

VILLAGE OF HOMEWOOD



BOARD AGENDA MEMORANDUM

DATE OF MEETING: March 26, 2024

To: Village President and Board of Trustees

Through: Napoleon Haney, Village Manager

From: Amy Zukowski, Director of Finance

Topic: Draft Fiscal Year 2024-2025 Budget Discussion

PURPOSE

The Village's most important planning document that is prepared, discussed, and implemented annually is the municipal budget. The municipal budget details all of the expenses and revenues that the Village of Homewood needs to provide quality services for its citizens for a full fiscal year – in this case, May 1, 2024 through April 30, 2025. During budget discussions among staff, the Village estimates revenue collections and prepares a subsequent spending plan for the upcoming fiscal year. At the conclusion of staff discussions and analysis, the recommended budget is prepared and presented to the Board of Trustees for further discussion.

PROCESS

The budget presentation timeline is different from recent years, and will begin with a March 26, 2024 discussion on the General Fund, Water and Sewer Fund, and Tax Increment Financing (TIF) Funds. At the April 9, 2024 Board of Trustees meeting, staff will present a Five-Year Capital Improvement Plan (CIP) that will assist in budgeting for capital projects in Fiscal Year 2024-2025 and future years. The goal of the five-year CIP program is to establish a plan that outlines the capital needs of each department, while also identifying the resources and processes necessary to fund these capital needs.

General Fund

The General Fund is the main operating fund for the Village. It provides the financial support to provide municipal activities, programs, and services to residents through police, fire, public works, and general government operations.

General Fund Recap

The overall health of the Village's finances within the General Fund is very good. The Village had an exceptional annual audit from last fiscal year ending April 30, 2023. The Board of Trustees subsequently approved an updated Fund Balance Policy requiring the Village to maintain a minimum of five (5) months of fund balance (operating expenditures); previously (4) months.

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Staff was also authorized to move \$2M of unassigned fund balance to fund capital projects as a result of not borrowing money (bonding) last year.

After all financial obligations had been met, including increasing the four-month minimum fund balance policy to five-months, and after moving \$2M to fund capital projects, the Village still had \$3.7M of “unassigned” fund balance remaining. An unanticipated “catch-up” invoice from the Illinois Department of Healthcare and Family Services (HFS) for their share of Ground Emergency Medical Transport (GEMT) reimbursements, reduced the \$3.7M to \$1M of unassigned fund balance. This \$1M remains.

Upcoming General Fund Budget (FY2024-2025)

The upcoming fiscal year’s 2024-2025 draft budget has \$27.2M budgeted for total General Fund Revenues. General Fund Expenses are expected to be \$26.8M. *At this time, the budget is projected to finish with a surplus of \$408,906.*

The anticipated surplus is mostly due to an anticipated increase in sales tax, income tax, and estimated gaming revenue from casino operations.

Sales Tax

Village activities, programs and services are heavily dependent on sales tax revenue. Sales tax is our largest General Fund revenue source at 30% (\$5.9M) of all taxes collected, while property taxes used for general operations are just 17% (\$2.25M).

Sales Tax Increase Explained

The draft FY2024-2025 budget shows a significant increase in sales tax from the prior fiscal year (FY2023-2024). You may remember that at this time last year, the Village learned that the Walmart store and gas station would be closing. We were fortunate in that we had time to adjust our final budget to reflect the upcoming sales tax revenue losses. Our actual sales tax revenues show that last year’s budgeted reductions in sales tax revenues may have been too conservative.

We expect to receive \$5.7M in sales tax revenues. This is more than the \$5.3M that we budgeted based on Walmart’s closing. Our upcoming FY2024-2025 budget is based on projected “actual revenue” that will be collected through the remainder of the current fiscal year ending on April 30, 2024.

Gaming Revenue

The upcoming fiscal year’s FY2024-2025 budget, will be Homewood’s first budget to reflect gaming revenue from the expected opening of Wind Creek Casino by the end of 2024. The Village

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is conservatively budgeting for revenue that it may receive after the 1st quarter (Q1) January, February, and March 2025. This revenue is estimated to be \$250,000.

General Fund Expenses (FY2024-2025)

The top costs impacting nearly all municipal budgets are salaries and group health insurance. Homewood's General Fund expenses are generally dominated primarily by Public Safety (police and fire) and Public Works.

