

VILLAGE OF HOMEWOOD



BOARD AGENDA MEMORANDUM

DATE OF MEETING: April 9, 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 and American Rescue Plan Act (ARPA) Funds

PURPOSE

In the past, Village staff has presented a capital budget as part of the annual budget process. The capital budget would include projects that were not completed in the prior year and rolled forward, new projects to be completed in the fiscal year, and a look ahead to future projects with no timeline assigned. This process provided a shortsighted view of the Village's capital needs and potential funding challenges.

Beginning this year, the Village will utilize a Five-Year Capital Improvement Plan (CIP) to organize, budget, and help with decision-making when discussing capital projects. 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. The Five-Year CIP will provide a dynamic template that can be reviewed and updated throughout the fiscal year. An updated CIP will be presented to the Board of Trustees for further discussion during each budget season.

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 and 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 staff time to get the necessary resources in place gradually, and it can put the community in a position to quickly take advantage of federal or state programs and opportunities.

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Five-Year CIP Process

Each department submitted their capital project needs for the next five years. The departments prioritized the projects based on four priority groups:

1. Essential – urgent, high priority, addresses an emergency, maintains regulatory compliance, or remedies a dangerous condition
2. Desirable – high priority as funding is available
3. Acceptable – worthwhile if funding is available, can be deferred to a subsequent year
4. Deferrable – low priority, desirable but not essential

Finance staff reviewed the projects and identified a potential funding source for each. The first year of the CIP will be the capital budget for FY 2024-2025.

Capital Projects Funding Sources

The Village is limited in funding sources available for capital projects. Over the years, 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.

Non-Referendum General Obligation Limited Tax Bond

Historically, the primary funding source for capital projects has been a non-referendum general obligation limited tax bond. As a non-home rule community, the Village is limited to issuing a non-referendum general obligation limited tax bond of approximately \$2M (0.5% of Homewood's EAV - \$376M) once every three (3) years. The Village is allowed to place the principal and interest repayment amount on its annual tax levy.

Unassigned Fund Balance (Reserves) Available over Five-Month Minimum Policy

In September 2023, the Board of Trustees approved an update to the General Fund Reserve Balance policy. The minimum reserve balance was increased 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. This will not be a consistent funding source for capital projects and should not be relied upon for such.

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. Currently, \$1.6M of the revenue collected is transferred to

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the Water and Sewer Fund capital program. The Village was able to save the \$12M needed to pay for the water transmission project that allowed us to change our water supplier from Chicago/Harvey to Hammond/Chicago Heights. However, the Village will now need to look to rebuild the capital balance available for critical and significant water and sewer capital needs.

American Rescue Plan Act (ARPA) Funds

The Village received a total of \$2.54M of American Rescue Plan Act (ARPA) funds. To date, almost \$1.2M of the funds have been spent on various capital projects and purchases. The remaining funds are to be obligated (an order is to be placed and/or contracts entered into) no later than December 31, 2024 and spent by December 31, 2026.

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.

Current and Future Capital Project Needs and Funding

The current Five-Year CIP plan as presented reflects nearly \$33.5M in total projects.

2020 General Obligation Bond

There is approximately \$400k of the 2020 General Obligation Bond proceeds still available to be spent. Staff has recommended a number of capital items to spend down the remaining funds. These items include several vehicles that are due for replacement (*totaling \$252k*) and information technology upgrades (*\$20k*).

General Capital

In December 2023, staff brought a request to the Board of Trustees to approve the transfer of \$2M in reserves available over the required five (5) month minimum to the Village's General Capital fund. The projects to be funded with the \$2M were previously earmarked to be paid for with a new General Obligation Bond issuance. However, due to the availability of the \$2M in reserves and interest rates at the time, the debt issuance was delayed. A majority of the projects will be re-budgeted for completion in Fiscal Year 2024-2025. A couple of the highlighted projects include street rehabilitation for Marlin Lane (*\$370k*) and Village-wide camera replacements and improvements (*\$211k*).

2024 General Obligation (G.O.) Limited Tax Bond

While the Village was able to delay bonding last fall, staff recommends moving forward with the next bond issuance in fall 2024. A General Obligation Bond is the only consistent capital project

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funding source that the Village has and it must last for three (3) years. The bond will provide approximately \$2M in funding to complete more of the essential and desirable capital projects as prioritized by staff over the next three (3) years. If the projects were to be delayed, the costs would continue to rise. There are more projects than there is funding available through the 2024 Bond. A few of the significant projects to be completed utilizing the bond proceeds are: resurfacing and lighting the two (2) Metra parking lots (\$450k), potential building demolition (\$250k), and the replacement of an ambulance (\$400k).

2027 General Obligation (G.O.) Limited Tax Bond

If the Village were to issue a G.O. Bond in 2024, the next year available to bond would be 2027. Looking ahead, the infrastructure and equipment needs of the Village are significant. It will be critical that the Village continue to issue debt every three (3) years in order to keep up with the capital demand. Projects funded with the 2027 G.O. Bond may change over time as other needs become necessary and more critical. One important piece of equipment that will need to be included with the 2027 issuance is the replacement of Fire Engine 128 (*est. current cost \$1M*).

Motor Fuel Tax Fund and Road Resurfacing

The Motor Fuel Tax fund has 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 is necessary to find a funding source in order to begin resurfacing Village streets.

Water and Sewer Capital

The current balance in the water and sewer capital fund is approximately \$2M. 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 projects (*est. \$30M over 17 years*). The Village should 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. The lead service line replacement project will require multiple funding sources that will be discussed with the Board of Trustees over the coming months.

OUTCOME

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

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Based on upcoming infrastructure needs, such as a Village-wide street improvement program and the lead line replacement program, alternative capital project funding sources may need to be discussed.

FINANCIAL IMPACT

N/A

LEGAL REVIEW

Not required

RECOMMENDED BOARD ACTION

Discuss the Five-Year Capital Improvement Plan as presented and provide direction based on staff's recommendations.

ATTACHMENT(S)

- 5-Year Capital Improvement Plan – by Funding Source
- 5-Year Capital Improvement Plan – by Priority
- American Rescue Plan Act (ARPA) Funds Projects