



VILLAGE OF WINNEBAGO

MEMORANDUM

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To: Committee of the Whole
Date: November 19, 2025
Subject: CY 2026 Budget Preview

Background

Each year, the Village initiates a structured and deliberate process to prepare its annual budget, beginning with a full review of all revenue sources across each fund. As the first step in this process, the Village Administrator and Treasurer jointly evaluate projected revenues using historical trends, current-year performance, and known economic and policy factors at the state and local levels. This revenue assessment forms the foundation for department-level budget development.

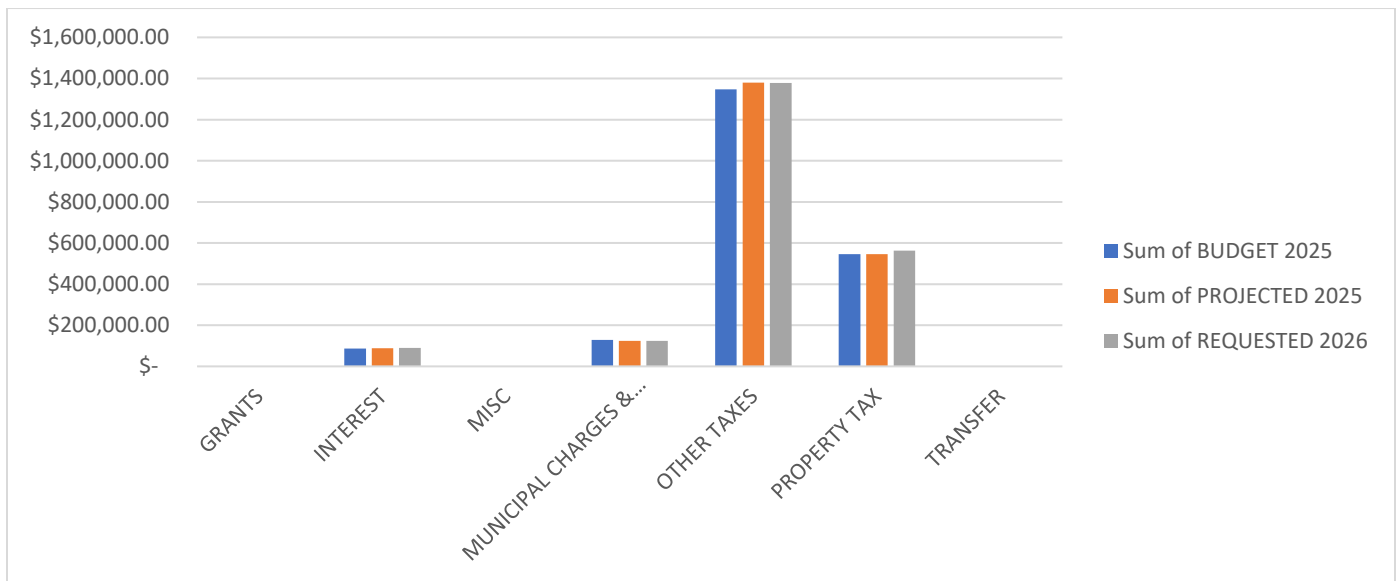
Following this analysis, the Administrator provides each department head with a “bottom-line” number—an initial financial framework within which departments begin preparing their operational and capital requests. Department heads then develop and refine their draft budgets based on program needs, service expectations, capital requirements, and known contractual obligations. Once departmental requests are submitted, the Administrator and Treasurer meet with each department head to review, adjust, and reconcile requests to ensure alignment with available revenues, organizational priorities, and the Village’s strategic direction.

This stage of the process is still underway. Department heads are actively developing their budget submissions, and the Village will soon transition into the comprehensive review phase. This review, conducted by the Administrator and Treasurer with departmental leadership, precedes the Board’s detailed examination of the proposed line items. Based on prior practice and anticipated discussion on several key revenue and expenditure areas, staff anticipates the Board’s line-item review to occur over a series of three to four meetings.

