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I. INTRODUCTION

October 18, 2020

Honorable President McGinley and Village Board of Trustees
Village of Glen Ellyn

Subject: Budget Transmittal for Fiscal Year 2021—Recommended Draft Budget

Introduction

Transmitted with this letter is the recommended draft budget of the Village of Glen Ellyn for Fiscal Year 2021 (FY21), which runs from January 1, 2021 through December 31, 2021. This document presents a comprehensive look at major financial and non-financial goals and priorities for the Village both from a near-term as well as a long-range perspective. This document, in many ways, acts as the corporate plan for the Village over the next twelve months. The budget formation was again conducted through a zero-based budget process. The FY21 budget process required all departments to justify all line items and summarize the need for all expenses incorporated in their respective department budgets. This process, allocating scarce resources and prioritizing programs and projects, is difficult each year because the demand for municipal services often exceeds the revenues available to pay for those services.

The budget consists of 17 different funds, many summarized below. The 2021 budget can be bifurcated into capital and operating components. The operating components provide consistent Village services, and the Village has budgeted to maintain the same level of service to the residents as in prior years. The capital component fluctuates from year to year and is based upon the Village's capital plan. The 2021 budget has a capital focus as the Village continues many high profile capital projects, while also maintaining current street and infrastructure programs. Highlighted by the table below, the major change from the FY20 to FY1 budget is in the capital plan. The operating budget increased by $899,619. The 2021 budget includes $500,000 of Covid-19 expenditures to continue to address the Covid-19 pandemic. The 2020 budget did not anticipate a pandemic. The capital budget decreased by $13,686,592. The 2020 budget included $16 million to construct a parking garage behind the Civic Center. The 2021 budget assumes that $11.5 of this will be spent in 2020 and budgets a remaining $4.5 million to be spent in 2021.

	2020 original budget	2021 proposed budget	$ Change	% Change
Operating (net of transfers)	$40,088,450	$40,988,069	$899,619	2.24%
Capital & Debt Service	$37,298,794	$23,701,787	-$13,686,592	-36.45%
Total Budget	$77,387,244	$64,689,856	-$12,697,388	-16.41%

One notable item budgeted for in 2021 is $500,000 in Covid-19 related expenditures which was not budgeted for in 2020. Were this item not included in the operating budget, the comparison to 2020 would be as follows:

	2020 original budget	2021 proposed budget	$ Change	% Change
Operating (net of transfers)	$40,088,450	$40,488,069	$399,619	0.10%
Capital & Debt Service	$37,298,794	$23,701,787	-$13,686,592	-36.45%
Total Budget	$77,387,244	$64,689,856	-$12,697,388	-16.41%

As can be noted by the table above, the 2021 budget includes a very minimal operating increase and demonstrates that the Village is mindful of its financial position as it moves into 2021.

BUDGET OVERVIEW

Financial Scorecard

In order to provide context for the merits and challenges of the Village's financial standing as the Village prepares its budget for Fiscal Year 2021, it is important to review the highlights of the Village's Scorecard, which was updated at the beginning of 2020, before the Covid-19 pandemic. The Scorecard compares and contrasts the Village's financial performance to its peers. In the Scorecard, the Village was identified to have a strong financial position with less debt and lower pension liabilities than its peers. The Village also fell on the low to moderate range among the peer communities on expenditures.

The Village also fared well in its ranking for property taxes going to the Village/Library for a median value home. The Scorecard did underscore the need for the Village to stimulate economic development to increase the non-residential property tax base. Increasing the non-residential property tax base could shift the property tax burden from the residential properties and may also increase sales tax and home rule sales tax revenues to the Village. The full scorecard can be found on the Village's website.

Covid-19 Pandemic Effect on the 2021 budget

It is not possible to discuss or review the 2021 budget without considering the impact of the Covid-19 pandemic. From a budgeting standpoint, the challenge of the pandemic is that it not been experienced in recent history and its end date is unknown. The pandemic began at the end of the first quarter of 2020. The Village responded quickly, modeling potential financial impact of the event and discussing with the Village Board as early as March 2020. The Village updated its financial modeling several times over the course of 2020, each time sharing the results with the Village Board. To date, the financial impact, while still significant, has fallen at the lower range of the projections. This is not to say that the Village should not be concerned. While certainly the Village's low reliance on sales taxes and high concentration of grocers has helped its financial position, the unknown end date of this pandemic must be considered.

The fund most affected by the pandemic is the Village's General Fund. The chart below highlights the 2020 budgeted revenues and subsequent modeling for both the Village's General Fund and Capital Projects Fund. The chart also highlights the revenues budgeted for 2021, adjusting for several one-time transfers to make the amounts comparable to the 2020 estimates.

