VILLAGE·OF·WINNETKA

Incorporated in 1869

November 20, 2018

Village President
Members of the Village Council, and
Village Manager

It is our privilege to present for your review and consideration the 2019 Annual Budget and Capital Improvement Plan. The 2019 Annual Budget and Capital Improvement Plan totals $79,580,873, an increase of 5.5% compared to the 2018 budget, which is mostly due to an increase in planned capital spending of $3,907,381. The operating budget assumes conservative revenue estimates for 2019 with an operating budget increase of 0.4% across all funds. The 2019 Annual Budget and Capital Improvement Plan is balanced and does not rely on the use of fund balance or other one-time revenue sources for operating purposes.

This Transmittal Letter is divided into ten sections: 1) Summary of Key Budget / Financial Policies 2) Current Economic Environment 3) Budget Initiatives, 4) Budget Summary, 5) Budget Impact on a Resident, 6) Tax Levy Analysis, 7) Explanation of Individual Fund Budgets, 8) GFOA Recognition, 9) Community Profile, and 10) Closing Comments.

Summary of Key Budget / Financial Policies

The Village's core financial policy is to maintain its long-standing tradition of fiscal discipline and stewardship, while delivering high levels of municipal services. Historically the Village has invested in infrastructure on a pay-as-you-go basis. These guiding principles ensure that the Village delivers a high level of services and minimizes increases in operating expenses. The Village's fiscal prudence has earned it a Aaa bond rating, reduced the Village's portion of the property tax bill, ensured a steady and predictable revenue stream, and resulted in very little debt. While a comprehensive list of Financial Policies is included in this budget document, the summary below encapsulates the significant policies as they relate to maintaining fiscal discipline:

- Balanced Budget – We define a balanced budget as relying on recurring annual operating revenues to fund recurring annual operating expenditures. The Village does not rely on drawing down of fund balances or one-time (non-recurring) revenue sources to fund operating expenditures.

- Revenue – Ideal revenue sources are those that are stable and predictable, and to the greatest extent possible and they should grow in tandem with costs.

    - Tax Levy – In 2005, through voter referendum, the Village became a Home Rule municipality. As a home rule community, the Village Council can set the property tax levy at any amount it deems appropriate. As part of the voter referendum in 2005, the Village committed to operate within the non-home rule tax cap limitations. The 2019 budget continues that commitment of operating within the non-home rule tax cap limitation.

    - Fees – When the Village charges fees, such as building permit fees, they should be set to recover the cost of providing the specific service.

- Utility Rates – Retail electric, water, sanitary, and storm sewer rates are set using a cost of service analysis to ensure an equitable allocation of revenue requirements.

- Expenses – A snapshot of the Village policies regarding operating expenses is shown below.

  - Operating Expenses – Increases in operating expenses generally should be equal to increases in revenues unless specific Council action is taken to increase or reduce cash balances.

  - Personnel Expenses – A well-trained and experienced work force is a vital component of providing high quality services at a reasonable cost. The Village looks to keep employee compensation fair and generally in-line with neighboring communities.

  - Public Safety Pensions – The Village is committed to making the required annual contribution amount calculated by the Pension funds' actuary with the goal of the public safety funds being 100% funded by December 31, 2035.

  - Capital Improvement Policies – The core planning tool for investing in the infrastructure is the Village's five-year Capital Improvement Plan (CIP) which is updated annually for the General, Motor Fuel Tax, Village Facilities, Business District Revitalization Water, Electric, Refuse, Sanitary Sewer, and Stormwater Sewer Funds. The Village will continue to maintain and upgrade most infrastructure via routine capital improvement projects on a pay-as-you-go basis. For large scale projects (e.g. storm sewers), the Village will utilize cash reserves to the extent possible and evaluate debt financing options as well.

- Debt Policies - The costs associated with acquiring and improving many long-term capital assets are met primarily through net operating income and accumulated fund balances, but occasionally the Village will elect to issue debt. The Village reviews existing obligation structure, current and projected surplus from operations, and future liability levels before making decisions to issue new debt. The Village has consistently retained a Aaa bond rating with a "Stable Outlook".

- Budget Amendments - It is the practice and policy of the Village to avoid budget amendments whenever possible by budgeting strategically during the annual process. To that end, each year the budget includes a contingency expense that is approved by the Village Council. With Council approval, contingency can be used to pay for unforeseen items, or ongoing projects that may have been advanced or delayed from a previous fiscal year.

- Fund Balance / Net Assets Policy - Fund balance/net assets policies establish a minimum end-of-year fund balance/net assets target for select funds. These policies are established to provide financial stability, cash flow for operations, and ensure that the Village will be able to respond to emergencies with fiscal strength. Additionally, detailing the availability of fund balance increases the ability of financial statement users to understand the availability of resources. A summary chart showing the budget's effect on estimated Fund Balances and how those fund balances compare to policy can be found at the end of this letter.

Current Economic Environment

For fiscal year 2019, there are economic and legislative factors to consider. On an organization-wide basis, elected officials, staff, and residents should be aware of a number of opportunities and pressures related to operational revenues, operational expenditures, and capital investment.

On the revenue side, the local and national economy continues to grow with the current economic expansion, which is already the second longest in history. By most metrics, the economy is in great shape. Nevertheless, the Village still faces significant economic risks. The economic expansion will not last forever and will be followed by a recession.

Also, with low unemployment, increased tariffs on imports, interest rate hikes by the Federal Reserve, and higher energy prices (particularly oil) we are likely to start seeing increased inflationary pressure. There also continues to be a high degree of uncertainty within the State of Illinois as shared revenue sources for municipalities remain under potential threat by key lawmakers in State Government. Additionally, there is a very real possibility that the Village will experience a state-wide property tax freeze at some point in the next one to two years. Property taxes account for about half of General Fund revenues. Most recently, the Village has only relied on new development in the tax base for any increase in the tax levy. Such increases related to new development have largely offset public safety pension increases, with minimal new revenue going into the Village's General Fund. Additionally, the State Legislature reduced the amount withheld from Local Government Distributive Fund (LGDF) remittances from 10% to 5%. The Village continues to monitor State's financial situation very closely.

Nobody knows for certain if and when any of the above mentioned economic threats will fully materialize. Therefore, it will remain an important consideration for the Village Council to continue contingency planning in the event of a revenue interruption due to legislative actions in Springfield or an anticipated economic downturn.

