M E M O R A N D U M

TO: Village President and Board of Trustees

FROM: Robert O. Barber, Village Administrator

DATE: December 12, 2016

RE: FIVE YEAR FINANCIAL PLAN FOR THE VILLAGE OF BEECHER
FY 2017 - 2021

I am pleased to present to the Village Board a five year financial plan for the Village of Beecher. This is the tenth year we have prepared such a plan, and this document has become a useful tool in spotting trends in the financial data which will impact us in the 3 - 5 year time frame. Since the models used to build the plan are refined each year based on historic trends, we have become increasingly successful in projecting revenues and expenses. The key to the modeling is an accurate projection of revenues. This document was subject to approximately 100 hours of staff time preparation.

<u>Executive Summary</u>

These are the important bullet points (or the take-aways) of the five year plan:

☹ This five year plan does not answer all of the questions or address all of the issues. At the time this document was drafted the State of Illinois did not have a budget and many local revenues were in play. All assumptions were that the revenue streams would remain as they are.

✪ No new hires are planned for the coming five years. All part-time and full-time hours will remain at their current levels. However, part-time public works manhours have been shifted out of the Sewer Department and into the General Fund.

◙ There is a planned use of $162,500 in reserve cash in the General Fund to pay for the Gould Street Boardwalk, a railroad quiet zone through the community, and a new HVAC unit of the Village Hall.

✭In order to balance the General Fund over the five year period, reimbursements from EASTCOMM and the easement escrow from MGM Development are planned for use over the five year period. After that time, Walt's sales tax will be available.

☺ The downstate police pension is fully-funded in the fifth year of the plan using Walt's sales taxes.

✪ Over the next five years, the Village plans to replace the following equipment: the 1988 Ford F800 with a tandem-axle large dump truck in 2018, the 2003 310SG John Deere Backhoe in 2019, the 2005 Chevy 4x4 in 2020, and the 2006 Chevy mini-dump in 2021.

☺ Refuse Fund will continue to offset higher vendor fees with reserves but $40,000 will remain in the account in 2021 allowing for the purchase of a replacement brush chipper.

✪ MFT is scheduled to transfer $300,000 over the next five years to Infrastructure to pay for road resurfacing, while at the same time providing for the material needs of the Street Department.

☺ General Obligation Bond payments remain constant until 2020 at which time the Village is planning to refinance the bonds to reduce the amount of levy required in future years.

✪ Public Infrastructure Account (1/2% sales tax) is going to be used primarily to fund the Penfield Street STP Project scheduled in 2019. $200,000 from MFT will be used for Penfield and $150,000 is set aside for a resurfacing project in 2021. $25,000 minimum is set aside each year for crack sealing and the streets are scheduled for another layer of thermoplastic paint striping in 2020 for $50,000.

Water Fund is showing an operating deficit of stabilizing at $20,000 per year and it will require a minimum of an additional $0.20 of rate increase within the next year to eliminate this operating deficit moving forward, and to change the flat rate increase of $0.10 per year to $0.15 per year.

Sewer Fund is in a similar situation to the Water Fund where an additional $0.10 is needed to cover the next five years. However, we do not have a clue what the new plant will be costing us in terms of operations and Baxter and Woodman is recommending a $0.50 rate increase in 2019 to cover increased cost of electric power, labor and chemicals.

☺ Penfield Street watermain and Birch/Elm watermains will be replaced in 2017 using replacement funds and an IEPA loan. An additional $350,000 in watermain replacement scheduled for FY 18/19 for Gould Street and $150,000 in FY 20/21 for Oak Park Avenue.

☺ Despite using $350,000 in reserves and borrowing an additional $350,000 for Phase II engineering, the Debt Service Fund will still have a balance of $410,000 on April 30, 2022. However, an annual deficit of $70,000 per year will exist and somehow this revenue will have to generated starting in 2023. However, we hope to reduce the cost of this project and hence the loan amount to get the debt service repayments at or below $475,000 per year.

Introduction

There are no new full-time positions scheduled to be added in the coming five years. Part-time police officer hours were reduced from 6,300 to 6,100 hours per year to make room for a 6 hour day shift for the director of community policing/code enforcement/EMA Director. Also, 1,120 hours of part-time public works hours are funded in the Street Department for mowing, watering flowers and leaf collection.

The General Fund begins the five year plan period with a fund balance of $527,316. We had a fund balance of $592,975 in FY 12/13 but in FY 14/15 we used $295,000 in General Fund reserves for the new Village Hall (625 Dixie Project), resulting in a low fund balance of $324,603 on May 1, 2014. We plan to end this coming fiscal year with a fund balance of $527,000 which means we have recovered basically all but $70,000 of the reserves used in the 625 Dixie Highway project. In 2017, we plan to use $162,500 of these reserves for capital projects which brings our balance back down to $365,000. We should then be able to hold this fund balance for five years unless the Illinois General Assembly begins to tinker with the state income tax funding formula which we all expect may happen. Will they give or take away? This will seriously impact the five year plan and may require a revision of the plan later this Spring. Right now no one can predict what is going to happen. Until we have a better understanding of the future, we may have to freeze the use of cash reserves next year.

The Capital Equipment Sinking Fund Account (CESFA) is now in its sixth full year of operation and receiving pledged income from General and the Operations and Maintenance Accounts. No replacements are scheduled for FY 17/18 and in FY 18/19 we will replace the 1988 Ford F800 dump truck. In FY 19/20 we will replace the 2003 John Deere backhoe. In FY20/21 we will replace the 2005 Chevy mini-dump which is currently Matt Conner's truck. The 2006 Chevy mini-dump will then be replaced in FY21/22.

The Refuse Fund is using the planned draw down of reserves over the next five years to cover the cost of the 2013 contract renewal with Star/AJ/Homewood Disposal Service. However, this draw down is less than expected and this is due to an assumption of higher growth rates which would have required more reserves. Only $19,000 is planned for use to cover the cost of the contract. As a result staff is recommending the replacement of the brush chipper in FY 21/22 at a cost of $40,000 using the Refuse Fund for the purchase.

