% of annual expenses, drive costs in the Risk Fund for several reasons. The workers compensation system is controlled by the state and lacks incentives to control costs and conclude medical treatments. The costs of medical treatment under workers compensation are higher than they would be for a similar non-work related visit to a health care provider under the Village's health benefit plan which includes discounted prices for treatment.

The cost of workers compensation claims have the potential to escalate over time. While the average cost of a workers compensation claim is about $30,000, a single workers compensation claim may cost the Village over $1 million. In many cases the Village has to pay all of the costs summarized below.

Direct Costs to the Risk Fund

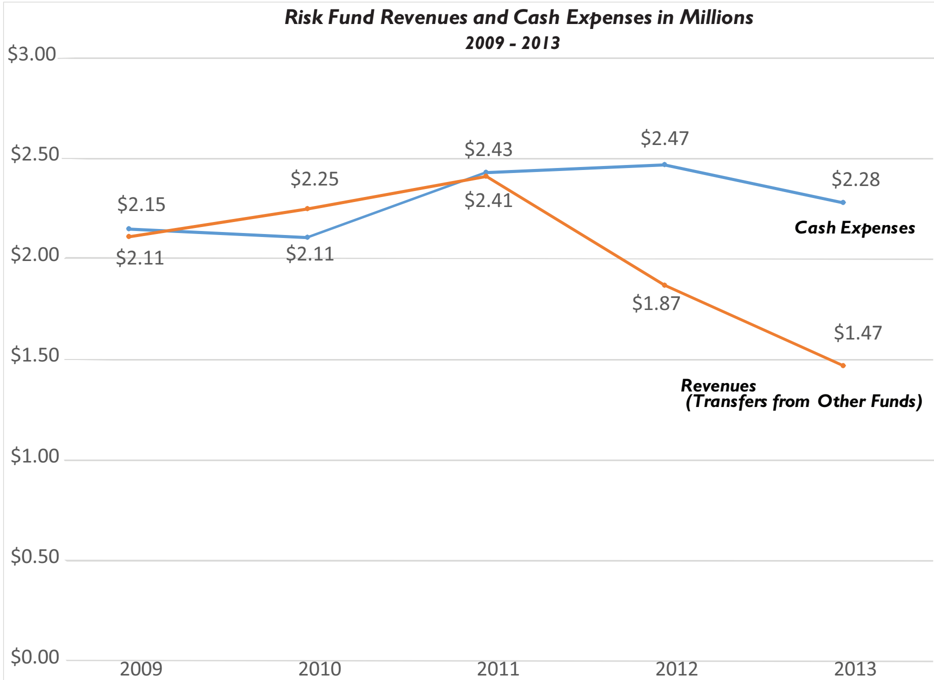
- Medical Expenses - The Village pays all costs for medical treatment for a work-related injury. Workers compensation claims are paid under the State of Illinois fee schedule. These fees are higher than the discounted fees that the Village pays under its medical plan.
- Salary and Benefits - If an employee cannot return to work, the employee's salary and benefits are paid from the Risk Fund until they return to full duty.
- Workers Compensation Settlement - In some cases, the Village may pay a settlement to the injured employee according to Illinois workers compensation law.

