

Village of Carol Stream

SPECIAL WORKSHOP MEETING

MONDAY, JANUARY 20, 2020

6:30 P.M.

**GREGORY J. BIELAWSKI MUNICIPAL CENTER
500 N. GARY AVENUE
CAROL STREAM, ILLINOIS 60188**

BOARD ROOM

AGENDA

1. CALL TO ORDER
2. ATTENDANCE
3. FY 21 BUDGET WORKSHOP – GENERAL FUND PRELIMINARY ASSESSMENT
4. OTHER BUSINESS
5. ADJOURNMENT



Village of Carol Stream

FY 21

Budget Workshop #1

GENERAL FUND
Preliminary Assessment

January 20, 2020



Agenda

GENERAL FUND PRELIMINARY ASSESSMENT

- Revenue Overview
 - FY20 Estimated Year-End Revenues
 - Projected FY21 Revenue Overview
- New Funds Proposed
 - Narcotics Forfeiture Fund
 - Equipment Replacement Fund
- Reserve Balance Policy Discussion



General Fund Revenue Overview

FY20 Year-End Revenue Estimate

- **FY20 Revenues are projected to end the year \$325,000 or 1.1% above the budget target.**

Estimated FY20 Year-End	\$ 28,800,000
Original FY20 Budget	<u>28,475,000</u>
Revenues Above Budget	<u><u>\$ 325,000</u></u>

Items contributing to the modest improvement over projections:

1. 1% base Sales tax projected at 1.7% above conservatively projected FY20 budget.
2. Income tax about 6.7% above budget (mostly non-recurring).
3. Local use tax continues strong growth (+16.4%) as out-of-state internet players continue to register to pay Illinois tax (recurring).
4. An additional \$125,000 of interest income received from IMET court-appointed receiver (non-recurring).

FY21 Revenue Projections

- At present, total General Fund revenues for FY21 are projected to grow by only 0.7% compared to FY20 budgeted revenues. FY21 projected revenues are actually about 0.4% less than estimated FY20 year-end revenues.
- Current revenue projections will change to some degree in the coming weeks as we await final January numbers and Illinois Municipal League (IML) projections for:
 - State Income Taxes
 - Local Use Taxes
 - Personal Property Replacement Taxes (PPRT)

IML projections expected this week!



FY21 Revenue Projections

Property Tax

- **\$3,800,000** property tax added to provide a stable revenue source to the General Fund and to secure the long-term viability of the Village's Capital Improvement Program (Aug. – Nov. 2019).
- Based on recommendations made during property tax public forums, certain General Fund revenues will be reassigned to the Capital Projects Fund as a dedicated revenue source to provide a targeted **\$3,100,000** per year over 5 year Capital Improvement Program.

FY21 Revenue Projections

General Fund Revenues proposed to be reassigned
to Capital Projects Fund effective 5/1/2020

	<u>FY21</u>	<u>FY22</u>	<u>FY23</u>
Electricity Use Tax	1,870,000	1,870,000	1,870,000
Real Estate Transfer Tax	750,000	750,000	750,000
Telecommunications Tax	620,000	527,000	448,000
Subtotal	<u>\$ 3,240,000</u>	<u>\$ 3,147,000</u>	<u>\$ 3,068,000</u>

FY21 Revenue Projections

What happened to the additional \$700,000?

- The approved **\$3.8M** property tax levy included **\$700K** for future consideration of elimination of the vehicle sticker.
- With **TOTAL** forecasted FY21 General Fund revenues at an increase of only **\$200,000 (0.7%)** over FY20 budget, there are additional revenue declines forecast into FY21.

Transfers to CPF > \$3.1M = \$140,000

Anticipated Sales Tax declines = \$384,000



FY21 Revenue Projections

What happened to the additional \$700,000?

- The proposed FY21 budget and 3 year financial plan continues to plan for the elimination of the vehicle sticker prior to the next scheduled renewal on 5/1/2021.



