October 20, 2016

Village President
Members of the Village Council, and
Village Manager

It is our privilege to present for your review and consideration the proposed 2017 Annual Budget and Capital Improvement Plan. The 2017 Annual Budget and Capital Improvement Plan totals $72,384,388, an increase of 8.8% compared to the 2016 budget which is mostly due to an increase in capital spending of over $4 million. The operating budget was put together assuming conservative/achievable revenue estimates for 2017 with an equally conservative operating budget increase of 3.3%. The 2017 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 five sections: 1) Current Environment and Budget Initiatives, 2) Budget Impact on a Resident, 3) Tax Levy Analysis, 4) Explanation of Individual Fund Budgets, 5) Budget Document Structure, and 6) Closing Comments.

Current Environment and Budget Initiatives

The proposed budget reflects the Village's efforts to control operating costs and still meet service level expectations of the community. While the local and national economy continues to improve, municipalities are still cautiously optimistic at the prospect of a full recovery. Local governments throughout Illinois continue to monitor State government activities in Springfield. While a deal was brokered in 2016 that avoided Local Government Distributive Fund (LGDF) reductions, there is a possibility these funds will once again be targeted for reduction in 2017. Nevertheless, we have budgeted for these revenues at the 100% level, but have the financial capacity to withstand reductions that may arise during the course of the year.

In addition to the potential reduction of State revenues, there has been a legislative intent to implement a property tax freeze. Property taxes account for about half of General Fund revenues. The Village has historically relied on new development in the tax base, as well as 1% to 3% growth from inflation as new revenue. The additional property taxes have been approximately equal to the Village's increased operational costs for salaries, pensions, health insurance, and operating supplies. Going forward, and in future years, should the State implement a property tax freeze, the Village will need to make significant revenue and expenditure decisions to ensure a balanced operating budget.

2017 is also a significant period related to the Village's utility funds. During 2016, two major studies were undertaken to evaluate the rate structure and capital improvement needs of the electric and water utilities. The electric utility requires substantial capital investment in the next five years in order to preserve the reliability and safety of the Electric Plant and distribution system. Similarly, the water utility is facing challenges related to aging infrastructure; many of the Village's water mains currently in service are from the early 1900's. Both of these studies recommend revisions to the current rate structure in order to fund ongoing capital improvements. At the time of the budget publication, the Village Council is still providing policy direction related to these items. Consequently, staff has prepared a budget utilizing a 4% increase to electric and water rates for 2017, subject to further revision based on Council direction. This increase is sufficient to fund projected capital improvements in these funds for 2017.

Also on the radar for policy direction in 2017 are the sanitary sewer and refuse utilities. In mid-2016, the Village Council reestablished the sanitary sewer backup reimbursement program. This program is expected to cost the Village $100,000 in both FY 2016 and FY 2017 and $50,000 in each year thereafter. As the funding for this program comes from the Sanitary Sewer Fund, the Village must be cognizant of the future capital requirements of the system and consider annual rate increases accordingly. Separately, there continues to be ongoing consideration of how best to manage the future of the Refuse Fund, which operates with revenues from property taxes and an annual General Fund transfer. Imminent 2018 capital equipment needs for the refuse utility make it necessary to consider operational and service delivery alternatives during 2017.

Stormwater management and mitigation is also an important policy goal of the Village Council. When work on the Willow Road stormwater tunnel was suspended in late 2015, the Village engaged Strand Associates to evaluate the potential for engaging in comparatively reduced-scale, neighborhood projects and directing stormwater to the west and southwest rather than into Lake Michigan. Additionally, there is a focus on the 'tree streets' and south of Willow Road in trying to determine how to convey stormwater from those flood-prone areas. Strand is still in the process of compiling options for the Village to consider, but the proposed budget has included $3,230,000 in funding for to-be-determined engineering and construction projects related to stormwater management in the 2017 capital improvement plan.

Finally, the Village continues to face challenges with maintaining the ever-increasing contributions to its two public safety pension plans. Due to updated actuarial determinations and upon recommendation from the Village's actuary, the unfunded liability calculation on both funds has been set to 20 years and fully funding both the Police and Fire Pension funds at 100% by 2037. Illinois Public Act 096-1495 requires public safety pension plans to be 90% funded no later than 12/31/2040. Please see the appendix section for more information about the Village's pension plans.

