



December 5, 2023

Village President
Members of the Village Council, and
Village Manager

It is our privilege to present for your review and consideration the 2024 Annual Budget and Capital Improvement Plan. The 2024 Annual Budget and Capital Improvement Plan totals \$102,004,210 (excluding depreciation and interfund transfers), which is an increase of \$8,184,646, or 8.72%, compared to the 2023 budget. The operating budget assumes conservative revenue estimates for 2024, and an operating expense budget increase of \$3,510,759, or 5.3%, across all funds due to increases in salaries and benefits driven by settled union contracts and inflationary increases in services and supplies. The 2024 Annual Budget and Capital Improvement Plan is balanced and does not rely on the use of fund balance or other one-time revenue sources for operating purposes. One-time revenue sources such as the \$7.9 million in budgeted grant revenue are fully dedicated to capital projects.

This Transmittal Letter is divided into ten sections:

1. Summary of Key Budget / Financial Policies
2. Current Economic Environment
3. Budget Initiatives
4. Budget Summary
5. Budget Impact on a Resident
6. Tax Levy Analysis
7. Explanation of Individual Fund Budgets
8. GFOA Recognition
9. Community Profile
10. Closing Comments

Summary of Key Budget / Financial Policies

The Village's core financial policy is to maintain the long-standing tradition of fiscal discipline and stewardship, while delivering high levels of municipal services. Historically the Village's infrastructure investment has been on a pay-as-you-go basis. These guiding principles ensure that the Village delivers a high level of services and minimizes increases in operating expenses. The Village's fiscal prudence has earned it a Aaa bond rating, reduced the Village's portion of total property tax bills, ensured a steady and predictable revenue stream, and resulted in minimal debt. While a comprehensive list of Financial Policies is included within this budget document, the summary below encapsulates the significant policies as they relate to maintaining fiscal discipline:

- **Balanced Budget** – We define a balanced budget as relying on recurring annual operating revenues to fund recurring annual operating expenditures. The Village does not rely on drawing down of fund balances or one-time (non-recurring) revenue sources to fund operating expenditures.

- Revenue – Ideal revenue sources are those that are stable, sustainable, predictable, and to the greatest extent possible, they should grow in tandem with costs.
 - Tax Levy – In 2005, through voter referendum, the Village became a home rule municipality. As a home rule community, the Village Council sets the property tax levy at any amount deemed appropriate. As part of the voter referendum in 2005, the Village committed to operate within the non-home rule tax cap limitations, which is the rate of inflation or 5% whichever is less. The 2024 budget continues that commitment by exceeding the tax cap limitation and proposing a tax levy well under the 5% CPI cap. The proposed tax levy accounts for new construction within the community and includes an inflationary component of 1.43%.
 - Fees – Service fees should be set to recover the full cost of providing the specific service.
 - Utility Rates – Retail electric, water, sanitary, refuse and stormwater sewer rates are set using a cost-of-service analysis to ensure an equitable allocation of revenue requirements.
- Expenses – Village policies regarding operating expenses are as follows:
 - Operating Expenses – Increases in operating expenses generally should be equal to increases in revenues unless specific Council action is taken to increase or reduce fund balances.
 - Personnel Expenses – A well-trained and experienced workforce is a vital component of providing high quality services at a reasonable cost. The Village strives to keep employee compensation fair and competitive, and in-line with neighboring communities to ensure retention of our workforce.
 - Capital Improvement Expenses – The core planning tool for infrastructure investment is the Village’s five-year Capital Improvement Plan (CIP), which is updated annually for the General, Motor Fuel Tax, Village Facilities, Business District Revitalization Water, Electric, Refuse, Sanitary Sewer, and Stormwater Sewer Funds. The Village will continue to maintain and upgrade most infrastructure via routine capital improvement projects on a pay-as-you-go basis. For large scale projects (e.g., stormwater sewers), the Village will utilize cash reserves to the extent possible, pursue grant funding, and evaluate fees and debt financing options as needed.
- Debt Policies - The costs associated with acquiring and improving many long-term capital assets are met primarily through net operating income and accumulated fund balances, but occasionally the Village will elect to issue debt. The Village reviews existing debt obligation structure, current and projected surplus from operations, and future liability levels before making decisions to issue new debt. The Village has consistently retained a Aaa bond rating with a “Stable Outlook” from Moody’s, the highest possible rating.

- Budget Amendments - It is the practice and policy of the Village to avoid budget amendments whenever possible by budgeting strategically during the annual process. To that end, each year the budget includes a contingency expense that is approved by the Village Council. With Council approval, contingency can be used to pay for unforeseen items, or ongoing projects that may have been advanced or delayed from a previous fiscal year.
- Fund Balance / Net Assets Policy - Fund balance/net assets policies establish a minimum end-of-year fund balance/net assets target for select funds. These policies are established to provide financial stability, cash flow for operations, and ensure that the Village will be able to respond to emergencies with fiscal strength. Additionally, detailing the availability of fund balance increases the ability of financial statement users to understand the availability of resources. A summary chart showing the budget's impact on estimated fund balances and how those fund balances compare to policy can be found at the end of this letter.

Current Economic Environment

For fiscal year 2024, there are economic and legislative factors to consider. On an organization-wide basis, elected officials, staff, and residents should be aware of several opportunities and pressures related to operational revenues, operational expenses, and capital investment.

On the revenue side, the United States economy is still in a period of mixed recovery. As of August 2023, there were 9.6 million job openings compared to 6.4 million people unemployed. The national unemployment rate hit a 54 year low of 3.4% in January 2023 and is currently at 3.8%. Inflation has moderated and through September 2023, the inflation rate (CPI-U) for the past 12 months is 3.7% much lower than the recent high of 9.1% seen in June of 2022. The Federal Reserve has increased the federal funds rate four times in 2023 and the federal funds rate currently stands at a range of 5.25% to 5.5%. United States GDP increased by 2.2% in Q1 and 2.1% in Q2 and is projected to be within that range for the full year. For 2024, GDP projections are down ranging from .8% growth to 1.5%.

