

VILLAGE OF BEECHER
FIVE YEAR FINANCIAL PLAN



FY 2010 - 2014



VILLAGE OF BEECHER

INCORPORATED 1883

724 Penfield Street
P.O. Box 1154
Beecher, Illinois 60401

Phone (708) 946-2261
Fax (708) 946-3764

www.villageofbeecher.org

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ADMINISTRATOR
ROBERT O. BARBER

MEMORANDUM

TO: Village President and Board of Trustees

FROM: Robert O. Barber, Village Administrator

DATE: December 11, 2009

RE: FIVE YEAR FINANCIAL PLAN FOR THE VILLAGE OF BEECHER FY 2010 - 2014

I am pleased to present to the Village Board a five year financial plan for the Village. This is the third year we have prepared such a plan, and this has become a useful tool in spotting trends in the financial data which impact us in the 3-5 year time frame. The key to the plan is an accurate projections of revenues. In this plan, we have tried to be extremely conservative in these projections. However, as the economy continues to slide, revenue projections continue to fall. We have built some cushion into this downfall, but will have to re-analyze all the numbers next year.

Executive Summary

If you do not want to read this entire report, the following paragraphs summarize the findings. In the General Fund, the next two fiscal years revenues and expenses were balanced using two small encumbrances or carry-overs of prior years fund balances totaling \$4,150 and two legitimate but one-time transfers: the repayment of \$31,838 next year from the MGM and Montalbano escrow for the reimbursement of engineering services not paid in 2008 and 2009, and a one time transfer of \$30,000 in the second year from the refuse fund for reimbursement of the brush and leaf collection programs from funds accumulated in the Refuse Fund which were not transferred to General in 2007 and 2008. This allows us to balance the General Fund and maintain our present fund balance until April 30, 2012. It is our sincere hope that the economy will begin a recovery by this time since you will observe a substantial slippage in the 3-5 year time frame. The plan does call for the replacement of a squad car in each year except 2011, when we are going to try to skip a year. We will deal with this issue next year. The police department is also slated for \$9,000 in replacement video cameras next year. Other than these items, there is no other planned capital spending over the five year period and this should be of some concern to the Village

Board. There has been some discussion of allowing department heads to pool their unused line items at the end of the fiscal year if they remain frugal and allowing them to propose the replacement of equipment using these unused line item amounts to the Village Board. This process would occur in the Spring of each year. There is also a need to establish an equipment sinking fund for our fleet and we will attempt to do this next year or once this recession begins to subside. All current positions approved by the Board are funded in this plan.

The Refuse Fund is balanced on paper but we do not know what will happen after June 1, 2013 when our current 10 year contract with Homewood Disposal expires. There will be some reserves available (\$57,000) to hedge against a dramatic rate increase at that time. Although budgeted, the yard waste bag program is going to be discontinued which will increase our available reserves by \$21,500. As we get closer to contract expiration we will hone in on the use of these reserves.

The Parks and Recreation Capital Improvement Fund is balanced for the five year period assuming that the projected park impact fees are collected. If no fees are collected, we will run dry in this account due to OSLAD loan payments by FY 2012/2013. The Village Board has already discussed the concept of using utility tax revenue to offset the cost of loan payments in the future if the need arises.

The Motor Fuel Tax Fund is balanced and establishes a contractual paint striping program beginning next year. Road salt and other road maintenance items are funded, but there is no allocation for capital, such as road resurfacing, until the 2006 MFT loan is paid off in 2016. This means that any major roadwork would have to be funded by the ½% infrastructure sales tax until that time.

The Public Infrastructure Account will be used extensively in 2010 to pay for the Village's portion of the Chestnut/Dixie traffic signal and east Church Road resurfacing. A short term loan from General may be required to front some of the costs of these projects and will be paid back by this account all in the same fiscal year as we discussed. However, in the second year and beyond the only funded project is the annual crack sealing program. This provides an average of \$130,000 per year for other road, water or sewer projects as the Board sees fit. We will discuss this further next year as to what our priorities are but staff would prefer to wait one more year before having this discussion.

The Water Fund is balanced for the next three years without any further rate increases assuming that usage remains flat. Years 4 and 5 become a bit more dicey. Again, no capital coming from this part of the plan. The O+M Account does have a \$120,000 fund balance, however at this time and a portion of this reserve can be used for a project down the road. Right now it is our cushion in the event of a catastrophe.

The Sewer Fund is balanced for the next two years without any further rate increases assuming that usage remains flat. The fallacy here, however is that we have systematically reduce our debt service transfers to the legal minimums required. In prior years, we have paid extra into the debt service fund to build up its fund balance. These extra transfers to the debt fund are no longer

possible given the current state of the Village's development slowdown.

The Water and Sewer Debt Service Fund remains in healthy financial condition despite the reduction of transfers into this account. All debt payments are covered with the transfers and increases in fund balance are projected to be about \$30,000 per year.

The Water and Sewer Capital Fund is funded primarily from tap-in fees and only a few are projected to be collected in the coming years. Therefore, we are living off of fund balance in this account and very few capital projects or equipment replacements will be possible. Those items which are funded in the five year plan include replacing the 8" pump at the sewer plant, the Maxwell Street waterman replacement, and the replacement of our large truck fleet through lease purchase in FY 2012 and beyond.

