



Village of Arlington Heights

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November 1, 2024

Dear President Hayes and Trustees:

I am hereby transmitting the Proposed Budget for calendar year 2025.

Over the past year, the Village has started to see a more normal financial pattern develop, where our revenue streams and expenditures are now increasing at more moderate levels. This follows the prior post-pandemic period that featured pent-up demand for goods and services. The inflation rate over the past few years is indicative of the volatility that we experienced, which is demonstrated by the following rates: 2020 +1.8%, 2021 +4.7%, 2022 +8%, 2023 +4.1%, and 2024 YTD +2.5%. In addition to the prior-period inflationary pressures, the Supreme Court ruled that as of 2021, sales taxes must be paid on internet purchases. On the expenditure side, the Village experienced large increases in the cost of our planned vehicle replacement program. As such, higher vehicle service charges are now built into the Village budget. Fortunately, a portion of the initial cost increase for our vehicles was covered by the receipt of American Rescue Plan Act (ARPA) grant funds from the federal government. The Village judiciously applied these funds to one-time capital expenses such as vehicle purchases, parking lot improvements, watermain replacement, and other capital projects. In addition to these various market dynamics and Village actions, the Village experienced significant growth in our sales and income tax receipts, which allowed us to maintain level property tax levies for the past five years. However, going forward, we can expect a return to more normal revenue and expenditure results for our operations.

During 2024, the Village has continued to prepare fiscally conservative plans for 2025 and beyond, including the pursuit of our aggressive capital replacement program and planning for our ongoing operational needs. This has included implementing a five-year water and sewer funding plan that will cover the cost of the Village's greatly expanded watermain replacement schedule through 2029. The Village Board also approved a two-year plan to implement and fund a new 5th ambulance service, based on performance measures showing significant increases in annual ambulance service calls. In September 2024, the Board also approved a bond sale which will allow the use of other Capital Project Fund resources amounting to \$20.4 million to be transferred toward funding the replacement of lead service lines throughout the Village, for public parking lot improvements, watermain replacement, and the purchase of a new ambulance for the planned ambulance service expansion. During 2024, the Village Board directed Staff to consider implementing a rental inspection program, and the 2025 Budget includes the initiation of a start-up program.

Staff also continued to work on the Village's 2024-2025 Business Plan, which included implementing the final phase of the new Enterprise Resource Planning (ERP) software.

In January 2024, following a year of training and testing, the Payroll, Human Capital Management, Utility Billing, and EnerGov Building and Community Development applications were made operational. This resulted in Staff implementing many new procedures, some of which were developed as the new software was brought online.

The Human Capital Management module includes the new Employee Self-Service (ESS) portal. This allows employees to access the ESS website where they are now able to access paycheck and W-2

forms, update tax exemptions, and utilize a paycheck simulator to calculate net pay when adjusting their deductions. Additionally, the ESS portal includes the first electronic open enrollment program to select health insurance options. Also included, is a recruitment module for employment applications. An additional new platform is the Time and Attendance module, which provides a workforce management feature to manage employee hours, overtime, as well as advanced scheduling.

The Utility Billing module includes an Online Water Billing portal which allows users to sign-up for auto-pay, paperless billing, pay bills online, and track water usage. In conjunction with the EnerGov application, the new Permitting Citizen Self-Service portal was launched. This new portal provides users with a robust interface and helpful tools, including a user profile that will allow submitters to track their permit process in real time, pay permits online, schedule inspections, upload documents, and communicate with Building Department staff. These innovative applications will lead to greater efficiencies and service levels.

This past year will be remembered as the year of software changes. In addition to the new ERP software, in mid-July OpenGov, a new cloud-based budgeting software was introduced. This new software is designed to provide operating and capital budget collaboration across departments. It will also eventually provide more transparent and timely financial reporting on the Village's website once it is fully implemented. The Village also implemented a new Agenda Management Software portal, Select by Civic Plus. Select will continue to allow the public access to agendas and minutes, while automating agenda creation, approvals, and meeting minutes management. In addition, through Civic Plus, the Village implemented an intuitive and more powerful Municipal Code software called MuniCode. This software provides an array of features like enhanced searchability and automatic updates when the Village Board approves new ordinances.

All of these software platforms will provide enhanced options to share information with the public for greater transparency. The successful completion of the multi-year ERP software project and all of the other software conversions noted above, were made possible by the dedicated efforts of the Village's employees who work with these new software platforms every day. Challenges and changes remain with fully implementing these new systems, but Village staff has made the transition as smoothly as possible.

The 2024 year also saw the introduction of the Village's new logo and slogan, "Village of Good Neighbors" to better reflect Arlington Heights' identity as a Village. Additionally, the Village's new tourism and marketing brand campaign, "Take It to the Heights!" was debuted to promote the Village as a destination for guests and new businesses. These campaigns will enhance the visibility and effective relationships between the community's residents, businesses, and the Village.

The Village's efforts to redevelop the South Arlington Heights Road Gateway corridor also saw a large leap forward this past year with successful negotiation of a redevelopment agreement, approval, and groundbreaking for phase one of the Arlington Gateway Project on Arlington Heights Road and Algonquin. This project will feature 300 residential units and over 25,000 square feet of commercial space.

Overview of 2025 Budget Plan

The Proposed 2025 Budget maintains our existing day-to-day operations, which provide for a full range of general government services. The 2025 Budget also maintains the Village's multi-year infrastructure plan for street improvements and water main replacement program. The storm water control program includes the continuation of projects that will help maintain a consistent level of storm water protection throughout the Village. By continuing these types of capital programs at high levels, the Village has been able to maintain its ongoing, robust infrastructure improvement program.

