AGENDA
President and Board of Trustees
Village of Arlington Heights
Committee-of-the-Whole
Board Room
33 S. Arlington Heights Road, Arlington Heights, IL 60005
June 28, 2021
7:00 PM

I. CALL TO ORDER

II. PLEDGE OF ALLEGIANCE

III. ROLL CALL OF MEMBERS

IV. NEW BUSINESS

A. Review of the 12-month Period Ending 12/31/20 Annual Financial Report - Sikich, LLP

B. Review of the Capital Asset Policy Update

C. Review of the 2022 Capital Improvement Program Update

D. Operating Fund Overview/Recommended Budget Ceilings - 2022

E. Review of the American Rescue Plan Grant - Spending Proposal

V. OTHER BUSINESS

VI. ADJOURNMENT

Any member of the public wishing to speak will be given the opportunity to do so. If the item is on the Agenda, that opportunity will be while that Agenda item is being discussed. Any member of the public wishing to speak on an item not on the Agenda will be given the opportunity during the Other Business portion of the meeting. Please limit comments to three minutes.

Persons with disabilities requiring auxiliary aids or services, such as an American Sign Language interpreter or written materials in accessible formats, should contact David Robb, Disability Services Coordinator, at 33 S. Arlington Heights Road, Arlington Heights, Illinois 60005, (847)368-5793 (Voice), (847)368-5980 (Fax) or drobb@vah.com.

Committee-of-the-Whole
6/28/2021

Item: Review of the 12-month Period Ending 12/31/20 Annual Financial Report

Department: Finance

Recommendation

It is recommended that the Committee-of-the-Whole accept the 12-month period ending December 31, 2020 Annual Financial Report.

ATTACHMENTS:

Description	**Type**
No Attachments Available	

Committee-of-the-Whole
6/28/2021

Item: Review of the Capital Asset Policy Update

Department: Finance

ATTACHMENTS:

Description	**Type**
Capital Asset Policy Update	Exhibits

INTER OFFICE

MEMO

To: Randy Recklaus, Village Manager
From: Tom Kuehne, Finance Director
Mary Juarez, Assistant Finance Director
Date: June 14, 2021
Subject: **CAPITAL ASSET POLICY UPDATE**

It has been a number of years since the Village's Capital Asset Policy has been reviewed. With guidance from our auditors, Sikich LLP, and based on a review of best practices promulgated by the Government Finance Officers' Association (GFOA), we are recommending that the capital asset policy be updated.

A key component of a Capital Asset Policy is the threshold for depreciation. The Village's auditors indicated that it is reasonable to have a capitalization threshold of $25,000 for machinery, equipment, and vehicle asset classes, and a $200,000 threshold for buildings, improvements, and infrastructure. Another area that is typically covered in a capital asset policy is the stewardship of assets that can be considered control assets. This type of asset has a unit cost that is less than the capitalization threshold and a useful life of two or more years, but whose value and security are important to continue to track. Examples of control assets include personal computers, equipment, copiers, printers, and the like. These assets are tracked, but they are not capitalized in the general ledger, nor are they depreciated.

Based on the standards outlined above, the following Capital Asset Policy changes are recommended:

1. Increase the capitalization threshold from $10,000 to $25,000 for machinery, equipment, and vehicles. This change would align with the Village's Purchasing Policy which requires that items costing over $25,000 be purchased through a competitive bid.

2. Increase the capitalization threshold from $10,000 to $200,000 for buildings, improvements, and infrastructure.

3. Increase the capitalization threshold from $100,000 to $200,000 for permanent easements and software.

4. Clarification that stewardship of all depreciable assets and control assets reside with each Department. All Departments are responsible for tracking all depreciable and control assets. Asset tags should be used for control assets for tracking and to deter theft. A report listing these assets shall be submitted to the Finance Department on an annual basis. The Finance Department

will update the general ledger based on this information, an annual analysis of the general ledger, and periodic audits.

Recommendation:

It is recommended that the attached **Capital Asset Capitalization Policy and Procedures** be included on the June 28th COW Meeting for the Board's review. These changes would be reflected beginning with the audit of the year ended December 31, 2021.

Cc: Anthony Cervini, Sikich LLP

CAPITAL ASSET CAPITALIZATION POLICY & PROCEDURES

For accounting purposes, Capital Assets will include expenditures that are budgeted within the Capital Improvement Program. Capital Assets do not include Operational Supplies or maintenance and repairs. Capital Assets exceeding $25,000 and having a useful life exceeding two years will be capitalized and depreciated in the General Ledger along with all Fleet Fund purchased Assets. Capital Asset items less than $25,000 will be referred to as "controlled assets" and will not be included in Capitalized Asset totals on financial statements.

STEWARDSHIP

Responsibility for all assets including controlled assets, resides with the individual Departments. Departments must supply the Finance Department with a listing each year of any changes in Capital Assets that have a value over $25,000 or are purchased from the Fleet Fund. Transfers and disposals are the responsibility of all departments and such activity must be communicated to Finance Department.

Capital Asset records have a seven year retainage schedule. Periodic Physical inventories will be conducted by the Finance Department utilizing support information retrieved from the accounts payable files.

ACCOUNTING

Assets will be reported at original cost or where improved, at cost plus improvements. Improvements will be consolidated with original cost. Depreciation where appropriate will be calculated on a straight line basis. Useful lives will be assigned according to the following schedule:

Marked police cars new	3 yrs	Buildings	40 yrs
Passenger vehicles – used	6 yrs	Sewers	40 yrs
Light duty truck, P/U – new	10 yrs	Underground pipes	40 yrs
Passenger vehicles – new	8 yrs	General equipment	5 yrs
Heavy- duty truck – new	15 yrs	Office / Furniture	5 yrs
Fire trucks – new	10 yrs	Water meters	20 yrs
Heavy-duty equipment – new	10 yrs	Motorcycles – new	6 yrs
Infrastructure	20 yrs	Intangibles – software	5 yrs

Capitalized Assets will be reconciled each year for the audit and each asset will have appropriate source documentation attached to the listing. Documentation must include a copy of the check used for payment, and a copy of the manufacturer's or vendor's invoice.

New construction assets are those assets that are assembled over a period of time with multiple materials being brought together to complete a single identifiable asset. Professional services such as design and engineering expenses will also be included in the capitalized value. These items will be capitalized at the completion of the construction process. If this process exceeds one fiscal period, an amount will be included in the financial statements as "construction in progress" but not specifically identified on the computer system.

Donated public improvements will be capitalized only with respect to underground water distribution, storm and sanitary sewer systems. These donated improvements will be recorded as Contributed Capital in the Water Fund and depreciated accordingly. Annually, the Public Works Department will supply the Finance Department with a list of accepted donated public improvements and an estimate of cost for the improvements. This will be the basis for capitalization and subsequent depreciation.

Other donated assets will be recorded at their fair market value at time of donation.

Land improvements will be capitalized as land when mobility of the improvement is not likely. Examples of these items would be, grading, landscaping, restoration, drainage, fill, and utilities. These items could also be considered infrastructure and recorded under that procedure.

Disposals of Capital Assets are to be processed through the Purchasing Coordinator. A standard disposal form will be completed and approved by the Village Manager and Department Head. The Purchasing Coordinator will be responsible for disposal of the assets and salvage value received. Unless special circumstances are presented, all proceeds from surplus disposal will be credited to the fund that owned the Asset.

Transfers of existing assets between Departments will be at the individual Department Head approval. Reporting the asset transfer to the Finance Department is the responsibility of the Department transferring out the asset. Transfers between Proprietary Fund assets and General Capital Assets will be at original cost.

RECONCILIATION

Reconciliation of Capitalized Assets will be prepared by reviewing "Capital" accounts in all funds annually. These accounts will be reconciled with Capitalized Asset activity sent to the Finance Department annually by the individual departments. Additional steps will be taken to insure inclusion of asset purchases in the Capital Asset System by reviewing each Warrant Register for items that may be considered Capitalized Assets. In addition, Departments will receive an inventory listing of Capitalized Assets from the Finance Department annually for informational and sign-off purposes, thereby reminding the Departments of their custodial responsibility to inform the Finance Department of any changes.

FLEET FUND

Assets of the Fleet Fund, an Internal Service Fund, are depreciated and that depreciation is incorporated into a service or lease charge that each Department incurs monthly. All capital purchases must be capitalized. Primarily, the assets of the Fleet Fund will be vehicles. Other assets of a capital intensive nature may be purchased by the fund, but must also be depreciated.

Special handling of certain items is required. The Police Department's confiscated vehicles are not depreciated, although maintenance is performed by the Fleet Fund. These include vehicles confiscated from arrests, unmarked surveillance vehicles purchased with forfeited assets and parade cars.

Trade-in value will be incorporated into the purchase price of replacement vehicles.

TAGGING

All Departments will be responsible to tag all Capitalized Assets or assign a unique number for identification and inventory purposes. A list of new Capitalized Assets should be reported to the Finance Department at the end of each year. Asset tags can also be provided to the Departments for Control Assets for tracking or to deter theft.

FIXED ASSET CLASS CODES

100-land	400-equipment	409-office furniture
101-land improvements (new)	401-communication	410-typewriters
200-buildings	402-fire hose	411-calculators
201-building improvements	403-fire ladders	412-computers
300-underground	404-fire brass	500-vehicles
301-storm sewers	405-scuba	501- heavy-duty equipment -motorized
302-sanitary sewers	406-miscellaneous	
303-land improvements (existing)	407-audio visual	
304-water distribution	408-photographic	

INFRASTRUCTURE CLASS CODES

700-infrastructure	704-sidewalks
701-streets-resurfaced	705-streets-new
702-street signals	706-streets –major repair
703-signs	707-lights

EASEMENTS

A permanent easement will be recognized as a capital asset subject to all of the following conditions:

The easement is evidenced by a final plat of subdivision and acceptance of related improvements, if appropriate. Any final plat of subdivision should include the total acreage of easements accepted by the Village.

A permanent easement will be capitalized if it has a value of $200,000 or more. Easements will be aggregated within a general area (e.g. a subdivision) for the purpose of determining whether the $200,000 threshold is met.

A permanent easement associated with a proprietary fund activity will be recorded in the appropriate proprietary fund. Other permanent easements will be recorded in the nominal general fixed asset account group for inclusion in the city's government-wide financial statements.

The value of the permanent easement will not be amortized.

SOFTWARE

Costs for a specific software program are capitalized only when the combined costs exceed $200,000 and the program's useful life exceeds one year.

Costs pertaining to software development and implementation include software design, coding, installation and testing. Costs associated with these activities may include materials and equipment, consulting fees, travel and salaries. Training costs, data conversion costs, maintenance costs and administrative and overhead costs are not capitalized.