Below is a summary of the 2017 budget with comparative data from the 2016 budget. Operational revenues have increased 5% or $3,102,496 from the 2016 budget. This is the result of 1) electric, water, and sanitary sewer revenues increasing 6%1, or $1,159,464, 2) interest earnings from the BMO Global Asset investment fund ($357,021), 3) a federal grant in the Motor Fuel Tax fund for road improvements in the amount of $320,000, and 4) an overall tax levy increase of 1.9% (1.2% new development, 0.7% inflation), or $277,937.

Even though revenues have increased, the Village strives to keep expenditure increases at manageable levels. Full-time Village employees will receive a cost of living adjustment (COLA) of 2.5% on January 1st, 2017, maintaining parity with our Fire and Police collective bargaining agreements, which run through 2018. The budget also reflects the changes to our pay plan, as some employees are eligible for step increase as well as our Merit Program. To that effect, regular full-time and part-time wages are up $570,312, or approximately 4%.

With respect to benefits, health and dental insurance is up approximately 9% (6.7% health, 2.3% dental), or $226,700, across our full-time employee population. Staff intends on introducing a high-deductible health plan during 2017 for the 2018 benefit period. Pension contributions for Police and Fire have increased, while IMRF contributions have remained flat, due to a decrease in our employer contribution rate by approximately 1% for 2017. The Village contribution to the Police Pension Fund has increased by 10%, or $130,833, while the Village contribution to the Fire Pension Fund has increased 18%, or $266,663 due to actuarial determinations.

To help manage the personnel and benefit increases, operational expenses such as supplies and contractual services were held steady, and in some departments, reduced. There are two scheduled operational transfers out of the General Fund including an annual transfer of $550,000 to the Refuse fund and $75,000 to fund capital improvements in the Business District Revitalization Fund. Overall Village capital spending has increased on account of utility improvements and placeholders for pending stormwater projects.

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1 Revenue increase includes anticipated IEPA loan for the Water Fund in the amount of $1,000,000.

The table below lists the overall fiscal year 2017 budget breakdown, including all operating revenues, expenditures, and capital outlay.

Village of Winnetka
Summary of Operating Revenues, Expenditures, and Capital

	2016 Budget	2016 Estimate	2017 Budget	Budget to Budget Change %	Budget to Budget Change $'s
Operating Revenues	$ 61,582,307	$ 61,344,540	$ 64,684,803	5.0%	$ 3,102,496
Operating Expenditures	$ (55,853,395)	$ (54,490,627)	$ (57,712,292)	3.3%	$ 1,858,897
Net Operating Income	$ 5,728,912	$ 6,853,913	$ 6,972,511		
Capital	$ 8,422,546	$ 6,152,572	$ 12,467,096	48.0%	$ 4,044,550

Staffing has been reduced from 169 full-time employees in 2000 to 161.70 FTEs in 2016 (152 full-time, 20 part-time). In 2016, a vacant position in the Finance Department was moved to the Village Manager's Office and filled by a Human Resources Generalist. This individual is responsible for internal HR activities and benefits coordination and reports to the Assistant Village Manager. The 2017 budget proposes to convert the part-time Economic Development Coordinator to a full-time position and adds a transitional Electric Plant employee as discussed previously. In late 2016, there was a reorganizing in the Village Manager's Office which moved 1.6 FTEs from the Finance Department to the Village Manager's Office. This transition will show an increased personnel budget in the Village Manager's Office and an offsetting reduction in the Finance Department. Additionally, the Public Works Department and Water & Electric Department have proposed adding part-time positions for summer help, including laborers and engineering interns.

The 2017 budget represents the third full year utilizing New World financial software. The Village continues to expand on the functions and capabilities of the software. As staff utilizes more of the software, how certain expenses are charged is evolving and may be somewhat different than in previous years.

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 2017, we estimate a typical residential customer will pay 2.3%, or $174 more, for municipal services as the following increases are incorporated in the 2017 budget: electric rates 4% ($98), water rate 4% ($36), and sanitary sewer charges 5% ($17). The fiscal year 2017 budget proposes a 1.9% tax levy increase, but as 1.2% new development is assumed, residents will only see a 0.7% increase which matches the CPI increase at the end of 2015. This maintains 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 2016) and typical utility use.

