

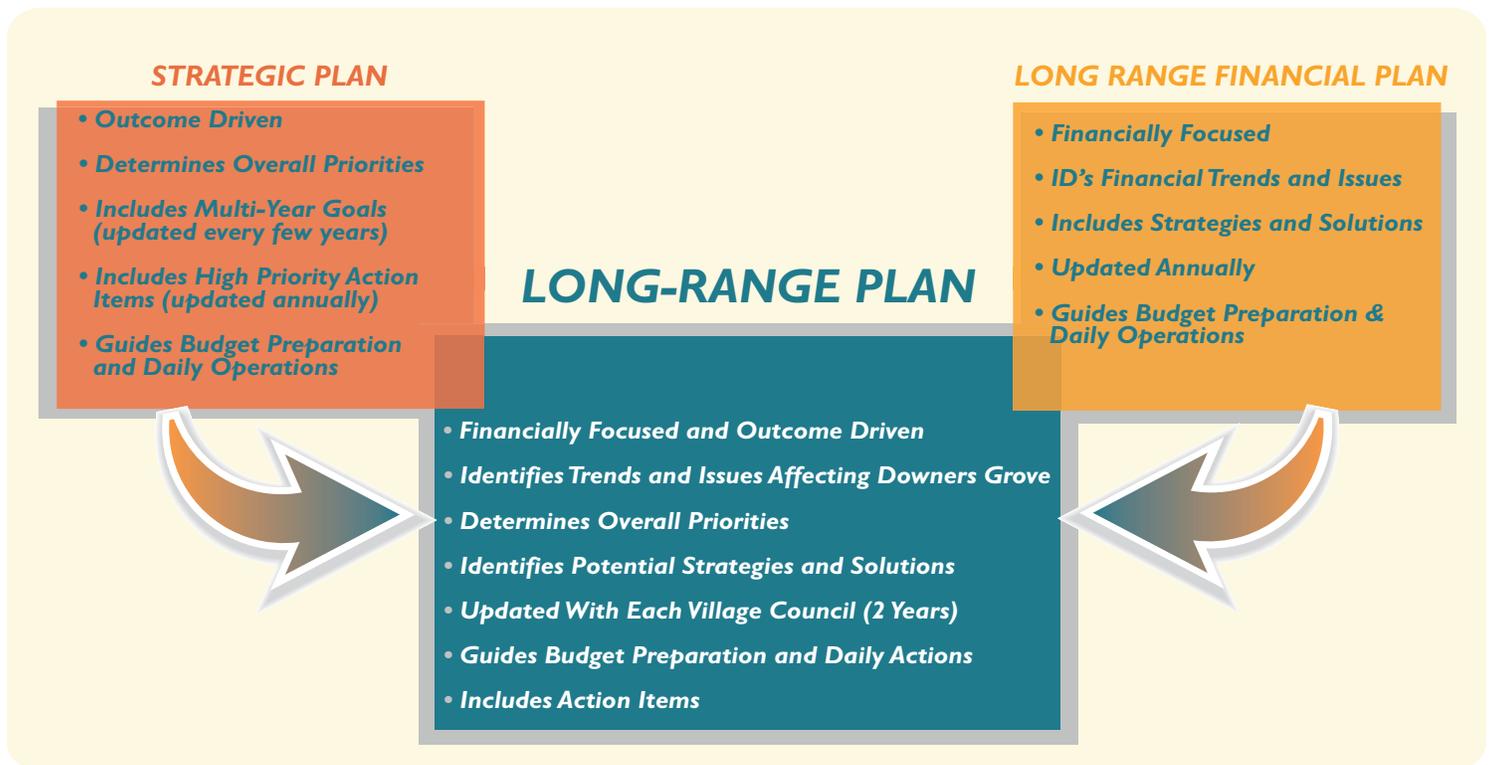
Village of Downers Grove

Long-Range Plan 2013 - 2015
2014 Update



The 2013-2015 LONG-RANGE PLANNING PROCESS

In 2013, the Village combined elements of Long-Range Financial Planning and Strategic Planning into a successful Long-Range Plan process. Previously, the Village used the two separate processes that worked well together but resulted in two separate sets of strategies, solutions and actions that required the Village to coordinate the plans. The LRFPP efforts were financially driven and focused on strategies for allocating limited financial resources. The LRFPP process enabled the Village to successfully manage through difficult economic conditions by identifying potentially adverse trends and corresponding strategies to mitigate their impacts. The Village's planning process is one of many strong management practices that led Standard & Poor's to upgrade the Village's bond rating to AAA.