The Park Fund Account has been discontinued but for planning purposes we have kept it on paper to tract park impact fees. The "Due To" to the General Fund is expected to decrease from $183,171 today to $114,414 at the end of the five year period, based on the number of new housing starts predicted.

The Motor Fuel Tax Account will be funding some of the daily materials needs of public works, and remaining proceeds get banked for the Penfield Street STP Project in FY 2019/2020 and in FY 21/22 when $100,000 of this funding gets combined with public infrastructure funds. This account is still recovering from funding the Village's portion of the Safe Routes to Schools grant project. All of thee plans hinge on the State continuing to release MFT funds.

In 2016 the Village Board made a substantial financial commitment to the Penfield Street STP Project by adding the replacement of the Penfield Street bridge and off-street parking at Maxwell Street. The Public Infrastructure Account, combined with some help from MFT, will be carrying the load of $5 million dollar project by combining $315,000 in reserves in 2019 with a 10 year loan for $600,000 which will require annual debt service payments of $75,0000 starting in 2020. This very important project will delay the Village's 10 year resurfacing program until 2021 when only $150,000 will be available. However, projections tend to be conservative and we will see how much funding remains after the Penfield Street project is completed. Staff is confident that the $5 million price tag may be reduced to about $3.5 million lessening the burden on this fund.

The Water Fund is trending a deficit of $20,000 per year and this is due to the water billed being stagnant while costs increase. There is a hope that new meters being installed in the system combined with penalties and interest paid by customers which we do not budget will help the solvency of this fund. However, the Public Works Committee may need to consider an additional $0.20 rate increase in 2018 and the standard annual $0.10 rate increase each year to $0.15 to help pay for operations. What this five year plan shows us is that the annual rate increase set by ordinance only generates $11,000 per year in new revenue and this does not cover the increased cost of chemicals, personnel, electric power, and equipment repair. Also, there are very few new customers coming onto the system and water usage (or water billed) has remained and is projected to remain about the same. Staff believes this additional $0.20 in 2018 plus $0.05 per year will do the trick for the Water Fund for the next five years.

The Sewer Fund is more unpredictable. For the next two years the Fund will be stable but when the new sewer plant comes on line there will be increased operating costs and some efficiencies. Since we do not have a an O+M plan for the new plant yet, we do not know exactly what these costs will be but Baxter and Woodman has advised us that a $0.50 increase in the sewer rate in 2020 may be necessary to cover the $66,000 in projected increases in the operation of the new plant. This will be on top of the standard $0.10 increase each year. The Public Works Committee will also have to consider this in the coming years.

When looking at both Water and Sewer Funds, fund balance in O+M drops from $98,955 on May 1, 2016 to -($50,448) over the five year period. $40,000 of this drop is due to the payoff of the General Fund for the 625 Dixie Highway project, and the remaining $109,000 is due to operating deficits in each year of the plan in both the sewer and water departments.

Emergency reserves are set aside each year of pulling a well casing and for replacing a major component at the sewer plant but this year these funds were used mostly to replace 200 meters in the system. This explains the draw down on reserves in the prior year. Since funding will no longer be available for this purpose, we will have to use the Capital Account to continue the meter replacement program and for SCADA upgrades.

The Water and Sewer Capital Improvement Fund has little new revenue to work with as we wait for new tap-in fee collections which have been slow in coming. An elaborate list of projects and a vain attempt to fund them is provided, but the fact of the matter is there is no capital unless tap-in fees start flowing again. Staff is proposing to use mostly what is left in the Capital Account to purchase meters and complete the SCADA upgrade plan. There is also a need to conduct an SSES Report to the IEPA as part of our wastewater discharge permit in 2018 and the Capital Account is also funding this project.

The Water and Sewer Debt Service Fund is being re-purposed for the 2019 Sewer Plant Rehab project. The proposed loan of $9.2 million over 20 years at 1.86% will require $545,560 in annual payments and this is a significant nut to crack. 1/2% sales tax, combined with the utility tax and debt service charges on the waterbills will only generate $476,000 annually so there is a need to fill the $70,000 debt gap. However, the cost of the plant needs to be reduced to about $8 million and there is renewed hope of perhaps some loan forgiveness by the feds or a 30 year loan structure which will reduce our annual debt service requirements. Until we have a better handle on the cost of the new plant we will assume the worst. There is sufficient funding to cover debt service until about 2027 and the size of the community at that time may also dictate our options.

Overall Philosophy of the Plan

There are several assumptions which have to be made prior to making effective financial forecasts. On the revenue side, the following projections were made for new housing starts:

NEW HOUSING STARTS

FY 17/17	9
FY 18/19	12
FY 19/20	16
FY 20/21	21
FY 21/22	28

These predictions are consistent with past discussions with the Village Board as to how the community is going to grow. Until such time the foreclosed housing market is reduced and the price of housing increases (to a point where new construction is even profitable) there is little hope of seeing many new housing starts. All indications are that we remain in a one year window before the market turns around. For budgeting purposes we will continue to use zero housing starts to make sure we do not rely on new construction to fund operations.

The plan was also drafted prior to the Spring legislative agenda, so at this point we do not know if state revenues to municipalities are in jeopardy. What we did use, however, are the projections from the IML for State revenues with a one year lag and then added 2% per year after that. This strategy allows actual receipts to exceed revenues but downward trends can be spotted before they impact the budget. We also projected real estate taxes to remain the same in 2017 and 2018, and then only increase by 1.5% per year after that. These are annual decisions made by the Village Board and the actual levy is determined after more specific information is gathered and not based solely on this planning document. It is the Village's philosophy that until the assessed value begins increasing once again, any increase in the tax levy will result in a higher tax rate to residents. We have been advised that in 2017 we will see an increase in the EAV and even a larger increase ion 2018 as prices being to move upward and several vacant model homes which were off the roles have been sold and occupied. The nursing home expansion and the nine housing starts we had this year will also help in the future.

