

VILLAGE OF HOMEWOOD



BOARD AGENDA MEMORANDUM

DATE OF MEETING: March 24, 2026

To: Village President and Board of Trustees

Through: Napoleon Haney, Village Manager

From: Amy Zukowski, Director of Finance

Topic: Fiscal Year 2026-2027 Draft 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 in order to provide quality services for its citizens for a full fiscal year – in this case, May 1, 2026 through April 30, 2027. During the budget preparation process, the Village analyzes estimated 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 approval timeline begins with the draft budget discussion on Tuesday, March 24, 2026. A Public Hearing will be held on April 14, 2026, and an ordinance will be prepared for Board approval during the regular Board of Trustees meeting on April 28, 2026.

General Fund

The General Fund serves as the Village's primary operating fund, providing financial support for essential municipal services, including police, fire, public works, and general government operations.

General Fund Recap

The overall health of the Village's finances within the General Fund remains in a stable and positive financial position. Following strong audit results for the prior fiscal year ending April 30, 2025, the Village maintained its required minimum fund balance of five (5) months of operating expenditures, which equates to approximately \$11.5M. The Village also had some additional remaining reserves available. The Board authorized the allocation of the remaining \$3.3M in unassigned reserves to fund capital projects, and \$1.6M to be utilized for obligations to the Police & Fire Pension Funds.

Upcoming General Fund Budget (Fiscal Year 2026-2027)

Based on current projections, the General Fund is expected to realize a surplus of approximately \$175,935.

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GENERAL FUND REVENUES

General Fund revenues represent the resources collected to support the day-to-day services residents rely on. For Fiscal Year 2026–2027, total General Fund revenues are projected at **\$30.2M**, representing a 9% increase over the prior year.

Taxes continue to be the primary source of revenue, accounting for approximately 76% of the General Fund. While overall revenues are increasing, the Village has experienced declines in certain areas, including property tax collections, use tax, and cannabis tax revenues.

Key Tax Revenue Sources

Sales Tax (31%) - \$7M is budgeted, which is an increase of \$800,000. Sales tax remains the Village’s largest revenue source. The budget reflects current performance trends and assumes a modest 3% increase tied to inflation.

Income tax (16%) - \$3.58M is budgeted, which is a modest increase of \$80,000. This is based on estimates provided by the Illinois Municipal League, with a projected per capita distribution of \$180.

Property Taxes (9%) - \$2.1M is budgeted, which is a decrease of \$339,027. A growing share of the levy is dedicated to funding Police and Fire Pension obligations. The Village continues to experience a 93% average collection rate, and the budget accounts for this trend.

Gaming Tax Revenue (9%) - \$2.0M is budgeted, which is an increase of \$900,000. With a full year of casino operations completed, projections are more reliable. This figure reflects the required 50% contribution to the Public Benefit Fund, which will continue for three more years.

Cannabis and Local Gasoline Tax - \$366k is budgeted which reflects a decrease of \$130,000. Revenues have declined as increased market competition has led to reduced cannabis sales.

Use Tax - \$175k is budgeted which is a decrease of \$225,000. The budget is based on estimates provided by the Illinois Municipal League, with a projected per capita distribution of \$8.90. Decreases are attributed to State-level legislative changes; however, a portion of this loss is expected to be offset by increased sales tax revenues.

Non-Home Rule Sales Tax – This is a new revenue source which is budgeted at \$3.5M. This tax was approved by the Village Board in September 2025 and became effective January 1, 2026. *This revenue is being set aside to potentially fund capital improvements and infrastructure investments.*

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Other Revenue Sources

Additional revenues are generated through a variety of local sources, including fees, licenses, fines, permits, and other miscellaneous sources.

Interest Income is budgeted at \$600k, which is an increase of \$400,000 over the prior year's budget. The Village is generally conservative when it comes to interest rates; however, this increase reflects the returns we are seeing based on current investment conditions and interest rates.

Building Permits and Contractor Registration Fees have been increased by \$130k for a total budget of \$390k. These fee adjustments will better align the Village with neighboring communities' fee schedules.