Homeowner Impact Analysis
Select Taxes and Fees

	2016	2017	Change $'s	Change %
Village Property Taxes *	$ 3,263	$ 3,286	$ 23	0.7%
Electric **	$ 2,460	$ 2,558	$ 98	4.0%
Water **	$ 895	$ 931	$ 36	4.0%
Sanitary Sewer **	$ 333	$ 350	$ 17	5.1%
Stormwater Utility Fee	$ 262	$ 262	$ -	0.0%
Telecommunications Tax	$ 60	$ 60	$ -	0.0%
Natural Gas Tax	$ 80	$ 80	$ -	0.0%
Licenses (2 cars & Dog)	$ 90	$ 90	$ -	0.0%
Total Taxes and Fees	$ 7,443	$ 7,617	$ 174	2.3%

* Assumes $25,000 property tax bill, 13.05% Village portion, and 0.7% inflationary increase.

** Based on 4.0% increase in electric and water rate and 5.0% increase in sanitary sewer rate.

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 dollar paid in property taxes during calendar 2016 was allocated among the taxing districts, with the Village receiving 13 cents of every dollar paid.

The following chart depicts typical property tax growth in the community for property tax years 1997 to 2015 (payable in 1998 to 2016, 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 $29,701 by tax year 2015, based on a home valued at $750,000. With these assumptions, the typical homeowner would have seen a 50% increase in the Village portion of property taxes over this time frame, relatively equal to the 18 year increase in the consumer price index (CPI) of 49.5% for the same period. This typical taxpayer would have experienced a 98% overall increase in property taxes, as all but one of the other taxing districts have had larger percentage increases than the Village.

Home value of $750,000 in 1997 equates to $997,500 in 2015

	1997 *			2015 **			Increase in	%
	Tax Rate	Taxes Paid	%	Tax Rate	Taxes Paid	%	Taxes Paid	Change
Winnetka Public Schools	2.723	$4,751	31.67%	3.542	$11,410	38.42%	$6,659	140.2%
New Trier High School	1.967	$3,432	22.88%	2.380	$7,667	25.81%	$4,235	123.4%
Village of Winnetka	1.481	$2,584	17.23%	1.203	$3,875	13.05%	$1,291	50.0%
Cook County	1.028	$1,794	11.96%	0.655	$2,110	7.10%	$316	17.6%
Winnetka Park District	0.445	$776	5.17%	0.419	$1,350	4.55%	$574	74.0%
Water Reclamation District	0.451	$787	5.25%	0.426	$1,372	4.62%	$585	74.3%
All Others	0.502	$876	5.84%	0.595	$1,917	6.46%	$1,041	118.8%
Total	8.597	$15,000	100%	9.220	$29,701	100%	$14,701	98.0%
Consumer Price Index - U	158.200				236.525	18 Year Increase in CPI >>		49.5%
CPI Index (December, 18 years)	1997				2015			

* 1997 Property taxes paid in March and August 1998.

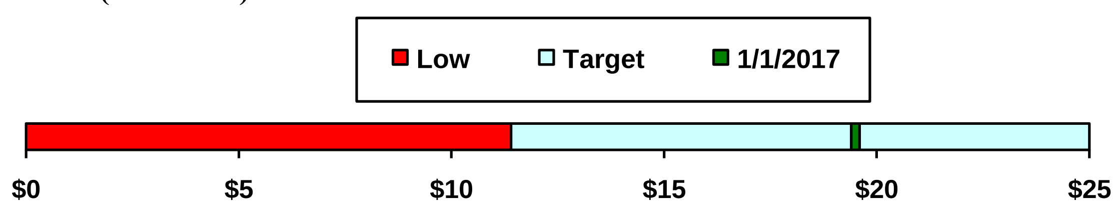
** 2015 Property taxes paid in March and August 2016.

Because of the one year delay between the levy and receipt of tax funds, the 2017 budget will be funded by the 2016 property tax levy. The proposed 2016 property tax levy is anticipated to capture new development (estimated at 1.2% of the tax base) and the 2015 CPI increase of 0.7%. While individual homeowners will experience changes due to their assessment and that of other properties in the community, the Village's property tax levy on those properties will increase only slightly after being held flat in the current year.

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

Explanation of Individual Fund Budgets

General Fund:
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, 2016 fund balance of $19,804,578 million is within the policy target range (6 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, downtown revitalization, facilities, etc.), allow for inter-fund borrowing, and serve as an asset that could be used to satisfy pension liabilities. Given the current economic environment, Council policy has indicated a preference for the General Fund balance to remain above $11 million. The 2017 policy threshold is $11,434,225 based on budgeted operational expenditures.

