



CITY OF ELMHURST

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CITY MANAGER

MEMORANDUM

To: Thomas P. Borchert, City Manager
From: Peter P. DiCianni III, Mayor
Date: November 18, 2010
Re: 2011-12 Elmhurst City Budget

Input provided to the Mayor from members of the City Council regarding guidelines, goals and objectives to be considered in the preparation of the 2011-12 Budget is generally consistent with the findings and recommendations of the 2009 Finance Task Force and the 2010 Citizen Survey results.

Community expectations as expressed to elected officials, advisory commissions, City staff and through the 2010 Citizen Survey should be a major resource and guide relative to priorities for adjusting City services going forward. The unfortunate but remaining structural deficiency in the General Fund must again be a governing factor for City staff in preparing the budget.

All effort must be focused on maintaining Elmhurst's position as one of the most, if not the most, attractive DuPage County community from both the residential and commercial perspective. This vision of a healthy and vibrant future for Elmhurst can best be achieved by focusing on it during the cycle of budget preparation, review, revision and approval.

The 2010 Citizen Survey results affirm the validity and value of City services to the community (see Exhibit A, attached). However, the costs of these services must be aggressively managed as current and anticipated revenues are still short of target levels.

The budgeting process, aimed at prioritizing operational and capital expenditures necessary to maintain and improve the quality of life in Elmhurst, is the key annual planning element that controls Elmhurst's future.

The 2011-12 Operating Budget and Five-Year Capital Improvement Budget should address the following areas of City services and projects.

City Operations

Please complete a review of all City operations again for cost-saving opportunities and/or operating efficiencies that can be achieved through innovation, technology or changes in the use of labor, equipment and/or materials or in privatization of services.

The City's Information Technology (IT) Services must continue to expand to maximize its potential to improve productivity and enhance service to the Elmhurst community. The long anticipated IT development plan being completed by Northern Illinois University should be a guide. The high percentage of Elmhurst residents who reported they have access to the Internet demands that the City accelerate use of the Internet for accessing City services and information, where economically feasible. Economic development opportunities, as well as other technological opportunities for the community and governmental entities through the Internet, should be vigorously pursued. Elmhurst's home page should continue to be refreshed and updated.

Fair wages and fringe benefits for the City's labor force should receive appropriate support during the budget review process. Management must continue efforts to achieve high labor performance levels through planning, training and development of a City staff mission directed at providing quality services that meet or exceed taxpayer/citizen expectations. City management efforts to create a high performance government operation should be appropriately supported through budgeting efforts. The long-standing policy of external market place competitiveness and internal equity regarding labor wages and fringe benefits must be continued.

The budget should provide for the City's commitment to sustainability and to the Cool Cities initiative.

The City's engineering, education and enforcement of traffic congestion and speeding must continue to evolve and expand to address this sometimes real and sometimes perceived issue.

The negative impact to public and private Ash trees as it relates to City support in tree removal and City investment in tree replacement should be anticipated as this real threat moves closer geographically to Elmhurst.

The City's Community Grant Program must undergo extraordinary review again this year but significant financial support should be allocated to allow those applicants that demonstrate a return in quality of life and/or positive economic development impact to receive support.

All City expenditures must be evaluated and, only after an appropriate review of benefits versus costs, be allowed to continue.

All revenues associated with fees for direct services should be evaluated for service fee adjustments if fees do not fully cover costs or if the fees are less than the municipal marketplace average. The recently implemented cost recovery efforts in the radio alarm system in the Fire Department and the administrative tow program in the Police Department are excellent examples of re-inventing governmental service programs and shifting expenses more appropriately to the users of the service. If there are other potential revenue recovery applications, they should be pursued.

The City is in the process of seeking, finding, hiring and transitioning to a new City Manager for the first time in 26 years and second time in 57 years. The budget should provide some contingency allocation to allow Elmhurst's next City Manager opportunity to develop the support organization and staff deemed most appropriate and best positioned for City service delivery success going forward.

Intergovernmental Cooperation

The excellent working relationship the City enjoys with the Elmhurst Public Library, the Elmhurst Park District, the Elmhurst School District, and adjacent municipalities and park districts, including DuPage County and the State of Illinois, relative to intergovernmental coordination in purchasing, service delivery and other resources should be continued. In addition, the City should pursue intergovernmental collaboration opportunities with western Cook County cities and villages as Elmhurst and DuPage County together seek I294, I290 and other street traffic system relief generally and the Elgin O'Hare West Bypass Project specifically.

