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October 7, 2019

To the Village President, Trustees, and Residents of the Village of Wilmette;

On behalf of the Village staff, I am pleased to submit for your review and consideration the proposed Village of Wilmette 2020 Budget, covering the Village's fiscal year from January 1, 2020 through December 31, 2020.

The Village's continuing strong financial position is reflected in the 2020 Budget, and results from effective collaboration between the Village Board and the staff. The Village continues to benefit from budgeting practices that focus on reducing recurring expenses, identifying structural efficiencies, and taking a prudent, conservative approach to revenue projections. The Village closely monitors its revenue and expenses throughout the year, adjusting as needed to avoid unanticipated mid-year deficits.

Each year since 2009, the Village's financial position has steadily improved, thanks to a series of actions that demonstrate sound administration and financial planning:

- Maintenance of the Village's Aaa bond rating (Moody's highest possible rating), with its outlook upgraded from "negative" to "stable"
- Consistently meeting actuarially-required pension contributions, despite a 754% increase in public safety pension contributions since 1998
- Changing the Village's public safety pension funding policy to level off future contribution increases while beginning to pay down the unfunded liability
- Operating at reduced staffing levels while maintaining core Village services
- Approving balanced budgets and fortifying reserves – the General Fund reserve has increased since 2009 to \$14 million, or 39% of General Fund revenues
- Revitalization of downtown Wilmette, and investing in business promotion, lighting and streetscape improvements in multiple business districts in order to help generate economic activity and sales tax revenue
- Creation of a Capital Equipment Replacement Fund (CERF) to ensure timely replacement of critical equipment without fluctuations in the property tax levy

- Limiting or avoiding increases in fees and licenses by not increasing: sewer fees between 2015 and 2019; water rates for six of the last eight years; building permits since 2014; vehicle stickers since 2009; general business licenses since 2007; and ambulance fees since 2008

### The Village's Financial Position

The Village's financial position is its strongest in decades, with General Fund reserves having improved to more than \$14 million, as compared to 2009 when its reserves dropped to just \$2.6 million during the Great Recession. As stewards of residents' tax dollars, the Village is committed to maintaining a reasonable reserve level that provides protection against known and unanticipated financial risks, mitigates future property tax increases, and reduces the long-term cost of major infrastructure projects by maintaining the Village's valuable Aaa bond rating.

Since the recession, the Village has taken a conservative, prudent approach to budgeting in order to ensure both accuracy and that projected revenue is attainable, rather than merely aspirational. This increase in reserves has been driven primarily by non-recurring building permit revenues, this conservative approach to budgeting, and commitment to limiting expenditures. The following highlights some of the many expense reductions implemented over the past decade:

- Implemented a two-tier pay plan for all non-union employees hired after January 1, 2011, and bargained for a similar plan for union employees in Police
- Subsequently amended the Tier II pay plan in 2017 to reduce annual salary growth, with a 50% reduction in annual step increases and corresponding increase in seniority needed to attain top-step
- Phased out the IRS Section 105 sick leave buy-back retirement program for non-union and police union employees hired on or after January 1, 2016 (a \$50,000 cost in today's dollars per each affected retiring employee)
- Reduced the number of full-time equivalent (FTE) positions from 229 to 218
- Eliminated annual performance bonuses for management staff
- Renegotiated the residential solid waste contract in 2018 to reduce rates, eliminate leaf collection expenses, and expand service offerings – saving the Village \$1.3 million over five years
- Privatized sanitarian services in 2017 and outsourced animal control in partnership with the City of Evanston
- Partnered with the Village of Glenview to outsource hosting of our 911 system
- Reduced the length of the Village's Leaf Collection Program
- Consolidated four volunteer boards and commissions
- Reduced the size of the Fire Department fleet in 2018, thereby removing more than \$2 million in vehicles from the capital improvement plan

While the Village has carefully and thoughtfully addressed expenses over the past decade, there are three primary challenges that we must keep at the forefront of our financial planning:

- Declining and stagnating recurring revenues
- Increasing debt obligations associated with long-term capital needs
- Public safety pension funding

### **Stagnating Recurring Revenues**

The Challenge: While non-recurring building permit revenues have totaled more than \$5 million since 2012, recurring revenues, which are the backbone of the General Fund budget, have stagnated or declined. The Village Board has appropriately held the line on fee increases since the Great Recession, and Staff will continue to recommend no changes in major fees such as building permits and vehicle licenses over the next several years. This means that the Village is heavily reliant on the health of the overall economy to drive revenue increases.

Although most recurring revenues have recovered to their pre-recession levels, line items such as sales tax, real estate transfer tax, recurring building permits, and utility taxes have stagnated or declined. This challenge is further exacerbated by the changing retail landscape that is driving consumers to online retailers and leading to the closure and consolidation of brick and mortar retail businesses.

The Plan: Given this challenge, we have taken a conservative approach to revenue assumptions. In FY 2019, we accounted for the loss of \$400,000 in sales tax revenue while still balancing the budget. The FY 2020 Proposed Budget projects a further decline in non-property tax recurring revenues totaling \$84,000 from the FY 2019 estimated actuals. Future budgets will continue to take a prudent, conservative approach to recurring revenue projections. Recognizing that revenues are only one component to responsible budgeting, the Village has and will continue to closely monitor expenditures and implement changes such as those outlined on page two to ensure a balanced budget each and every year.

While the Village cannot control the regional economy, we can play an important role in facilitating economic development and investment in our community. The Village is intently focused on ensuring the long-term viability of our pre-eminent sales tax driver-Edens Plaza. To that end, the Village Board has amended the Edens Plaza zoning to prohibit any new service or fitness type uses in order to ensure the long-term retail character of the center. At the same time, Village Staff have been working closely with Newport Capital Partners, the new owners of Edens Plans, to ensure that our visions are aligned and that Edens Plaza remains a major sales tax generator for the Village.

## **Increasing Debt Obligations & Long-Term Capital Needs**

**The Challenge:** In 2022, Wilmette will be celebrating its Sesquicentennial, marking its 150<sup>th</sup> anniversary. A community of this age requires significant ongoing investment in its infrastructure. Over the next decade, the Village projects to issue more than \$130 million in new debt to fund critical capital needs which include but are not limited to:

- Neighborhood Storage Stormwater System Improvements (\$68 million)
- Water Plant Improvements (\$34 million)
- Police Station (\$20-25 million)

Following completion of the \$24 million sanitary sewer improvements in 2014, which, to date, has kept more than 29 million gallons of mixed sanitary sewage and stormwater from backing up into west side residents' basements, the Village Board completed an intensive study of the storm sewer system west of Ridge Road. Following a value engineering evaluation, the Village Board elected to proceed with the Neighborhood Storage Improvement project that will provide much needed flood relief to thousands of Wilmette residents. The project will mitigate surface flooding for many storms and reduce the severity and duration of overland flooding for larger rain events. Low-lying areas, however, would still be subject to occasional flooding, but at a reduced depth and duration. This was the more affordable option under consideration, and was the option that could potentially be completed in the shortest amount of time thereby providing more immediate flood relief to many Wilmette homeowners.

