

Memo

To: Village Board and Financial Affairs Committee
From: Rob Piscia-Village Administrator, Jeff Cook-Assistant Village Administrator and Jenni Booth-Finance Director
Date: March 11, 2020
Re: FINANCIAL OVERVIEW – FY 19/20 AND FY 20/21

The following financial overview recaps fiscal year 2019/2020, projected year-end results, and the proposed fiscal year 2020/2021 budget. Attached is the FY 20/21 draft budget, which is submitted for your review and consideration.

BUDGETING PROCESS

In January, the budget process formally began when Mayor Holland held a meeting with the Village Board and staff to discuss overall staff objectives for the coming year. Direction received from the Board at that meeting laid the groundwork for the FY 20/21 (5/1/20-4/30/21) budget process.

Later in the month, leaders of each department began the task of estimating the end-of-year expenditures for each line item in the current fiscal year. In addition to estimating current trends, each department head was required to specify the budgetary expenditure needs for FY 20/21 in each line item of their budget. Once all department submittals were compiled, the budget team met with all departments to review and pare down the final proposed budget figures. These figures make up the draft budget to be presented at the March meeting of the Finance Committee. In April, the Village Board will review the budget for approval. The new budget year begins May 1st.

Once the budget is approved, the budget team will create the appropriation document, which will be presented to the Financial Affairs Committee in June. The Village Board is scheduled to review and pass the appropriation ordinance in July.

GOVERNMENTAL FUNDS

FY 19/20 OVERVIEW:

GOVERNMENTAL OPERATIONS (FUND 01) –The new, voter approved, 1% sales tax rate increase became effective July 1, 2019 and is expected to generate approximately \$1.9M of new revenue during FY 19/20. This new revenue source allowed the Village to fund five additional police officers as well as support Frankfort’s municipal operations and municipal capital funding for infrastructure improvements.

The Village is on course to finish FY 19/20 with operating revenues exceeding operating expenditures. Total revenues are projected to exceed the amounts budgeted by approximately \$700,000. This is mainly due to income and use tax, non-home rule sales tax, police protection reimbursement, garbage fee income and interest income exceeding budgeted expectations. FY 19/20 expenses are projected to come in under budget by approximately \$1,200,000 as a result of conservative spending. Each individual department is expected to end the fiscal year under budget. The Village anticipates completing FY 19/20 with the ability to transfer approximately \$5,000,000 to the General Capital Development Fund, which includes the budgeted operating surplus of \$3,100,000.

GOVERNMENTAL CAPITAL (FUND 31) AND MOTOR FUEL TAX (FUND 23) – Various projects were happening in the Village during FY 19/20. Nearly \$2,200,000 is projected to be spent on street resurfacing efforts as the Village continues to address the aging roads within the Village’s subdivisions. St. Francis Road improvements continue and are expected to be completed in 2020. The St. Francis Road improvements will total approximately \$3.8 million in grant funding for the Village. The Village is also in the process of updating its information technology and replacing certain vehicles and equipment.

In addition to the above mentioned projects, several projects throughout the Village were also completed by utilizing skills of Village employees including the installation of the decorative pillars around the Hickory Creek Lift Station, tile and laminate flooring at the Police Station, repairing and replacing concrete sidewalks and culvert replacements. Also, as in previous years, instead of hiring an outside engineering firm, staff inspected various road resurfacing projects saving the Village on engineering costs. We are very fortunate to have such talented individuals working for the Village. The use of Village staff to complete projects has saved the Village significant dollars throughout the years.

UPCOMING FY 20/21:

GOVERNMENTAL OPERATIONS (FUND 01) –Total budgeted revenues for FY 20/21 are estimated at \$19,343,600 which is an increase of \$930,100 or 5% over the previous budgeted fiscal year revenues. This increase is mainly due to the voters approving the 1% non-home rule sales tax. The new sales tax rate of 8% became effective July 1st of last year and therefore FY

20/21 will be the first full year to of this increase. This new tax is projected to generate more than \$2.5 million annually.