FY21 Revenue Projections

Sales Taxes Projected to Decline in FY21

We compared sales tax detail, business by business, for the last 2 full calendar years 2019 vs 2018.

Revenue data was grouped into 3 general categories:

1. Top 125 businesses that produced sales taxes in both 2018 and 2019 (to gain insight into changes in revenue base).
2. Businesses that have closed during FY20.
3. Businesses that have begun operations during FY20.

Revenues of these 3 categories represent 93% - 94% of all sales taxes received and reviewed during this period.

FY21 Revenue Projections

Sales Taxes Projected to Decline in FY21

Observations:

1. Total sales taxes declined by **1.9%** between calendar years 2018 and 2019.
2. Gross sales taxes from the top 125 businesses operating in both 2018 and 2019 **grew** at a rate of **1.5%**.

All of this growth came from our largest sales tax producing business. The remaining 124 top businesses **declined** in aggregate by **1.8%** compared to 2018.
3. Discontinued business losses outweighed new business gains during the period, which make up the balance of the 1.9% overall decline in revenues.

FY21 Revenue Projections

Sales Taxes Projected to Decline in FY21

Base Revenues, CY2019	\$	7,063,000	
Less: Annualized Losses			
Ditch Witch, Aldi, Plated			
Midway Star Salon, Larsen Pkg.		(412,000)	
Plus: Annualized Gains			
Bucky's (full year), Smoke/Vape			
Rental Max, Armstrong Cabinet		73,000	
Adjusted Base Revenues		<u>6,724,000</u>	
Growth Assumption (+1.5%)		<u>101,000</u>	
FY21 Revenue Projection			\$ 6,825,000
FY20 Estimated Revenues			7,050,000

3.2% Decline over FY20 Estimate

FY21 Revenue Projections

Sales Taxes Projected to Decline in FY21

	<u>FY20 Estimate</u>	<u>FY21 Projected</u>	<u>Increase/ (Decrease)</u>
1% Sales Tax	\$ 7,050,000	\$ 6,825,000	\$ (225,000)
Home Rule Sales Tax	<u>5,175,000</u>	<u>5,016,000</u>	<u>(159,000)</u>
All Sales Tax	\$ 12,225,000	\$ 11,841,000	\$ (384,000)

No impact in FY21 of newly enacted legislation (“Leveling the Playing Field for Illinois Retail Act” – 6/28/19) related to out of state internet sales. The Illinois General Assembly in the fall veto session (Nov. 2019) deferred implementation of key provisions from July 1, 2020 to January 1, 2021. We will revisit possible positive revenue impacts again as we plan for the FY22 budget.



New Funds Proposed

1. Narcotics Forfeiture Fund
2. Equipment Replacement Fund



Narcotics Forfeiture Fund

- A portion of our current General Fund reserve balances come from drug enforcement activities and shares of forfeited assets received from State and Federal cases.
- Use of these assets is restricted by State and Federal rules and regulations and may not be used for general Village purposes.
- At April 30, 2019 the portion of General Fund reserves restricted for these purposes was **\$252,811**.



Narcotics Forfeiture Fund

- In order to increase compliance and transparency related to State and Federal requirements concerning the disposition of seized funds, we are proposing these be moved into a dedicated fund and no longer comingled within the General Fund.
- All future activities, revenues and expenditures of funds will be reported within this fund.
- Staff is proposing this take place during the current FY20 to comply with State and Federal requirements.



Equipment Replacement Fund

Staff is proposing establishing an Equipment Replacement Fund beginning in FY21.

What is it and what is its purpose?

Sometimes referred to as an “depreciation fund” or “sinking fund” this is a budgetary tool that acts like a **savings account** for the replacement of the Village’s vehicular fleet and other large equipment.

The concept is that funds are contributed every year for the eventual replacement of vehicles as they age, so that when they require replacement, funds are available to make the purchase.

It is a reserve fund specifically identified for vehicle and equipment replacement.