2014 Update

The Village Council plans to meet four times from May to August to review progress on the 2013-2015 LRP priorities and discuss major policy issues facing the Village. The purpose of the 2014 Long-Range Plan process is the following:

- Review the Key Issues from the 2013-15 plan and make updates as necessary
- Identify and address new key trends and issues
- Review and modify, if necessary, the High/Medium Priority Action Item list

Staff will issue a report prior to each LRP meeting. These reports will describe the key issue, present background information and describe potential strategies or solutions for Village Council consideration. The meetings provide an opportunity for dialogue and collaboration among the Village Council, community members and staff to develop strategies and solutions to address key trends and issues.

The schedule for the 2014 LRP process is as follows:

May 20: 2013-15 Key Issues Update & Review and General Fund Revenue, Expenses and Fund Balance

June 17: Risk Fund and Downtown TIF

July 15: Stormwater Fund

August 19: Priority Action Item Review and Discussion

2013-15 Key Issues Review & Update

The 2013-15 LRP addressed the following key issues:

- Potential reduction in state shared revenues
- Infrastructure maintenance funding gap
- Village Facilities Sustainability Plan

Issue 1: Potential reduction in state shared revenues

Description: The Village receives approximately \$15 million in state shared revenues in the General Fund, primarily from sales tax revenue (more than \$10 million) and state income tax from the Local Government Distributive Fund (more than \$4 million). Previous state budget processes have considered reductions in the amount of revenue shared with municipalities.

Update: While the state has not taken any action that directly affects municipal revenues, the General Assembly is currently considering legislation that could affect municipal revenues.

Village Action: Continue to maintain substantial reserves, monitor state actions and work to protect municipal revenues

Issue 2: Infrastructure Maintenance Funding Gap

Description: The Village identified a funding gap for infrastructure maintenance beginning in 2015. An additional \$1.2 million will be needed for annual maintenance activities to protect the Village's infrastructure. This will be primarily needed for street maintenance.

Update: The Village has existing revenues that will be available to cover this gap. When the Village created the stormwater utility, revenues previously dedicated to stormwater-related debt service (home-rule sales tax and property tax) became available for future maintenance activities. The revenues will be available in 2016.

Village Action: Prepare the FY16 and future budgets with \$1.2 million of existing revenues in the Capital Projects Fund to be used for infrastructure maintenance.

Issue 3: Village Facilities Sustainability Plan

Description: Two of the Village's major buildings - Village Hall and the Police Station - are in Below Average condition, have outdated systems and need major renovations.

Update: Village staff presented a full range of potential options for addressing the Village's facilities needs, ranging from renovation to building new facilities, at two Council workshop meetings in early 2014. Based on Council direction, Village staff will provide additional information on two separate options.

- Option A - Build new joint Police-Village Hall facility on the existing Civic Center site
- Option B - Build new Police Station on the vacant site at Ogden and Lacey in conjunction with private redevelopment along Ogden Avenue and the potential relocation of Fire Station #1; and the mixed-use redevelopment of the Civic Center site to include space for Village Hall.

Village Action: Additional Village Council discussion will take place in the summer with policy direction provided in August 2014.

Current Policy Issues - General Fund, Risk, Downtown TIF, Stormwater

There are four key policy issues that would benefit from Council discussion and direction as the Village prepares for the budget process and future year work plans. The four key issues are:

- General Fund Balance - The fund balance exceeds the recommended level and the Village has demonstrated needs in other areas.
- Risk Fund - There is a negative balance in the fund and risk-related expenses are increasing.
- Downtown TIF Debt Service - Revenues from property tax increment will not cover future debt service payments.
- Stormwater Utility Revenue Needs - The plan establishing annual stormwater utility fees should be reviewed to address new capital improvement projects and existing maintenance expenses.

