

SUMMARY OF THE STATE OF VILLAGE OF HINSDALE FINANCES

A Report to the Board of Trustees
November 3, 2009

Format and Objectives of Presentation

- Review the basics of fund-based village financial structure, including how village finances are supposed to work
- Review current and historical financial performance, and contrast with intended performance to explain our current predicament and how we got here
- Estimate the actual expenditure requirements of village government as currently sized before and after deferred maintenance is addressed
- Review strategic choices facing the board

Basic Structure of Village Fund-Based Financial Structure

- Finances are basically divided into two areas:
 - Government/trust activities (General Fund; Capital Fund; Motor Fuel Tax Fund; Debt Service Fund; Police & Fire Pension Funds)
 - Enterprise activities (Water & Sewer Fund)
- Water and sewer user charges and fees go into the village “water business”; all other revenue sources go into the government activities side

How the Government Activities Are Supposed to Work

Taxes, transfers from fed/state, fees, and all other revenue sources (other than water and sewer user charges) are supposed to fund all of the following:

- Pay principal and interest of village debt (other than water-related for which this is a back-up)
- Repair and when necessary rebuild streets
- Repair and maintain other village facilities (buildings, vehicles, parks, including police/fire) by paying costs or reserving to pay them later
- Fund pension and other retirement obligations
- Fund all general government services (other than water and sewer)
- Maintain appropriate general fund reserves

Based on current practices, about how much expenditure would that require?

	Use	Estimate (\$MM)
Debt Service		1.0
Streets		3.5
Other Capital		1.5
Pension (police and fire)		2.0
General Government		16.0
GF Reserves		0
Total		24.0
Note: assumes deferred maintenance has already been addressed and target reserve level has been reached		
Note: 2009 revenue (excluding borrowings/pension earnings) = \$18.8MM		
new telecom tax will add \$.35K to revenues		

How Has the Village Managed When Governmental Revenues Have Been Less Than Required To Fund All of These Activities?

- The village has not paid or reserved to fund necessary capital requirements (streets and other facilities) resulting in the huge deferred capital requirements that we now face
- While the village has funded pension/retirement liabilities at state required levels, state mandated benefit enhancements and market declines have resulted in significant unfunded liabilities
- The village has drawn down its operating reserve

POINT: as a result of a combination of living beyond our means and unfavorable economic conditions, we now have to further reduce government services, raise revenues and/or accept failing capital facilities

Growth in Governmental Revenues and Expenditures 2000 - 2009

	2000	2009	CAGR
General Revenues	14,092	18,807	3.3%
Expenses			
General Gov't	1,369	1,569	1.5%
Public Safety	4,187	8,577	8.3%
Public Services/Developmer	3,421	3,917	1.5%
Parks & Recs	1,250	1,854	4.5%
Capital Outlay	3,866	3,004	-2.8%
Principal & Interest	1,120	988	-1.4%
Total Expenditures	15,213	19,909	3.0%

Trends In Government Fund Balances and Debt Outstanding 2000 - 2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Fund	6,688	4,453	5,401	4,659	4,313	3,923	3,254	3,046	2,876	3,662
% of GF Revenue	49%	32%	31%	31%	30%	25%	19%	17%	15%	19%
All other Gov't Funds	1393	1680	809	859	3613(1)	2167	1649	4227(1)	1864	950
Total Gov't Funds	8,081	6,133	6,210	5,518	7,926	6,090	4,903	7,273	4,740	4,612
Total Gov't Debt (2)	4,189	3,315	2,425	3,800	7,620	7,060	6,445	5,805	5,140	5,429
Water Fund Debt	0	0	2,500	2,295	2,075	1,850	615	1,370	1,120	4,360
Total Village Debt (2)	4,189	3,315	4,925	6,095	9,695	8,910	7,060	7,175	6,260	9,789
(1) includes new unspent bond proceeds ; (2) excludes library debt										

