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# MEMO

**To:** Randy Recklaus, Village Manager  
**From:** Tom Kuehne, Finance Director/Treasurer  
**Date:** March 9, 2022  
**Subject:** **PROPOSED 2021 GENERAL FUND SURPLUS TRANSFERS**

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## **Background**

Through 2021 the Village successfully worked through the operational and financial challenges of the second year of the pandemic. Our service delivery continued to be maintained and innovated, and we have been able to maintain a strong reserve balance in the General Fund. Preliminary 2021 year-end financial results show that some of the Village's funds have come through the pandemic thus far very well, while others have struggled. A key bright spot is the General Fund, which will come in with a significant \$7.55 million surplus for 2021. This surplus is due to a few key revenue and expenditure accounts outperforming our projections for 2021.

On the expenditure side, the Police and Public Works Departments are a combined \$1.9 million under budget. During the first quarter of 2021 when the ongoing effects of the pandemic were more unknown, the Village maintained a large number of vacancies as a way to balance revenues that were expected to improve slowly over the year. As the year progressed and revenues bounced back much quicker than anticipated, the hiring freeze was lifted and the Village's Departments worked to get back to full strength over the balance of the year. 2021 revenues were projected conservatively, as the thinking in late 2020 was that the recovery in 2021 would be more U-shaped. However, Village revenues bounced back in a very strong V-shaped recovery, with sales, home-rule sales, and income tax receipts leading the way. On the next page is a summary of the General Fund's results for the past three years:

<b>General Fund</b>	<u>2019 Actual</u>	<u>2020 Actual</u>	<u>2021 Proj</u>	<u>% Inc</u>
<b>Revenues</b>				
Sales Tax	12,914,676	12,480,915	15,162,957	21%
Home-Rule Sales Tax	5,401,119	4,654,737	6,567,847	41%
Use Tax	2,488,121	3,290,912	2,961,695	-10%
Income Tax	7,993,678	8,161,144	9,939,827	22%
All Other Revenue	49,762,080	46,342,387	50,113,051	8%
Total Revenue	78,559,674	74,930,095	84,745,377	13%
<b>Expenditures</b>				
Police	25,823,223	25,771,270	26,408,436	2%
Public Works	14,753,358	14,301,998	14,593,625	2%
All Other	34,556,934	35,498,587	36,393,643	3%
Total Expenditures	75,133,515	75,571,855	77,395,704	2%
<b>Other Financing Sources (Uses)</b>				
Transfers In	200,000	350,000	200,000	
Transfers Out	3,452,670	-	-	
<b>Surplus (Deficit)</b>	173,489	(291,760)	7,549,673	

The extraordinary General Fund revenue improvement from one year to the next has been the largest increase in memory. The economy was juiced to a much quicker recovery than anyone expected, due to near 0% short-term interest rates prescribed by the Federal Reserve and large pandemic rescue packages and expanded unemployment benefits provided by the Federal government. Cheap, available cash coupled with low unemployment rates, resulted in increased spending during 2021. Sales and home-rule sales tax revenue increases were driven up by increased car sales, and due to the new State law effective January 1, 2021 requiring the collection of sales and home-rule sales taxes from internet transactions. Total sales tax receipts from car sales increased by nearly \$1 million, due in part to the addition of a Carvana sales location in town. Internet sales receipts from Amazon totaled \$1.2 million in new revenue, and other internet sales providers such as E-Bay, Google, Etsy, Door Dash, etc. generated an additional \$400,000 in new revenue. As expected, the Local Use tax declined as internet sales taxes were implemented, but the \$300,000 decline was less than the estimated \$1.6 million increase attributable to new internet sales taxes noted above. While these revenue gains have contributed to an unprecedented 2021 surplus, there are headwinds facing the Village in 2022 and 2023, due to higher inflation and upcoming labor contract negotiations.

Other Village funds did not fare as well as the General Fund did in 2021. The Municipal Parking Fund revenues continued to underperform, as many downtown Chicago businesses continued to have their employees work remotely. Some businesses have found that they can use a smaller office space footprint by having employees share workspace, thus reducing their office rent payments. At this point, it is still too early to say if this practice will continue at the current level, or if businesses will expect their employees to come into work at least a few days per week. Once the pandemic subsists, companies will have to consider whether remote work offers a sufficient ability to create the successful teams and social connections they need to compete. As a result of this ongoing change, parking revenues have remained much lower than normal. In 2019 Village public parking fees brought in \$1.3 million. In 2020 these revenues amounted to \$885,000, and dipped lower to about \$797,000 in 2021. In 2021, to cover the 2020 and a portion

of the 2021 parking fee revenue reduction, the Village transferred \$580,000 to the Parking Fund from the Public Building Fund due to the closure of that fund.

