VILLAGE OF PALATINE

VILLAGE HALL - COUNCIL CHAMBERS
200 E. WOOD STREET
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SPECIAL MEETING

BUSINESS FINANCE & BUDGET COMMITTEE

OCTOBER 28, 2023

Village Hall - Council Chambers **9:00 AM**

I. ROLL CALL

II. AGENDA ITEM

I. Consider a Discussion of the CY 2024 Proposed Budget & Capital Investment Plan

III. ADJOURNMENT

Consider a Discussion of the CY 2024 Proposed Budget & Capital Investment Plan

BACKGROUND:

Staff is pleased to begin public discussion and review of the CY 2024 Proposed Budget and Capital Investment Plan.

KEY ISSUES:

The CY 2024 Proposed Annual Budget and Capital Investment Plan totals $142,735,843. Of this total, $89,272,413 represents the Operations Budget while the remaining $53,463,430 represents our Capital Budget, TIF Districts, Debt Service, Transfers, Casualty/Liability Insurance Program, and Pension Administration requirements. In total, this represents an increase of 7.38% over the CY 2023 budget. The Proposed Budget continues to reflect the impact of the economic climate, while offering the core service levels expected by our residents and, most importantly, lives within our financial means. The Proposed Budget includes no increase to the property tax levy nor any new taxes or fees.

A full copy of the budget is available on the Village's website.

The Business, Finance and Budget Committee has a follow-up discussion scheduled on November 6, if needed. The required Public Hearing is scheduled for November 20, with the final budget adoption on December 4.

Today’s proposed schedule is as follows:

General Overview and Revenues

Operating Budget Review

Capital Investment Plan

Other Non-Operating Expenses
Insurance
Pensions
Economic Development
Debt Service

Questions/Follow-Up

RECOMMENDATION:

Staff recommends commencement of the public budget review process.

ACTION REQUIRED:

Action is at the discretion of the Village Council.

ATTACHMENTS:

- Budget Message

- Budget Overview

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October, 2023

Honorable Mayor and Village Council:

On behalf of the Village of Palatine, it is my privilege to present the Proposed 2024 Annual Budget and Capital Investment Plan for the Village of Palatine.

The 2024 Budget formally puts COVID behind us and further positions the community for a strong and prosperous future. The Budget continues the implementation of our debt free plan and makes significant contributions to the public safety pension plans. The Budget makes considerable progress in implementing our infrastructure plans approved by the Council as it relates to our roads, water system and sewer system. It is a budget of progress and focus.

With our public works infrastructure addressed along with the aggressive debt free plan and pension funding, the 2024 Budget will bring a renewed focus on the human infrastructure that is necessary for the organization to thrive for years to come.

The 2024 Budget will begin the transformation of leadership within the organization with anticipated retirements from several department directors – all of whom have been with the organization for over 20 years. While the institutional knowledge will be missed, they all have left their mark on the organization and helped shape a bright future. These departures mark the beginning of several more high-level retirements that will occur in the next several years. Fortunately, the Village Council has been committed to succession planning and made that a core focus of my last several years as Village Manager. We are prepared to continue to move the organization forward and maintain our focus on fiscal conservatism and delivering on all our core services.

The Budget will put more police officers on the street at strategic times and locations. It will dedicate an individual to zoning and code compliance activities. Our Police Social Work program will see changes in operations to meet the increasing needs of the community. Departmental training budgets have been restored to pre-pandemic levels.

All of this is being accomplished with no increase to the Village property tax levy. We continue to live within our means and expand on our service delivery commitments.

The 2024 Proposed Budget and Capital Investment Plan totals $142,735,843. $89,272,413 represents the Operations Budget and the remaining $53,463,430 represents the Capital Budget, TIF Development, Debt Service, Transfers, Casualty/Liability Insurance Program, and Pension Administration requirements.

While this represents a 7.38% increase over the 2023 Budget, it contains several unique or preplanned items including:

Amount	Item or Program
$2,000,000	GEMT (State ambulance transport reimbursement). There is a corresponding revenue offset.
$120,000	Fire overtime to cover long term injury/illness
$97,285	Additional Maintenance Worker in sewer division
$75,000	Information Technology consulting partnership
$50,000	Executive recruitment assistance for director search
$45,000	Recodification of Village Code
$41,000	Federal and State police seizure fund increase
$35,000	Police overtime for Targeted Area Policing and Traffic/Truck enforcement
$25,000	Water meter replacement expansion
$24,750	Contractual building inspection to meet demands
$20,000	Fire Department training

But for these items, the Budget would be increasing by only 3.7% despite inflation still running at an even higher rate. Again, all funded with no increase to the property tax rate.