Committee-of-the-Whole
6/28/2021

Item: Review of the 2022 Capital Improvement Program Update

Department: Finance

ATTACHMENTS:

Description	**Type**
Capital Improvement Program Update	Memorandum

INTER

OFFICE

MEMO

To: Randy Recklaus, Village Manager
From: Tom Kuehne, Finance Director
Kevin Baumgartner, Accountant/Budget Coordinator
Date: June 1, 2021
Subject: **2022 CAPITAL IMPROVEMENT PROGRAM UPDATE**

A detailed five-year Capital Improvement Program (CIP) is developed during even-numbered years, with special emphasis on the first two years of the plan. This reflects the multi-year nature of many of the capital projects that are included in the CIP. During the years such as this year when there isn't a detailed CIP being presented to the Board, the following activities occur:

A. Staff provides the Village Board with a summary update showing any changes in estimated costs from the prior year.

B. After the local election process that occurs every two years, each Department prepares a presentation for the "new" Board. This is followed by the Village Board's biennial goal setting process. After the Board's goals and objectives are established, Staff develops a two-year business plan that reflects the Board's stated goals.

2022 Capital Improvement Program Update

The CIP update is an important part of the budget process, as capital projects comprise a significant portion of the Village's spending. As such, it is important that we reexamine the Village's capital projects to determine if the priorities previously set still hold true, and to review the 2022 capital expenditure budget projections.

The following funds have no changes from what was planned during the 2021 five-year CIP process for their 2022 budgets:

- **Motor Fuel Tax Fund** (211) - $4,116,800
- **Municipal Parking Fund** (235) - $2,154,300
- **TIF IV** (263) - $760,000
- **TIF V** (266) - $515,000
- **TIF S AH Rd** (267) - $0
- **Arts, Entertainment & Events Fund** (515) - $935,100
- **Information Technology Fund** (625) - $1,968,300

Criminal Investigation Fund (231) has decreased its expected 2022 capital expenditures by $71,000, from $473,800 to $402,800. A planned Seized Vehicle & Long-Term Evidence Storage

Facility (BL2101) has been deferred until 2023 at the earliest, resulting in a decrease of $362,300. Additionally, the following two new projects have become necessary:

- **Body Worn Cameras/Dash Cams** (EQ2201) totaling $131,300 for 2022 are the result of soon-to-be effective legislation mandated by the State. The Police Department has dash cameras in each Patrol and Traffic squad car. This system requires an officer to attach a microphone and transmitter to his or her outer garment so audio can be captured, transmitted to the squad and incorporated in the dash cam recording. All digital images are uploaded through a Village hot spot to a dedicated server in the IT Department. Acquiring an independent Body Worn Camera (BWC) system would silo the BWC data and not interface with the existing dash cam server. Most tier one vendors offer a BWC that integrates with a partnering dash cam product, requiring a single transmitter on an officer's vest and cloud-based storage for both digital recordings.

  As of this writing, the Police Department has reviewed products developed by Motorola and Axon. We are contacting a Panasonic representative to review their BWC offering due to the fact that current squad cars are equipped with Panasonic Arbitrator dash cam units. Testing and evaluation of these products is moving forward.

  The requirement to implement a BWC program for the AHPD is not compelled by statue until January 1, 2024. Implementation sooner than later will likely afford an opportunity to capture unbiased, real-time evidence to defend an officer or the Village against an unjustified complaint or civil action.

  As written, the requirement is an unfunded mandate. The Illinois Chiefs of Police Association is working with Illinois legislators to identify and secure a funding source for body cameras. Progress will be monitored and when appropriate the Police Department will apply for reimbursement.

- **Surveillance Van** (VH2201) totaling $160,000. The Police Department acquired a surveillance van in 2008 using asset forfeiture funding. In 2016, antiquated technology and non-compliant system radios were replaced to maintain the van's capabilities. Thirteen years after the initial purchase the core electronic components are not comparable to current technologies required for successful police surveillance operations. The budgeted amount includes a yet-to-be-determined trade-in allowance for the current van. It cannot be sold through the typical end of useful cycle asset auction because of the sensitive law enforcement equipment contained therein.

TIF V (264) has increased by $600,000 as part of an expected **re-budget** for the continuation of redevelopment (BL2103).

Capital Projects Fund (401) has increased its 2022 projection by $494,900. The addition of fall protection at the Fire training tower as recommended by IRMA resulted in a $45,000 increase to Municipal Buildings Refurbishing (BL9505). Also included is a planned **re-budget** of $124,000 for the Police Station Architect (BL1601) from the Public Buildings Fund as a result of the closure of the Public Building Fund. Operational Equipment for the Fire Department (EQ9502) increased $69,500 for the deferral of a replacement cardiac defibrillator in anticipation of a new model. Previously only two were planned for 2022 but the deferral of one in 2021 and an increase in their cost from about $38,000 each to about $42,000 make up $50,000 of the increase, along with the transfer of $19,500 in turn out gear replacement costs from the General Fund. Estimates for Patrol Vehicle Equipment Replacement (EQ0803) increased $24,100 as a result of an inability to repurpose current equipment because of changes to the body style of patrol vehicles; items such as the rear compartment storage box, certain emergency light bars, protective shielding that separates the driver's compartment from the rear compartment, and biohazard replacement rear seats cannot be reused from retiring squad cars. IT Operational Equipment (EQ0103) increased because of an additional $15,000 for security updates. Two additional **re-budgets** of uncompleted projects include $52,300 for the Traffic Signal Pedestrian Upgrade at Central and Arthur (SG1410), and $90,000 for Downtown Streetscape Improvements (ST1535).

Storm Water Control Fund (426) increased by $2,672,000 as a result of the Area C – Burr Oak, Burning Tree, Berkley, Hintz (SW2001) project being pushed back by one year and **re-budgeted** in 2022.

Water & Sewer Fund (505) increased by $1,055,000 as the result of a revised estimate for the Water Tank Repainting (WA1101) project based on the condition of Well 17. The tank was last painted 24 years ago. Recently, the tank had an internal inspection that showed significant corrosion of the steel securing the rafters and the purlins. The corrosion is similar to the damage discovered while rehabbing Tank 17 East. A new estimate was prepared, raising the cost of the tank to $1,714,950. The cost to cut out and reweld steel in an elevated water tank is very labor intensive.

Fleet Fund (621) decreased by $29,500 as a result of revised numbers based on one less vehicle replacement occurring for Police Vehicle Replacement (VH9503).

Staff will place the 2022 Capital Improvement Program update on the Special COW Meeting June 28th agenda for Board review and approval to include the proposed changes in the Proposed 2022 Budget. The June 28th COW Meeting contains only Finance-related agenda items, and only Finance staff are currently scheduled to attend the meeting. If the Village Board has any specific questions on the proposed CIP changes, please let the Village Manager know before this meeting so that appropriate staff can be present.

Committee-of-the-Whole
6/28/2021

Item: Operating Fund Overview/Recommended Budget Ceilings - 2022

Department: Finance

ATTACHMENTS:

Description	**Type**
Operating Fund 2022 Overview	Memorandum

I N T E R O F F I C E

MEMO

To: Randy Recklaus, Village Manager
From: Tom Kuehne, Finance Director/Treasurer
Date: June 21, 2021
Subject: **OPERATING FUND OVERVIEW/RECOMMENDED BUDGET CEILINGS – 2022**

The Operating Fund Overview and Budget Ceiling process serves as the Village Board's mid-year review of the Village's financial position, provides an initial property tax estimate for the coming year, and establishes budget ceilings for Village Departments as they prepare their budget proposals for the 2022 Budget. The Coronavirus recession of 2020 resulted in businesses being shut down quickly as the State imposed shelter-in-place requirements. Over the last year the country learned how to live with the virus and still conduct business, although at a more limited level. The vaccination of many Americans and lowering infections and hospitalizations has allowed businesses to start to bounce back. During last year's 2021 budget process, Staff projected that the recession would last at least through the first quarter of the year. However, the economy has been able to pick up at a faster pace, which has led to better than expected results through the first part of 2021. As of the date of this memo, the State of Illinois reached Phase 5 of the plan to reopen the economy in Illinois. This means that operating revenues should continue to improve as projected.

Operating Fund Overview

The General Fund and the Water & Sewer Fund are the Village's key operating funds covered in this analysis. As of the end of 2020 the General Fund's ending balance as a percent of expenditures equaled 40%. This was in excess of the Village's minimum fund balance policy of 25% of expenditures. Maintaining adequate reserves helps ensure the Village's excellent bond rating, which lowers bond interest charges associated with that rating. These reserves also provide a source of funds for extraordinary weather-related events or other damages (pandemics), and provides the flexibility needed to make prudent decisions during times of economic uncertainty.

During 2020 the Village continued providing all of its services, although some of these services were conducted in creative or non-traditional ways. To help community residents and businesses during 2020, the Village deferred some tax and fee payments, and worked with the local business community and social service agencies to provide as much assistance as possible. During the year the Village also purposely held a number of vacant positions open, and cut numerous other expenses to reduce operational costs. This offset the large decrease in General Fund revenues during 2020, allowing the Village to maintain its solid reserve position.

The Water & Sewer Fund's 2020 ending working cash balance came in at 44% of expenses. However, this was due to $9 million in bond funds transferred into the Water & Sewer Fund in

2020 as part of a five-year plan to increase the amount spent on its water main replacement program. This Fund has underperformed over the prior few years due to service charge revenues coming in lower than projected. This is likely due to weather conditions, more efficient plumbing systems, and older water meters that tend to slow down as they reach the end of their useful lives. As such, water and sewer revenue estimates are based on water usage which is lower than the 16-year average. During the fall of 2019, the Village implemented a five-year rate increase plan in order to reach our long-term goal of replacing 1% of our water mains each year.

Conservative revenue projections have been made for the three-year projections prepared for each of these operating funds. In addition, full staffing levels have been assumed without regard to temporary vacancies that occur each year. For this reason, the projections can be considered "worst-case" scenarios of the future. This is more evident with the General Fund because of the variety of revenue sources that are dependent on the local economy. On the other hand, the Water & Sewer Fund's revenue stream is based on user fees, which are somewhat more predictable but vary depending on usage.

General Fund

As noted earlier, the Village has been able to maintain a strong fund balance in this fund. Through the use of these reserves, and by reducing expenditures during 2020, the Village was able to work around the financial effects of the Coronavirus Recession. The Village and other local governments were also fortunate to receive significant funding from the Federal government in 2020, including $590,000 from the Cares Act, and $122,500 in other federal grants. During the Great Recession the Village did not receive this type of financial assistance, and it took two to three years to reach prior revenue base levels. In 2021 and 2022 the Federal government passed additional COIVID-19 assistance to local governments through the American Rescue Plan (ARP) grant program. Under this program, the Village is scheduled to receive $6.78 million in two equal installments. The first installment of $3.39 million was received in late-May 2021, and the next tranche will be sent to the Village in one-year. The purpose of these grant funds is to help communities quickly regain their financial footing from the Coronavirus pandemic recession. Staff has developed a proposal to spend these grant funds in a way that should help the Village's overall financial position now and in the future. We are fortunate to be able to consider the ARP grant spending proposal as a separate item from the budget ceiling process, due to the quick rebound of the Village's key revenue sources.