On the expense side, the Village can control its payroll costs by limiting the number of new hires. This five year plan does not provide for any new full-time hires in the next five years, but does continue to fund one part-time position in the Street Department and the use of part-time officers in the police department to cover the ever-increasing volume of time off for full-time officers. Wage increases for all employees in the first two years were based on the terms set in the four year contract for public works employees signed in 2016. After expiration of the current contracts, all employees were figured at 2.5% COLA increase per year.

Health insurance costs for police union employees were estimated to be $1,111 per month per employee in FY 2017/2018 as set by contract plus a 10% increase each year thereafter as provided by the contract. Health insurance costs for all other employees are scheduled to increase 10% for PPO and 5% for HMO on July 1, 2017 and then rise by 5% for PPO and 3% for HMO each year thereafter. If premiums exceed these projections, the Village is in a position to start reducing the quality of the plan since it currently meets the criteria of a Cadillac plan and will be subject to 40% taxation rates in 2018. Therefore, there will be a need to begin reducing the plan quality in the coming years. We will have no choice. The end result is that we will achieve these rates over the course of the five year plan.

Payments to employee pensions were estimated at 11.08% next year and 12% per year thereafter. The current rate is 11.62%. The 12% projection is quite aggressive and may drop to below 11% due to the performance of the market and our low unfunded liability. However, the Village's workforce is aging and hanging around so retirement costs keep going up.

Also, there are no shifts of employees from one fund to another to achieve fund balance over time. The permanent placement of employees in specific funds became a policy of the Village Board in 2010. If an employee is funded out of General, Water or Sewer that same employee will remain in these funds over the next five years. The only exception to this rule is the funding of part-time public works employees on an as-needed basis.

The Village is now a part of a new co-operative for liability coverage called the Illinois Municipal Insurance Cooperative, or IMIC. We will be starting our fourth year in this co-op in 2017. Rates have remained steady in this cooperative for the last three years. However, workers compensation went through the roof due to three major claims in the last three years, making the Village a high risk client. Worker's compensation went up by $4,000 this year, and we expect these rates to remain constant moving forward. However, If we can get these claims settled, the retention on the claim goes away and we can begin to reduce this amount. However, for the next five years staff has kept these rates at the current levels plus 5% per year.

The market for electric power continues to be highly competitive, allowing the Village to lock in rates at or below those experienced in previous years. Our current rate is locked in until June, 2017 through Constellation Energy. The Village spends over $226,000 per year on electrical usage alone so rates do become a budgeting concern. The cost of delivering electricity has gone up as Com Ed is charging us for smart grid improvements. Therefore, we will be budgeting a slight increase in these line items in the coming years.

The Debt Service Fund is experiencing a loss of revenue from lower than expected utility taxes. This is due to more efficient use of electric and natural gas by our residents and the relatively stable price of these commodities. Six years ago during the economic crisis, debt service payments from Water and Sewer into the debt fund were reduced to the minimum statutory limits being charged for debt in order to balance our operating accounts. In the past, the Village over-funded debt service in order to provide coverage on outstanding debt. These policies resulted in the need to use some reserve cash in the debt fund on an annual basis to make our debt payments which reduced our fund balance. The recent refinancing of the 2002 water tank loan produced some initial capital and lowered our annual payments so the use of reserves is now minimal. We have reached the low point of $318,000 on 5/1/16 but after final payment of $225,000 to the IEPA on the 1996 sewer plant rehab this revenue will be banked to provide coverage for the 2019 IEPA loan. Debt payments will exceed debt revenue by $70,000 beginning in 2023 and this will give the Village Board five years to monitor growth projections which will increase debt payments. It appears that 2027 will be the year of decision on how to keep paying for the sewer plant.

DETAILED EXPLANATION OF LINE ITEMS

General Fund Revenue

Projections on revenues have become more specific and defined since the Great Recession of 2007. Even the more inelastic revenue sources have remained flat. State revenue projections are determined by looking at what was collected in the past and then examining the Illinois Municipal League (IML) projections. Since revenues were overestimated by the IML in the 2007-2009 time frame, the modeling used by the League have also become much more conservative. This gives staff a greater comfort level with the IML models, but we still test them against our historical collections. An increase in population due to 2020 census from 4,359 to 5,000 will also have an impact on per capita incomes starting in 2021.

Also, the State of Illinois has us in a trick bag right now. At the date of this printing, we still do not have a State budget and there is no indication how the State fiscal crisis is going to affect cities and counties. Nearly 30% of our General Fund Revenue comes directly from the State and all of this money is currently in play. The loss of LGDF revenue, use taxes or MFT funds will have a significant impact on the Villages future budgets and this financial plan. Since we do not know what is going to happen, we have assumed in the plan that all revenue streams will remain the same.

The property tax levy is expected to remain flat for FY 17/18 and then be increased by 1.5% in the last four fiscal years. There are still calls for a property tax freeze in Springfield and we will have to amend future plans if such a bill becomes law.

There are no planned increases in any taxes or fees over the coming five year period other than the automatic $0.10 increase per 1,000 gallons in the water and sewer rates, and the annual refuse rate increase of $0.50 per month. These rates have been predetermined by ordinance. Video gaming, a new and very elastic revenue, continues to increase but at this time we do not know how many more machines will be installed in Beecher and how the saturation rate will affect overall receipts. Sit and Bull and the golf course may add machines in 2017, and there is also Chubby's and Lacey's which have not yet opened. However, staff believes that municipal receipts will eventually peak at $40,000 per year which means that $800,000 is being played on these machines annually in Beecher.

