

# *Village of Carol Stream*

## **SPECIAL WORKSHOP MEETING**

**MONDAY, AUGUST 19, 2019**

**6:00 P.M.**

**GREGORY J. BIELAWSKI MUNICIPAL CENTER**

**500 N. GARY AVENUE**

**CAROL STREAM, ILLINOIS 60188**

**BOARD ROOM**

### **AGENDA**

1. CALL TO ORDER
2. ATTENDANCE
3. CURRENT REVENUE AND EXPENDITURE TRENDS AND IMPROVING LONG-TERM FINANCIAL SECURITY
4. OTHER BUSINESS
5. ADJOURNMENT



# VILLAGE OF CAROL STREAM

Current Revenue and Expenditure  
Trends and Improving Long-Term  
Financial Security

August 19, 2019

# Contents

- I. Purpose
- II. 5 Year Review of General Fund Operating Revenues and Expenditures
- III. Current Status of Capital Improvement Program and Long-Term Funding Needs
- IV. Long-Term Funding Considerations
- V. Village Board Q&A and Feedback

# I. Purpose



# Purpose

Discuss framework for long-term viability of both Village operating and capital budgets in light of recent revenue and expenditure trends.

II.  
5 Year Review of General Fund  
Operating Revenues and  
Expenditures



# General Fund Expenditures

- What are long-term drivers of expenditure changes?
- What degree of control does the Village have over increases in various spending areas?
- What efforts has the Village made to influence or slow the growth of expenditures?
- Have revenues kept pace with expenditure growth over time?

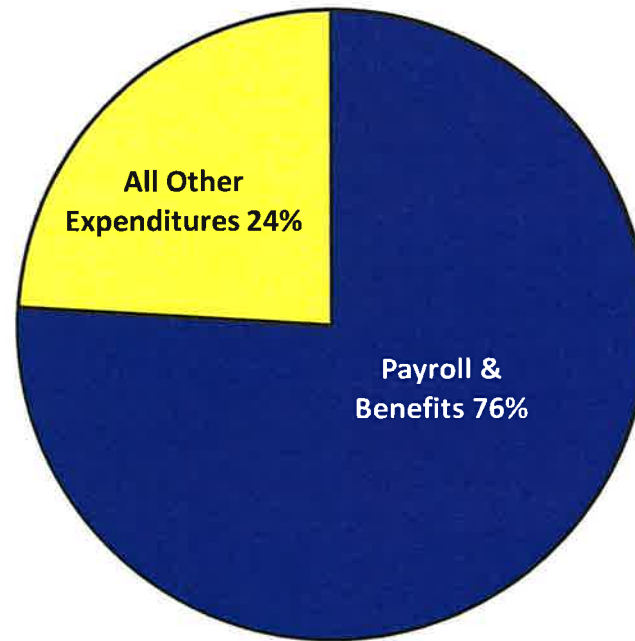
**Answers to these questions can be found by following the \$**

# General Fund Expenditures

- As a service organization, the Village's operating budget is heavily weighted toward **personnel and related benefit costs**.
- Generally, all **non-personnel costs** (contractual services, commodities and capital outlay) represent investment in tools or other specialized services that help staff deliver service to the community (e.g. training, consultants, tools/supplies, vehicles, etc.).
- Historically, about 75% of all General Fund costs are payroll and benefit costs.



# 5 Year General Fund Expenditures



All Other Expenditures includes contractual services, commodities, and capital outlay.

# 5 Year General Fund Expenditures

76%

	<u>FY19</u>	<u>FY18</u>	<u>FY17</u>	<u>FY16</u>	<u>FY15</u>
<u>Payroll &amp; Benefits</u>					
Salaries	\$ 12,855,979	\$ 12,419,074	\$ 11,836,466	\$ 10,752,230	\$ 10,751,862
Overtime	1,009,357	990,670	766,024	776,399	813,736
FICA	1,007,728	972,299	907,540	835,570	830,095
Health Benefits	1,722,967	1,678,173	1,506,336	1,470,201	1,585,810
Work Comp / Unempl.	311,961	312,132	321,030	334,153	357,566
IMRF Pension	830,561	870,744	877,501	712,472	754,242
Police Pension	<u>2,434,978</u>	<u>2,072,751</u>	<u>1,833,135</u>	<u>1,705,946</u>	<u>1,651,830</u>
Total Payroll & Benefits	<b><u>\$ 20,173,531</u></b>	<b><u>\$ 19,315,843</u></b>	<b><u>\$ 18,048,033</u></b>	<b><u>\$ 16,586,971</u></b>	<b><u>\$ 16,745,140</u></b>
% Change	4.4%	7.0%	8.8%	-0.9%	3.4%
<u>Non-Payroll</u>					
Contractual Services					
Commodities					
Capital Outlay					
Total Non-Payroll	<u>5,614,334</u>	<u>5,934,141</u>	<u>6,273,961</u>	<u>5,525,042</u>	<u>5,418,404</u>
% Change	-5.4%	-5.4%	13.6%	2.0%	-0.4%
Total GF Expenditures	<b><u>\$ 25,787,865</u></b>	<b><u>\$ 25,249,984</u></b>	<b><u>\$ 24,321,994</u></b>	<b><u>\$ 22,112,013</u></b>	<b><u>\$ 22,163,544</u></b>
	2.1%	3.8%	10.0%	-0.2%	2.4%