For 2024, the broader national economy faces heightened economic risks related to areas of ongoing uncertainty over the economic recovery. Key economic threats for the next 12 months include:

- **Recession** – The increased Fed rates, while cooling inflation, could dampen growth and tip the US economy into recession. Additionally, mortgage rates have risen above 8% and are at a 20-year high. A significant slowdown in the housing market often accompanies a slowdown in the broader economy. Additionally, households with variable interest mortgage debt or equity-based lines of credit are feeling the impact of increased rates and can be expected to reduce discretionary purchases to make ends meet.

- **Supply Chain Interruption / Inflation** – We are still seeing significant lead times for many capital purchases because of past supply chain interruptions. Items such as squad cars, heavy duty vehicles, and electric transformers have all seen significant lead times, delays, and cost increases. We have seen certain items that typically take three to six months from order to delivery now have lead times of up to 3 years. Furthermore, companies are building into their contracts the option to increase prices at the time of delivery should they experience an increase in costs.

While the current rate of inflation has moderated at 3.7%, this is still above the Federal Reserve’s target of 2.5%. It is unknown if this moderation results in a longer-term trend or is merely a short-term dip before inflation rises again. With the number of available jobs open exceeding the number of people looking for jobs there will be continued pressure on employers to increase wages to compete for positions, which is a driver of inflation.

- **Unfunded Mandates** – The budget contains \$750,000 in additional costs from recently enacted unfunded Federal/State mandates for 2024. The majority (\$685,000) of this relates to the mandatory replacement of lead service lines, which is detailed later in this letter.
- **Geopolitical Tensions** – The war in Ukraine, the unfolding conflict in the Middle East, and increased tensions in Asia all have the potential to impact the US economy and society.

There also continues to be a high degree of uncertainty within the State of Illinois. With an influx of Federal money, and increased revenue from gaming and fuel taxes, the State budget seems to be in better shape than in prior years. However, this budget stability is likely to be short term and future budgets will continue to be stretched with limited revenue opportunities and increasing annual costs. As a result, the State may attempt to withhold a greater share of the Local Government Distributive Fund (LGDF) remittances (currently 5%).

On a local level, the current year (2023) has been a good year to do business in Winnetka. Sales taxes, a key indicator of local economic activity, have increased over 10% through the first nine months of the year. For 2024, local businesses will also experience continued inflationary and staffing challenges. The 2-year period from July 2020 through June 2022, the Winnetka real estate market heated up significantly. Depending on the indicator, property values have increased between 20% to 30% during this timeframe. This has slowed since and over the last year property values increased by 7.3% and started to decrease -2% in the last quarter. Last month, the number of homes sold in Winnetka was down 18.8% compared to the previous year.

From an economic perspective the future remains uncertain, and the Village Council and staff need to remain cognizant of the above-mentioned economic threats and remain flexible by continuing contingency planning in the event of revenue interruption or increased costs. As an organization, we will continue to adapt to changing economic and social conditions.

Opportunities / Budget Initiatives

The Village exercises strong control over its expenses, which along with revenue decisions, form the second set of considerations in the 2024 budget. There are several initiatives which will impact the Village's operational and capital expenses for the short and long-term in the proposed budget. Those initiatives include:

- **Stormwater Management / Flooding Initiatives** – The 2024 budget provides \$18,345,189 for stormwater management / flooding initiatives. Stormwater continues to be a critical policy issue within the Village. In 2016, the Village accepted Strand Associates' "Stormwater Vision" for the Village, which included strategies for moving stormwater to the west in cooperation with the Cook County Forest Preserve and our local governmental partners. On July 13, 2022, the Village held a ceremonial groundbreaking on Little Duke Field to officially commence this project. This project consists of the Village building stormwater collection and holding tanks under Duke Childs Field (New Trier's athletic fields), on the Winnetka Park District's golf course, and behind Crow Island School. During major storm events, water will be conveyed and drained into storage areas and slowly released into the Skokie River. This water detention/drainage system will alleviate intense flooding experienced by many Winnetka residents.

In order to undertake the necessary construction, the Village secured Intergovernmental Agreements (IGA's) with New Trier High School, Winnetka School District 36, and the Winnetka Park District and finalized approvals with the Cook County Forest Preserve and the Army Corps of Engineers for the Hibbard Road preserve wetland project.

- **Downtown Improvements** – The 2024 budget provides approximately \$1.46 million towards downtown capital improvements in the Business District Revitalization Fund. In 2018, the Village Council adopted the Downtown Streetscape and Signage Master Plan. As part of that plan, several projects were identified for the downtown area. To date the Village has completed 5 phases of this plan including:
 - Phase I streetscape improvements were located at Chestnut and Spruce Streets and completed in 2019.
 - Phase II streetscape improvements were located on Elm Street between Green Bay and Birch St and completed in 2020.
 - Phase III improvements were located on Lincoln Avenue, North of Elm Street and were completed in 2021.
 - Phase IV improvements were located along Chestnut South of Elm and on Chestnut Court in the West Elm Business District and were completed in 2022.
 - Phase V improvements were located on the north side of Elm Street from Lincoln Ave. to Arbor Vitae Lane and the Southwest corner of Lincoln Ave. and Elm Street in the East Elm Business District. These improvements were completed in 2023.

- For 2024, the Village will work on planning for Phase VI improvements on Green Bay Road in the Hubbard Woods Business District. Other initiatives in this fund include a new community gathering concept for the post office site, and annual streetscape maintenance items. The proposed 2024 budget utilizes \$1.650 million in transfers from the General Fund.

The Downtown Master Plan also identified the evaluation and reuse of the 93 Green Bay Road property as a priority. In 2023 this redevelopment will be completed and will see a vibrant coffee shop replace the existing long vacated 1970's Texaco station.



- **Lead Service Line Replacement** – The 2024 budget contains \$685,000 dedicated towards the annual lead service line replacement program. In August 2021, the State of Illinois enacted the Lead Service Line Replacement and Notification Act. This legislation contained specific obligations for the Village of Winnetka, beginning in 2022 as it pertains to lead service lines. The Village's potable water system contains 4,494 service connections of which 1,503 were identified as lead based and/or potentially lead. To adhere to the timelines of the act the Village must replace these lead service lines within 17 years. This is an unfunded mandate from the State of Illinois.
- **Improvements to Aging Infrastructure** – The 2024 budget contains a little over \$10.53 million dedicated to funding aging infrastructure. This includes \$3,795,492 dedicated towards improvements in the power system; \$2,200,000 towards roadway, sidewalk, and trail improvements; \$900,000 in sanitary sewer replacements; and \$3,630,030 towards water main renewal and replacement.
- **Utility Funding** – In-depth rate studies were conducted for the Water and Electric Funds to identify new rate structures generating the revenue needed to address the additional costs associated with the lead service line replacement program and the increased costs of operating an aging electric plant. For the Water Fund, staff built upon the 2016/2017 comprehensive rate study which identified annual rate increases of 8.5% a year through 2025 to fund \$2.4 million in annual watermain replacement. The proposed increase to residential water rates for this budget is 10.25% which includes an additional 1.75% for the lead service line replacement program. Future anticipated rate increases in the Water Fund are expected to level off as we have accumulated annual operating capacity to pay for the \$2,465,000 in annual watermain replacement and \$538,000 in lead service line replacements.