In July 2023, the Village Board completed its biennial goal setting session, culminating in the development of the Board's 2024-2025 Strategic Priorities as shown on page iii of this budget. During

the second year of this plan, the Village will continue to work on the racetrack redevelopment project, and continuing to maintain good fiscal stewardship of Village resources. The Village will continue to work with the Chicago Bears Football Club (CBFC) and other regional partners on the proposed development of the former Arlington Park Racetrack property. As expected there have been starts and stops for this large development project, due to a myriad of property tax, legislative, and other development issues that need to be addressed. By continuing to work with the owners of the property and our local, regional, and State-level partners, the Village hopes to help create a new development that adds to the fabric of the community, and one that provides a net fiscal benefit for years to come.

In June 2024 the Village Board approved a detailed five-year Capital Improvement Plan (CIP). This plan is completed on a biennial basis with special emphasis on the first two years of the plan. The first year of the CIP has been incorporated into the 2025 Budget. The Village continues to prudently plan for the future by investing in our infrastructure in order to maintain safe, reliable roads, water mains and sewer lines. Key multi-year infrastructure projects that are part of the proposed 2025 Budget include the following:

- A street resurfacing, rehabilitation, and patching program totaling over \$11.1 million. From 2020 through 2022, the Village's Motor Fuel Tax (MFT) Fund recognized three grant payments in the amount of \$1.65 million each year through the State's capital grant program. These payments have allowed the Village to increase its street rehabilitation program through 2026. In 2024, the Illinois Department of Commerce & Economic Opportunity (DCEO) awarded one grant for \$260,000 for the Beverly Lane Reconstruction project, and another grant of \$207,240 for the Rockwell Avenue Rehabilitation.
- The continuation of a multi-year plan to provide additional storm water control throughout the Village. In 2018 the Village sold a \$10 million bond issue to fund these projects. Since that time the Village has received over \$5 million in grants for various storm water control projects. The 2025 Budget includes a \$600,000 grant secured through the efforts of Congresswoman Schakowsky for the Race/Chicago Avenue storm water improvements. DECO also awarded two grants totaling \$1.3 million for the Forrest Avenue Stormwater improvements.
- The Village uses a planned debt schedule, which replaces retiring debt every five-years with a new bond opportunity. In 2024, the Village sold a bond that generated \$20.448 million in proceeds to cover the cost of the Village's Street and Sidewalk Programs in the Capital Projects Fund over the next three years. Due to other available resources in this fund, an equal amount will be transferred-out over two years. \$2 million is allocated to the Water & Sewer Fund, as part of the Village's plan to maintain a water main replacement program of at least \$4 million, or the industry standard of 1% of our water main system on an annual basis. \$16 million of the transfer-out is planned to be allocated to the Lead Service Line Replacement Fund, and \$2 million is allocated to the Municipal Parking Fund. The remaining \$448,000 of the balance will be transferred to the Fleet Fund to cover the future cost of a new 5th ambulance.
- The next succeeding \$20 million bond sale opportunity in late 2029 could be considered for additional lead service line replacements for \$2 million, and \$18 million toward a potential \$20 million Senior Center building rehabilitation project. The balance of the project cost could come from one-time transfers from other fund reserves.

The Village develops its operating and capital budget based on a conservative forecast of revenues, and does not consider new revenues from growth unless the development is completed and has provided a historical basis for a new projection. A normal operating expense cycle is anticipated and includes expenditure increase assumptions. The Village also has access to its reserves, which help provide a source of funds for unanticipated but necessary expenses, such as costs related to storms or other emergencies, to cover extraordinary self-insurance losses, and to provide a buffer during economic downturns. The presence of the reserves also helps ensure our excellent bond rating, and

lower interest charges associated with that rating. The Village's minimum fund balance policy is to maintain a year-end balance of at least 25% of General Fund expenditures, up to a maximum of 40% of unrestricted and unassigned reserves. Being above the minimum level is even more important for Arlington Heights due to our reliance on sales and income tax receipts which are subject to economic cycles. The 2025 Budget will allow the Village to maintain a fund balance in excess of 25% of a typical year's General Fund expenditures.

The Village of Arlington Heights' mission is to provide high quality services to the community in a fiscally responsible manner. These services are provided to enhance the safety, health and general welfare of the citizens and businesses within the community. The Village's service-oriented philosophy continues to balance various community needs with municipal resources through a planned approach to the governance process. As a result of conservative budgeting practices, the Village is fortunate to remain in a strong financial position.

2024 Property Tax Levy Payable in 2025

One of the Village's key goals has been to keep any property tax increase as low as possible. A second key Village goal is to ensure that sufficient funds are available to provide a consistent, high-level of Village services each and every year. During the Village's budget ceiling process in June 2024, the Village Board directed staff to work on two competing ideas. Although sales tax receipts are now flattening out to more normal levels, the Board requested Staff to look for ways to lower the initial 3.51% projected 2024 tax levy increase. The other mandate was to develop a two-year funding plan to implement the new 5th ambulance program. This direction was challenged further by health insurance costs that came in higher than projected, resulting in an additional \$100,000 charge to the General Fund.

To meet this challenge, the Village Manager directed staff from all Departments to work toward developing 2025 budget proposals that are 5% below the Board approved General Fund budget ceiling. This type of belt-tightening exercise can't be realistically completed every year, but each Department was able to develop a 2025 budget submission within these constraints.

In September 2024, Staff presented a plan to the Village Board, which will cover the \$1.12 million 2026 cost of hiring six new Paramedic positions for the new 5th ambulance service. This multi-year plan included adding \$292,000 of additional Paramedic overtime to the 2025 Budget to provide 260 days of peak hour 5th ambulance service. When the Village moves to a full-time 5th ambulance service in 2026, this additional overtime can then be deducted from that year's budget. To fully implement this plan will require new projected revenues in 2026. This includes the projected recapture of \$175,000 in ambulance fee revenue in 2026 as a result of reduced mutual aid provided by our neighboring communities. A key new 2026 revenue source to help cover the cost of the new service, will be the imposition of a new internet streaming tax. Over the years, cable franchise fees have stagnated, as a number of our residents have chosen internet streaming services over regular cable or premium channels. 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. Based on a recent survey, it is estimated that the Village could generate at least \$500,000 per year from a 5% streaming fee, which is the same percentage charged for cable franchise fees. The balance of the cost to provide the new full-time 5th ambulance service in 2026 could be covered by a moderate property tax increase as part of next year's 2025 levy payable in 2026.