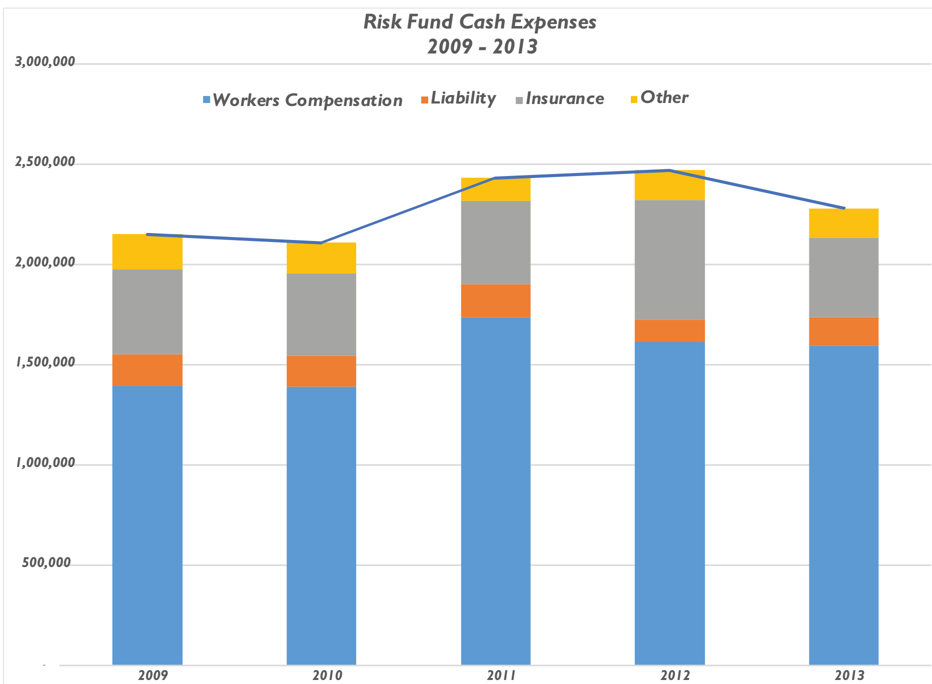
Related Costs Affecting Other Funds

- Replacement Employees - For certain positions, to maintain the same level of service, the Village may need to replace an injured worker by paying overtime for other employees to work in the injured employee's place.
- Post-employment Disability Benefits - Police officers and firefighters that are unable to return to work may be awarded a duty-related disability pension. Further, in certain qualifying cases, the Village pays 100% of the employee and their dependents' health insurance costs, pursuant to state law.

The table to the right shows the Village's workers compensation claim experience since 2011. The Village reduced Workers Compensation Claims from an average of 45 per year (2011 - 2013) to a projected 15 in 2014 (7 claims year to date).

Year	Number of Workers Compensation Claims
2014 (Year to Date)	7
2013	44
2012	39
2011	53





Key Points From the Charts Above

- Annual expenses ranged from $2.11 million to $2.47 million per year
- Workers compensation expenses accounted for more than half of the total expenses each year
- The Risk Fund revenues (transfers from other funds) declined in 2012 and 2013 and did not cover annual expenses.
  - 2012 transfers were insufficient because the Village was expecting 2012 expenses to be about $600,000 less than they were.
    - Change in Third Party Administrators - In 2011 the out-going TPA provided misinformation and/or incomplete information about projected expenses to the current TPA. Based on this information staff and the current TPA expected 2012 expenses to decline compared to 2011 expenses
    - Re-opening of workers compensation claims - Four closed workers compensation claims were re-opened in 2012 causing expenses to unexpectedly increase
  - The planned 2013 transfer of $4.2 million was delayed until the Council could discuss this issue as part of 2014 Long Range Planning

Strategies and Solutions

Staff recommends the following strategies:

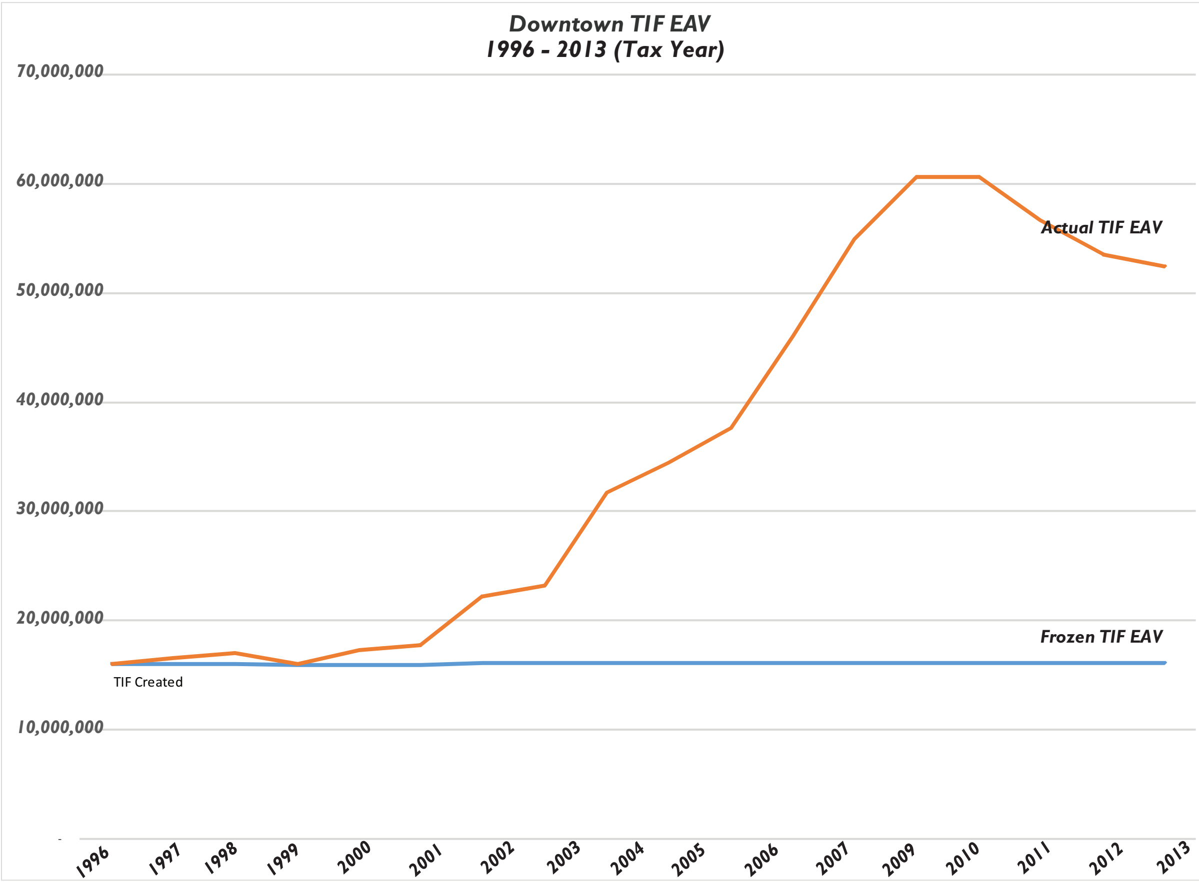
Continue to reduce risk and improve safety by continually improving risk management program and strategies - The most effective way to reduce Risk Fund expenses is to reduce or eliminate accidents and injuries. The Village has recently taken several actions that have done so. The Village will continue to improve the risk reduction and safety enhancement program with a goal of preventing accidents and injuries.

Establish and maintain a positive cash balance - The Village should establish and maintain a positive cash balance in the Risk Fund by transferring $1.9 million from the General Fund now and increasing the annual General Fund transfer to cover annual expenses.

Consider the costs and benefits of a Safety Manager position in the Public Works Department - The Village should evaluate the value of hiring a safety manager in the Public Works Department. This position would be responsible for improving safety and reducing risk in Public Works operations and would work closely with the Risk Manager and Safety Officers in the Police and Fire Departments.

III. Downtown TIF

Issue	Projections indicate that the Downtown TIF Fund will have a negative fund balance by the end of FY18. The negative fund balance will grow every year from 2018 through 2021 as a result of the annual debt service obligations exceeding TIF increment revenue. Projections indicate that the accumulated negative fund balance will reach approximately $5.2 million by the end of the life of the TIF.
Actions Completed	• Refunded bonds in FY13 resulting in a savings of approximately $478,000 • Updated parking fees in FY13, resulting in additional revenues that can be used to retire debt • Entered into redevelopment agreement for Charles Place
Strategies and Solutions	• Continue to limit expenses in the TIF • Use economic development tools to improve increment performance • Explore options for retiring the TIF using revenues from a public-private partnership to develop the existing Village Hall/Police Station property • Consider levying for the debt service obligations



The Downtown TIF was created in 1997 to spur economic development in the downtown business district. When the TIF was created, the Equalized Assessed Value (EAV) of property within the TIF boundaries was frozen at $16.05 million. This initial EAV is know as the "Frozen" EAV. During the life of the TIF, the EAV has increased to $52.46 million, an increase of 227%. The Downtown TIF EAV has outperformed the Village as a whole during its life growing an average of 7.80% per year vs 3.51% Village-wide. TIF Fund Revenues are generated by multiplying the total property tax rate by the difference between the "frozen" EAV and the actual EAV.