I. General Fund Revenues, Expenses & Fund Balance

<p>Issue</p>	<p>The General Fund balance exceeds the Village’s policy and the Village has demonstrated financial needs in other areas including Downtown TIF debt service, risk expenses and facility improvements.</p>
<p>Recent Performance and Actions Completed</p>	<ul style="list-style-type: none"> • Controlled expenses - Expenses increased 5.92% since 2009 at an average of 1.46% per year. The Village eliminated a structural gap in the General Fund by reducing staffing levels, implementing cost-cutting process improvements and controlling health expenses. Significant savings were achieved in the areas of fleet management and special events. • Strong revenue growth - Revenues increased 12.05%, an average of 2.91% per year, driven by increases in the distributed state income tax (15.1% increase since 2009), sales tax (10.9% increase since 2009) and some large revenues from building permits. • Established a strong fund balance - The fund balance increased from \$15.4 million in FY09 to \$21.1 million in FY13
<p>Strategies and Solutions</p>	<ul style="list-style-type: none"> • Maintain the General Fund balance at approximately 38% of expenses, which is the mid-range of the S&P recommendation • Transfer \$1.9 million from the General Fund to the Transportation Fund to eliminate the accumulated deficit • Transfer money from the General Fund to the Risk Fund to address the negative cash balance (amount to be determined) • Increase annual contributions to the Risk Fund • Transfers to Downtown TIF debt service (amount to be determined) • Increase operating efficiencies • Partner with others • Reduce personnel expenses • Enhance the revenue base

How does S&P rate us?

Maintaining a AAA Bond Rating

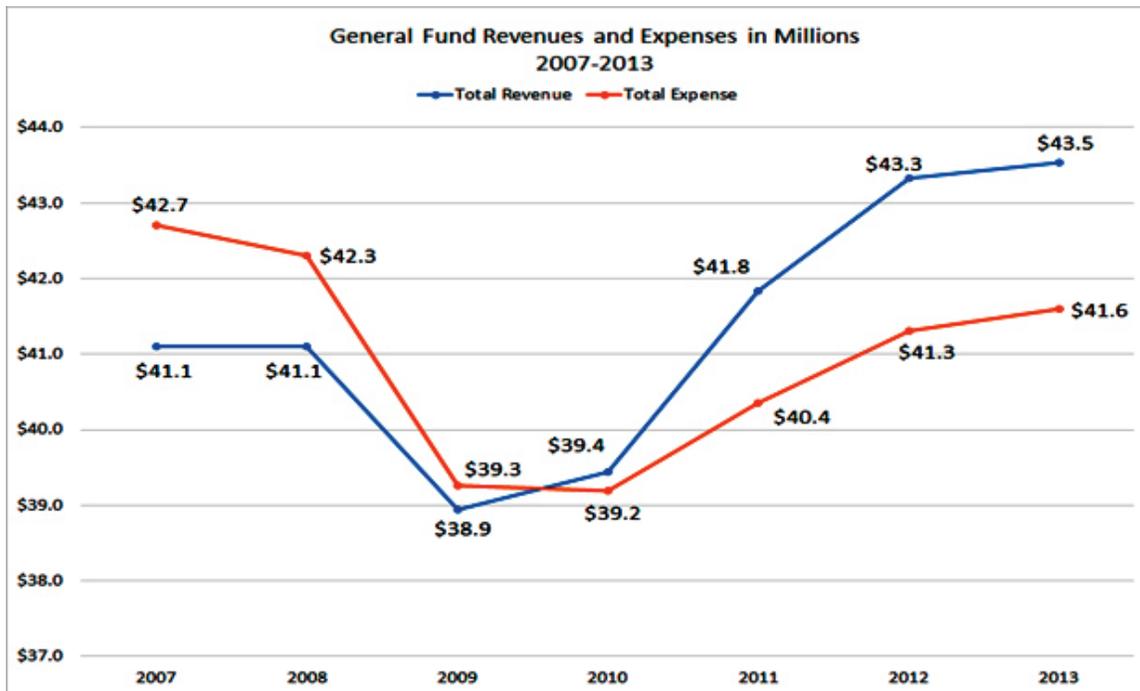
Standard and Poor’s upgraded the Village’s bond rating from AA+ to AAA in 2013, the highest rating issued by the agency. A major factor in the upgrade was the Village’s strong General Fund reserve balance which is in excess of 35% of annual General Fund expenses. The General Fund balance is at \$21.1 million. For purposes of analyzing the Village’s financial condition, S&P views the \$1.9 million accumulated deficit in the Transportation Fund as not available. In essence, S&P views the General Fund balance as \$19.2 million. The AAA rating is an indication of the Village’s financial strength. All Downers Grove residents and businesses benefit from this as the Village will be able to issue debt and refinance bonds at a lower cost.