Budget Development and Parameters

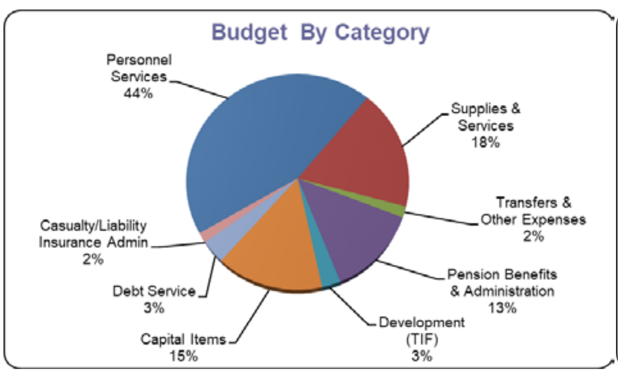
For over a decade, the uncertainty created by the fiscal affairs of the State of Illinois and to a lesser extent Cook County, coupled with the State's inability to address the rapidly increasing public safety pension costs had made it necessary to focus on simply maintaining our current services rather than looking at any expansion of services. As the State finally started to get their fiscal house in order, the global pandemic again forced us to focus on trying to maintain services and put us in survival mode. Fortunately, the strong recovery over the past two years is allowing the organization to cautiously expand in some service areas this coming year.

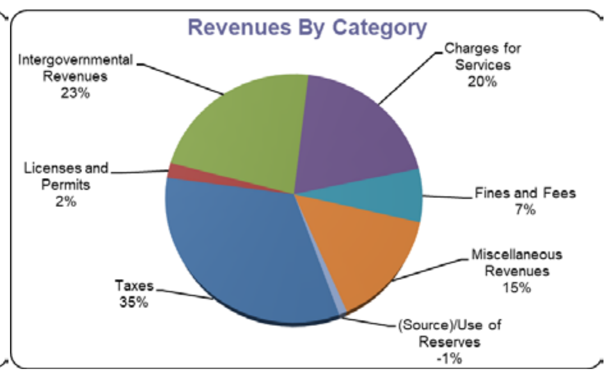
The development of a budget is a balance between existing resources (revenues) and demand for those resources (expenditures). Staff has worked hard over the years to achieve a balance between these competing interests. While we hope that the challenges created by the State and pandemic are in our past, we now face the ongoing uncertainty created by the inflationary pressures and a continuation of some limited global supply chain shortage. This is causing us to approach 2024 with tempered optimism and still a great deal of caution.

We continue to live within the existing revenue streams. Any increase in tax rates or other fees was to be a last resort authorized by the Village Council after weighing service and personnel reductions. The Operating budget guidelines we have traditionally used have allowed us to financially perform at a level few have achieved. The guidelines have served us well in both times of growth and contraction. Once again, the Village Manager established guidelines as part of the budget development process. These guidelines were as follows:

- All budgets would be predicated upon providing all our core services.
- Ensure the continued safety of our residents and businesses to receive timely responses to all public safety, public works, and community service needs.
- All non-personnel operating expenditures, including commodities and contractual services be allotted an increase of 2%. As this was approximately half of the current rate of inflation, reallocation would be required to stay within the limits.
- Benefit related expenditures would meet all statutory requirements for funding.
- The Capital Investment Plan must continue to address the needs of our residents and a systematic replacement of our aging infrastructure, roads, and facilities.
- Any existing or anticipated personnel vacancy shall be fully reviewed as to necessity and available options to replace work through outsourcing, realignment of responsibility, or transfer between Departments.
- All employees should be treated equitably, and compensation and benefit levels should be sustainable, and market driven across all job classifications. Investment in our human capital is critical to long-term success.

Many of our costs are fixed or cannot be reduced without significant service delivery impact or direct impacts on public safety. We are fortunate to have a diverse set of revenues to stabilize the organization in these unprecedented times.