24%

# 5 Year Change in Expenditures

FY14 to FY19

Payroll & Benefit Costs	+24.6%
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Non-Payroll Costs

(Contractual Services, Commodities, Capital)	+3.2%
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Total General Fund Expenditures	+19.2%
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# Payroll & Benefits Expenditures

Payroll & Benefits Category	Average Annual Increase*
Salaries	4.5%
Overtime	5.4%
FICA	4.8%
Health Benefits	0.2%
Work Comp./Unemployment	0.3%
IMRF Pension	2.6%
Police Pension Fund	<u>9.4%</u>
<b>Total Payroll &amp; Benefits</b>	<b><u>4.5%</u></b>

\* Represents **average** annual increase each year for the last 5 years.

# Payroll & Benefits Expenditures

- **Salaries** are the largest component (63%) of all payroll and benefit (P&B) cost increases over the past 5 years and have grown by an average of **4.5%** each year from FY14 to FY19.
- Year over year changes in salaries include:
  - Contractual adjustments (FOP, MAP, SEIU)
  - Contractually obligated step plans.
  - Non-Union pay plan
  - Position Additions/Deletions/Changes
  - Payment of leave balances at retirement
  - Promotional increases
  - Savings generated by hiring replacement positions at lower salaries
  - Savings from position vacancies during recruitment or from hiring holds / freezes.
  - Savings generated by reductions in part-time work schedules.

# Payroll & Benefits Expenditures

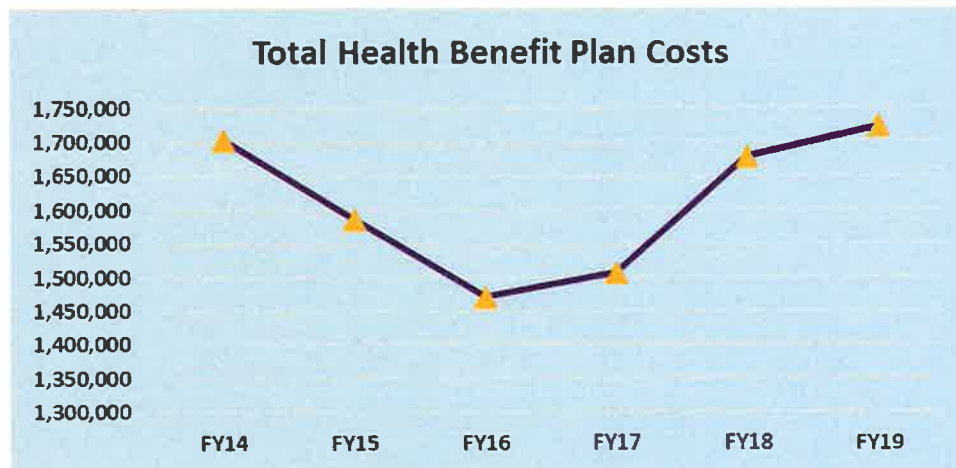
- The Village generally is able to exert some influence over salary expenditure growth through:
  - Employee attrition (hold vacancies, reevaluate position need, reduce schedules, reclassify positions, reallocate work functions, convert to part-time). We currently deploy these strategies.
  - Privatization (where it makes sense and is cost-effective)
  - Reevaluation of desired service levels.
- This has limited effectiveness in some cases:
  - The work generally does not go away, and tends to increase over time.
  - Can increase overtime costs.
  - Add to employee burn-out.
  - Reduce quality of output.