	General Fund Revenues	Capital Projects Fund Revenues (not including bond proceeds)
2020 budget	$19,557,485	$9,053,269
Estimate – March 2020	Original Model showed a revenue reduction range between a $876,364 and $6.7 million	Original model showed revenue a reduction range between $250,833 and $1.4 million
Estimate – July 2020	$18,255,899	$8,620,269
Estimate – September 2020	$18,735,237	$8,619,269
2021 budget – adjusted for one-time transfers	$18,504,529	$8,802,266

The Village's 2021 budget responds to Covid-19 in several ways:

- Reduced revenue estimates – As noted above, the budgeted revenues in the General Fund and Capital Projects Fund, as well as others, have been decreased from 2020.
- The Village estimates to incur $500,000 in various expenditures (not including personnel) for 2020 and 2021. This includes expenditures such as PPE and cleaning/sanitization of Village facilities. It also includes support that the Village has provided to businesses in 2020. In 2021, $500,000 of expenditures are included in the General Fund budget as a contingency for Covid-19 expenditures as well as revenue reductions the Village may encounter.
- As positions became vacant during 2020, the Village froze or reduced positions. The savings from these three positions are approximately $250,000.
- The recommended budget includes two one-time transfers from the Equipment Services Fund and Insurance Fund to offset revenue reductions in the operating Funds. The Equipment Services Fund is transferring $300,000 to the General Fund. This represents a transfer of available funds in the Equipment Services Fund and should only be considered for 2021 and not subsequent years. The Insurance Fund is transferring the equivalent amount of one month's health insurance premium back to the operating funds and represents a rebate of one month of health insurance premium to the operating funds (General Fund, Water & Sewer Fund, Equipment Services Fund, and Village Links/Reserve 22 Fund).
- The Village has budgeted to receive $1.5 million in CARES Funding through DuPage County in the General Fund in 2020. This helps to create a surplus of $1.0 million in 2020 which then offsets the loss in 2021 of $1.6 million.
- With the CARES funding, the Village will use $610,000 of General Fund reserves from both 2020 and 2021. The Village feels this is a prudent use of reserves. This will help maintain reserve levels in the General Fund in the event that 2021 is worse than projected or if pandemic (or its financial consequences) continues into 2022.
- At this time, new revenue sources are not included in the 2021 budget.

The Village's Capital Projects Fund budget is impacted by Covid-19, but less so. The steps taken to address Covid-19 in the 2021 budget:

- The 2021 budget includes revenue reductions in the food and beverage tax and the real estate transfer tax in line with the Village's financial models.
- The Capital Program has inherent flexibility. Unlike the operating funds that are largely driven by payroll expenditures, the Capital Program can be managed by each individual project. The Village can evaluate each project before it proceeds and the revenues available to fund that project. Projects can be deferred if there is a level financial concern that indicates that it is prudent to do so. Due to their size, most capital projects must be approved by the Village Board before they can proceed. This allows the Village Board to evaluate the merits of each project combined with the current financial picture to determine if it is financially prudent to move forward.

At the Village closes 2020 and moves into 2021, it will continue to update its financial projects and make adjustments necessary to respond to the Covid-19 pandemic.

2021 Budget Highlights

As noted in the introduction, the Village's budget can be bifurcated into an operating budget and a capital program. The capital plan was presented to the Village Board in September 2020. The budget is based off of this plan and the pertinent details of the capital plan are outlined below.

Operating Budget

Village Operations make up 63% of the total budget for all funds in FY21. Operating costs typically are associated with the provision of day-to-day basic Village services. This includes all staffing costs, various contract and consulting services, the purchase of a number of materials and commodities, and expenditures related to the maintenance of Village owned assets and rights of way. Some examples of Village operating expenditures/expenses include:

- Police and fire protection
- Purchase of Lake Michigan water
- Economic development awards
- Volunteer Fire Company support
- Golf course maintenance
- Street sweeping
- Tree planting, maintenance, removal
- Parking facilities
- Employment benefits
- Police and fire dispatch services
- Treatment of sanitary sewage by the Glenbard Wastewater Authority
- Weekly garbage pick-up
- General, liability, property and workers compensation insurance
- Snow and ice control
- Water and sewer system maintenance
- Pavement patching, line striping, and roadway signage
- Ambulance service contract
- Retirement benefits administration (Police Pension Fund)
- Covid-19 pandemic expenses

In many ways, these costs are non-discretionary, if we want to maintain the same level of services we currently provide. The discretionary portion of the budget: materials, dues and subscriptions, training, supplies, uniforms, postage, etc., has remained flat for many years which limits our ability to control overall costs.