The projected Water Fund rate increases are as follows:

- 2025 – 10.0%
- 2026 – 6.25%
- 2027 – 4.25%
- 2028 – 3.50%

For the Electric Fund staff proposes a 9.72% average rate increase for the 2024 budget. The electric rate increase is expected to generate approximately \$1.0 million in new revenue to help pay for \$3.7M in identified capital improvements. In 2024, the Village Council will analyze and make significant decisions regarding the long-term future of the Electric plant. Future anticipated rate increases in the Electric fund are expected to decrease as we accumulate annual operating capacity to pay for necessary capital improvements identified for the next five years. The five-year capital improvement plan identifies almost \$3.5 million in capital dedicated towards the Electric plant and over \$15 million toward other electric system improvements. The projected Electric Fund rate increases are as follows:

- 2025 – 7.75%
- 2026 – 6.25%
- 2027 – 2.5%
- 2028 – 2.5%

The rate increases for the Water and Electric funds are sufficient to sustain over \$3.8 million in water system improvements and \$3.8 million in electric infrastructure improvements during FY2024.

Following extreme flooding in 2011, the Village began an in-depth investigation of portions of the sanitary sewer system to reduce the amount of stormwater entering the system via Inflow and Infiltration (I/I). In 2012, the Village engaged Strand Associates to perform a detailed flow monitoring study. Additionally, in 2013 and again in 2017, the Village engaged consultants to perform sanitary sewer evaluation surveys for different portions of the system. These surveys identified key sources of inflow and infiltration into the Village’s sanitary sewer system along with the costs associated to mitigate defects. The 2017 report identified \$3.5 million in rehabilitation projects that needed to be completed over a five-year period. Projects were categorized as critical, high, medium, or low priority repairs. Staff has completed approximately \$3.3 million in repairs and replacements to date and is at the end of a five year “pay as you go” funding plan that will address remaining repairs in 2024. Proposed spending for repairs and annual sewer relining in FY2024 is \$600,000.

The Refuse Fund is funded with a sustainable fee-based cost recovery approach. Staff proposes a 2.5% increase in residential refuse rates, and a 7.5% average rate increase for commercial collection is planned for FY2024. The commercial increase is primarily due to increased recycling costs incurred from the Village’s recycling provider. The proposed Refuse fund budget does not include any capital investments this year.

- **Salaries and Benefits** - Salaries and benefits are budgeted to increase 5.08% across all funds compared to 2023. Note that a portion of the FY2023 salaries and benefits were budgeted in contingency due to ongoing union negotiations last fall during the budget preparation process. This is due primarily to increases in employee pay resulting from the settling of union contracts and higher pension costs. The FY2024 budget includes funding two new full-time positions and two part-time positions which returns the FTE headcount to 157.5, consistent with 2019 pre-pandemic levels.

After going down for two straight years the cost associated with the police and fire pension funds increased in 2023 and will increase again in 2024. For 2024, both the fire and police pension funds will continue to utilize the same assumptions approved in 2023, which includes a 6.75% assumed rate of return and a 15-year rolling amortization. Staff proposes to fully fund to the recommended contribution. This will result in \$258,162 in additional expense for 2024, but by adhering to the actuarial assumptions recommended by the pension boards this will result in relatively stable pension obligations going forward. The rate for IMRF increased in 2024 as well going from 7.49% to 8.47%, due to investment returns which results in approximately \$100,000 in additional pension obligations payable in 2024.

Beginning in 2018, the Village moved away from a standalone self-insurance model for health benefits and into the Intergovernmental Personnel Benefit Cooperative (IPBC) pool. The IPBC, due to its size, and leveraged purchasing power in the marketplace has a significant number of resources to help control costs which would not have otherwise been available to the Village as a standalone entity. Projected premiums vary for 2024 depending on insurance coverage (ex. PPO or HMO). On average, standard PPO premiums are expected to increase 1.44% for the coming year.

Budget Summary

Below is a summary of the FY2024 budget with comparative data from the FY2023 budget. Overall, operational revenues have increased 6.0%, or \$4,752,070 from the 2023 budget. This is the result of increases in service charges in the utility funds, projected increases in intergovernmental revenues (i.e., sales and income tax), property tax and permits.

**Village of Winnetka
Summary of Operating Revenues, Expenditures, and Capital (All Funds)
Excludes Depreciation Expense / Transfers Between Funds**