Exhibits 1 and 2 – General Fund include a summary of revenues and expenditures and an alligator chart of General Fund revenues and expenditures for 2019 through 2024. The General Fund's revenue base is comprised of certain key "growth" revenues that are susceptible to economic changes, so balancing this fund is normally somewhat challenging. However, since the economy has picked up quicker than originally anticipated, revenue receipts in 2021 are better than expected, and our growth revenues are expected to continue to improve in 2022. The attached summary shows that General Fund revenues are currently projected to come in 1% or $665,800 over budget for 2021. **Exhibits 3 and 4** show the history of Sales and Income tax receipts respectively. These revenues have historically been the Village's key General Fund growth revenues that cover expenditure increases. Sales taxes are now projected to come in 6% over budget for 2021. Income tax receipts have also shown resilience during the pandemic, and are estimated to exceed the 2021 budget by 13% or $986,000. Work from home arrangements and enhanced unemployment benefits have continued to buoy Illinois residents' incomes.

Exhibit 5 shows the history of Use tax receipts. The Use tax (internet sales) has continued to outperform our projections, and are estimated to come in 8% over budget in 2021. In 2015 the State passed a law requiring Internet retailers with no physical presence, but which have potential nexus, to collect a 6.25% State Use Tax (but not local sales taxes). The State receives 80% of the Use Tax receipts with the remaining 20% divided between local entities based on a formula and population. In June 2018 the U.S. Supreme Court ruled that all larger out-of-state online vendors are required to collect Sales or Use taxes. This was followed by another State law in 2019 that requires remote sellers (who either meet a threshold of 200 transactions annually or $100,000 in gross receipts) selling to Illinois residents to collect state and locally-imposed taxes starting January 1, 2021. This will go a long way to leveling the playing field with brick and mortar establishments. In the future, we expect to see a decline in Use tax receipts, but an increase in Sales and Home-Rule Sales tax receipts.

Disruptive technologies continue to significantly alter the way that businesses and entire industries operate. Some innovations are having a direct effect on the Village's revenue base. As noted above, the growth in Local Use tax receipts reflects the ongoing rise of e-commerce. A couple of other General Fund revenue sources are being affected by disruptive technologies. **Exhibit 6** shows that Telecommunications tax receipts have declined over the years. This downward trajectory is expected to continue, as more residents "cut the cord" to their land lines. In addition, by federal law data usage is not taxable. Cable Franchise Fees are also projected to decrease, as more residents are choosing internet streaming services over regular cable or premium channels. Cable Franchise fees are not applied to internet steaming services like Netflix, Amazon and Hulu. Staff has started to review a potential new revenue source that could capture some of the decrease in cable franchise fee revenue. The City of Chicago, followed by the City of Evanston have both instituted new streaming service amusement fees. This is a fast-moving policy development area, and half of the states in the U.S. have started taxing residents' subscriptions to streaming services, although Illinois is not included in this group. Streaming services still require the use of public rights-of-way for cable lines or repeater stations to deliver entertainment to Village businesses and residents.

A new streaming fee is not required to balance the projected 2022 Budget, but it is something that Staff will continue to review as the Village works to address revenue base issues that can arise due to changes in technology. Staff also reviewed the Five-Year Fee and Fine Increase Plan. As noted above, the scheduled vehicle sticker increase is not needed in 2022, and will be held for consideration in the following year.

Exhibit 7 shows the acute affect the pandemic had on the Food & Beverage (FBT) tax receipts. FBT receipts are projected to come in over the 2021 Budget, but are not projected to reach 2019 actual results until 2023. This effects the General Fund to a certain extent, but the Arts, Entertainment & Events Fund is more susceptible to the overall FBT losses, as this is the primary revenue source for this fund. Staff will prepare a separate report on this fund, including Alfresco and other event costs later this year. Interest Income is another revenue that is adversely affected by downturns in the economy. In addition, the Federal Reserve has been holding interest rates down to near zero until they see a more long-term price inflation level of 2% to 3%. Interest income is estimated to come in $125,000 or 34% under the 2021 Budget. However, we continue to project an uptick in this revenue for 2022 and beyond.

The expenditure side of the 2021 General Fund projection reflects some savings from budgeting for full staffing, and purposely not filling a number of vacancies during the first three months of the year. Staff is now more actively working to fill vacancies after reviewing whether the position is still needed, should be modified, or whether another Department has greater current needs. As a result of the wage and fringe benefit savings, total 2021 General Fund expenditures are estimated to come in 1% or about $927,000 under budget, while maintaining a year-end fund balance of about 40% as of the end of 2021.

In 2022, the IT/GIS Service Charge in the General Fund is projected to increase by $377,700 for this fund's share of the additional costs associated with the new Enterprise Resource Planning (ERP) software. The annual maintenance cost for the new, more comprehensive software is projected to be $485,000 per year versus the current software maintenance cost of $223,000. In addition, to help run the new robust software it is recommended that an additional IT Systems Analyst be hired. Both of these costs have been built into the 2022 IT budget, which is covered by service charges paid by the Village's operating funds.

The historical and three-year projections for the General Fund for 2022 through 2024 reflect past performance, and provide estimates of the fund's projected revenues and expenditures. To project these expenditures Staff prepares detailed spreadsheets which include each authorized position. As noted earlier, these projections conservatively assume that all positions are filled and that there are no vacancies. Some of the key revenue and expenditure assumptions include the following:

General Fund Assumptions

Revenues:	
Food & Beverage Tax (FBT)	+16.6% in 2021, +6.7% in 2022, 3% in 2023, and 3% in 2024
Home Rule Sales Tax	+4% in 2021, +3% in 2022, 3% in 2023, and 3% in 2024
Sales Tax	+6% in 2021, +3% in 2022, 3% in 2023, and 3% in 2024
Income Tax	+1.8% in 2021, +3% in 2022, 3% in 2023, and 3% in 2024
Local Use Tax	+19% in 2021, 0% in 2022, 0% in 2023, and 0% in 2024
Property Tax (Village and Library)	0% for the 2021 levy collected in 2022, and 3% thereafter
Telecommunications Tax	(23.8%) in 2021, (5%) in 2022 and thereafter
Utility Tax	+ 0%
Expenditures:	
Wages	+2.4% 2022 Projected v. 2021 Budget (includes steps if applicable)
Health Insurance	+ 8% in 2022

Property Tax Projections

One of Staff's key goals is to work to keep any proposed property tax increase as low as possible as shown in **Exhibit 8 – Property Tax Levy History.** The upcoming 2021 property tax levy for the 2022 Budget reflects a 0% increase for the third year in a row. A second key Staff goal is to try to ensure that sufficient funds are available to provide a consistent, high level of Village services each and every year.

As shown in **Exhibit 9,** the first step in developing the Village's property tax levy is entering the known debt service payment requirements and the annual required contributions for the Police and Fire Pension levies. Last year, the capital levy was decreased by $1.1 million in order to balance the General Fund by allocating $3 million in bond proceeds to this fund. Over the next few years, the Village will need to continue to increase the capital levy to ensure that there is a sustainable level of ongoing funding for the annual street program. The FICA and IMRF levies are derived from the detailed wage sheets prepared for the 2022-2024 budget projections. Due to positive interest earnings in 2020, the Police, Fire and IMRF required pension contributions decreased for the 2021 levy. However, the Village is able to maintain prior tax levy levels and still project an overall 0% tax levy increase. This will help the Village in the future when the stock market inevitably changes its course.

Once all of the revenue projections for the General Fund are completed, the remaining gap between the General Fund's estimated revenues and expenditures is divided equally between the Fire and Police Protection levies. Although there is a small General Fund deficit of about $315,500 currently projected for 2022, Village Staff will continue to work on lowering the projected deficit during the development of the 2022 Budget to reach the targeted 0% property tax increase level. It should be noted that this is a property tax estimate for budget ceiling purposes. The final property tax levy amount will be decided by the Board during the 2022 budget meetings held in November 2021.

Water & Sewer Fund

In October 2019 the Village Board approved a five-year water and sewer rate adjustment plan that allowed the Village to increase the amount spent on its water main replacement program. The Village's water and sanitary sewer infrastructure is aging, and the average number of water main breaks are two to three times that of comparable communities. The Village's residential and commercial water meters are also older, and the three-year projections include a replacement plan for these water meters. In 2015 the Village was spending about $500,000 per year on water main replacement. Due to the five-year rate plan changes in 2014 and 2019, as well as $9 million in 2020 bond proceeds, the Village is now able to sustain its goal of replacing at least $4 million, or 1% of our water mains on an annual basis. As mentioned earlier, water and sewer revenue estimates are based on water usage which is lower than the 16-year average. **Exhibits 10 and 11** show the historical and three-year projections for this fund. As noted in the 2022 CIP Update memo, the 2022 budget ceiling figures include a significant increase for the Well #17 repainting project. This tank was last painted 24 years ago and a recent analysis shows significant corrosion of the steel securing the rafters and purlins. The additional cost for these repairs is estimated at $1.055 million. As part of the spending proposal for the federal American Rescue Plan grant funds that are being received by the Village, Staff is recommending that a large portion of these grant funds be allocated to the Water & Sewer Fund. This would cover the increase in the 2022 water tank repainting project scope, as well as help cover the cost of other water and sewer infrastructure projects.

Proposed Budget Ceilings for 2022

The 2022 budget process began in March 2021 when preparations began for updating the five-year Capital Improvement Plan (CIP) with particular emphasis on 2022 projects. The second step in the Village's budget process includes the financial review of the two key operating funds, the General Fund and the Water & Sewer Fund, culminating in the establishment of budget ceiling amounts for these two operating funds. As part of this step staff makes various assumptions on revenue, expense, and property tax increases as outlined earlier. These two steps lead to the development of the proposed budget document which is reviewed prior to approval of the final budget. **Exhibit 12** is a draft copy of the budget calendar for the 2022 Budget.

The recommended expenditure ceilings for the General Fund and the Water & Sewer Fund are based on the following projections:

	General Fund	**Water & Sewer Fund**
Revenues	$ 81,277,000	$ 22,413,200
Expenditures	(81,592,500)	(25,035,500)
Surplus (deficit)*	(315,500)	(2,622,300)
Beginning Balance	31,457,145	10,785,089
Ending Balance	$ 31,141,645	$ 8,162,789

*The Water & Sewer Fund deficit reflects the Village's ongoing plan to replace 1% of the Village's water mains each year. The $9 million 2020 bond issue will help the Village to bridge the funding gap, until water and sewer user fee revenues reach a sustainable level to support the fund's long-term operations and capital expenses.

Recommendation

It is recommended that the Board approve the proposed budget ceilings for 2022 of $81,592,500 for the General Fund and $25,035,500 for the Water & Sewer Fund.

