



**Village of
Oak Brook**

1200 Oak Brook Road
Oak Brook, IL 60523-2255
Website
www.oak-brook.org

Administration
630.368.5000
FAX 630.368.5045

**Community
Development**
630.368.5101
FAX 630.368.5128

**Engineering
Department**
630.368.5130
FAX 630.368.5128

Fire Department
630.368.5200
FAX 630.368.5250

Police Department
630.368.8700
FAX 630.368.8739

**Public Works
Department**
630.368.5270
FAX 630.368.5295

**Oak Brook
Public Library**

600 Oak Brook Road
Oak Brook, IL 60523-2200
630.368.7700
FAX 630.368.7704

Oak Brook Sports Core

Bath & Tennis Club
700 Oak Brook Road
Oak Brook, IL 60523-4600
630.368.6420
FAX 630.368.6439

Golf Club
2606 York Road
Oak Brook, IL 60523-4602
630.368.6400
FAX 630.368.6419

TO: Village Board
FROM: Citizens Finance Advisory Committee
SUBJECT: First Committee Interim Report
DATE: September 4, 2009

I. Introduction

This is the first of what the Citizens Finance Advisory Committee ("Committee") envisions will be a number of reports to the Village Board ("Board") as the work of the Committee progresses. We believe that issuing ongoing reports and communicating with the Board is the most effective and efficient means for the Committee to address our charge from the Board.

II. The Committee's Approach to and its Work to Date

In response to the Committee's charge from the Board (Attachment I), we have identified several areas of focus and inquiry for its efforts. This interim report focuses on employee compensation and benefits. The Committee chose this area for its initial work in light of the fact that these costs account for approximately 75% of the costs of General Fund operations expenses.

As of this writing, the Committee has held four (4) meetings. It has received input from 15 residents of the Village at these meetings along with a presentation by the Village's independent auditor (McGladrey & Pullen) and has had requested and received a significant amount of information from the Village's staff, including the Village Manager, Assistant Village Manager, Acting Finance Director, and the Fire Chief. The Committee expresses its appreciation for the support provided by these Village employees in its work, which has involved late evening meetings.

The Committee wants to make clear the nature of its effort from the outset. We are not performing a detailed study or management consulting review of the Village's finances and operations. Rather, in its work, the Committee is applying its substantial collective business, commercial and professional experience in reviewing information about the Villages finances and operations and offering its observations, comments and recommendations for the consideration of the Village Board and Management (the Village Manager and his staff along with heads of the Villages various departments – e.g., Fire Chief, Police Chief, etc.) which together have the responsibility and authority to effect changes.

III. The Village's Financial Situation

In simple terms, the Committee is of the view that the Village is now facing **significant financial challenges** which will not be resolved without substantial, proactive efforts on the part of the Village's Board, its management/leadership group, and its employees. The current economic downturn has exacerbated a negative trend in the Villages finances which, based upon information reviewed by the Committee, has been developing over a number of years. The Committee observes the following relative to this trend:

- During the 10-year period ending 12/31/08, the General Fund's general sales tax revenues (exclusive of non-home rule sales) the Village's largest single source of revenue, have declined from approximately \$11.2 Million in 1999 to approximately \$10.8 Million in 2008. The Village does not control these revenues. They are collected by the State of Illinois and remitted to the Village. The Committee observes that a substantial portion of the sales tax revenues result from sales at the Oak Brook Center, which contains a significant number of high-end retail establishments which are now facing business challenges relative to maintaining sales pricing and volumes relative to pre-2008 levels.
- During the same 10-year period, the total costs of overall Village General Fund operations, exclusive of capital outlays, have increased from approximately \$13.2 Million in 1999 to approximately \$19.6 Million in 2008, or a mean increase of about 4.8% per year, which the Committee observes was substantially in excess of the general rates of inflation during those years, as reflected in the overall US Consumer Price Index (CPI), which had a mean increase of approximately 2.9% over the same period. As previously noted, approximately 75% of all costs of Village General Fund operations are employee compensation and benefits costs, indicating that those costs have grown significantly above general inflation rates during that period.
- Total Village General Fund revenues, exclusive of enacted Non-home rule sales taxes, have grown from approximately \$14.7 Million in 1999 to \$19.3 Million in 2008, or a simple arithmetic mean increase of about 3.1% per year. The combination of the growth in expenses and the decline in sales tax revenues, as noted above, which would have otherwise resulted in deficits, was substantially funded by significant increases in Village utility taxes. The Committee understands that the utility taxes are now at their maximum allowable rates (6%) on natural gas and telecommunications and are assessed at 5% on electricity.
- In 2008, the Villages General Fund incurred a deficit of approximately \$657,000. Actual general sales tax revenues for 2008 were \$10.8 Million compared to budgeted sales tax revenues of \$12.2 Million, or a shortfall of approximately \$1.4 Million. Actual expenses were about \$1.0 Million below budget, but this favorable variance was not enough to offset the shortfall in budgeted revenues.
- For 2009, year-to-date general fund revenues through August are approximately 9.4% below prior year revenues, and the overall pattern for sales tax revenues, which do demonstrate month to month variations, is an increasing rate of decline.
- Oak Brook and its residents have clearly been the beneficiaries of the significant funding provided by sales taxes. As a result, the Village is in the unusual position of not levying any real estate taxes to fund its operations. However, this situation has also likely resulted in the current strained financial situation developing over time. Sales taxes and other revenue

