

Finance Department

2019 ANNUAL REPORT

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Scope of Department Services

The Finance Department is comprised of 17 full-time equivalent (FTE) employees who provide an array of services to various internal and external customers. Internal customers include the Village Board, Village Manager, all Village Departments, employees, and pensioners. External customers include residents, vendors, other governments, bond buyers, purchasers of building and parking permits, and other Front Desk customers.

Over the years the Finance Department has worked to continually improve its efficient delivery of service to all of our customers. Since 2002 the Finance Department has decreased from 22 FTE's to 17 FTE's in 2019, or a decrease in staffing of 23%. This has been accomplished through the use of technology and hiring quality staff.

The Department's scope of services includes key required annual activities, daily/ongoing activities, and a number of special projects that change from year to year. **Attachments A1-A2** provide an outline of these activities and projects. Some of the key annual activities are required by State statute such as the annual audit, annual actuary projections, budget/tax levy, and the annual Treasurer's Report. Other key annual activities that are good government or recommended practice activities include the Village's biennial 5-year Capital Improvement Program and the annual 3-year operating fund projections. It takes the Finance Staff a number of months to complete each of these activities by working extensively with our internal customers. Following the Village Board's approval of these annual and biennial reports, they are posted online for the benefit of the Village's external customers.

The Department's daily and ongoing activities cover numerous functions that relate to all of our customers. These daily services include activities such as payroll, accounts payable and receivable, treasury, general liability insurance claims and Front Desk interactions among others. As an administrative unit, the Finance Department provides accounting and financial internal services to all levels of the Village organization. As such, it is incumbent on Finance Staff to provide accurate, clear, and dependable information in an efficient manner. This information is subsequently delivered on a daily, weekly, biweekly, monthly, quarterly, or annual basis.

There are a number of special projects that arise each year. Some of these are planned for years in advance, while others can arise quickly. Finance Staff has been involved in the Village's efforts to continuously improve our infrastructure. In recent years the Village has completed the EAB parkway tree replacement program, increased the annual street program from \$5.8 million to over \$9 million per year, initiated a multi-year plan to fund storm water control projects, rejuvenated the Village's public parking garages, and constructed a new Police Station. The Village has done an excellent job of planning and executing above ground capital projects, but we also must be vigilant in taking care of our underground infrastructure. The next key capital project for the Village will be to reach and maintain a viable water main replacement schedule, and to reduce our excessive number of water main breaks. As improvements to the Village's

water main system unfold, the Village will need to take steps to coordinate this work with the additional annual street work that is already underway.

Another key project that Finance will be coordinating with the Integrated Services Department (ISD) is a new Village-wide Enterprise Resource Planning (ERP) software for the Village. This software will include the base internal service activities such as accounting, budgeting, payroll, purchasing, and cash receipts. It also will provide centralized capabilities for Human Resources, Building and Planning approval processes, and coordination with the Village's website. The Village's current ERP system was installed in 1996. Although it has been updated over the years, newer software providers offer much more proven capabilities that the Village needs in order to offer the efficiency and online services that are now expected by our residents.

Department Staff will also continue to work on internal staff committees including the Health Insurance Committee, the Parking Committee, the Water Main Replacement Committee, the Arlington Heights Firefighters' and Police Pension Fund Boards, and others. In addition to these types of internal activities, Finance Staff participates in a number of intergovernmental organizations including membership on the Illinois Municipal Retirement Fund Board, member of the Intergovernmental Risk Management Association (IRMA) and its Administration and Finance Committee, staff liaison to the Metropolis Theater, active participation with the Illinois Government Finance Officers' Association, acting as a GFOA national budget reviewer, membership in the High Level Excess Liability Pool, as well as other organizations.

Workload and Performance Data

There are a number of workload and performance measures that help us manage the Finance Department and that help tell a story of how things are going. Some of these measures include the following:

Number of vehicle stickers sold – this tells us whether our sticker sales are on track from year to year. This measure will also help us gauge the success our new enforcement program.

Water consumption billed (1,000 gallons) – this continues to be a key number in estimating annual water and sewer revenues. It also provides a view of how weather and water conservation effects this revenue source.

Parking Tickets, Vehicle Stickers, and Water Bill Payments through the internet – this data provides us with an idea of how many people currently use this payment option, and it can provide evidence of the results of internet payment marketing efforts now or in the future.