Overall Philosophy of Plan

There are several assumptions which have to be made prior to making financial forecasts and projecting expenditures. On the revenue side, the Village Board approved new housing starts projections for this plan at the October workshop and these are as follows:

NEW HOUSING STARTS

FY 09/10	8
FY 10/11	14
FY 11/12	24
FY 12/13	24
FY 13/14	24
TOTALS	94

We are carrying over 5 new housing starts from this year which were not budgeted so we only need three next year to reach the target of eight. Also, we can amend these numbers in the coming years if the economy does not change. The projections on building department fees collected were not amended, however, since the Village experiences an uptick on home improvement permits and additions which inflates the amount of building permit fees collected and expenses paid to Independent Inspections. Examples of these include Walt's expansion, Dutch American Foods expansion, Children's Plus expansion, and the nursing home expansion. These types of permits do not result in the collection of tap-in fees.

State income and sales taxes have shown a steep decline in the past year and these new collections are reflected in the financial plan.

On the expense side, worksheets were developed for personnel wage and benefit costs and if our assumptions hold we have these costs down to the penny. The Village Board desired to have all employees under the same umbrella as the recently-ratified police union contract for the next three years which will result in an increase of 4.75% for non-union employees and 2.75% for union employees next year. The difference is the 2% given to the police in 2009 while the remainder of the employees did not receive a COLA increase. For years four and five of the plan, a 3% COLA was assumed for planning purposes only. A 12% increase was assumed for health insurance benefits, and an 11% increase was assumed for IMRF.

Assumptions had to be made for many of the expense line items in future years and these assumptions are refined annually and are based on past trends. Street lighting should stabilize as the Village's street light network has stabilized. The Village also has a multi-year contract for the purchase of electricity for the water and sewer systems which makes these projections quite simple. There still is no provision in this plan for capital replacement which is the main weakness in our planning process. Once the economy turns around we must make an effort to establish such a fund to replace our aging fleet. However, given the downturn in revenues at this time we cannot afford to begin funding such a large program. Instead, Department Heads should be encouraged to trim line item expenses during the course of the fiscal year and use cash at the end of the fiscal year to make some equipment replacements.

Several personnel and other Village-wide costs such as comprehensive insurance and legal fees had to be shifted from one fund to another in order for the five year plan to be as balanced as possible. For example, Marcy Meyer was moved from Sewer to the General Fund to last year make room for the transfer of the billing technician from the Water Fund. This year, the billing technician was moved to the Sewer Fund. Also, General Fund pays for 66% of the liability insurance whereas last year the cost of insurance was split 75/25% between General and the Water and Sewer Fund. These actions were taken to balance the funds and can be justified based on the benefit each cost provides to each fund.

Debt Service transfers from the Water and Sewer fund to the Debt Service Fund are also being reduced to the legal minimums as set by ordinance in the coming years. In prior years, we were able to overfund the debt service account due to rapid growth. This will no longer be possible but the debt service payments will continue to be covered and the Debt Service Account will remain well-funded.

DETAILED EXPLANATION OF LINE ITEMS

General Fund Revenue

Real estate tax collections are projected to remain flat for the coming year with only very small increases in the next four years. This is due to a tax base that will either remain the same or even decline as lower assessments finally catch up with decreasing property values. The Village will

still be able to levy the same amount of funds but there will be no increases. The five year plan also breaks out the Operating, Road and Bridge, and Debt Service levies as separate line items. This revenue source cannot be relied upon in the future to sustain inflationary increases on the expense side and will further limit our ability to provide services. In other words, we will have to learn to live with less.

Building permit fees in the General Fund are shown as being higher than what would be expected with very few housing starts, but what we have experienced is an upswing in "popcorn" permits for fences, pools, decks, sheds, housing additions and even some commercial and industrial renovations. 70% of this fee is passed through to Independent Inspections.

State Income Taxes are hard to predict. We have conservatively estimated a significant decline from what we collected in FY2008, from \$88.75 per capita to \$78.36 per capita. We have relied less on the IML projections and are relying more on past trends since past IML projections have been too optimistic. There is an anticipated increase in population from the 2010 census from 4,111 to 4,400 and this will generate an additional \$22,646 in FY 2011. We will have an exact census count next year for our financial planning and this amount may be adjusted. A 3% increase in annual income tax collections is also predicted for years two through five.

Sales tax is another difficult predictor. The retail price and volume of gasoline, for example, can really affect sales tax collections. However, we have also seen a steep decline in collections from a peak of \$516,460 in FY 2008 to a current prediction of just \$417,235 in FY 2010. This is a decrease of 26%. In fact, FY 2014 sales taxes to be collected is projected to be only \$469,602; \$47,038 less than what was collected in FY 2008. When these revenue estimates are taken into account, it is easy to see how difficult it is to balance the General Fund in the five year plan.

There is only one new revenue source listed in the five year plan, and this is the increase in towing fees. No new taxes or fees were proposed. The new video gaming machine revenue sharing is an unknown and was not even considered in this plan. There are two planned interfund transfers in FY 2010 and FY 2011 which were explained earlier and are justifiable and necessary.

In total, General Fund Revenues after removing all grant income and pass-throughs will increase by only \$61,414 in FY 2010, \$52,132 in FY 2011, \$49,148 in FY 2012, \$67,903 in FY 2013, and \$86,232 in FY 2014. This means that five years from now we will only have \$316,829 more in revenue to work with than we have today. And this is only \$169,933 more than what we actually received in 2008. This will call for some real tight budgeting. These revenue increases basically keep up with the cost of inflation and will not provide new revenue for additional staff or capital items. If the census produces less than the 289 new heads we expect to obtain in April of 2010, these revenue predictions will be lower yet for next year.