GENERAL FUND EXPENDITURES

Total General Fund expenditures for Fiscal Year 2026–2027 are budgeted at **\$30.1M**, representing a 9% increase over the prior year.

Police, Fire, and Public Works account for 83% of the Village's total General Fund expenditures, which is consistent with spending patterns in most municipalities.

The primary costs that impact nearly all municipal budgets are personnel-related expenses such as salaries and group health insurance. These two combined costs represent **61%** of the Village's General Fund budget. Health insurance costs have risen significantly in recent years, as is reflected across the nation.

Department Highlights

Manager's Office and Finance Department

Included in the Finance Department's budget is the annual contribution cost to our Risk Management Insurance Pool with the Intergovernmental Risk Management Agency (IRMA). With an increase in both liability and worker's compensation claims, the Village is seeing a significant increase to our annual contribution, or premium. Our budgeted amount is now \$1.4M (an increase of \$400k) over the prior year. In order to assist in addressing increased claims and rising insurance costs a new position focused on risk management was included in the budget. In addition, an expanded investment in safety initiatives is also included.

Public Works

The public works budget remained relatively unchanged from the prior year with the exception of additional funding allocated for sign materials to update and expand additional signage throughout the Village, including one-sided street parking and snow parking signage.

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Fire Department

The only current significant change in the Fire Department budget is an increase in overtime funding to support operational demands and staffing.

Police Department

The Police Department's budget includes funding for one additional patrol officer to backfill a position assigned to the Federal Drug Enforcement Administration Task Force, which will generate Seized Funds revenue for the Village.

GENERAL FUND SUMMARY

The Fiscal Year 2026–2027 General Fund budget reflects a balanced and forward-looking financial plan. While the Village continues to manage rising costs—particularly in personnel and insurance—it remains in a strong fiscal position, with growing revenues and a projected surplus. However, staff does not expect that the General Fund will be able to support capital improvements at the levels seen in recent years.

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.

The Village recently completed a comprehensive water rate study to ensure that the Water and Sewer Enterprise Fund remains financially stable and capable of meeting both current obligations and future needs. This study is particularly important due to the significant capital investments required to maintain and improve our water infrastructure.

Over the coming years, the Village will undertake several critical water and sewer projects, including lead service line replacements, replacement of the central water tower, and ongoing water main improvements. These projects are essential to maintaining safe, reliable water service for our community.

The first phase of the lead service line replacement program is scheduled to begin in Fiscal Year 2026-2027, with 267 lead lines planned for replacement. The Village is currently awaiting final loan approval from the Illinois Environmental Protection Agency (IEPA). The initial loan request totals \$4.1M, of which approximately \$2.5M is approved to be forgiven. In addition, the Village is actively pursuing funding for the 2027 construction season, with the goal of securing sufficient financing – along with potential forgiveness – to replace up to 750 lead service lines.

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As the Village's water infrastructure continues to age, the frequency of water main breaks has increased. Continued deferral of water main replacement projects will result in higher costs over time, making these necessary and already costly improvements even more difficult to complete.

To proactively address these challenges, the Village will need to evaluate and consider alternative funding sources, including State loan programs and potential bond issuance, as part of the Five-Year Capital Improvement Plan.

Debt Service Funds

Debt Service Funds are primarily used to finance general capital improvement projects. As a non-home rule community, the Village is subject to statutory limitations on issuing non-referendum general obligation (GO) debt. Specifically, the Village may issue this type of debt once every three (3) years, with the amount capped at 0.5% of the Equalized Assessed Valuation (EAV), which currently equates to approximately a \$2,000,000.

At present, the Village's only outstanding debt is a non-referendum General Obligation Bond issued in September 2024 in the amount of \$2,611,269, with an interest rate of 3.4%. This debt is being repaid annually through property tax collections.

Tax Increment Financing (TIF) Funds

The Village utilizes Tax Increment Financing (TIF) districts as a strategic tool to promote economic development, particularly in areas that are blighted or underdeveloped areas. Under a traditional TIF structure, the existing property tax base is frozen for a period of up to 23 years. Any increase in property tax revenue resulting from new development, referred to as the "increment", is allocated to the TIF fund to support redevelopment efforts within the district.