The sections that follow provide a preliminary preview of the Village’s revenue outlook for 2026, broken down by fund, and include narrative context to support the Board’s upcoming discussions. This revenue review is not the full proposed budget, but it represents the underlying assumptions that will guide expenditure planning as we move into the next phase of budget development.

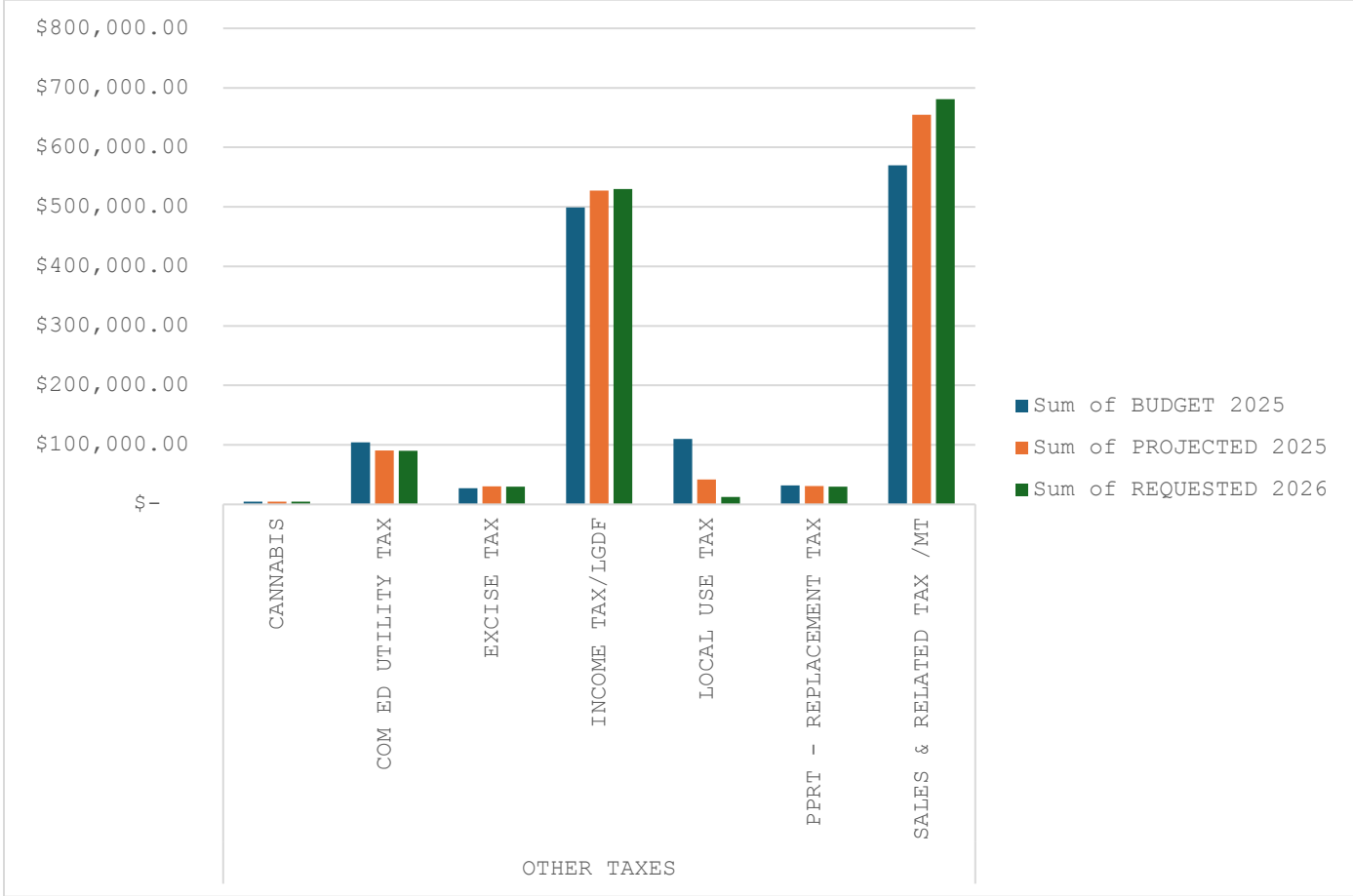
General Fund Revenue: General Fund revenues for 2026 are projected at \$2.156 million, representing a modest 2% increase from the prior year. While the revenue base remains stable, this level of growth is not sufficient to keep pace with rising operational costs, inflationary pressures, and contractual obligations across General Administration, Police, and non-enterprise Public Works. As a result, each department’s budget is being reviewed closely for potential reductions or efficiencies. This includes the decision not to allocate interest earnings back to departments in the 2026 budget, effectively reducing their budgets by approximately 2% compared to prior years.