In addition to these critical sewer projects, the Village must also address the condition of its roadway system. The diminished revenue situation during the recession necessitated deferred maintenance for several years, from which the Village has been working to catch up. Roads have also deteriorated more rapidly than anticipated over the last several years, due to several likely causes. Winters have been marked by warmer average temperatures combined with bouts of extreme "polar vortex" cold. Such conditions occurred in January and February 2019, with severe cold that the Chicago National Weather Service described as more severe than the famed "Chiberia" cold outbreak of 2014. The extreme late-January cold, including 52 hours of continuous sub-zero temperatures (with a low of -23°F), was followed by the temperature swinging up to +40°F's in the first week of February, and also accompanied by 13 days of consecutive snowfall over the last half of January. The snowfall also came at a time when new policies to reduce salt usage required streets to be plowed more frequently. Increases in construction costs as the economy recovered and the need for local-matching funds for major federally-funded projects (Hibbard & Skokie, Locust Road, Central Avenue), also adversely impacted the amount of street resurfacing work that could be performed annually. Based on the Engineering Division's analysis, the Village needs to invest at least \$500,000 more per year into the annual road program.

**The Plan:** The Village remains committed to long-term, strategic planning and has implemented a capital plan that ensures we maintain the quality of life Wilmette residents expect and deserve for generations to come and to do so in a manner that limits the impact on taxpayers.

In 2014, the Village Board unanimously voted to increase the Home Rule Sales Tax from 0.25% to 1.00%, effective January 1, 2015. With these revenues earmarked for critical Village infrastructure programs and police, fire and public works equipment, the Village established a recurring revenue source dedicated to fund a portion of these capital needs. In 2015, the Village Board created a Capital Equipment Replacement Fund (CERF), to ensure timely replacement of critical vehicles and equipment in future years, while also avoiding the periodic large swings in the property tax levy that happen when large items are purchased. Each year, 50% of non-recurring revenues and surplus funds is transferred, at the discretion of the Village Board, to the CERF.

- *Road Infrastructure Program*

Since 2015, the Village Board has added nearly \$800,000 to the annual road program. This was accomplished by allocating a portion of the 0.75% home rule sales tax increase in 2015 to the program as well as a \$0.03 increase in the local motor fuel tax and a 0.9% increase in the property tax levy in 2017. Annual funding is projected to increase by an additional \$1.75 million in 2026 as existing debt service is retired.

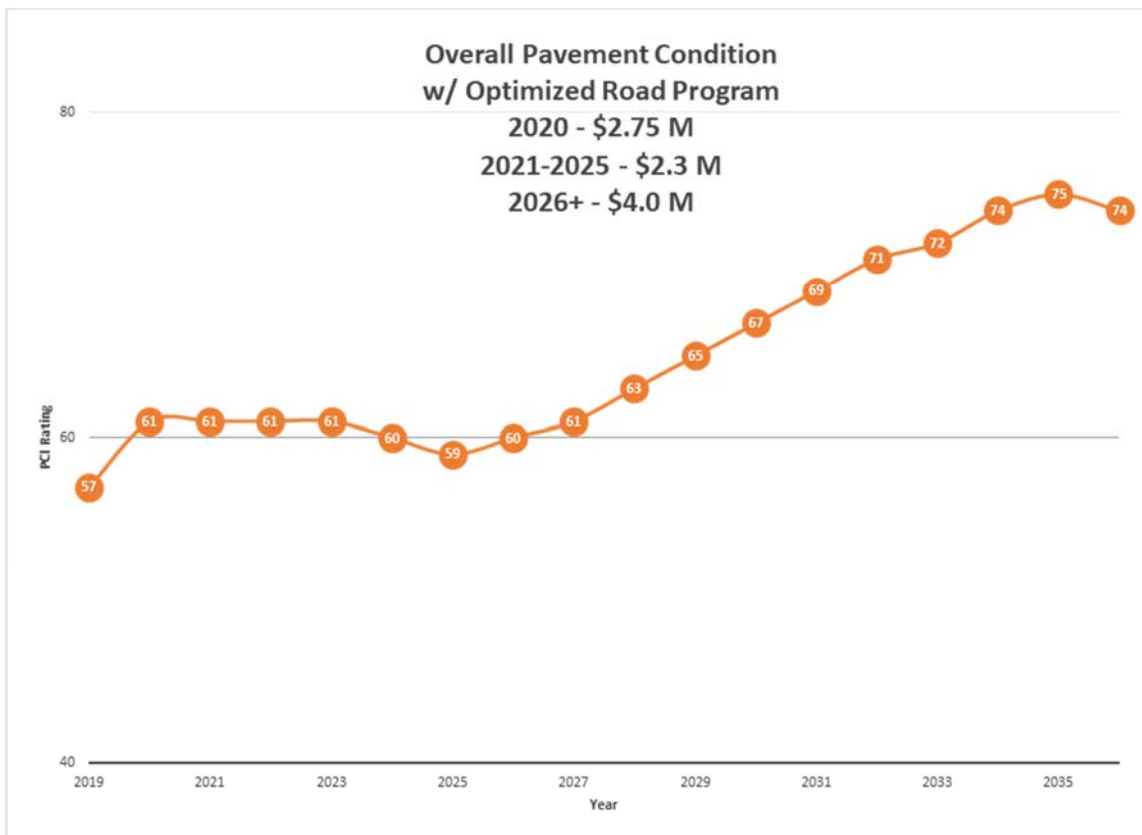
Despite this significant investment, the condition of the Village's roadways has degraded more than anticipated over the last three years. To prevent further degradation, and to steadily improve the roads until such time that the retired debt service is available, staff recommends a \$2.75 million road program in FY 2020, accomplished as follows:

- Keep the road program "whole"- fund the Central Avenue reconstruction, a project with a 50-year life expectancy, through bond proceeds and utilize General Fund reserves to fund the Village's share of the Skokie Valley Trail and Skokie/Lake intersection improvements between 2020 and 2022
- Levy an additional \$500,000 on the property tax to increase annual funding of the road program to \$2.3 million – the minimum level recommended by the Engineering Division
- Re-prioritize the FY 2020 engineering program:
  - Following a \$450,000 brick street renovation in 2019 (more than the average annual budget due to the length of Wood Court), defer this program in 2020 – this allows reallocation of \$320,000 to the 2020 road program
  - Following a \$750,000 alley program in 2019 (the average annual budget is \$550,000), the Village will have accomplished its goal of repairing all 'Serious' and 'Very Poor' alleys in 2020, reduce the number of alleys repaired in 2020 from four to three – this allows reallocation of \$110,000 to the 2020 road program

As such, the Engineering Program for FY 2020 is recommended as follows:

Program	FY 2020 Budget (\$)
Road Program	2,750,000
Road Program Engineering Services	170,000
Alley Maintenance (3 alleys)	450,000
Pavement Marking	50,000
Sidewalk Replacement	70,000
Brick Streets Maintenance	110,000
Street Patching	92,000
Brick Street Renovation	-
Curb Replacement	25,000
Pavement Rejuvenation	19,000
Crack Sealing	25,000
Traffic Calming	25,000
<b>Total Program</b>	<b>\$ 3,786,000</b>

This boost to the road program in 2020, coupled with additional investments in the roads from the Central Avenue reconstruction and Neighborhood Storage Improvements (Phase 1A), leads to a total investment of more than \$5 million in our roads for Fiscal Year 2020 – the largest one year investment in at least the last 20 years. As a result, the condition of the roads is projected to improve as follows:



Under the staff’s recommendation, the Village would revert in 2021 to an annual road program funding level of \$2.3 million (still a \$500,000 increase from 2019) and restore the brick street renovation and alley maintenance programs to their previous funding levels. However, this recommendation will be subject to change, depending on the impact of the upcoming winter on the road infrastructure, as well as whether there are other new or improved revenues that can be allocated in FY 2021 and beyond.