With these current 2025 budget challenges and future 2026 plans in place, the proposed total 2024 property tax levy collected in 2025 reflects a modest 2.46% increase over the prior year levy approved by the Village Board. This levy includes the additional health insurance and Paramedic costs discussed earlier. The first step in developing the Village's property tax levy is entering the known debt service payment requirements and the annual required contributions (ARC) for the Police and Fire Pension levies. This year's actuary reports continue to reflect the 2022 investment losses of about 14% for the Police and Fire Pension Funds, which put upward pressure on the ARC. The

Police and Fire Pension Funds use a three-year smoothing process, whereby annual gains or losses are smoothed in order to help avoid significant annual changes from one year to the next. However, the 2022 loss was so significant, that the gains from the other years couldn't offset this loss. 2024 is the second year of the smoothed 2022 loss. The proposed 2024 levies for the Police and Fire Pension Funds match the ARC. These 2024 levy increases were tempered somewhat through the Village's decision to transfer \$2 million each to the Police and Fire Pension Funds through the use of 2022's General Fund surplus. This infusion of funds had the effect of paying down a portion of the public safety pension funds' unfunded liability.

The IMRF pension levy reflects a lower levy amount. The Village previously maintained a higher IMRF pension contribution rate per employee even after the IMRF Board had changed some of its actuarial assumptions, which lowered contribution rates. This allowed the Village to pay down a portion of its IMRF unfunded liability when the Village was experiencing General Fund surpluses. Now that the Village's financial picture has tightened up, we are now using the IMRF's lower actuarial determined contribution rate.

The Capital Improvement levy is based primarily on the street program needs identified through the five-year capital improvement plan. The FICA and IMRF levies are derived from the detailed wage sheets prepared for 2024. Once all revenue projections for the General Fund are completed, the remaining gap between the General Fund's projected revenues and expenditures is divided equally between the Fire and Police Protection levies. Due to the increase in operating revenues compared to the prior year, the Village is able to show a small decrease in these levies.

The total 2024 property tax levy including the Library's levy increases by 2.33% and is summarized as follows:

	2023 Levy For 2024	2024 Levy For 2025	Dollar Change	% Change
Village				
Debt Service	\$ 6,498,000	\$ 6,497,000	\$ -1,000	-.02%
Police Pension	\$ 4,190,000	\$ 4,747,000	\$ 557,000	13.29%
Fire Pension	\$ 5,881,000	\$ 6,706,000	\$ 825,000	14.03%
Capital Improvement	\$ 5,700,000	\$ 5,800,000	\$ 100,000	1.75%
FICA	\$ 1,646,000	\$ 1,747,200	\$ 102,600	6.24%
IMRF	\$ 1,976,000	\$ 1,357,500	\$ -469,700	-25.71%
Police Protection	\$ 6,076,000	\$ 6,061,400	\$ -89,700	-1.46%
Fire Protection	\$ 6,076,000	\$ 6,061,400	\$ -89,700	-1.46%
Total Estimated Village Levy	\$38,043,000	\$38,977,500	\$ 934,500	2.46%
Library	\$14,828,000	\$15,124,000	\$ 296,000	2.00%
Grand Total Tax Levy	\$52,871,000	\$54,101,500	\$1,230,500	2.33%

Budget Summary – All Funds

The budget is comprised of operating, capital, internal service and other miscellaneous funds. The Village's operating funds account for the day-to-day expenditures for a variety of services. Among these are police and fire protection, water and sewer services, public parking, building, code review, planning, health, general services, public infrastructure maintenance and many other services. These basic Village services are funded through user fees, taxes, licenses, permits and other charges. The total amount budgeted for the Village's capital needs can vary from year to year depending on the timing and implementation of replacement and construction schedules. Capital expenditures are funded through bond issues, user fees, designated taxes and the budgeted use of accumulated savings.

The total budgeted expenditures for all operating, capital and other funds for 2025, not including the Arlington Heights Memorial Library, comes to \$232,254,500 a decrease of (10.6%) or about (\$27.5) million compared to the 2024 Budget. This decrease is primarily attributable to the following budget and interfund transfer-out changes from 2024 to 2025:

- The largest budgetary decrease is in the Capital Projects Fund, with a 2025 Budget that is \$23 million lower than the prior year. This is due in large part to the 2024 bond issue outlined earlier in the transmittal letter. This bond issue replaced retiring debt so that the total debt payment for bonds will remain the same. The Capital Projects Fund accounts for the proceeds from the bond issue, and other available Capital Projects funds will be used for a \$20.4 million transfer-out to other funds over the next two years. \$15 million was transferred in 2024 to the Water & Sewer Fund (\$2 million), Lead Service Replacement Line Fund (\$11 million), and Municipal Parking Fund (\$2 million). In 2025, \$5.448 million will be transferred-out to the Lead Service Line Replacement Fund (\$5 million) and the Fleet Fund (\$448,000). Other Capital Project Fund expenses that occurred in 2024 that won't occur in 2025 include \$3.7 million for the roof replacement and installation of solar panels on the roof at the Public Works Facility, the \$2.5 million completion of the Wilke Road resurfacing project, and a higher annual street program in 2024 compared to 2025 due to \$2.47 million being re-budgeted to that program in the prior year.
- The Water & Sewer Fund shows a \$3.3 million decrease in 2025 from the 2024 Budget. This was due to the substantial completion of the Residential Meter and AMR System Replacement in 2024.
- Other key differences include a \$4.1 million increase in the General Fund covering operational increases, a \$1.1 million decrease in the Motor Fuel Tax Fund which reflects the prior year's use of State grant money, and a \$3 million decrease in the Fleet Fund due to a lower number of vehicles being replaced during 2025.