How does this impact the Village’s past Risk Fund recommendation?

In the FY14 budget, staff recommended making a \$4.2 million transfer to the Risk Fund. The desired outcome was to use reserves more strategically and protect ongoing operations in the event of an unanticipated major emergency. The planned transfer to the Risk Fund would reduce the fund balance below 38% of annual expenses when applying S&P’s analytic approach and may result in losing the AAA rating. Use of the General Fund balance should be consistent with the S&P analysis and should maintain a balance of 38% of annual expenses.

General Fund Revenue and Expense Trends

In 2009, the Village identified a structural gap in the General Fund resulting from the growth in expenses exceeding the growth in revenues. From 2007-2009, expenses exceeded annual revenues. Since 2010, annual revenues have exceeded expenses and expenses have grown only modestly.



Addressing the General Fund gap

Previous Long Range Plan documents and processes have raised the issue of the potential for a long-term structural deficit within the General Fund as a result of expenses increasing at a faster rate than revenues. Expense increases are driven by rising personnel costs including pensions and health benefits, a high demand for services, and regulatory constraints. Key revenues from sales tax, utility tax and building permits may not increase as fast as expenses based on the performance of the economy and other factors.

While this issue is not as prominently emphasized in the 2014 Long Range Plan Update (based largely on the Village's successful efforts at controlling costs in recent years), Village staff will continue to be aware of this potential and ongoing threat. The strategies originally identified to address this issue and bend down the cost curve in future years will continue to be implemented throughout the organization including; Increase Operating Efficiencies, Reduce Personnel Expenses, Partner with Others, and Enhance the Revenue Base.

Since 2010, \$5.2 million in expense reductions have been made to address the substantial structural financial gap. The significant changes implemented are as follows:

Action

- Staff Reductions
- Changes to Health Insurance Provider
- Elimination of Heritage Festival
- Changes to Health Insurance Plan Design
- Improvements to Vehicle Fleet Management
- Consolidated Dispatch with Westmont
- Elimination of Community Grants Program
- Modification of Taxi Subsidy Program
- Elimination of DuPage Senior Citizen Grant
- Elimination of Bike Race