The increase in Downtown TIF EAV can be attributed to the successful implementation of the Village's economic development strategies. Projects that were completed through the use of the TIF include Acadia on the Green, Station Crossing, Georgian Courts and Morningside Square. Funds were also used to greatly improve public infrastructure including the Downtown Parking Deck and major reconstruction of Main Street.

The following pictures, showing locations throughout the Downtown before and after improvements were made, illustrate the ways in which the TIF has been instrumental in facilitating substantial redevelopment within the Downtown.

Harts Garage

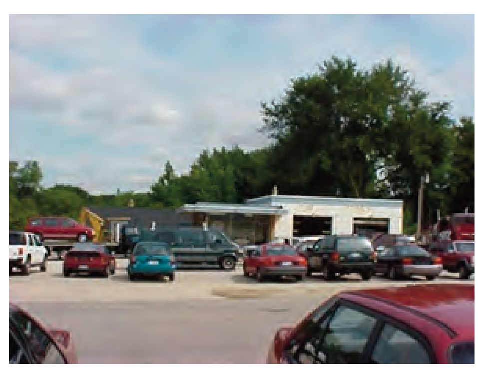
Johnson Building Before

E & E Building Before

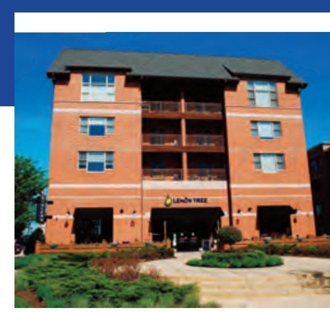
Before

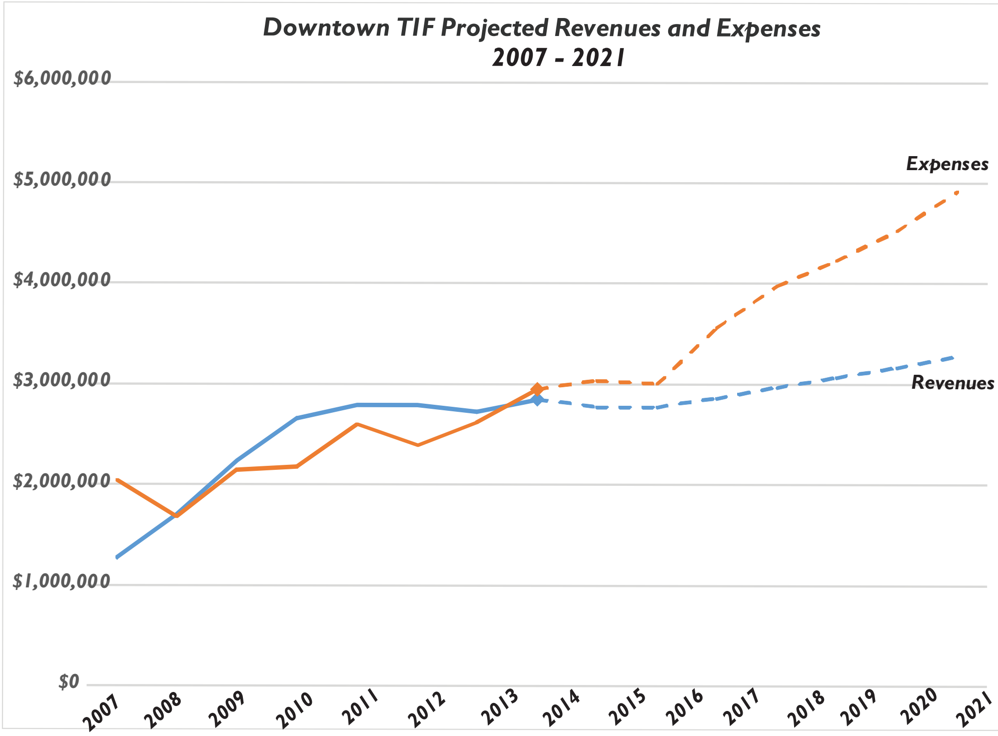
One Smooth Stone Before

Acadia on the Green Before



After





The economic downturn has directly impacted property values and EAVs in the Village including the Downtown. This decrease in the EAV in the Downtown coupled with increasing debt service payments on outstanding bonds in the final years of the TIF will result in a projected gap between available revenues and expenses. Staff projects an accumulated funding deficit of approximately $5.2 million by the end of the life of the TIF which can be seen in the above graph. The TIF expires in 2020 but increment revenue will be received and debt service payments will be made in 2021. There are several strategies that the Village can employ to help mitigate the fiscal impact of this funding gap.

Projections indicate that the Downtown TIF Fund will have a negative fund balance by the end of FY 2018. The accumulated deficit is expected to reach $5.2 million by the end of the TIF.

Fiscal Year	*Increment Revenue*	*Expenses*	*Funding Gap*
2018	$2,960,000	$3,970,000	($1,010,000)
2019	$3,060,000	$4,230,000	($1,170,000)
2020	$3,170,000	$4,520,000	($1,350,000)
2021	$3,270,000	$4,910,000	($1,640,000)
Total	$12,460,000	$17,630,000	($5,170,000)

Can the Village refinance the TIF debt?

Village staff, in consultation with the Village's financial advisor, Northern Trust, explored several options related to the repayment of the Downtown TIF's debt obligations, including possible restructuring of the debt.

All bonds issued by the Village in the Downtown TIF are designated as Tax-Exempt General Obligation bonds. Tax-Exempt General Obligation bonds can only be advance refunded (refunding performed prior to the bond's call date, if there is a call provision) once during their life. A call date is a date certain on which the issuer, the Village, can buy back its debt at a fixed cost and reissue new debt if interest rates are to the benefit of the Village.