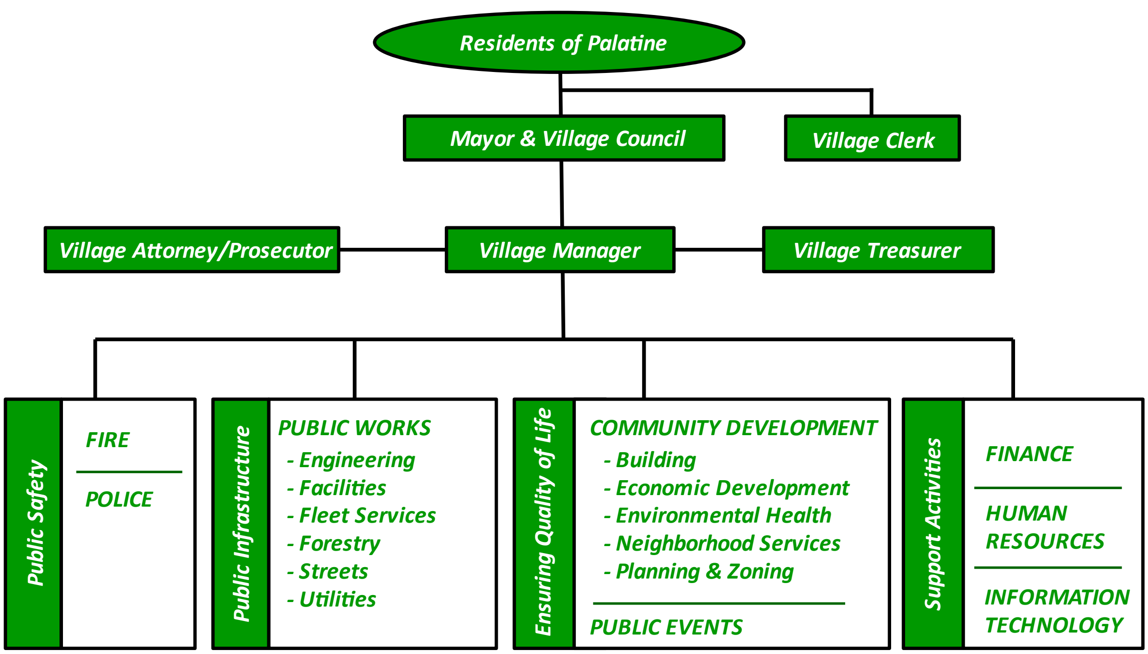




	2023 Adopted Budget	2024 Proposed Budget	2024 % of Total
Personnel Services	$ 61,469,825	$ 63,435,960	44.4%
Supplies	2,782,010	2,937,165	2.1%
Services & Charges	19,293,198	22,871,788	16.0%
Other Expenses	27,500	27,500	0.0%
Sub-Total Operations	**83,572,533**	**89,272,413**	**62.5%**
Transfers Out	2,338,000	2,337,000	1.6%
Pension Benefits & Administration	16,867,000	18,691,000	13.1%
Development (TIF)	4,350,000	3,741,860	2.6%
Capital Items	19,448,515	21,526,834	15.1%
Debt Service	4,273,861	4,953,736	3.5%
Casualty/Liability Insurance Administration	2,076,225	2,213,000	1.6%
All Expenditures Total	**$ 132,926,134**	**$ 142,735,843**	**100.00%**

Our organization exists to ensure the public health, safety, and welfare of our customers. We are structured and funded to deliver on this commitment. The following chart reflects the structural organization of the Village workforce.

VILLAGE OF PALATINE - ORGANIZATIONAL CHART



Revenues

Our annual budget process commences with a detailed review of our existing revenue sources in July. Staff utilizes a model that examines the previous three years of receipts and weighted factors are assigned to the more recent years to develop estimates for the upcoming calendar year. The estimates are then adjusted based upon known factors such as new or closed businesses. This model has proven to be dependable in both prosperous and declining economic conditions, including the past three pandemic years. The past year is tracking towards a very strong revenue performance. This said, there remain concerns over a softening economy and potential for a recession and this has led to some caution in the upcoming revenue estimates.

Additionally, during the pandemic crisis, the Village shifted electric utility tax dollars to the general fund to support ongoing operations rather than using the dollars in the capital budget. 2024 marks the full return of these dollars to the capital funds.

Highlighted revenues are:

- **Property Tax –** 2024 continues our commitment to maintaining a stable property tax rate. In 2018, the Village Council approved a policy to raise property taxes by 1% per year to help fund the unfunded liability of the police and fire pension plans. This was to be in place through 2028 and then revisited. Based upon our strong financial controls and fiduciary responsibility, I am pleased to report that the Proposed Budget again includes no increase in our property tax levy. Over the past twelve years, our property tax levy has grown by a mere 3.3%. The increased pension costs and other rising expenses continue to be absorbed through other revenue growth and our ongoing control of costs. More importantly, we have maintained our property tax levy despite historically high inflationary pressures.

  Based upon the recent Village Council actions to become debt free, the Village will be in a position within the next two years to look at potential reductions in the property tax levy.

- **Sales Tax –** Our sales tax receipts continue to outperform budget expectations. Some of this demonstrates the diversity of our sales tax base while it also reflects the inflationary price increases that in turn, increase our sales tax receipts. Based upon our current receipts and projections, the 2024 Budget includes $19.5 million in combined state and home rule sales tax receipts. Our economic growth has been very strong which, coupled with the reporting of online sales, has really started to move sales tax up as a major revenue source. In 2024, sales tax revenues will account for over 26% of our operating budget revenues, the highest level experienced.