Economic Development

The City of Elmhurst must remain committed to the Elmhurst Business Alliance. The alliance of the Elmhurst Chamber of Commerce and Industry, the Elmhurst City Centre, and the City of Elmhurst's recently reinvented Economic Development Commission must be supported through the City's Economic Development coordination effort. The past history of extraordinary increases in equalized assessed value in the residential, commercial and industrial categories of the Elmhurst community are, in part, attributed to proactive actions in this arena. There must be budgeted resources necessary to coordinate the Alliance and lead the community through the proper planning steps to identify opportunities and then take proper action(s) to create the proper foundation for new Elmhurst style quality commercial and industrial investment.

The City Council in its leadership role and its budget review and approval process should provide the support necessary to allow Elmhurst to be even more pro-active in its economic development efforts. As Elmhurst's commercial and industrial property tax base grows, it relieves the burden on the residential tax base necessary to support School District 205, the Park District, the Library and the City. The effect of Elmhurst's commercial and industrial base goes beyond property, utility and sales taxes. These entities provide jobs, and consume goods and services provided by other businesses, thereby contributing to the circle of economic development and prosperity. Of all of the various levels of government serving the City of Elmhurst, it is the City that can affect economic development most significantly. In that regard, the budget should provide for consultant services as necessary to complete appropriate advance analysis of areas that might qualify as Tax Increment Financing Districts as a tool to accelerate much needed economic development.

The City should continue to finance and evaluate new opportunities associated with the Elmhurst tourism effort. Tourism in Illinois, DuPage County and Elmhurst has a significant economic and quality of life impact potential. Elmhurst should consider the opportunities and impacts of increasing this level of activity, building from the extremely strong position Elmhurst enjoys relative to cultural institutions and visitor opportunities.

T.I.F. I

The City of Elmhurst Central Business District T.I.F. I area has released parcels on three different occasions and has been extended by 12 years to 2021. The City's capital planning in this area must be modified accordingly. There is a commitment to the City Centre area that the infrastructure of streetscaping support for the area would be complete by the end of the original T.I.F. district, 2009, and the final design of streetscaping of public rights-of-way must be completed and scheduled for implementation. The "priming of the pump" by the City in improving City facilities and City rights-of-way continues to result in increased levels of pedestrian traffic and improved property and sales tax base within the City Centre area. As the City Centre grows, there is a cycle of growth and new demand for public parking and the City budget should provide for the appropriate next steps for expanded City parking for the City Centre area. TIF I must be prepared to support the Hahn Street and Addison Avenue development initiatives as the market place allows them to go forward. The other major opportunity within the City Centre is the Cultural Campus Corridor and linkage to Wilder Park, which should be supported by the T.I.F. district. In addition, the T.I.F. I budget must remain "flexible" to allow expenditures to support private side initiated major developments.

T.I.F. II

The Lake Street/Walnut Avenue T.I.F. II District continues to be an exciting proactive City-initiated economic development project. With Special Assessment street improvements now completed and significant private-side investment occurring both north and south of Lake Street, the district is positioned well for continued private-side investment. The City budget should appropriately provide for City participation should any of the remaining under-performing sites in the T.I.F. II district become redevelopment opportunities.

T.I.F. III

City support and aggressive code enforcement should be provided to ensure high quality building and grounds maintenance on the private side of the center. In addition, the acquisition of the remaining land parcel to complete the Public Works garage site assemblage should be provided for and completed when the opportunity presents itself. However, flexibility should be provided in the T.I.F. III budget to allow for the potential of an out lot to be developed which would complete the development and redevelopment plan of this TIF district and project.

Capital Projects

The Operating Budget and Five-Year Capital Budget should continue the series of "back to basics" budgets that allow for further reinvestment in the City's infrastructure of sewers, watermains, streets, curbs, gutters, sidewalks and trees. Street construction is a high priority in all citizen feedback forums, and therefore the budget for street work in the 2011-12 Budget should fully fund the various maintenance areas of street and sidewalk categories. Although necessary in recent budgets due to the poor economy, the use of the Capital Improvement Fund to finance more appropriately financed General Fund expenditures (i.e. contingency, tree purchase, tree planting, concrete street maintenance) should be discontinued as soon as possible.