To provide these services, the Village is ever mindful of controlling costs where possible. Initiatives to control costs over the past few years include, but are not limited to:

- Participation in Insurance Pools for health, liability, property and workers compensation insurance
- Eliminated separate Economic Development Corporation
- Shifted legal in-house and consolidated Village Clerk/Switchboard operations
- Shifted to a turnkey EMS Operation
- Shifted towards outsourcing GIS model
- Implementation of administrative adjudication for certain violations
- Embraced intergovernmental partnerships, including one with COD (College of DuPage) to offset costs to renovate the Civic Center ($2.5M), Lombard to share future costs of water main improvement on Hill Ave., Lombard to share revenue for a new gas station in unincorporated Lombard on Roosevelt Rd., School District 41 to share costs of water main upgrade near Hadley School; County Forest Preserve to lease building on St. Charles Rd. for salt storage; and other partnerships.
- Shared internal services with the Glen Ellyn Public Library and Glenbard Wastewater. The Village manages health insurance, banking services, purchasing cards and IMRF for both entities. The Village's Finance Department and HR department also provides day-to-day services for the Glenbard Wastewater Authority.

Personnel Costs are the largest component of the operating budget. These costs are the largest expense for any municipality, so we pay special attention to all components of personnel. We continue to be one of the lowest users of full-time employees per capita in DuPage County. The Scorecard, updated in 2020, showed the Village ranking 5 out of 12 on the number of full time equivalent employees and 7 out of 12 on the number of FTE per 1,000 residents. The Village was ranked 4 out of 12 for the number of full-time employees. Job sharing and the utilization of seasonal employees and part-time employees allow us to control health insurance and pension costs.
Highlights of the 2021 budget in regards to personnel include:

- Overall personnel costs (salaries, overtime, FICA, and pension) are increased by 3.4% from FY2020 to FY2021. A minimal increase of 1.2% in pensionable non-sworn salaries is balanced by an increase in sworn/police salaries of 6.9%. Police pension costs also increased by 5.1% due to Tier 2 benefit changes made by the State of Illinois and the natural increase due to payroll growth.

- Three positions are frozen in 2021, including a Payroll Specialist, Administrative Assistant in Community Development, and a Police Program Coordinator. The budget also makes the Economic Development Coordinator part-time instead of full time. These changes save the Village approximately $250,000 in 2021.

- The Village is in the seventh year of a merit based pay system for non-union employees that allows Management to establish a scale and reward top performers more effectively. The FY21 budget recommends a merit pool of 2.25%, at a cost of approximately $204,500, which includes payroll tax and pension costs. The budget also includes a 2.25% increase for the police union effective November 1, 2020 and a 2.25% increase effective November 1, 2021, which are part of the police contract.

- The IMRF pension rate (for those pensions for non-sworn employees) decreased from 9.09% of covered payroll to 8.92% of covered payroll in 2021. This yields minimal savings.

- The Village budget assumes a 4% increase in health insurance premiums, effective July 1, 2021.

- The budget includes personnel changes made throughout FY20, including reverting the Economic Development Coordinator position back to part-time. In Community Development, a planner was promoted to Planning Manager to provide additional supervisory bandwidth to that division and a Building Inspector was promoted to an Inspection Manager. A part-time Permit Clerk position was also made full-time. These modifications in Community Development were in lieu of filling the Senior Building Inspector position. The FY20 budget included adding one sworn police officer and allowing the police department to over hire by two officers. This is continued into FY21.

- The budget includes a sworn police staff level of 40, maintaining the increase of one officer that was done in FY20. Additionally, the Police Department continues to have the ability to over hire by two officers. The department has struggled to remain at a full staffing level for many years due to retirements, resignations, and leaves of absence. Once the department reaches and maintains full staffing, the over-hire positions would be eliminated. The Village is also in the process of conducting a police staffing study to evaluate and recommend levels of staffing for the police department. The Village will fund this study with forfeiture dollars, if available. The study is anticipated to be completed in early 2021. At that time, the Village will determine if and what changes need to be made to the current model and also how to fund those changes. At this time, the FY21 budget includes $10,000 to address any recommendations, plus the cost of over-hiring two Police Officer positions again on a temporary basis. Depending on the nature of those recommendations, additional funding may be needed. Staff will evaluate the staffing study with the Village Board and work with the Board to make those adjustments deemed necessary.

- The FY21 budget increases the police pension contribution from $1.959 million to $2.059 million based upon the Village's actuarial report.

Capital Program

During FY18, the Board and staff worked together to determine a funding plan for several projects which were previously unscheduled and unfunded. Those projects include Civic Center HVAC improvements, a Central Business District (CBD) parking garage, CBD street and streetscape, train station and pedestrian underpass, and Roosevelt Road access improvements. The Civic Center HVAC improvements and Roosevelt Road access improvements were completed in FY19. In FY20, construction of the Civic Center Parking Garage commenced.

The hallmarks of the 2021 Capital Program are:

- $4.5 million is included in the Parking Fund for completion of construction of the parking garage.
- $4.7 million is budgeted for the road resurfacing and reconstruction in FY20. This continues the Village's commitment to maintain the quality of its roadways.
- $5.9 million is budgeted for improvements to the Village's water and sewer infrastructure.
- The budget continues to move forward engineering for the CBD Street and Streetscape project and the Train Station project.