- **State Income Tax –** This state shared revenue has been very cyclical without a real correlation to any economic or policy change. We have seen multi-million fluctuations from year to year. This is our most difficult revenue to project. For 2024, we are anticipating $10,350,800 which represents a very small 0.7% increase over 2023. With the ongoing recession fears, this revenue, along with our sales tax receipts will be very closely monitored throughout the year.

- **Food and Beverage Tax Receipts –** We continue to have strong food and beverage sales tax receipts. While some had feared that video gaming might lead to a decrease in this revenue source, that has not been the case. For 2024 we are projecting an increase of $100,000 or 6.7%, taking total receipts to $1.6 million.

- **Building Permit/Inspection/Review Fees –** Building permit activity remains very consistent with past expectations. While one large project can significantly alter the revenues, the building permit related revenues are anticipated to slightly increase from $1,775,000 to $1,905,000.

- **Liquor License Fees –** With the introduction of video gaming and the associated license and terminal fee, the liquor license receipts are anticipated to generate $500,000 which is an increase of $90,000 from last year. This is done with the assumption that video gaming will continue beyond the June 30, 2024 sunset of the ordinance. All receipts from the actual video gaming activity will continue to be dedicated to the capital budget.

- **Ambulance Fees –** In 2022 the Village entered into an agreement that will allow for increased payments for Medicaid transports. Under the arrangement, the Village collects the revenues and then is invoiced by the State of Illinois and must remit 50% of the revenues to the State. This is a significant revenue source for the Village, taking the old ambulance fee which was generally around $1.6 million up to total receipts in 2024 of $6 million. This is an increase of $2,682,000. We finally feel that we have a good basis for our estimates for this revenue although the State runs as much as one year behind in invoices. Nonetheless, we have increased our expenditures as previously referenced to cover the reimbursements.

- **Court Fines/Fees –** With courts finally reopened post-pandemic and the Village having a generally fully staffed police department, we are experiencing a short-term recovery in the fines. Unfortunately, the County is withholding more of the fine to offset their costs and are also becoming more lenient in their adjudications. Thus, our revenues are directly impacted. We have had to reduce our revenues from $375,000 in 2023 to $200,000 in 2024. We are however recommending an increase in our own court fees from the current $55 to $70. This recognizes the significant time and resources that go into filing the cases and the multiple continuations that are often granted.

- **Red Light Fines –** We have been waiting for nearly two years for IDOT to issue the permits for the installation of our red light cameras from the switch to the new vendor. We are optimistic that this will finally be approved in 2024 and the $700,000 in revenues will be realized.

Our Code of Ordinances provides for all other Village fees to increase in an amount equal to the Municipal Cost Index (MCI). This cost index is a representation of the costs for goods and services incurred by municipal government. For 2024, this represents an increase of 1.23%.

Reserves

A multi-year view is necessary when considering the existence of reserves and the year-to-year surpluses or deficits that create or deplete them. Particularly in capital funds, a surplus or deficit is merely a timing difference between receiving revenues and paying expenditures. In these funds we try to maintain level funding each year knowing that the expenses will vary from year to year. Thus, establishing a surplus for several years or spending down reserves is completely appropriate and, in fact, planned.

As recognized by the bond rating agencies, sound and conservative financial management over the years has positioned Palatine to withstand economic downturns and maintain financial strength.

The Budget anticipates 2023 will mark the 20th consecutive year that the General Fund will end within or above our targeted reserve range of three to four months operating costs. We should finish 2024 in that same position as well. This meaningful accomplishment demonstrates the commitment of the Council and Village leadership to fiscal constraint. These reserve levels have had a significant impact on the Village maintaining our outstanding bond rating over the past several years. Our conservative approach to finance, and the strong fund balance coupled with untapped revenue resources, continues to place us in high stature with the rating agencies.

The targeted operating reserves set by the Reserve Policy are at levels considered prudent to provide for uninterrupted municipal services and preferred bond ratings. These reserves serve as a stabilizer during reduced revenue collections, which in turn allows for a consistent delivery of our most important services.

The General Fund operating reserves are approximately $23.1 million, which falls at the upper end of the three-to four-month policy range. This does not include the Economic Stabilization Reserve which, pursuant to recent Council action, was increased from the original policy level of $1.0 million to $2.5 million. The Economic Stabilization Reserve is fully funded and available at the discretion of the Council.

There remains an additional $2.25 million in General Fund reserves that was earmarked by the Council in 2022 for additional annual payments of $750,000 (through 2026) towards the unfunded public safety pension liability.