Winnetka 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. 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 2017 General Fund revenues and transfers (payment in lieu of taxes) are budgeted at $25,229,961, up 4%, or $720,062, from the prior budget. The increase is primarily due to a tax levy increase of 1.9% (1.2% new growth, 0.7% CPI), or $277,937 (all of which to account for increased public safety pension funding), adding back in 25% of the LGDF that was removed in 2016 ($207,020), permit revenue ($97,000), and interest earnings ($113,532). General Fund operating expenses (excluding capital) are budgeted at $22,868,449, up 4%, or $909,410. Noteworthy revenue changes are displayed below:

Significant Revenue Sources	Change
Tax Levy	$ 277,973
Permit revenue	$ 97,000
State income tax share (LGDF)	$ 207,020
BMO Global interest earnings	$ 113,532
Total	$ 695,525

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

General Fund Operating Expenses (in thousands dollars)	Actual FYE 12/31/15 A	Budget Cal. 2016 B	Estimated Cal. 2016 C	Budget Cal. 2017 D	Dollar Change D - B	% Change D v B
Administration	$ 2,943,603	$ 3,044,649	$ 2,814,126	$ 3,257,948	$ 213,299	7.0%
Police	$ 6,591,923	$ 7,076,529	$ 7,105,694	$ 7,514,176	$ 437,647	6.2%
Fire	$ 5,234,210	$ 5,544,047	$ 5,521,676	$ 5,824,864	$ 280,817	5.1%
Comm. Development	$ 1,465,060	$ 1,547,298	$ 1,430,793	$ 1,518,246	$ (29,052)	-1.9%
Public Works	$ 3,865,427	$ 4,046,320	$ 3,967,686	$ 4,128,215	$ 81,895	2.0%
Transfers	$ 1,250,000	$ 700,196	$ 700,196	$ 625,000	$ (75,196)	-10.7%
Operating Expenses	$21,350,223	$ 21,959,039	$ 21,540,171	$22,868,449	$ 909,410	4.1%

Most of the increases in the individuals departments are a result of wage increases, as well as funding pension and health insurance increases. With $75,196 less in budgeted transfers out of the General Fund during fiscal year 2017, cash operating income (before capital) changes from $2,550,860 in 2016 to $2,361,512 in 2017, a reduction of $189,348, or 7%. However, even though operational income is down slightly, the capital expenditure drawdown in the General Fund is reduced 5.9% (excluding contingency), or $153,002 less in 2017 than in 2016, so the General Fund net income from 2016 to 2017 is about the same.

It is important to note that the fund balance of the General Fund will not be drawn down for operational expenditures in the 2017, reflecting the Council's desire for conservative financial planning.

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

	2015 Actual	2016 Budget*	2017 Budget*	Budget to Budget Change %	Budget to Budget Change $'s
Operating Revenues	$ 24,801,316	$ 24,509,899	$ 25,229,961	2.9%	$ 720,062
Operating Expenditures	$ (21,350,223)	$ (21,959,039)	$ (22,868,449)	4.1%	$ 608,816
Net Operating Income	$ 3,451,093	$ 2,550,860	$ 2,361,512		
Capital	$ (3,021,339)	$ (2,733,002)	$ (2,580,000)	-5.6%	$ (153,002)
Net Change in Fund Balance	$ 429,754	$ (182,142)	$ (218,488)		

*Contingency of $300,000 in FY 2017/$250,000 in FY 2016 is excluded from budgeted totals.

Regular Capital Outlay:

In a normal year, the Village will 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, bidding, and budgeted contingencies, the Village usually spends 70% to 80% of the capital budget in a given year.

For 2017, General Fund capital outlay is budgeted at $2,580,000 and consists of the following noteworthy projects: streets and sidewalks ($1,350,000) and a parking lot rehabilitation project ($450,000). These two items account for $1,800,000, or 70%, of the dollars budgeted for capital projects in the General Fund. Other significant projects or equipment replacements include a radio communications system upgrade for the Police Department and ($250,000) and a scheduled replacement of a Public Works truck ($195,000).