Yellow = Detailed Spreadsheet

Light Blue = Estimate

Exhibit 1

GENERAL FUND
THREE YEAR PROJECTIONS
FISCAL YEARS 2022 THROUGH 2024

SOURCES OF FUNDS

	2019 ACTUAL	2020 ACTUAL	2021 PROJ ACTUAL	$ +,- From Bud	% +,- From Bud	2021 APPR BUDGET		2022 PROJ BUDGET		2023 PROJ BUDGET		2024 PROJ BUDGET
BEGINNING FUND BALANCE	$30,526,365	$30,700,253	$30,408,285			$30,408,285		$31,104,785		$30,789,285		$30,079,985
TAXES												
Property Tax	$23,747,591	$24,305,474	$26,394,600	$0	0%	$26,394,600	1.0%	$26,667,400	3.0%	$27,467,400	3.0%	$28,291,400
Sales Tax	$12,914,676	$12,480,915	$12,928,000	$716,000	6%	$12,212,000	9.0%	$13,316,000	3.0%	$13,715,000	3.0%	$14,127,000
Home Rule Sales Tax	5,401,119	4,654,737	5,110,000	$49,000	1%	5,061,000	4.0%	5,264,000	3.0%	5,422,000	3.0%	5,584,000
Use Tax	2,488,121	3,290,912	3,329,000	$250,000	8%	3,079,000	8.1%	3,329,000	0.0%	3,329,000	0.0%	3,329,000
Income Tax	7,993,676	8,161,144	8,308,000	$986,000	13%	7,322,000	16.9%	8,557,000	3.0%	8,814,000	3.0%	9,079,000
Food & Beverage Tax	2,079,454	1,577,787	1,895,000	$115,000	6%	1,780,000	13.7%	2,023,000	3.0%	2,084,000	3.0%	2,146,000
Telecommunications Tax	2,356,604	1,868,788	1,612,000	($478,000)	-23%	2,090,000	-26.7%	1,532,000	-5.0%	1,455,000	-5.0%	1,382,000
Hotel Tax	1,109,349	408,888	450,000	($525,000)	-54%	975,000	0.0%	975,000	0.0%	975,000	0.0%	975,000
Electric Utility Tax	2,900,788	2,830,115	2,843,000	($257,000)		3,100,000	0.0%	3,100,000	0.0%	3,100,000	0.0%	3,100,000
Natural Gas Utility Tax	2,319,957	2,062,240	2,133,000	($67,000)		2,200,000	0.0%	2,200,000	0.0%	2,200,000	0.0%	2,200,000
All Other Taxes	826,472	742,378	923,000	$185,000		738,000		828,000		828,000		828,000
TOTAL TAXES	64,139,809	62,383,378	65,925,600	974,000	1%	64,951,600		67,791,400		69,389,400		71,041,400
INTERGOVERNMENTAL	321,524	1,204,293	395,000	$34,000		361,000	10.2%	398,000	0.8%	401,000	0.7%	404,000
LICENSES/PERMITS												
Vehicle Licenses	1,764,964	1,237,102	1,430,000	$0	0%	1,430,000	0.0%	1,430,000	0.0%	1,430,000	0.0%	1,430,000
Business Licenses	637,785	623,075	650,000	$0		650,000	0.0%	650,000	0.0%	650,000	0.0%	650,000
Building Permits	1,393,546	920,457	1,200,000	$0	0%	1,200,000	0.0%	1,200,000	0.0%	1,200,000	0.0%	1,200,000
All Other Licenses/Permit	1,038,864	591,392	897,000	$0	0%	897,000	0.0%	897,000	0.0%	897,000	0.0%	897,000
TOTAL LICENSE	4,835,159	3,372,026	4,177,000	$0	0%	4,177,000		4,177,000		4,177,000		4,177,000
FEES	5,398,268	4,789,468	1,971,000	($110,000)	-5%	2,081,000	-5.3%	1,971,000	0.0%	1,971,000	0.0%	1,971,000
FINES	488,364	395,265	546,100	$0	0%	546,100	0.0%	546,100	0.0%	546,100	0.0%	546,100
SERVICE CHG	2,112,976	2,141,521	5,241,800	($98,600)		5,340,400	0.1%	5,344,400	1.1%	5,400,700	1.1%	5,458,700
INTEREST INC.	676,476	138,914	245,000	($125,000)	-34%	370,000	0.0%	370,000	0.0%	370,000	0.0%	370,000
SALES/REIMB/RENTS	118,549	137,821	121,000	($5,000)		126,000	-4.0%	121,000	0.0%	121,000	0.0%	121,000
OTHER	468,949	367,409	350,400	($3,600)		354,000	1.2%	358,100	2.2%	366,000	2.2%	374,200
SUB-TOTAL	$78,560,074	$74,930,095	$78,972,900	$665,800	1%	$78,307,100		$81,077,000		$82,742,200		$84,463,400
TRANSFERS IN	200,000	350,000	200,000	$0		200,000	0.0%	200,000	0.0%	200,000	0.0%	200,000
TOTAL REVENUES	$78,760,074	$75,280,095	$79,172,900	$665,800	1%	$78,507,100		$81,277,000		$82,942,200		$84,663,400

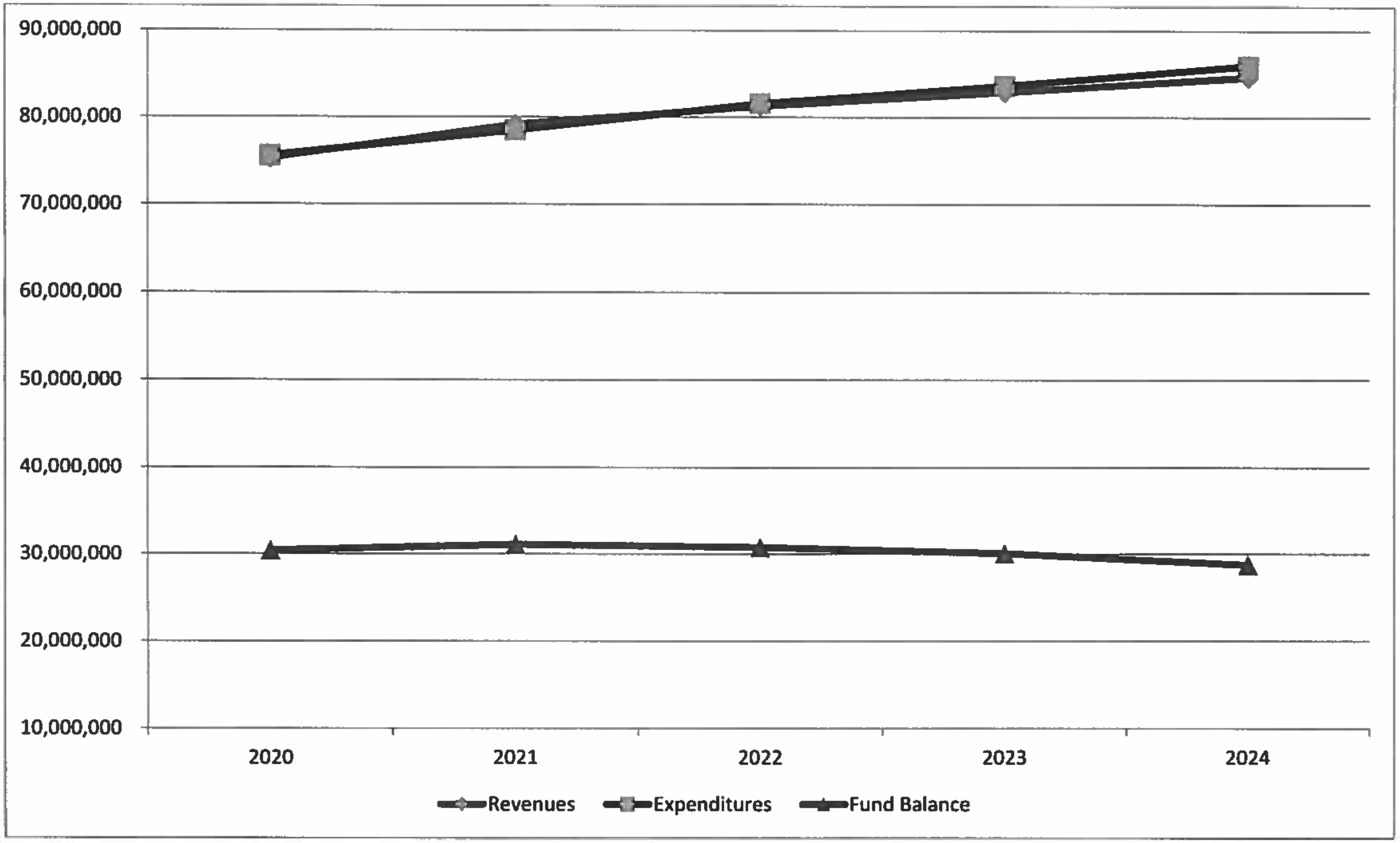
USES OF FUNDS

	2019 ACTUAL	2020 ACTUAL	2021 PROJ ACTUAL	$ +,- From Bud	% +,- From Bud	2021 APPR BUDGET		2022 PROJ BUDGET		2023 PROJ BUDGET		2024 PROJ BUDGET
PERSONAL SERVICES												
Salaries	$36,279,200	$36,957,449	$38,360,500	$876,100	-2%	$39,236,600	2.2%	$40,117,700	3.2%	$41,383,800	3.0%	$42,634,400
Overtime	$2,687,523	$2,392,252	$2,057,500	$0	0%	$2,057,500	2.2%	$2,103,600	2.2%	$2,150,900	2.2%	$2,199,200
Special Details	$387,971	$165,991	$409,400	$0	0%	$409,400	2.2%	$418,600	2.3%	$428,100	2.2%	$437,700
Workers Compensation	$1,795,200	$1,831,100	$1,922,600	$0	0%	$1,922,600	0.0%	$1,922,600	1.0%	$1,941,800	1.0%	$1,961,100
Medical Insurance	$7,270,525	$7,640,700	$7,722,800	$0	0%	$7,722,800	8.0%	$8,342,800	8.0%	$9,010,200	8.0%	$9,731,100
Public Safety Pensions	$8,970,000	$9,339,000	$8,986,000	$0	0%	$8,986,000	1.0%	$9,076,000	0.0%	$9,076,000	0.0%	$9,076,000
IMRF	$1,367,137	$1,724,112	$1,803,800	$32,000	-2%	$1,835,800	1.7%	$1,866,400	3.2%	$1,925,800	3.2%	$1,987,900
Social Security	$817,081	$819,598	$889,100	$15,400	-2%	$904,500	1.9%	$921,700	2.9%	$948,800	2.9%	$975,900
Medicare	$550,951	$553,792	$593,700	$3,800	-1%	$597,500	2.5%	$612,500	3.1%	$631,300	3.0%	$650,200
Other	$10,845	$10,665	$10,800	$0	0%	$10,800	0.0%	$10,800	0.0%	$10,800	0.0%	$10,800
TOTAL PERSON	$60,136,433	$61,434,659	$62,756,200	$927,300	-1%	$63,683,500		$65,392,700		$67,507,500		$69,664,300
CONTRACTUAL												
IT/GIS Service Charge	1,401,700	1,582,700	1,605,700	$0	0%	1,605,700	23.5%	1,983,400	1.9%	2,021,900	2.0%	2,062,100
Vehicle/Equip Lease Cha	3,054,500	2,988,000	3,105,300	$0	0%	3,105,300	1.4%	3,148,800	3.0%	3,243,100	3.0%	3,340,400
All Other Service Charge:	7,115,371	6,778,410	7,314,000	$3	0%	7,314,003	-1.0%	7,243,300	2.5%	7,425,200	0.6%	7,466,200
TOTAL CONTRA	11,571,571	11,349,110	12,025,000	3	0%	12,025,003		12,375,500		12,690,200		12,868,700
COMMODITIES	2,472,238	1,972,974	2,520,500	($25)	0%	2,520,475	-2.6%	2,455,200	1.1%	2,482,400	1.1%	2,510,100
OTHER CHARGES	953,275	815,320	974,700	$56	0%	974,756	-0.6%	969,100	0.2%	971,400	0.2%	973,700
SUB-TOTAL	$75,133,516	$75,572,063	$78,276,400	$927,334	-1%	$79,203,734		$81,192,500		$83,651,500		$86,016,800
CONTINGENCY	0	0	200,000	$0	0%	200,000		400,000		0		0
TRANSFERS OUT	3,452,670	0	0	$0		0		0		0		0
TOTAL EXPENDITURES	$78,586,186	$75,572,063	$78,476,400	$927,334	-1%	$79,403,734		$81,592,500		$83,651,500		$86,016,800
SURPLUS(DEFICIT)	173,888	(291,968)	696,500			(896,634)		(315,500)		(709,300)		(1,353,400)
ENDING FUND BALANCE	$30,700,253	$30,408,285	$31,104,785			$29,511,651		$30,789,285		$30,079,985		$28,726,585
FUND BALANCE AS % OF EXP.	39.07%	40.24%	39.64%			37.17%		37.74%		35.96%		33.40%