Number and amount of credit card payments – provides usage data, and may ultimately provide data for a decision point of whether credit card charges should continue to be a cost of doing business, or if they should be passed on to the customer.

Beyond the workload measures shown above, there are a number of information points that reflect the differences between the Village's desire to provide high levels of service and sustainable infrastructure improvements, versus the long-term financial goals of maintaining taxes and fees at reasonable rates.

Sales, Income and Use Taxes – Sales and Income taxes are two of the General Fund's key growth revenue sources, representing 24% and 9% respectively of total revenues. Most of the General Fund's revenues are fairly stable from year to year, but increases in these revenue sources help cover the cost of our expenditure increases. The Village is also monitoring the Use Tax which has started to grow over the last few years. This tax reflects the Village's portion of online sales taxes being remitted through the State. Online sales have continued to eat away at all local governments' sales tax bases. The Village's amount derived from this revenue source has improved, but it does not equal the sales taxes lost to internet sales.

Building Permits – this revenue source is an important bellwether of economic cycles as it goes up and down depending on the economy.

General Fund Reserves – staff keeps a close eye on this number to maintain our excellent bond rating, and to ensure that the Village can withstand extraordinary storm damages and self-insurance losses, and to provide a buffer during economic downturns. The Village's fund balance policy is to maintain a fiscal year-end balance of at least 25% of General Fund expenditures. Being at or above this level is even more important for Arlington Heights due to our reliance on sales and income tax receipts which are subject to economic cycles.

Property Tax History – the Village has continued to work hard to keep property tax increases as low as possible.

Debt Service Levy – from a long-term financial perspective it is advantageous for the Village to keep its debt service payments level from year to year. This way the property tax levy does not fluctuate from year to year. This requires long-term planning for large capital projects based on the debt retirement schedule. The Village could use a portion of future debt retirements as a way to decrease property tax levies, however there will always be long-term capital needs that should not be deferred.

Infrastructure Survey – this past year Finance staff completed a survey of other area communities to compare the Village's annual capital infrastructure spending. As shown in **Attachment B**, you can see we compared very favorably in regard to street work, but the Village's water mains are older than the average, and we have a much higher number of water main breaks per year.

Bond Rating – the Village's current bond rating is very high with an AA+ rating from Moody's Investor Services. This high rating allows the Village to sell bonds at the most competitive rates, which results in lower debt service costs.

Village Staffing Levels – since 2002 the Village’s staffing levels have decreased by 10%, and we have been able to maintain a high level of services with less staff. However, in the event of another major recession it would be difficult to reduce administrative staffing levels further.

Community Survey – these survey results are included in the Village’s annual budget document, and compare area communities based on revenues received from an average homeowner. Even with our high level of services, as shown in **Attachment C** we have been able to maintain a cost position that is in the middle of the pack.

Key Accomplishments – Past Year

Beyond the annual budget, capital, audit, and treasury reports, there have been a number of additional key accomplishments that were completed over the past year:

- A long-term alternative revenue report was completed and presented to the Village Board. No new revenues sources were implemented, but the Board directed staff to prepare a multi-year plan to raise fees and fines over time. The Board also directed staff to develop a plan to increase vehicle sticker enforcement in order to improve compliance.
- Last year Finance continued to work with the Human Resources Department in evaluating health insurance options, including consideration of joining an intergovernmental health insurance cooperative. At that time there was not a financial or operational reason to join this group, but it will be reviewed again next year. This year the committee is considering a pharmacy formulary and a post-65 health insurance product carve-out as a way to reduce the Village’s costs and long-term exposure.
- Implemented a new printing/ mailing/ e-billing provider for vehicle stickers and water bills.
- Received Board approval to implement new vehicle sticker enforcement procedures. Cross-checked vehicle registrations with the State’s motor vehicle department, to be followed by late notice letters with a higher penalty. If vehicle stickers are still not purchased, a code enforcement ticket will be mailed to the vehicle owner.
- Prepared a Board approved plan to pay off a portion of the Police and Fire Pension long-term liabilities through the use of \$3 million in 2018 General Fund surplus monies. Per the Village’s actuary, this will save the Village approximately \$6.4 million between now and 2040.