Operating Revenues	2022 Actual	2023 Budget	2023 Estimate	2024 Budget	FY23 to FY22 Budget Change	
					%	\$'s
Property Tax	\$ 15,319,444	\$ 15,037,935	\$ 15,037,935	\$ 15,403,618	2.4%	\$ 365,683
Other Taxes	\$ 802,278	\$ 730,000	\$ 717,250	\$ 680,000	-6.8%	\$ (50,000)
Licenses/Permits	\$ 2,286,550	\$ 2,223,000	\$ 2,270,079	\$ 2,805,500	26.2%	\$ 582,500
Intergovernmental	\$ 6,296,309	\$ 5,769,850	\$ 5,903,449	\$ 6,657,849	15.4%	\$ 887,999
Service Charges	\$ 36,157,647	\$ 39,608,364	\$ 39,055,583	\$ 42,083,808	6.2%	\$ 2,475,444
Fines	\$ 79,281	\$ 162,300	\$ 145,000	\$ 156,300	-3.7%	\$ (6,000)
Interfund Services	\$ 4,829,495	\$ 5,115,963	\$ 5,347,023	\$ 5,660,443	10.6%	\$ 544,480
Payment in Lieu	\$ 1,646,946	\$ 1,666,873	\$ 1,666,873	\$ 1,650,398	-1.0%	\$ (16,475)
Other Revenue	\$ 3,526,960	\$ 3,464,034	\$ 4,079,270	\$ 3,766,989	8.7%	\$ 302,955
Investment Income	\$ (11,648,979)	\$ 6,000,838	\$ 5,627,897	\$ 5,666,322	-5.6%	\$ (334,516)
	\$ 59,295,931	\$ 79,779,157	\$ 79,850,359	\$ 84,531,227	6.0%	\$ 4,752,070
Operating Expenditures						
Salaries and Benefits	\$ 29,905,108	\$ 31,577,284	\$ 30,870,586	\$ 33,850,451	7.2%	\$ 2,273,167
Services and Supplies	\$ 22,108,292	\$ 25,815,958	\$ 23,777,550	\$ 27,082,892	4.9%	\$ 1,266,934
Insurance	\$ 5,125,799	\$ 5,551,460	\$ 6,196,167	\$ 5,916,218	6.6%	\$ 364,758
Debt Service	\$ 340,851	\$ 798,255	\$ 798,255	\$ 795,630	-0.3%	\$ (2,625)
Payment in Lieu	\$ 1,646,946	\$ 1,666,873	\$ 1,666,873	\$ 1,650,398	-1.0%	\$ (16,475)
Contingency	\$ -	\$ 835,000	\$ -	\$ 460,000	-44.9%	\$ (375,000)
	\$ 59,126,996	\$ 66,244,830	\$ 63,309,431	\$ 69,755,589	5.3%	\$ 3,510,759
Net Operating Income	\$ 168,935	\$ 13,534,327	\$ 16,540,928	\$ 14,775,638	9.2%	\$ 1,241,311
Other Sources / (Uses) of Funds						
Grant Revenue	\$ 7,228,938	\$ 18,000,000	\$ 16,000,000	\$ 7,900,000	na	\$ (10,100,000)
Capital Expenditures	\$ (6,632,731)	\$ (27,574,734)	\$ (26,827,957)	\$ (32,248,621)	16.9%	\$ 4,673,887

Staffing has been reduced from 169 full-time employees in 2009 to 157.5 full-time equivalents in 2024. Overall staffing from FY 2023 to FY 2024 increased by 3.5, returning to the pre-pandemic levels of 2019. Salary budgets are developed assuming each position is fully staffed throughout the year.

Budget Impact on a Resident

The Village uses two primary metrics to evaluate finances as they relate to our residential customers: 1) estimating how the budget will change a customer’s costs, and 2) measuring property tax increases over long periods of time. For FY2024, we estimate a typical residential customer will pay 5.1%, or \$440 more per year (\$36.67 monthly), for municipal services as the following increases are incorporated in the 2024 budget: property taxes 1.43% (\$46), residential electric rate 9.5% (\$273), water rate 10.25% (\$110), and refuse charges 2.5% (\$11). The Village has suspended a planned 2.0% increase in sanitary sewer fees as sufficient balances are on hand in this fund.

The following is the calculated budget impact on a typical resident, based on an assumed \$25,000 property tax bill for all taxing districts (tax year 2022 / budget year 2023) and typical utility use:

Homeowner Impact Analysis Select Taxes and Fees	2021	2022	2023	2024	Change 23 to 24	
					\$'s	%
Village Property Taxes *	\$ 3,235	\$ 3,235	\$ 3,235	\$ 3,281	\$ 46	1.43%
Electric **	\$ 2,533	\$ 2,661	\$ 2,873	\$ 3,146	\$ 273	9.50%
Water **	\$ 891	\$ 967	\$ 1,074	\$ 1,184	\$ 110	10.25%
Sanitary Sewer	\$ 454	\$ 463	\$ 463	\$ 463	\$ -	0.00%
Refuse***	\$ 540	\$ 432	\$ 443	\$ 454	\$ 11	2.50%
Stormwater Utility Fee	\$ 262	\$ 262	\$ 262	\$ 262	\$ -	0.00%
Telecommunications Tax	\$ 60	\$ 60	\$ 60	\$ 60	\$ -	0.00%
Natural Gas Tax	\$ 80	\$ 80	\$ 80	\$ 80	\$ -	0.00%
Licenses - Cars (2) & Dog	\$ 90	\$ 90	\$ 90	\$ 90	\$ -	0.00%
Total Taxes and Fees	\$ 8,145	\$ 8,250	\$ 8,580	\$ 9,020	\$ 440	5.1%
					\$40.92 / month	

* Assumes \$25,000 property tax bill with no new growth (ex. additions).

** Based on 9.50% residential increase in electric rates and 10.25% increase in water rates.

*** Assumes resident moved from backdoor to cheaper 65 gallon curbside pickup option in 2022.

Tax Levy Analysis

Because Winnetka is largely a residential community without a large commercial tax base, the Village relies significantly on local property taxes to pay for traditional municipal services. Below is how each property tax dollar paid was allocated among the taxing districts, with the Village receiving 11.65 cents of every dollar paid.



The chart on the following page depicts community property tax growth for tax years 2000 to 2022 (payable in 2001 to 2023, respectively due to the one-year lag in payment) levied by all taxing districts. This assumes a home valued at \$1,000,000 in 2000 as a baseline and then inflated to 2022 value of \$1,271,261. The initial total property tax bill in 2000 would have been \$12,082 and is estimated to have grown to \$27,746 by tax year 2022. With these assumptions, the typical homeowner would have seen a 69.1% increase in the “Village” portion of property taxes over this time frame, which is in-line with the 22-year increase in the consumer price index (CPI) of 69.5% for the same period. This typical taxpayer would have experienced a 129.6% overall increase in property taxes, as all but one of the other taxing districts had larger percentage increases than the Village.