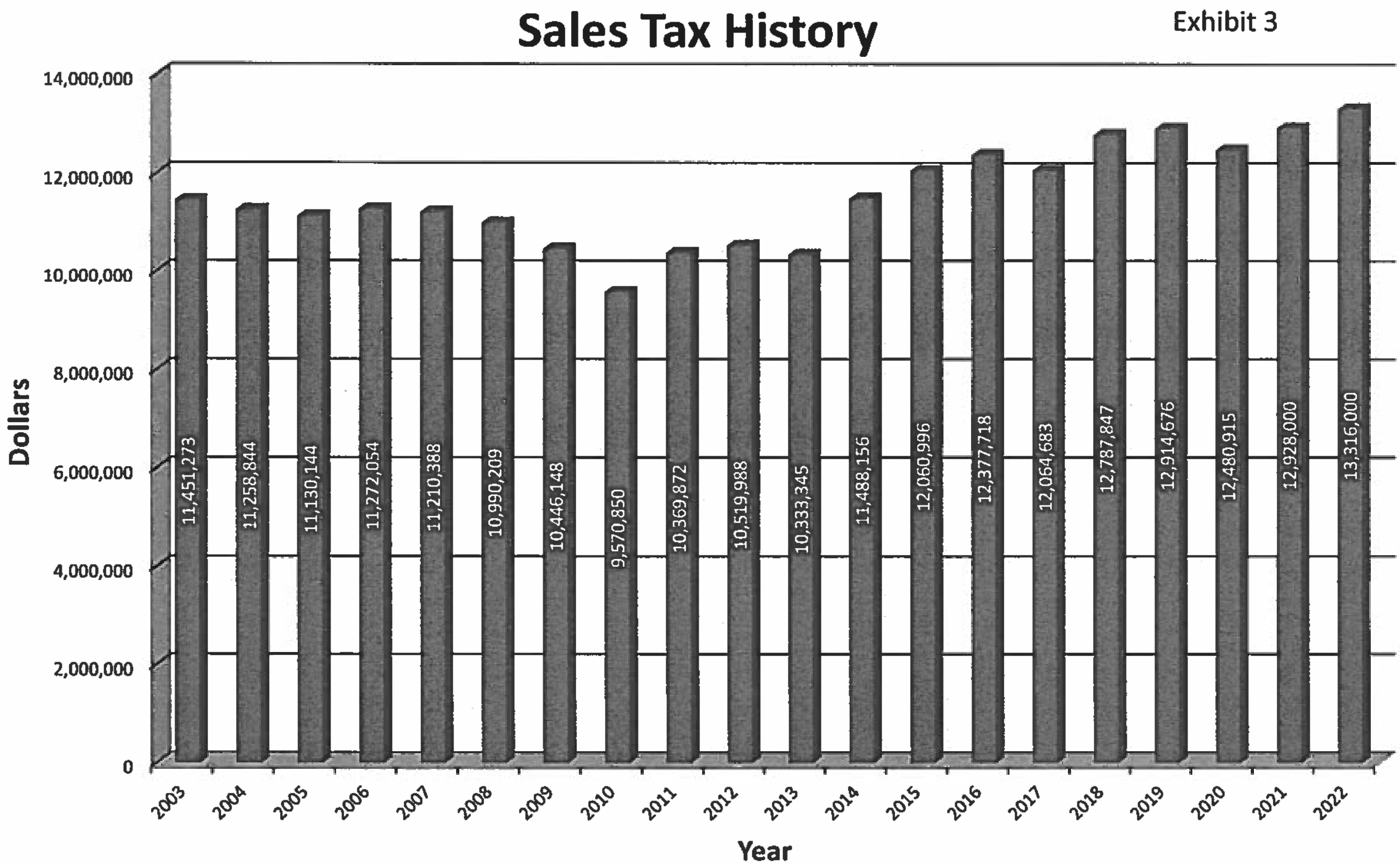
Note: Village policy is to maintain at least a 25% fund balance.