While the Village Council and staff need to remain cognizant about threats to recurring revenue sources, there is reason to be optimistic about the future. The Village of Winnetka has historically relied on traditional sources of revenue and has not captured additional revenue sources, such as a home rule sales tax, that are statutorily available and utilized by neighboring communities. Furthermore, the Village's permit revenue should see a significant lift if the One Winnetka planned development proceeds.

Budget Initiatives

The Village exercises strong control over its expenses, which along with revenue decisions, form the second set of considerations in the fiscal year 2019 budget. There are a number of initiatives which will impact the Village's operational and capital expenses for the short and long-term in the proposed budget. Those initiatives include:

- **Stormwater Management / Flooding Initiatives –** The 2019 budget provides $7,405,000 for stormwater management / flooding initiatives. Stormwater continues to be a critical policy issue within the Village. In 2016, Strand Associates drafted a "Stormwater Vision" for the Village, which included strategies for moving stormwater to the west in cooperation with the Cook County Forest Preserve. As part of the Vision, the Village signed a memorandum of understanding in 2017 with the Forest Preserve District of Cook County (FPDCC). This memorandum allows the Village to proceed with further study and preliminary engineering for the utilization of the FPDCC property on the west side of the Village for stormwater detention and runoff. The Village hopes to have a license agreement issued by the County in early 2019 and intends to proceed with engineering and possibly begin construction next year. As the Strand Vision included multiple phases and approaches, and prior to securing a County license agreement, the Village is also in the process of addressing outreach and engineering for stormwater storage at New Trier High School, Winnetka School District 36, and Winnetka Park District properties. One of the key policy issues for the Council to address during fiscal year 2019 relates to future funding of the stormwater improvement projects outlined in the CIP.

- **Downtown Redevelopment –** The 2019 budget provides approximately $2,256,540 towards downtown redevelopment in the Business District Revitalization Fund. In 2018, the Village Council accepted the Downtown Streetscape and Signage Master Plan. As part of that plan $8.9 million of projects were identified for the downtown area. For 2018, there is $2,146,540 budgeted which is dedicated towards streetscape improvements for Chestnut and Spruce Streets. Other initiatives in this area include various sidewalk, grate and brick paver projects, as well as design work for future projects.

  The proposed budget utilizes $1.1 million in property taxes as a funding source which was previously levied for refuse collection. Additional funding is provided by a $550,000 transfer from the General Fund. Also in the General Fund, Electric Fund, and Water Fund, the budget includes additional revenues and expenses related to the permitting process for the One Winnetka Development planned development.

- **Improvements to Aging Infrastructure –** The 2019 budget contains a little over $7.3 million in funding dedicated to improving aging infrastructure including $3,561,466 million dedicated towards improvements in the electric plant and power grid; $2,562,000 towards roadway, sidewalk parking and bridge improvements; $392,000 in sanitary sewer replacements; and $874,521 towards water main replacement.

- **Utility Funding –** The Electric and Water Funds both underwent in-depth rate studies during 2016-2017 which yielded new rate structures generating the revenue needed to address distribution and plant infrastructure projects. The Water and Electric rates proposed in this budget are consistent with what was recommended in these studies.

  In 2017 and 2018, the Village engaged an outside consultant to perform a sanitary sewer evaluation survey. This survey identified key sources of inflow and infiltration into the Village's sanitary sewer system along with the costs associated to mitigate defects. The report identified $3,328,700 in rehabilitation projects that will need to be completed over the next five years. While funding is secured for 2019, ongoing policy discussions will be required to secure adequate funding moving forward.

  The Refuse Fund continues to be evaluated to determine how collection and fees should be structured moving forward. As part of this ongoing evaluation. staff is proposing to replace $1.1 million in property tax funding and moving to a straight user fee structure. For 2019, staff is proposing a change in the residential regular pickup charge from $25 a month to $45 a month. The proposed Refuse fund budget includes $555,000 of capital investments in this fund in fiscal year 2019 to replace aging collection vehicles.

- **Other Spending Initiatives -**Salaries and benefits have largely been held flat from the previous fiscal year due to a slight decrease in authorized staffing. The number of budgeted full-time positions in 2019 is 150, down from 151 in 2018. Key personnel adjustments budgeted for 2019 include reducing the number of utility billing clerks from 2.5 to 1.5; eliminating the transitional Firemedic position that was budgeted in 2018; accounting for a full year budget for the Forester II and Refuse Collector positions; and a fulltime Associate Planner position.

  The benefits portion of the Village's personnel costs is stabilizing compared to previous years. Generally, the Village has little local control over employer contributions required under state-mandated pension plans such as IMRF and the police and fire pension funds. Steps taken by Village Management to better plan for Village retirements and sick leave payouts has resulted in the Village's IMRF contribution rate decreasing from 13.69% to 11.75%, and down significantly from the all-time high of 16.21% in 1991. For Fire and Police, the Village contribution is based on the required annual contribution amount recommended by the pension fund's actuary. For 2019 the Fire and Police pension fund costs per employee are 70.25% and 51.23% of salary respectively.

  The Village exercises more control over other benefit plans such as health and dental insurance benefits. Beginning in 2018, the Village moved away from a standalone self-insurance model for health benefits and into the Intergovernmental Personnel Benefit Cooperative (IPBC) pool.

  This arrangement allowed the Village to retain its current health plan design and comply with collective bargaining agreements. By joining the IPBC, the Village was able to lock in rates for 18-months through the middle of 2019. The IPBC, due to its size, has a significant number of broker resources to help control costs which would not have otherwise been available to the Village. For 2019, total insurance costs are down 2.3%. A 5% increase in health insurance rates is more than offset by having fully funded the Village's reserve requirements with IPBC and liability insurance policy savings.

Village-wide services and supplies have increased 1.3% or $288,894 from fiscal year 2018. Please refer to the individual department sections contained within this budget document for additional details about these types of expenses.

Budget Summary

Below is a summary of the 2019 budget with comparative data from the 2018 budget. Operational revenues have increased 4.8%, or $3,243,226, from the 2018 budget. This is the result of 1) electric, water, and sanitary sewer revenues increasing $175,102, $896,651, and $143,084, respectively, 2) more favorable interest earnings due to the current economic climate ($508,337), and 3) a potential stormwater grant from the MWRD of up to $500,000.

The table below lists the overall fiscal year 2019 budget breakdown, including all operating revenues, expenditures, and capital outlay.