**Comparison of Property Taxes Paid
Typical Taxing Districts in Winnetka
2000 Versus 2022 Tax Years**

	2000*			2022**			Increase in Taxes Paid	% Change
	Home Value - \$1,000,000			Home Value - \$1,271,261				
	Tax Rate	Taxes Paid	%	Tax Rate	Taxes Paid	%		
Winnetka Public Schools	2.625	\$4,294	35.54%	2.945	\$10,946	39.45%	\$6,652	154.9%
New Trier High School	1.611	\$2,636	21.82%	1.923	\$7,147	25.76%	\$4,511	171.1%
Village of Winnetka	1.169	\$1,912	15.83%	0.870	\$3,234	11.66%	\$1,322	69.1%
Cook County	0.746	\$1,220	10.10%	0.512	\$1,903	6.86%	\$683	56.0%
Winnetka Park District	0.323	\$528	4.37%	0.356	\$1,323	4.77%	\$795	150.6%
Water Reclamation District	0.401	\$656	5.43%	0.374	\$1,390	5.01%	\$734	111.9%
All Others	0.511	\$836	6.92%	0.485	\$1,803	6.51%	\$967	115.7%
Total	7.386	\$12,082	100%	7.465	\$27,746	100%	\$15,664	129.6%
Consumer Price Index - U	175.100			296.797			CPI Increase:	69.5%
CPI Index (1-2001 - 12-2021)	2001			2022				

* 2000 Property taxes paid in March and August 2001. Home Value of \$1,000,000.

** 2022 Property taxes paid in March and December 2023. Home Value of \$750,000 in 2000 inflated to 2022 value = \$1,271,261.

Because of the one-year delay between the levy and receipt of tax funds, the FY2024 budget will be funded by the 2023 property tax levy. The proposed 2023 Property Tax Levy can be found at the end of this letter. The supplemental information section of this document (Tab 18) contains additional historical and projected property tax levy information.

Explanation of Individual Fund Budgets

General Fund:

The General Fund is used to account for most traditional municipal services, including police, fire, public works, and administrative functions. The projected December 31, 2024, fund balance of \$23,656,306 exceeds the policy target range (six months of operating expenses) by \$10,459,554. A total of \$5.5 Million in excess fund balance will be formally designated as “Assigned” fund balance for future transfer to the Stormwater fund in the December 31, 2023, audited financial statements.

Sufficient cash balances are needed to serve as a buffer for unexpected items (such as late property tax receipts, economic downturns, pandemics, emergencies, etc.), shared revenue reductions or interruptions from the State of Illinois, fund significant non-routine capital expenses (stormwater projects, emergency repairs or expenses, downtown revitalization, facilities, etc.), allow for inter-fund borrowing, and serve as an asset that could be used to satisfy pension liabilities. The 2023 fund balance policy threshold is \$13,196,752, based on budgeted operational expenditures.

Our organization has an estimated fund balance reserve policy that reflects the fiscally conservative nature of the Village. The Village does not issue debt except for financing major capital improvements. Reserves allow the Village to sustain financial shocks like those listed above without needing to seek outside financing. The Village has, at times, used General Fund balances for major capital projects, such as the Public Works Facility, Village Hall renovation, and

to seed the stormwater utility (\$8.2 million). What makes Winnetka different from other municipalities is that we do not have a dedicated equipment replacement fund to pay for capital equipment needs, as the Village plans and funds these purchases well in advance using a “pay-as-you-go” approach. Consequently, without appropriate General Fund reserves, the Village would need to fund these projects in a different way. Finally, a healthy fund balance helps to maintain the Village’s Aaa bond rating and allows us to be in a financial position to self-insure risks.

Summary of Revenue and Expenditure Changes:

The fiscal year 2024 General Fund revenues are budgeted at \$30,546,710, up 6.2%, or \$1,773,296, from the prior budget. The change in the year-to-year budget amount is mostly due to increases in permit revenue (\$600,000), property taxes (\$365,683), and sales and income tax collections (\$310,000).

Noteworthy revenue changes are displayed below:

Significant Revenue Sources	
Increase (Decrease) from Prior Fiscal Year	Change
Permits	\$ 600,000
Property Tax	\$ 365,683
Income and Sales Tax	\$ 310,000
Service Charges	\$ 148,248
Miscellaneous income	\$ 337,640
Total	\$ 1,761,571

General Fund departmental operating expenses (excluding capital, transfers, and contingency) are budgeted at \$26,693,503, up 8.3%, or \$2,050,717 from fiscal year 2023. The following is a summary of General Fund operating expenses by department:

General Fund	Actual	Budget	Estimate	Budget	%	\$
Summary	2022	2023	2023	2024	Change	Change
Operational Expenses		A		B	(A v B)	(A v B)
Administration	3,318,146	4,078,334	3,673,546	4,167,427	2.2	89,093
Police Department	7,317,968	7,681,429	7,594,009	8,133,595	5.9	452,166
Fire Department	5,895,768	6,126,795	6,163,293	6,918,778	12.9	791,983
Comm. Development	1,633,672	1,785,856	1,837,886	2,128,748	19.2	342,892
Public Works	2,866,536	3,685,881	3,458,859	3,869,041	5.0	183,160
Engineering	1,003,449	1,284,491	1,306,463	1,475,914	14.9	191,423
Total	22,035,539	24,642,786	24,034,056	26,693,503	8.3	2,050,717

Annual General Fund Capital Outlay:

Over the past several years, the Village has budgeted \$2.4 million to \$2.8 million in the General Fund for regular capital investment for items such as roadways, equipment, and vehicle replacements. Due to scheduling, favorable bidding, and budgeted contingencies, the Village has typically not spent 100% of the capital budget each year.

For FY2024, General Fund capital outlay is budgeted at \$2,916,110 and consists of the following noteworthy projects: streets, sidewalks, and trails (\$1,900,000), building improvements (\$576,000), and vehicle/equipment purchases (\$440,110).

Transfers:

The General Fund also transfers dollars to pay for capital projects that do not have a dedicated revenue stream or to shore up fund balances in smaller funds. In FY2024, there are three scheduled transfers to other funds:

- \$1,650,000 will be transferred to the Business District Revitalization Fund to offset the costs of capital improvements relating to improving the Village's business districts.
- \$2,750,000 in accumulated fund balance will be transferred to the Stormwater fund to be used for Stormwater capital projects.
- \$100,000 will be transferred to the Facilities Fund to provide cash flow for budgeted capital expenditures.