Transfers Out:

The General Fund makes transfers to the Refuse Fund to financially support trash collection operations. In addition, the General Fund transfers dollars to pay for capital projects that do not have a dedicated revenue stream. In 2017, there is only one transfer of this nature, which will be into the Downtown Revitalization Fund, helping to fund the cost of implementing the Downtown Master Plan recommendations. The chart below shows recent General Fund transfers.

General Fund Transfers	Actual 2015	Budget 2016	Budget 2017
Refuse Fund	$ 550,000	$ 550,000	$ 550,000
Fleet Services	$ 250,000	$ -	$ -
Village Facilities Fund	$ 150,000	$ -	$ -
Business District Revitalization	$ 300,000	$ 150,000	$ 75,000
	$ 1,250,000	$ 700,000	$ 625,000

Motor Fuel Tax Fund:

The Village finances bridge repairs and major road projects from this fund. In addition to our annual budgeted state allotment of motor fuel tax funds, the Village is expecting to receive a $320,000 grant. Planned 2017 expenditures consist of Cherry Street and Oak Street bridge deck repair and painting ($400,000) and the Green Bay and Elm traffic signal ($300,000).

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 2017 Village Facilities Fund budget will complete the Village Hall renovation project by installing storm windows ($250,000) and improving the Village Hall basement drainage system. At the conclusion of 2017, the fund balance in the Village Facilities Fund will be approximately $50,000. As there are no projects currently scheduled past 2017, no transfers from the General Fund are budgeted in the five year capital plan.

The Business District Revitalization Fund (12/31/15 fund balance of $437,883) is funded by transfers from the General Fund. Projects funded in 2017 total $470,000 and include improvements associated with recommendations derived from the Downtown Master Plan, which was completed in 2016, including Spruce St./Chestnut St. Gateway Streetscape ($75,000), the realignment of Merrill Street ($75,000), and installation of Business District wayfinding signage ($65,000). More information about the Business District Revitalization Fund initiatives can be found in the Budget Narrative Section and in the Capital Plan.

The Village has three active special service areas (#3, #4, and #5) covering local improvements to roads and storm sewers. Property taxes from these special assessments 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. In tax year 2016 (collected in 2017), special services areas #4 and #5 will not be levied, as their payback is complete. These two special service areas will be formally closed by Council action at the time of budget approval.

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 operating revenues are approximately equal to operating expenses.

	Electric Fund				Water Fund			
	Actual FYE 12/31/2015	Est. FYE 12/31/2016	Budget FYE 12/31/2017	% E to B	Actual FYE 12/31/2015	Est. FYE 12/31/2016	Budget FYE 12/31/2017	% E to B
Operating Revenues	$ 15,841,541	$ 15,409,732	$ 16,046,477	4.1%	$ 3,572,208	$ 3,791,715	$ 4,678,337	23.4%
Operating Expenses	$ (14,138,799)	$ (14,708,862)	$ (14,748,548)	0.3%	$ (3,118,829)	$ (2,866,897)	$ (3,492,844)	21.8%
Op. Income (Loss)	$ 1,702,742	$ 700,870	$ 1,297,929		$ 453,379	$ 924,818	$ 1,185,493	
Unit Sales	122	121	121	0.0%	0.88	0.95	0.91	-4.2%
	Million kWHRs				Billion Gallons			

	Sanitary Sewer Fund				Refuse				Stormwater Fund			
	Actual FYE 12/31/2015	Est. FYE 12/31/2016	Budget FYE 12/31/2017	% E to B	Actual FYE 12/31/2015	Est. FYE 12/31/2016	Budget FYE 12/31/2017	% E to B	Actual FYE 12/31/2015	Est. FYE 12/31/2016	Budget FYE 12/31/2017	% E to B
Operating Revenues	$ 953,142	$ 1,110,500	$1,100,329	-0.9%	$ 2,165,966	$ 2,192,545	$ 2,195,547	0.1%	$3,780,859	$ 2,030,000	$ 2,061,551	1.6%
Operating Expenses	$(646,603)	$ (841,242)	$ (999,917)	18.9%	$ (2,294,364)	$(2,352,404)	$ (2,369,361)	0.7%	$ (965,843)	$ (1,830,754)	$(1,941,387)	6.0%
Op. Income (Loss)	$ 306,539	$ 269,258	$ 100,412		$ (128,398)	$ (159,859)	$ (173,814)		$2,815,016	$ 199,246	$ 120,164	

Electric Fund:

During the budget process, the Electric Fund is currently undergoing a rate study. Staff has not fully completed the study and received Council policy direction on the study's proposed rate structure, but initial adjustments are necessary in order to maintain the level of capital investment required to keep the system strong and functional into the foreseeable future.