- o *Police Station*

This generational project has been deferred since 2008, as the Village seeks to limit its impact on the property tax levy. Accordingly, the Police Station is anticipated to be replaced when existing debt service is retired. This will allow the Village to construct a new station, at a projected cost of \$20-25 million, without a corresponding increase to the property tax levy. Given the immediate need for additional funds for the road program, staff is recommending that the Police Station be replaced in FY 2027, thereby increasing road program funding to \$4 million beginning one year earlier than planned, in FY 2026.

**Public Safety Pension Funding**

The Challenge: As provided by State law, the Village has three defined-benefit pension plans that cover all qualifying employees. These include two locally managed funds, the Police Pension Fund (covering all sworn officers), and Firefighters Pension Fund (covering all sworn firefighters), and one statewide fund, the Illinois Municipal Retirement Fund (IMRF), which covers all other qualified employees. The benefits of all three of these pension plans are determined solely by the State of Illinois. This has been a contentious problem for municipalities, as the legislature has enhanced police and firefighter pension benefits without providing new sources of revenue to pay for them.

To understand the magnitude of the pension challenges, the table below displays the costs to the Village of public safety pensions since 1998, when the Illinois General Assembly approved benefit enhancements for public safety officers.

	<b>1998</b>	<b>2019</b>
<b>Village Contribution</b>	\$596,800	\$5,096,000 754% increase
<b>Pensions as a % of Tax Levy</b>	8%	27%
<b>Pensions as a % of General Fund Expense</b>	3%	14%
<b>Total Pension Liabilities</b>	\$-2.7 million (over funded)	\$56.5 million under funded
<b>Funded Status</b>	Police: 105.67% Fire: 106.90%	Police: 64.60% Fire: 60.80%

The table below demonstrates the cumulative history of the Village's pension expenses, showing the relative cost and budget impact of public safety and non-public safety pensions:

### Village of Wilmette - History of Employee Pension Expense

Year	IMRF Employer Contributions	Police Pension Employer Contributions	Fire Pension Employer Contributions	Total Pension Contributions	Annual Percentage Change
1998	511,477	264,800	332,000	1,108,277	-1.6%
1999	488,454	260,000	360,000	1,108,454	0.0%
2000	425,404	277,000	465,000	1,167,404	5.3%
2001	272,326	378,000	541,000	1,191,326	2.0%
2002	223,799	511,000	638,000	1,372,799	15.2%
2003	127,141	624,000	748,000	1,499,141	9.2%
2004	373,520	774,300	818,350	1,966,170	31.2%
2005	568,877	789,400	1,078,808	2,437,085	24.0%
2006	663,056	860,000	1,118,000	2,641,056	8.4%
2007	707,886	1,016,400	1,245,800	2,970,086	12.5%
2008	687,857	1,112,000	1,394,000	3,193,857	7.5%
2009	702,537	1,300,000	1,620,000	3,622,537	13.4%
2010	745,407	1,540,900	1,880,700	4,167,007	15.0%
2011	827,091	1,752,700	2,152,600	4,732,391	13.6%
2012	934,951	1,843,600	2,217,700	4,996,251	5.6%
2013	1,041,673	1,800,000	2,211,300	5,052,973	1.1%
2014	1,148,105	1,800,000	2,200,000	5,148,105	1.9%
2015	1,072,680	1,763,100	2,296,000	5,131,780	-0.3%
2016	1,137,869	2,029,600	2,486,700	5,654,169	10.2%
2017	1,133,085	2,023,000	2,609,000	5,765,085	2.0%
2018	1,197,950	2,127,000	2,750,000	6,074,950	5.4%
2019 Est. Actual	975,000	2,273,000	2,823,000	6,071,000	5.3%
2020 Budget	1,249,690	2,397,000	3,039,000	6,685,690	10.1%

**% Change from 2018**      **28.17%**      **5.46%**      **7.65%**

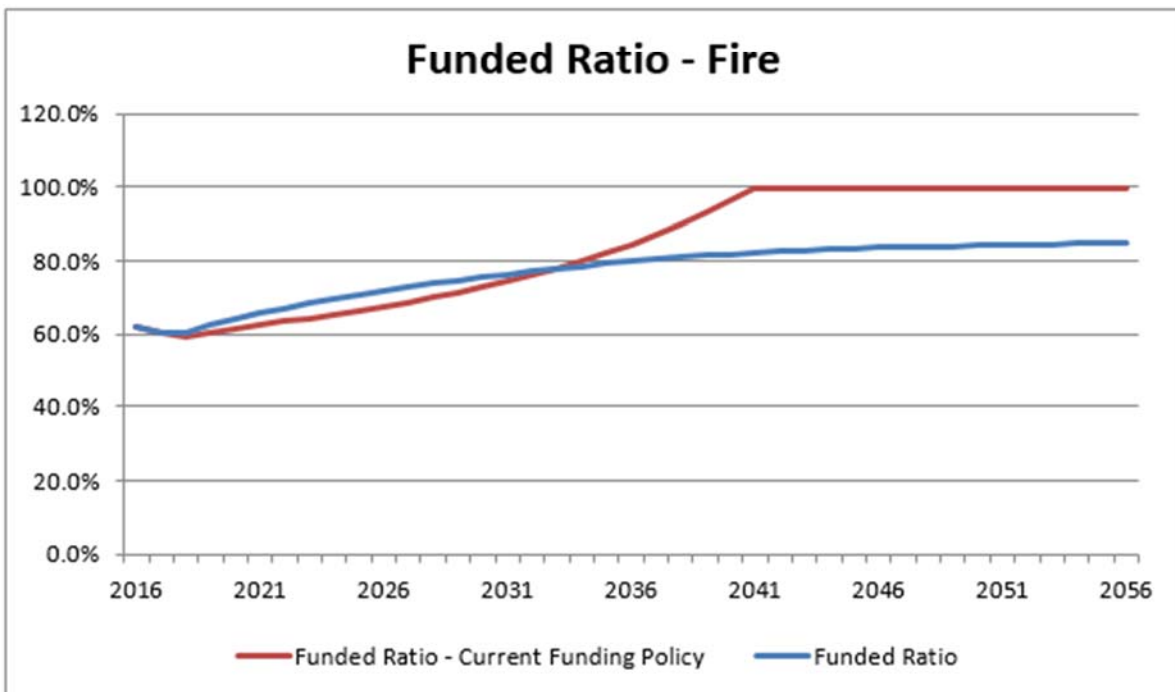
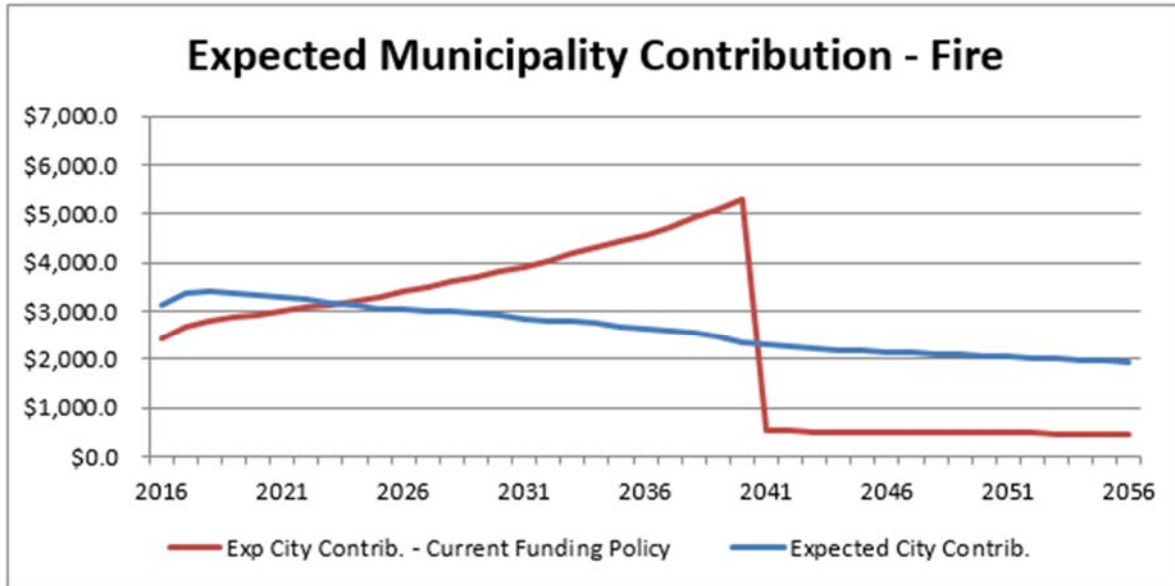
**% Change from 1998**      **144.33%**      **805.21%**      **815.36%**      **503.25%**