Assuming that projections are correct, we should see a 2% annual increase in state income tax payments over the five year period. To hedge inaccuracies in our projections, we have made very conservative estimates on sales tax, our second largest source of revenue. In FY 09/10, we received $431,406 in sales tax. This amount dropped to $390,356 in FY 11/12, $384,988 in FY 12/13, and $375,252 in FY 13/14. In FY 14/15 we finally turned the corner and collected $414,730 and $425,312 in FY 15/16. We are not quite back to our 2009 levels, but we are getting closer. Current receipts for the last 6 months have us trending lower at $404,476 which has us concerned and the IML is looking into this since it is a statewide problem. The addition of Dollar General and Casey's should help support the local sales tax, but we have not seen an uptick as a result yet. We are also waiting to see the impact of RP Lumber on our total collections. At one time Beatty Lumber was producing $220,000 in local sales taxes for Beecher and even $100,000 in new taxes would help. We will not have complete numbers on this until late in 2017.

Below is a chart on sales taxes collected by fiscal year.

TOTAL 1% MUNICIPAL SALES TAXES COLLECTED BY FISCAL YEAR

FY 04/05:	$ 630,063
FY 05/06:	$ 670,966
FY 06/07:	$ 654,945
FY 07/08:	$ 528,651
FY 08/09:	$ 516,460
FY 09/10:	$ 431,406
FY 10/11:	$ 429,127

FY 11/12:	$ 390,356
FY 12/13:	$ 384,988
FY 13/14:	$ 375,252
FY 14/15:	$ 414,730
FY 15/16:	$ 425,373
FY 16/17:	$ 404,476**
FY 17/18:	$ 412,970***

** based on average of first six months
***more conservative estimate since the price of gasoline has dipped.

Telecommunications taxes have been declining in recent years and we re projecting a decline each year from $116,086 in FY 14/15 to $106,000 in FY 21/22. This is down from a peak of $151,000 in 2009. We believe this steady decline and flattening of revenue is due to market saturation and the new unlimited rates (one rate for all) which most people now purchase. This revenue was transferred from Water and Sewer Debt to the General Fund in 2007 to make up for the loss of vehicle sticker revenue.

The following is an analysis of the change in the revenue stream for the General Fund over the five year period:

FY15/16	FY16/17	FY17/18	FY18/19	FY 19/20	FY 20/21	FY 21/22
$2,415,174	$2,459,959	$2,563,492	$2,503,112	$2,533,978	$2,606,400	$2,733,565
$81,747	$44,785	$103,533	($60,380)	$30,866	$72,422	$127,165
3.38%	1.85%	4.21%*	(2.36%)	1.23%	2.86%	4.88%**

*includes $162,500 in the use of reserve cash
**due to census increasing our population from 4,359 to 5,000 which increases per capita revenue from the State.

As you can see the revenues for the General Fund over the next five years remain rather flat. Revenues are only expected to increase by 10.82% over the next five years which is an average of only 2.16% per year. This is about the rate of inflation. If the tax levy continues to be frozen over this period, a significant portion of this increase would be lost. Since the cost of personnel and benefits is about 80% of the budget, personnel cost increases must be kept to a minimum. The only way to continue providing the same service and staffing levels during this period is to cut costs and operate more efficiently. This will be accomplished through such measures as decreasing health benefits, consolidated dispatching, and reducing material, contract services and legal costs. We also need to get our workers compensation costs down. This plan provides all of the current services we now offer using the revenues we plan to receive over the five year period with the use of only $13,800 in current reserves. As we get closer to these budget periods, we will obtain a better handle on these numbers. We also need to know what the State is going to do.

General Fund Expenses

This is the fifth year of scheduled payments to the Capital Equipment Sinking Fund Account (CEFSFA) as the General Fund repays over time what it has borrowed from CEFSFA for the purchase of the bucket truck, replacing the Supt. pick-up truck, replacing the TC33 in Firmen's Park with a larger Boomer 41 tractor. In that way, the money should be in place to replace this equipment after their normal life spans. In FY 2018 General is planned to being paying off the replacement of the 2006 mini-dump with a F450 dump and in FY 2020 the 2005 Chevy pick-up is planned for replacement.

Expenses are projected to exceed revenues by only $13,800 over the five year period and this is well-within acceptable limits of several million dollars. However, there are several one-time uses of cash used to get us through the next five years which will not be available beyond the five year time frame. This plan addresses the potential for funding a downstate police pension fund beginning in 2021 using Walt's sales tax collections after the rebate period ends. If the Village is under 5,000 population, this funding can be used elsewhere in the future.

Here is the scenario of operating deficits and their impact on fund balances:

YEAR	REVENUES OVER EXPENSES	PROJECTED YEAR END FUND BALANCE
FY 12/13	$162,018	$592,976
FY 13/14	- 257,483	324,604*
FY 14/15	16,557	373,474
FY 15/16	153,842	527,316
FY 16/17	0	527,316**
FY 17/18	- 163,942	363,374***
FY 18/19	4,557	367,931***
FY 19/20	- 3,391	364,540***
FY 20/21	- 3,564	360,976***
FY 21/22	- 10,060	350,916***

*one time drop for payment on 625 Dixie Highway Project
** budgeted but positive fund balance is likely
*** projections

As you can notice a significant drop in fund balance occurs in FY 13/14 as we used reserves to buy and rehab 625 Dixie Highway. At the close of this year, it is safe to assume that we will be back at the $600,000 level so in essence the Village Hall project is paid off. We then plan to use reserve cash for quiet zones, boardwalk and HVAC unit at $164,000 so our reserves will again dip to about $436,000. We will then hold at about this balance for the remainder of the five years.

We will have to watch these fund balances closely as time goes on. The IGFOA standard for fund balance is 25% of total operating expenses, or $685,906 on 4/30/22. As you can see we may be about $250,000 below this desired target in FY 2022, but given the financial times we are in we are fortunate to have any type of reserve. There is a need to increase our property values in the community over time and staff believes that a quiet zone combined with continued beautification, improving Penfield Street and replacing our watermains will help in this purpose.

In 2010, the Village Board expressed concerns regarding its increasing pension, health and liability insurance costs. Since that time, action was taken to stabilize these costs in the future. The Village had chosen to accelerate its payments to the IMRF since 2009 despite a poor economy and to not defer any liability. Since the market has come back strong and the IMRF investments have recovered all of its peak value, the Village is once again fully vested and rates will stabilize. We anticipate a 12% IMRF employer rate through the five year period. The current rate is dropping from 11.62% in 2016 to 11.08% in 2017.