Personnel Changes

As a service organization, Village employees are our most important assets. The 2025 total payroll cost is projected to increase 4.94% over the prior year's wage base, including all scheduled wage adjustments in all departments. This larger than normal increase includes Village Board approved 2024 mid-year staffing increases due to the loss of grant funding and departmental reorganization. There were a number of changes in the Police Department during 2024. The Victim Services Coordinator position in the Department was a staffed for many years, but for the first time in nineteen years, the State grant for this position was not funded, as the Village does not meet the State's new needs-based definition required for the grant. The Department also received federal grant funding for the Crisis Co-Responder contract position for the prior two years. This grant ended in September 2024 and the position was approved by the Board as a staff position going forward. Both of these positions have proved to be very helpful to the community and the Department. With the retirement of a Deputy Chief, the Police Department also saw an opportunity to address an issue concerning staffing pressure for Sergeants during the day shift. The Department subsequently received Board approval to hire a Police Commander and a Sergeant, along with a reduction in overtime costs, in lieu of filling the Deputy Chief vacancy. The Village made one other adjustment during 2024 with the hiring of a Communications and Events Specialist in the Integrated Services Department to handle the organizing and manning requirements of the Village's expanded special events offerings. Half of the salary cost of this position is being covered by Alfresco revenues in the Arts, Entertainment & Events Fund. These three positions are fully funded in the 2025 Budget.

The Village expects a continued challenge to find and hire top level talent, as 26% of our current employees will be eligible to retire in 2025 and 30% in 2026. Thirty-three full-time positions (including promotions) have been filled in the organization in 2024 to date, underscoring the transition period that is now underway. Whenever vacancies occur, Staff reviews whether the position

is still necessary, should be modified, or whether another department has greater current needs for that slot. Such adjustments occur throughout the year as opportunities present themselves.

The Village Board has been discussing the possible creation of new Rental Inspection Program in the Building and Life Safety Department in recent months. In October, the Village Board directed staff to hold off on the hiring of any new staff at this time, but to continue to explore options to ensure landlords engage in best practices to protect the quality of life of tenants and the quality of the Village's rental housing stock. The 2025 Budget was developed prior to the October COW meeting where this item was discussed and, in an attempt to be conservative, anticipated the potential hire of new positions. Therefore, it includes an increase in staffing levels of 2.0 full-time equivalents (FTE) reflecting a hypothetical increase of 2.5 positions (One full-time Supervisor and three part-time inspectors) and an increase in rental fees. With a net increase to the budget of \$85,500. However, this project will continue to be a topic of discussion for both Staff and the Village Board in the coming months and we do not anticipate hiring any Staff in 2025 based on the latest Board direction. The figures are proposed to remain as a placeholder for the time being as there may be some costs to any new rental standards program, but will be revisited after additional work is done on this project.

The Finance Department staffing level reflects a reduction of .5 FTE due to the elimination of a vacant part-time Account Clerk position. Operational efficiencies from the new ERP system, including improved online inquiry and payment options for water bills, and the elimination of the vehicle sticker program allowed the Department to plan for the elimination of this position.

As discussed earlier, the Fire Department shows an increase of \$292,000 in 2025 overtime costs to account for the first phase or 260 days of the new 5th ambulance service. The addition of overtime in 2025 does not affect the FTE count for 2025. This is part of the Board approved staggered rollout of a multi-year plan to fully staff a 5th ambulance service by 2026. The Village Board's approval of this new service was the culmination of about seven years of study by the Fire Department. The Department studied the causes of the increase in ambulance service calls, determined that the call level would likely continue to increase, and then developed various service scenarios to address the increased call level. In 2023, the Fire Department experienced a total of 11,311 calls for service, its highest on record. During 2024, service calls are running even higher, and emergency medical services account for nearly 78% of the total call volume. The full implementation of the 5th ambulance service will occur in 2026, when six additional Paramedics (two per shift) are scheduled to be hired and an additional ambulance purchased.

It should be noted the Police Department and an interdepartmental focus group is being formed, to gain an insight into the essential number of Police Officers needed to meet the expectations and demands of the community. This workgroup will seek to establish reliable data and benchmarks needed to perform this review. The Department continues to be one of the most efficient Police Departments in the area based on employee levels per population served. This is balanced against the sophisticated investigative and operating technology that the Department continues to invest in, which help keep crime levels relatively low in the Village.

Employee benefit coverage is an essential part of both attaining and retaining great employees. To be conservative, the Village's long-term projections typically assume an increase in health insurance costs of 8%-10% per year. However, this past year PPO claims have continued to increase. Through negotiations between the Village and its Broker with Blue Cross Blue Shield, the blended increase for the Village and Library PPO and HMO medical plans will be 11.3% in 2025. The projected increase for the PPO plan is 11.4% and the HMO plan is 7.0%. The PPO increase in 2025 includes a 1% margin that was built-in to the base to help offset potential adverse claims experience. In the prior three years, this margin was 2%. In 2025, the insurance team also introduced a four-tier medical and dental plan versus the prior two-tier plan. This new multi-year plan includes graduated premium increases over the employee-only level, to employee + spouse, employee + child, and employee + family. Employee contributions toward medical rates for both plans were previously increased in 2022 from 12% to 14%. This contribution increase was written into the existing bargaining agreements with our unions.

