

VILLAGE OF HOMEWOOD



BOARD AGENDA MEMORANDUM

DATE OF MEETING: December 10, 2024

To: Village President and Board of Trustees

Through: Napoleon Haney, Village Manager

From: Amy Zukowski, Director of Finance

Topic: Five-Year Capital Improvement Plan

PURPOSE

In April 2024, during the Fiscal Year 2024-2025 budget discussion and approval, Village staff presented a Five-Year Capital Improvement Plan (CIP). Since then, staff has been working under a capital mindset and have identified further capital needs. The Board is requested to review and discuss the updated Five-Year Capital Improvement Plan and approve a transfer of \$2,300,000 from the General Fund Unassigned Reserves available to the General Capital Fund to assist the Village in completing capital projects.

PROCESS

What is a Capital Improvement Plan (CIP)?

A capital improvement plan (CIP) lays out the financing and timing for capital improvement projects over several years. Capital improvement planning helps bridge the gap between the planning process and the budget process. It helps local government leaders plan for the future based on specific goals and resources.

A capital improvement plan is a working document that should be reviewed and updated annually to reflect changing needs, priorities, and funding opportunities. It helps a municipality anticipate needs rather than reacting in the moment. It allows time for staff to get the necessary resources in place gradually, and can put the community in a position to quickly take advantage of federal or State programs and opportunities.

Five-Year Capital Improvement Plan (CIP)

The goal of a Five-Year Capital Improvement Plan 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. Utilizing a Five-Year CIP helps staff to organize, budget, and make decisions when discussing capital projects. A Five-Year CIP provides a dynamic template that can be reviewed and updated throughout the fiscal year.

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The first year of the Capital Improvement Plan will be approved by the Board as part of the annual budget process and will serve as the capital budget for the next fiscal year. The subsequent (4) four years are to be used for planning and forecasting, and may change as needs evolve.

Capital Challenges

The biggest challenge Homewood faces when it comes to capital projects is identifying a funding source. Currently, the Village is limited in funding sources available. Historically, the Village has issued general obligation bonds, transferred funds from available reserves, utilized water and sewer fund reserves, and taken advantage of grant funds available and received for capital purchases and projects.

The current Five-Year CIP as presented reflects nearly **\$61M** in total projects. By continuing under the same capital funding practice, critical capital needs will continue to be deferred to future years. When projects are delayed, they often end up costing more in the long run due to the need for more extensive and expensive repairs, coupled with increases in material and labor costs due to inflation.

It is necessary to consider additional funding alternatives in order to meet the infrastructure and equipment needs of the Village going forward. Some of the alternatives may be going to referendum to cover high priority capital needs, considering loan programs, or issuing alternate revenue bonds.

Current Funding Sources and Capital Needs

Staff estimates that there is approximately \$3.6M available to fund General Capital Projects over the next two and a half years. This funding comes from two sources; the most recent 2024 General Obligation Bond issuance, and the general capital funds that were approved by the Board and transferred in December 2023 from the General Fund's unassigned reserves.

As the Five-Year Capital Improvement Plan was initially put together, the FY 2025-2026 (Year 1) general capital total was \$14M. The capital needs far outweigh the funding available and staff was required to review, assess, and delay many of the projects by two to three years.

Other funding currently available for capital projects are in Water & Sewer Fund, Motor Fuel Tax funds, and known and potential grant funds.

Water & Sewer Capital

The Village's Water and Sewer capital fund will be feeling the weight of a number of significant capital projects that will need to be funded in the near future. The largest project ever undertaken by the Village will be the Lead Service Line Replacement project. The current

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estimate is a cost of approximately \$76M over 10 years. The Lead Service Line Replacement project will require multiple funding sources that will be discussed with the Board of Trustees.

Motor Fuel Tax Funds

Motor Fuel Tax Funds have been used to fund the Village's street program, which has included patching and resurfacing. The fund is also used to purchase the Village's salt needs for the fiscal year. The Village has been utilizing a street patching program, but it will be necessary to find a funding source in order to begin resurfacing Village streets.

Grants

The Village is always looking for grants that may be available for capital projects and purchases. The grants may be federal, State, local, or private grants. Often, there is a matching portion to the grant that the Village will need to fund.

Additional Funding Available Now

Staff is requesting the Board approve a transfer of \$2.3M from the General Fund Unassigned Reserves available to the General Capital Fund. This would allow the Village to complete nearly \$5M in capital projects over the next **two** years if no other funding sources are made available to utilize.

The \$2.3M is available because there is more than the required five (5) months of reserves available in the General Fund as shown through the Village's Fiscal Year 2023-2024 audit results. In September 2024, the Board of Trustees approved an update to the General Fund Reserve Balance policy, increasing the minimum reserve balance from four (4) to five (5) months of operating expenditures. As part of the policy update, priorities were established should the balance be more than the five (5) month minimum. The number one priority is to fund capital projects.

OUTCOME

By continuing to utilize a Five-Year Capital Improvement Plan, the Village will have an important planning and fiscal management tool that can be revised on a regular basis to continually reflect the needs and resources available.

Based on upcoming infrastructure needs, such as a Village-wide street improvement program and the Lead Service Line Replacement program, alternative capital project funding sources will need to be discussed with the Board in the coming months.

FINANCIAL IMPACT

N/A

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LEGAL REVIEW

Not required

RECOMMENDED BOARD ACTION

Discuss the Five-Year Capital Improvement Plan as presented and approve the transfer of one month of operating expenses in the amount of \$2,300,000 from the General Fund unassigned fund balance (Fund 01) to the Capital Projects Fund (Fund 37).

ATTACHMENT(S)

Five-Year Capital Improvement Plan