While the recommendations in the study are forthcoming for Council consideration, staff is recommending that 2017 electric rates be increased by 4% in order to offset operating needs and capital expenditures in 2017. The cash flow analysis included within this budget document does not factor in any rate increases for 2018-2021, pending Council direction.

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 Illinois Municipal Electric Agency (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.

It will be a continuing challenge to keep electric rates at a minimum given projected increases in the Village's wholesale power costs, high service levels, and significant capital improvement plans over the next five years, including fire protection at the Electric Plant and distribution facilities, as well as a new substation transformer for the electric system. Finally, as the Electric Fund revenues are impacted by the variability of the weather, the fund will need to be carefully monitored each year.

Water Fund:

Like the Electric Fund, the Water Fund is also undergoing a rate study concurrently with the budget process. Significant capital investment is required to maintain the Village's water distribution system, as there are many aging water mains that will require replacement. In September, 2016, the Council issued initial policy direction that favored rate increases less than what the rate study consultant recommended. Consequently, staff is proposing a water rate increase of 4% for residential and unincorporated customers in order to cover 2017 capital expenditures. The two proposed water main projects are matched to road projects in order to reduce project costs. The Council will have the ability to provide further policy direction or recommend other rate adjustments during 2017.

Sanitary Sewer Fund:

The charge for sewer services is proposed to increase 5% in 2016 from $14.51 to $15.23 per 1,000 cubic feet. In late 2016, the Village Council reestablished the sanitary sewer backup reimbursement program, which had been defunded in 2013. This program is expected to cost $400,000 between 2016 and 2021. These costs were not taken into consideration in the cash flow analysis of the Sanitary Sewer Fund over the past several years. In addition to the scheduled Village-wide capital improvements to the sanitary sewer system, the amount required for the backup reimbursement program will impact fund balance. It is recommended that the Council evaluate this fund by taking a holistic look at rates and pricing structures within the next two to three years.

Refuse Fund:

The 2017 operating transfer from the General Fund is $550,000, as has been past funding practice. The Refuse Fund also receives a direct portion of the Village tax levy in the amount of $1,100,000. Competitive commercial refuse rates have been maintained, as has the optional second weekly residential collection charge of $25 per month. Uniquely, the Refuse Fund has on its books a $928,000 post-closure landfill liability. This liability represents an estimate of potential post-closure costs related to the Village's landfill over the next 15 years. However, because the post-closure costs will be paid out in the future, it is not projected to be a significant use of cash for the next five years.

The refuse utility is a policy item the Village Council's continues to evaluate. Going forward, it is necessary to analyze the current business model and consider alternatives. Such alternatives range from charging a fee for all refuse pickups to changing collection locations and/or considering alternative service delivery. Public Works staff will be bringing options for the Council to consider in the near future. At this time, current cash reserves will sustain the fund throughout fiscal year 2017.

Stormwater Fund:

The Village began billing property owners for stormwater utility service effective July 1st, 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 2017 at this time.

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. Current outstanding debt is listed in the table below:

Issuance Year / Purpose	Repaid by:	Par Amount	Par Outstanding 1/1/2016	Final Maturity	Interest Rate
2013 Stormwater Improvements	G.O. Debt anticipated to be repaid with stormwater utility revenues	$ 9,000,000	$ 7,645,000	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	$ 15,145,000		

In 2015, the Village retained Strand Associates to develop an alternative study for western and southwestern Winnetka. In addition to various initiatives already scheduled for 2017 such as the Sheridan Road Ravine Stabilization ($275,000) and Boal Parkway Pump Station ($580,000), Strand continues to refine concepts and phasing alternatives with the Council.

The proposed budget includes funds for stormwater projects in 2017 and funds that will be applied to areas of the Village the Council decides to focus on during 2017.