<b>23 Year Average Compounded Annual Growth</b>	<b>4.57%</b>	<b>11.64%</b>	<b>11.71%</b>	<b>9.40%</b>
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The Plan: To address this challenge, the Village Board in 2019 completed a two-year review of long-term strategies to responsibly fund the public safety pension plans. With the goal of leveling off future contribution spikes while starting to pay down each plan's unfunded liability, the Village Board elected to implement a 15-year rolling amortization



schedule for the police and fire pension funds. The charts that follow illustrate how the Village's previous funding policy (red line in each chart) compares to the new rolling system (blue line in each chart) for the fire pension fund. The revised policy is projected to save the Village \$40 million in contributions over the next 20 years.



Public safety pension contributions are paid directly through a dedicated portion of the Village's property tax levy because it is stable enough to ensure the Village can meet its obligations. As such, the funding increases necessary to transition to a 15-year rolling amortization schedule will need to come from property tax increases. The table below

demonstrates the projected annual increase of the Village’s new policy, and how General Fund reserves will be utilized to limit the burden on property taxpayers:

<b>Contribution Method</b>	<b>2019 (\$)</b>	<b>2020 (\$)</b>	<b>2021 (\$)</b>	<b>2022 (\$)</b>	<b>2023 (\$)</b>
Current/Baseline	5,096,000	5,296,000	5,737,000	5,826,000	5,936,000
Transition to 15-Year Amortization from 2020 - 2023	N/A	5,436,000	6,081,000	6,419,000	6,550,000
Incremental Increase in Contributions	N/A	340,000	645,000	338,000	131,000
Projected General Fund Reserve Drawdown	N/A	\$200,000	\$500,000	\$550,000	\$50,000

### The Impact of These Challenges on Wilmette Taxpayers

Addressing the challenges outlined above cannot be accomplished without increased contributions from our taxpayers- residents and business owners alike. For the past 10 years, the Village has done its best to be good stewards of taxpayer dollars and we remain committed to doing the same moving forward. To that end, it is imperative that we take a long-term view to how we will address these challenges. By planning ahead, we can limit the impact on taxpayers while ensuring adequate investment in our infrastructure.

The projections below include implementation of the Neighborhood Storage Improvement project, increased investment in the road infrastructure program (\$500,000), implementing the 15-year rolling amortization for the public safety pension funds, an annual water main replacement program beginning 2023, and continued annual investment in our sewer and water systems.

	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Tax Levy</b>	4.99%	4.10%	5.11%	3.37%	3.55%
<b>Water Rate</b>	\$2.75/unit	\$2.75/unit	\$2.75/unit	\$2.75/unit	\$2.75/unit
<b>Sewer Rate</b>	\$4.40/unit	\$4.58/unit	\$4.58/unit	\$4.58/unit	\$4.58/unit
<b>Stormwater Fee</b>	\$144	\$175	\$292	\$325	\$380
<b>Refuse Fee</b>	\$23.75/month	\$24.35/month	\$24.35/month	\$24.35/month	\$25/month
<b>Vehicle Fee</b>	\$80	\$80	\$80	\$80	\$80

## 2019 Budget Performance and 2020 Proposed Budget

In 2019, the Village is projecting a \$1.5 million surplus, almost entirely driven by non-recurring permit revenues from large, one-time projects which helped to offset declines in sales tax, recurring building permits, real estate transfer tax, and utility tax.

This is the eighth consecutive year that the Village was able to improve its net revenue picture from the Budget and use conservative projections to its advantage. By building the reserve, the Village is able to fund one-time expenses with proven, not merely projected, positive net revenue. For FY 2020 and 2021, projects anticipated to be funded by the reserve include the phase-in of the public safety pension funding amortization discussed above, an update of the Village's Comprehensive Plan, and capital improvements such as the Skokie Valley Trail and the intersection at Skokie Boulevard and Lake Avenue (pending grant awards).

As part of the mid-year financial review, the Village Board challenged staff to present a balanced budget that adequately funded capital improvements and continued to limit the rate of increase in the Village's general operating portion of the property tax levy. Once again, the Village Board and the staff have focused throughout the year on finding economies, efficiencies and better processes to hold down or reduce spending, while still meeting the expectations of our residents for the exceptional services that distinguish Wilmette from other communities.

I am pleased to present you with a Fiscal Year 2020 Budget that, once again, meets these goals.