Health insurance costs have also stabilized through our participation in the IPBC. In the past, we were subject to open market conditions and our experience factors and have been exposed to annual rate hikes as high as 15%. Through the use of self-funding, we have begun to stabilize these rates and build terminal reserves for future use. The plan assumes an 5% annual increase in years 2-5 based on the current plan we have selected. If these targets are not achieved staff plans to alter the plan design and use some terminal reserve to hedge costs. Through these means we should be able to achieve our targets and stay below the dreaded “cadillac tax”.

Police officer health insurance costs as set by the new Teamsters contract calls for the Village funding 100% of employee and dependent insurance costs which will be $1,111 per month in FY 2017/2018 and increasing at the rate of 10% per year. This self-funded rate is lower than the non-union IPBC rate but the benefits are also different. This has helped to cap the Village’s health insurance costs. However, at this rate of increase the Teamsters Plan will be more expensive than the Village’s non-union IPBC plan beginning in 2021.

Overall, the General Fund is paying for little in the way of new equipment or capital projects (other than a new squad car each year) since it funds most of the Village’s personnel costs. The silver lining may be RP Lumber’s increasing presence and the expiration of the Walt’s sales tax abatement. The picture looks brighter now this year than it did at the same time last year.

Listed below are details by Department:

Village President and Board of Trustees

Participation in the IML conference is being encouraged in the coming years, especially for newly-elected officials. $8,000 is being budgeted each year for the next five years. More Trustees will be encouraged to attend.

Advisory Board and Commissions

We anticipate very little change in this department over the planning period.

Department of Administration

The partial cost of the labor attorney is reflected here. We now have three unions to deal with. No other major changes anticipated here over the next five years.

Department of Inspectional Services

The Code Enforcement Officer is budgeted in this Department at 1,000 hours per year. Denis Tatgenhorst fills this role and combined with community policing and EMA, he works a total of 1,560 hours per year for a salary of $36,528. He is on a flex schedule to accommodate all of his different roles, and he is also the third car on the day shift. So, he is basically filling in four roles for the Village. SAFEBUILT Inspection Service is also budgeted here and its fees are based on annual building permit projections.

Emergency Services and Disaster Agency

This department covers siren maintenance and any disaster-response or preparedness costs. We also pay for our smart phone application and NIXLE annual fees out of this department to the tune of $5,500 per year with a COLA escalator. This department has been enhanced with the addition of a paid EMA Coordinator and a cadre of 15 volunteers so of course more funding is needed to support this unit. Filed supplies and training have been increased.

Department of Police

We are scheduled to replace a squad car in each fiscal year by paying cash. In 2018, $47,000 has been budgeted to replace all of the video cameras in the squads that are now obsolete. The Director of Community Policing pay has also been broken out of the part-time police pay. Part-time officer pay is also scheduled to increase by $0.25 per hour each year so we can catch up with the pay being offered by surrounding departments. 6,100 hours pf part-time police is budgeted above and beyond the Community Policing Director.

The cost of running the department increases by $169,657 or 12.01% during the span of the plan. This amounts to 2.40% per year which is more than the 2.0% average annual increase in General Fund revenues. In fact, General Fund revenues are expected to increase by $170,073over the next five years and the police department will need all but $416 of this amount to meet its needs.

Department of Environmental Health and Sanitation

No major changes. We will continue with mosquito spraying in house. We will have to address the issue of animal control if and when Dr. Dan McKay retires.

Department of Streets and Alleys

This department funds two full-time public works employees, and is scheduled to fund the only part-time employee pay in the public works department. The budget only increases by $52,240 over the five year period. All small equipment will have to be replaced using existing operating line items since they are not budgeted here.

Two new items are scheduled out of this department: $9,000 for a mower in 2018 and $5,200 for Hunter's Chase East pond maintenance each year for the next five years.

Another major unfunded item is ash tree removal. We have secured some additional funding for this purpose out of Motor Fuel Tax Funds but the key to our success with this program is the amount of removal we can do in-house. We will have to monitor this developing cost item. So far we have kept up with the tree removals and we may have reached the peak. Expect one to two more years of removals then the pressure will be on for new parkway trees to replace the bare areas in town.

Department of Buildings and Public Properties

We have hedged our building maintenance costs higher each year as we have added a new building and our other buildings are getting older. The depot/museum is becoming a concern since we have hardly invested any money into this building since it was relocated and renovated in 2000. The roof, HVAC, and exterior will become suspect in the next five years.

The police station at 724 Penfield is also on the watch list since the original furnace is in the older police station and the rooftop units are also over 20 years old. The roof warranty also expired last year on this building and we have been told to replace the roof by 2025 at a projected cost of $100,000.

Capital Improvements

Next year we propose to use $162,500 in cash reserves for quiet zones, the Gould Street Boardwalk, and replacing the HVAC at 625 Dixie. There are no other capital projects planned.

Comprehensive Expenses

Sales tax rebates reflect the agreement we have left with Walt's Grocery which lasts until the end of 2020. Until the Walt's agreement expires, this is one of the most elastic expenses as Walt's business volume grows. Property tax rebates will also stabilize and then decrease as the older agreements mature and payments cease. The only property tax rebates which remain is the new Dutch American agreement. Children's Plus is dropped off in FY 16/17. Some park impact fees are anticipated to be collected and will be deposited into the General Fund as repayment on the OSLAD loan, reducing the $183,171 "due to" on the books over time.

We are anticipating a steady rate in our workers compensation insurance as one claim comes to a close and two more are being adjudicated. We are hoping it begins to decline. Our 2015 premium has increased by $50,000 and could remain at this level during the coming plan period. We have assumed the worst and also included an escalator on that rate of 5%. However, if we can clear up these claims the premium will go down. This is beginning to happen now but the situation remains out of our control. This department pays half the total premiums for insurance and the Water and Sewer Funds each pay 1/4.