The Capital Budget also includes an updated 5-year Capital Improvement Plan (CIP) which forecasts projects over the next five years. This document can be found in the Capital section of the budget.

Cash Reserves

The budget maintains the targets outlined in the Village's cash reserve policy. The General Fund policy is 30% of operating expenditures. Water and Sewer Fund cash reserve policy will increase to $2.408M with a CPI increase. For certain other funds, the policy calls for cash reserves of at least 25% of operating costs. Only one fund, the Village Links/Reserve 22 is budgeted to remain below its cash reserve level, due to two years of challenging spring weather, the early effects of Covid-19, and necessary capital investment.

Property Taxes
The Village of Glen Ellyn uses property taxes to fund its General Fund and its Capital Projects Fund. Slightly less than half the levy (or $3.7 million) goes to the General Fund, but provides only 20% of revenues to the General Fund. The other $4.0 million of the property tax levy funds the Capital Projects Fund, providing 42% of the revenue to the Capital Projects Fund.

Historically, the Village voluntarily abides by the tax caps laws, meaning the Village historically increases the tax levy based on the lesser of CPI or 5% as well as new growth. In 2014, the Village Board did not increase property taxes towards the General Fund or the Capital Improvement Plan budget. In 2015, the Village Board only increased the levy to account for new growth/annexations, but did not increase the levy for a CPI factor. This was also the path chosen for the 2016 levy (2017 budget). In 2017 (2018 budget), the operating levy was increased only by new growth, but the Capital levy was increased in accordance with tax cap guidance. The culmination of these decisions has created a savings of $562,000 to the taxpayers, or approximately $70 per property owner. Beginning In 2018 (2019 budget), both the operating levy and the capital levy were increased by both CPI and new growth. This approach continues to be followed in the CY21 budget.

The current budget includes a 2.3% growth factor for CPI and a 1.1% growth factor for new construction and annexations. The 2.3% is the CPI growth factor that is set by DuPage County for all taxing bodies. The 1.1% growth factor includes 0.34% for annexations and 0.74% for new construction. Management is recommending that the levy be increased by CPI for the FY2021 budget for the following reasons.

- In order to meet the debt service and continue to fund the community's capital needs, the capital levy should be increased. The capital plan projections include a 2% annual increase in property tax revenue to meet our capital plan. Also, the increase in CPI helps the Fund's revenues keep pace with construction cost increases due to similar price inflation.
- The General Fund levy would increase by $121,445 or 3.4%. The General Fund levy supports the Police Department; yet the proposed General Fund levy of $3,717,263 only covers 38% of the General Fund police budget. The police pension contribution of $2.059 million is 10% of the General Fund budget. This small increase insures that we continue to meet our public safety obligations. If the General Fund levy was only increased by new growth, then the increase would be $38,741.

BUDGET HIGHLIGHTS OF THE VILLAGE'S FUNDS

General Fund

As with other municipalities, the majority of General Fund costs are borne by the largest departments of Police and Public Works, as well as providing funding to the Volunteer Fire Company including ambulance services. When totaled, these three departments make up almost 65% of General Fund expenditures. The expenditures in our General Fund are dominated by salaries, pensions, and benefits (63%). The Village of Glen Ellyn has a diverse revenue stream; however, much of the revenue base is derived from sales and home rule sales taxes (29% of General Fund revenues), income tax (13%), and property taxes (20%). Below is a comparison of the FY2021 draft budget to the FY2020 original budget

	FY20 Budget	FY19 Budget	Difference	Percent Change
Revenues*	$18,948	$19,557	-$609	-3.1%
Expenditures*	$20,590	$19,557	$1,033	5.3%
Net*	$(1,642)	$0	$(1,642)	

*In thousands

- Impact of Covid-19 on the General Fund – Over the many years since the recession, the Village has been successful in balancing the General Fund budget before presenting the budget to the Village Board as the goal is for the annual General Fund budget to be balanced. However, for FY2021, the General Fund is not balanced. The General Fund revenues have been impacted by Covid-19 and are expected to be down from a normal year. Not only has Covid-19 decreased revenues; it has also increased expenditures for the Village. The 2021 budget includes $500,000 of expenditures to allow the Village to continue to respond to the impact of Covid-19.

