
I N T E R

O F F I C E

MEMO

To: Randy Recklaus, Village Manager
From: Tom Kuehne, Finance Director/Treasurer
Date: March 6, 2022
Subject: **PROPOSED 2022 GENERAL FUND SURPLUS TRANSFERS**

Background

The Village's General Fund has continued to experience very favorable revenue results, due primarily to pent up demand for goods and services and upward inflationary pressure during 2022. As shown in Exhibit A, Food & Beverage (+15%), Home-Rule Sales (+29%), Sales (+17%), Income (+36%), Replacement (+200%), and Interest Income (+166%) receipts outpaced 2022 budget projections. The Replacement, or Personal Property Replacement Tax (PPRT) receipts are received directly from the State. These receipts are derived from corporate income, and as such are directly related to the economy. Exhibit A also shows that the 2023 General Fund revenue budget already incorporates a large portion of the substantial 2022 revenue gains. Village Staff continues to be wary of expecting linear revenue gains in future years, as this business cycle will inevitably run out of steam. However, a surplus is still projected for 2023.

On the expenditure side, 2022 total General Fund expenditures came in (2.6%) under budget. This is a fairly normal result as the Village conservatively budgets for full employment with no vacancies. This past year the Village experienced a somewhat higher number of vacancies, but these savings were offset somewhat by higher material and fuel costs.

As with the prior couple years since the beginning of the pandemic, other Village funds have not fared as well as the General Fund did in 2022. Fortunately, the recent General Fund surpluses have allowed the Village to transfer needed funds to reduce or stabilize the unfunded liability in our public safety pension funds. This has helped the Village maintain a consistent public safety fund tax levy over the last few years. However, the 2022 investment losses in these funds will put upward pressure on these levies in the future. Significant cost increases and extended delivery times for the Village's scheduled fleet replacement also affect the funded position of the Fleet Operations Fund. This internal service fund is funded through annual depreciation charges to the departments based on the most recent purchase price of the vehicle. As new vehicle costs have increased by at least 15% over the last two years, the replacement costs are now covered in part through Fleet Fund reserves. Other capital funds are also seeing price increases for our planned street, water, and sewer projects.

Municipal Parking Fund revenues continued to underperform, as some form of remote work has continued to exist for many downtown Chicago businesses. In 2019, Village public parking fees brought in \$1.3 million. In 2020, these revenues amounted to \$883,688 and dipped lower to \$800,104 in 2021. Last year, surplus monies were transferred to the Parking Fund to cover the

2021 under performance of revenues. In 2022, parking revenues amounted to \$848,000, or \$452,000 less than the Village's pre-pandemic experience. During 2023, Staff will prepare an analysis for Board review of alternative revenue forecasts and potential expenditure changes, that reflects a sustainable operating and capital plan for the fund over the long-term.

As of the beginning of 2022, General Fund reserves were already at a sufficient 40% level. The projected 2022 General Fund surplus allows the Village an 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 2022 transfers totaling \$12.4 million from the General Fund:

1. \$500,000 General Fund Transfer to the Municipal Parking Fund

To help maintain the Parking Fund's financial position by replacing reduced revenue due to the continuation of nation-wide remote work employment options in 2022.

2. \$2,000,000 General Fund Transfer to the Fleet Fund

As noted above, vehicle replacement costs have gone up over the last two years by around 15%. This cash infusion would cover some of the additional cost of the planned vehicle purchases over the next couple of years. This would help protect the Fleet's Fund's funded position, which was planned to increase to 75% in 2022 due to the prior allocation of ARPA grant funds.

3. \$2 million General Fund Transfer to the Firefighters' Pension Fund

4. \$2 million General Fund Transfer to the Police Pension Fund

Year-end results for the Police and Fire Pension Funds reflect market losses of around \$15 million for each fund. This follows three years of results which were significantly higher than the assumed rate of return of 6.75%. Gains and losses for these funds are smoothed over three years as part of the actuary's calculation of the Village's annual required contribution. By transferring additional monies to the public safety funds at this time, the Village will help offset some of 2022's market decline.

5. \$3,000,000 General Fund Transfer to the 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 service 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 applied for IEPA's 0% loan program to help cover a portion of this new capital program's costs. However, to date, these funds have been allocated to communities with more pressing financial needs. The Village will continue to apply for these and any other state or federal grant funds that become available for lead service line replacement. In 2024, the Village will have another bond opportunity as a portion of our

existing debt will mature. Current plans call for a large portion of the 2024 bond issue to be used toward the lead service line replacement program, but **\$2 million** in surplus funds used for this program would help free up potential bond proceeds for other needed capital projects.

An additional **\$1 million** transfer to this fund is suggested to be used as seed money to develop a private lead line replacement incentive program, similar to the Village's overhead sewer program incentive.

6. \$1,200,000 General Fund Transfer to the Water & Sewer Fund

The Water & Sewer Fund is currently experiencing a high level of capital project costs. One of these projects, the water meter replacement project, is quite costly but has a twenty-year life cycle. To help ease the current financial burden on this fund for this project, Staff recommends that this proposed transfer-in be made.