# Payroll & Benefits Expenditures

- Overtime and FICA cost increases generally follow the 5 year average annual increase in salaries of 4.5%.
  - Overtime (+5.4%) Can vary seasonally. ❄️
  - FICA (+4.8%)

# Payroll & Benefits Expenditures

- Health benefit plan costs have grown by an average of 0.2% each year over the last 5 years.
  - Total health benefit plan costs declined by 6.9% between FY 14 and FY15 due to the elimination of a more costly PPO plan option.
  - Health plan costs declined by an additional 7.3% between FY15 and FY16 due to a net reduction in HMO premiums of 4.9% eff. 7-1-15 resulting from favorable plan experience.
  - Health plan costs have resumed more typical increases in FY17 – FY19.





# Payroll & Benefits Expenditures

- Ways the Village has worked to influence the rate of growth in **health benefit plan** costs:
  - Increasing use of part-time employees, where practical, that do not receive employment benefits such as pensions and health insurance.
  - Offering “opt out” incentives for employees to waive health coverage where it is available to them elsewhere.
  - Continued focus on wellness programs that encourage healthy behaviors that may contribute to a long-term reduction in medical plan utilization and costs.

# Payroll & Benefits Expenditures

## Workers Compensation and Unemployment Costs

- This is the smallest component of total payroll & benefit (P&B) costs (1.5% of FY19 actual P&B expenditures).
- Growth in workers compensation premiums and related property, liability and auto coverages obtained through the Village's participation in the Intergovernmental Risk Management Agency (IRMA) have been stabilized over the years through the application of IRMA interest credits received annually.
- We anticipate growth in this expenditure category will continue to be manageable.

# Payroll & Benefits Expenditures

## PENSIONS

### Illinois Municipal Retirement Fund (IMRF)

#### Police Pension Fund

- Participation in these defined benefit plans is required by Illinois State Statutes.
- The Illinois Legislature defines the benefits to be paid and requires local government units to fully fund these plans for their participants.
- Pension funds have statutory powers to force collection from local governments in the event they do not fund required contributions.

# Payroll & Benefits Expenditures

## IMRF Pension

- The Village's required funding contribution to the Illinois Municipal Retirement Fund (IMRF) has grown at an average of **2.6%** each year for the past 5 years.
- The annual funding requirement is determined by IMRF each calendar year, is levied as a percentage of payroll, and is based upon Carol Stream's participant experience (rather than all IMRF participants).

Year	Contrib. Rate	% Change
2019	11.48%	-15.7%
2018	13.61%	-5.4%
2017	14.38%	-1.0%
2016	14.52%	+3.3%
2015	14.05%	-5.8%

# Payroll & Benefits Expenditures

## IMRF Pension

- While the Village's IMRF contribution rate has declined in 4 of the last 5 years, the average annual increase of 2.6% per year is also driven by:
  - Growth in IMRF eligible payrolls.
  - Payment of accumulated benefits at retirement.
  - Overtime experience
  - Additional IMRF assessments charged at retirement in certain situations.
- Net Position as a Percentage of the Total Pension Liability

Calendar Year	Funded Ratio
2018	81.16%
2017	93.35%
2016	82.97%
2015	83.22%

# Payroll & Benefits Expenditures

## Police Pension Fund

- The Village's required funding contribution to the Police Pension Fund has grown at an average of 9.4% each year for the past 5 years.
- This is both high dollar (\$) and high percentage (%) impact each year and arguably one of the cost areas the Village has the least control over. We MUST still fund!
- The annual funding requirement is determined by an actuary hired by the Village and is stated as a flat dollar amount (not % of payroll like IMRF).