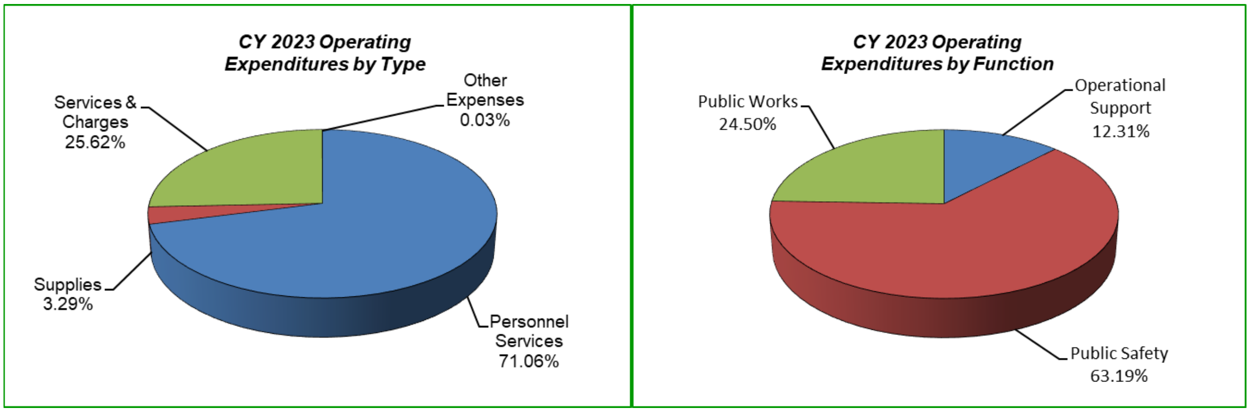
In the case of capital-related reserves, these funds are considered sinking funds. It would not be fiscally prudent or responsible to fund current capital expenditures with current dollars nor to issue bonds for all capital purchases. In this case, these reserves can be likened to a savings account to pre-fund expected purchases. Additionally, these funds can be used to fund one-time emergency purchases. These fund balance levels will fluctuate from year to year based upon our capital project needs. All are within or more than our fund balance targets.

Annual Operating Budget

The entire Village organization is committed to delivering on our core services in the most cost effective and efficient manner. The pandemic posed plenty of challenges in providing and paying for these services and now we navigate the potential onset of a recession. Despite the challenges, the proposed budget demonstrates a real commitment to efficiency and living within our means.

Our operating expenditures are summarized as follows:

Expenditures by Category	Adopted 2023	Proposed 2024	% Change
Personnel	$ 61,469,825	$ 63,435,960	3.20%
Supplies	2,782,010	2,937,165	5.58%
Services & Charges/Other	19,320,698	22,899,288	18.52%
Total Operations	**$83,572,533**	**$89,272,413**	**6.82%**



Municipal government is a service business, and the services continue to grow and demand increases. Our job is to protect the public safety, maintain the infrastructure, and ensure a high quality of life. To accomplish these tasks, it takes a committed work force. Over 90% of our employees work directly in our field services (Police, Fire, Public Works, and Community Development).

Personnel costs represent nearly ¾ of our operating expenses. As such, it is paramount that we focus on always controlling our personnel costs and balancing any increase or decrease in positions with the needs of the residents. Following the economic collapse over a decade ago, there has been a continuous focus on how we conduct business and the application of technology along with cross-training in the workplace. This has allowed services to remain constant and the organization to reduce our personnel counts. As benefit costs continue to rise through outside influences, the head count reduction has allowed the Village to live within our means and limit tax adjustments. However, not all services can be done through public/private partnerships and there are times when it is more cost effective to hire staff rather than outsource. This coming year, the Budget includes the addition of a new maintenance worker within the utilities division to continue our shift to a proactively maintained sewer system.

While the 2024 Budget reflects an increase in our workforce, it is still 9 positions below our staffing levels of 10 years ago and it is 3 positions below where we were 25 years ago when our population was 13,000 below what it is today.

PERSONNEL CHANGES OVER PAST 25 YEARS

Date	Full-Time Employees	PT/Seasonal Employees
January 1, 1999	333	72
January 1, 2004	354	50
January 1, 2009	366	67
January 1, 2014	339	59
January 1, 2019	330	63
January 1, 2024	330	52

Our staffing level remains below our staffing levels in 1999, nearly 25 years ago, a time with a much smaller population and geographic area to serve. This would not be possible if not for the exemplary employees we have at the Village.