sources covered increasing costs and no "bill" for the cost of Village operations has been directly presented to the Village's residents. Today's economic climate has changed dramatically, and sales taxes, along with other revenue sources, are on the decline and will not cover the costs of Village operations which have grown markedly over the years.

Based upon the above observations, the Committee believes that **the Village's financial situation is urgent** and requires commensurate action on the part of the Village's Board and Management.

IV. The Committee's Observations/Comments/and Recommendations – Short Term

Preface/General

Before offering specific recommendations, we want to start with a simple preface. The types of changes that we are suggesting will require significant focused effort and commitment on the part of the Village Board and Management and will present challenges that go beyond the current year and next year as well. The adage "change is never easy" applies here. Difficult decisions will be needed and it is unlikely that all parties will agree on solutions or find them to their liking. Simply stated, we believe that collectively the Village – its Board, Management and employees - are facing a situation which mandates doing more with less. This challenge of reducing costs must be balanced against maintaining the high level of services that the residents and business community of Oak Brook have had and expect.

Specifics

- We commend the Board and Management for the efforts and actions they have already taken addressing the Villages financial challenges. These actions have included moving employees from a 35 hour work week, limiting overtime, and the consolidation/elimination of certain positions. Cuts and reductions of this nature are never easy to implement. While we understand that the impact upon the 2009 budget will be modest due to the costs of severance and benefit payouts, the impact upon 2010 will be significant (estimated cost reduction in excess of \$1.0 Million on an annual basis).
- We recommend that all salaries and pay grades be frozen at 2009 levels as the starting point for the 2010 budget process. The only exception should be for critical promotions needed to sustain Village operations which are fully reviewed and approved by the Board, which we would expect to be few. We believe that this would be a prudent, precautionary move in the face of a trend of declining sales tax revenues in the current year, the full extent of which will not be known until after the 2010 budget is finalized in December. We believe that the future direction on sales tax revenues, in light of the current economic downturn, will not be known for some time to come. However, as noted above, sales tax revenues have actually declined in nominal dollars, and have declined by a greater amount and percentage in real terms. If necessary to arrive at a balanced budget for 2010 which considers appropriate negative contingencies which could materialize (e.g.,

further declines in revenues) the Board and Management should consider across-the-board salary decreases which can be implemented.

- We recommend that all Village job descriptions be updated and reviewed as soon as possible, but no later than November 30, 2009. We understand that some job descriptions were last updated as long as ten (10) years ago. Based upon the cumulative effect of changes in the Villages operations, we believe that it is unlikely that these job descriptions are reflective of current responsibilities and the Village's organization structure as it presently exists. As a part of this process, jobs and their responsibilities need to be reevaluated and "reengineered" in line with the objective of maximizing effectiveness and efficiency. The need for the performance of work tasks and their output should be critically evaluated by the incumbent employees and supervisors. We recommend that this facet of the review be completed no later than March 31, 2010.
- The Village's current compensation practices, system and structure has numerous problems inherent in it, including:
 - Nearly 80% of all current employees are at their pay grade maximum. Employees have received cost-of-living adjustments (COLA's - 2% for 2009) **plus** merit adjustments (up to 3% for non-fire/police; 5% for fire/police for 2009). Over the past ten years, total possible salary adjustments ranged from a low of 2% to a high of 12%.
 - Most Village employees receive performance ratings on a 0-5 rating scale (0 = Unsatisfactory; 5 = Excellent). Based upon review, the average rating for all employees appeared to be somewhere around 4.4 for the year 2007.