GENERAL FUND
REVENUES vs EXPENDITURES 2020-2024
Staff Proposal

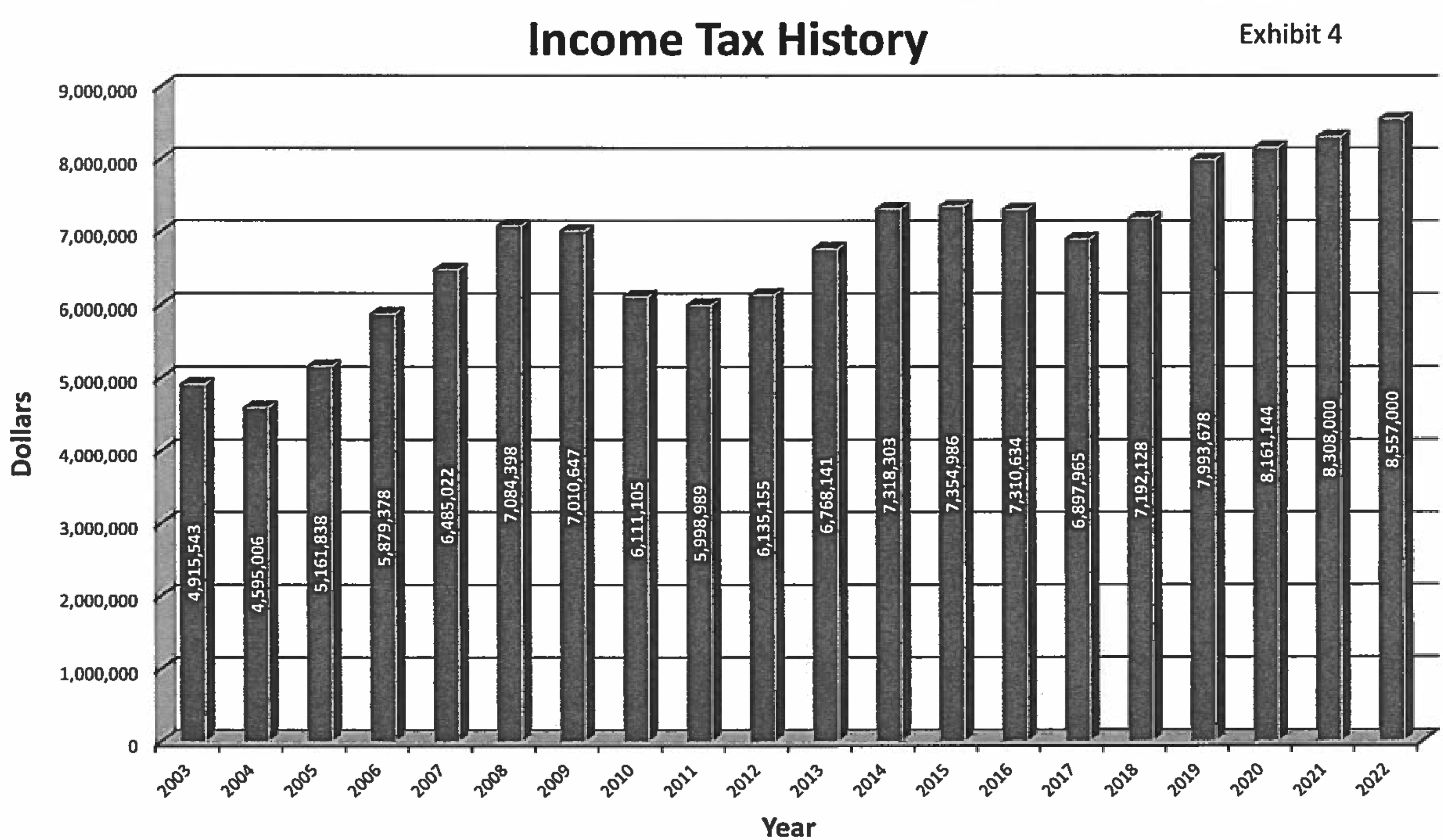
Exhibit 2



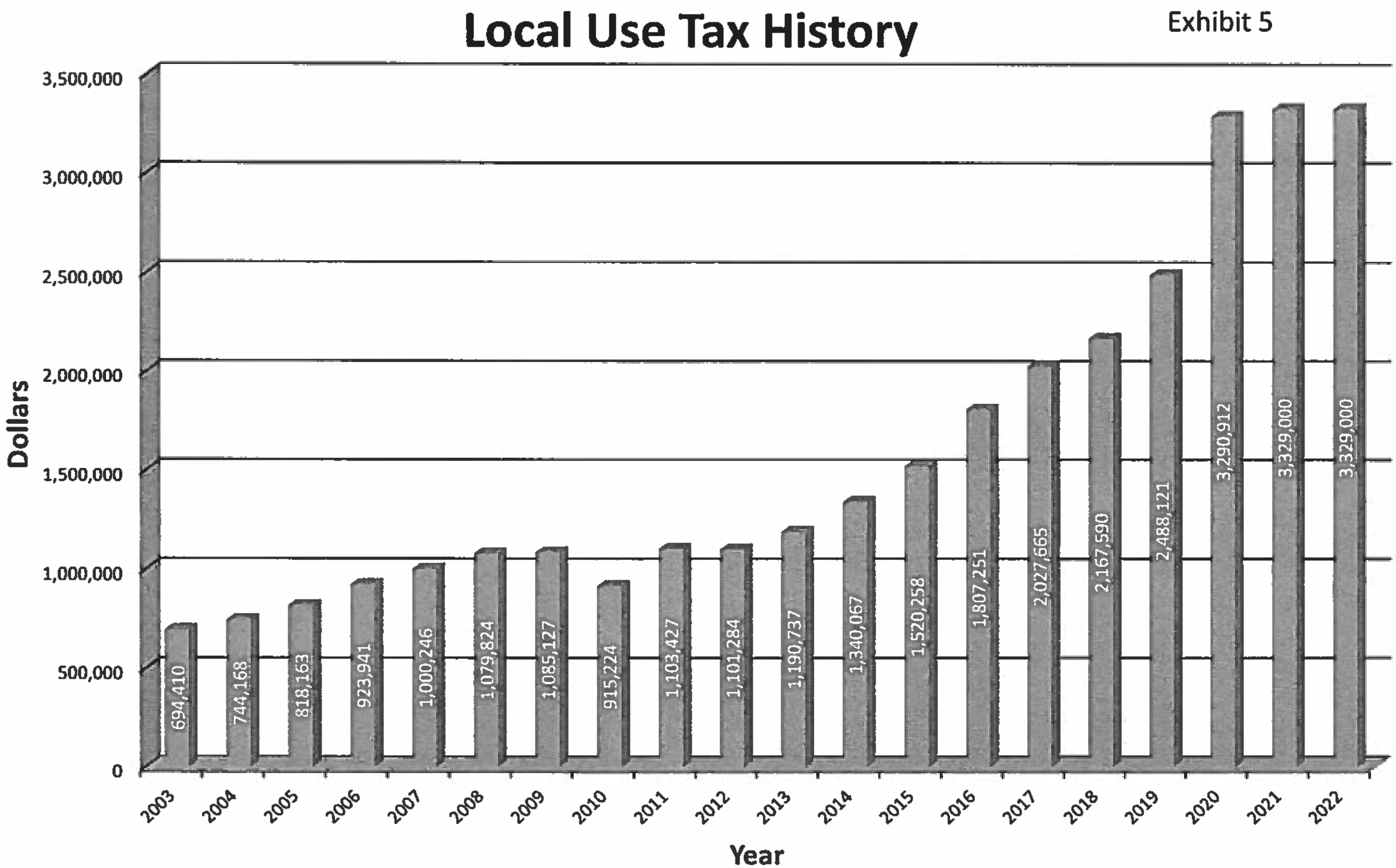
	ACTUAL 2020	ESTIMATED ACTUAL 2021	PROPOSED BUDGET 2022	PROPOSED BUDGET 2023	PROPOSED BUDGET 2024
Revenues	75,280,095	79,172,900	81,277,000	82,942,200	84,663,400
Expenditures	75,572,063	78,476,400	81,592,500	83,651,500	86,016,800
Surplus/Deficit	(291,968)	696,500	(315,500)	(709,300)	(1,353,400)
Fund Balance	30,408,285	31,104,785	30,789,285	30,079,985	28,726,585
Fund Bal as % of Expend	40.24%	39.64%	37.74%	35.96%	33.40%



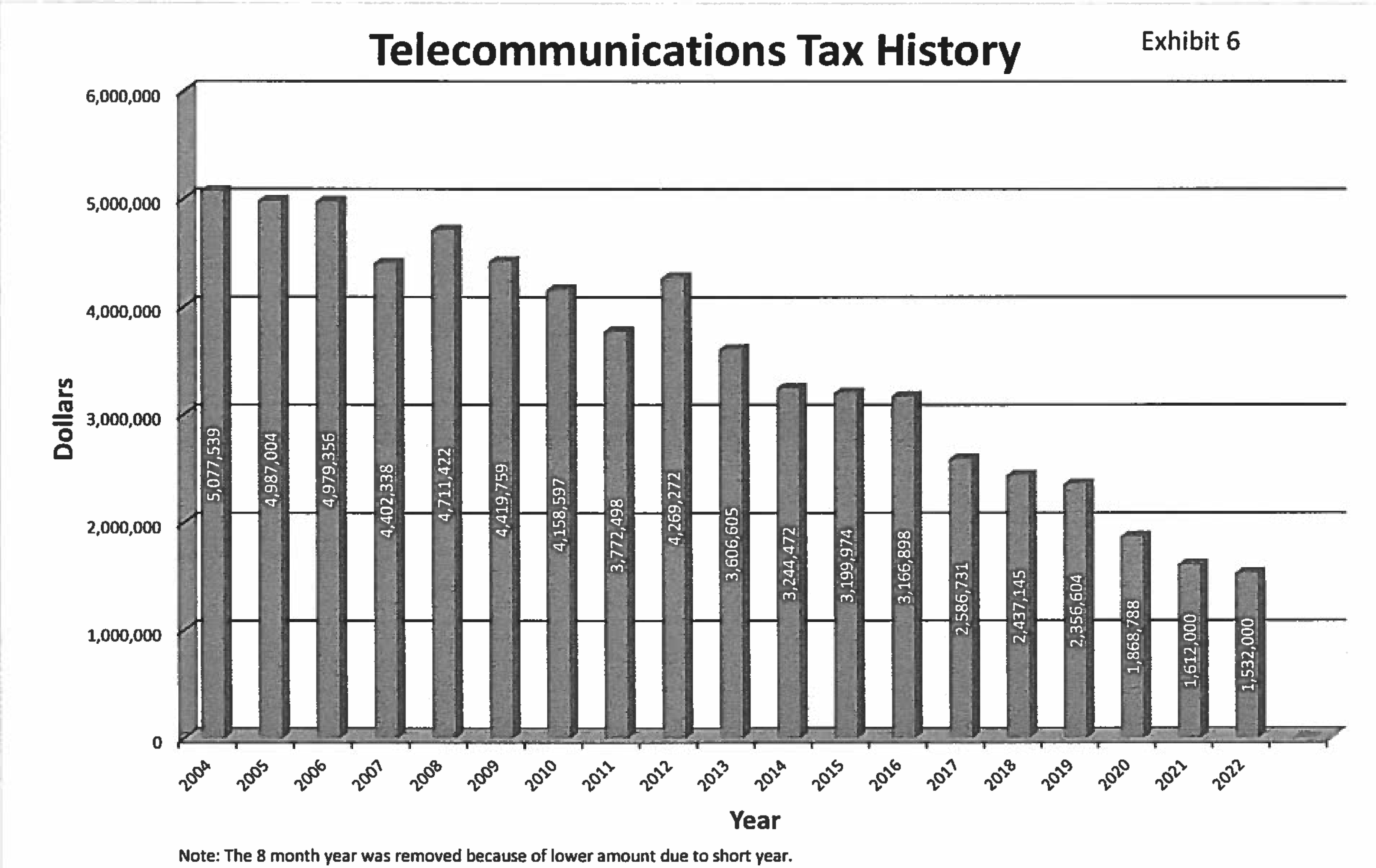
Note: The 8 month year was removed because of lower amount due to short year.

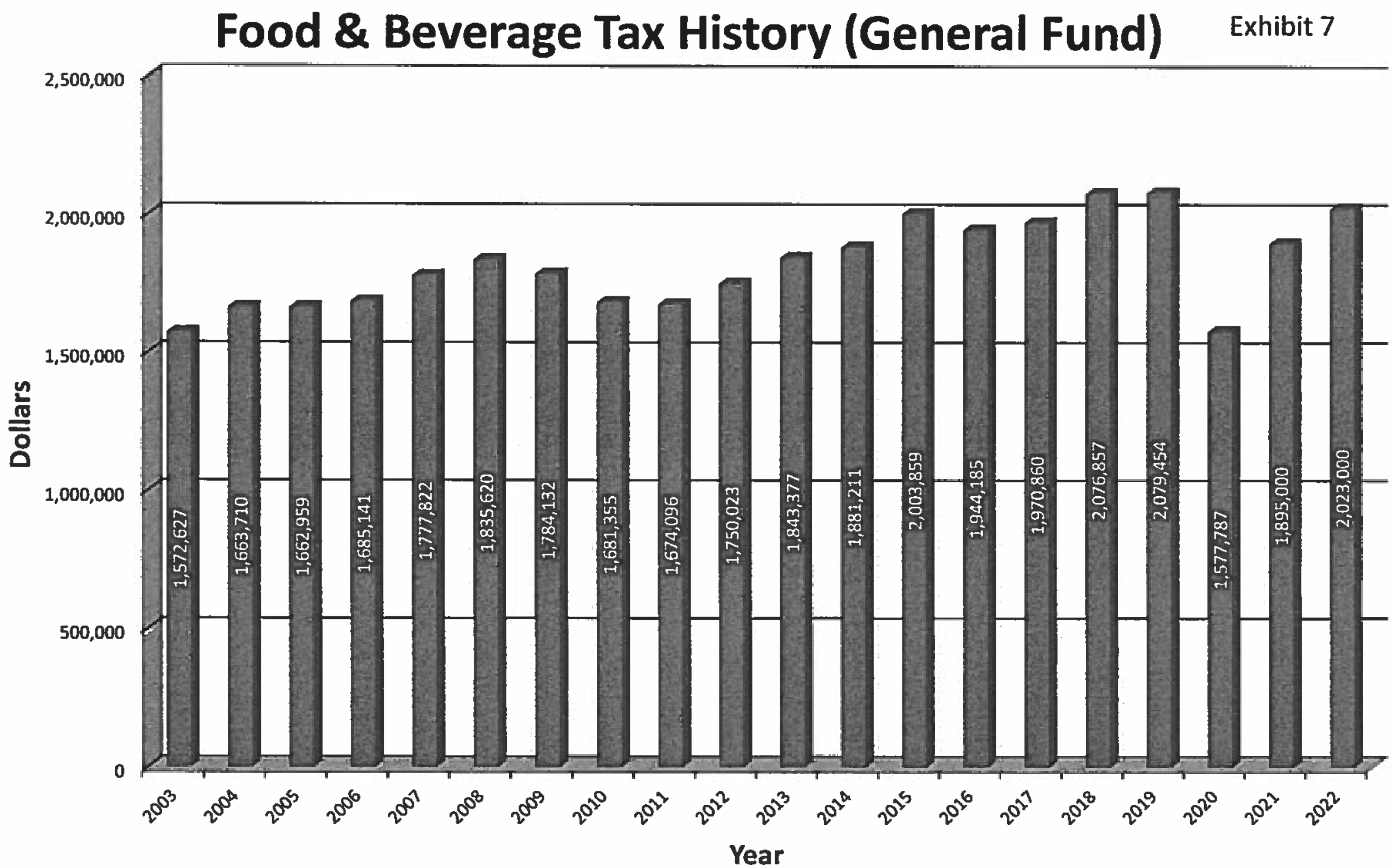


Note: The 8 month year was removed because of lower amount due to short year.



Note: The 8 month year was removed because of lower amount due to short year.


Telecommunications Tax History
Exhibit 6
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
Dollars
5,077,539
4,987,004
4,979,356
4,402,338
4,711,422
4,419,759
4,158,597
3,772,498
4,269,272
3,606,605
3,244,472
3,199,974
3,166,898
2,586,731
2,437,145
2,356,604
1,868,788
1,612,000
1,532,000
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
Year
Note: The 8 month year was removed because of lower amount due to short year.



Note: The 8 month year was removed because of lower amount due to short year.