Departmental Budgets and New Initiatives

After nearly a decade of operating in survival mode as the State imposed more and more mandates upon local governments with no associated funding and their many years of neglecting pension reform, we finally reached a point last year where things have stabilized. While there are still plenty of reforms we would like to see, we are at a point where we can again look at expanding upon several services and making sure our services meet the needs of the residents.

Fortunately, the State has generally left us alone as we move into the 2024 Budget. While they have mandated lead service line replacements as well as many mandates in the SAFE T Act, we have been able to utilize federal funding to help absorb or offset some of those costs. With those offsetting revenues, we can continue to expand on some critical initiatives in the 2024 Budget.

Some of the more notable initiatives and changes for CY 2024 include:

- ***Personnel Changes –*** The Budget includes the addition of one new maintenance worker within the utility division of Public Works. This is consistent with the recently adopted 10-year sewer program and will allow for an expansion of our proactive sewer maintenance program.

  Within the Police Department, $20,000 has been added to the budget to allow for enhanced walking beats and other targeted community-based policing initiatives. This is in addition to the already included $67,230 for these programs. Additionally, there is an appropriation of $15,000 for the traffic and truck unit to supplement their proactive and enforcement activities. This will help cover these initiatives during times the assigned officer(s) are off work or in training. It also will allow for more targeted focus to respond to resident concerns.

  While not requiring additional dollars but through previous Council actions related to staffing, the Police Department will also have a full year with 5 officers assigned to the Uniformed Tactical Unit as compared to the previous assignment of 2 officers. This will further allow for targeted policing to address concerns in the community.

  The Community Development Department has experienced success in outsourcing the plan review function. We have maintained our timeliness standards and the feedback we have received from contractors and developers has been good. Thus, we can reimagine the old plan review position and will be introducing a Zoning and Code Compliance Officer. This individual will spend a portion of their time doing proactive code enforcement work throughout the community as well as handle many of the complaints that are received by the Community Development Department. This allows for our other professionals in the department to continue to focus on their area of expertise, whether planning, building, rental properties, or environmental health.

  Wages are scheduled to adjust based upon contractual obligations and market conditions. The Village has a wage reopener with the fire department for their represented employees and funds are in the Budget to cover these anticipated adjustments. Our non-represented employees will have their ranges adjusted based upon market conditions and the funds appropriated in the budget. Management employees are all subject to performance-based increases. The Village Manager will make any necessary equity adjustments and reclassifications within the budgeted funds.

Change is a continuous process for our organization. While we have adjusted our organizational structure to deliver the highest level of services in the most efficient manner, we continue to be one of the leanest and most efficient municipalities anywhere in suburban Chicago. Staffing levels remain as low as possible while still being able to deliver on our core services.

- **Expansion of Technology –** The Village continues to invest in technology to not only assist with employees performing their jobs but making sure we have a safe and secure system. In 2024 we continue this effort with an appropriation of $75,000 in the IT operating budget for consulting services to assist with business analysis, database administration and other targeted initiatives. This will help us determine the future of a consulting relationship to expand into other areas of information technology.

- **Recodification –** The Village will embark on a complete recodification of the Village Code. For the past three years we have systematically updated the various chapters of our code with the last several chapters coming in late 2023. In 2024 the entire Code will then be reorganized and placed in a more user-friendly, web-based format. This is anticipated to be a $45,000 project and is funded through the Village Clerk's Office.

- **Fire Training –** There is an additional $20,000 in the training budget for the Fire Department which will bring them back to the pre-COVID funding levels. Training was an area that saw funding reductions to address the COVID revenue shortfalls. We knew we could survive for several years at a reduced funding level, but our services would be impacted if the critical training was not restored. We are fortunate to be able to restore this in 2024.

- **Executive Recruitment –** As mentioned earlier in this Message, the Village will begin to see the retirements of several executive level positions in 2024 and continuing for several more years. Finding the right replacement is critical to our long-term success and sustainability. While some Departments have the next executive already in place and ready to go, there are others that we will need to conduct a nationwide search. The $50,000 included in the 2024 Budget will allow us to engage the services of an executive search firm that specializes in local government.

Pensions

Our pension contribution obligations are one of the largest drivers in the development of our budget and unfortunately, not something that we can directly control. By State statute, the Village is mandated to fund pension benefits for all municipal employees. The Illinois General Assembly determines the benefits afforded to our employees as well as the employee contributions. Four years ago, the State moved forward with a plan to consolidate the police and fire pensions throughout the State. In the long term (10+ years), this should drive smaller increases in funding requirements due to economies of scale. It will now take several years to begin seeing the operational efficiencies of consolidation and hopefully stronger returns matching those of the Illinois Municipal Retirement Fund (IMRF).