Pension benefits for Village employees are separate from the underfunded State of Illinois pension plans. Village pension plans are covered through the Police Pension Fund, the Firefighters' Pension Fund, and the Illinois Municipal Retirement Fund (IMRF). Per new State law, during 2022 all downstate public safety pension plan investments, including the Arlington Heights Police and Firefighter Pension Fund investments, are combined into two separate state-wide (except Chicago) Police and Firefighter investment plans. The intent is to provide more investment diversity and higher investment earning potential for these funds. However, the Arlington Heights Police Pension Fund Board elected to be part of a lawsuit objecting to the consolidation of its assets, and they maintained control of their funds. The lawsuit was resolved in favor of the State's Consolidated Funds, and the transfer of the Arlington Heights Police Pension Fund assets took place on October 1, 2024. Through the years, the Village has continued to pay the actuarially required contribution for each of these funds. It should be noted that in 2011 the State Legislature mandated a two-tier pension system for IMRF and all municipal Police and Fire pension plans. The intent of the new two-tier pension system is to reduce the long-term pension liability for employers who have employees covered under these plans. The percent of Village staff enrolled in the Tier 2 system increased from 25% in 2016 to 51% in 2024. Given the high number of retirements the Village is experiencing, the percentage of Tier 2 employees will continue to increase in coming years.

The balance of this budget message identifies the process that has been followed to prepare this financial plan for 2025, a detailed review of the General Fund, as well as budget narrative on other Village funds. Additional charts and graphs on the budget as a whole and on selected funds can be found in the Financial Summaries section of the budget.

Explanation of the Budget Process

The Village of Arlington Heights operates under the Budget Officer Act as outlined in the Illinois Compiled Statutes. Under this law the Village Board is required to adopt the budget prior to the beginning of the fiscal year to which it applies. The law also provides that the budget shall serve as the Village's annual appropriation ordinance. After the local election process that occurs every two years, each Department Director presents an outline of their department's services, workload indicators, key accomplishments, and new initiatives to the "new" Village Board. This is followed by the Village Board's biennial goal setting process during June of that year. After the Board's goals and objectives are established, Staff develops a two-year business plan that reflects the Board's stated goals. In even-numbered years, a detailed five-year Capital Improvement Program (CIP) is developed 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 when there isn't a detailed CIP being presented to the Board, Staff provides the Board with a summary update showing any changes in estimated costs from the prior year. By June of each year, three-year financial projections are provided to the Board for the General and Water & Sewer Funds, which are the Village's largest operating funds. These projections include an estimated property tax levy amount. Based on these projections, the Board sets budget ceilings for the upcoming year, which each department uses as an upper limit when developing its proposed spending plans. The three-year financial projections for the General and Water & Sewer Funds can be found on pages 344 and 345 of the Appendix section of this budget document. As the proposed budget is developed, the estimated property tax levy may be increased or decreased depending on budget proposals for the Village Board's review.

During September and October, the budget team consisting of the Village Manager, Assistant Village Manager, Finance Director, Assistant Finance Director, and Accountant/Budget Coordinator, meets with representatives of each Department to review their operating and capital spending proposals, and to review how these proposals meet the Village Board's strategic priorities. As a result of these meetings and based on available resources, a proposed budget is prepared for review by the Village Board. During November, the Village holds public budget meetings at the Committee-of-the-Whole level. The Village Board subsequently holds a Public Hearing prior to adopting the annual budget in December of each year. A detailed calendar of the budget process immediately follows this transmittal letter.

Under the Budget Officer Act and the Village’s purchasing guidelines, the budget may be amended by the Village Manager in the form of transfers between line items up to \$25,000. Budget transfers above this amount require the approval of the Village Board. This allows the Village the flexibility it needs to operate efficiently due to the scope of its operations. This also serves to increase the accountability of Department Directors by encouraging them to budget realistically and to keep a close watch on each expenditure line item during the year.

The budget ceilings approved by the Village Board for the General and Water & Sewer Funds at the beginning of the current budget process for these funds are shown here compared to the proposed expenditures for those funds:

	<u>General Fund</u>	<u>Water & Sewer Fund</u>
2025 Budget Ceiling	\$92,912,100	\$30,076,200
2025 Proposed Budget	<u>\$92,901,300</u>	<u>\$30,042,700</u>
Over (Under) Ceiling	(\$10,800)	(\$33,500)

During the Department reviews, the budget team and Department Directors worked to prepare a budget at or below the budget ceilings. The 2025 Budget for the General and Water & Sewer Funds are lower than the budget ceilings established by the Village Board in June 2024, due in part to the steps taken and noted earlier in the property tax section of this Transmittal Letter.

General Fund

The General Fund is the all-purpose governmental fund, which handles the operations of the Village not accounted for in a separate fund. Most of the expenditures for Village services are budgeted and accounted for in this fund, except for water and sewer expenses. There are three key revenue sources, which account for 70% of the total General Fund revenues:

- Property Tax 29% of revenues
- Sales Tax (including Home Rule) 27%
- Income Tax 14%

The revenues listed above represent the General Fund’s primary growth revenues, which generally pay for annual cost increases. Due to our partial reliance on sales and income tax receipts, the Village has worked to maintain solid reserves that can be used to help us weather extraordinary events. Sales tax receipts have started to slow, as consumers are starting to pull back on purchases. As expected, we have entered a more normal rate of growth phase for Sales taxes. To bring these revenues in line with actual results and our long-term projections, the 2025 Budget reflects a decrease in Sales and Local Use tax receipts. Income tax receipts have continued to grow, but as inflation cools, we expect this revenue source to moderate to a normal growth pattern. For the State’s FY2023 and FY2024 budgets, the State increased the amount of income tax receipts shared through the (Local Government Distributive Fund (LGDF) on a per capita basis, by increasing the municipal share from 6.06% to 6.16%, and then increasing it again to 6.47% in FY2024. These two recent increases resulted in Village income tax receipt increases from these actions alone amounting to 1.65% in 2023 and 5% in 2024. The balance of our income tax increase was due to increased inflation and low unemployment rates. The Personal Replacement tax (PPRT) received from the State is projected to decrease \$200,000 from the prior year or by 18%, retreating back to more historic levels. Building Permits show a marked decrease from the 2024 estimated actual amount, due to permits received for the large Gateway project.