Equipment Replacement Fund

Sample

	Purch	Est. Life	Repl. Cost	Funds Accum.	Annual Contribution							
					FY21	FY22	FY23	FY24	FY25	FY26	FY27	
Police Squad	2020	7	35,000	-	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Police Squad	2018	7	35,000	10,000	5,000	5,000	5,000	5,000	5,000			
Police Squad	2015	7	35,000	25,000	5,000	5,000	-	-	-	-	-	-
PW Backhoe	2017	20	178,000	18,000	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900
Vactor	2012	20	492,000	172,400	24,600	24,600	24,600	24,600	24,600	24,600	24,600	24,600
Totals				\$ 225,400	\$48,500	\$48,500	\$43,500	\$43,500	\$43,500	\$38,500	\$38,500	



Equipment Replacement Fund

What Will Change Under an Equipment Replacement Fund?

- User departments and Funds (General and Water/Sewer) will make contributions annually for replacement of their vehicles.
- All Vehicle purchases will be made by the Equipment Services Fund when due for replacement (rather than in the GF or W&S Funds).
- New additions to the fleet (expansions) would need to be budgeted in the Fund/Department making the new purchase. The fleet addition will be added to the Equipment Replacement Fund to begin saving for its eventual replacement.



Equipment Replacement Fund

What Will **NOT** Change Under an Equipment Replacement Fund?

- The process of determining when a vehicle has reached the end of its useful life will not change. This includes review of mileage, operating time and maintenance history and cost. Under the new fund, if we can keep a vehicle past its projected service life, its replacement would be fully funded and we simply stop contributing toward its replacement.
- Total costs associated with fleet replacement will not change. If anything, they may be reduced. Without a replacement fund, we may need to defer replacements based on budgetary constraints, the impact of which may result in higher maintenance costs than if we had funds available to replace the vehicle when originally due.



Equipment Replacement Fund

Key Benefits

1. Removes budget availability from the “purchase” or “no purchase” decision.
2. Smooths “peaks” and “valleys” that may be difficult to accommodate in the budget, especially with respect to very large purchase items (e.g. sewer vacuor, end loader, etc.).

What is Needed to Get Started?

1. Fleet currently has more than 100 pieces of equipment, at various stages in their useful lives.
2. We need “seed funds” to start the Equipment Replacement Fund, representing the current depreciated value of the fleet. This value is approx. \$3.5 million. (approx. \$3M GF, \$0.5M W&S).
3. This does not mean new revenues are needed! It involves a review of and possible realignment of our current reserve policies.



Reserve Balance Policy Discussion



Current General Fund Reserve Policy

General Corporate Fund

The General Corporate Fund shall maintain an operating cash reserve balance at a minimum of 25% of annual net budgeted expenditures, but shall be no more than 50% of net budgeted expenditures.

In the event cash reserve balances exceed 50% of net operating expenditures, the excess amount over the 50% maximum may be:

1. Retained in the General Fund upon direction of the Village Board.
2. Transferred to the Capital Projects Fund as the primary funding support for ongoing Village infrastructure improvements.
3. Used for any other purpose as the Village Board may direct and approve.

Transfers or other disposition of balances in excess of the policy maximum need not take place more frequently than once annually and should generally be directed on or near the time of the adoption of the annual budget, or as soon as is practicable thereafter.



General Fund Reserve Policy

- The Village has maintained a 25% (minimum) to 50% (maximum) of annual operating expenditures reserve corridor for many years.
- The 50% maximum level was maintained due to additional volatility associated with not imposing a property tax.
- Considering the Village has imposed a property tax beginning in FY21, reducing General Fund reserves to a maximum of 25% would be appropriate and more in keeping with peer municipalities.
- A reduction in maximum reserve levels to 25% is expected to adequately “seed” the proposed Equipment Replacement Fund.



?QUESTIONS?

NOTE: There will be no budget workshop scheduled for Monday, February 3, 2020.