- The FY 2019 Operating Budget **is again balanced**. It projects no draw down on reserves for operations and in fact will assign \$423,000 to the Capital Equipment Replacement Fund.
- The FY 2020 Budget **again maintains all Village services**. It provides for the continued police, fire, public works and other services residents expect.
- The FY 2020 Budget provides for **capital funding for critical infrastructure improvements in Village neighborhoods**, including:
  - More than \$5 million for street resurfacing and related infrastructure improvements including:
    - Alley maintenance, brick street repairs, sidewalk and curb repairs, crack sealing, street patching, and pavement marking;
  - \$1.4 million in critical vehicle replacements, primarily funded through the CERF including:
    - Fire Department Ambulance
    - Self-Contained Breathing Apparatus (SCBA) for Firefighters
    - Public Works Large Snow Plow Dump Truck
    - Public Works Sidewalk Snowplow

- Four Police Squad Vehicles
- Funding for an update of the Village's Comprehensive Plan
- \$820,000 for sewer lining and rehabilitation
- \$5,000,000 for critical Water Plant electrical improvements, to be completed in (total project cost of \$8.9 million)
- While wages account for more than 30% of Village spending across all funds, wage growth in the General Fund is limited to 2.85%.
- A proposed 4% increase in the sewer rate after four consecutive years of no rate increases; the increase will fund continued ongoing capital repairs.
- No increase in the domestic water rate; in the last eight years, this is the sixth year the rate has been held flat.
- The Village's share of a resident's property tax bill will remain at about 12% of the total bill:



What follows is a more detailed discussion of how the Fiscal Year 2020 Budget was developed. This includes discussion of the revenue and expense challenges that were confronted in 2019 and will face the Village in 2020, the actions taken by the Village to address those challenges and the means by which we intend to, once again, balance expenses with revenue while still improving service and infrastructure in Fiscal Year 2020.

## **Process for Development of the Budget**

The 2020 Budget was developed by the Village's Budget Team consisting of Assistant Village Manager Michael Braiman, Finance Director Melinda Molloy, Assistant Director of Administrative Services John Prejzner, and myself. The Budget Team and the leadership of the Village's various departments worked closely together throughout the budget process to develop a 2020 Budget that would meet the expectations of the Village Board.

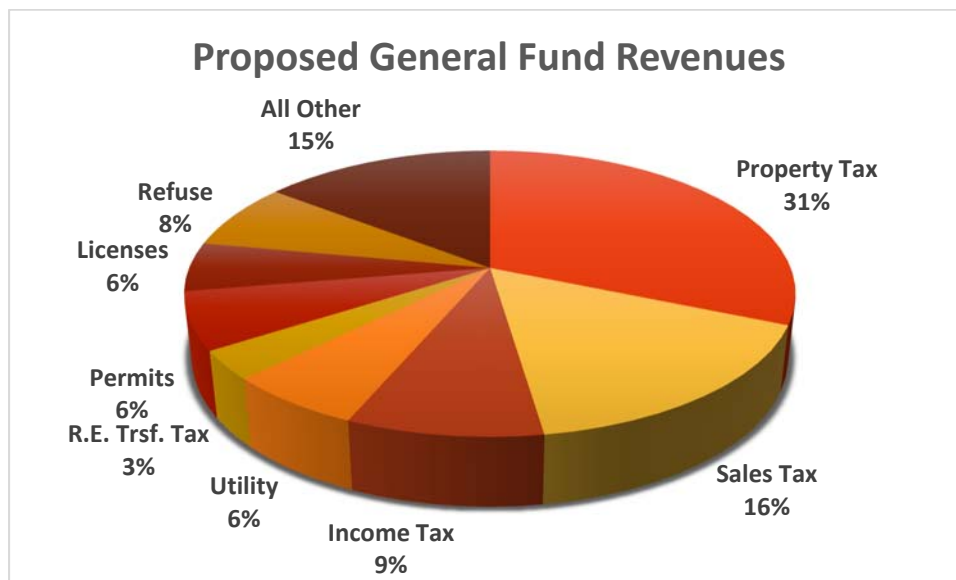
The Budget Team members met with every department to review and discuss that department's goals and objectives, capital needs and corresponding expenditure items. Each line item of the budget was closely scrutinized, down to the level of finding savings in every category possible. This part of our 2020 Budget process began January 1, 2019 – cost reduction efforts are a continuing process throughout the entire year.

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## **2020 GENERAL FUND BUDGET**

### ***Overview of Key Revenues Influencing Budget Development***

The following is a discussion of the key General Fund revenue sources that defray the operating expenses of the Village. The revenues used to support the operations of the Village are derived from the following:



### ***Real Estate Property Tax***

The single largest source of General Fund revenue is the real estate property tax. The Village's share of the average Wilmette resident's property tax bill is approximately 12%. While other revenue sources are subject to the condition of the national and regional

economies, this is a stable revenue source for the Village. However, in recent years property tax revenue projections have been reduced due to the large number of property tax refunds issued by the Cook County Board of Review and the Cook County Property Tax Appeals Board.

Each year, the Village Board tasks the administration with limiting the rate of growth in the general operating portion of the tax levy. Other portions of the levy, such as required pension contributions and pre-existing debt service, cannot be reduced. The component elements of tax levy growth may be described as follows:

General Operations	1.43%
Add'l for Road Infrastructure	2.69%
Debt Service	0.12%
Pension Funding Obligations	0.75%

Since 2009, the average increase to the property tax levy has been 3.78%; during this time, the only two years the levy increase has exceeded 4% was when additional funds were allocated to the annual road program (FY 2016 and 2019).

### ***Real Estate Transfer Tax***

Local real estate transfer tax receipts have declined each of the last three years, and FY 2019 estimates are back to 2013 levels; this is a 7% decline from 2018. These tax receipts are impacted by both a lower volume of sales and declining home sale prices. Should the volume of sales slow further and price reductions continue, this could have a significant impact on the Village's budget.

Accordingly, the 2020 Budget projection reflects a further 1% decrease from the 2019 estimated actual. While this is a conservative approach, Staff believes the figure is justified based on recent trends.

### ***Building Permits***

Recurring building permit revenue performance had been fairly consistent since 2013. However, in 2019, recurring permit and associated revenues are projected to be \$275,000 less than 2018. While 2019 estimated actuals are within the \$1.9 - \$2.3 million range experienced over the past five years, the estimates are at the very low end of the range and coupled with the decline in real estate transfers noted above, the 2020 Budget projects a 3% decline in recurring permit revenues.

While recurring permit revenues have remained fairly stagnant, or declined, since 2013, large non-recurring permits, primarily attributable to new home construction along Lake Michigan, increased significantly in 2016, 2017, 2018, and 2019. The 2019 estimated total of \$1.04 million was nearly equal to the non-recurring permit revenue totals in the years 2013, 2014 and 2015 combined. While these revenues are good news, and have helped to put the Capital Equipment Replacement Fund (CERF) on solid footing for the next several years, they are also highly volatile and should not be relied upon in

future budgets. As such, \$100,000 in non-recurring permits is budgeted for FY 2020 and only \$30,000 for future fiscal years.

### ***Sales Tax***

Wilmette generally has a stable retail environment, with grocery stores and pharmacies among its largest sales tax producers. The Village's Home Rule Sales Tax rate is 1.0%, for an overall sales tax rate of 10.0%. The Village's tax rate is slightly above Glenview (0.75%), but below Skokie and Evanston (1.25%).<sup>1</sup> With the increase in the home rule sales tax in 2015, sales tax as a percentage of General Fund revenues increased from 12% in 2014, to 16% in 2019. While the growing level of sales tax as a percentage of the Village's budget helps to reduce the overall property tax burden on Wilmette residents, it does put the Village more at risk for revenue fluctuations tied to the overall health of the economy.

Despite sales tax increasing as a percentage of overall revenues, estimated receipts declined by \$430,000 (-7.5%) in FY 2019 largely due to the closure of the Carson's Department and Furniture Stores, Imperial Motors, and Treasure Island. While the Village is working hard to fill these vacancies, it is unlikely that all of this vacant retail space will be filled by sales tax generators (the former Carson's Furniture Store will be a medical facility). It is widely known that the retail climate is changing as consumers purchase more items online. Wilmette will continue to closely monitor sales tax receipts moving forward.