Offsetting some of these decreases, is a budgeted increase in Ambulance Service fee receipts due to an approved increase in the Village’s Ambulance Service charge. The fees charged now match the amount determined annually by the Illinois Health & Family Services (HFS) Department through the Ground Emergency Medical Transportation (GEMT) Program. This change will result in a \$500,000 increase in ambulance fees collected during 2025. The other projected \$75,000 increase in this revenue source is due to less mutual aid calls as a result of the start of the first phase of the new 5th

ambulance service. An additional \$1.1 million in interest income is budgeted due to higher federal funds interest rates. However, as the Federal Reserve reduces rates over the next couple of years, interest rates will decrease somewhat. The Multiple Dwelling License fee revenue also shows a marked increase, as projected revenues were added to reflect an increase fee from \$13/unit to \$59.55/unit to cover the costs of the new Rental Inspection Program.

On the expenditure side, as a service organization, 81% of this Fund's expenditures are for Personal Services including benefits. On an operational basis, most of the Village's general expenditures are directed toward public safety, with the Police and Fire Departments comprising 66% of the total General Fund budget.

The 2025 General Fund budget for expenditures increases by 4.6% compared to the prior year, while revenues reflect an increase of 3.8%. With these changes, the General Fund is projected to break even as of the end of 2025. Wage and fringe costs increased by 6.7%, which are inclusive of the new proposed positions, and the Police and Fire Pension cost increases discussed earlier. Due to inflationary pressures, larger increases are included in the 2025 Proposed Budget for vehicle costs, fuel, equipment, and supplies. As an offset to a portion of these increases, in 2024 the Village Board approved passing on credit card fees to the customer, saving the Village over \$200,000 annually. The budgeted General Fund contingency expenditure was decreased to \$200,000. This contingency provides a hedge against additional, unforeseen cost increases during the year.

Future General Fund Issues

State of Illinois – over the last few years, the State has benefitted financially from Federal pandemic grants. However, the State's long-term fiscal issues and questions about a sustainable revenue base remain in place.

Streaming Tax – this new proposed tax is part of the Village's long-term funding plan to cover the cost of the new full-time 5th ambulance service which will be fully implemented in 2026. The Village may want to consider implementing this tax in mid-2025, in order to get a definitive gauge of the revenue that will be generated by the tax and the property tax (if any) that will be needed to cover the balance of the cost of the new service.

The State's Elimination of the Grocery Tax – During 2024 the State passed legislation that will eliminate the 1% tax on groceries as of January 1, 2026. The State has collected this tax and remitted it to municipalities. This legislation will not affect State finances, but it will pose a significant revenue shortfall for municipalities. The Village's receipts from the grocery tax amount to roughly \$1.3 million per year. Unless the Village and other municipalities pass an ordinance to reinstate this tax prior to its elimination by the State in 2026, the Village will be faced with a sizeable budget hole, which would likely require service cuts or an increase in the property tax levy.

Water & Sewer Fund

During 2024, Staff developed a five-year water and sewer rate adjustment plan for the Village Board's review and its subsequent approval. The approved plan increases water and sewer rates by 2.75% per year. It should be noted that a 2024 water and sewer rate survey shows the average combined rate for area communities is currently 12.48 per 1,000 gallons. The Village's current combined rate is \$10.61, and after five years, the Village's combined rate will still be slightly below this current average level at \$12.15 per 1,000 gallons by 2029. It could also be easily assumed that the other area communities will increase their water and sewer rates further over the next five years.

The Village's water and sanitary sewer infrastructure is aging, and the average number of water main breaks are higher than that of comparable communities. However, over the last decade the Village has taken numerous planned steps to improve substantially the watermain replacement program. In 2015, the Village was spending about \$500,000 per year on water main replacement. Due to the prior five-year rate plan, the \$9 million in 2020 bond proceeds, the \$2.5 million allocation of ARPA

Federal grant funds, the use of \$2 million in 2024 bond proceeds, and the current five-year year rate plan, the Village is now replacing over \$4.3 million, or 1% of our water mains on an annual basis. The long-term projections for the Water & Sewer Fund show a sustainable annual funding level, without the need for future transfers-in from other funds.

The Proposed 2025 Budget includes the third year of a three-year plan to replace the Automated Meter Reading (AMR) system, and the residential water meters. The current system is over 16 years old, and as meters age they slow down and start to under-read actual usage. Over the next few years, more accurate meter reads and less water loss due to main breaks should help improve the Water & Sewer Fund's revenue receipts. The budget also includes a significant sanitary sewer project which is part of the South Arlington Heights Road TIF development. This project will cost \$4 million to complete, with half of the project cost being funded by the TIF district.

Future Water & Sewer Fund Issues

Working Cash Balance – The Village plans on sustaining its aggressive water main replacement, water tank painting, and deep well rehabilitation programs. In order to continue to maintain an adequate working cash balance in the Water & Sewer Fund, rate adjustment studies will need to be completed every five-years. Fortunately, the Village's average water and sewer rates still compare fairly to our neighboring communities.

Capital Improvement Program (CIP)

The Village of Arlington Heights has historically been diligent in maintaining its roads, providing a drainage system that mitigates flooding in the community, and maintaining its buildings, emergency apparatus, and facilities required to perform essential services. In prior years, Federal and State financial assistance had dwindled thereby expanding local responsibilities in the program area of public infrastructure. More recently, the State's capital program and Federal pandemic assistance has helped bolster available capital resources. Over the years, capital spending requirements have increased due to new regulations governing the health and environmental standards that regulate design and operations. Balancing our competing capital needs versus limited resources, is an ongoing charge as we strive to maintain a healthy, safe, viable, and physically attractive community.

The Capital Improvement Program includes a process whereby citizens are asked for input on a biennial basis. By communicating through the Village website, citizens are afforded the opportunity to complete a short form describing the type of capital projects they would like the Village to consider in the next five years. The top two capital infrastructure issues identified through the community response process has consistently been for street and storm water control projects. Village staff analyzed the cost and eligibility of all the proposed projects, and the Board subsequently examined the requests along with staff recommendations. Certain capital projects are considered only if the persons and property owners are agreeable to special assessment or special service area financing. In other cases, projects are included in the CIP since they would benefit the community as a whole. In June 2024, the Village Board reviewed the detailed capital improvement program and approved the five-year Capital Improvement Plan for 2025 – 2029. The next biennial CIP process will be undertaken in 2026.