Village of Winnetka
Summary of Operating Revenues, Expenditures, and Capital (All Funds)
Excludes Depreciation Expense

	2017 Actual	2018 Budget	2018 Estimate	2019 Budget	FY2018 to FY2019 Budget Change %	FY2018 to FY2019 Budget Change $'s
Operating Revenues	**$ 64,719,105**	**$ 67,757,743**	**$ 67,862,045**	**$ 71,000,969**	**4.8%**	**$ 3,243,226**
Property Tax	$ 14,246,579	$ 14,706,625	$ 14,706,625	$ 14,838,985	0.9%	$ 132,360
Other Taxes	$ 855,477	$ 785,000	$ 810,000	$ 790,000	0.6%	$ 5,000
Licenses/Permits	$ 1,897,353	$ 2,380,330	$ 1,891,080	$ 2,275,060	-4.4%	$ (105,270)
Intergovernmental	$ 332,553	$ 3,517,628	$ 3,583,000	$ 4,163,000	18.3%	$ 645,372
Service Charges	$ 29,525,333	$ 31,793,099	$ 31,604,431	$ 33,966,340	6.8%	$ 2,173,241
Fines	$ 187,852	$ 192,000	$ 195,250	$ 197,500	2.9%	$ 5,500
Interfund Services	$ 4,312,388	$ 4,453,469	$ 4,434,295	$ 4,514,648	1.4%	$ 61,179
Transfers	$ 2,068,026	$ 2,268,311	$ 2,268,331	$ 2,011,896	-11.3%	$ (256,415)
Other Revenue	$ 3,737,434	$ 3,858,911	$ 3,954,448	$ 3,932,833	1.9%	$ 73,922
Interest Income	$ 7,556,110	$ 3,802,370	$ 4,414,585	$ 4,310,707	13.4%	$ 508,337
Operating Expenditures	**$ 54,618,306**	**$ 60,222,796**	**$ 57,439,459**	**$ 60,441,100**	**0.4%**	**$ 218,304**
Salaries and Benefits	$ 27,862,300	$ 29,179,727	$ 28,433,398	$ 29,487,312	1.1%	$ 307,585
Services and Supplies	$ 19,398,982	$ 22,044,866	$ 20,732,488	$ 22,333,760	1.3%	$ 288,894
Insurance	$ 3,975,648	$ 5,095,942	$ 4,671,312	$ 4,978,082	-2.3%	$ (117,860)
Debt Service	$ 1,316,350	$ 1,333,950	$ 1,333,950	$ 1,330,050	-0.3%	$ (3,900)
Transfers	$ 2,065,026	$ 2,268,311	$ 2,268,311	$ 2,011,896	-11.3%	$ (256,415)
Contingency	$ -	$ 300,000	$ -	$ 300,000		$ -
Net Operating Income	**$ 10,100,799**	**$ 7,534,947**	**$ 10,422,586**	**$ 10,559,869**	**40.1%**	**$ 3,024,922**
Capital	$ 6,689,780	$ 15,232,392	$ 7,332,251	$ 19,139,773	25.7%	$ 3,907,381

Staffing has been reduced from 169 full-time employees in 2000 to 150 in 2019 (150 full-time, 17 part-time). While staffing from FY 2018 to FY 2019 has remained relatively stable, the proposed budget reflects the conversion of the full-time Management Analyst position in the Village Manager's office to a full-time Communications Manager. The budget also recognizes a full year of expenditures related to the Associate Planner position in the Community Development Department which was converted from the elimination of a part-time position in 2018.

Budget Impact on a Resident

The Village uses two primary metrics to evaluate finances as they relate to our residential customers: 1) estimating how the budget will change a customer's costs and 2) measuring property tax increases over long periods of time. For 2019, we estimate a typical residential customer will pay 4.8%, or $384 more, for municipal services as the following increases are incorporated in the 2019 budget: residential electric rate 3% ($79), water rate 8.5% ($86), sanitary sewer charges 5% ($20), and an increase in monthly refuse collection from $25 to $45 ($240). The fiscal year 2019 budget proposes a 0.9% tax levy increase, but as 0.9% of new development is assumed, residents will see no change or possibly a slight decrease in the Village's share of their property tax bill. This is the fifth year of not increasing residential property taxes, which goes beyond the Village's commitment of adhering to tax cap policy for non-home rule communities, even though the Village is home rule.

Following is the calculated budget impact on a typical resident, based on an assumed $25,000 property tax bill for all taxing districts (tax year 2018) and typical utility use:

Homeowner Impact Analysis
Select Taxes and Fees

							Change 18 to 19		Change 14 to 19	
	2014	2015	2016	2017	2018	2019	$'s	%	$'s	%
Village Property Taxes *	$ 3,614	$ 3,736	$ 3,629	$ 3,263	$ 3,208	$ 3,168	$ (41)	-1.3%	$ (447)	-12.4%
Electric **	$ 2,358	$ 2,412	$ 2,460	$ 2,558	$ 2,635	$ 2,714	$ 79	3.0%	$ 356	15.1%
Water ***	$ 860	$ 877	$ 895	$ 931	$ 1,010	$ 1,096	$ 86	8.5%	$ 236	27.4%
Sanitary Sewer ****	$ 288	$ 317	$ 333	$ 350	$ 392	$ 412	$ 20	5.0%	$ 124	42.9%
Refuse*****	$ -	$ -	$ -	$ 120	$ 300	$ 540	$ 240	80.0%	$ 540	100.0%
Stormwater Utility Fee	$ 262	$ 262	$ 262	$ 262	$ 262	$ 262	$ -	0.0%	$ -	0.0%
Telecommunications Tax	$ 60	$ 60	$ 60	$ 60	$ 60	$ 60	$ -	0.0%	$ -	0.0%
Natural Gas Tax	$ 80	$ 80	$ 80	$ 80	$ 80	$ 80	$ -	0.0%	$ -	0.0%
Licenses - Cars (2) & Dog	$ 90	$ 90	$ 90	$ 90	$ 90	$ 90	$ -	0.0%	$ -	0.0%
Total Taxes and Fees	$ 7,612	$ 7,834	$ 7,809	$ 7,714	$ 8,037	$ 8,421	$ 384	4.8%	$ 809	10.6%

* Assumes $25,000 property tax bill with a 12.67% Village portion.