Motor Fuel Tax Fund:

The Village finances bridge repairs and major road projects using motor fuel tax dollars. The revenue in this fund is primarily derived from the State of Illinois' allotments of motor fuel tax to the Village. Monies in this fund are highly regulated by the State and require several engineering approvals by IDOT before funds can be spent. In addition to our annual budgeted State allotment of motor fuel tax funds of \$275,000, the Village is expecting to receive an additional \$225,000 due to the state increasing the Illinois gasoline tax by 19 cents a gallon in 2019. Planned 2024 spending in the MFT fund totals \$300,000. Major projects include Phase II construction of the Willow Road project. In addition to the spending highlighted above, the MFT fund will contribute \$1,400,000 in accumulated fund balances to eligible Stormwater projects.

Capital Projects Funds (Village Facilities / Business District Revitalization):

The Village establishes separate capital project funds for specific projects not financed through regular operations. The FY2024 Village Facilities Fund budget contains \$86,300 in funding for facility improvements at Village Hall and the Public Works Yards facility. Projects include painting / remodeling, and repair to the front steps at Village Hall.

The Business District Revitalization Fund is funded by transfers from the General Fund along with \$300,000 in Rebuild Illinois state grant funds. Capital projects to be funded in 2024 total \$1,460,500 and include improvements associated with recommendations from the Streetscape Master Plan. Most significant is the engineering for the Phase VI streetscape project in Hubbard

Woods totaling \$440,000. Other budgeted projects include design work for the Post Office Plaza redevelopment (\$245,000), electric vehicle charging stations (\$694,500) and sidewalk, grate, and paver improvements (\$50,000). More information about the Business District Revitalization Fund initiatives can be found in the Budget Narrative Section and in the Capital Improvement Plan.

Utility Funds (Electric, Water, Sanitary Sewer, Refuse, and Stormwater):

The Village operates utility funds that generate revenues to pay for operating and capital needs. Utility-enterprise funds use accounting like the private sector where charges for utilities fully support these operations. User rates are charged based on a “cost-of-service” model and a review of the marketplace.

The following revenue and expense summary illustrates that each utility fund is operating with a positive net income, which is then dedicated to fund ongoing capital improvements:

Electric Fund:

In 2023, Finance and the Water/Electric staff completed a comprehensive electric rate analysis to determine proposed rates for 2024 and projected revenue needs through 2028. The Village continues to balance the need to recover its costs for wholesale power, operating needs, and capital expenditures with the desire to have reasonable electric rates. The Village purchases wholesale power through the IMEA, which is a long-term supplier of power to participating Illinois municipal electric utilities. This protects the Village from supply concerns and the on-going fluctuations of the spot market.

For 2024, the Village will need to implement a 9.72% average rate increase to offset increased capital needs. The Electric fund will also require a short-term interfund loan of \$1.25M from the Water fund to adhere to fund balance policy. Major capital improvements being undertaken by the Electric Fund in fiscal year 2024 include a major overhaul of turbine #4 (\$650,000), repair to the pier (\$300,000), a progress payment for the construction of a replacement substation transformer (\$231,000), exterior brick repair at the plant (\$100,000), advanced metering infrastructure (\$200,000) and other electric system improvements (\$2,540,492) such as new switchgear, breakers, cable pulling, directional boring, and underground connectors.

FY2024 marks a transition period for the Electric Fund. Initially built in 1900, and with many significant additions and investments since that time; generating units and equipment at the Winnetka Power Plant are nearing the end of their useful life and will require significant capital investment for their continued operation. The five-year capital improvement plan has identified almost \$3.5 million of improvements necessary to maintain the current generating capacity at the Electric Plant. Staff will begin implementing these improvements in 2024, pending Council study sessions to discuss the long-term viability of the power plant. The outcome of the plant discussion may have a significant impact on long-term electric rates.

Water Fund:

The Water Fund completed a comprehensive rate study in fiscal year 2017. The study's purpose was not only to establish an updated cost of service model, but also to create a plan to replace the Village's aging water mains over time. The study identified a watermain replacement cycle of 100 years and provided a 10-year ramp up in water rates to support this annual replacement target. At the conclusion of the study, the Council agreed to 8.5% revenue increases for fiscal years 2018-2025 which will be realized through an increase in the cubic foot unit cost and the existing fixed cost recovery, also known as a customer charge.

One significant item not anticipated in the 2017 rate study was the Illinois Lead Service Line Replacement and Notification act of 2021. The Village will experience \$685,000 in additional capital expense in 2024 beyond what was contemplated in the 2017 study. As a result, the proposed rate increase in 2024 is 10.25% (1.75% higher than what was projected for in the 2017 rate study). Even with the 10.25% increase, the Village of Winnetka still sells water at very competitive rates versus our North Shore neighbors.

One of the commitments that staff made to the Village Council during the Water Rate Study was to continue the practice of coordinating water main work with the street improvement and replacement schedule. This coordination lowers the cost of street repairs associated with watermain projects. The budgeted FY2024 water main replacement projects include work on Spruce Street (\$568,350), Cherry Street (\$1,147,450), and Hibbard Road (\$340,000). The Water Fund is making other capital investments in FY2024, such as advanced metering infrastructure (\$500,000) and lead service line replacements (\$685,000).

Sanitary Sewer Fund:

The Village hired the consulting firm of RJN in 2017 to complete a sanitary sewer evaluation study. This study identified nearly \$3.5 million in critical, high, medium, and low repairs to the system in the next few years. With the critical components of this work already completed, staff proposed funding the high and medium repairs over a five-year period utilizing a pay as you go basis. We are in the fifth year of that process and at the end of the five-year cycle, staff will commence another sanitary sewer evaluation for the remainder of the village and identify future funding needs at that point.

The capital improvement activity budgeted in this fund for fiscal year 2024 includes high and medium level repairs from the 2017 RJN study (\$200,000), routine annual sewer relining work (\$400,000), advanced metering infrastructure (\$700,000). Staff also budgeted \$200,000 for sewer evaluation study for the remainder of the Village.

Refuse Fund:

The Refuse Fund previously relied on a combination of user charges and a portion of the Village's property tax levy to offset the cost of service and capital improvements. Beginning in FY2019, the Refuse utility shifted fully to being user fee funded, and the portion of the property tax levy previously dedicated to refuse collection has been utilized for business district revitalization

purposes. In FY2021, the Village implemented a new curbside collection option for residential customers which provides for more streamlined operations and an opportunity for customers to lower their Refuse bill. A key project for 2024 is continued review of the Village’s commercial refuse operations. Proposed rate increases for the Refuse fund include a 2.5% increase for residential customers and 7.5% for commercial based on the recycling contract, market, and cost of service. In 2022, the Village entered into a new recycling contract which will increase the Village’s cost for both residential and commercial recycling. The new contract runs through 2026 and with annual rate increases tied to CPI with a 2% minimum and a 4.5% maximum.