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

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

	Worker's Compensation			Liability Fund			Health Insurance		
	Actual FYE 12/31/2015	Est. FYE 12/31/2016	Budget FYE 12/31/2017	Actual FYE 12/31/2015	Est. FYE 12/31/2016	Budget FYE 12/31/2017	Actual FYE 12/31/2015	Est. FYE 12/31/2016	Budget FYE 12/31/2017
						*			
Inflows	$ 530,705	$ 559,992	$ 552,463	$ 1,647	$ 15,500	$ 27,965	$ 3,329,565	$ 3,315,725	$ 3,823,603
Outflows	$ (940,942)	$ (448,000)	$ (698,000)	$ (269,727)	$ (255,000)	$ (396,450)	$ (3,443,904)	$ (3,330,972)	$(3,801,434)
Cash-Flow	$ (410,237)	$ 111,992	$ (145,537)	$ (268,080)	$ (239,500)	$ (368,485)	$ (114,339)	$ (15,247)	$ 22,169

* Liability fund contributions were suspended for 2012, 2013, 2014, 2015, and 2016 based on good loss experience.

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 being significantly below budget.

Projected expenses are based on an analysis of claims, administrative costs, and stop loss insurance costs. The Village's self-insured retention amounts per claim as of January 1st, 2016 are: $100,000 for health, $250,000 for property, $600,000 for worker's compensation, and $2,000,000 for general liability risks. The Village purchases commercial insurance for select exposures when it is cost effective.

While the Worker's Compensation fund balance is below the desired level, the Village has one existing claim from 1977 with a long expected payout. There is adequate cash in the fund to meet projected payments on a cash-flow basis.

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 indicates that as a group, there are adequate reserves for the Village's self-insurance funds. As of the 2015 audit, there was a total of $4,760,868 of fund balances versus a minimum policy target of $3,731,961. Because of the Village's substantial deductible (up to $2,000,000 in some cases), large reserves are prudent for these funds.

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 2016, Finance and Data Processing staff introduced an information technology asset replacement program, which is included in this budget document.

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 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. For FY 2017, the Village's contribution rate will be 13.57%, down from 14.34% in FY 2016.

The proposed 2016 police and fire pension property tax levy, covering 51 active sworn public safety employees, totals $3,169,840 (or $62,000 per employee). This reflects an increase of 13% from the previous levy year. The 2016 Village expense for IMRF pensions (exclusive of Social Security) for the remaining employees totals $1,388,674 (or about $14,000 per employee).

The increase in the Police and Fire pension contributions is markedly higher in 2017 for two reasons. First, the Village retained a new actuary to conduct the 1/1/16 actuarial study of both funds as the previous long time actuary retired. The new actuary utilized an updated mortality table which calculated a higher likelihood of public safety personnel living longer. Second, the investment earnings in 2015 did not achieve the conservative 6.25% each fund expects to receive. It was a poor year for the market overall and our pension funds felt the impact of those market forces.

To help mitigate what would have been a large FY 2017 funding requirement, the Village elected to adjust the amortization period to fund both public safety pension funds to a fully-funded level. Upon recommendation from the actuary, the Village set the amortization clock to 100% funded in 20 years effective with the 2016 tax levy (payable in 2017). This election has smoothed out the tax levy increase for the benefit of our residents while still putting the public safety pension funds on track to being 100% funded in 2037, prior to the state mandated deadline of 90% funded by 12/31/2040, per Public Act 096-1495. 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 12/31/2015.

Pension Funding Summary

(in millions of dollars)

	Assets	Liabilities	Funding Shortfall	% Funded
Police	$ 25,257,502	$ 41,529,135	$16,271,633	61%
Fire	$ 23,597,597	$ 42,320,232	$18,722,635	56%
IMRF *	$ 66,416,961	$ 77,515,945	$11,098,984	86%
	$115,272,060	$ 161,365,312	$46,093,252	71%

* Includes annuitized amounts for existing retirees of $35.2 million.

Budget Document Structure

Staff is proud to present a revised budget document substantially compliant with the Government Finance Officers Association (GFOA) Distinguished Budget Award. The Village intends to submit for this award after the budget is formally approved in December, 2016. Readers will notice updated and more aesthetically pleasing narrative sections along with a significantly revised Capital Improvement Plan.

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. For 2017, a typical resident will pay $7,617 for Village services, a $174, or 2.3% increase.

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 10 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, such as electric, water, and stormwater improvements, which may significantly improve our resident's quality of life and property values. Additionally, the Village should continue making investments in our other infrastructure, such as our sanitary sewer utility and evaluate the future of the refuse utility.

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,

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