This department also handles all of the transfers out of the General Fund. The first is for transfer of tax levy funds to the G.O. Bond Redemption Fund for the payment of bonds per auditor recommendation. The second are annual transfers to CESFA for the payback of equipment purchased by the fund over time for street department equipment.

Parks and Recreation Department

The part-time position funded here is for the Fourth of July Commission employee which is funded by this group. New projects scheduled for funding next year are security cameras for Firemen's Park and $5,960 for an expansion and new sidewalls of the ice rink.

CESFA

This plan shows the equipment which has been purchased, the equipment scheduled for purchase over the next five years and the equipment that will need to be replaced beyond five years. At the end of the replacement schedule a new cycle of equipment replacement will begin. This plan will provide for adequate equipment replacement to provide the vital services for the Village, and will generate annual contributions from the other funds of $52,111 per year by FY 21/22. This fiscal exercise will allow for continual equipment replacement and should reduce the grief levels we experience every year when a Fund has to come up with a large amount to replace aging equipment. Last year, we replaced the 2001 mini-dump with a beefier F450 dump truck. This coming year we will take a year off to allow the fund to stabilize. In 2018, we plan to replace the F800 dump with another used tandem axle truck on the market for $69,000. The John Deere combination 310 SG tractor is scheduled for replacement in 2019 for $75,000. In 2020, we will be replacing the 2005 Chevy pick-up for $41,500. Then in 2021, we will replace the 2006 Chevy mini-dump for $58,000.

Refuse Fund

We now in our fourth year of a 10 year contract with Homewood Disposal and a rate structure in place which allows for planned use of reserve cash in this fund to reduce the impact of rising rates on Village residents. In the coming five years, $18,797 of $59,000 in available reserves will be used to hedge these rates, leaving $40,000 in the fund to help replace the brush chipper in FY 2021. The planned transfer of $1.35 per month per costumer from Refuse to General to help cover leaf collection and brush-pick up is also in the plan. Yardwaste bags will continue to be sold in house and is set us as a pass-through.

Parks and Recreation Capital Fund

This fund now acts as a pass-through for park impact fees which are collected and then turned back over to the General Fund to reduce a $183,171 "due to." It may be many years before positive activity is seen once again in this account.

Motor Fuel Tax Fund

The plan was to build up MFT reserves so that $200,000 could be transferred every third year into public infrastructure for the street resurfacing program. However, the per capita MFT allotments have been slowly declining and the cost of materials continue to increase making the build up of reserves more difficult. A transfer of $200,000 to Public Infrastructure is scheduled for 2019 and another $100,000 transfer is scheduled in 2021.

The Safe Routes to Schools Grant is also scheduled to be completed in 2017 with the Village's local match of $35,244 coming from the MFT Account.

Bond Redemption Account

This account has become a pass-through for the deposit of the real estate levy to pay off the bonds as is required by ordinance on annual basis.

Public Infrastructure Account

In the last year, the Village Board has decided to place all of its emphasis on completing the Penfield Street STP Project. The Board also decided to include the replacement of the bridge over Trim Creek. These actions have delayed plans to resurface Village streets every third year. Over the next three years, the Village will use reserves and operating revenue from this account, which is funded by the 1/2% sales tax, to complete $382,450 in engineering and pay back $100,000 in prior loans for engineering on the Penfield STP Project. In FY 2019, the Village will borrow another $600,000 in the form of a 10 year loan and provide $318,500 in 1/2% sales tax reserves as its local share of the massive $3.8 million Penfield Street reconstruction project. In the meantime, $25,000 is budgeted each year for crack sealing and the thermoplastic of Village streets is scheduled to be done again in 2020. This leaves $150,000 for a road resurfacing project in 2021. This will deplete the fund to a virtual zero balance at the end of 2021.

WATER FUND

Revenues for the Water Fund include the annual $0.10 rate increase which generates $11,000 per year, and the new high capacity user charge of $1.00 per 1,000 gallons over 30,000 gallons billed which is producing $13,000 annually. Despite these new revenues, the fund continues to struggle to meet the operating needs of the water system. The fund is balanced for the next five years, but materials to be purchased for the water system have been substantially reduced. The aggressive replacement of meters does not yet appear to have an impact on our water billed. Water billed has trended as follows:

2012	121,441,136
2013	121,082,637
2014	114,855,534
2015	109,037,710
2016	111,577,111*

*first five billings in 2016 and last billing in 2015

The loss of 10,000,000 gallons of water billed is 10,000 billings units x the rate. For the water department, this is a loss of $45,000. This decline in billing, coupled with $11,000 in outstanding credits for water usage (over-reading meters and new housing start credits), puts the Water Fund at a $56,000 operating loss. New revenues of $23,000 in rate increases and high capacity charges offset this loss, but we have to somehow turn around this lower gallons billed cycle. Lower usage could be attributed to wetter summer seasons, higher rates encouraging lower consumption, and more efficient water fixtures mandated by state law. If these assumptions were true, then water pumped should be going down. Let’s see:

YEAR	GALLONS BILLED	GALLONS PUMPED	DIFFERENCE
2012	121,441,136	170,013,000	48,568,000
2013	121,082,637	187,076,000	65,993,363
2014	114,855,534	197,987,000	83,131,646
2015	109,037,710	176,712,000	67,674,290
2016	111,577,111*	147,554,000	35,976,889

2016 was a better year in terms of a pumped to billed ratio of 75.62%. But the fact remains gallons billed is declining and there is a need to deal with the fact that we are going to have less revenue to operate in the Water and Sewer Departments. We are able to show that we can operate the Water Department for the next five years without using cash reserves, but no new meters can be purchased and watermain repair materials must be kept at a minimum. If we continue to spend like we have in the past (spending reserves on meters and going over budget on line items), the O+M Fund of the Village will go insolvent in two years. We need to raise revenues, cut expenses, or divert some expenses to some other funds.