\$5.8 million in sales tax revenue is included in the FY 20/21 budget which is a decrease of \$100,000 from last year's budget. Current fiscal year sales tax receipts, which include retail sales through November 2019, are showing a \$60,000 decrease from the prior year. This conservative sales tax revenue estimate is based on current negative trending, while conversely it appears that the use tax revenue is trending upward due to online sales and new online sales tax collection requirements.

\$1.7 million in income tax revenue is included in the FY 20/21 budget which is an increase of \$50,000 from last year's budget. Income tax distributions from the Local Government Distributive Fund (LGDF) are conservatively budgeted at 90% of the State's fiscal year 2017 levels. Currently local governments are receiving 95% of LGDF and there is a possibility of an additional 5% reduction if the graduated income tax does not pass. IML's projections assume wages and salaries grow at around 3% and corporate profits remain flat.

Total budgeted expenditures for FY 20/21 are projected to be \$16,085,000 which is an increase of \$783,700 or 5% from the FY 19/20 budget. Approximately \$500,000 of this increase is within the Police department which includes two additional police officer positions, funds to purchase private lab services, additional dollars for the police communications center and an increase to educational training due to the possibility of the state no longer reimbursing the Village for academy classes. Other increases include a \$130,000 increase for road salt and \$71,000 due to the annual increase in the contracted rate for the Village's garbage and recycling contract.

The General Fund budgeted revenues and expenditures mentioned above result in a budgeted operating surplus of \$3,258,600. The actual surplus will be transferred to the Capital Fund at the end of the fiscal year to be used on items such as the street resurfacing program.

GOVERNMENTAL CAPITAL (FUND 31) – Total budgeted revenues for FY 20/21 are estimated at \$470,800 which is an increase of \$14,100 or 3% from the previous budgeted fiscal year revenues. In addition to these revenues, the General Capital Development Fund receives revenues from end-of-year transfers from the General Fund Operations. This transfer is the largest source of funding for the General Capital Development Fund and is only possible if the General Fund revenues exceed expenditures.

The most significant item within the Capital Fund expenditures for the upcoming year is the \$3 million budgeted for the street resurfacing program which addresses the Village's aging subdivision streets. This is an increase of \$800,000 from the prior year's street resurfacing budgeted amount. Other expenditures included for the upcoming year are costs associated with the Prairie Park playground replacement, license plate readers, development incentives, downtown traffic safety, downtown parking enhancements and public works and police vehicles and equipment. In addition, funds have been budgeted for the potential Sauk Trail bike path of which there is a potential for partial grant funding and for engineering related to the potential

Pfeiffer Road extension project. The budgeted expenditures of \$6,014,700 result in a net decrease to the fund balance in the amount of \$5,543,900. This net amount does not factor in the potential transfer in from the General Fund as mentioned earlier. It should be noted that budget amounts reflect an overall decrease in fund balance (including the Motor Fuel Tax Fund) of \$2,844,000. There is a possibility of a reduction in the Village's Capital reserve due to capital expenditures exceeding capital revenues and transfers in. This decrease may be mitigated as the Village has tried to budget conservatively when estimating expenditures and revenue sources.

MOTOR FUEL TAX (FUND 23) – Total budgeted revenues for the upcoming year are \$951,400, which is an increase from the prior year of \$115,800 or 14%. The FY 20/21 budget includes \$275,000 of the additional monthly Motor Fuel Tax (MFT) allotment distributed from the new Transportation Renewal Fund (TRF). Gasoline taxes increased from 19 cents to 38 cents per gallon, and the tax on diesel fuel increased from 21.5 cents to 45.5 cents per gallon. A decrease is shown in the reimbursement revenue line item which represents the decrease in grant reimbursements related to the St. Francis Road, Bridge and Path project. A portion of this project was completed and paid for in FY 18/19 and 19/20, therefore reducing the FY 20/21 expenditures related to this project as well as the grant reimbursements. In addition to costs associated with the St. Francis project, the budget also includes costs associated with other potential road improvements. In the past, the Motor Fuel Tax budget also included budgeted amounts for the ongoing resurfacing program and for road salt. Beginning in FY 18/19, these expenditures were moved to the Capital Fund and General Fund respectively. The movement of these expenses was done in an effort to free up dollars to use for the Village's local match of grant related road projects. The monthly MFT allotments are budgeted at \$705,000 for the year and include the new TRF allotments.