The 2024 Budget includes $13,596,205 to meet the statutorily required contributions we face for our three pension systems. This represents an increase of $741,235 over last year. Of this amount, the Fire contribution is increasing by $534,000, Police is increasing by $321,000 and IMRF is decreasing by $113,765.

The Village will also be making supplemental payments (included above) to the Police and Fire pension funds totaling $750,000. The $750,000 payment will be an annual supplemental payment through 2026.

Insurance

The Budget continues to fund the Village's self-insurance program for our liability insurance. While we see strong performance in our liability program with actual claims coming in under expected claims, we do not see any corresponding pricing relief. Unfortunately, the natural disasters throughout the country (hurricanes, flooding, wildfires), civil unrest, and a generally negative view by insurance companies of the courts (particularly Cook County) have led to yet another year of significant rate increases. We will not have final rates until December after the budget adoption is completed, but early indications are an increase of $120,000 or 15% for our self-insured liability program.

In 2020, the Village joined the Intergovernmental Personnel Benefits Cooperative (IPBC) for our health insurance coverage. Our review of performance in IPBC compared to the general market trends indicate we continue to save money with this change. Through our first four years, I estimate our savings to be over $1 million. For the coming year, the Village contribution to health insurance coverages will increase by less than 1% which is an outstanding accomplishment. The Public Works union employees remain in a separate plan through the Operating Engineers Union, and we anticipate those costs will be increasing. Our past collective bargaining agreement requires the employees to cover any cost increases that exceed that of other employees and thus, any costs will be offset by employee contributions.

Annual Capital Investment Plan

The 2024 Capital Investment Plan continues our aggressive plan to take a proactive approach to maintaining and investing in our roads, underground utilities, facilities, and the community. The Capital Investment Plan for 2024 totals $21,526,834. This represents an increase of $2,078,319 or 15%. Of that increase, $3.36 million is for infrastructure improvements within our downtown as we move towards completing the identified projects in the Downtown TIF District.

Our capital program operates as a sinking fund where it is planned that some years the expenditures will exceed revenues and other years the revenues exceed the expenditures. This is the nature of capital investments. Thus, you can't just look at fund balance levels and defer the need for permanent funding sources. Fortunately, the sinking fund process, coupled with other stable revenue sources, has allowed us to not only maintain our annual capital investment, but establish adequate reserves to address unforeseen situations or emergency repairs and replacements.

Further helping the health of our capital reserves is our commitment to identify grant monies for capital projects. In the past several years, we have been successful with the award of nearly $10 million in funding for the complete resurfacing and other associated improvements for Rohlwing Road, Palatine Road, Illinois Avenue, fiber optics and various creek projects. Additionally, the Village was the recipient of approximately $12 million in

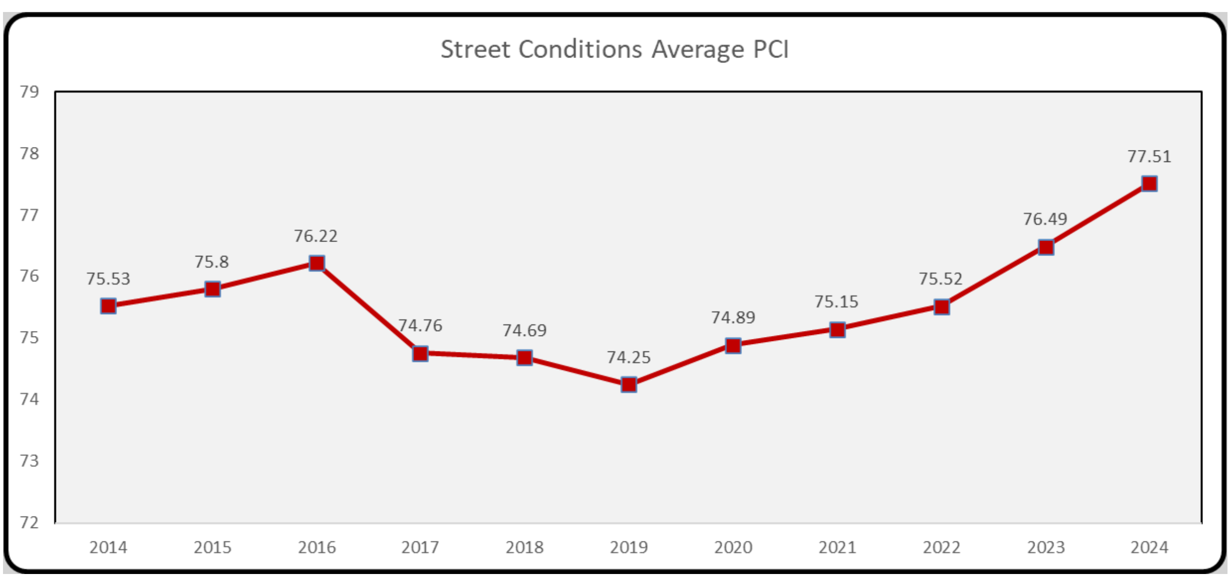
ARPA funds from the Federal government. These dollars have gone to capital and public safety projects that otherwise would have been competing with other existing funds. These grant dollars free up money to be utilized for other local roads and infrastructure investments. Staff continues to look for grant opportunities for all capital projects.