Projects still to be completed during 2019:

- Complete the multi-year fine and fee increase schedule.
- Complete (w/PW) the five-year water & sewer rate study for the Board’s review.
- Work with the Village’s Financial Consultant on a 2019 Bond Refunding issue that could save the Village about \$600,000 over the remaining eight years of the bond.
- Work with ISD to develop an RFP for an ERP software implementation consultant.
- Review and revise the capital accounting and budget definition.

- Plan for the proposed change in pay periods from the current paid to date method, to a pay date one week after the pay period ends.
- Request for Proposals for the 5-year municipal audit engagement.

Current and Anticipated Challenges

Balancing General Fund revenues and expenditures, and keeping property tax increases as low as possible is a challenge that is addressed each year. This is especially challenging during times of market downturns when our growth revenues of sales and income taxes flatten or decrease, along with potential investment income losses. The status of the State of Illinois' budget can also present significant financial challenges for the Village. Questions have arisen such as: Will the State continue to take a portion of the Village's revenues (income tax receipts)? Will there be an expansion of slots to the Arlington Park Racetrack? Answers to these questions over the next few years could have negative or positive consequences for the Village.

In regard to infrastructure, the Village has taken great strides over the last few years to provide ongoing funding for streets and storm water control projects. On the other hand, the Village had planned to be able to increase its water main replacement program more than it has to date. Due to wet spring weather over the last few years and improved water conservation by our residents, the annual amount of water use has decreased. As a result, less water and sewer revenues have come in than projected which caused the Village to scale back the planned increases to the water main replacement program. As shown in the infrastructure study noted earlier, the Village has a significantly higher rate of water main breaks than our neighboring communities, and the average age of our water mains is older at 65 years. Our challenge is to find a way to "catch-up" and maintain an adequate water main replacement program at the industry recommended annual 1% system replacement rate. Funding options for the Board's review will be presented during the upcoming water and sewer rate study scheduled for completion in August or September 2019.

The new ERP software system mentioned earlier will present some challenges and key decision points. With the assistance of a consultant, the Village will determine the software wants and needs of each Department. The Village's current antiquated system, Central Square, has a number of limitations which hamper efficiencies, including:

- Antiquated purchasing processes: Credit card payments are difficult to process, requiring manual print outs and approvals. Purchasing descriptions are brief due to character limits.
- Newer systems are more integrated: Payroll, HR, Police tickets, Building permits, Cashiers, Accounts Payable, and Purchasing would benefit from better module to module integration.
- The Village's current system uses separate databases for vehicle stickers and tickets. These databases are not tied into the cashiering system requiring dual data entry.
- A new system will likely improve and expedite approval processes between Departments for permits, building and planning reviews, payroll, and purchasing.

- There aren't many third-party software vendors still willing to work with Central Square.
- A third-party report writing system, COGNOS, is currently used to write reports. However, this system is difficult to use, and downloads to Excel do not convert properly at times.

Implementing a new system will present a number of internal challenges. Converting data from the old system to the new system will be tedious and will likely require some manual entry. No new system will be perfect for all Departments, and the new ERP software system may require the Village to alter some of its existing processes in order to work within the confines of the standard software package. The Village will also be cognizant that some staff members may be resistant to change, and we will have to provide for ongoing communication and training for all staff members. Finally, most modules will require that the old and new systems run parallel for a period of time in order to ensure the accuracy of the new system.

A current challenge is administering the increased enforcement of the vehicle sticker program. Finance sent out letters to those vehicle owners listed on the State's motor vehicle list who have not purchased a vehicle sticker. The State's list is dated and there has subsequently been large number of calls and complaints being fielded by the Department. It is anticipated that after a couple of years of administering the new enforcement procedures that the scofflaw rate will decrease significantly.

Another challenge was the recently completed partial staff reorganization with the concurrence of the Village Manager. The Village's Accountant recently retired, and as with all vacancies, the Village reviewed the overall needs of the Department. Based on this review the Accountant and Budget Coordinator positions were combined and the vacant position was downgraded to an Accounting Assistant position. This revised position now handles some basic accounting duties, may take on some of the computational duties previously handled by Human Resources, and is the primary back-up for the Payroll position. The Finance Department had lacked a highly trained back-up for our complex Payroll function, and this change provides a much needed improvement. Transitioning to these revised job duties will require a number of months of training on investment software and on the Village's payroll requirements.