7. \$100,000 General Fund Transfer to the Capital Projects Fund:

Transfer to the Capital Projects Fund for the following uses:

- \$32,000 for a new UPS battery system for emergency network power at the Village Hall.
- \$25,000 toward the refurbishment of the Fire Department's old 1961 Seagrave Engine housed at Station One. This engine is a big attraction at open houses and the July 4th Parade. The balance of this estimated \$50,000 rehab project would be funded by the Foreign Fire Insurance Fund Board.
- \$25,000 to modernize the technology in the Siegel and Commissions meeting rooms through the installation of new touch monitors, conference cameras, and wireless presentation equipment.
- \$18,000 to Capital Project Fund reserves.

8. \$1,600,000 of 2022 General Fund Surplus Monies Used to Abate the Village's 2022 Tax Levy Payable in 2023.

In order to provide Village residents and businesses some tax relief, it is recommended that this proposed tax abatement be approved. The effect of this abatement on an average homeowner with a \$375,000 home value would be a savings of about \$50. Cook County will accept a property tax abatement ordinance from the Village up until April 1, 2023, and the abatement would be reflected on a homeowner's second installment property tax payment due later this year. This money would not be transferred out of the General Fund in 2022, but would remain in the 2022 reserves, and accounted for as a reduction in General Fund property tax receipts in 2023.

If approved, Staff would add the transfer recommendations to the 2022 year-end adjustment through a 2022 budget amendment included on the March 20th Village Board Meeting agenda. By accounting for the proposed transfers in 2022, the Village would avoid showing a large General Fund surplus in 2022, and a subsequent deficit in 2023.

Additional Potential Relief for Taxpayers - In addition to the proposed General Fund surplus transfers-out and the proposed 2022 property tax abatement, Staff is also reviewing its ongoing

revenue stream versus projected expenditures. Any formal recommendations from this review will be included as part of the annual upcoming budget planning process, which starts with the three-year projections and 2024 Budget Ceiling discussion at the June 2023 Committee-of-the-Whole Meeting. However, given the current discussion on the 2022 surplus Staff believes it is appropriate to note at this time, that unless a dramatic reduction in Village revenues occurs, Staff is planning on recommending the elimination of Village vehicle stickers and dog licenses in 2024 and beyond. Regardless of the final decision on that recommendation, residents are still required to purchase and display their 2023 vehicle sticker, and those individuals who have not yet purchased their 2023 sticker will be subject to enforcement.

GENERAL FUND

(Pre-Audit 3-6-23)

EXHIBIT A

	2022		2022			2023
	2022	Actual - Before	Actual - After		%	2023
	Budget	Transfers-Out	Transfers-Out	Diff.	Incr (Decr)	Budget
Revenues						
Property Taxes	25,917,300	25,791,194	25,791,194	(126,106)	-0.5%	26,045,000
Food & Beverage Tax	2,009,800	2,301,416	2,301,416	291,616	14.5%	2,422,000
HMR Sales Tax	5,600,000	7,207,064	7,207,064	1,607,064	28.7%	7,100,000
Telecommunications Tax	1,371,400	1,651,598	1,651,598	280,198	20.4%	1,544,000
Elec and Nat Gas Utility Taxes	5,300,000	4,921,899	4,921,899	(378,101)	-7.1%	5,000,000
Sales Tax	13,700,000	15,993,182	15,993,182	2,293,182	16.7%	16,661,000
Use Tax	3,000,000	3,151,457	3,151,457	151,457	5.0%	3,045,000
Income Tax	9,299,000	12,657,093	12,657,093	3,358,093	36.1%	12,595,000
Replacement Tax	550,000	1,652,822	1,652,822	1,102,822	200.5%	1,600,000
Other Taxes	1,263,000	1,218,433	1,218,433	(44,567)	-3.5%	1,035,000
Licenses & Permits	4,177,000	4,252,704	4,252,704	75,704	1.8%	4,105,600
Intergovernmental	615,104	724,438	724,438	109,334	17.8%	628,100
Charges for Services	2,260,400	2,270,076	2,270,076	9,676	0.4%	1,563,200
Fines and Fees	5,697,100	7,274,305	7,274,305	1,577,205	27.7%	6,121,100
Interest Income	160,000	425,423	425,423	265,423	165.9%	160,000
Rents/Reimbursables	125,000	101,435	101,435	(23,565)	-18.9%	210,000
Miscellaneous	358,100	596,343	596,343	238,243	66.5%	362,000
Interfund Transf-In	200,000	200,000	200,000	0	0.0%	200,000
Total Revenue	81,603,204	92,390,882	92,390,882	10,787,678	13.2%	90,397,000
Expenditures						
Personal Services	65,374,925	64,212,559	64,212,559	(1,162,366)	-1.8%	67,436,100
Contractual Services	12,590,510	12,254,447	12,254,447	(336,063)	-2.7%	13,151,900
Commodities	2,578,493	2,500,721	2,500,721	(77,772)	-3.0%	2,861,000
Other Charges	1,294,013	1,011,019	1,011,019	(282,994)	-21.9%	1,761,400
Total Expenditures	81,837,941	79,978,746	79,978,746	(1,859,195)	-2.3%	85,210,400
Transfer to Other Funds	0	0	12,400,000			0
Total Expends/Transfers- Out	81,837,941	79,978,746	92,378,746			85,210,400
Surplus (Deficit)	(234,737)	12,412,136	12,136			5,186,600
Beginning Fund Balance	32,182,651	32,182,651	32,182,651			32,194,787
Ending Fund Balance	31,947,914	44,594,787	32,194,787			37,381,387
Fund Bal % of Expends	39.04%	55.76%	40.25%			43.87%