# Payroll & Benefits Expenditures

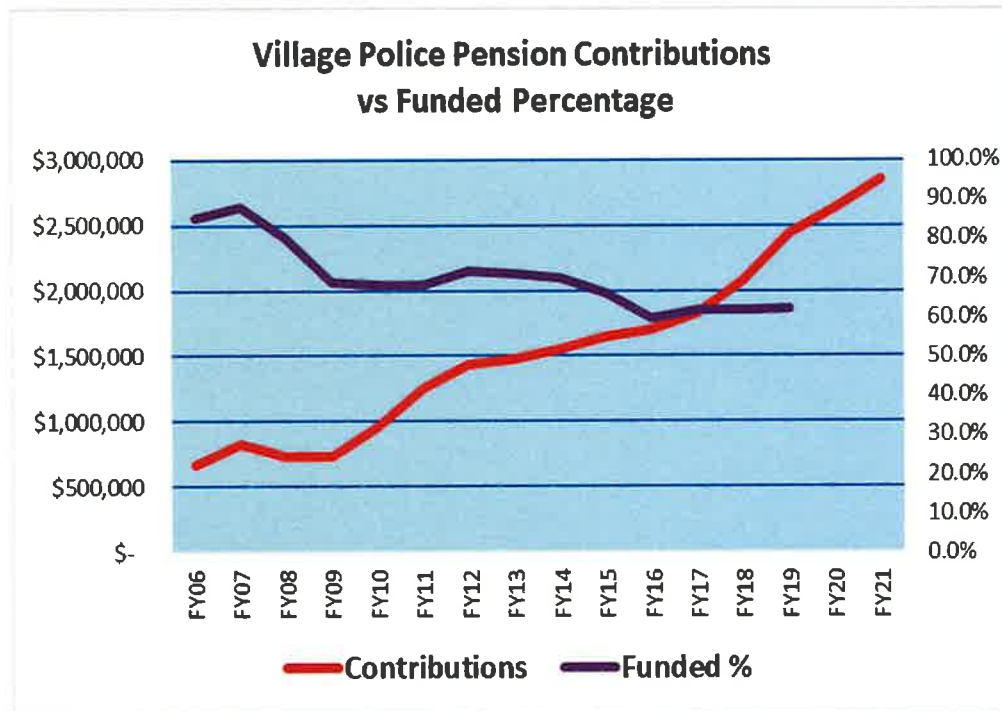
## Police Pension Fund

- The Village's contribution amount is one of the first costs we receive each year for our upcoming budget. For FY21 beginning, May 1, 2020, the Village's contribution will be \$2,850,352, an increase of \$224,850 or 8.6% from the FY20 contribution (goal of 100% funding by 2040).
- This contribution amount is equivalent to 43.0% of participant payroll.
- These are the first dollars that are loaded into the new budget. Because 9.4% growth in our pension contribution each year far exceeds total annual revenue growth, **the only other choice is to cut expenses from other cost areas in the budget to make our pension payment.**
- A guaranteed revenue source that can match increases in our required pension contributions would add significant stability to our overall funding of Village operations.

# Payroll & Benefits Expenditures

## Police Pension Fund

Long-Term Funding contributions to the Police Pension Fund have grown by a factor of 4.26 over the past 15 years, an average of 10.1% each year while funded percentage has declined.





# Payroll & Benefits Expenditures

## Police Pension Fund

### Other Items of Note:

- The Pension Fund currently pays \$3.2 million in benefits to retired Carol Stream Police Officers. Benefit payments have increased by more than \$1.0 million since FY16.
- Our actuary has projected that benefit payments will nearly double in the next 10 years.
- Beginning in FY17, the Pension Fund began paying out about as much in benefits as was put in via Village and Employee contributions (leaving interest earnings to fund future benefits).

# Payroll & Benefits Expenditures

## Police Pension Fund

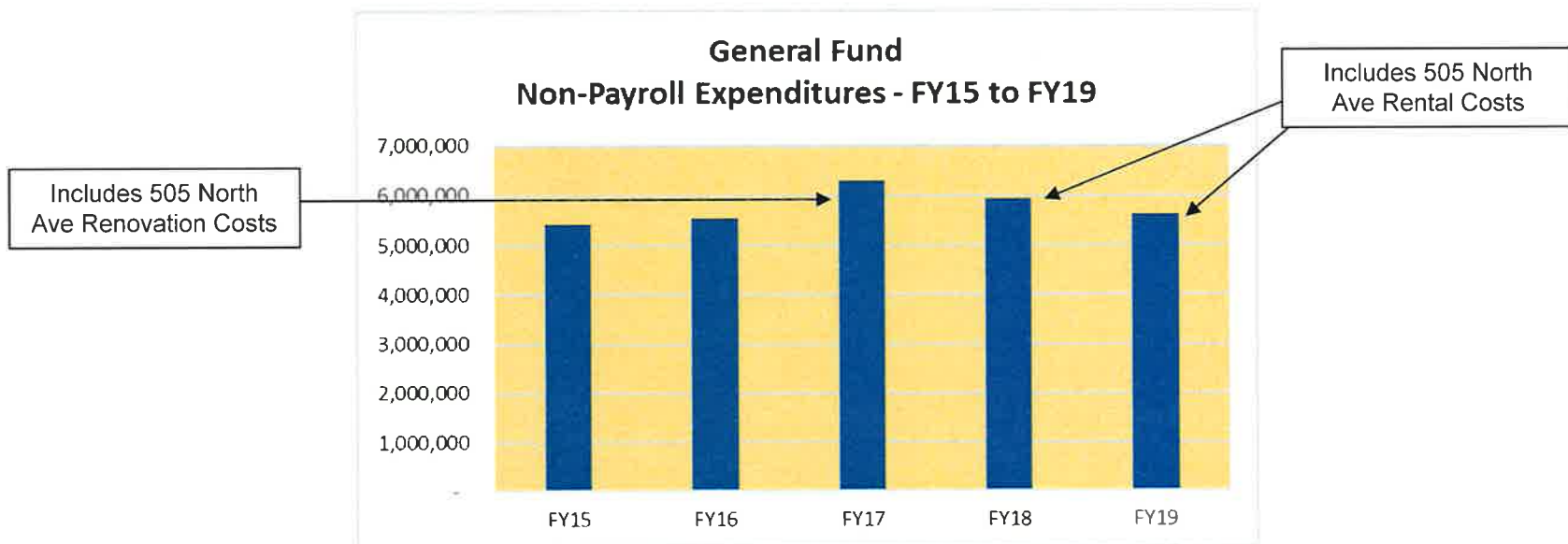
### Additional Funding Challenges Ahead:

- The Fund's Investment Advisor has signaled that long-term expected rate of return is **6.50%**. The Fund currently uses a rate of return assumption of **7.00%**. This should be reduced, however this increases the unfunded liability and will result in higher contribution levels.
- Our actuary has calculated the impact of a 0.25% reduction in interest rate (from 7.00% to 6.75%) on our FY21 contribution at an **additional \$252,826** over the current base increase of \$224,850. The combined increase of \$477,676 would be an **18.2%** increase over the current FY20 contribution. We cannot afford to do this without sacrificing other areas of the budget.
- To put this in perspective, a funding increase of \$477,676 would require a 4% increase in sales taxes next year (our largest revenue source), just to make the increase in pension payment.

# Non-Payroll Costs

All other non-payroll costs include Contractual Services, Commodities, and Capital Outlay categories.

- Growth in non-payroll costs has been much slower (0.6% per year in each of the past 5 years) than payroll and benefit costs at 4.5% average per year.



# Non-Payroll Costs

Non-payroll costs are a frequent focal area when it comes to keeping the budget in balance.

- More frequently, we have had to react quickly to sudden downward revenue shifts (business closures, State revenue reductions/unfunded mandates).
- The current FY20 budget includes \$619,450 of expenditures that have been cut/frozen due to continued negative sales tax trends. 99% of these budgetary deferrals were in non-payroll related costs.
- During FY18, upon verification of the loss of our top sales taxpayer, 76% of mid-year budget cuts were from non-payroll costs. The 24% of deferred payroll-related costs impacted vacant positions only.
- There is a future adverse budget impact to continued deferral of needed non-payroll maintenance activities and equipment replacements. **Things will eventually break.**

# Non-Payroll Costs

A very recent example of the cost of deferred maintenance.

Village of Carol Stream			
FY19/20 Annual Budget			
Items Budgeted but Frozen/Suspended*			
Freezes/Holds/Deferments			
IT	Telephone	\$ 3,800	Eliminate redundant satellite back-up previously installed at Fire 28.
IT	Consultant	\$ 20,000	Microfilm conversion to digital format (on-going initiative).
IT	Software/Hardware	\$ 15,000	Agenda Management Software / Village Board devices.
IT	Equipment	\$ 60,000	Phone system / Voicemail. Complete replacement was budgeted at \$75,000. Cut by \$60,000, retain \$15,000 to perform necessary system upgrades to maintain viability. \$60,000 deferred to FY20/21.
CD	Consultant	\$ 5,000	Contingency for possible multi-family housing inspection initiative.



Marc A. Talavera All Village E-mail

**Voicemail & Phone System**

This message was sent with High importance.

1:54 PM

## Email from IT Director on August 8, 2019

**All:**

We are currently experiencing a voicemail outage and sporadic phone connectivity issues. We are working with our telco-vendor to identify the root cause, but at this time we do not have an estimated time to repair.

I will follow up with an email when we have more information.