** Based on 3.0% increase in electric (2.2% residential base rate and 0.8% projected power cost adjustment).

*** Based on 8.5% increase in water.

**** Based on 5.0% increase in sanitary sewer volumetric rate.

***** Based on increase in monthly collection charges from $25 to $45.

Tax Levy Analysis

Because Winnetka is largely a residential community without a large commercial tax base, the Village relies significantly on local property taxes to pay for traditional municipal services. Below is how each property tax dollar paid during calendar 2018 was allocated among the taxing districts, with the Village receiving 12.67 cents of every dollar paid, down from 12.83 cents in tax year 2016 (payable in 2017):

The following chart depicts typical property tax growth in the community for property tax years 1997 to 2017 (payable in 1998 to 2018, due to the one year lag in payment). The initial property tax bill is set at $15,000 in 1997 and is estimated to have grown to $25,274 by tax year 2017, based on a home valued at $750,000. With these assumptions, the typical homeowner would have seen a 23.9% increase in the Village portion of property taxes over this time frame, less than the 20-year increase in the consumer price index (CPI) of 52.8% for the same period. This typical taxpayer would have experienced a 68.5% overall increase in property taxes, as all but one of the other taxing districts have had larger percentage increases than the Village.

Comparison of Property Taxes Paid
Typical Taxing Districts in Winnetka
1997 Versus 2017 Tax Years

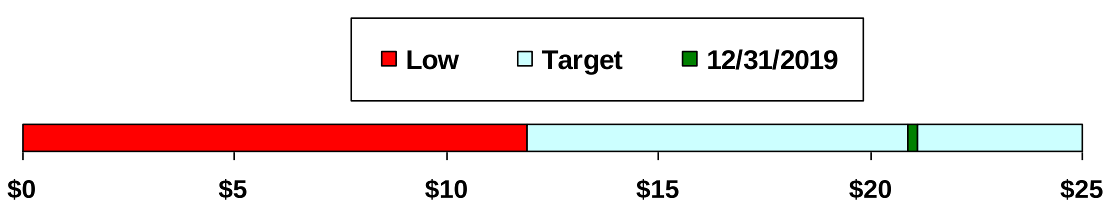
Home value of $750,000	1997			2017			Increase in Taxes Paid	% Change
	Tax Rate	Taxes Paid	%	Tax Rate	Taxes Paid	%		
Winnetka Public Schools	2.723	$4,751	31.67%	3.002	$9,670	38.26%	$4,919	103.5%
New Trier High School	1.967	$3,432	22.88%	1.993	$6,420	25.40%	$2,988	87.1%
Village of Winnetka	1.481	$2,584	17.23%	0.994	$3,202	12.67%	$618	23.9%
Cook County	1.028	$1,794	11.96%	0.589	$1,897	7.51%	$103	5.7%
Winnetka Park District	0.445	$776	5.17%	0.357	$1,150	4.55%	$374	48.2%
Water Reclamation District	0.451	$787	5.25%	0.402	$1,295	5.12%	$508	64.5%
All Others	0.502	$876	5.84%	0.509	$1,640	6.50%	$764	87.2%
Total	8.597	$15,000	100%	7.846	$25,274	100%	$10,274	68.5%
Consumer Price Index - U	161.300				246.524		20 Year Increase in CPI >>	52.8%
CPI Index (December, 20 years)	1997				2017			

Because of the one-year delay between the levy and receipt of tax funds, the 2019 budget will be funded by the 2018 property tax levy. The proposed 2018 property tax levy is anticipated to capture new development (estimated at 0.9% of the tax base). While individual homeowners will experience changes due to their assessment and that of other properties in the community, the Village's property tax levy amount on those properties is being held flat for the fifth year in a row. The proposed 2018 Property Tax Levy can be found at the end of this letter.

The supplemental information section of this document (Tab 19) contains additional historical and projected property tax levy information.

<u>Explanation of Individual Fund Budgets</u>

<u>General Fund:</u>
Fund Balance (in millions)



The General Fund is used to account for most traditional municipal services, including police, fire, public works, and administrative functions. The projected December 31, 2019 fund balance of $21,037,071 is within the policy target range (six months of operating expenses).

Sufficient cash balances are needed to serve as a buffer for unexpected items (such as late property tax receipts), shared revenue reductions or interruptions from the State of Illinois, fund significant non-routine capital expenses (stormwater projects, emergency repairs or expenses, downtown revitalization, facilities, etc.), allow for inter-fund borrowing, and serve as an asset that could be used to satisfy pension liabilities. The 2019 policy threshold is $11,859,446, based on budgeted operational expenditures.

Our community has an estimated fund balance reserve policy that reflects the conservative nature of the Village. The Village does not issue debt except for financing major capital improvements. Reserves allow the Village to sustain financial shocks similar to those listed above without needing to seek outside financing. The Village has, at times, used General Fund balances for major capital projects, such as the Public Works Facility, Village Hall renovation, and to seed the stormwater utility ($8.2 million). What makes Winnetka different from other municipalities is that we do not have a dedicated equipment replacement fund to pay for capital equipment needs, as the Village plans and funds these purchases well in advance using a “pay-as-you-go” approach. Consequently, without significant General Fund reserves, the Village would need to fund these projects in a different way. Finally, a healthy fund balance helps to maintain the Village’s Aaa bond rating and allows us to be in a financial position to self-insure risks.

Summary of Revenue and Expenditure Changes:

The fiscal year 2019 General Fund revenues and transfers are budgeted at $25,856,638, up 0.5%, or $117,974, from the prior budget. The small change in the year to year budget amount is the result of some revenue items being budgeted higher and others being budgeted lower. Revenue items that were budgeted higher for fiscal year 2019 are property tax collections ($132,360), intergovernmental revenue ($145,372), and interest earnings ($206,917). Certain other revenue items such as permits ($104,250), transfers in ($206,415), and service charges ($66,510) were budgeted lower. General Fund operating expenses (excluding capital and transfers) are budgeted at $23,168,892, up 1.35%, or $309,621 from fiscal year 2018. Noteworthy revenue changes are displayed below:

Significant Revenue Sources Increase (Decrease) from Prior Fiscal Year	Change
Tax Levy (New Growth)	$ 132,360
Intergovernmental Revenue	$ 145,372
Permit Revenue	$ (104,250)
Charges for Service	$ (66,510)
Transfers In	$ (206,415)
BMO Global Interest Earnings	$ 206,917
Total	$ 107,474