Police Department

Law enforcement agencies across the United States are struggling to recruit and hire police officers. The Homewood Police Department is not immune from the police-staffing challenges that are plaguing the nation. In the Fiscal Year 2024-2025 Budget, additional funding is being provided to aid in the recruitment of Homewood police officers.

Fire Department

The Fiscal Year 2024-2025 Budget includes funding for three (3) new firefighter/paramedics. If approved, the Fire Department will be able to increase staffing on each of the three (3) shifts. The Fire Department currently operates with six (6) members on each of the three (3) shifts. The additional three positions will increase the staffing level to seven (7) members per shift. Several years ago, prior to the Fire Department dissolving its part-time fire personnel program due to nationwide recruitment challenges, the department operated with seven (7) members (6 full time and 1 part-time member).

Potential Challenges to General Fund

Governor Pritzker recently announced his plans to remove the State's 1% grocery sales tax. The 1% tax on groceries applies specifically to items that are meant to "be consumed off the premises where they are sold," according to State law. Items not impacted by this proposal are alcoholic beverages, food consisting of or infused with adult use cannabis, soft drinks, candy, and food that has been prepared for immediate consumption. The Governor's proposal would have a negative and notable impact on the Village's sales tax figures as approximately 14% (\$650k) of the Village's total sales tax revenue comes from grocery sales. If the removal of this tax passes via the State's budget, the Village will need to consider possible adjustments to spending (expenses). Absent any spending adjustments, the proposed budget would reflect a **deficit** of \$240k.

Recommendations to be considered should Grocery Tax be Removed:

1. Delay in hiring three (3) firefighters until we have clarification on the 1% grocery sales tax and whether or not the Village will be losing those budgeted revenues. The overtime budget would need to be increased to offset the delay.

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2. Two large equipment purchases by Public Works were planned to be leased and funded out of the General Fund (\$140k). Staff could delay moving forward with the lease, or move the purchases to capital (approximately \$700k).
3. Move forward with a budget deficit understanding that there is approximately \$1M of funds available in unassigned fund balance to cover the potential deficit at the end of the fiscal year FY2024-2025.

Water and Sewer Fund

The Water and Sewer Fund is an enterprise fund that operates in a manner similar to a private business. The intent is that the cost of providing water and sewer services to the community will be recovered primarily through user charges (i.e. water bills). The rates should be sufficient to cover the ongoing costs of operations, maintenance, administration, and future capital needs within the Water and Sewer Fund. Village tax dollars are not used to pay any of the costs associated with water and sewer services.

Water Rate Study

The Village has a number of significant water and sewer capital projects that will need to be funded in the near future, such as the central water tower replacement (*est. \$4.5M*) and lead service line replacement (*est. \$30M over 17 years*) projects. The Village will need to consider performing a *water rate study* in order to ensure that the Water and Sewer Enterprise Fund is able to produce sufficient funding and continue to sustain itself especially with the upcoming and critical capital needs. These needs will be covered further at the April 9, 2024 Board meeting where we will discuss our Five-Year Capital Improvement Plan.

Tax Increment Financing (TIF) Fund

The Village uses traditional TIF districts as a tool to assist in promoting economic development. TIF districts are used to promote economic development in blighted or underdeveloped areas. In a traditional TIF district, the property tax base is frozen for a period of up to 23 years, and any additional property tax revenue generated by new development is directed into the TIF fund.

The Village currently has six (6) TIF districts. Northeast, Downtown TOD, Dixie Hwy./Miller Court, Kedzie Gateway, East CBD, and Southgate. The Southgate TIF expired in 2023 and will be terminated at the end of 2024 after the final year of tax collections are received. Staff has included information for each TIF within the budget this year to include the creation and expiration dates, most recent audited balance, and current obligations from the TIF funds. A seventh (7th) TIF – 183rd West TIF will be agendized for consideration and approval in the summer.

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OUTCOME

Overall, the Village's financial position remains strong. Based on the direction received from the Board of Trustees, a final budget will be presented during the Budget Hearing on April 23, 2024 and an ordinance will be prepared for Board approval during the regular Board of Trustees meeting on that date.

FINANCIAL IMPACT

N/A

LEGAL REVIEW

Not required

RECOMMENDED BOARD ACTION

Discuss the Fiscal Year 2024-2025 Budget as presented and provide direction based on staff's recommendations regarding the possible removal of the 1% grocery sales tax.

ATTACHMENT(S)

- FY 2024-2025 Draft Budget
- FY 2024-2025 Draft Budget Highlights