The work to complete a 2010 Comprehensive Plan to investigate and address flooding problems is underway with recommendations anticipated in 2011 and funds must be allocated for this very important project.

State and Federal Grants

Elmhurst's recent extraordinary success in leveraging Elmhurst dollars with Federal Transportation and ARRA Funds will be difficult to match going forward, but local matching funds should always be available should worthy projects allow in the future.

Financing

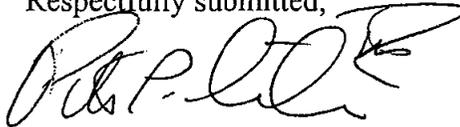
The General Fund's current year budgeted expenditures are barely balanced with anticipated revenues and remaining fund balance must be monitored closely. The General Fund balance and Working Cash Fund were used as a hedge against the downturn in the economy, but must now begin a multiyear journey designed to achieve proper levels in as short a time as possible.

The projections for fund balance clearly identify the continued need for every City revenue source to carry its "fair share" of municipal expenditures. The City's fiscal policy identifying a self-imposed annual review of all revenue sources is appropriate and is proving to be an important component in the City's long range planning. The City Council is to be commended for its fiscal responsibility in this regard.

The findings and recommendations of the 2009 Finance Task Force should be referred to and applied to the analysis of the proposed budget as it addresses service cuts, enhancements and revenue adjustments (Exhibit B).

I thank you for your consideration of these initiatives, as City staff prepares the Two-Year Operating Budget and Five-Year Capital Improvement Budget. The City Council's review of the Five-Year Capital Improvement Budget should be completed in early 2011 with the Operating Budget to follow. This process clearly reflects the most significant annual planning effort of the City Council.