**Marc A. Talavera**  
Director of Information Technology

## 5 Year Average Annual Growth in General Fund Revenues and Expenditures - FY14 to FY19

Payroll & Benefit Costs	+4.5%
Non-Payroll Costs	+0.6%
<hr/>	
Total General Fund Expenditures	<b>+3.6%</b>
 General Fund Revenues	 <b>+2.1%</b>

**5 year average expenditure growth is outpacing revenue growth.**

# General Fund Summary

While we have been able to keep the General Fund in balance through a combination of revenue enhancement and expenditure cutbacks, we are presently operating without a safety net (other than our reserve policy).

- FY20 is the first budget in the last 6 years where there is no budgeted surplus. This leaves the Village more susceptible and the need to react quickly in the event of further economic downturn.

Year	Budgeted Surplus
FY20	\$0
FY19	\$445,000
FY18	\$1,474,429
FY17	\$2,184,500
FY16	\$855,000
FY15	\$1,350,000

III.  
Current Status of Capital  
Improvement Program and Long-  
Term Funding Needs





# 5 Year Capital Improvement Program (CIP)

- The 5 year CIP presented to the Village Board on February 4, 2019 projects reserve balances will be depleted during the 3<sup>rd</sup> year (FY22) of the 5 year plan.
- This assumes no surplus transfers from the General Fund.
- The amount and availability of regular General Fund surpluses are not as reliable as in years' past. There have been no transfers made in the last 2 years.
- Without additional regular funding, the scope of capital infrastructure improvements will need to be cut back significantly.

Projected Reserve Balances					
Fund	FY20	FY21	FY22	FY23	FY24
Capital Projects Fund	\$5,827,158	\$2,755,158	(\$2,359,842)	(\$6,154,842)	(\$9,609,842)
Motor Fuel Tax Fund	<u>2,813,954</u>	<u>872,954</u>	<u>1,841,954</u>	<u>2,806,954</u>	<u>3,767,954</u>
Total CIP	<u>\$8,641,112</u>	<u>\$3,628,112</u>	<u>(\$517,888)</u>	<u>(\$3,347,888)</u>	<u>(\$5,841,888)</u>

# Capital Improvement Program Revenues

- What revenue levels are required to reasonably sustain the CIP into the future?
- Presently, the CIP has approximately \$2.0 million of regular, recurring revenue:

➤ State MFT (per capita)	\$ 1,010,000
➤ Local Gas Tax (4 cents)	<u>960,000</u>
Total	\$ 1,970,000

- With the July 1, 2019 increase in State motor fuel taxes, we project we will see an increase in State MFT funds of approximately \$12.80 per capita or \$508,000.
- This results in revised regular, recurring CIP revenues of approximately \$2.5 million annually.

# Capital Improvement Program Expenditures

- The CIP requires approximately \$5.6 million in regular annual funding per year over the next 5 years (net of programmed grant and other cost sharing funding).
- With \$2.5 million of current funding, this leaves a **shortfall of about \$3.1 million per year to adequately fund the program.**

5 Year CIP Program Expenditures, Revenues, and Funding Shortfall						
(in \$000's)	FY20	FY21	FY22	FY23	FY24	Total
CIP Expenses (net of grants)	\$4,955	\$7,213	\$6,247	\$4,880	\$4,544	\$27,839
Current Revenues	<u>(2,500)</u>	<u>(2,500)</u>	<u>(2,500)</u>	<u>(2,500)</u>	<u>(2,500)</u>	<u>(12,500)</u>
Funding Shortfall	<u>\$2,455</u>	<u>\$4,713</u>	<u>\$3,747</u>	<u>\$2,380</u>	<u>\$2,044</u>	<u>\$15,339</u>
	Average Annual Expenditures					\$5,568
	<b>Average Annual Funding Shortfall</b>					<b>\$3,068</b>

# IV. Long-Term Funding Considerations



# Long-Term Funding Considerations

With a focus on long-term sustainability in both operating (General Fund) and capital (CIP), minimally:

1. The General Fund is currently balanced and we must be able to continue to fund with current revenues or otherwise cut back on expenditures to maintain future balance.
2. The CIP needs \$3.1 million in additional revenues annually to sustain capital improvement projects that were previously presented to the Village Board on the next 5 year time horizon.

Considering the revenue adjustments the Village has implemented in the last several years, additional revenue sources and options are becoming more limited.

# Long-Term Funding Considerations

Some possible revenue impacts:

**0.25% increase in Home Rule Sales Tax** **\$1,250,000**

We would exceed all of our peers except one.

May be incentive for businesses to relocate.