UTILITY FUNDS

FY 19/20 OVERVIEW:

SEWER AND WATER OPERATIONS (FUND 62) – It is anticipated that FY 19/20 utility operations will allow for a \$6.5 million transfer to the Utility Capital Fund (68) for funding major capital projects and Illinois Environmental Protection Agency (IEPA) loan payments. This large transfer is made up of the following three items: (1) the FY 19/20 budgeted operating surplus of \$5 million, (2) actual expenditures coming in \$1,700,000 under budget due to conservative spending within the Sewer and Water Departments, and (3) offset by revenues coming in under budget by approximately \$200,000 due to less water consumption than anticipated.

SEWER & WATER CAPITAL (FUND 68 & 69) - During FY 19/20, the Village is projecting to spend just over \$4 million in the Sewer & Water Capital Fund 68. Included in these projected expenses are loan payments to the IEPA for the first and second phases of the Waste Water Treatment Plant (WWTP) project. Additional capital expenditures also include costs associated with water main replacements and lead service line replacements.

In addition to the typical utility capital spending in Fund 68, construction continued on the WWTP project which is the largest capital project the Village has undertaken. This project has many different phases and is a multi-year project, therefore warranting a separate fund (Fund 69) to track the project's activity. This project is progressing towards completion. The additions to the regional plant became fully operational in 2019. The new force mains are moving wastewater from the west and north treatment plants to the regional plant. Demolition of the outdated west and north plants are nearly complete. This project is necessary to meet environmental standards and to replace obsolete equipment. The project is funded by three low interest loans from the IEPA, with interest and principal payments paid from the sewer fees. Approximately \$5.7 million is projected to be spent on this project during FY 19/20.

UPCOMING FY 20/21:

SEWER AND WATER OPERATIONS (FUND 62) - Overall, the Utility operating budgeted revenue decreased 1% or \$130,900 to \$11,691,200. This is due to an anticipated decrease in consumption since over the past several months there has been a decrease in water consumption. Water and sewer revenue are both based on consumption and therefore this decrease also impacts sewer revenue. The decrease in consumption can be due to a variety of reasons such as more efficient appliances, increased precipitation over the spring and summer months, lower consumption due to increased rates, etc. Sewer rates were analyzed in preparation for the repayment of the IEPA loans and the Board approved a 10% increase effective 5/1/16 and two \$1.59 increases effective 9/1/17 and 9/1/18. In addition to the increases related to the WWTP project, the water and sewer rates are adjusted at the beginning of each fiscal year by the automatic rate increase of 2% and CPI, which will be 1.9% for FY 20/21. These increases will assist in paying for the operations and capital costs related to the sewer and water department.

FY 20/21 expenditures are projected at \$6,855,800 which is an increase of 1% or \$66,300 from the prior year. The sewer operations budget decreased \$179,800 from the prior year including a decrease of \$150,000 to the sludge removal line item. The water operations budget increased \$246,100 from the prior year of which \$100,000 of the increase is included in the repairs and maintenance line items for the water lines and wells.

FY 20/21 budgeted revenues less expenses produce an operating surplus in the amount of \$4,835,400. As in the past, an end of year transfer will be made to the Sewer and Water Capital Fund 68 to assist with the costs associated with the capital needs and IEPA loan payments of the Utility Fund.

SEWER AND WATER CAPITAL (FUNDS 68 & 69) - The Sewer & Water Capital Fund (Fund 68) accounts for the capital needs within the Sewer and Water Department other than the WWTP project. Fund 68 also accounts for the loan payments associated with the IEPA loans.

