

TO: Village Board

FROM: Citizens Finance Advisory Committee

SUBJECT: Third Committee Interim Report

DATE: November 13, 2009

I. Introduction

The Citizens Finance Advisory Committee (“Committee”) is providing this report to the Village Board (“Board”) as an update on the various areas that the Committee has been addressing in its recent work.

II. 2010 Preliminary Budget – Revenues and Expenses

The Committee has reviewed the 2010 preliminary budget (“Budget”) with the Village Manager, Assistant Manager, and Acting Finance Director and notes the following:

Revenues

- General fund sales tax revenues are budgeted at \$9.6 Million, or an assumed 5% decrease from projected 2009 sales tax revenues of \$10.1M. The Committee believes that the budgeted sales tax amount may be overly optimistic based upon the trend of sales tax revenues in 2009. Through November, 2009, Y-T-D sales taxes have decreased by 9.7% from 2008. Month-to-month changes for 2009 vs. 2008 have varied from a 10% increase to a 27% decrease. Retail sales forecasts for the 2009 holiday selling season and 2010 that the Committee has seen are for continued weakness. The Committee suggests that the Village Board revisit the 5% assumed decrease based upon the final receipts for September sales which the Village will receive in early December in order to be comfortable with the budgeted 2010 General Fund sales tax Budget amount.
- The 2010 General Fund budget revenues include three new revenue items: \$150,000 for a new towing administration fee; \$100,000 for a new business registration fee; and \$50,000 for corporate water tower advertising. The Committee is also guarded regarding the realization of these fees given that they relate to new programs. In order to avoid a possible budget shortfall, the Board should consider budgeting these programs at no revenue. Using this approach, any achieved revenues would be available to help offset budget shortfalls in other areas.

Expenses

- The Budget contains no cost of living or merit increases for non-union employees consistent with the recommendation in the Committee's September 4th report to the Board.
- The Budget maintains a 17.5% employee contribution rate for non-union employees' health insurance. We recommend that the Board revisit this issue upon the completion of upgraded job descriptions and a salary study in 2010 as recommended in our September 4th report, and make appropriate adjustments consistent with prevailing market total compensation (cash compensation and all fringe benefits) practices.

III. Expense Allocations/Apportionment

This is an area on which the Committee has spent some time. In simple terms, our focus was on the procedures for and amounts that are being charged from the General Fund to other funds. The General Fund bears the costs (common costs) of people and functions which support other funds (e.g., the Water Fund, Sports Core Fund, etc.). Our belief is that there should be full and appropriate allocation/apportionment of common costs so that the respective Village operations and funds appropriately bear the full costs of said operations. It is essential that there is appropriate cost accounting in order to make informed economic and resource allocation decisions.

The 2010 Budget contains a new allocation of the costs for police patrolling from the General Fund to the Hotel and Visitors fund of \$300,000 with which the Committee concurs. Also, the Budget contains an increase in the cost allocation for common administrative costs from the General Fund to the Infrastructure Fund of \$58,000 with which the Committee also concurs.

The Committee believes that the area of allocation/apportionment should be reviewed on an ongoing basis in order to ensure that all appropriate allocations/apportionments are being made consistent with the above noted philosophy and approach.

IV. Business Registration Program

The Committee has spent a good deal of time reviewing this matter and believes that it is in the best interests of the Village and that a business registration program should be implemented with a target start date of July 1, 2010. The Committee understands that most communities surrounding Oak Brook have business registration programs in place. We believe that the information derived from such a program would have multiple uses and multiple benefits, including in the areas of public safety, and economic and community development.

V. Implementation of a Village Food and Beverage Tax

The Committee reviewed this issue at some length and found that most neighboring communities have implemented local food and beverage taxes. We believe that in view of the Village's declining sales tax revenue trend in recent years, a food and beverage tax is justified as another source of ongoing revenue and its implementation should be given serious consideration. The economic downturn which commenced last year underscores the importance of the Village having additional revenue sources. We understand that at 1%, the Village staff believes that such a tax might generate nearly \$1 million in annual revenue when fully implemented.

We also believe that any revenue generated by a food and beverage tax in 2010 should be used as the funding source for a budget contingency appropriation which would be used to absorb budgeted revenue shortfalls or expenditure overruns. As we have noted above, we have reservations as to the 2010 budget estimates for General Fund sales taxes and other revenues budgeted for new programs, and so we believe a general contingency appropriation of this nature is warranted.

Conclusion

The Committee recognizes that the 2010 Budget has been and will be an undertaking involving many difficult choices for the Village management team and the Board.

We expect that one or more members of the Committee will be present and available for questions at your November 17th meeting where the Budget will be addressed in detail.

Respectfully submitted,

Citizens Finance Advisory Committee

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