The watermain replacement charge of $1 per 1,000 gallons generates $113,000 per year. The flat charge for watermain replacement generates $40,000 per year. These two line items are to be transferred at minimum annually to the Watermain Replacement Account.

Rates and charges are established to provide adequate water service to the community over the plan period. Any increase in water charges above what is projected will be required for use as capital replacement. A minimum fund balance of $300,662 should be targeted for the O+M Account based on IGFOA Standards to use as a rainy day fund for emergency repairs and loss of income. The projected fund balance at the end of this five year plan is a staggering $-50,448. This would require borrowing from other funds to meet payrolls. We need to work over the next five years getting the water and sewer departments back into acceptable financial condition, and this may include raising the water rate.

SEWER FUND

Lift station charges and debt service charges are being shown as separate line items to provide the Board with more detailed information. Sewer Fund collections were determined by taking the actual amount of collections in the most recent 12 months ($466,539) and adding the $0.10 rate increase on one and one-half years of water billed ($16,500) to come up with a projection of $483,606 for FY 17/18. The annual $0.10 increase ($11,000) was then added for each additional year plus 1% per year for new usage. Lift station and debt service charges were based on the number of billing units per fiscal year for each.

Part-time labor in the Sewer Department was shifted to the Street Department in the General Fund since the emphasis next year with part-time will be to water flowers and maintain parks. The sewer plant operator's contract expires in February, 2018, and we have budgeted an additional $5,000 per year for this renewal since we will require a Class I license operation.

There are several capital items needing attention at the plant but we are approaching the point where we will let them go until the major plant rehab in 2019 since we will achieve a better economies of scale. However, some work will have to be done just to keep the plant operating at 100% efficiency. We have to run the plant at 100% since flows into the plant exceed its design capacity. Therefore, every pump and blower we have must remain in operating condition.

As is the case in the Water Fund, there is no allocation for capital in the Sewer Fund over the five year period with the exception the annual repayment to CESFA for the replacement of the 2005 International in FY 12/13, skid steer loader in FY 13/14, and 2004 utility truck in FY 14/15. We are just paying for the operation and the debt service of the system. Therefore, the rates currently being charged do not reflect the need to begin replacing aging equipment, leaky sewer pipes or wastewater treatment plant rehabilitation and these repairs will have to be funded from other sources. The amount of unencumbered fund balance is only $20,195 in the O+M Account which is currently a contingency reserve. This amount can be used for any emergency which may occur resulting in major repairs to the system. This funding is also shared with the Water Department. Out target for this reserve is now $300,000 but hitting this target can only be accomplished by considering unobligated reserves in the debt service and capital accounts.

The Sewer Department is balanced for the next two years and shows a slight and manageable deficit in years 3,4 and 5. This is good news for a fund which has been burdened in the past with a huge debt and unforseen catastrophes. Hopefully the meter replacement program will generate some more billable water and continue to take some pressure off of the water and sewer funds, or a leak is found reducing operating expenses. However, staff is seriously considering a recommendation to increase the sewer rate by $0.50 per 1,000 gallons starting in 2019 to help pay for the increased cost of operating the new sewer plant. This rate increase would provide about $55,000 in new revenue each year given current usage.

WATER AND SEWER CAPITAL FUND

The Village has taken the position that tap-in fees shall not be used as a source of future revenue. Therefore, only what is actually in the bank can be used and any use of this funding is viewed upon as deficit spending. The Water and Sewer Capital Fund has $52,750 on account and this is from prior tap-in fees collected. In FY 14/15, the Village collected $10,067 in tap-in fees in FY 15/16, $27,506 was collected. So far in FY 16/17, only $5,266 was collected but there are $31,596 in deferred tap-in fees pulled which will be paid in 2017. This fund has remained steady until last year when it was decided that reserves would be used to pay for water meters. So far, $20,500 has been spend on new meters. The plan is to continue the meter replacement program using these funds. In addition, $15,000 is budgeted for a sanitary sewer collection study and $31,700 is budgeted for completing the SCADA upgrade program which will bring this fund down to a balance of about $10,000 by May 1, 2018. We will need more tap-in fees to be paid into this fund if we wish to continue replacing meters with this funding after next year.

Other capital needs include replacing the columnar pipe in Wells #3 and #4, replacing the force main at the Miller Street lift station, rebuilding the lift station on Fairway Drive, washing the water tower and above ground tank, back-up power for Well #4, and replacing the 500 gpm submersible pump and motor at Well #5 . Scheduled also is the replacing one pump at the sewer plant each year and up to $2,500 in repairs to the water system. Economic Development and the Village Planner are also funded out of Water and Sewer Capital due to the unavailability of any other revenue source.

There are three major projects planned in the coming five years and each deserves its own discussion as part of the plan.

<u>Penfield Street Watermain Replacement</u>

The plan now calls for this project to be completed in the Summer of 2017. The estimated cost of construction for Penfield from Reed to Dixie is $1,680,000 which would include a 4" final surface patch along Penfield and not the more permanent 5" bituminous and 1.5" final surface patch. The 4" final surface patch would last for two to three years, at which time the Penfield STP project would begin.

$1,680,000 borrowed for 20 years at 1.86% would yield an annual payment as follows:

$1,680,000 x 0.0186 x 20 /2 = $312,480 in total interest paid.

$312,480 + $1,680,000 = $1,992,480 in total debt service over 20 year period, or $99,624 per year in annual payments.

The Village currently collects $149,000 per year for watermain replacement which will then leave $50,000 per year for other projects. The next major undertaking will be the rpalcement of the main on Gould Street from Miller on south at an estimated cost of $350,000 in 2019. In 2021, the main on Oak Park will be replaced from Indiana to Penfield and from Hodges to Miller.