  - The chart below outlines the impact of Covid-19 on the General Fund revenues:

	General Fund Revenues
2020 budget	$19,557,485
Estimate – March 2020	Original Model showed a revenue reduction range between a $876,364 and $6.7 million
Estimate – July 2020	$18,255,899
Estimate – September 2020	$18,735,237
2021 budget – adjusted for one-time transfers	$18,504,529

  - The Village has budgeted to receive $1.5 million in CARES Funding through DuPage County in the General Fund in 2020. This helps to create a surplus of $1.0 million in 2020 which then offsets the loss in 2021 of $1.6 million.
  - With the CARES funding, the Village will use $610,000 of General Fund reserves from both 2020 and 2021. The Village feels this is a prudent use of reserves. This will help maintain reserve levels in the General Fund in the event that 2021 is worse than projected or if pandemic (or its financial consequences) continues into 2022.
  - The recommended budget includes two one-time transfers from the Equipment Services Fund and Insurance Fund to offset revenue reductions in the operating Funds. The Equipment Services Fund is transferring $300,000 to the General Fund. This represents a transfer of available funds in the Equipment Services Fund and should only be considered for 2021 and

not subsequent years. The Insurance Fund is transferring the equivalent amount of one month's health insurance premium back to the operating funds and represents a rebate of one month of health insurance premium to the operating funds (General Fund, Water & Sewer Fund, Equipment Services Fund, and Village Links/Reserve 22 Fund).

- Special Service Areas (SSA) for Economic Development– The SSA rate will remain the same at 12.5 cents per $100 of EAV.
- Sales Tax – The budget anticipates a 10% decrease in sales tax from 2020 to 2021. The summer months of 2020 fared well; however it is anticipated that the Village will see decreases during the winter.
- Home Rule Sales Tax – The Home Rule Sales Tax is budgeted at 1.25%, the rate that went into effect July 2018. The Home Rule Sales tax is budgeted to decrease by 15.9% from 2020. Sales tax is positively affected during the pandemic by the Village's large concentration of grocery sales tax. However, Home Rule Sales Tax is not taken on groceries.
- Income Tax – Income tax is anticipated to see a 6.4% from 2020, based upon per capita estimates from the Illinois Municipal League. The current state budget (July 2020 – June 2021) does not include any reductions to the Village's income tax. However, should a graduated income tax fail, it is possible that the State of Illinois may look again to reduce the revenue allocated to municipalities to balance the State's budget.
- Use Tax – Based upon per capita estimates from the Illinois Municipal League, Use Tax is anticipated to increase by 20.6%. Use tax is positively affected by internet sales.
- Building Permit Revenue – Building permit revenue is forecast at $1.0 million based upon 2020 activity and the anticipation of a development at the former McChesney Miller grocery store.
- Investment Income – Declining interest rates have reduced investment income into the General Fund. Therefore, the budget is lowered by 79% for 2021.

General Fund Expenditures are budgeted to increase by 5.3%. The chart below by category highlights the changes from the prior year budget:

(in thousands)	FY20 Budget	FY21 Budget	Difference	Percent Change
Personnel Services	$10,609	$10,998	$389	3.7%
Contractual Services	$3,709	$3,809	$100	2.7%
Commodities	$263	$782	$519	197.7%
Capital Outlay	$131	$117	$(14)	(11.4)%
Transfers Out	$4,845	$4,883	$38	0.8%

- Personnel Services include a 2.25% merit pool for non-union employees to be awarded to employees based upon merit. The union contract includes 2.25% increase effective November 1, 2020 and a 2.25% increase effective November 1, 2021 for union employees along with step increases allotted in the contract. Approximately $167,000 in salaries will be offset from a credit from the forfeiture program if those funds are available which would reduce the increase to 2.09%.

- Contractual Services includes $15,000 towards a diversity facilitator for a Village-wide initiative, $15,000 for a police test as well as increases in I.T. maintenance costs of approximately $40,000.
- The increase in commodities reflects the addition of $500,000 of expenditures budgeted for the Village's Covid-19 response.
- Capital Outlay for the General Fund is incidental in nature. In FY2020, most capital purchases are incidental in nature and include computers, fire inspection software, replacement of glock pistols, as well as equipment needed by Public Works.
- Transfers out increased by $38,000. The transfer to the Police Pension Fund for the annual Village contribution increased by $100,000. This is offset by decreased contribution requirements to the Equipment Services Fund.

<u>Water and Sanitary Sewer Fund</u>
The draft FY21 does not include a rate change for water and sewer rates. The fund currently has a healthy net position; however, several large capital projects do decrease that position over the five year forecast. The Village will undertake a rate study in 2021 to further evaluate our long term needs and associated rates.

<u>Village Links Reserve 22 Fund</u>
The Village Links/Reserve 22 Fund continues to be a self-sustaining enterprise fund. Both the restaurant and golf operations suffered in FY18 and FY19 due to poor weather and the Fund sits below its cash reserve levels. Covid-19 closed the course and restaurant in late March/April 2020. The golf course was allowed to reopen with restrictions in May 2020. Beginning in June 2020, those restrictions were loosened and the restaurant opened to outdoor dining. Covid-19 was a boon for the golf industry in 2020 as it is an activity that can be done in a socially distant manner. Working from home and the cancellation of many organized sports left may with time to spend on the golf course. When this is combined with a dry summer, the Village Links and Reserve 22 fared well throughout summer and fall 2020. The FY20 budget includes $2.73M in revenues for Reserve 22 with expenses of $2.45. Overall, the FY20 budget includes $5.84M in revenues and $6.0M in expenses for Village Links/Reserve 22. An increases in the minimum wage at January 1, 2021 will financially impact Village Links/Reserve22. The Village Links/Reserve 22 remains below its 25% reserve policy, but has yet to access a $250,000 line of credit authorized by the Village Board in March 2020. It is hoped that the positive gains seen in golf will continue into 2021.