Respectfully submitted,



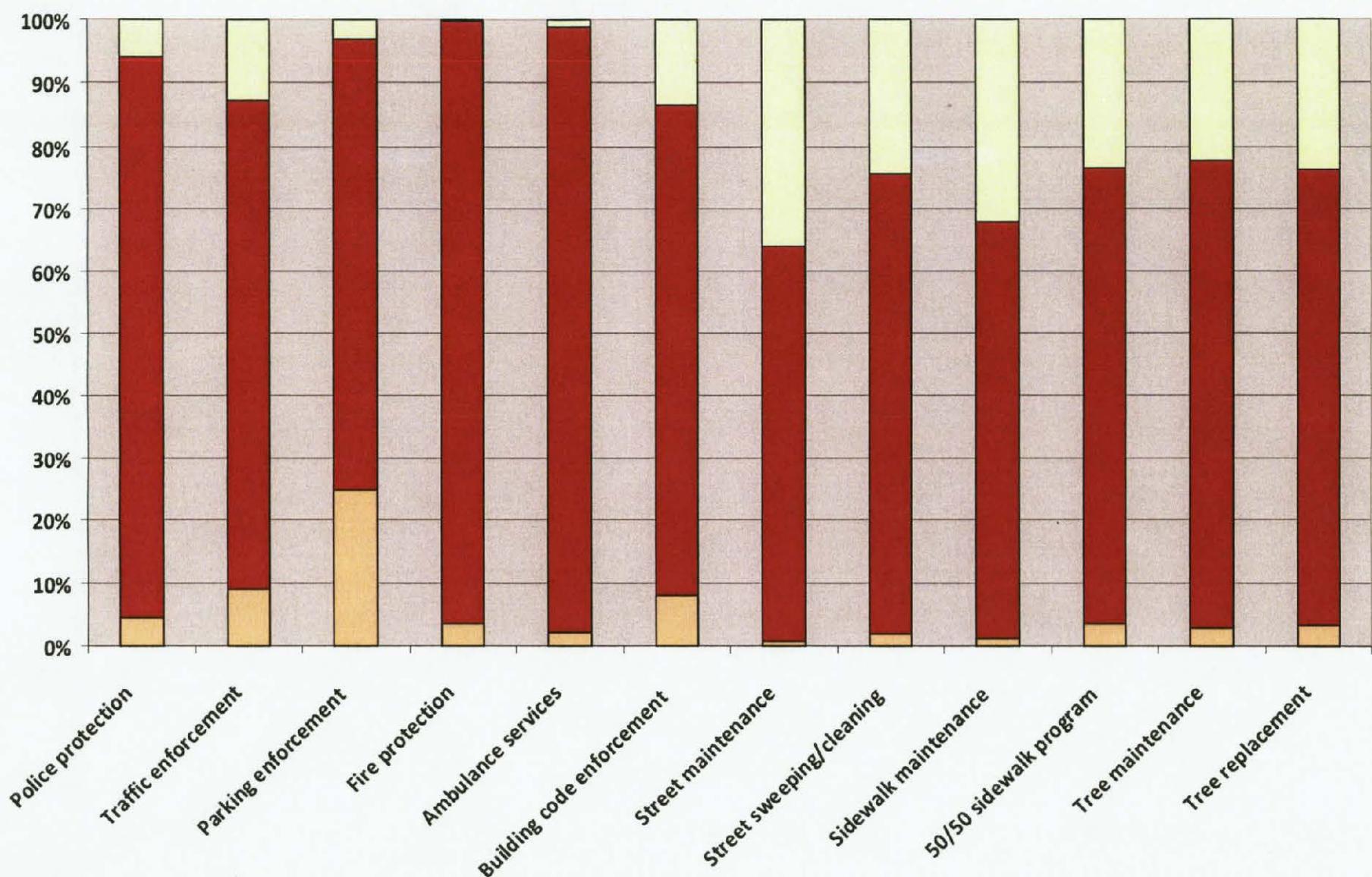
Peter P. DiCianni III
Mayor

/pd

cc: City Council
Kopp
Gaston
Trosien

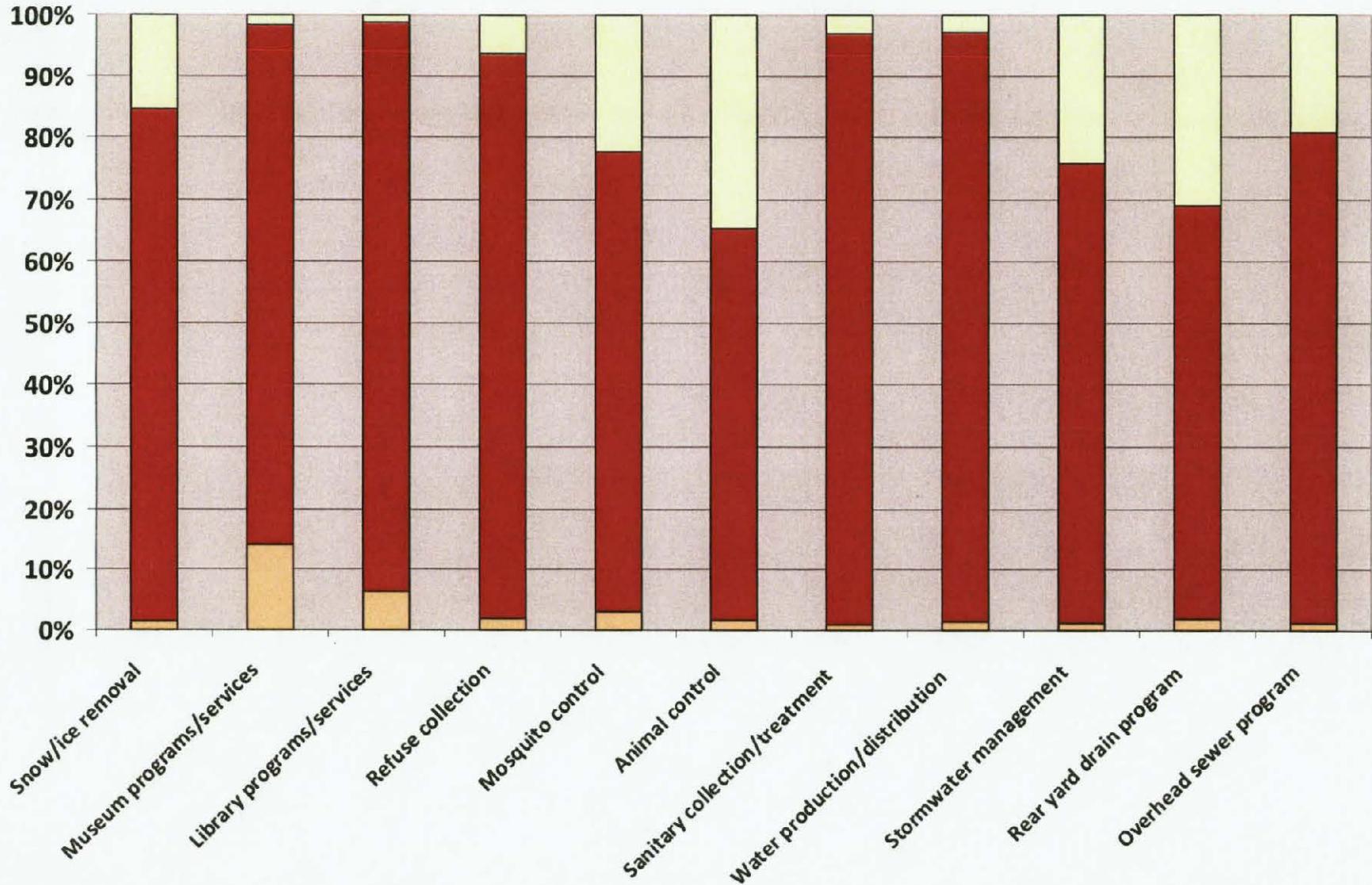
Level of Service (Question 10-10)