The capital projects outlined in the CIP are budgeted in a variety of Village funds, depending on the source of revenue. The first year of the 2025 – 2029 capital plan has been incorporated into the 2025 Budget. The "CIP/Debt Service" section of the budget shows a summary of the entire five-year capital spending and funding plan. The key 2025 capital projects, outside of the water and sewer projects that were identified earlier, include the following:

Tax Increment Financing (TIF) Fund Projects – The Village currently has four active TIF Districts. TIF projects are typically financed through a pay as you go mechanism or through issuing debt based on future property tax increment revenue streams. The difference in property tax

revenues received in the base year of a TIF District versus the increased property taxes received in subsequent years after improvements are made, result in a property tax increment.

In the 2025 Budget, TIF IV (Arlington Heights/Golf Roads) shows budgets of \$3.3 million for redevelopment, and is reflective of parts of the commitments outlined in the Memorandum of Understanding (MOU) between the Village and developer approved by the Board in late 2023. In TIF V (Arlington Heights/Rand Roads) \$1 million is budgeted for a surplus distribution to the taxing districts, \$350,000 for redevelopment at Southpoint Shopping Center, and \$432,600 is budgeted for the multi-year Rand Road corridor identification project. The Hickory/Kensington TIF includes \$2.4 million for the construction of public infrastructure associated with the development of a new apartment building and other utility improvements approved by the Board. The South Arlington Heights Road TIF was established in 2020 and includes \$1.125 million toward utility infrastructure development costs, including a proportional share towards upsizing a sanitary sewer from Arlington Heights Road east to Busse Road in order to service future development. In 2024, a development agreement and economic incentive agreement were approved for this TIF at the southeast corner of Algonquin Road and Arlington Heights Road. When completed, the \$130 million Arlington Gateway Project will consist of 301 multi-family rental units and ground floor commercial space. 10% of the multi-family rental units will be affordable units in compliance with the Village's Inclusionary Housing Ordinance and the Village Board's strategic priority. TIF assistance for the redevelopment project would be up to a maximum \$17.8 million from property tax increment solely generated from the new development.

There are no other large capital projects currently scheduled for the TIF Districts during the 2025 Budget period. However, if a developer brings forth a viable project during the fiscal year, the Village would amend the budget accordingly.

Capital Projects Fund – This fund accounts for a variety of capital improvement projects including road construction, sidewalk repair/replacement, equipment, traffic signals, and other miscellaneous projects. Financing for this fund is provided primarily by property taxes, a ¼% home-rule sales tax, an annual transfer-in of \$300,000 from the SWANCC Fund, and grant revenues.

Based on the Village Board's capital spending priorities, the spending plan continues the Village's efforts for street resurfacing and reconstruction. The 2025 street program includes the following expenditures:

Street Program (\$5,800,000 – Capital Projects Fund) – This is an ongoing program to resurface or rehabilitate existing deteriorated street pavement and curbs.

Street Reconstruction Program (\$3,800,000 – MFT Fund) – This is an ongoing street program consisting of the reconstruction of significantly deteriorated street pavement, curbs, and concrete panels.

Some of the other major projects included in the 2024 Capital Projects Fund budget are:

Sidewalk & Curb Replacement (\$600,000) and Paver Brick Maintenance (\$100,000) – These programs cover the Village's ongoing efforts to repair possible trip hazards, and to reduce the Village's liability exposure to trips and falls.

Weber Dr/Old Wilke Rd Street Reconstruction (\$411,000) – This project will reconstruct Weber Dr/Old Wilke Rd from Algonquin Rd to Central Rd. The west half of the street is under the jurisdiction of Rolling Meadows, while the east half is under the jurisdiction of Arlington Heights. The project, which is receiving Federal Surface Transportation Program (STP) funding, is being led by Rolling Meadows, who will invoice the Village for our share of the costs.

Downtown ADA Compliance (\$100,000) – This project supplements the Paver Brick Maintenance program. The program is scheduled to continue every other year for ten years, and funds ADA

compliance issues when sidewalks are repaired or replaced. The larger scope of this type of project cannot be completed with a smaller budget, but by making it every other year, a viable project can be assembled.

Rand Road Corridor Identification Enhancement (\$412,000) – This is a multi-year plan to create a separate unifying identity for this shopping district. The first phase entailed initial preliminary design, and funds have been re-budgeted pending receiving approval from the Illinois Department of Transportation.

Surface Treatment - Streets (\$330,000) – Since 2016 the Village has used an application of asphalt emulsions to extend the life of Village streets.

Multi-Use Path in ComEd ROW (\$480,000) – This is an off-road multi-use trail filling in a gap between the existing Palatine and Prospect Heights trail systems to provide a vital regional connection.

Storm Water Control Fund – Since the Storm Water Control Fund's creation in fiscal year 2013 through the 2025 Proposed Budget, over \$38 million will have been spent. This includes \$3.6 million on Backyard Drainage Improvements, \$1.2 million on the Overhead Sewer program, \$460,431 for flood studies, \$4.1 million on the Storm Water Rehab/Replacement program, \$5.7 million on debt service costs, and \$23.2 million on storm water projects identified in the flood studies. During this time period the Village has received nearly \$6 million in grants for these projects, which represents over 25% of their cost. The Village continues to actively seek out grant funding opportunities, which has allowed the inclusion of additional storm water control projects in the five-year CIP. The 2025 Budget includes the following significant flood control projects:

Backyard Drainage Improvements (\$300,000) – This program budget provides funds for public drainage improvements allowing new or improved access for residents to Village storm sewers. The program only covers work on public right-of-way, or within public utility and drainage easements. Any connections or work on private property not within public easements, is the responsibility of the property owner. Locations are currently being evaluated for inclusion in the 2025 Backyard Drainage Improvement project.