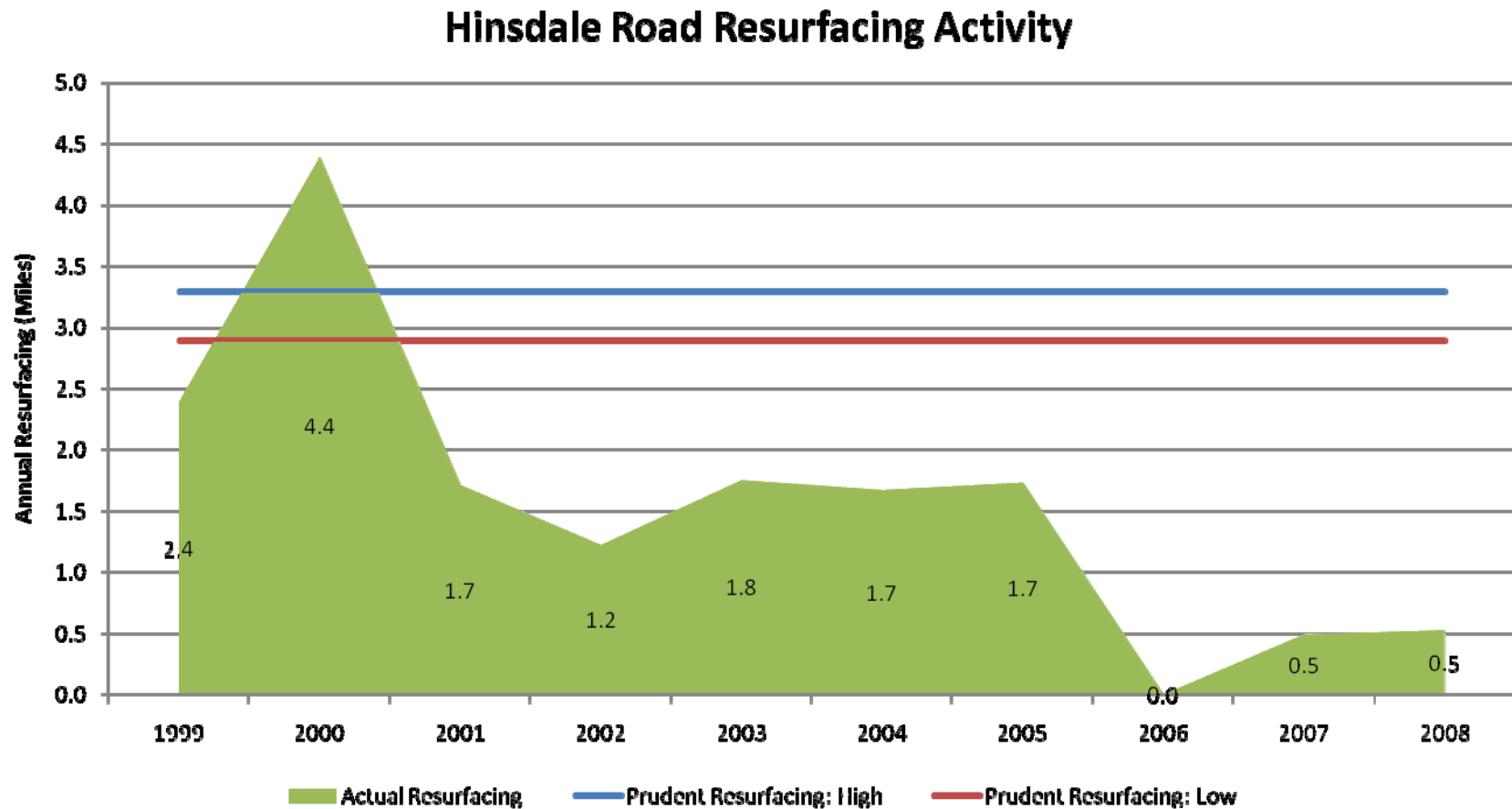
What does it cost to operate the village?

Asphalt roads should be resurfaced approximately every 15 years to prevent the road from failing and requiring premature road reconstruction. Properly maintained, the road will need reconstruction every 45 - 60 years.

	Resurfacing / Reconstruction Cycle	
	Every 15 yrs. / 60 yrs.	Every 15 yrs. / 45 yrs.
Village Road System Size	66 Miles	66 Miles
Annual Resurfacing	3.3 Miles	2.9 Miles
Resurfacing Cost / Mile	\$433 k	\$433 k
Average Annual Resurfacing Cost	\$1,429 k	\$1,256 k
Annual Reconstruction	1.1 Miles	1.5 Miles
Reconstruction Cost / Mile	\$1,752 k	\$1,752 k
Average Annual Reconstruction Cost	\$1,927 k	\$2,628 k
Total Average Annual Upkeep Cost	\$3,356 k	\$3,884 k