Too Much About Right Not Enough



Level of Service (Question 10-10 Continued)

Too Much About Right Not Enough





2009 City of Elmhurst Finance Task Force

Report to the Mayor and City Council

Co Chairs:
Kevin Diamond
Scott Levin
October 5, 2009

EXECUTIVE SUMMARY

After carefully reviewing the budgets and meeting with department heads, the Finance Task Force has determined that: (i) the operating budget deficit is approximately \$6 million, (ii) the General Fund does not hold reserves equal to the recommended level of 3-4 months of expenses and (iii) Working Cash Fund, which is intended to hold between \$800,000 and \$ 1million has a balance of less than \$30,000. The Task Force proposes cuts from the City's budget of as much as \$2.3 million and is recommending property and other tax increases totaling approximately \$4.5 million (excluding police and fire pension contributions).

		(\$ 000's omitted)
Projected General Fund Deficit		\$ 6,000
Working Cash Fund Contribution		726
Budget Needs		<u>6,726</u>
Revenue Sources:	Bond Abatement	2,182
	Rate Increase	1,886
	Total Increase in Property Taxes	4,068
	2 cent/gallon Motor Fuel Tax	400
	Total Tax Increase	<u>4,468</u>
Expense Reduction:	Public Safety	325
	Public Works	1,172
	Historical Museum	336
	Administration	425
	Recommended Expense Reductions	<u>\$ 2,258</u>

Due to the time constraints within which the Task Force was required to complete its work and deliver this report, the Task Force's examination was generally limited to the General Fund, being the operating account for the City. The critical budget deficit being faced by the City relates to the General Fund, but the Task Force recognizes that monies spent out of the Capital Improvement Projects Fund ("CIP") should also be examined. There are two particular aspects of the CIP that should be considered. First, while the Task Force appreciates the "separate fund" accounting of municipal governments, e.g., General Fund, Capital Improvement Projects Fund, Utility Fund, etc., money spent out of the CIP is an expenditure of City resources. To the extent that there is a shortfall in the General Fund, the CIP should be examined to determine if there are excess dollars that may be transferred to the General Fund to address that shortfall. Second, the very allocation of certain sources of revenues between the General Fund and CIP should be evaluated. For instance, ten percent of the income tax collected by the State of Illinois is paid back to municipalities on a *pro rata* basis. Elmhurst allocates 20% of its share of the State income tax to the General Fund and 80% to the CIP. The CIP should be adequately funded, but the extent of that funding must be balanced against the pressing need for dollars required by the General Fund. For example, a \$405,000 line item exists in the FY 09/10 budget of which \$375,000 is allocated for the new Elmhurst Historical Heritage Center, which should not be undertaken under the current economic environment. Reallocating these funds to the General Fund should be considered.¹