**1 cent increase in Carol Stream Gasoline Tax** **\$230,000**

Carol Stream already at higher end of other local govts.

**Property Tax** **\$3,100,000**

Using 2018 Equalized Assessed Values, a \$3.1 million tax levy would result in a local tax bill of approx. **\$189** to the owner of median value home (\$231,400).

Property tax is the only solution that is stable and not subject to decline from economic or market downturn.

## Long-Term Funding Considerations

If property tax is considered with possible future elimination of vehicle sticker, add \$700,000.

### Property Tax

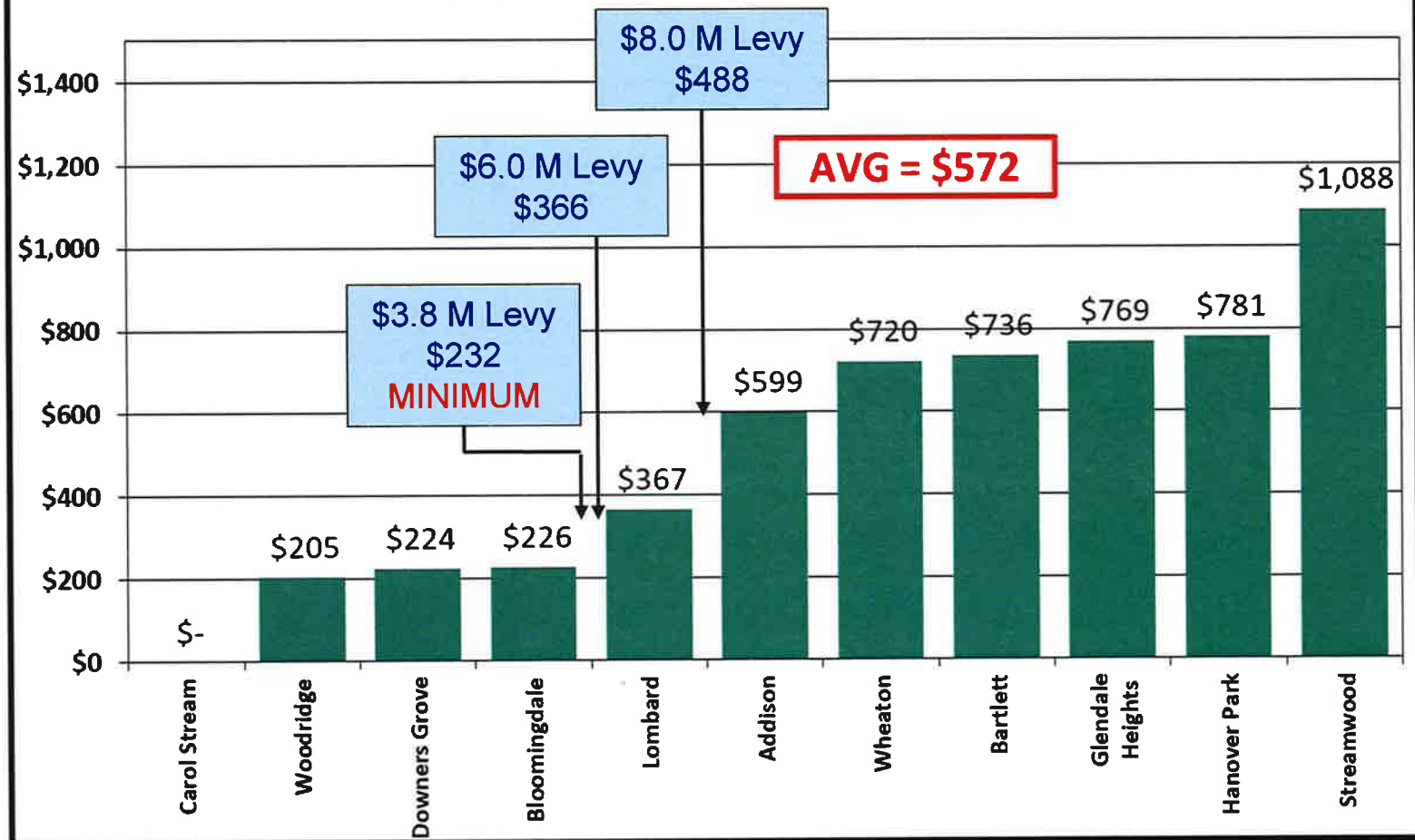
\$3,800,000

Using 2018 Equalized Assessed Values, a \$3.8 million tax levy would result in a local tax bill of approx. \$232 to the owner of median value home (\$231,400).