Following is a summary of General Fund operating expenses by department:

General Fund Operating Expenses	Actual FY 2017 A	Budget FY 2018 B	Estimated FY 2018 C	Budget FY 2019 D	Dollar Change D - B	% Change D v B
Administration	$ 3,016,394	$ 3,270,112	$ 2,962,213	$ 3,256,621	$ (13,491)	-0.41%
Police	$ 7,128,528	$ 7,468,906	$ 7,172,019	$ 7,587,984	$ 119,078	1.59%
Fire	$ 5,724,207	$ 6,128,185	$ 6,035,100	$ 6,144,175	$ 15,990	0.26%
Comm. Development	$ 1,513,156	$ 1,705,060	$ 1,488,300	$ 1,799,335	$ 94,275	5.53%
Public Works	$ 3,736,642	$ 4,287,008	$ 4,246,133	$ 4,380,777	$ 93,769	2.19%
Dept. Operating Expenses	$21,118,927	$ 22,859,271	$ 21,903,765	$23,168,892	$ 309,621	1.35%
Transfers	$ 625,000	$ 600,000	$ 600,000	$ 550,000	$ (50,000)	-8.33%
Total Operating Expenses	$21,743,927	$ 23,459,271	$ 22,503,765	$23,718,892	$ 259,621	1.11%

Personnel costs are a significant portion of General Fund operational expenditures. The fiscal year 2019 budget shows only a modest increase in personnel costs of 1.0%, or $190,229, due to stable staffing levels from fiscal year 2018 to fiscal year 2019. Additional constraining factors to the growth of personal costs are a lower 2019 IMRF employer contribution rate and favorable health plan experience. Overall services and supplies for the General Fund increased by 2%, or $134,393 due to inflationary increases for certain commodities and increased contractual pricing for multi-year contracts throughout the various departments.

It is important to note that the fund balance of the General Fund will not be drawn down for operational expenditures in the 2019 budget, reflecting the Council's desire for conservative financial planning.

The chart below outlines the net operating income for the General Fund:

					Budget to Budget Change	
	2017 Actual	2018 Budget*	2018 Estimate	2019 Budget*	%	$'s
Operating Revenues	$ 24,889,612	$ 25,738,664	$ 25,661,235	$ 25,856,638	0.46%	$ 117,974
Operating Expenditures	$ (21,743,927)	$ (23,459,271)	$ (22,503,765)	$ (23,718,892)	1.11%	$1,715,344
Net Operating Income	$ 3,145,685	$ 2,279,393	$ 3,157,470	$ 2,137,746		
Capital	$ (2,559,830)	$ (2,636,500)	$ (2,475,000)	$ (2,457,500)	-6.79%	$ (179,000)
Net Change in Fund Balance	$ 585,855	$ (357,107)	$ 682,470	$ (319,754)		

*Contingency of $300,000 is excluded from budgeted totals.

The budgeted total fund balance drawdown of $319,754 in fiscal year 2019 reflects funding for high priority projects. This is an intentional drawdown that is driven in large part by the $550,000 transfer out of the General Fund into the Business District Revitalization Fund for streetscape improvements. In fiscal year 2017, the Village experienced a net addition to fund balance of $585,855; we are estimating to outperform the 2018 budget and finish the current year with a positive net change to fund balance.

With Council approval in 2017, the General Fund advanced $1,000,000 in cash to the Water Fund for infrastructure improvements. The nature of this advance was a loan, which will be repaid by the Water Fund with interest within the next three years. Consequently, we did not recognize this advance as an expense from the General Fund and simply established it as a "Due to/Due from" on the balance sheet of each fund.

Regular Capital Outlay:

In a normal year, the Village will typically budget $2.5 million to $3.5 million in the General Fund for regular capital investment in items like roadways, equipment, and vehicle replacements. Due to scheduling, favorable bidding, and budgeted contingencies, the Village usually does not spend 100% of the capital budget in a given year.

For 2019, General Fund capital outlay is budgeted at $2,457,500 and consists of two noteworthy projects: streets and sidewalks ($1,650,000) and a scheduled ambulance replacement at the Fire Department ($285,000). These two items account for $1,935,000, or 79%, of the dollars budgeted for capital projects in the General Fund. Other significant projects include replacement leaf vactors ($130,000), renovation of the Police Department office space left vacant by the consolidated dispatch ($87,500), and replacement of a Public Works pickup truck ($65,000).

Transfers:

The General Fund also transfers dollars to pay for capital projects that do not have a dedicated revenue stream. In 2019, there is only one transfer of this nature, totaling $550,000, which will be into the Downtown Revitalization Fund, helping to fund the cost of implementing the Chestnut and Spruce streetscape project.
The chart below shows recent General Fund transfers:

General Fund Transfers	Actual FY 2017	Budget FY 2018	Budget FY 2019
Transfers In			
Health Insurance Fund	$ -	$ 250,000	$ -
	$ -	$ 250,000	$ -
Transfers Out			
Refuse Fund	$ 550,000	$ -	$ -
Business District Revitalization Fund	$ 75,000	$ 525,000	$ 550,000
Liability Fund	$ -	$ 75,000	$ -
	$ 625,000	$ 600,000	$ 550,000

Motor Fuel Tax Fund:

The Village finances bridge repairs and major road projects from this fund using motor fuel tax dollars. The revenue in this fund is primarily derived from the State of Illinois' allotments of motor fuel tax to the Village. Monies in this fund are highly regulated by the State and require a number of engineering approvals by IDOT before funds can be spent. In addition to our annual budgeted State allotment of motor fuel tax funds, the Village is expecting to receive a $320,000 bridge reimbursement. The major planned 2019 expenditure is the Cherry Street and Oak Street bridge repair ($830,000) and engineering for Phase III of the bridge repair ($83,000)

Capital Projects Funds (Village Facilities, Business District Revitalization, Special Service Areas)**:**

The Village establishes separate capital project funds for specific projects not financed through regular operations. The 2019 Village Facilities Fund budget contains funding for general Village Hall system repairs and other minor improvements. There are no current plans to replenish the cash in this fund within the next several years.

The Business District Revitalization Fund (12/31/18 estimated fund balance of $887,975) is funded by transfers from the General Fund and a portion of the Village's property tax levy. Capital projects to be funded in 2019 total $2,256,540 and include improvements associated with recommendations derived from the DMP. Most significant is the streetscape of Spruce and Chestnut streets, totaling $2,146,540. Other budgeted projects include Elm Street streetscape design and engineering ($60,000) and sidewalk, grate, and paver projects ($50,000).. More information about the Business District Revitalization Fund initiatives can be found in the Budget Narrative Section and in the Capital Improvement Plan.