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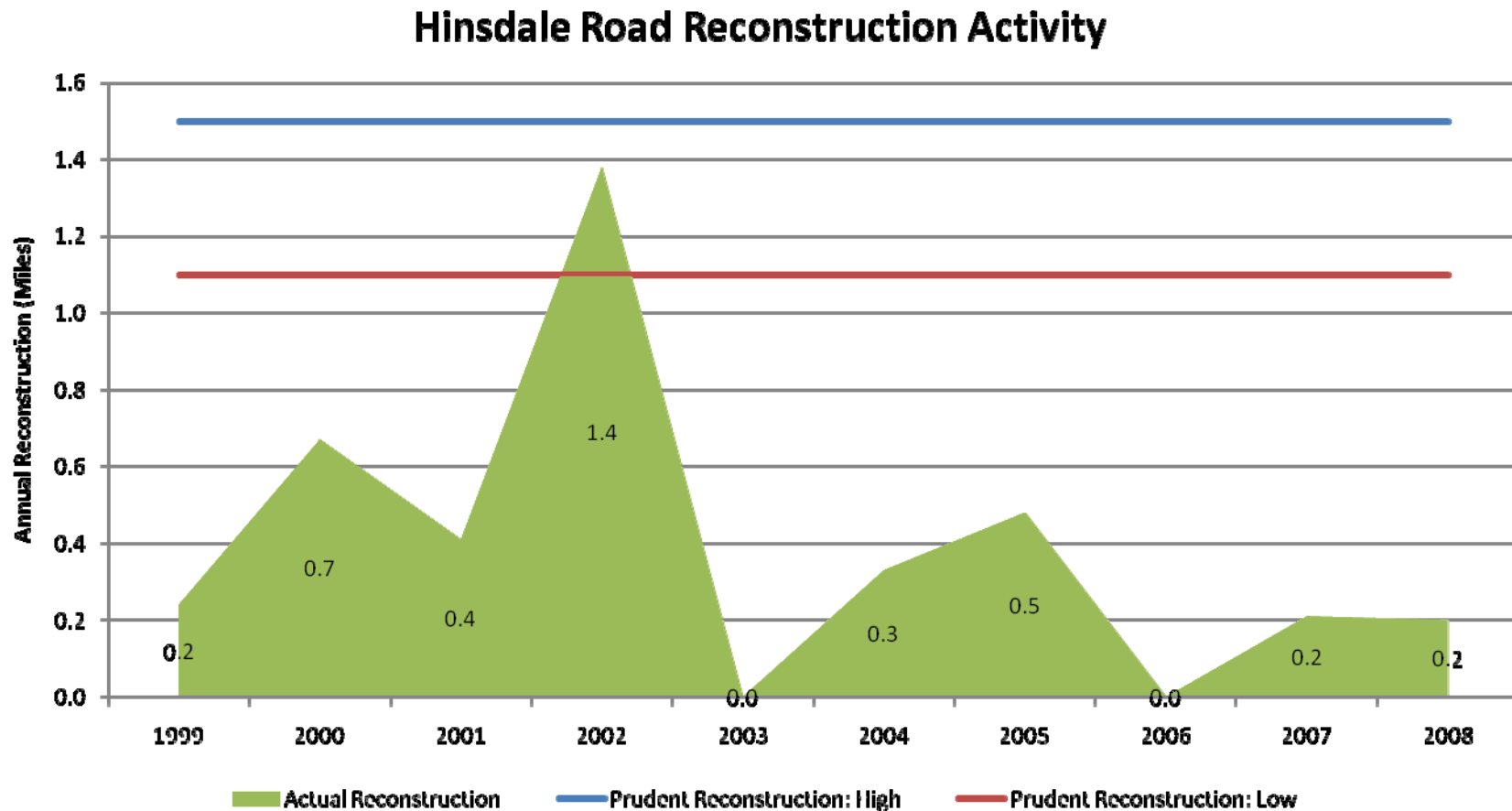
The village has consistently under invested in road resurfacing compared to a prudent cycle of regular upkeep work.



Source: Village of Hinsdale Comprehensive Annual Financial Report, April 2008

What does it cost to operate the village?

The village has consistently under invested in road reconstruction compared to a prudent cycle of regular upkeep work.