Taken together, we believe that these practices explain in large part the growth in the Villages General Fund operating costs, as noted in Section III above. We believe that the current practices/system/structure are unsustainable. The Committee was not aware of the use of COLA's in its private industry experience. Rather, merit adjustments, generally based upon an overall allowable percentage increase guideline which must be managed to, was the collective private industry experience of the Committee. Consequently, the Committee suggests that use of COLA's be permanently eliminated.

- A salary study should be undertaken for all Village positions, based upon the updated job descriptions, as recommended above. We recommend that the Village's prior practice of obtaining salary surveys which only considered peer positions in other local municipal government units be discontinued, and that private industry comparable positions be included in the study, as the Committee believes that there are private sector comparables for many of the Village's positions. More particularly, the Committee would observe that currently, the lowest paid Village employee is a non-exempt employee in a pay grade 1 position with an annual salary of about \$39,100. The Committee

understands that the Village has a number of nonexempt positions in pay grades 1 through 5 which require a high school diploma and may, or may not, require prior work experience. The 2009 maximum pay amounts for the positions range from \$45,291 (Pay grade 1) to \$66,058 (Pay grade 5), exclusive of fringe benefit costs.

- The Committee recommends that all fringe benefits (vacation, holidays, insurance coverages, auto usage, compensatory time off, sick pay, etc.) be reevaluated for their alignment with prevailing market practices, including those of private industry employers. Specifically we suggest that where possible, the employee share of medical insurance costs be increased to levels more representative of that in private industry (25-33%) vs. the current 17.5%. We also suggest that medical insurance benefit levels and related costs be reevaluated. The current unused sick day carryover accrual policy/practice should be eliminated.

The Committee's Observations/Comments/and Recommendations – Intermediate and Longer Term

Overall, the Committee believes that the Village is in a difficult situation relative to the costs of employee compensation and benefits. Compensation and benefits for a significant portion of its workforce are determined by collective bargaining and it appears that more Village employees will soon adopt union representation. Additionally, the Village's pension arrangements are mandated by the State of Illinois and are costly. For example, for 2009, the fire and police pension contribution are approximately 30% and 35%, respectively of base compensation. While the contribution rate for 2009 is abnormally high due to recent capital markets losses in the value of the related pension funds, the overall costs are high in order to fund generous retirement benefits, including pension benefits that escalate annually. For 2009, the total percentage of add on costs to cover all fringe benefits for fire and police employees to the Village is approximately 54% and 46%, respectively, as a percentage of annual base salary.

In the face of this type of cost structure, the Committee recommends the following for the Board's review all of which must be considered against the backdrop of maintaining acceptable levels of services to the Village's residents and maintaining a competent, capable and motivated workforce to deliver those services:

- Utilize part-time workers where possible and appropriate in order to limit fringe benefit costs.
- Consider outsourcing and/or eliminating services where logical and appropriate.
- Take a disciplined and appropriately aggressive approach in collective bargaining with employee unions, in accordance with governing legal requirements. The Village's stressed financial condition and lack available revenues and resources, and the Village Board's resolve for prudent financial

management must be made clear in collective bargaining and arbitration proceedings.

- Consider cost sharing, combining operations, partnerships and similar arrangements with other local units of government which offer the opportunity for increased effectiveness and efficiency.
- Given the Board's recent retention of state-level lobbying resources, we believe that the Village should address the issue of costly, state-mandated benefits (e.g., mandated pension participations and arrangements) which are a "one-size fits all" approach, and are no longer reflective of labor market benefits. The Committee believes that Oak Brook is not the only municipality which is adversely burdened by these requirements, and it would seem logical that the Village could find allies in addressing this issue at the state level.

Conclusion

The Committee hopes that the above report is useful to the Board. We suspect that we have raised as many questions as we have answered. However, we appreciate the opportunity to be part of a process that we believe to be very important to our Village and its future.

While the Committee has tried to capture all of its observations/comments and recommendations regarding employee compensation and benefits matters, it may have further points in this area as its work progresses, which it will communicate to the Board.

The Committee's Chair will be present at the September 8th Board meeting to answer questions you may have.

Respectfully submitted,

Citizens Finance Advisory Committee

Donald N. Adler, Chairman

Norma Lauder

Randall Teteak

George Paul Klein

Todd Rusteberg