The overall revenue picture is supported primarily by property tax levies, state-shared revenues, and sales-related taxes. Property-tax components, including the corporate levy, police levy, and Road & Bridge transfer, continue to show predictable annual increases in the range of 3–5%. These steady but modest increases offer structural stability but do not generate enough new revenue to absorb cost escalation in personnel, insurance, and materials.



State-shared revenues present a more mixed set of trends. Income tax (LGDF) remains a strong and growing source, with a projected 6% increase in 2026. However, PPRT continues its multiyear decline as the state corrects prior years of over-allocation.

The shift between Sales & Related Tax and Local Use Tax is the result of the State of Illinois' implementation of the Leveling the Playing Field for Illinois Retail Act, which changed how sales and use taxes are allocated between the state and municipalities. Under the revised system, more revenue is now classified under the Retailers' Occupation/Sales Tax portion and less under Local Use Tax. This redistribution is clearly reflected in the Village's revenues: Sales & Related Tax jumps from \$570,000 budgeted in 2025 to a projected \$654,559 in 2025 actuals and \$680,741 in 2026—a 19% increase. In contrast, Local Use Tax drops sharply from \$110,000 budgeted in 2025 to \$41,748 in 2025 actuals, and then to a projected \$12,730 in 2026, an 88% decline. Although the composition shifts significantly between the two categories, the combined effect is still a net gain for the Village, with the increase in sales tax more than offsetting the loss of use tax. This change does not reflect new economic activity so much as a reallocation of taxes already being paid under the state's new framework.



Utility and consumption-related revenues continue to soften. The ComEd utility tax declines again—down 14%—reflecting reduced electrical usage from increased residential solar installation.

Other small tax and fine-based revenue lines remain flat or minimal. Police towing fines, general fines, and DUI revenues represent less than a percent of the total revenues and demonstrate year-to-year inconsistency. These categories do not contribute meaningfully to operational funding.

The IGA for the School Resource Officer continues to provide predictable cost offsetting for the Police Department. Rock 39 administrative revenue grows modestly with agreement dictated increases. Interest income has become a reliable contributor due to elevated rates; however, interest earnings are not being redistributed to departments in 2026, allowing the General Fund to retain that revenue centrally to offset broader fiscal pressures.

Overall, the General Fund's revenue growth remains steady but insufficient to match expenditure pressures heading into 2026. While the fund benefits from stability in its core state-shared and property tax components, the Village must manage the reality that a 2% revenue increase does not align with cost escalation in labor, insurance, utilities, equipment, fuel, and contracted services. This structural imbalance drives the need for tighter departmental oversight, careful budgeting, and identification of areas where expenses can be reduced or deferred.

Motor Fuel Tax Fund (Fund 15): The Motor Fuel Tax Fund continues to receive routine per-capita allocations from the State based on statewide fuel consumption. Revenues in this fund show consistency over time, but the purchasing power of MFT continues to weaken as roadway construction costs grow considerably faster than fuel tax revenue. Despite this, MFT remains the primary revenue source for larger projects such as the Goodling Street improvements. Based on the spreadsheet and current year trends, MFT revenues are not expected to increase significantly in 2026 and should be considered stable but insufficient to keep pace with capital needs without supplemental funding from other sources.