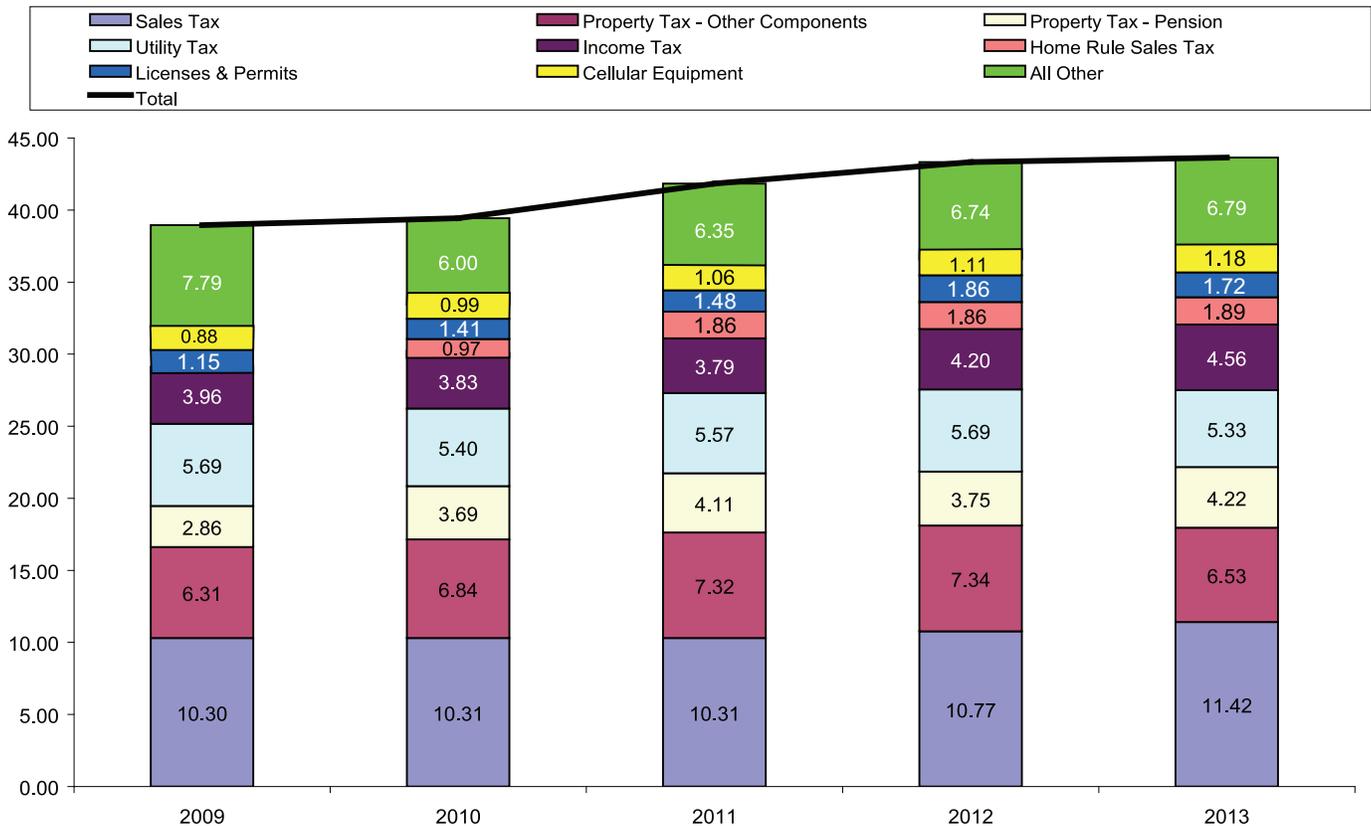
Action

- Elimination of Ice Sculpture Festival
- Modification of July 4th Parade
- Reduced Fire Department Overtime/Improved Responses
- Restructured Fire Prevention Bureau
- Privatized Downtown and Train Station Snow Removal
- Partnered with District 58 and SEASPAR for vehicle maintenance
- Created On-line Pay Check Stubs