Until such time that replacements are found for the major sales tax generators that have closed, the Village will continue to budget sales tax as if no new revenues will be forthcoming. Fortunately, new State law will provide additional sales tax revenues due to changes in how internet purchases are taxed. The changes are effective July 1, 2020 and the FY 2020 budget assumes 2% growth in sales tax in part due to these new revenues.

### ***Income Tax***

Income tax receipts are distributed to local governments by the State of Illinois on a *per capita* basis. Revenues are highly dependent on the health of the economy. As unemployment decreases and investment income rises, income tax receipts increase. Income tax is the one recurring revenue source that has not stagnated or declined over the past several years. Despite the State of Illinois diversions that were continued in 2019, income tax receipts have performed better than anticipated, with revenues projected to be nearly \$270,000 over 2018. Accordingly, the FY 2020 budget assumes an increase of 2.0% from the 2019 projection.

- ***General Fund Budget Summary for FY 2020***

The Village's General Fund is its principal operating fund. It provides for the operations of the Fire, Police, Engineering & Public Works, Community Development, Law, Finance, Cable, Administrative Services, and Administration Departments. The following is a

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<sup>1</sup> On September 23, 2019, the Evanston City Council voted to raise its home rule sales tax from 1.0% to 1.25%, effective in 2020. It is currently 1.0%

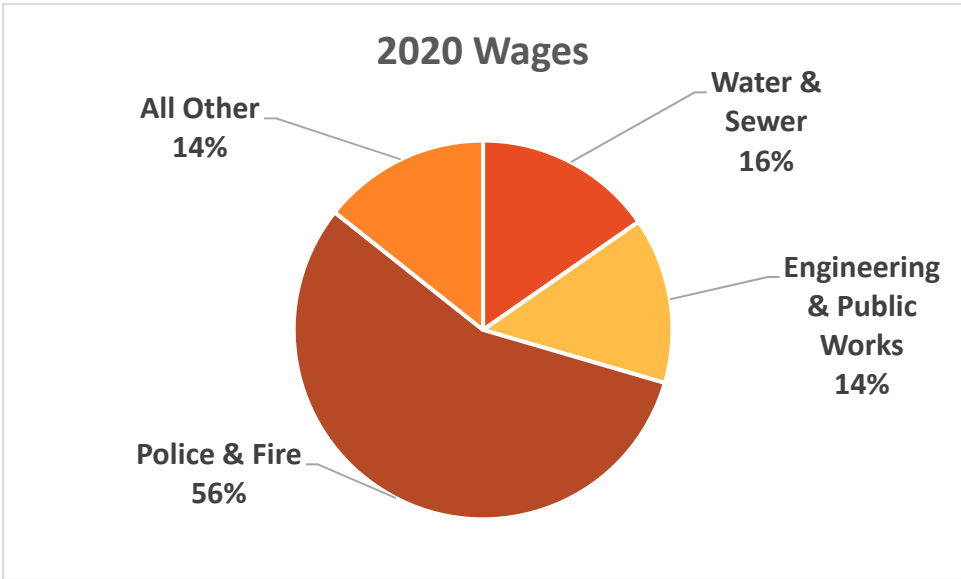
summary of the 2020 General Fund Budget. The 2020 Operating Budget is balanced, honors all contractual commitments and maintains existing service levels.

### General Fund Budget Summary

	<b>2019 <u>Budget</u></b>	<b>2019 <u>Projection</u></b>	<b>Proposed 2020 <u>Budget</u></b>
<b>Beginning Reserve</b>	<b>12,067,598</b>	<b>12,668,879</b>	<b>14,172,049</b>
<b>Property Tax Revenue</b>	9,616,700	9,616,700	10,374,800
<b>Sales Taxes</b>	5,349,000	5,303,000	5,409,000
<b>Service Charges</b>	3,172,800	3,184,200	3,178,900
<b>Income Tax</b>	2,492,000	2,862,000	2,919,000
<b>Utility Tax</b>	2,100,000	2,056,500	2,053,000
<b>Real Estate Transfer Tax</b>	1,272,000	1,092,000	1,080,000
<b>Permits</b>	2,138,600	3,024,600	2,023,500
<b>Licenses</b>	1,804,500	1,874,500	1,836,500
<b>All Other Revenues</b>	5,525,655	5,632,060	5,290,710
<b>Total Revenues</b>	<b>33,471,255</b>	<b>34,645,560</b>	<b>34,165,410</b>
<b>Wage Expense</b>	17,506,300	17,512,425	17,991,925
<b>Fringe Benefits</b>	4,386,210	4,300,710	4,545,740
<b>Refuse Program</b>	2,380,840	2,373,835	2,385,870
<b>Contractual Services</b>	2,598,930	2,547,635	2,533,205
<b>Commodities</b>	736,435	814,765	776,485
<b>Other Expense</b>	1,848,240	1,828,765	1,816,090
<b>Contingency</b>	400,000	23,400	450,000
<b>Engineering Allocation</b>	2,894,205	2,926,500	3,259,460
<b>CERF Expense</b>	638,500	645,865	1,437,600
<b>Other Capital Outlay</b>	174,600	123,490	66,550
<b>Non-Recurring Expenses</b>	93,000	45,000	285,000
<b>Total Expenses</b>	<b>33,657,260</b>	<b>33,142,390</b>	<b>35,547,925</b>
<b>CERF Reserve</b>	<b>1,473,000</b>	<b>2,242,680</b>	<b>1,278,439</b>
<b>Operating Reserve</b>	<b>10,408,593</b>	<b>11,929,369</b>	<b>11,511,095</b>



**Discussion of Personnel Wages & Fringe Benefits**



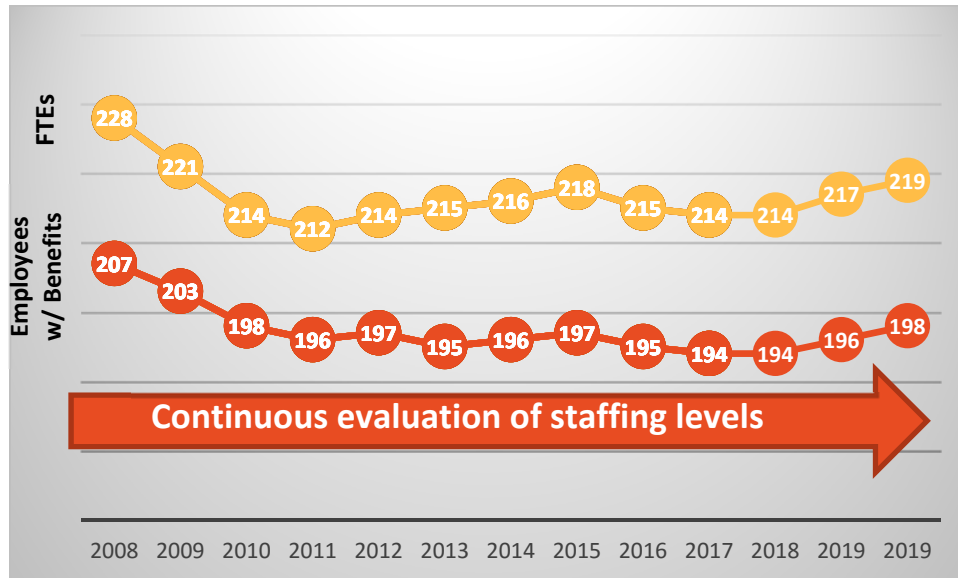
Because nearly 70% of General Fund expenses are tied to salaries and benefits, stabilizing the Village’s spending requires controlling this expense category to the extent practicable, recognizing the need to maintain adequate staffing to continue to provide public services. The Village has also implemented a two-tier pay program, so that newer employees see a slower rate of salary progression during their careers. Projections still meet the contractual obligations contained in the Village’s collective bargaining agreements covering members of the Police Department, which provides for a 2.25% wage adjustment.