The Village has one active special service area (SSA #3) that covers local improvements previously made to roads and storm sewers on Trapp Lane. Property taxes from this special service area are not included in the overall property tax analysis, as they are only paid by a small portion of the community for specific local improvements benefitting those homes.

Utility Funds (Electric, Water, Sanitary Sewer, Refuse, and Stormwater)**:**

The Village operates utility funds that generate revenues to pay for operating and capital needs. Utility-enterprise funds use accounting similar to that used in the private sector where charges for utilities fully support these operations. User rates are charged based on a "cost-of-service" model and a review of the marketplace. The following revenue and expense summary indicates that each utility fund is operating with a positive net income which is then dedicated to fund ongoing capital improvements:

	Electric Fund				Water Fund			
	Actual FY 2017	Budget FY 2018	Budget FY 2019	% 18 to 19	Actual FY 2017	Budget FY 2018	Budget FY 2019	% 18 to 19
Operating Revenues	$ 15,987,264	$ 17,697,623	$ 17,872,725	1.0%	$ 4,102,536	$ 3,845,335	$ 4,742,286	23.3%
Operating Expenses	$ (14,819,882)	$ (15,483,244)	$ (15,501,855)	0.1%	$ (2,855,039)	$ (3,593,112)	$ (3,611,727)	0.5%
Op. Income (Loss)	$ 1,167,382	$ 2,214,379	$ 2,370,870		$ 1,247,497	$ 252,223	$ 1,130,559	
Unit Sales	121	119	128	7.6%	0.95	0.89	0.94	5.6%
	Million kWHRs				Billion Gallons			

	Sanitary Sewer Fund				Refuse				Stormwater Fund			
	Actual FY 2017	Budget FY 2018	Budget FY 2019	% 18 to 19	Actual FY 2017	Budget FY 2018	Budget FY 2019	% 18 to 19	Actual FY 2017	Budget FY 2018	Budget FY 2019	% 18 to 19
Operating Revenues	$1,219,293	$ 1,218,604	$ 1,361,688	11.7%	$ 2,693,320	$ 2,852,652	$ 2,759,777	-3.3%	$ 2,129,627	$ 2,061,557	$ 2,561,765	24.3%
Operating Expenses	$ (708,561)	$ (1,004,785)	$(1,100,258)	9.5%	$ (2,598,204)	$(2,463,206)	$ (2,512,246)	2.0%	$ (1,254,977)	$ (1,996,349)	$(1,886,611)	-5.5%
Op. Income (Loss)	$ 510,732	$ 213,819	$ 261,430		$ 95,116	$ 389,446	$ 247,531		$ 874,650	$ 65,208	$ 675,154	

Electric Fund:

In 2017, the Electric Rate Study was completed and a new cost of service model was approved and implemented in fiscal year 2018 and beyond. This model introduces varying customer charges and rate designs for each specific rate class in the electric utility. The money generated by the new rate structure will go to fund ongoing capital infrastructure improvements within the electric utility.

For 2019, electric rate increases for each of the eight unique customer classes range from 1.4% - 3.0% as prescribed by the rate study. Customers will most likely experience a power cost adjustment recovery of 0.8% based on estimates from Illinois Municipal Electric Agency (IMEA). Where practical, every effort has been made to maintain the assumptions within the rate study with those included in this proposed budget.

The Village continues to balance the need to recover its costs for wholesale power, operating needs, and capital expenditures with the desire to have reasonable electric rates. The Village purchases wholesale power through the IMEA, which is a long-term supplier of power to participating Illinois municipal electric utilities. This protects the Village from supply concerns and the on-going fluctuations of the spot market.

Major capital improvements being undertaken by the Electric Fund in fiscal year 2019 include an overhaul of Electric Plant Turbine #6 ($600,000), new substation switchgear and breakers ($460,000), underground conductors ($604,005), and cable pulling and directional boring ($440,000). There are a number of One Winnetka expenses built into the Electric Fund capital plan involving infrastructure (cables and transformers); however, these will be reimbursed by the developer.

Water Fund:

The Water Fund also completed a comprehensive rate study in fiscal year 2017. The study purpose was not only to establish an updated cost of service model, but also to create a plan to replace the Village's aging water mains over time.

At the conclusion of the study, the Council agreed to an 8.5% increase in revenue for fiscal year 2019 which will be realized through an increase in the cubic foot unit cost and the existing fixed cost recovery, also known as a customer charge. Even with the 8.5% increase, the Village of Winnetka still sells water at very competitive rates versus our North Shore neighbors.

The Water Rate Study noted that a $1,000,000 loan or transfer was required in order to seed the ongoing replacement of the Village's water mains. It was the Village's intention to secure a $1,000,000 Illinois Environmental Protection Agency (IEPA) loan in 2018; however, two circumstances arose in 2017 that required a different approach. First, the IEPA loan approval process takes a complete year and requires identified projects in order to obtain funding, which would allow the Village to receive its loan in 2019 at the earliest. Second, a major water main (Forest Glen - East) which was scheduled to be replaced in 2018 failed in summer of 2017 and the replacement was advanced to fall of 2017. With those circumstances in mind, the Village Council authorized a $1,000,000 transfer to the Water Fund as a loan from the General Fund. Staff will continue the application process for the IEPA loan with the intention of receiving funding in 2019 and 2020 totaling $1,000,000. As fund balances improve, the Water Fund will reimburse the General Fund for the transfer, plus interest.

One of the commitments that staff made to the Village Council during the Water Rate Study was to continue the practice of keeping the cost of coordinating water main work with the PW street improvement and replacement schedule. The budgeted fiscal year 2019 water main replacement projects include work on Mt. Pleasant from Chestnut Street to Linden Street ($101,411) and Westmoor from Hibbard to Ardsley ($363,110) The Water Fund is making other capital investments in fiscal year 2019, such as lining an existing main underneath the Union Pacific railroad tracks ($250,000) and replacement of the Water Plant roof over the filtration area.