Another fund that is expected to struggle in the near future is the Fleet Fund. Per the ARPA grant plan approved by the Village Board last year, in 2022 the Fleet Fund will receive \$2.5 million in ARPA grant funds to improve its vehicle replacement schedule to a 75% funded position. However, due to inflation and supply chain issues, Public Works is starting to see significant 10% to 15% increases in vehicle costs, especially with public safety specialty vehicles. These projected cost increases will put future pressure on the Fleet Fund's funded position, and on future internal service charges to the General Fund.

As of the beginning of 2021, General Fund reserves were already at a sufficient 40% level. The projected 2021 General Fund surplus allows the Village a unique opportunity to bolster the abovementioned funds, as well as to address other one-time capital projects that have been identified by Department Heads. It is proposed that the Village consider making the following 2021 transfers totaling \$7.55 million from the General Fund:

**1. \$1,200,000 General Fund Transfer to the Fleet Fund**

As noted above, costs for larger public safety specialty vehicles are rising by 10%-15%, and these higher costs expected to be maintained for at least two years. This cash infusion would cover some of the additional cost of the planned vehicle purchases over the next two years. This would help protect the Fleet's Fund's funded position which was planned to increase to 75% in 2022 due to the allocation of ARPA grant funds.

**2. \$370,000 General Fund Transfer to the Municipal Parking Fund**

To help maintain the Parking Fund's financial position by replacing revenue lost to the pandemic in 2021.

**3. \$1,980,000 General Fund Transfer to the Capital Projects Fund:**

**\$1,500,000 for Police Body-Worn Cameras.** This has been budgeted in the 2022 Criminal Investigations Fund, but there has been a slow-down in receiving seizure funds during the pandemic. This would cover the first five-year period, or the \$300,000 annual cost of this program. This would provide the Village with more time to plan for the ongoing annual cost of this program after the first five-years. Requires amending the 2022 Capital Projects Fund and Criminal Investigations Fund budgets to reflect the proposed funding change.

**\$180,000 for Fire Department turnout gear.** Once a firefighter's turnout gear has been exposed to a fire it needs to be cleaned of potential carcinogens. Another set of turnout gear will provide a consistent level of cleaned gear throughout the year. The Fire Department was planning on proposing an additional \$60,000 per year to initiate this program during the upcoming CIP discussions. This additional funding would allow the Fire Department to reach the goal of providing a second set of turnout gear for each Firefighter by 2024 instead of 2026. Requires amending the 2022 Capital Projects Fund budget.

**\$300,000 to Capital Projects Fund reserves.** Spending on future projects will be determined during the upcoming CIP process.

4. **\$4,000,000 General Fund Transfer to a new Lead Service Line Replacement Fund**

By State law, the Village is required to submit an inventory of all lead water service lines in the water distribution service to the IEPA no later than April 15, 2024. The legislation requires further that the Village remove and replace these lines by 2044. Lead water service lines are located on about 5,000 or 24% of the services in the Village. This includes lines on just public property, on both public and private property, and just private property. Public Works/Water Staff have been developing an inventory list with the help of a consultant.

The Village has been advised that the IEPA has funds available for a 0% interest loan program to help address the removal of lead service lines. Subject to availability and future annual appropriation, grant funding of \$4 million per year may be available in lieu of a loan. In addition, it is expected that the new federal infrastructure program will provide matching grant funds for such a program. This transfer would provide initial seed money for the lead line removal program, which is expected to have a total cost of \$41 to \$45 million. Requires amending the 2022 Budget to create a new Lead Service Line Replacement Fund.

In addition to the proposed General Fund transfers, there is still a final transfer of \$171,000 needed from the Public Building Fund to officially close this fund in 2021. It is proposed that the Village make the following transfer from the Public Building Fund:

5. **\$171,000 Public Building Fund transfer to Capital Projects Fund reserves.** Spending on future projects will be determined during the upcoming CIP process.

If approved, these transfer recommendations would be included in the 2021 year-end adjustment period through a 2021 budget amendment, which would need to be approved by the Village Board. By including these transfers in 2021, we would avoid showing a large General Fund surplus in 2021 and a subsequent deficit in 2022.