The Village currently has seven (7) active TIF districts: Northeast, Downtown TOD, Dixie Highway/Miller Court, Kedzie Gateway, East CBD, 183rd West, and North Halsted. In addition, a new TIF district, the Harwood TOD TIF, is scheduled for potential Board approval in April 2026.

Several projects are currently underway within the Downtown TOD TIF area and are focused on enhancing safety, accessibility, and support for new developments. These include:

- **Downtown Pedestrian Improvements:** Upgrades to crosswalks and pedestrian infrastructure to improve safety and walkability.
- **St. John Neumann Parking Lot:** Improvements to provide additional parking in support of the new Transit-Oriented Developments.
- **Harwood and Park Avenue Metra Lots:** Installation of lighting to enhance safety in the downtown.

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The budget also includes detailed information for each TIF district, including creation and expiration dates, the most recent audited fund balance, and current obligations.

Capital Funds

One of the most significant challenges facing the Village is identifying sustainable funding sources for capital projects. The current draft of the Five-Year Capital Improvement Plan identifies over \$106M in infrastructure and capital needs.

For Fiscal Year 2026–2027, the total capital budget across all funds is approximately \$14.1M, which includes all currently awarded and anticipated grant funding. Of this amount, nearly \$8M is allocated to General Capital projects. These projects are being funded through remaining proceeds from the 2024 General Obligation Bond, as well as available General Fund reserves that have been transferred to the Capital Fund. To further support cash flow and maximize available resources, staff is evaluating leasing options for several high-cost capital purchases.

Capital projects within the Water and Sewer Fund, Motor Fuel Tax (MFT) Fund, and TIF Fund are financed through revenues generated within those respective funds. For Fiscal Year 2026–2027, capital expenditures are budgeted at approximately \$4.5M for Water and Sewer, \$910,000 for MFT, and \$610,000 for TIF.

The approval of the 1% Non-Home Rule Sales Tax, which took effect on January 1, 2026, provides the Village with a consistent and reliable funding source for capital improvements. These revenues may be used either to support direct transfers to the Capital Fund or to serve as a dedicated revenue stream for debt service on a larger alternate revenue bond issuance.

Overall Budget Summary

Overall, the Village's financial position remains stable. However, there are several areas that require continued attention to control costs and ensure long-term sustainability. These include managing expenses related to risk management (IRMA), as well as identifying reliable funding sources for capital projects and high-cost purchases.

In recent years, the General Fund has generated consistent annual surpluses. A portion of these surpluses has been transferred to the Capital Fund, allowing the Village to advance important capital projects and equipment purchases. While this approach has been beneficial, it is not a sustainable long-term funding strategy.

Currently, new revenue sources, such as gaming tax revenues generated by the opening of Wind Creek Casino, are being absorbed directly into the General Fund. These revenues are essential for offsetting declining revenue streams, including cannabis and property taxes, as a larger portion of property tax dollars is being allocated to the Police and Fire Pension Funds. In addition,

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these funds are needed to cover increasing personnel and operating costs, including higher than normal health insurance premium renewals and other rising expenses.

The approval of the 1% Non-Home Rule Sales Tax, which took effect on January 1, 2026, represents a significant step forward in strengthening the Village's financial outlook. This revenue will provide a consistent and reliable funding source for capital improvements and may be used either for direct transfers to the Capital Fund or as a dedicated source for debt service on future alternate revenue bond issuances.

OUTCOME

While the Village must find solutions to solve common municipal capital funding challenges, the Village's overall financial position remains stable. Based on the direction received from the Board of Trustees after the draft budget presentation, a Public Hearing will be held on April 14, 2026 and an ordinance will be prepared for Board approval during the regular Board of Trustees meeting on April 28, 2026.

FINANCIAL IMPACT

None

LEGAL REVIEW

Not required

RECOMMENDED BOARD ACTION

Discuss the Fiscal Year 2026-2027 Budget as presented.

ATTACHMENT(S)

- FY 2026-2027 Draft Budget
- FY 2026-2027 Draft Budget Highlights