Community Development Fund (Fund 17): Community Development revenues remain stable overall, with 2026 revenue projected at \$210,150—essentially flat compared to prior years, showing only a 0.2% increase. Unlike the General Fund, this revenue stream does not support high-inflation operational lines such as public safety equipment, fuel, utilities, or large-scale staffing. Instead, it covers contracted services for code enforcement and the building official, along with a portion of salaries tied directly to Community Development, including but not limited to zoning, permitting, and development review. Because this cost structure is narrower and more service-

specific, the revenue pressures in this fund are different and more manageable than those affecting the General Fund.

Permit and inspection fees remain a consistent source, stabilizing at \$20,000 for 2025 and 2026 after unusually high activity in 2023 and 2024. These revenues track development cycles and reflect typical permitting volume in a smaller community. Development escrow remains budgeted at \$40,000 to support legal, engineering, and review services, with unspent escrow funds returned to the applicant.

Interest income declines significantly—from \$14,743 in 2024 to a requested \$9,000 in 2026—reflecting the spending-down of fund balance over years related to the Memorial Park project. Franchise fees continue their multiyear decline, falling from \$18,772 in 2023 to a projected \$13,000 in 2026, driven by the continued erosion of cable television subscriptions related to “cord-cutting”. This remains one of the few structurally declining revenue lines in the fund.

Liquor license revenue stays steady at \$14,250, and excise tax collections move slightly from year to year but show no meaningful growth. Video gaming revenue continues to be one of the fund’s largest contributors at roughly \$90,000 annually. The 2025 projection reflects a temporary closure of one gaming establishment, largely offset by a new business expected to open, resulting in a conservative but balanced estimate for 2026.

Miscellaneous income shows substantial variation because it typically represents the sale of Village-owned property. The significant amounts received in 2023 (\$13,581) and especially in 2024 (\$40,308) resulted from one-time sales and are not recurring revenues. For this reason, the line is appropriately budgeted at zero for 2026 unless new property transactions are planned.

Overall, Community Development revenues remain predictable and generally stable year to year. While the fund does not face the same inflationary pressures as the General Fund, it also lacks growth-oriented revenue sources. This requires continued attention to contracted service levels and development-related workload to ensure expenditures remain aligned with the fund’s modest and steady revenue base.

Strategic Reserves (Fund 24): The Strategic Reserves Fund receives no new revenue aside from interest earnings, which have increased in recent years due to elevated market rates. The projections continue to show no new inflows into this fund beyond interest. As a result, the fund remains positioned to serve its intended purpose as a long-term stability reserve and a financial backstop for major capital needs rather than as a source of recurring operational support.

One of the key goals identified in the Village’s Strategic Plan is the creation of a formal Capital Improvement Program (CIP) and the establishment of a dedicated capital fund to support it. As the plan takes shape during the year—and as the Village identifies its long-term infrastructure priorities, timelines, and cost estimates—there may be an opportunity to recommend supplemental appropriations to transfer a portion of available cash balance into the Strategic Reserves Fund to seed this capital program. These transfers would not be considered operational revenue but rather intentional policy decisions to position the Village for long-term capital planning.

For 2026, the revenue outlook for Strategic Reserves remains straightforward: interest earnings will continue to provide a modest contribution, and no new structural revenues are anticipated. Any future growth in this fund will depend on deliberate transfers tied to board direction and the implementation of the CIP framework established through the strategic planning process.

Water Operations & Maintenance (Fund 51): The Water O&M Fund remains a self-supporting enterprise fund, and its long-term financial structure continues to follow the principles established in the Village’s 2021 Water Rate Study. The rate study emphasized that a municipal water utility must be operated on a zero-profit basis over the long term while maintaining enough annual revenue to cover operating costs, debt obligations, and capital requirements. That framework still guides how the Village interprets its revenue trends today.

O&M revenues are composed of three primary, stable components: (1) water usage charges, (2) capital charges tied to the Four Rivers Sanitation Authority (FRSA) debt, and (3) the 1% municipal sales tax restricted to water-related activities. The rate study documented roughly \$870,000 annually in water-generated revenue between 2017–2020, supplemented by approximately \$66,000 per year from the Rock 39 intergovernmental maintenance agreement and approximately \$217,000 per year in water-dedicated sales tax receipts. Today, each of these revenue sources has grown in both scale and reliability.