<u>Police Pension Fund</u>
The required contribution to the Police Pension Fund increases by $100,000 to $2.059 million for 2021. The contribution to the Police Pension Fund remains 10% of General Fund expenditures for 2021. Late 2019, the State of Illinois passed a law which requires consolidation of investments among downstate police pension funds. The Police Pension Board will no longer oversee investment of funds once that transition occurs (likely at some point in 2021). The local Glen Ellyn Police Pension Board will still maintain authority over pension and disability determinations.

<u>Tax Increment Financing (TIF) Funds</u>

The Village continues to proactively seek economic development opportunities to increase sales tax revenues and create vibrant and diverse commercial districts. The Village has two TIF districts. The Central Business District (CBD) TIF was created in 2012 and the Roosevelt Road TIF district was created in 2013. In FY19, the Village has continued to budget for its popular façade, interior, and fire improvement awards. Two redevelopment agreements were approved in FY19 which provide TIF incentives to the developers. It is not anticipated that any increment would be due in FY21 as a result of those agreements.

Conclusion

The Village of Glen Ellyn's FY21 recommended budget sustains the Village's current level of services. Striking the right balance between service levels and taxes to pay for those services is debated and decided during the budget process. This process, allocating scarce resources and prioritizing programs and projects, is difficult each year because the demand for municipal services often exceeds the revenues available to pay for those services. We look forward to working with the Village Board during the budget process to build a budget which sustains the Village of Glen Ellyn and provides the services that our residents need. Strong cash reserves protect the Village from unforeseen emergencies, such as Covid-19, and strengthen our bond rating and overall financial position.

In closing, we wish to extend a thank you to everyone for their hard work in preparing the FY21 budget. The development of the budget could not take place without the commitment and cooperation of many Village employees, many of whom who have already worked relentlessly this year on the many challenges that 2020 has brought. Many Management employees actively participate in developing and reviewing budget information which leads to an award-winning budget document for many years. Management will continue to find ways to improve efficiency and control costs and work diligently to bring the FY21 in under budget.

We would also like to thank the Village Board for their responsible and progressive manner in which it conducts the fiscal affairs of the Village. Difficult budget decisions are made each year during the budget process, but those decisions are critical in that they provide a game plan for what level of municipal service the Village can provide. The understanding, cooperation and resourcefulness of everyone helps to strengthen this year's budget process.

Respectfully submitted,

Mark Franz
Village Manager

Christina Coyle
Finance Director

The annual budget is built upon a series of basic financial policies and guiding principles as established by the Village Board and Management. Although these policies are fundamental in nature, they have contributed significantly to the historical financial strength of the Village and demonstrate the Village's ongoing commitment to being a responsible steward of the public's finances.

These Board approved policies have served the Village well, not just in good economic times, but particularly in periods of sustained economic downturn and uncertainty. Adherence to these principles help to maintain a position that ensures the Village is able to deliver uninterrupted basic government services on both a near-term and long-term basis. Further, well established and thoughtful policy development contribute toward ensuring services are delivered in a cost-effective manner, maintaining a well-diversified community and economic base, and distributing the cost of government fairly across those it serves.

A. General

The Village of Glen Ellyn embraces a tradition of sound financial management in the conduct of its financial affairs. The annual Village budget is founded on a set of fundamental policies and principles which contribute toward maintaining an organization with a strong financial condition and a proactive approach to serving the needs of its residents.

B. Budget

1. A balanced budget shall be defined (at each individual fund level) as a budget where projected revenues are equal to budgeted expenditures within the current fiscal period. The adopted budget, on an individual fund basis, may or may not be balanced, depending on the availability and appropriateness of utilizing cash reserves. Use of cash reserves are generally determined to be acceptable for one-time or capital expenditures after minimum reserve levels are observed.

2. The Village shall publish an annual budget which serves as a communications tool which demonstrates the government's accountability for the sources and uses of public funds. Expansive narrative discussion should be included to communicate the organization's policies and objectives as well as detailed descriptions of revenue and expenditure line items. The budget should also serve as an operations guide to assist personnel in the responsible management and application of Village resources.

3. The Village desires to annually participate in the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Awards Program.

4. The Village shall approach the annual budget process in a spirit of openness which encourages public information and participation. To that end, the annual budget shall be provided in its entirety on the Village's web-site, and the Village will annually exceed statutory requirements for public discussion and deliberation on the budget.