A 2.25% wage adjustment is budgeted for all unrepresented employees to recognize, and is justified by, the continued maintenance of the existing two-tier pay plan covering unrepresented employees, by the sunset of the existing IRS Section 105 sick leave buyback benefit, which is now only applicable to employees hired prior to January 1, 2016, and by the flexibility the Village continues to have in years beyond 2020 to tailor future adjustments to respond to any changes caused by new State laws impacting local government revenue.

For 2020, the Village will be adding three new full-time positions: Public Works Management Analyst, Police Administrative Systems Analyst, and a Stormwater Utility Engineer. Much of the cost of these new positions will be offset by other personnel savings in the FY 2020 budget while the Engineer position will be fully funded by the new stormwater utility.

The Village tracks its staffing using two metrics. First, the Village monitors those employees eligible for benefits i.e. health insurance, pensions, etc. The second metric is the FTE count. Staff has taken significant efforts to reduce the number of benefit eligible employees while not compromising service delivery. Because of these efforts, the number of benefit-eligible employees is at one of its lowest in 25 years, at 198.

Below is a history of the Village's FTE staffing. The 2020 FTE staffing level remains at one of the lowest points since 1995.



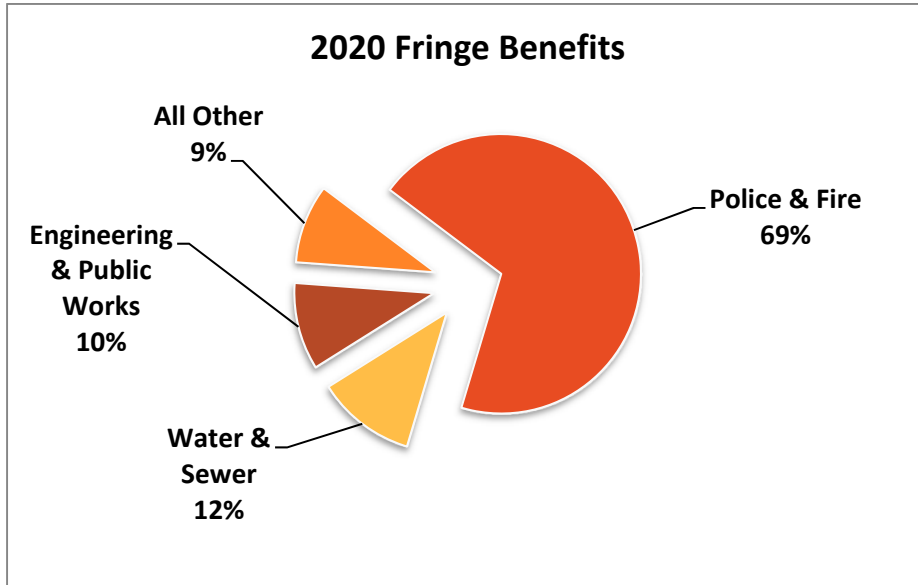
For FY 2020, wages (regular salaries and overtime) are projected to increase across all funds by 3% for a total of \$22.1 million, allocated as follows:

<u>Fund Breakdown:</u>	<u>FY 2020 Budget</u>	<u>% Change</u>
General Fund	17,991,925	2.8%
Water Fund	2,670,575	1.9%
Sewer Fund	723,675	15.4%
Parking Meter Fund	96,000	2.3%
Municipal Garage	657,525	3.6%
<b>Totals</b>	<b>22,139,700</b>	<b>3%</b>

The 2020 Budget for employee fringe benefits expense reflects a 7% increase. The following table summarizes the changes:

	<u>FY 2020 Budget</u>	<u>% Change</u>
<b>Health Insurance</b>	3,468,888	4.5%
<b>FICA / Medicare</b>	1,021,370	3.5%
<b>IMRF</b>	1,249,690	27.5%
<b>Public Safety Pensions</b>	5,436,000	6.7%
<b>Other Employee Benefits</b>	416,710	-29.7%
<b>Total Fringe Benefits</b>	<b>11,592,658</b>	<b>5.6%</b>

The departmental breakdown of fringe benefits cost is as follows:



***Discussion of Future Years***

Projections for 2021 and 2022 are contained with this submittal. Revenue assumptions for these years are conservative, which is appropriate given the stagnating revenues experienced since FY 2016 and the continued uncertainty regarding the State of Illinois. The revenue growth also currently projects tax levy increases for the 2021 (4.1%) and 2022 (5.1%) fiscal years.

Maintaining current service levels and appropriately funding capital needs will be policy decisions contingent on the economic conditions, and actions by the State of Illinois, over the next three years.

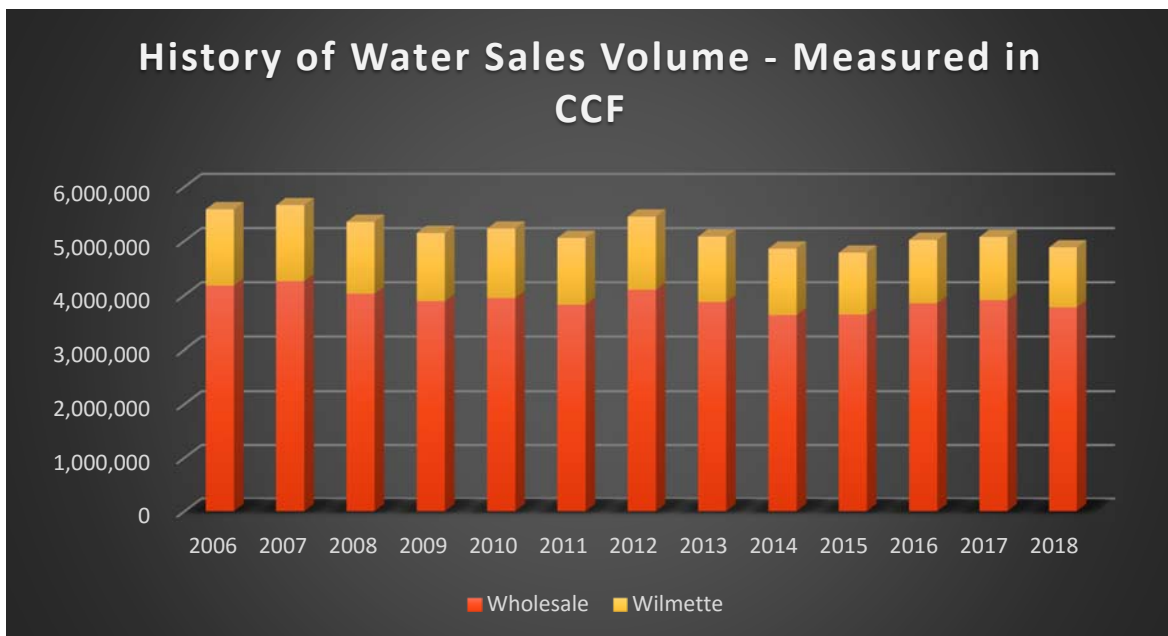
## 2020 WATER & SEWER FUND BUDGETS

The Village maintains two enterprise funds that account for the provision of water and sewer services to the residents of the Village. All activities necessary to provide such services are accounted for in this fund.