Fund 68 – FY 20/21 budgeted expenditures within Fund 68 total \$11,373,900 which is a 32% or \$2,726,600 increase from the prior year. Budgeted capital expenditures for the upcoming year include \$605,000 for equipment, \$875,000 for sewer system improvements, and \$5.8 million for the replacement of aged and deteriorated water mains and well improvements. Also included in the expenditures are loan payments in the amount of \$3,358,900 for the IEPA waste water

treatment plant low interest loans. Revenues are projected at \$465,000, which is the same amount as the prior year budget. The projected shortfall before the transfer from the Sewer and Water Operations Fund is \$10,908,900. In addition to the \$465,000 of budgeted revenues, Fund 68 receives funds from end-of-year transfers from Fund 62. This transfer is the largest funding source for Fund 68 and is only possible if operational revenues exceed the operational expenses. There will most likely be a transfer from Fund 62 to offset only a portion of this shortfall, therefore causing a reduction in Fund 68’s cash reserve.

Fund 69 – As mentioned earlier, Fund 69 accounts for the activity of the waste water treatment plant (WWTP) project. This project closed the North and West waste water treatment plants and consolidated treatment at the Regional plant. Demolition of the outdated plants began during FY 19/20. The budgeted expenditures related to this project are \$3,780,000 for FY 20/21. This project is expected to be completed during FY20/21. Three low interest loans through the Illinois Environmental Protection Agency (IEPA) are the funding source for this project. The majority of the expenses associated with this project are reimbursable through IEPA loan disbursements. An estimate of \$200,000 of expenditures is included in the FY 20/21 budget as not being reimbursable through the IEPA loan. These costs which are considered non-reimbursable are being paid for with Sewer and Water Capital Funds as Fund 69 will be closed into Fund 68 once the project has been completed. Repayment of the IEPA loans will be funded through the increases in the utility rates as mentioned earlier and will be accounted for in Fund 68.

PERSONNEL COSTS – (GOVERNMENTAL & UTILITY)

The Village is currently operating with 88 full-time employees. Budgeted staffing for FY 20/21 is 95 full-time employees. These employees consist of public safety, public works, building and development services, general government and utility department employees. 95 full-time employees is an increase of two employees from the FY 19/20 budgeted full-time employees of 93. The budgeted increase consists of two new police officers. A reconciliation of current full-time employees to FY 20/21 budgeted full-time employees is as follows:

Full-Time Employees: Reconciliation from Current to FY 20/21 Budget	
88	<i>Current F-T Employees</i>
2	<i>New Police Officers (added to FY 20/21 Budget)</i>
1	<i>Replacement Police Officer</i>
1	<i>Replacement Inspector</i>
1	<i>New Planner (position included in FY 19/20 Budget)</i>
1	<i>New GIS Specialist (position included in FY 19/20 Budget)</i>
1	<i>Vacant Utility Position</i>
95	FY 20/21 Budgeted F-T Employees

As in the past, all full time hiring to fill vacant positions, except police positions, will only occur after receiving Board review and approval.

An increase in personnel costs from the prior year budget, as shown in the chart below, exist mainly due to the increase in full-time positions, salary increases, and pension costs.

	FY 19/20 Budget	FY 19/20 Actual Estimate	FY 20/21 Budget
# of F-T Employees	93	88	95
# of other employees*	65	65	65
Total Personnel Costs	13,138,650	11,853,079	13,504,250

* # of other employees includes permanent part-time, temporary part-time, seasonal workers, interns, appointed and elected officials.

CONCLUSION

In conclusion, the budget team (Robert Piscia-Village Administrator, Jeff Cook-Assistant Village Administrator and Jenni Booth-Finance Director) is proud of the efforts of the elected officials and staff in exercising great fiscal prudence in this budgeting process. Each of the departments presented reasonable requests for their individual departmental budgets, while effectively looking to the future needs of our community through their long-term capital plan. We look forward to the upcoming year as we work together to implement the Board’s initiatives and continue to provide high quality services to the Frankfort residents.