5. Interim financial reports shall be distributed and reviewed with the Village Board on at least a quarterly basis which track actual experience against budgeted revenues and expenditures in the current fiscal period.

C. Revenue

1. The Village endeavors to maintain a diverse and stable revenue base to protect operations from short-term fluctuations in any one revenue source. The mix of various revenues employed will include both elastic and inelastic revenue sources to minimize to the extent possible the effects of economic downturn.

2. The Village will employ, where appropriate, various available economic development incentive tools, which will add to long-term revenue stability and growth.

3. The Village will monitor changes in key revenues on, at a minimum, a quarterly basis, and report on significant changes in collections or emerging trends.

4. The Village will oppose State and/or Federal legislation that would result in unfunded expense mandates to units of local government without providing for compensating authority to increase available revenues to offset such mandates.

5. Village enterprise funds (e.g. Water and Sanitary Sewer, Recreation, Parking, Residential Solid Waste) shall have fees set in such a manner which fully support all direct and indirect (depreciation of capital) costs associated with providing the service.

6. The Village will avoid the use of one-time or otherwise intermittent revenues to support continuing operating expenses.

7. The Village will explore to the extent practicable the award of various local, State and/or Federal grants to support one-time capital or non-recurring expenditures. Consideration of grant opportunities shall include an evaluation of required local matching funds and possible on-going operating costs associated with accepting grant funding.

D. Expenditure

1. The Village shall maintain a level of expenditures which will provide for the public well being and the safety of the residents of the community.

2. The Village shall pay for current operating expenses from available operating revenues where possible.

3. The Village should avoid budget practices which balance current costs at the expense or detriment of future years, such as deferring or postponing necessary expenses.

4. The Village should avoid the implementation of new programs or services without the identification of a dedicated revenue stream to pay for them.

5. The Village annual budget shall provide a systematic approach for the replacement of municipal equipment and facilities which includes funding replacement of these assets over their anticipated useful life.

6. The Village shall provide for the responsible and timely funding of required employee pension plans.

7. The Village shall prepare a long-term financial forecast for the systematic replacement of its public infrastructure assets.

E. Debt Administration

1. It is the objective of the Village's debt policies that:
   a. The Village will issue debt only when necessary.
   b. The process of identifying the amount and timing of debt issuance is conducted as efficiently as possible, and
   c. The most favorable interest rate and other costs be obtained

2. The Village will seek the assistance and expertise of a qualified Financial Advisor when considering debt issuance. Selection of a Financial Advisor may be achieved through a request for proposals process.

3. Long-term debt obligations will be used to finance significant capital projects or improvements, not for operational purposes.

4. The duration of long-term debt obligations will not extend beyond the anticipated useful life of the projects financed.
5. Level or declining debt service shall be employed unless operational matters dictate otherwise, or unless to achieve overall level debt service considering other outstanding obligations.

6. The Village shall be mindful of the potential benefits of bank qualification and will strive to limit its annual issuances of debt to $10 million or less when such estimated benefits are greater than exceeding the benefits of exceeding the bank qualification limit.

7. When feasible and economical, obligations shall be issued through competitive versus negotiated sale. When circumstances dictate that a negotiated issuance take place, the reasons for such action shall be disclosed in a public meeting.

8. The criteria to select an underwriter in a competitive sale shall be the true interest cost.

9. The Village shall consider refunding debt whenever an analysis indicates the potential for present value savings in excess of 2% of the principal being refunded.

10. The Village shall strive to conduct its financial affairs in a manner which would maintain or improve its bond rating.

11. When a general obligation bond is issued, the Village will receive a rating from at least one national rating agency.

12. The Village will fully comply with all continuing disclosure requirements as established by SEC Rule 15c2-12 and shall upon completion of each year's audited financial statements, submit required continuing disclosures to all Nationally Recognized Municipal Information Repositories (NRMSIRs) and to any required State Information Depositories (SIDs).

F. Reserve Policy

It is the Village's philosophy to support long-term financial strategies, where fiscal sustainability is its first priority, while also building funds for future growth. It is essential to maintain adequate levels of funds balance/net position to mitigate current and future risks. Fund balance/net position levels are also crucial consideration in long-term financial planning. Credit rating agencies carefully monitor levels of fund balance/net position to evaluate the Village's continued creditworthiness.

Fund Balance (governmental funds) or Net Position (proprietary funds) provides for the operational stability of the Village of Glen Ellyn and provides the capacity to:
a) offset significant economic downturns or revenue shortfalls,
b) provide sufficient cash flow for daily financial needs,
c) maintain or improve the village's bond ratings, and
d) provide funds for unforeseen expenditures related to emergencies or opportunities.