Sanitary Sewer Fund:

The charge for sanitary sewer services is proposed to increase 5% in 2019 from $15.99 to $16.79 per 1,000 cubic feet. The $2 monthly customer charge introduced in 2018 will remain the same in 2019. This utility experiences cyclical challenges related to declining user charges, as many households have made the change to low consumption plumbing fixtures. In late 2016, the Village Council reestablished the sanitary sewer backup reimbursement program, which had been discontinued in 2013. The cost for this program is generally about $100,000 a year, but participation has been slowly declining.

While the monthly customer charge helps to stabilize the fund's cash balance in the short term, one of the policy discussions for the Council in 2019 will be how to maintain the cash balance in this fund in the long term. The Village hired the consulting firm of RJN in 2018 to complete a sanitary sewer evaluation study. This study identified nearly $3.5 million in critical, high, medium, and low repairs to the system in the next few years. The current revenue base does not provide the funding for this level of capital investment on a pay-go basis, so alternative forms of revenue and financing will need to be explored prior to the fund's cash balance going negative at the end of 2020.

The capital improvement activity budgeted in this fund for fiscal year 2019 includes critical repairs from the 2018 RJN study ($167,000), a new vactor truck ($196,875), and a continuation of the annual trenchless lining program ($225,000).

Refuse Fund:

The Refuse Fund previously relied on a combination of user charges and a portion of the Village's property tax levy to offset cost of service and capital improvements. Beginning in 2019, the Refuse utility will shift to being fully user fee funded, and the portion of the property tax levy previously dedicated to refuse collection will be utilized for business district revitalization purposes. The fiscal year 2019 capital plan includes two garbage trucks that will be replaced at a budgeted cost of $260,000 each along with one refuse scooter at a budgeted cost of $35,000.

Stormwater Fund:

The Village began billing property owners for stormwater utility service effective July 1, 2014. Customers are billed for this charge based on the amount of impervious surface on their property, which is calculated as an Equivalent Runoff Unit (ERU). All properties with impervious surface above 170 square feet pay the stormwater utility fee, including residential, commercial, non-profit, governmental, and all other property types. A typical residential property has approximately 1.0 ERU.

The stormwater utility fee is billed on a customer's regular utility bill. The annualized cost of 1.0 ERU is $262, or $21.83 per month. This amount not only funds capital expenditures, but also operation and maintenance of existing stormwater infrastructure. There is no change to the stormwater utility fee projected for 2019.

The Stormwater Fund is the only one of the Village's operating units with outstanding General Obligation (GO) debt. Bonds were issued in 2013 and 2014 to help pay for capital improvements associated with the Stormwater Master Plan, including improvements to neighborhoods in Northwest and Northeast Winnetka and two pump stations. Current outstanding debt is listed in the table below:

Issuance Year / Purpose	Repaid By:	Par Amount	Par Outstanding 1/1/2018	Final Maturity	Interest Rate
2013 Stormwater Improvements	G.O. Debt anticipated to be repaid with stormwater utility revenues	$ 9,000,000	$ 6,960,000	12/15/2046	4.14%
2014 Stormwater Improvements	G.O. Debt anticipated to be repaid with stormwater utility revenues	$ 7,500,000	$ 7,500,000	12/15/2043	4.60%
	Total	$16,500,000	$ 14,460,000		

In 2015, the Village retained Strand Associates to develop an alternative study for western and southwestern Winnetka. Components of the Strand Vision started progressing significantly in 2018 and there are a number of capital projects derived from the Vision budgeted in 2019. The major projects constitute Phases I and IA of the Strand Vision. Phase I involves the engineering and construction of stormwater detention and runoff infrastructure on the property of the Forest Preserve District of Cook County property. Phase IA involves utilizing property such as Duke Childs Field and Park District to store detained stormwater. Preliminary work on both phases began in 2018 and staff expects activity to ramp-up during 2019. Both phases will require partnerships with other local government agencies.

As the Strand Vision contains three additional phases totaling an estimated $54 million dollars, the Village Council will need to make policy decisions within the next year related to funding the proposed improvements. There are a number of options, including debt, loans, increased user or neighborhood charges, or a combination thereof that the Council could pursue.

Insurance Funds (Workers' Compensation, Liability, and Health Insurance)**:**

Below is a summary of the Workers' Compensation, Liability, and Health Insurance Funds:

	Workers' Compensation			Liability Fund			Health Insurance		
	Actual FY 2017	Budget FY 2018	Budget FY 2019	Actual FY 2017	Budget FY 2018	Budget FY 2019	Actual FY 2017	Budget FY 2018	Budget FY 2019
Inflows	$ 606,696	$ 553,394	$ 551,433	$ 26,628	$ 101,713	$ 24,449	$ 3,739,652	$ 3,919,654	$ 3,980,833
Outflows	$ (625,944)	$ (710,000)	$ (763,300)	$ (322,453)	$ (336,450)	$ (377,700)	$ (3,678,036)	$ (4,383,691)	$ (3,994,582)
Cash-Flow	$ (19,248)	$ (156,606)	$ (211,867)	$ (295,825)	$ (234,737)	$ (353,251)	$ 61,616	$ (464,037)	$ (13,749)

The insurance funds' revenues consist largely of user department charges and interest income. In terms of cash balances, all funds can meet operating needs. Because of the uncertainty in self-funding these risks, these insurance funds have appropriate expense contingencies. The Village expects to have lower losses than provided for in the budget, which usually results in actual expenditures coming in significantly below budget.

To provide benefits under its employee health insurance plans, the Village joined the Intergovernmental Personnel Benefit Cooperative (IPBC) pool in 2018 and has had a good first year of experience. The initial rate lock provided by IPBC will expire on July 1, 2019 and the projected annualized rate increase is under 5%. This projected rate increase is lower than the Village's typical increases under a fully self-insured program which generally ranged from 6%-10% annually. Staff will continue to monitor the Village's participation in the pool and make additional recommendations to the Village Council if necessary.

Beyond the health insurance operation, the projected expenses in the Liability and Workers' Compensation Funds are based on an analysis of claims, administrative costs, and self-insured retention amounts. The Village's self-insured retention amounts per claim as of January 1st, 2019 are: $250,000 for property, $600,000 for workers' compensation, and $2,000,000 for general liability risks. The Village purchases commercial insurance for select exposures when it is cost effective versus handling claims out of pocket.