Storm Water Rehabilitation/Replacement Program (\$350,000) – After completing a multi-year program to lightly clean, televise, and analyze the condition of the Village's system, the budget for this program is now devoted to maintaining the system and detention ponds, and to correct the noted deficiencies identified by televising the system.

Enhanced Overhead Sewer Program (\$100,000) - The overhead sewer program (OHS) is designed to offer a rebate to single-family homeowners of the direct costs of converting an existing gravity sewer system to an overhead system. The average cost to install a sewer back-up system can range from \$10,000 to \$15,000. The standard program offers a rebate paid to the owner by the Village for up to 50%, not to exceed \$7,500 of these costs. The Village authorized an enhanced program as of October 1, 2017, which allows the first 400 applicants to receive a rebate of 75%, not to exceed \$11,250 of the direct costs of converting the system. Permit fees associated with these direct costs will also be waived. Installing a sewer back-up system increases an owner's property value, but the significant out-of-pocket expense has prohibited some residents from participating in the program. From the inception of the program in FY2007 through October 2024, there have been 278 rebates paid (including 82 from the enhanced program) to single-family homeowners for a total cost to date of \$1.7 million. This total cost includes \$600,000 that was incurred in the Water & Sewer Fund prior to the overhead sewer program being permanently transferred to the Storm Water Control Fund in 2017.

Street Ponding Area – Race Ave & Chicago Avenue (\$2,530,000) – This project will provide water storage and additional storm sewers to this area. Through the efforts of Congresswoman Jan

Schakowsky, the Village has been awarded a \$600,000 grant from the Federal and State Emergency Management Agencies to fund a portion of the project.

Area F – Forrest Ave Storm Water Improvements (\$1,650,000) – This project is currently under design to provide storm water detention plus associated roadside ditches and storm sewer improvements to the Forrest Avenue/Hawthorne Street neighborhood. The Village has been awarded two Illinois Department of Commerce and Economic Opportunity (DCEO) grants for this project totaling \$1.3 million.

Lead Service Line Replacement Fund – This new fund was initiated in 2021, with seed money provided through the transfers-in of General Fund surplus monies of \$4 million in 2021, \$3 million in 2022, and \$5.75 million in 2023. In 2024 \$11 million was transferred-in from the Capital Projects Fund as part of the overall 2024 bond issue plan, and in 2025 an additional \$5 million will be transferred-in from this fund. As there is no dedicated source of funding for this fund, additional transfers-in are scheduled in 2029 and 2034.

In some sections of the Village's water system, lead services are fairly common due to the age of construction. The Village continues to be in full compliance with all regulations due to our treatment program that effectively coats the inside of all water lines, both private and public. Every year, the Village completes, tests and passes the required lead testing program through the IEPA. However, the Federal and State Governments recently passed legislation that will require all lead lines to be phased out of service by the year 2037. The law also states that the Village will need to show continuous improvement with a minimum of 6% of existing lead services replaced per year by 2027. The Village's long-term funding plan shows that all lead service lines in the Village will be replaced by 2037.

The public portion of the water service line is the pipe between the water main and the water valve or b-box. The private portion is the pipe from the b-box to the water meter inside a home or business. Maintenance of the private portion of the water service line has historically been the responsibility of the business or homeowner. The cost to replace the public portion of the lead water service lines is currently estimated at \$32 million, and the cost for the private portion is about \$20 million.

In 2024, the Village Board approved a cost-sharing program designed for residents interested in replacing their private portion of an existing lead water service line. Under the program, the Village will replace the private portion of the line, and will provide up to \$2,500, or 50% (whichever is less) for the eligible costs associated with the replacement of the private water service, from the parkway shutoff valve (b-box) to the water meter (private). Residents may pay their portion in full, or they can elect to participate in a payment plan to cover the costs associated with the replacement of their private portion of the lead service line for a maximum of three years. All participating residents are required to submit a completed application to the Village's Public Works Department.

In 2023, the Village sought partial funding for this program through the Federal Infrastructure Plan, which had made \$15 billion available for lead water service line replacement. The Federal government is utilizing the IEPA SRF program to distribute the money, and the loans have a 49% forgivable grant portion, until the funding runs out. The Village did not qualify for the first round of this grant funding which was based on economic need; however, we will continue to apply for these and other potential grant funding sources.

Municipal Parking Operations Fund – The Village has continued to support this fund through transfers-in from other funds, which has enabled the Parking Fund to maintain a solid reserve balance since the Pandemic. Pre-pandemic ridership levels generated about \$1.3 million per year in Fees & Fines, but these revenues are currently bringing in about \$980,000 per year or 75% of the prior amount. Based on the continuation of hybrid work schedules, it is questionable whether the Village will reach the pre-pandemic parking fee revenue level in the future. To help sustain this fund,

in 2024 the Village eliminated the annual internal service charge of \$287,300. This action helped close the funding gap, however, ongoing maintenance and repair costs for the parking garages will require additional support. In the future, the Village will need to consider stretching out its maintenance and repair costs over more years, and/or consider implementing daily parking fees in the downtown garages. Village Staff will convene an internal work group to outline alternatives for a long-term Municipal Parking Fund operating and funding plan for the Village Board's consideration.

Acknowledgements

The 2025 Budget continues the Village's commitment to its ongoing capital improvement program and the provision of quality municipal services. I would like to thank the entire staff and especially the budget team consisting of Tom Kuehne, Mary Ellen Juarez, Kevin Baumgartner, and Diana Mikula for their efforts. Thanks as well to the Village Board for its ongoing support during the budget cycle and throughout the year.

Sincerely,

A handwritten signature in black ink, reading "Randall R. Recklaus". The signature is written in a cursive, flowing style.

Randall R. Recklaus
Village Manager