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Current Estimates of Deferred Capital Maintenance

- Using an allowance number for the Woodlands project (presently under review but significantly less than recommended by the task force), the current master infrastructure budget of deferred streets and water/sewer capital expenditures is:
 - Streets: \$35+MM plus ongoing normal maintenance during catch-up period (\$15+MM)
 - Water/Sewers: \$35MM plus normal repairs
- There are also significant noninfrastructure capital needs

Present Status of Pension and Retirement Obligations

- As of 4/30/08, the unfunded actuarial accrued liability for police and fire pension funds, IL Muni Retirement Fund, and other postemployment benefit plans was:
 - Police: \$4.93MM
 - Fire: \$7.2MM
 - IMRF: \$8.1MM (as of 12/31/08)
- Liabilities substantially increased as of 4/30/09, presumably partially offset by subsequent market improvements

Government Activities Funds Take-Aways

- We do not realize sufficient revenues to do all of the things this portion of the village budget is supposed to fund at our current size of government
- Rather than further reduce government or raise revenues, we have failed to make necessary capital expenditures resulting in huge deferred maintenance
- We have significant unfunded liabilities for pension and retirement obligations

Government Activities Funds Take-Aways (continued)

- We have significantly run-down reserves in recent years despite continued capital expenditure deferrals
- Expenditures for certain areas of government activities, partly as a result of state mandates, have grown much faster than revenues over the past 9 years (perhaps appropriately so)
- Total village indebtedness has also increased over the past 9 years even as deferred capital costs have increased

Enterprise Activity: How Water/Sewer Area Is Supposed to Operate

- Village buys and resells water to village residents
- Water and sewer user fees are supposed to generate an “operating profit” sufficient to maintain the related infrastructure (including paying any water-related debt service)
- Increases in cost of water to the Village are intended to be passed along (e.g., Chicago has increased costs in 2008 and 2009, and will increase them again in 2010, a 50%+ 3 year increase)

What Would It Take to Maintain Our Water/Sewer Infrastructure?

- Water: village has 81 miles of mains with a useful life of about 80 years. Should spend or reserve for about 1 mile/year = \$1.2MM/year
- Sewer: village has about 70 miles of sanitary and storm sewer with a useful life of about 80 years. Putting aside costs of separation, should spend or reserve for about .9/mile/year = \$1MM/year.
- Combined, separation aside, should spend or reserve something like \$2MM/year.

How Have We Been Doing Measured Against This Estimate?

2000 – 20009 History (*including 2008 rebate):

	Water/S	Ops		Debt
FY	Revenue	Costs	Excess	Service
2000	4831	2963	1868	0
2001	4704	2894	1809	0
2002	4317	2950	1367	42
2003	4402	3792	611	249
2004	4269	3767	501	252
2005	4390	3852	538	259
2006	4689	3922	767	266
2007	4440	3569	872	271
2008	5482*	3988	1494	274
2009	4223	3663	560	493

Deferred Water/Sewer Capital Expenditures

- Master infrastructure estimate of \$35MM includes the costs necessary to meet required separation costs by 2020 and make necessary other improvements
- Current levels of “operating profit” do not meet the costs of “staying even” let alone resolve deferred maintenance issues
- Balance of the water capital fund at fiscal year end will be less than \$1MM

Larger Strategic Take-Aways

- We cannot continue to “balance the budget” by deferring capital expenditures (streets and water/sewers), running down reserves, and facing significant unfunded pension liabilities
- Deferred capital needs are reaching critical levels (street condition; flooding; regulatory failures)
- The size of funding issues need to be compared with the magnitude of incremental revenues available from various sources, such as possible sale tax increase (MIP: \$70MM+ plus increased regular maintenance to avoid a repeat)
- Pension exposures are already significant and increasing

What Is the Order of Magnitude of the Challenge?

- Estimated annual cap ex needed to avoid creating additional deferred maintenance for streets and sewers (i.e., not counting other cap ex for facilities, parks and police/fire):
 - Streets: \$3 - \$3.5MM/year
 - Water/Sewer: \$2MM/year
 - Round down for discussion purposes to \$4 – 4.5MM/year
- Revenue shortfall in “normal” times at current levels of government = \$4MM+/year combined for just these purposes
- Amount of already deferred cap ex to be addressed over time for streets and sewers: \$70MM+
- Unfunded pension liabilities likely exceed \$20MM even after recent market gains

SUGGESTIONS TO THE BOARD OF TRUSTEES

- As stewards, this board could generate realistic alternatives to debate among ourselves and present to the residents, describing realistically the difficult choices facing the village
- Unless we have a shared understanding of the real situation we face, it will be harder to make responsible decisions with a broad consensus