All five sets of bonds related to the Downtown TIF have already been refunded once to take advantage of low interest rates. These refundings have saved the Village a net present value of $1,876,000 in interest costs to date. Of the five sets of bonds, only one has a call provision that would allow for an additional refunding in 2018. This could provide a small additional savings to the TIF if interest rates are favorable at that time.

Because the bonds cannot be refunded as Tax-Exempt Bonds, the Village could consider refinancing the debt as taxable bonds to extend the payment window beyond the life of the TIF. Taxable bonds have a higher interest rate that would significantly reduce the benefit of this refinancing and may not be looked upon favorably by the Village's bond rating agency.

The Village's financial advisor, Northern Trust, estimated that refinancing the bonds into taxable debt would have the following impacts:

- Higher life-time costs (additional $1.0 million in NPV costs when compared to current bonds)
- Longer repayment timeline
- Loss of a revenue source when the TIF expires
- May not be looked upon favorably by bond rating agency

The Downtown TIF expires in 2020 at which point the increment revenue will no longer be available to cover debt service payments. By law, the TIF could be extended an additional twelve years but would require the following:

- Official approval from all other taxing bodies which would likely result in the reduction in future available increment due to payouts to other taxing bodies
- Authorization from the Illinois General Assembly

Potential Strategies:

- Refund Callable Bonds - The Series 2008B Refunding bonds are the only set of TIF related bonds with a call provision. This allows one additional refunding while maintaining tax-exempt status. The bonds are callable in 2018 and if interest rates are favorable, they can be refunded which could create some modest savings in interest payments.
- Consider the potential opportunities associated with Option B of the Facilities Sustainability Plan - Option B includes relocating the Police Department to the vacant site on Ogden Avenue between Stonewall and Lee and construct a new Village Hall on the existing site, along with private development of the remainder of the property. Proceeds from the sale of development rights on the Civic Center Campus could be used to pay for the TIF debt service.
- Consider Levying Property Taxes for Debt Service - The Village can use its taxing authority to levy for the debt service payments for the remainder of the TIF. The levy already exists but has been abated in recent years because the increment revenue was adequately covering the debt service payments.