<u>Penfield STP Project</u>

This project has evolved into a much larger undertaking since last year's plan update. The Village borrowed $150,000 to complete Phase I engineering and has now added another $75,000 in Phase I design costs for the replacement of the Penfield Street bridge. In FY 2019, we would then apply for a conventional loan in the amount of $600,000 for a period of 10 years and use another $318,500 in accumulated reserves from MFT ($200,000) and Public Infrastructure ($118,500) to complete the Penfield STP project which would include $3,276,400 in federal funds for a total project cost of $4,194,900. The loan would cost us a follows:

$600,000 x 5% x 10 / 2 = $150,000 in interest.

$600,000 + $150,000 = $750,000/ 10 annual payments = $75,000.

The Public Infrastucture Account would be generating $147,000 at this point annually so $72,000 would still be available each year for other road projects. This would allow for a $150,000 project in 2021.

Sewer Plant Rehabilitation/Expansion

What has always made us uncomfortable about long term borrowing large amounts for other projects is the looming sewer plant rehabilitation project. We are now living on borrowed time as the IEPA has issued a new operating permit for our sewer plant but with additional treatment requirement which are required to be in place by 2019. The Village will have to expand the plant to at least 0.9 MGD, add sludge dewatering, phosphoreus removal and ultraviolet lighting. The Village will also replace its diesel back-up pumps which date back to 1991.

If the Village completes Phase I of this project which is the loan eligibility and preliminary engineering report at a cost of $50,000, the IEPA will give the Village up to three years to complete the rehabilitation. This plan was submitted on May 1, 2016. This gives the Village until the Fall of 2019 to have the improvements in place. We will then plan to move forward with this project in FY 18/19. The Village borrowed $350,000 as an interest-only balloon loan which comes due on January 30, 2018 and the plan is to use IEPA loan proceeds to pay off this loan, similar to a bridge loan. The Village will then apply for an IEPA loan this Summer in the amount of $9.2 million for a period of 20 years at an assumed rate of 1.86%. We are hoping to pare the project down to about $8 million or get some loan releif or an extension to 30 years from the IEPA by 2018 but we have to first prove that we can afford this worse case scenario project. The payments would be as follows:

$9,200,000 x 1.86% x 20 years /2 = $1,711,200 in interest

$9,200,000 + $1,711,200 = $10,911,200 / 20 annual payments = $545,560.

Utility Tax	=	$198,000
1/2% increase in sales tax for sewer plant debt	=	$145,000
Sewer Debt Charges	=	$122,000
TOTAL AVAILABLE FOR SEWER PLANT DEBT:		$465,000

We are basically $80,000 short per year on making our debt payments on the $9.2 million project. Baxter and Woodman is going to advise the IEPA that the Village would be willing and able to raise the sewer rate by $0.60 per 1,000 gallons starting in 2020 to help pay off the loan, but in reality this may not have to happen as we get bids, make adjustments, and lower the cost of the project. There is also talk of loan forgiveness and a 30 year term (which would drop our payment to $392,227 per year) and this would be of great help to our finances. We are not panicking yet but we are moving forward with this project with all these options in play.

WATER AND SEWER DEBT SERVICE FUND

The financing of the wastewater treatment plant is discussed above, so we will now focus on the condition of this fund over the next five years. In December of 2016 we made our last payment to the IEPA on the 1996 sewer plant expansion loan. Until such time we being to repay the new loan (and this appears to be in 2019 at the earliest) we will accumulate approximately $450,000 in this account on debt charges not being used to pay off the loan. In addition, the IEPA is going to reimburse the Village $620,000 on the day of loan closing for engineering spent to date. The Village will then pay off the $350,000 loan to the bank at that time, leaving an additional $270,000. The account itself should have another $135,000 in reserve so the total cash on hand on May 1, 2018 is expected to be $865,000. This money will be used to pay the contractor on the sewer plant project and then getting reimbursed in installments from the IEPA. Once this project is complete, the Village will use the $865,000 to defease the 2002 Water Tank Loan on May 1, 2019, which will require $372,693. In 2023, there should be $492,307 remaining in the debt service fund as coverage on the sewer treatment plant loan. However, in the event the Village borrows the full $9.2 million for 20 years for the sewer plant project and defers any rate increases to cover the debt, we would have about 6 years worth of reserves to cover the payments. Staff is comfortable with the plans in place.

AN OVERALL FINANCIAL STRATEGY FOR THE FUTURE

The Village Board has positioned itself to deal with long term financial needs by using fiscal discipline in making annual payments to the Capital Equipment Sinking Fund Account for equipment it has already purchased. The Village has also had to produce an operating budget that is balanced in a poor Illinois economy, which was already difficult, but it also faces the prospect of decreasing state revenue as the lack of a budget for the State of Illinois and rapidly increasing deficits has the State heading on a high speed one-way trip to a brick wall. The future of the Village lies with the future of the State, and right now this is not predictable.

All current debt is covered, but staff would advise against incurring any new debt unless absolutely necessary until our current debt load is reduced. The future capital needs of the wastewater treatment plant can be provided by the current utility tax, debt service charges and a new ½% sales tax approved by voters. The water tank loan is paid off in 2023. Walt's sales tax reimbursement agreement expires in 2020 which should net $150,000 per year for the General Fund at that time. Right now it is pegged for police pension payments in the event we go over 5,000 population. There is also a need to re-structure the G.O. Bond for the new PW facility since payments start to ramp up in a few years to near double the current amount. This project has already begun. The Village's infrastructure also continues to age, and the watermain replacement account with the new $1 water rate increase pledged for main replacement will begin addressing this necessity, with the first focus being Penfield Street. A rate increase will be considered in the coming year for the Water and Sewer Funds as they atruggle to meet operating expenses due to shrinking billable gallons.

Another major project on the horizon is the Penfield Street STP project, with $3,276,400 in federal funding and $918,500 in Village funding (with $600,000 coming from a 10 year loan from a local bank) to complete the $4,194,900 project from Dixie to Reed. This project is slated to begin in 2019.

This is the financial plan for the Village for FY 2017 through FY 2021 as of December 9, 2016. All projections and assumptions were made using data collected prior to this date. It is hoped that this work product is a useful planning tool as we prepare a budget for the coming fiscal year.

Robert O. Barber
Village Administrator