¹ See Appendix Exhibit 1

- The single most important factor in the City's financial situation is the need to control personnel costs. 51% of the operating budget pays for City personnel,² with 79% of the combined police and fire budgets paying for personnel. There have been runaway increases in police/fire pension benefits over the past 10 years, the amount of which is set by the Illinois General Assembly, but paid for by the City. The majority of employees in the police, fire and public works departments are union employees. While the recession has resulted in lay-offs and salary reductions between 5% and 30% in the private sector, union wages have increased by 3%-3.5% at a time when the cost of living has gone down by as much as 2%. It is imperative that union wages and benefits come into line with the real world economy in which we all live. The City's union negotiations must be based strongly on this economic reality.
- Just as every household should have a savings account, so should the City. Prior City policies have set up a Working Cash Fund that is intended to hold between \$800,000 and \$1 million to cover unforeseen shortfalls in the operating budget. In addition, the City's own policy calls for an amount equal to 3-4 months of expenses to be held in reserve. This translates to a need for about \$9 million to be held in reserves. At the end of FY 09/10, the projected amount of reserves is \$4.5 million, half the recommended amount. The current crisis facing our City has been exacerbated by the recession, but has been long in the making. Since 2001, the City has been meeting its operating expenses by continually drawing down on its cash reserves, albeit to a greater extent in the past year. We must not only meet our operating budget, but purposefully and intentionally replenish the reserves within a reasonable time frame, such as five years. The Task Force is doubly concerned about the lack of reserves and the exhaustion of the Working Cash Fund. Neither the City Council nor staff should so readily reach into cash reserves for meeting the needs of the operating budget. Furthermore, merely because these funds are in the City's "savings account" does not mean that they are available for increasing the salaries and benefits for our employees. A special line-item for savings is just as important and valid as a line-item for salaries. The Task Force strongly urges the Mayor and/or City Council to create an oversight committee to assure us that by increasing our property taxes, we have not agreed to create a cash pool for general operating expenses to the detriment of our cash reserves.
- The public safety, public works and administrative committees of the Task Force carefully reviewed the operating budgets for each of the City's departments and discussed them with the staff of each department. As a result of its review, the Task Force is confident that the City has generally used its resources to provide beneficial services to its residents without wasting funds. If any criticism can be leveled, it is that the City has provided more services to its residents than it should have, thereby requiring a draw down on its cash reserves. Yet, the Task Force recognizes that any time services are proposed to be cut, a vocal constituency will appear to protest. When times are good and revenues aplenty, municipal governments tend to provide increased services, which makes it all the more difficult to reduce services when times are bad and revenues decrease. The City has already taken significant steps to tighten its belt and has not increased taxes, except to meet obligations that are, to a certain extent, beyond its control,

² See Appendix Exhibit 2

such as police and fire retirement contributions (determined by the state legislature) and union wages. In the current economic situation, continued frugality is crucial. Essential government services, such as public safety, street maintenance, etc., must be maintained, but non-essential services must be closely examined and likely curtailed. For instance, although the Elmhurst Historical Museum represents a valuable cultural resource in our City, its current funding level appears unsupportable in view of the financial situation.

- The Task Force has recommended cuts to the operating budget of approximately \$2.3 million and property tax increases of approximately \$4.7 million including a mandated \$661,626 amount for police and fire pension contributions. These changes are required to restore the financial health of our City. The cost of the property tax increase will mean that the owner of a \$400,000 home will pay \$259 more per year in taxes. Given that for most people a home is their most valuable investment, the Task Force believes that maintaining our services and infrastructure will protect our home values when compared to municipalities that fail to do so. The vast majority of property taxes over the past 10 years have gone almost exclusively to pay for increases in police and fire pension benefits, mandated by the State of Illinois, and very little for the City's own operations. Nonetheless, the Task Force did not recommend the tax increase lightly, but only after carefully evaluating all of the circumstances.
- The Task Force also recommends a 2 cent per gallon motor fuel tax. This amount is insubstantial when compared to the cost of a gallon of gas and should not cause customers to go out of town to purchase fuel. This motor fuel tax will be paid for in significant part by non-residents who buy their fuel in Elmhurst.
- As a requirement for obtaining its general obligation bonds, Elmhurst must agree to levy a tax equal to the amount of the debt service to meet its repayment requirements. This levy, which would otherwise be part of our property tax bills, has been abated (not collected) for at least the past 20 years because the City had revenues available from other sources to cover these payments. Now, the revenues from this tax levy, being approximately \$2.2 million, are needed to pay for their intended purpose. When the financial situation improves, the abatement may return. It is hoped that the inability to abate the tax levy on general obligation bonds will be temporary and should be examined annually with a goal of reinstating the abatement.