Potential New Initiatives to Explore in the Future

- One of the most exciting projects that Village staff will be working on over the next few years is an analysis and implementation of the new ERP System outlined above. This system will touch the entire organization in some way, and it is anticipated that the Village will be able to attain new efficiencies in our provision of services.
- During the upcoming water and sewer rate study and next year's biennial Capital Improvement Plan, Village staff will provide the Board with a proposed long-term debt financing plan that reflects the maturity of some of the Village's older bond issues over the next seven years. The intent of the plan will be to provide the Village Board with some decision points on what capital projects may require future debt financing, when this

financing might occur, and how the Village can space out its planned financing to provide for capital project funding in the future.

Conclusion

Through the Village's conservative budgeting practices, by looking for ways to reduce costs, and by continuing to look toward the future, the Village has been able to maintain a strong financial position. As technology and society changes, the Finance Department will continue to look for ways to adapt and improve our services. One of the keys to our ongoing stability will be to continue looking a number of years ahead, and to plan accordingly.

Key Required Annual Activities

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Audit												
Actuary												
Treasurer's Report												
CIP (Bi-Annual)												
3-Year Operating Fund Projections/ Budget/Tax Levy												

Daily/Ongoing Activities

Payroll	
Utility Billing	
Purchasing	
Accounts Payable	
Accounts Receivable	
Accounting	
Treasury	
General Liability Insurance	
Front Desk/Collections	
FBT Collections	
Customer Service Representative	
Metropolis Building Management (with Legal & PW)	
Monitor Metropolis Theater Finances	

**SURVEY OF COMPARABLE MUNICIPALITIES
ESTIMATED ANNUAL REVENUES RECEIVED FROM AN AVERAGE HOME
AUGUST 2018**

ANNUAL ESTIMATED PAYMENTS:														
<u>Municipality</u>	<u>2018 Passenger Veh. Stickers</u>	<u>Garbage Bill*</u>	<u>Yard Waste Bill</u>	<u>Combined** Residential Water & Sewer Bill</u>	<u>Storm Water Fee</u>	<u>Home*** Rule Sales Tax</u>	<u>Food & Beverage Sales Tax</u>	<u>Municipal Motor Fuel Tax</u>	<u>Entertain. Tax</u>	<u>Electric Utility Tax</u> 12,300 kWh/Yr	<u>Gas Utility Tax</u> 1,700 therms/Yr	<u>Telecom Tax</u>	<u>2017**** Municipal Property Tax</u>	<u>Total Estimated Annual Homeowner Costs</u>
Assumptions for Average Family	2 Cars	12 /Yr	48 Bags/Yr	144,000 Gallons/Yr	Estimated Fee/Yr	\$6,000 /Year	\$3,000 /Year	650 Gallons/Yr	\$2,400 /Year	\$1,400 /Year	\$1,650 /Year	\$1,200 /Year	\$78,900 EAV	
1. Rolling Meadows	60.00	\$359.40	\$0.00	2,196.00	54.36	60.00	60.00	26.00	0.00	75.03	85.00	72.00	1409.94	\$4,457.73
2. Hoffman Estates	0.00	\$204.00	\$139.20	1,746.36	24.00	60.00	60.00	162.50	144.00	69.00	85.00	72.00	1159.83	\$3,925.89
3. Mount Prospect	90.00	\$234.96	\$0.00	1,759.20	0.00	60.00	30.00	26.00	0.00	43.17	24.99	72.00	901.83	\$3,242.15
4. Wheeling	0.00	\$248.04	\$0.00	1,287.36	30.00	60.00	30.00	0.00	0.00	75.03	85.00	72.00	1314.47	\$3,201.90
5. Elk Grove Village	50.00	237.12	\$120.00	1,728.00	0.00	60.00	30.00	0.00	0.00	75.03	34.00	72.00	757.44	\$3,163.59
6. Arlington Heights	60.00	\$214.56	\$129.60	1,134.24	75.00	60.00	37.50	0.00	0.00	75.03	85.00	72.00	960.21	\$2,903.14
7. Des Plaines	60.00	\$205.68	\$0.00	1,166.40	109.44	60.00	30.00	26.00	0.00	70.23	42.50	72.00	959.42	\$2,801.68
8. Schaumburg	0.00	\$0.00	\$0.00	1,797.60	0.00	60.00	60.00	19.50	120.00	0.00	0.00	72.00	486.02	\$2,615.12
9. Park Ridge	90.00	\$0.00	\$0.00	1,430.04	0.00	60.00	30.00	26.00	0.00	68.63	34.00	72.00	635.93	\$2,446.61
10. Buffalo Grove	0.00	\$254.40	\$0.00	851.04	60.96	60.00	30.00	0.00	0.00	75.03	85.00	72.00	954.69	\$2,443.12
11. Palatine	60.00	\$240.00	\$0.00	846.48	60.00	60.00	30.00	0.00	0.00	75.03	0.00	72.00	985.46	\$2,428.97

