



## **Village of Skokie Financial Condition/Recommendation for Utility Tax Fact Sheet**

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The Village of Skokie's financial status has been negatively affected by the troubled economy over the last eighteen months. This is despite the fact that the Village has historically operated in a fiscally prudent manner demonstrated by the following. The Village has maintained the same property tax levy for nineteen years as the Village most recently levied \$15,456,695 in property taxes which is the identical amount levied in 1990. The Village also has fewer employees today as compared to 1990. Annually, the Village budgets in an austere manner and maintains minimal debt.

The Village has implemented additional cost-saving strategies due to the down economy. A hiring freeze that began in December 2008 has resulted in 20 vacant positions for an annual projected savings of approximately \$1 million. In addition, the Village has under spent budgets and reduced the FY 09 -10 operating budget to less than the previous budget.

Despite the Village implementing measures to economize and achieve savings, the fiscal crisis continues. The national and local economies continue sluggish performance and negatively affect the existing sources of Village revenue including sales tax, property transfer tax, state income tax, hotel/motel tax, etc. As a result, the Village's General Fund revenue has constricted from \$49.8 million annually prior to the economic downturn to \$45.1 million projected actual revenue for the current fiscal year.

Due to the Village's austere financial management, financial reserves were accumulated and have enabled the Village to continue service delivery despite the negative state of the economy. However, the Village's General Fund reserves have now decreased below the Village's policy of 25%, declining from \$14,064,426 to a projected \$8,672,215 at the end of April 2010. The reserves are not intended to sustain an economic downturn of this duration or magnitude. This is a 38.3% reduction in reserves over two years, and further reductions could jeopardize the Village's AAA bond rating.

Throughout the decades the Village's prudent fiscal management has earned an AAA bond rating and maintained the rating through the recent difficult economic times. AAA is the highest achievable bond rating and is estimated to be held by less than 5% of municipalities in the country. This rating allows the Village reduced interest rates.

To date, the Village's fiscally responsible practices in combination with additional belt-tightening measures and use of reserves have enabled the Village to navigate the economic downturn. In addition to the down economy, the Village is experiencing operational expenditure increases not completely within the Village's control with public safety pensions being the primary example.

The Village is facing increased pension liability constituting 50% of the deficit the Village is facing. The Village has a combined actuarial deficiency requiring an increased

contribution of \$2,547,172 annually to the Fire Pension, Police Pension and Illinois Municipal Retirement Fund (IMRF). IMRF is the non-public safety employee pension. The increased pension contributions are primarily due to benefit enhancements mandated by the State of Illinois General Assembly for Fire and Police, and secondarily because of a reduction in investment earnings to the funds. The Village Board studied this issue during an October 2009 workshop. As part of that study it was noted that the recent actuarial analysis reported Skokie's Fire Pension had dropped to 60.5% funding and the Police Pension had dropped to 70.3%. This is compared to 1999 when Skokie's Police and Fire Pension funds were funded at 110.7% and 114.8%, respectively. The additional pension funding needs to be sustained annually and thus will achieve 90% of the public safety pension liability.

As a result of the need for additional pension funding and the down economy, the Village Manager recommended a Utility Tax of 5%. The utility tax is based on consumption of electricity, natural gas and water within the Village. The estimated \$5.5 to \$5.8 million in annual revenue provided by such a tax would enable the Village to sustain operations, fund the Capital Improvement Program, and make appropriate and actuarially determined contributions to the Fire Pension Fund, Police Pension Fund and IMRF. If approved, the utility tax would be effective on May 1, 2010. The Village Board will be considering the Village's upcoming fiscal year budget during April.

Even with this additional revenue the Village must continue to review services and expenditures. For example, the hiring freeze will need to continue until the present revenue sources have stabilized.

The Village's primary operating budget is often referred to as the General Fund which is currently \$48.1 million making up 41% of the Village's entire budget of \$117.6 million. Due to the variety and nature of these various components the total budget fluctuates from year to year. In addition to the General Fund other components of the budget include: Capital Improvements, Water and Sewer, Tax Increment Financing (TIF), Debt Service, Police Pension, Fire Pension, Illinois Municipal Retirement Fund (IMRF), Motor Fuel Tax, and Economic Development among others.