Recall that of our 10 municipal peers, the lowest local tax bill for the median value home was \$205 (Woodridge).

Using the scenario above, the Village's share of the total Carol Stream property tax bill would be 3.1%. Recall that the average of our 10 municipal peers is 8.3%.

## 2018 Municipal Property Tax Bill (paid in 2019) \$231,400 Median Home Market Value



Source: Comprehensive Annual Financial Reports/County Records.



# Long-Term Funding Considerations

Other factors to think about if a property tax were considered.

- Highly efficient, predictable and reliable revenue stream.
- DuPage County handles all extension and collection. While some have evaded vehicle sticker, all will now pay. Fairer, MUCH less labor intensive.
- Much needed stability to Village operations/capital funding. Recall that property taxes make up 25% of ALL peer governmental revenues.
- Approx. 40% of Carol Stream EAV is commercial/industrial that would contribute toward funding Village operations/capital. In our 2016 peer study, Carol Stream had higher percentage of commercial/industrial EAV than 9 of our 10 peers.
- [SB 1932 – Property Tax Relief Task Force \(Signed; Effective August 2, 2019\)](#) Should we be concerned there may be legislative preemption? Will Governor and General Assembly lock us out if progressive income tax referendum is approved in 2020?

# Long-Term Funding Considerations

## Using a Property Tax to Enhance Funding Stability

- Adding stability requires we look at the nature and characteristics of various revenue and expenditure streams.
- The Village's most basic of Village functions can be divided between:
  1. Day-to-Day Operations (General Fund)
  2. Long-range Capital Reinvestment (CIP)

# Long-Term Funding Considerations

## Using a Property Tax to Enhance Funding Stability

### General Fund Operations

- 75% is pay and benefit costs that are regularly paid on a bi-weekly basis.
- Modest capital / one-time costs and fewer “peaks/valleys”.
- Revenues must provide regular and predictable cash flows so that they match well to expenditure outflows.
- When revenues shift suddenly or otherwise do not perform as expected, we have to react quickly to balance the budget. (e.g. budget freezes/deferrals). This can be very disruptive to operations.

# Long-Term Funding Considerations

## Using a Property Tax to Enhance Funding Stability

### Capital Improvement Program

- Almost all high dollar, medium to longer term project life cycle. Pre-engineering to final construction.
- Frequent re-prioritization and shifts in timing of planned projects (e.g. Schmale Road Water Main).
- High reserve levels to fund near-term horizon projects (1-3 years) will allow for revenues that may be a bit more subject to variability in timing and amount.
- More time to address short-term negative revenue hits.
- Much more flexible in terms of cash flow when compared to General Fund.

# Long-Term Funding Considerations

## Using a Property Tax to Enhance Funding Stability

When matching revenue and expenditure characteristics, a General Fund property tax would provide greater stability than if it were a direct revenue of the Capital Projects Fund.

- Tying property taxes to Police Pension funding would add significant stability to General Fund operations. **9 of our 10 peers have a direct property tax levy to fund their Police Pension Funds.**
- Adopting a funding policy that property taxes be indexed to actuarially required pension contributions will ensure that pension contributions do not cannibalize other needed operating expenditures.
- Reassigning less predictable/stable General Fund revenue sources to the Capital Projects Fund (e.g. real estate transfer tax, telecommunications tax, electricity use tax, road & bridge tax) would further reduce volatility in the General Fund.

# Long-Term Funding Considerations

## General 2019 Property Tax Levy Timeline

- September, 2019 Carol Stream Library Board considers their 2019 property tax request and forwards to Village.
- October, 2019 Village adopts a resolution recording the determination of the amounts of money estimated to be needed from the property tax. This would include both Library and Village estimate.
- November, 2019 A public hearing would be noticed and required prior to adoption of the combined Village/Library levy. Once public hearing is closed, the Board may approve the levy by ordinance later the same meeting.
- December, 2019 Levy must be filed in the DuPage County Clerk's Office no later than the last Tuesday in December.

# Long-Term Funding Considerations

## General 2019 Property Tax Levy Timeline

- March, 2020      The County Clerk releases preliminary tax rates and extensions based on the adopted levy ordinance.
- May , 2020      Tax bills are mailed by DuPage County.
- July, 2020      First installment of tax collections are distributed to Village/Library.
- September, 2020      Second installment of tax collections are distributed to Village/Library.

V.  
Village Board Q&A and Feedback