Definitions:

a. Fund Balance – The difference between assets, deferred outflows, liabilities, and deferred inflows in a governmental fund.
b. Nonspendable Fund Balance – the portion of a Governmental Fund's fund balances that are not available to be spent, either short term or long term, in either form (e.g. prepaid assets) or through legal restrictions.
c. Restricted Fund Balance – the portion of a governmental fund's fund balances that are subject to external enforceable legal restrictions as to what the fund balance can be spent on.
d. Committed Fund Balance – the portion of a governmental fund's fund balances with self-imposed constraints or limitations that have been placed by formal action at the highest level of decision making.

e. Assigned Fund Balance – the portion of a governmental fund's fund balances to denote an intended use of resources.
f. Unassigned Fund Balance – available spendable financial resources in a governmental fund that are not the object of tentative management plan (i.e. assignments).
g. Net Position – The difference between assets, deferred outflows and liabilities and deferred inflows in a proprietary fund, trust fund, or entity wide financial statements.

Desired Reserve Policies:
General Fund: Cash reserves of the General Fund should be maintained at thirty percent (30%) of the current year's budgeted operating expenditures (excluding debt and capital outlay expenditures). At any point should the unreserved balance reach above 40% at the low point of the year (April or May), an item shall be brought to the Village Board for action on the excess balance.

Water & Sanitary Sewer Fund: The Village will maintain $2,000,000 in cash reserves in the Water and Sanitary Sewer Fund for FY2011/12, increased annually by the 12-month change in the CPI-U (December before the beginning of the fiscal year) or 3%, whichever is less. [For FY18, the amount of required cash reserves will be $2,261,000.] Amounts held in the fund above the reserve policy limit are assigned for water and sewer capital projects.

Village Links/Reserve 22 Fund: The Village will maintain adequate cash reserves in the Village Links/Reserve 22 Fund, in an amount equal to or greater than 25% of the current year fund operating expense budget (excluding debt and capital).

Residential Solid Waste Fund: The Village will maintain adequate cash reserves in the Residential Solid Waste Fund, in an amount equal to or greater than 25% of the current year fund operating expense budget (excluding debt and capital).

Parking Fund: The Village will maintain adequate cash reserves in the Parking Fund, in an amount equal to or greater than 25% of the current year fund operating expense budget (excluding debt and capital).

Attaining and Maintaining Desired Reserve Levels:
Should the reserves in one or more funds fall below the benchmark established by this policy, the Village Manager will notify the Village Board in a timely manner and will develop and present to the Village Board as part of the annual budget a plan to return fund balance to the benchmark level within three (3) fiscal years.

Use of Fund Balance or Net Position:
The Village will spend the most restricted dollars before less restricted, in the following order:

1. Restricted
2. Committed
3. Assigned
4. Unassigned.

The Finance Director will determine if a portion of fund balance should be assigned and will document said assignment by a memorandum to the Village Manager and appropriate disclosure in the audited financial statements.

Note: In non-governmental funds, management may decide to "assign" funds for a specific purpose. This will be done as an internal budgeting procedure rather than as a formal accounting entry. Creating a governmental fund automatically assigns fund balance in that fund to the purpose of the fund.

Fund balance or net position should only be used or depleted in the following situations:
1. Revenue shortfalls result in an operating deficit.
2. Unforeseen material expenditures arise which cannot be avoided or delayed.
3. Excess fund balance exists and the village intentionally draws down on the balance to come into compliance with this policy.

G. Cash Management

1. The Village shall invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Village and conforming to all state statutes governing the investment of public funds.

2. In order to maximize interest earnings, the Village comingles the cash of all funds (excluding those legally required to be kept separate – e.g. Police Pension Fund). Interest revenue derived from comingled cash accounts is allocated to the participating funds monthly based on the relative cash balance of each fund.

3. Criteria for investment of funds, in the order of priority are as follows:

    a. Safety of principal is the foremost objective of the investment program. Investments of the Village of Glen Ellyn shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio.

    b. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

    c. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs.

H. Accounting, Auditing and Financial Reporting

1. The Village shall establish and maintain a high standard of accounting practices in conformance with Generally Accepted Accounting Principles (GAAP) for governmental entities as promulgated by the Governmental Accounting Standards Board (GASB).

2. The Village shall select a qualified firm of Certified Public Accountants to perform an annual audit in accordance with Generally Accepted Auditing Standards (GAAS) and issue an opinion on the financial statements.

3. The Village shall annually prepare a Comprehensive Annual Financial Report (CAFR) and submit it to the Government Finance Officers Association (GFOA) for consideration of a Certificate of Achievement for Excellence in Financial Reporting award.

4. The Village will utilize the modified accrual basis of accounting for its governmental funds (general, special revenue, capital projects and debt service funds). Revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the liability is incurred.

5. The Village will utilize the accrual basis of accounting for its proprietary funds (enterprise and internal service funds). Revenues are recognized in the accounting period in which they are earned. Expenses are recognized in the accounting period in which the liability is incurred.