PROPERTY TAX LEVY HISTORY

Exhibit 8

LEVY YEARS 2003 - 2021

LEVY YEAR	VILLAGE % INCREASE	LIBRARY % INCREASE	TOTAL % INCREASE	COMMENTS	BUDGET YEAR
2021	0.00	0.00	0.00		2022
2020	0.00	0.00	0.00		2021
2019	0.00	0.00	0.00		2020
2018	1.97	1.00	1.70		2019
2017	3.68	0.00	2.61	To cover sales and State income tax decreases	2018
2016	1.95	0.00	1.38	Entire increase for street purposes (Phase 2)	2017
2015	3.59	0.00	2.51	Entire increase for street purposes (Phase 1)	2016
2014	0.00	0.00	0.00		8-mo.
2013	2.65	0.00	1.84		FY2015
2012	1.74	0.00	1.20		FY2014
2011	0.00	0.00	0.00		FY2013
2010	4.30	0.00	2.93	Police/Fire Pension Funds - market crash	FY2012
2009	5.74	1.77	4.44	Police/Fire Pension Funds - market crash	FY2011
2008	0.32	0.00	0.21		FY2010
2007	2.48	4.90	3.26		FY2009
2006	11.14	9.20	10.51	Taxing districts captured expiration of TIF #1	FY2008
2005	14.67	4.99	11.32	Fire Pension benefit increase - State legislation	FY2007
2004	11.98	4.00	9.09	Police/Fire Pension benefit increase - State legislation	FY2006
2003	2.14	0.99	1.72		FY2005

Exhibit 9

VILLAGE OF ARLINGTON HEIGHTS
TOTAL ESTIMATED VILLAGE AND LIBRARY CALCULATIONS
(2021 Tax Levy for the 2022 Budget with 2020 Extended Tax Levy)

	EXTENDED 2020 LEVY FOR 2021 BUDGET YEAR	PROPOSED 2021 LEVY FOR 2022 BUDGET YEAR	DOLLAR CHANGE	% CHANGE	
POLICE PROTECTION	7,105,754	7,095,000	(10,754)	-0.15%	
FIRE PROTECTION	7,105,754	7,095,000	(10,754)	-0.15%	=> General Fd rev - exp gap
IMRF	1,854,158	1,867,000	12,842	0.69%	2021 wage projections
SOCIAL SECURITY	1,517,020	1,534,400	17,380	1.15%	2021 wage projections
POLICE PENSION FUND	4,113,730	4,114,000	270	0.01%	Actuary ARC
FIRE PENSION FUND	4,962,130	4,962,000	(130)	0.00%	Actuary ARC
TOTAL GENERAL FUND	26,658,546	26,667,400	8,854	0.03%	
CAPITAL IMPROVEMENT	4,444,000	4,500,000	56,000	1.26%	
DEBT SERVICE	6,563,542	6,498,700	(64,842)	-0.99%	Bond Documents (EST)
TOTAL VILLAGE TAX LEVY	37,666,088	37,666,100	12	0.00%	
TOTAL LIBRARY TAX LEVY	14,680,922	14,680,922	0	0.00%	
GRAND TOTAL TAX LEVY	52,347,010	52,347,022	12	0.00%	

WATER AND SEWER FUND

THREE YEAR PROJECTIONS

FISCAL YEARS 2020 THROUGH 2022

Exhibit 10

SOURCES OF FUNDS

	2020 ACTUAL	2021 EST ACTUAL	2021 CURRENT BUDGET	2022 PROP BUDGET	2023 PROJ BUDGET	2024 PROJ BUDGET
BEGINNING WORKING CASH	**$1,321,275**	**$9,744,732**	**$9,744,732**	**$6,286,632**	**$3,664,332**	**$1,401,832**
SERVICE CHG	$19,958,979	$21,285,200	$21,953,200	$22,275,200	$23,606,200	$25,006,200
INTEREST INC.	$4,489	$12,000	$20,000	$20,000	$20,000	$20,000
SALES/REIMB/RENTS	$52,274	$98,000	$98,000	$98,000	$98,000	$98,000
OTHER	$10,598,357	$230,000	$20,000	$20,000	$20,000	$20,000
SUB-TOTAL	**$30,614,099**	**$21,625,200**	**$22,091,200**	**$22,413,200**	**$23,744,200**	**$25,144,200**
TRANSFERS IN	0	0	0	0	0	0
TOTAL REVENUES	**$30,614,099**	**$21,625,200**	**$22,091,200**	**$22,413,200**	**$23,744,200**	**$25,144,200**

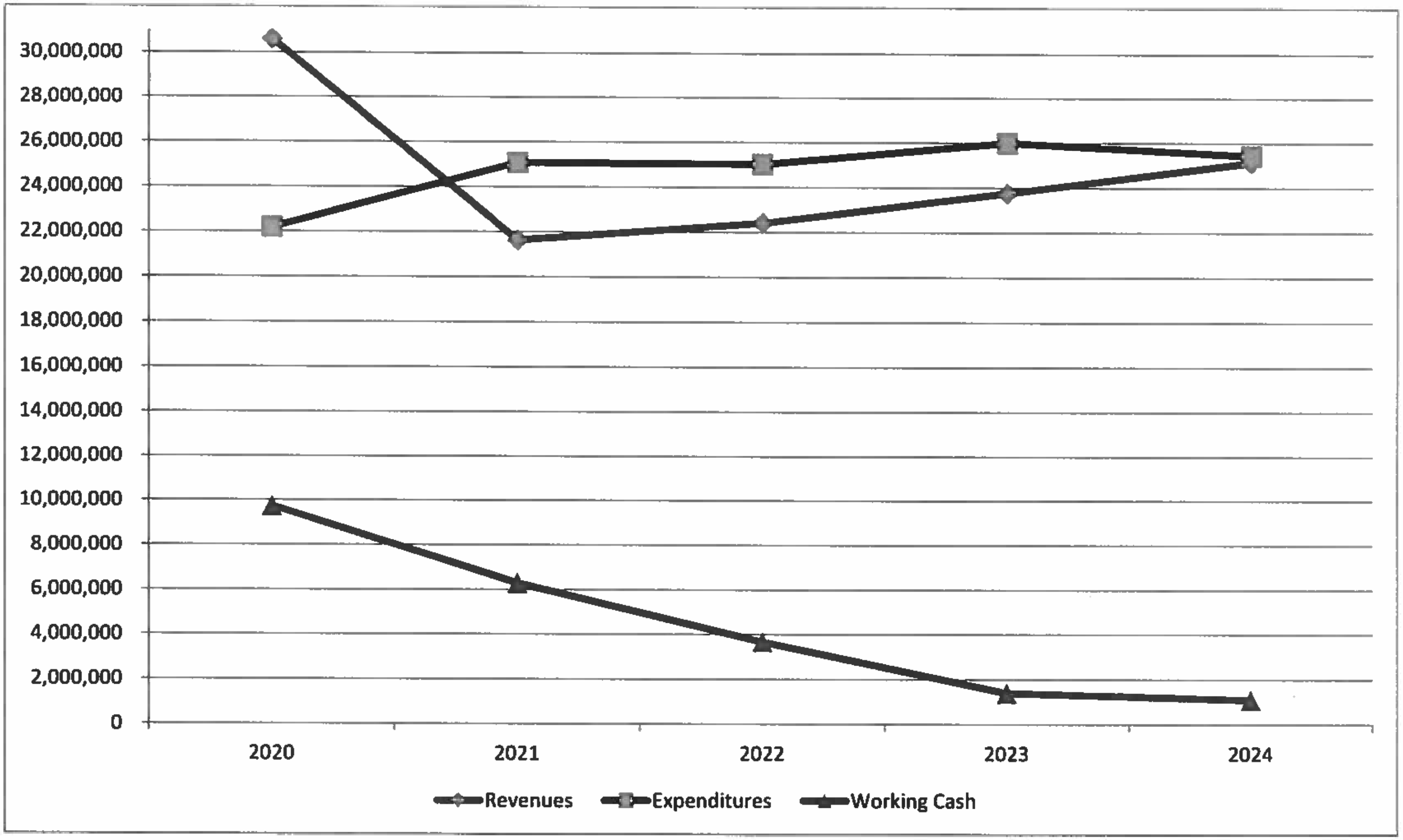
USES OF FUNDS

	2020 ACTUAL	2021 EST ACTUAL	2021 CURRENT BUDGET	2022 PROP BUDGET	2023 PROJ BUDGET	2024 PROJ BUDGET
PERSONAL SERVICES	$6,306,303	$6,889,900	$7,082,600	$7,276,400	$7,564,400	$7,856,600
CONTRACTUAL	2,557,272	2,799,700	2,799,740	2,785,500	2,826,300	2,867,800
NORTHWEST WATER COMMISSIOI	3,749,826	3,768,200	4,124,900	4,100,000	4,200,000	4,300,000
COMMODITIES	448,326	748,400	748,400	755,300	763,500	772,000
OTHER CHARGES	1,768,456	1,836,500	1,836,500	1,891,100	1,947,400	2,005,400
CAPITAL ITEMS	7,360,459	8,740,600	8,498,016	7,927,200	8,705,100	7,644,800
SUB-TOTAL	**$22,190,642**	**$24,783,300**	**$25,090,156**	**$24,735,500**	**$26,006,700**	**$25,446,600**
CONTINGENCY	0	300,000	300,000	300,000	0	0
TRANSFERS OUT	0	0	0	0	0	0
TOTAL EXPENDITURES	**$22,190,642**	**$25,083,300**	**$25,390,156**	**$25,035,500**	**$26,006,700**	**$25,446,600**
SURPLUS(DEFICIT)	**8,423,457**	**(3,458,100)**	**(3,298,956)**	**(2,622,300)**	**(2,262,500)**	**(302,400)**
ENDING WORKING CASH	**$9,744,732**	**$6,286,632**	**$6,445,776**	**$3,664,332**	**$1,401,832**	**$1,099,432**
WORKING CASH AS % OF EXPENDITUR	**44%**	**25%**	**25%**	**15%**	**5%**	**4%**

Note: Village policy is to maintain at least a 25% fund balance.

