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Agenda Item Summary

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Submitted By
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Agenda Item Title
Presentation and Discussion of the Recommended Five Year Capital Improvement Plan (CIP) 2023-2027 for the Main Capital Fund, Community Development Block Grant (CDBG) Fund, and Building Improvement Fund

Overview
As part of the budget process, the Finance Committee is providing a staff recommended five-year Capital Improvement Plan (CIP). This first year is presented for inclusion in the FY23 budget and future years are provided to identify extended capital needs in the Village. After the Finance Committee reviews the recommended plan, the Finance Committee will forward a recommendation to the Village Board for adoption.

Anticipated Future Actions/Commitments
Staff will prepare the final document for Village Board adoption in November.

Report

Monday September 12, 2022 (previously held)

1) Parking (capital items only)
2) Water and Sewer Fund (capital items only)
3) Fleet Replacement Fund
4) Equipment Replacement Fund
5) Sustainability Fund (capital items only)
6) Madison Street TIF

Thursday September 29, 2022

1) Main Capital Fund
2) CDBG Fund (capital items only)
3) Building Improvement Fund

The recommended CIP is developed in consultation with the Public Works Director, and multiple other operating departments. The Village Manager, Deputy Village Managers, and CFO held multiple internal reviews and discussed all requested projects with operating departments in order to prioritize and ascertain that such projects have reasonable timelines based on the current staffing of public works, and specifically engineering.

The major dedicated CIP revenues include the local gasoline tax ($.06 gallon), home rule sales tax (1.0 %) and cannabis tax (3.0% recreational sales). These taxes are anticipated to bring in approximately $500,000, $4,400,000, and $300,000, respectively. Excluding grants, dedicated revenue sources to the Main CIP Fund total about $5.3 million.

The proposed FY23 capital projects would require funding sources above and beyond the dedicated Capital Fund revenues. As such, below are some options for the Committee to consider, however, a combination of these options or entirely new options can be presented upon request as well. Please note that these options only relate to the Main CIP and sub-funds and exclude Enterprise, CDBG, and Sustainability Funds. All numbers presented below are rounded and approximate:

OPTION 1 (Bond issue only and no project deferrals):

For this option, total recommended capital projects for the Main CIP, Building Improvement, Fleet Replacement, and Equipment Replacement total $22,870,000.

If no project deferral/cuts are desired, these projects could be funded by a combination of the dedicated revenue sources (i.e. home rule sales tax, cannabis tax, local gasoline tax, etc.), grants, unspent CIP reserves, and a bond issue of approximately $10.4 million.

The obvious disadvantage to this option is the carrying (interest) cost of issuing more debt which could average approximately $500,000 per year, plus payments towards the principal balance.

OPTION 2(ARPA funding only and deferrals in Main CIP Fund):

Under this option, staff is providing a list of projects that may be potentially deferred into the future. Capital deferrals have been a common strategy over the last several years in order to keep the village’s outstanding debt to a manageable level.

While this option contains approximately $3.5M in deferrals, the Committee may pick and choose all, some, or none in conjunction with this option.

No bond issue would be required under this option, thus saving the village future carrying costs. However, ARPA funding would be required, even with the proposed capital deferrals. The ARPA funding would consist of using up the remaining lost revenue previously transferred into the General Fund and along with a transfer of funding directly from the ARPA Fund. The remaining balance of GF lost revenue of approximately $3.9M has previously been merged into the General Fund’s reserves/fund balance.

The direct transfer under this option totaling about $3.1M must be justified under one of the US Treasury eligible categories. Staff has been able to identify eligible projects which exceed this $3.1M pursuant to eligible expenses categories related to health and safety as listed on the attached agenda item detail in order to justify a transfer for this amount.

OPTION 3 (Combination of Bond issue and ARPA funding with deferrals in Main CIP Fund):

This option is similar to Option 2 in terms of the proposed deferrals but includes a small bond issue for $5M in order to reduce the drawdown of ARPA Funds.

At current interest rates, a $5M bond issue would likely cost the village between $200,000- $300,000 a year in carrying costs based on the current interest rate environment. However, as the Fed continues to increase rates in order to fight inflation, this carrying cost may very likely increase over the next twelve months.

OPTION 4 (ARPA funding only with deferrals in Main CIP and Building Improvement Funds):

Under this option, additional project deferrals totaling $1,635,000 are being proposed from the Building Improvement Fund. This would thus reduce the drawdown of ARPA funds by this amount.

Per this scenario, the village would still transfer the remaining lost revenue balance of $3.9M from the General Fund into the CIP Fund but only about $1,387,000 would be required as a direct transfer from the ARPA Fund. This option also does not include issuing additional debt.

In summary, these options are merely intended to provide some reasonable funding scenarios for the FY23 capital plan. Although issuing debt was presented for a couple of the options, it is the staff recommendation not to issue new debt next year and rather defer some capital projects as well as utilize ARPA funds to cover any shortfall.