The most notable change is the Village's increased sales tax performance. What averaged just over \$200,000 during the rate-study period now exceeds \$497,000 in 2026, significantly strengthening the O&M fund's total revenue base. Water sales have also continued to grow modestly with system usage, and the capital charge—the usage-based fee designed to pay the Village's FRSA debt—remains a high-performing, dependable source. The study recommended eventual movement toward a flat-fee capital structure to reduce the risk associated with declining consumption, and the Village continues operating with that long-term planning assumption in mind. The sales tax for this fund is set to end in 2030, but the debt obligation will not have been met at that time.

Other annual revenues, such as administrative fixed charges, shut-off/turn-on fees, and miscellaneous income, remain relatively stable. Occasional non-recurring items—such as equipment sales or meter sales—appear as needed but are not relied on structurally. The Village also receives reimbursement under the Rock 39 contract agreement, which offsets water utility obligations and equipment expenses tied to the Rock 39 service area. This revenue has been incorporated consistently into operations and now sits near \$85,000 combined for contract agreement costs, fuel, and equipment.

Interest income has grown meaningfully from historic levels due to higher market rates and the fund's stronger cash position. Because reserves remain well above AWWA-recommended levels—historically three months of operating costs—the fund earns more interest than projected in 2021, although this should continue to be treated as supplemental, not structural, revenue.

Overall, O&M revenue is expected to grow by approximately 7% from 2025 to 2026 under the worksheet provided. While this outpaces the 2% inflationary assumption used in the 2021 study, the concern remains that long-term cost trends—particularly for well rehabilitation, tank maintenance, regulatory compliance, and system repair—continue to exceed 2% annually. The rate study projected a need for an additional \$75,000 annually to maintain the system and begin building a sustainable capital cycle. A new Water Rate Study will need to be completed in 2026.

Village Events Fund (Fund 90): Fourth of July revenues remain straightforward, supported primarily by a transfer from the Community Development Fund, along with donations and a small

amount of UTV registration fees. Donations fluctuate from year to year but are expected to increase in 2026 due to additional staff outreach and the added emphasis on the event with next year marking the 250th anniversary of the United States. Interest earnings are no longer budgeted, and other revenue lines such as merchandise or vendor fees are not used. The only expense supported by this fund is the annual fireworks display. The transfer from the Community Development Fund fills the gap between donations and fireworks costs and is reduced in 2026 based on stronger expected donation activity.

Staff have discussed a potential sponsorship program involving shirts or hats; because it is not finalized, it is not included in the budget. If implemented, it would be handled as an “in and out” to reflect both revenue and the offsetting expense.

Next Steps: With the revenue outlook now established across all funds, the Village is ready to begin the next phase of the 2026 budget process. Personnel and benefit projections have already been estimated, giving staff a baseline for fixed costs heading into the new fiscal year. Departments are now in the process of submitting their operating, capital, and infrastructure requests, which will form the variable portion of the budget.

Over the coming weeks, the Administrator and Treasurer will review these submissions in detail. This stage involves evaluating operational line items, assessing capital and equipment needs, and aligning infrastructure proposals with both available revenues and long-term planning considerations. Because last year was the first year the Village used this more formalized, step-by-step process, this year’s review will continue to build consistency and predictability by following that same structure.

Once department submissions are complete, the Administrator and Treasurer will meet with each department head to:

- Clarify the purpose and justification behind operating requests
- Evaluate capital and equipment needs against replacement schedules and available funding
- Review infrastructure requests in the context of multi-year planning and fund capacity
- Identify areas where reductions, phasing, or deferrals may be necessary due to limited revenue growth

After this internal review, staff will compile a unified draft budget across all funds. As in the prior year, the Village Board will then conduct a detailed line-item review over the course of three to four meetings, allowing adequate time for discussion, clarification, and adjustment before final adoption. This revenue preview provides the foundation for that work. With personnel and benefits already estimated, the focus now shifts to aligning operational and capital needs with available resources to ensure that the 2026 budget remains balanced, responsible, and supportive of the Village's long-term financial stability.