General Fund Performance, 2009 to 2013

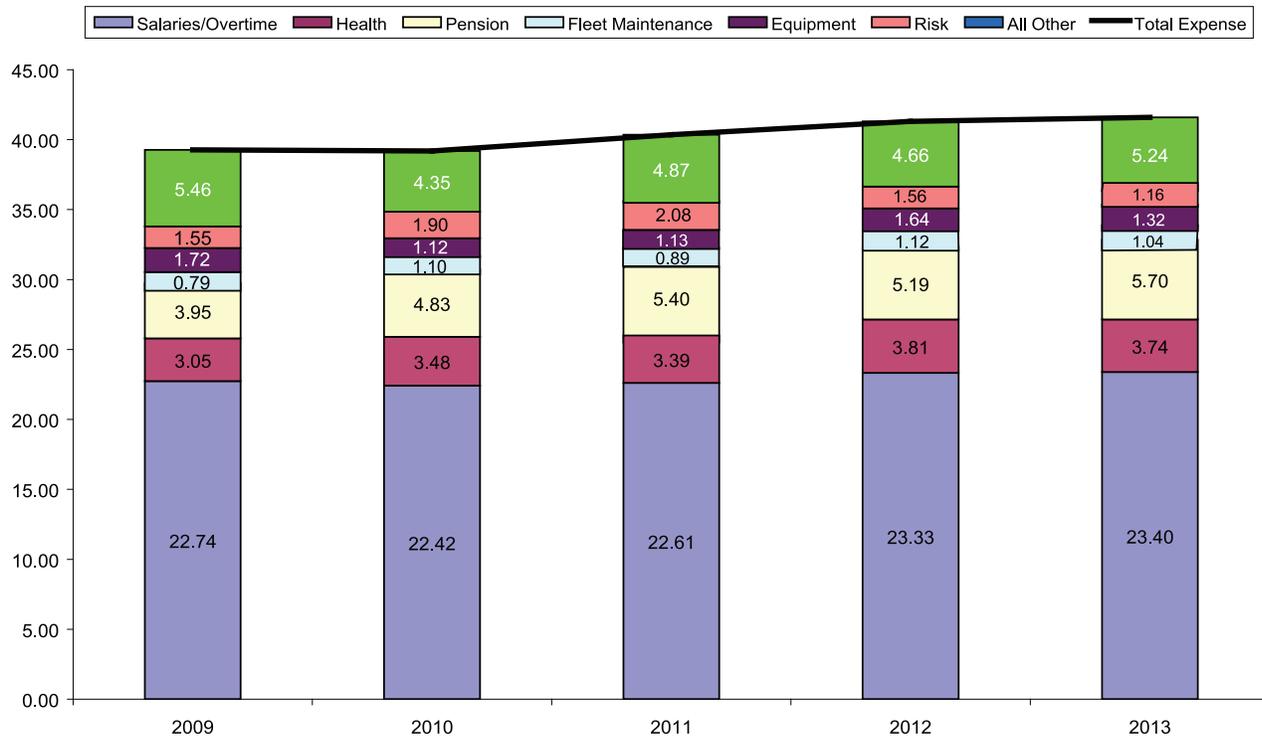
The General Fund is the primary operating fund for Village services. Since the beginning of the Long-Range Financial Planning process in 2009, revenues have exceeded conservative expectations and expenses have been held in check, allowing the Village to build a strong reserve balance. The charts below show a breakdown of the major components of revenues and expenses in the General Fund.

General Fund Revenues (2009-2013) in Millions



- General Fund revenues were \$43.64 million in FY13 - a 12.05% increase over FY09 revenues of \$38.95 million and an average increase of 2.91% per year.
- Major drivers of revenue growth have been increases in the distributed state income tax (15.1% increase since 2009), sales tax (10.9% increase since 2009) and building permit fee revenue from commercial redevelopment activities.

General Fund Expenses (2009-2013) in Millions



The Village’s FY13 expenses were \$41.6 million. In the period between 2009 and 2013:

- Expenses increased 5.92%, an average increase of 1.46% per year.
- Personnel expenses, the largest portion of General Fund expenses, increased at an average of 2.51% per year.
- Pension expenses increased from \$3.95 million to \$5.70 million (44.3% increase, 11% average annual increase)
- Expense increases have been lower than anticipated in the Village’s 2011 Long-Range Financial Plan, which projected personnel expenses increasing at 3% to 4% per year. .

The Village’s financial results since beginning the long-range financial planning process in 2009 demonstrate an on-going commitment to fiscal sustainability. During this time, the General Fund balance has grown from \$15.4 million to \$21.1 million. This fund balance exceeds the Village’s policy and the Village has demonstrated financial needs in other areas including Downtown TIF debt service, risk expenses and facility improvements. A portion of the fund balance could be used to address other financial needs.

What is the Transportation Fund accumulated deficit?

The accumulated deficit in the Transportation Fund refers to the total sum of annual operating deficits in the fund. When the Village operated the shuttle expenses exceeded revenues causing a deficit. The operating deficits were covered by the general fund, but the negative fund balance grew to \$1.9 Million. In 2012, the Village entered into an agreement with Pace to fund operation of the shuttle system and the Village Council directed staff to transfer annual interest income into the fund to retire the deficit over time.

How much of the Fund Balance is available for other needs?

Fund Balance	\$21.1 million
Will be used for accounting accruals	- .7 million
	\$20.4 million
Targeted Balance - 38% of Expenses	\$16.6 million
Available for Other Needs	\$3.8 million

Recommended Uses: \$1.9 million transfer to Transportation Fund
 Transfer funds (amount to be determined) to the Risk Fund
 Keep funds (amount to be determined) in General Fund in anticipation of LGDF reduction
 Transfer funds (amount to be determined) to Downtown TIF Debt Service

The issues in the Risk Fund and Downtown TIF Debt Service Fund will be presented and discussed at the June 17, 2014 LRP meeting.