Exhibit 11

WATER AND SEWER FUND
REVENUES vs EXPENDITURES 2020-2024



	ACTUAL 2020	ESTIMATED ACTUAL 2021	PROPOSED BUDGET 2022	PROPOSED BUDGET 2023	PROPOSED BUDGET 2024
Revenues	30,614,099	21,625,200	22,413,200	23,744,200	25,144,200
Expenditures	22,190,642	25,083,300	25,035,500	26,006,700	25,446,600
Surplus/Deficit	8,423,457	(3,458,100)	(2,622,300)	(2,262,500)	(302,400)
Working Cash	9,744,732	6,286,632	3,664,332	1,401,832	1,099,432
Fund Bal as % of Expend	44%	25%	15%	5%	4%

BUDGET CALENDAR

Exhibit 12

For Preparation of 2022 Budget

(January 1, 2021 – December 31, 2021)

DATE	DAY	ACTIVITY
March - June, 2021	–	Capital Improvement Project Recap prepared.
June 23, 2021	Wednesday	Operating fund overview, recommended budget ceilings and proposed 2021 tax levy released to Village Board for discussion at June 28th Committee-of-the-Whole meeting. CIP recap released to Village Board for discussion at June 28th Committee-of-the-Whole.
June 28, 2021	**Monday**	Committee-of-the-Whole reviews Capital Improvement Program Recap, and discusses the Operating Fund Overview, Recommended 2022 Budget Ceilings, and proposed 2022 tax levy.
July 6, 2021	Tuesday	Board considers any motions stemming from June 28th Committee-of-the-Whole meeting regarding the recommended 2022 Budget Ceilings.
July 9, 2021	Friday	Budget worksheets are forwarded to departments. Departments prepare detailed budgets.
August 10, 2021	Tuesday	Department budget requests and projections due.
Aug 10 – Sep 3, 2021	–	Finance Department compiles departmental budget submissions.
September 3, 2021	Friday	First draft of 2022 Budget forwarded to Village Manager, Budget Team and all departments for review.
Sep 13 – Sep 15, 2021	–	Departments meet with Village Manager and Budget Team.
Sep 15 – Oct 22, 2021	–	Final draft of 2022 budget prepared.
October 29, 2021	Friday	Release final draft of 2022 Budget to Village Board.
November 8, 2021	**Monday**	**1st Budget Meeting** – AH Memorial Library, Budget Overview, Budgets for Board of Trustees, Integrated Services, Health & Human Services, HR, Finance, Building Services, and Police
November 10, 2021	**Wednesday**	**2nd Budget Meeting** – Budgets for Metropolis Theater, Boards & Commissions, Legal, Planning & Community Development, Engineering, Public Works, Water & Sewer, Parking Operations, Fleet Services, and Fire
November 11, 2021	**Thursday**	**3rd Budget Meeting** – If needed
November 17, 2021	Wednesday	Notice of Public Hearing on 2022 Budget published in newspaper.
December 6, 2021	**Monday**	Board approves 2021 Tax Levy and Abatement Ordinances. Public Hearing on 2022 Budget. Approval of 2022 Budget at formal meeting.

Committee-of-the-Whole
6/28/2021

Item: Review of the American Rescue Plan Grant - Spending Proposal

Department: Finance

ATTACHMENTS:

Description	**Type**
American Rescue Plan Grant - Spending Proposal	Exhibits

INTER OFFICE

MEMO

To: Randy Recklaus, Village Manager
From: Tom Kuehne, Finance Director/Treasurer
Date: June 18, 2021
Subject: **AMERICAN RESCUE PLAN GRANT – SPENDING PROPOSAL**

Over the past 12 years the Village has weathered two significant recessionary events. In 2008, the subprime mortgage crisis caused the Great Recession that devasted world financial markets, as well as banking, real estate, and other industries. To stave off a prolonged economic depression, the federal government stepped in to bailout numerous financial institutions and businesses. However, other businesses and governments were forced to retrench in order to bring their finances in balance. During this time, the Village reduced its staffing level by about 10%. Although staffing levels have remained at this lower level, it took the Village a number of years to regain its solid financial footing.

The Great Recession was followed by the Coronavirus pandemic which started in March 2020. For health and safety reasons, the Pandemic required the immediate shut down of the economy resulting in the immediate decrease in a number of the Village's revenue sources. By keeping vacant positions open, using reserves, reducing other expenses, and through the receipt of federal grants, the Village has been able to weather the recent coronavirus recession. In 2020, the Village received $590,000 in federal Cares Act funds and $122,500 in other federal grants, as part of the federal response to the pandemic's effects on local government finances. To provide additional economic stimulus, in 2021 the federal government approved the American Rescue Plan.

American Rescue Plan

The American Rescue Plan (ARP) Act of 2021 is a $1.9 trillion economic stimulus bill passed by Congress to speed up the recovery from the economic and health consequences of the Pandemic. The ARP provides funding for economic impact payments, the expansion of the child tax credit, a state and local fiscal recovery fund, a homeowner assistance fund, capital projects funds, emergency rental assistance, a state small business credit initiative, employee retention and paid leave credit programs, and expanded unemployment compensation payments.

Of the $350 billion allocated to the state and local fiscal recovery fund, $65.1 billion is included for financial assistance for municipalities across the nation. Of that amount, $45.57 billion is being allocated to metropolitan cities which have a population above 50,000. Funds to this group, including Arlington Heights, are being distributed based on the CDBG formula. **The bottom line is that the Village will receive $6.78 million over two years. In May 2021 the Village received $3.39 million, and the second tranche will be received in one year**. The goal of the plan is to distribute the funds as soon as possible, and to give recipient municipalities broad flexibility to decide how best to use the funding to meet the needs of the community. However, we must ensure that the funds are used and reported in compliance with U.S. Treasury requirements. Staff has reviewed program guidance and answers to frequently asked questions provided by the U.S. Treasury and the Government Finance Officers' Association, and has consulted with our auditors and neighboring communities. The Village is in a fortunate position in that our key growth revenues have started to bounce back quickly. As such, the ARP funds can be used to solidify our financial position in the future, including enhancements to the Village's infrastructure maintenance program. Since this is one-time funding, Staff recommends that these funds not be used to pay for new or ongoing operations or programs.

What Are the Eligible Uses of the ARP Funds?

a. Support public health expenditures, by funding COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health safety staff;
b. Address negative economic impacts caused by the public health emergency, including economic harms to workers, households, small businesses, impacted industries, and the public sector;
c. Replace lost public sector revenue, using this funding to provide government services to the extent of the reduction in revenue experienced due to the pandemic;
d. Provide premium pay for essential workers, offering additional support to those who have borne and will bear the greatest health risks because of their service in critical infrastructure sectors; and,
e. Invest in water, sewer and broadband infrastructure, making necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure and to expand access to broadband Internet.

Ineligible uses include using the funds to reduce taxes, making payments to pension funds to reduce the accrued unfunded liability, funding debt service, legal settlements, or deposits to reserves.

In conversations with other local communities and our auditors, most municipalities appear to be considering using item c. replace lost public sector revenue and item e. invest in water and sewer infrastructure as the basis for eligible uses of the ARP funds. As shown in **Exhibit A**, the Village of Arlington Heights' entire ARP funding amount qualifies under the lost revenue eligibility requirement with a net loss from 2019 to 2020 of $7.1 million. This calculation includes a 2020 trend inflation of 4.1% as prescribed by the U.S. Treasury for this comparison. Beyond this calculation, the Village will need to keep the financial records and supporting documents related to ARP for a period of five years. This includes records and documents that demonstrate the funds were used for eligible purposes per U.S. Treasury Department regulations.

ARP Spending Proposals

1. **Water & Sewer Fund Infrastructure $2,500,000**

Exhibit B shows the current five-year plan for the Water & Sewer Fund. In addition to the water main replacement program, the Village will be replacing residential and commercial water meters over the next few years. The 2022 water tank painting project also saw a significant recent increase when it was determined that Well #17 last painted 24 years ago, shows significant corrosion of the steel securing the rafters and purlins. This will result in an additional $1.055 million in unbudgeted costs. The additional ARP funding would provide immediate capital support and contribute to the ongoing health of this fund.

2. **Police and Fire Vehicle Purchases (Fleet Fund) $2,500,000**

Exhibit C shows the current five-year plan for the Fleet Fund. The Fleet Fund internal service charge to the General Fund is based on the depreciation schedule of the purchased vehicles. Vehicle replacement costs are typically higher than the original vehicle, but the interest income earned by the fund is intended to cover this increased cost. However, over the last decade, interest rate levels have been kept near zero through actions by the Federal Reserve. As a result, the Fleet Fund is currently only 59% funded. Support for public safety operations are explicitly identified as an allowable cost in the Treasury's frequently asked questions, and use of the ARP funds would provide an immediate benefit to Village residents. While this fund does not need to be 100% funded, a 75% funding level would put the Fleet Fund in a better position. By covering a portion of the cost of the upcoming Police and Fire vehicle purchases over the next three years with the proposed ARP funds, the Fleet Fund could improve to a 75% funded position. The other alternative to improve the funding level would be to increase General Fund vehicle/equipment use charges which would put pressure on property taxes.

3. **Capital Projects Fund $1,272,596**

During last year's 2021 Budget process, one of the steps the Village took to ensure a zero percent property tax increase was to allocate $3 million in one-time 2020 bond proceeds to the Capital Projects Fund and shift $1.1 million in the annual property tax levy to the General Fund from the Capital Projects Fund to cover ongoing operating expenditures. The goal was to then increase the Capital Project Fund property tax level over the next few years to bring it back to its prior level. The addition of these ARP funds would help bridge the gap to a sustainable funding level for the Capital Projects Fund in the future. The proposed ARP funds would be spent as part of the Village's planned capital spending by the end of calendar year 2024 as required by ARP.

4. **Arlington Heights Park District Capital Projects approximately $500,000**

Under the ARP rules, the Village can allocate direct funds to other government agencies within its jurisdiction to help offset that government's revenue losses due to the Pandemic. The Arlington Heights Park District has made such a request for a portion of the Village's ARP funding. Unlike the Village, which had to continue to provide services during the Pandemic, the Park District cancelled programs, closed recreational facilities, and deferred capital projects. The Park District had to make many difficult decisions regarding service reductions, but they were one of the few local governments that weren't eligible for ARP funding or other significant federal grants. In 2020, the Park District received only $5,000 through the federal Cares Act program.

After considering the Village's long-term financial needs, Staff is recommending that approximately $500,000 be allocated to the Park District for eligible capital projects that will be completed by 2024 as per the ARP's requirements. As part of this proposed allocation of significant ARP funds to the Park District, Staff recommends that this include the Park District's agreement of the Village's use of Park District property, which the Village is currently discussing with the District for a Stormwater Project at Raven Park (part of the Berkeley-Hintz Stormwater Improvement Plan). Like the Greenbrier-Roanoke plan currently under construction, this project requires the use of Park District owned property for stormwater detention.

Along with the Raven Park land use agreement for the Village's stormwater project, allocating a portion of the Village's ARP funds for eligible Park District capital projects completed by 2024, would help the Park District manage the financial effects of the pandemic on their operations, and would provide enhanced park and stormwater facilities to Village residents. The Park District would be considered a subrecipient of the Village, and would be required to provide documentation that any funds it receives are spent in accordance with ARP guidelines.

Total ARP Spending Proposal **$6,772,596**

One additional item that is not related to the pandemic, but involves other Village funds is the planned closure of the Public Building Fund during 2021. This fund was used to account for the construction of a number of new Village buildings including Public Works, Fire Station 1, Village Hall, and the Police Station. With the completion of these projects this fund is scheduled to be closed in 2021. Per the approved 2021 Budget, the remaining $3.23 million in this fund is currently being distributed as follows:

$2 million to the IT Fund for the ERP software
$780,000 to help stabilize the Fleet Fund
$450,000 to help support the A & E Fund

Since the Fleet Fund stabilization is proposed to be addressed with ARP funds as noted above, it is recommended that the $780,000 be reallocated in 2021 as follows:

- $580,000 - to account for 2020 lost revenue in the Parking Fund due to the pandemic; and
- $200,000 - additional funds to the A & E Fund to account for a portion of the 2020 lost revenue due to the pandemic.

It is Staff's intention to include a discussion of these items on the June 28th COW Meeting agenda.

Cc: Anthony Cervini, Sikich, LLP
Mary Juarez
Alexis Smulson
Kevin Baumgartner