*AH Garbage Bill based on estimated once per week pick-up cost for comparison purposes. Rates include carts and/or SWANCC fees where applicable.

** Rate/100 cubic ft. x 1.3367197 = rate/1000 gals.

***Home/Rules Sales Taxes are on general merchandise only, not applied against vehicles or qualifying food, drugs, or medical appliances.

**** Municipal tax only, does not include libraries, schools, special districts, or other taxing authorities.

Sources: Surveys: Arlington Heights (08/18), / Cook County Clerk website / Municipal websites / Codes

Comparable Municipalities Infrastructure Survey

Municipality	# of Miles of Water Mains	Avg Age of Water Mains	Avg # of Water Main Breaks Last Five Years	Annual Breaks/Mile	Average Annual Spending for:				Water Main Replace/Mile	# of Street Miles	Average Annual Spending for:			Total Annual Road Spending	Road Spending/Mile
					Water Main Replace/ Rehab	Storm Sewer Replace/ Rehab	Sanitary Sewer Replace/ Rehab	Combined Sewer Replace/ Rehab			Road Resurfacing	Road Reconstruct	Road Patching and Crack Sealing		
Arlington Heights	260	65	250	0.962	\$2,500,000	\$500,000	\$300,000	\$100,000	\$9,615	241	\$6,100,000	\$1,800,000	\$1,360,000	\$9,260,000	\$38,423
Buffalo Grove	182	38	50	0.275	\$1,000,000	\$200,000	\$1,000,000	N/A	\$5,495	114	\$1,500,000	\$500,000	\$300,000	\$2,300,000	\$20,175
Des Plaines*	225	74	108	0.480	\$5,000,000	\$2,000,000	\$1,000,000	\$500,000	\$22,222	141	\$1,000,000	\$6,000,000	\$400,000	\$7,400,000	\$52,482
Elk Grove Village	153	40	71	0.464	\$600,000	\$3,300,000	\$1,100,000	N/A	\$3,922	136	\$1,100,000	\$150,000	\$100,000	\$1,350,000	\$9,926
Hoffman Estates	255	44	33	0.129	\$750,000	\$160,000	\$500,000	N/A	\$2,941	152	\$4,000,000	\$2,000,000	\$300,000	\$6,300,000	\$41,447
Mount Prospect	160	54	48	0.300	\$2,000,000	\$100,000	\$1,000,000	\$800,000	\$12,500	135	\$4,127,000	N/A	\$135,000	\$4,262,000	\$31,570
Palatine	246	60	80	0.325	\$2,000,000	\$300,000	\$250,000	N/A	\$8,130	160	\$2,100,000	\$1,500,000	\$255,000	\$3,855,000	\$24,094
Park Ridge	139	75	27	0.194	\$850,000	N/A	N/A	\$550,000	\$6,115	128.2	\$1,100,000	N/A	\$300,000	\$1,400,000	\$10,920
Rolling Meadows	90	53	60	0.667	\$600,000	\$450,000	\$700,000	N/A	\$6,667	62	\$600,000	\$900,000	\$75,000	\$1,575,000	\$25,403
Schaumburg	273	40	45	0.165	\$1,000,000	\$110,000	\$550,000	N/A.	\$3,663	205	\$3,700,000	\$2,800,000	\$500,000	\$7,000,000	\$34,146
Wheeling	138	35	30	0.217	\$750,000	\$500,000	\$400,000	N/A.	\$5,435	75	\$2,000,000	\$500,000	\$100,000	\$2,600,000	\$34,667
AVERAGE		53		0.380					\$7,882						\$29,387
* Des Plaines higher due to use of gaming revenues.															