Stormwater Fund:

The Village began billing property owners for stormwater utility service effective July 1, 2014. Customers are billed for this charge based on the amount of impervious surface on their property, which is calculated as an Equivalent Runoff Unit (ERU). All properties with impervious surface above 170 square feet pay the stormwater utility fee, including residential, commercial, non-profit, governmental, and all other property types. A typical residential property has approximately 1.0 ERU.

The stormwater utility fee is billed on a customer’s regular utility bill. The annualized cost of 1.0 ERU is \$262, or \$21.83 per month. This amount not only funds debt service for capital expenditures, but also operation and maintenance of existing stormwater infrastructure. There is no change to the stormwater utility fee projected for 2024.

The Stormwater Fund is the only Village operating unit, with outstanding General Obligation (GO) debt. Bonds were issued in 2013 and 2014 to help pay for capital improvements associated with the Stormwater Master Plan, including improvements to neighborhoods in Northwest and Northeast Winnetka, and two pump stations. In 2020, these bonds were refunded and replaced by a new series of bonds. As part of this refunding, we were able to shorten the payback period by 6 years, free up about \$500,000 in annual debt service capacity and achieve savings of \$3.5 million (NPV).

The current outstanding debt as of January 1, 2024, is listed in the table below:

Issuance Year / Purpose	Repaid By:	Par Amount	Par Outstanding 1/1/2024	Final Maturity	Interest Rate
Series 2020 (Refunded 2013 and 2014 G.O. Bonds)	G.O. Debt anticipated to be repaid with stormwater utility revenues	\$ 12,035,000	\$ 10,845,000	12/15/2040	2.61%

In 2016, the Village accepted Strand Associates’ “Stormwater Vision” for the Village, which included strategies for moving stormwater to the west in cooperation with the Cook County Forest Preserve and Winnetka’s sister taxing bodies. Components of the Strand Vision started progressing significantly in 2018 and there are several capital projects derived from the Vision budgeted in 2024. These major projects from the Strand Vision include portions of the Cook County Wetland-

Duke Childs / Landfill projects, Crow Island storage, and conveyance projects on Hibbard Road, Willow Road, Mount Pleasant Street and Sunset Road. These projects involve the engineering and construction of stormwater detention and runoff infrastructure on the properties of the Forest Preserve District of Cook County, the Park District and Crow Island School for stormwater detention.

GFOA Recognition

The Village submitted its fiscal year 2023 budget document to the Government Finance Officers Association (GFOA) to be considered for the Distinguished Budget Presentation Award and recently received notification that it had won the award. Staff is further enhancing this year's budget document and intends to submit for the award again in 2024.

Community Profile

The Village of Winnetka is located seventeen miles north of the City of Chicago on the west shore of Lake Michigan and is primarily a residential community. The Village was incorporated in 1869, prior to the adoption of the first State of Illinois Constitution, and thus enjoys Special Charter status with the State of Illinois. In 2005 the Village adopted Home-Rule status that provides additional legislative and revenue raising powers. To date, the Village has not utilized any of these new revenue-raising powers.

The Village is approximately 3.9 square miles. The Village population totals 12,744 people according to 2020 federal census records. There are three business districts within the Village, all located adjacent to three commuter rail stations. The Village is one of the most affluent in the Chicago area, having a median household income over \$250,000. The Village obtained a Aaa bond rating from Moody's Investors Service in 1989 on General Obligation debt issued. At that time, the Village was only one of three communities having a Aaa bond rating within the State of Illinois based solely upon the merits of the Community. Moody's has reaffirmed this rating on several occasions, most recently on October 5, 2023.

Our community is over 75% residential and its economic base is rooted primarily in the service industry, which includes restaurants, professional practices, and light retail. The most recent assessed value of all Village property was \$1,761,665,392 for the 2022 levy year. This represents a 29.13% increase from the previous levy year. Given the recent trend in home prices it's likely EAV will increase over the next couple years. Due to the high per capita income level in the Village and correspondingly large homes, the Village's ten principal property taxpayers are individual residences with an average assessed property value of \$4.8 million. The top ten employers in the Village represent 34.83% of total Village employment. These employers include the local high school district, the local elementary school district, the Village itself, and various non-profit and commercial entities.

Closing Comments

The proposed budget continues the Village's long-standing practice of controlling operating costs while investing in capital to repair and enhance the Village's aging infrastructure. The budget initiatives will allow the Village to make progress on many fronts, including rehabilitating the infrastructure of the electric and water utilities, additional stormwater management projects to reduce flooding, aggressive downtown redevelopment, and continued improvement of the Village's human capital.

The Village is fortunate to have made good long-range financial decisions in the past. Due to operational efficiencies, we have been able to constrain property tax and other revenue growth to keep the cost of services roughly in line with inflation, unlike many taxing districts.

At this point in time, the Village can make major investments to modernize our infrastructure which will significantly improve our residents' quality of life and property values. Additionally, the Village should continue making investments in other infrastructure, such as our electric, water, sanitary sewer, refuse, and stormwater utilities.

Winnetka is an exceptional community in many respects. With continued sound management, solid long-range planning, adequate resources, and a strong personal commitment from all involved, we are excited about making an already outstanding community even better.

Respectfully submitted,

A handwritten signature in blue ink that reads "Timothy J. Sloth". The signature is written in a cursive style with a large initial 'T'.