The Village annually reviews reserve targets for these funds, taking into account recent loss history, the commercial insurance market, outstanding claims, reserves, and the Village's home-rule status. The fund balance information later in the budget document indicates that as a group, there are adequate reserves for the Village's self-insurance funds, though special attention should be paid to the Liability Fund cash flow during fiscal year 2019. Because of the Village's substantial deductible (up to $2,000,000 in some cases), large reserves are prudent for the Liability and Workers' Compensation Funds in particular.

Data Processing and Fleet Services Funds:

The Data Processing Fund finances the Village's computer network. Historically, Data Processing expenditures have been under budget, as there are some contingency funds available for software upgrades. In the 2017 budget, Finance and Data Processing staff introduced an information technology asset replacement program, which has been updated for 2019 and included within this budget document. There are a number of Village-wide technology initiatives being undertaken in fiscal year 2019, which include replacement of file and email servers and an organization-wide Microsoft Office upgrade.

The Fleet Services Fund accounts for maintaining the Village's rolling stock and some equipment. The actual cost of buying equipment is borne by the user departments. User fees for equipment are assessed based on a four-year rolling average of historical costs, with some limitations imposed for stability purposes.

Police Pension, Fire Pension, and Illinois Municipal Retirement (IMRF) Funds:

The pension funds accumulate large investment portfolios to fund the Village's three defined benefit pension plans. The police and fire pension investments and benefits are administered by our locally established Boards, as required by State law. IMRF is a required state-wide pension system for all full-time, non-public safety employees. IMRF centrally manages investments and benefit administration, and it charges each participating entity an annual contribution rate, based largely on their demographics and IMRF's investment results.

The proposed 2018 police and fire pension property tax levy (payable in 2019), covering 52 active sworn public safety employees, totals $3,339,041 (or $64,212 per employee). This reflects an increase of 2.2% from the previous levy year. The 2019 Village expense for IMRF pensions for the remaining employees totals $1,308,447 (or about $13,350 per employee). The IMRF employer contribution in fiscal year 2019 is budgeted less than fiscal year 2018 due to a reduction in the IMRF employer contribution rate from 13.69% to 11.75%.

As explained to the Village Council during study sessions in2017 and 2018, the public safety pension funds must adhere to strict statutes governing the funds' investment portfolio and funding assumptions. These funds are very closely monitored by the pension boards, their consultants, and Village staff. The boards are committed to utilizing the latest and most reliable mortality assumptions as part of their annual actuarial studies and also committed to utilizing a realistic rate of return. Given those commitments, it is expected that future levy increases to fund these plans will be manageable, with a goal of fully funding both public safety plans by December 31, 2035.

The appendix section of the budget document reviews pension assets and unfunded liabilities as well as provides a comparison of the Village's public safety pension plans to funding levels of plans in neighboring communities.

Below is a summary of assets and liabilities, by pension plan, as of 12/31/2017:

Pension Funding Summary
Amounts in Actuarial Value

	Assets	Liabilities	Unfunded Lability	% Funded
Police	$ 30,199,235	$ 43,203,844	$13,004,609	69.9%
Fire	$ 28,593,956	$ 43,327,926	$14,733,970	66.0%
IMRF *	$ 77,012,933	$ 80,810,799	$ 3,797,866	95.3%
	$135,806,124	$ 167,342,569	$31,536,445	81.2%

GFOA Recognition

The Village submitted its fiscal year 2018 budget document to the Government Finance Officers Association (GFOA) in early 2018 to be considered for the Distinguished Budget Presentation Award. The Village received notification in mid-2018 that it had won the award. Staff is further enhancing this year's budget document and intends to submit for the award again in 2019.

Community Profile

The Village of Winnetka is located seventeen miles north of the City of Chicago on the west shore of Lake Michigan and is primarily a residential community. The Village was incorporated in 1869, prior to the adoption of the first State of Illinois Constitution, and thus enjoys Special Charter status with the State of Illinois. In 2005 the Village adopted Home-Rule status that provides additional legislative and revenue raising powers. To date, the Village has not utilized any of these new revenue-raising powers.

The Village is approximately 3.9 square miles. The 2010 federal census records a Village population of 12,187 persons. There are three commercial business districts within the Village, all located adjacent to three commuter rail stations. The Village is one of the most affluent in the Chicago area, having a per capita income exceeding $100,440. The Village obtained a Aaa bond rating from Moody's Investors Service in 1989 on General Obligation debt issued. At that time, the Village was only one of three communities having a Aaa bond rating within the State of Illinois based solely upon the merits of the Community.

Moody's has reaffirmed this rating on several occasions, most recently in November, 2013 when $9,000,000 of bonds were issued and January, 2014 when $7,500,000 of bonds were issued to finance Stormwater Sewer capital projects.

Our community is over 75% residential and its economic base is rooted primarily in the service industry, which includes restaurants, professional practices, and light retail. The most recent assed value of all Village property was $1,440,939,345 for the 2016 levy year. This represents a moderate increase from the previous levy year suggesting that property values are rebounding in the post-Great Recession environment. Due to the high per capita income level in the Village and correspondingly large homes, eight of the ten principal property taxpayers in the Village are individuals with an average assessed property value of $3.9 million.

The top ten employers in the Village represent 33.62% of total Village employment. These employers include the local high school district, the local elementary school district, the Village itself, and various commercial entities. The unemployment rate in the Village is estimated at 1.2%.

Closing Comments

The proposed budget continues the Village's long standing practice of controlling operating costs while investing in capital to repair and enhance the Village's aging infrastructure. The budget initiatives will allow the Village to make progress on many fronts, including rehabilitating the infrastructure of the electric and water utilities, additional stormwater management projects to reduce flooding, aggressive downtown redevelopment, and continued improvement of the Village's human capital.

The Village is fortunate to have made good long-range financial decisions in the past. Due to operational efficiencies, we have made staffing reductions when able over the past ten years. We have constrained property tax and other revenue growth to keep the cost of services roughly in line with inflation, unlike many taxing districts.

At this point in time, the Village has the opportunity to make major investments to modernize our infrastructure which will significantly improve our residents' quality of life and property values. Additionally, the Village should continue making investments in our other infrastructure, such as our electric, water, sanitary sewer, refuse, and stormwater utilities.

Winnetka is an exceptional community in many respects. With continued sound management, solid long range planning, adequate resources, and a strong personal commitment from all involved, we are excited about making an already outstanding community even better.

Respectfully submitted,

Timothy J. Sloth, CPA
Director of Finance

Nicholas A. Mostardo
Assistant Director of Finance