The Village's Department of Water Management provides safe and reliable water for more than 100,000 Illinois residents (projected to increase to 150,000 in mid-2020). The Village remains committed to investing in this critical community asset and has taken multiple steps over the past several years to ensure proper maintenance of this utility.

- **Discussion of Water/Sewer Fund Revenues**

The Water and Sewer funds are self-supporting "enterprise" funds. Wholesale water revenue is received from water sales to the Village of Glenview, the Illinois American Water Company, Village of Golf, and the Village of Kenilworth. Domestic water revenue and sewer revenue is generated by the water and sewer fees charged to Wilmette residents. In 2014, the Village extended its wholesale water contract with the Village of Glenview through 2050 and added North Maine Utilities as a new wholesale customer, beginning in mid-2020. The addition of North Maine will result in an anticipated \$1 million in new net wholesale revenue (\$500,000 in 2020). Over the past several years, water and sewer revenues have declined due to lower than projected water consumption. Beginning in 2010 the Budget assumed reductions in average consumption for both water and sewer to better match the revenues derived from actual usage and to reflect long-term trends. Reductions in projected consumption continued in 2011 and 2012 and took place again in 2015, reducing assumptions from 33.5 units to 33.3 units per household. The FY 2020 Budget assumes a 5% reduction in water consumption. Since 2004, water usage has reduced by more than 20%.



The above chart illustrates actual sales (measured in hundred cubic feet (ccf) from 2006 through 2018. Following drought conditions in 2005, a steady decline occurred through 2011 and again following a drought in 2012.

### ***Water Rate***

Given the new wholesale revenues anticipated to begin in mid-2020, and the staff's recommendation to defer an annual water main replacement program to FY 2023, no increase in the Village's water rate is necessary at this time.

In November 2013, a ten-year "set-aside" period ended for water plant improvements financed by the Village of Glenview in connection with redevelopment of Glenview Naval Air Station. Thus, these improvements were factored into the wholesale rate calculation, which increased by 9% in 2015 and another 5% in 2017 and 2019. There is a scheduled 5% reduction effective in 2020, as part of commencement of service to North Maine Utilities/Aqua, after which we expect wholesale water rates to be stable for several years.

### ***Sewer Rate***

Following two years of increases in the sewer rate to fund the \$24 million sewer improvement program in 2014 and 2015, there was no rate increase in 2016, 2017, 2018, or 2019. A modest 4% increase is proposed for FY 2020 to account for declining consumption and continuation of an aggressive sewer maintenance program to address aging infrastructure.

### ***Stormwater Utility Fee***

Beginning in fall 2019, the Village will be embarking on a four year, \$68 million Neighborhood Storage Improvement project to provide much needed flood relief to thousands of Wilmette residents. This project will necessitate a new funding source to pay the nearly \$4 million in projected annual debt service. Following a comprehensive study in 2019, the Village Board elected to implement a new stormwater utility fee that will charge properties a flat quarterly fee based on the measured impervious surface. The stormwater fee was selected as it is a stable and reliable revenue source while also being more reflective of a property's impact on the sewer system. The projected average annual residential fee in 2019 will be \$144. The fee will increase annually over the next several years as the project is implemented.

### ***Capital Expenses***

For the Fiscal Year 2020 Budget, the following capital expenditures are included in the Water and Sewer Fund Budgets to improve and maintain the Village's infrastructure:

#### **Sewer Fund**

- |  |              |
|--|--------------|
| • Phase 1A and 1- Neighborhood Storage       | \$23,000,000 |
| • SWPS Electrical Improvements (Year 1 of 2) | \$400,000    |
| • Sewer Main Repairs                         | \$337,000    |

- Sewer Maintenance \$322,000
- Smoke Testing \$60,000
- SWPS Pump Renovations \$40,000

**Water Fund**

- Water Plant Electrical Imp. Phase 1 \$5,000,000
- Water Main Replacement \$2,920,000
- Distribution System Valve Improvements \$88,000
- Rebuild Water Plant High Lift Pump \$40,000
- Water Transmission Main Repairs \$21,000
- Water Main Surge Suppressors \$12,000

- ***Water and Sewer Future Years***

Complete long-range cash flows are included in this budget through the 2022 fiscal year. Revenue projections provide for no increase in the residential water rate in 2021 or 2022, with additional adjustments beyond that to be reviewed based on new revenues from North Maine Utilities, infrastructure needs, and the impact of the weather on overall fund performance. The wholesale rate is projected to decrease by 5% in 2020 and then hold flat for several years.

The sewer rate is projected to increase by 4% in 2021 with no increased anticipated in 2022 (weather dependent). As discussed, the stormwater utility fee will increase annually as the Village's debt obligations grow due to the Neighborhood Storage Improvements. The rate of increase will be dependent on the final cost of the project and the interest rates associated with the debt.

## Acknowledgements

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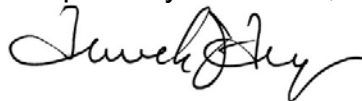
The desirability of living in Wilmette, and by extension to value of its residents' investments in their homes, depends upon the quality of the core public services provided by the Village. Safe water, safe streets, police protection, fire prevention and suppression, emergency medical services, emergency management, economic development, public health, and critical infrastructure including roads, sewers, and lighting, as well as a host of other essential functions and services, are all possible only through sound financial planning and stewardship. Each year, development of the budget is the annual process through which the public officials and professional staff work together to determine how to prioritize the community's many needs and align them with the limited resources available to provide for its needs, both that year and in the years thereafter. It is an annual assessment of our financial management of the community, a statement of our values, a demonstration of our capabilities, and a guidebook to what we intend to achieve.

On behalf of all the Village staff, I would like to express our sincere gratitude to each of the Village's elected public officials, past and present, recognizing that we have and continue to benefit from your collective direction, support, guidance and confidence. Your thoughtful, respectful and informed leadership and decision-making is respected by all the Village staff.

I am very proud of all the members of the staff, who serve Wilmette with professionalism and skill. I am continuously grateful for the opportunity to manage a team that displays so much dedication, integrity and commitment to the community. To each of the Village's department heads, I am grateful for your expertise and leadership, and for your hard work in preparing our Budget.

I finally wish to express my sincere gratitude to the Village's Budget Team: Mr. Braiman, Ms. Molloy, Mr. Prejzner. Their dedication and expertise are indispensable to the Village, and without their diligence and professionalism, the preparation of this budget would not be possible.

Respectfully submitted,



Timothy J. Frenzer  
Village Manager