Timothy J. Sloth, CPA
Director of Finance

**VILLAGE OF WINNETKA
FUND BALANCE COMPARISON
(ALL FUNDS, WITH CAPITAL AND TRANSFERS)**

FUND	12/31/2022 Audited Fund Balance	2023 Estimated Revenue	2023 Estimated Expense*	12/31/2023 Estimated Fund Balance	2024 Budgeted Revenue	2024 Budgeted Expense*	12/31/2024 Projected Fund Balance	Fund Balance Policy Amount	Surplus / (Deficiency)	Explanation of Target Amount
General Fund	32,077,945	29,944,010	34,802,746	27,219,209	30,546,710	34,109,613	23,656,306	13,196,752	10,459,554	Six (6) months of operating expenses
Motor Fuel Tax Fund	3,613,138	621,210	133,862	4,100,486	877,000	1,700,000	3,277,486	250,000	3,027,486	Fifty percent (50%) of annual MFT revenue
Foreign Fire Tax Fund	203,771	97,866	170,000	131,637	98,000	85,000	144,637	-	144,637	None, current balance is policy amount
Village Facilities Fund	78,767	1,500	67,100	13,167	101,500	86,300	28,367	-	28,367	None, current balance is policy amount
Downtown Revitalization Fund	451,005	1,960,000	1,522,140	888,865	2,520,499	1,460,500	1,948,864	-	1,948,864	None, current balance is policy amount
Electric Fund**	6,224,546	20,158,186	19,820,441	6,562,291	23,010,159	23,052,332	6,520,118	6,382,280	137,838	Four (4) months of operating expenses
Water Fund**	5,974,770	7,014,201	7,352,587	5,636,384	8,005,623	9,845,682	3,796,325	1,598,551	2,197,774	Four (4) months of operating expenses
Refuse Fund**	1,631,007	2,715,490	2,806,165	1,540,332	2,772,909	2,814,972	1,498,269	938,324	559,945	Four (4) months of operating expenses
Stormwater Sewer Fund**	4,075,355	24,866,865	17,106,716	11,835,504	14,245,000	19,963,887	6,116,617	274,356	5,842,261	Four (4) months of operating expenses
Sanitary Sewer Fund**	2,526,711	1,626,240	1,436,698	2,716,253	1,715,953	2,630,287	1,801,919	343,429	1,458,490	Four (4) months of operating expenses
W.C. Insurance Fund**	1,007,620	452,350	1,347,645	112,325	546,800	391,800	267,325	380,600	(113,275)	Four (4) months of operating expenses + \$250,000 deductible
Liability Insurance Fund**	544,930	868,080	526,000	887,010	563,630	897,498	553,142	299,166	253,976	Four (4) months of operating expenses + \$100,000 claim
Health Insurance Fund**	927,731	4,454,893	4,481,537	901,087	4,612,423	4,593,200	920,310	739,738	180,572	Two months of IPBC invoices.
Information Technology Fund**	85,749	1,091,788	950,042	227,495	1,160,000	1,132,679	254,816	77,753	177,063	Four (4) months of operating expenses
Fleet Services Fund**	451,490	1,086,575	1,057,524	480,541	960,510	1,093,012	348,039	364,337	(16,298)	Four (4) months of operating expenses
Police Pension Fund	34,040,160	4,300,430	2,924,882	35,415,708	3,917,977	2,720,262	36,613,423	48,213,229	(11,599,806)	Funding pension at 100% (15 - year open amortization)
Fire Pension Fund	32,790,277	3,451,681	2,492,309	33,749,649	4,226,534	2,877,186	35,098,997	51,054,567	(15,955,570)	Funding pension at 100% (15 - year open amortization)
TOTAL	\$ 126,704,972	\$ 104,711,365	\$ 98,998,394	\$ 132,417,943	\$ 99,881,227	\$ 109,454,209	\$ 122,844,960	\$ 124,113,082	\$ (1,268,122)	

* - Expense totals omit depreciation

** - Fund Balance = Current Assets (less inventory) minus Current Liabilities

NOTE: The purpose of this spreadsheet is to show the effects of budgeted revenues and expenditures / expenses on Fund Balances / Net Assets and to show progress towards meeting targets set for the individual funds. Final Fund Balance is determined annually as part of the Village's audit and completion of the Comprehensive Annual Financial Report.



VILLAGE OF WINNETKA

Personnel Summary

Budgeted FTE Counts

<u>Department</u>	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>FY2024</u>
Village Manager's Office	7.5	7.0	7.0	7.0	7.0	7.5
Finance Department	10.5	9.5	9.5	9.5	9.5	9.5
Police Department	35.5	35.5	35.5	35.5	35.5	36.0
Fire Department	27	27	27	27	27	27
Community Development Department	7	7	7	7	7	7.5
Public Works Department	17.35	16.35	11.8	12.15	12.15	12.65
Engineering	0	0	2.6	2.85	2.85	3.85
Electric Department	25.55	25.55	24.05	24.05	24.05	24.05
Water Department	9.2	9.2	10.45	10.45	10.45	10.45
Sanitary Sewer Department	2.95	2.95	3.3	3.3	3.3	3.3
Refuse Department	8	8	8	7.5	7.5	8.0
Stormwater Department	2.95	2.95	3.8	3.7	3.7	3.7
Data Processing Department	1	1	1	1	1	1
Fleet Services Department	3	3	3	3	3	3
Total	157.5	155.0	154.0	154.0	154.0	157.5

Village of Winnetka Schedule of Property Tax Levy Calculations

Tax Levy Category	2022 Actual Tax Levy	2023 Proposed Tax Levy	\$ - Change	% - Change
<u>General Fund:</u>				
Corporate*	\$12,470,870	\$12,661,625	\$190,755	1.53%
<u>Other Funds:</u>				
Police Pension	\$1,236,103	\$1,336,136	\$100,033	8.09%
Fire Pension	\$1,602,287	\$1,760,416	\$158,129	9.87%
Total Village-wide Tax Levy	\$15,309,260	\$15,758,177	\$448,917	2.93%
Less: New Development @ 1.5%		(\$229,639)	(\$229,639)	-1.50%
Existing Tax Payer Increase	\$15,309,260	\$15,528,538	\$219,278	1.43%

Increase (Decrease) Based on Total Property Tax Bill
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Total Property Taxes Paid 100.00%	Other Taxing Distr. 87.06%	Village 12.94%	1.43% Change / Village
\$10,000	\$8,706	\$1,294	\$19
\$15,000	\$13,059	\$1,941	\$28
\$20,000	\$17,412	\$2,588	\$37
\$25,000	\$21,765	\$3,235	\$46
\$30,000	\$26,118	\$3,882	\$56
\$35,000	\$30,471	\$4,529	\$65
\$40,000	\$34,824	\$5,176	\$74
\$50,000	\$43,530	\$6,470	\$93
\$60,000	\$52,236	\$7,764	\$111