The following sections highlight the Capital Investment Plan for 2024 including any unique funding situations.

Street Maintenance Programs

The Village has the responsibility for maintaining 436 lane miles of streets throughout the community. On an annual basis, half the streets are physically evaluated/inspected and assigned a numeric rating (1 to 100) utilizing a computer model. When streets fall below 60, they generally begin to enter the five-year capital plan for resurfacing. Historic and present funding levels for street maintenance have been designed to provide a street system throughout the Village that carries an average rating in the lower "very good" range (70-75 PCI). The projected PCI value for 2024 is 77.51 which represents the highest rating in over a decade. This is a result of the 10 Year Street Improvement Plan approved by the Village Council in 2020.

The following graph illustrates the current average Pavement Condition Index (PCI) for the Village.



Five years ago, the Village Council established goals for our street maintenance program which are:

- Eliminate all resurfacing backlog (streets below a 50 PCI)
- Establish a system-wide average PCI of 75-80
- Increase resurfacing to over 6 miles and expand reconstruction
- Resurface main/collector roads at or before PCI of 60 (was 50) and residential roads at or before PCI of 55 (was 50)
- Complete concrete edging and integral curb program in 10 years or less
- Expand in-house programs to include resurfacing of concrete edging streets and add a third round of milling and paving

We have been successful in achieving many of these goals and within the Five Year Capital Investment Plan will accomplish the remaining goals.

The annual resurfacing program for 2024 includes funds for the following streets to be resurfaced:

2024 PROPOSED STREET RESURFACING PROGRAM

Street	From	To
Ashland Avenue	Amherst	Cunningham
Bedford Drive	Whitehall	Chatham
Chewink Court	Benton	Dead End E
Clinton Court	Bedford	Cul-de-Sac
Coach Road	Old Hicks	Castle
Comfort Street	Smith	Plum Grove
Cooper Drive	Williams	Sanborn
Easy Street	Tower	Cul-de-Sac N
Easy Street	Comfort	Robertson
Farm Gate Lane	Plum Grove	Timberlea
Forest Knoll Drive	Hicks	Cul-de-Sac W
Groh Court	Palatine	Cul-de-Sac
Haleys Hill Court	Ruhl	South Cul-de-Sac
Hamstead Court	Cul-de-Sac	Bedford
Helen Road	Quentin	Cedar
South Hiddenbrook Trail	Windhill	Hiddenbrook
Lake Louise Drive	Wilke	Cul-de-Sac

Leo Court	Lukas	Cul-de-Sac S
Lukas Avenue	Patrick	Quentin
Maple Street	Wood	Slade
Morris Drive	Rohlwing	Clark
North Street	Forest	Grove
Northumberland Pass	Rosiland	Falkirk
Oak Street	Washington	Daniels
Old Forge Court	Euclid	Cul-de-Sac S
Old Hicks Road	Aster	Coach
Patrick Lane	Lukas	Cul-de-Sac S
Penny Lane	Winnetka	Countryside
Portage Avenue	Dundee	North
Princeton Street	Ashland	Delgado
Rosiland Drive	Ruhl	Northumberland
Ruhl Road	Quentin	Rosiland
Saddle Ridge Court	Steeple Chase	Cul-de-Sac
Tower Place	Smith	Easy
Victoria Drive	Wilke	Castle
West Brookline Court	Old Forge	Cul-de-Sac W
Windhill Drive	Hiddenbrook	Steeple Chase
Winnetka Street	Palos	Deer
Wren Street	Dead End North	Chewink

2024 will also continue investment in our in-house resurfacing program (carried as an operating expense). Over the past five years, we have developed the ability to perform curb-to-curb resurfacing utilizing in-house crews and some limited rental equipment. This is allowing us to push further towards the goals set by the Village Council. The 2024 Budget provides over $3.2 million for our resurfacing program and milling program.

Resurfacing is just one activity in a much larger effort of maintaining our road network. In addition to resurfacing, our comprehensive road maintenance program will again include the following activities:

- ***Crack-filling***: Performed within the first three or four years after a street is constructed or resurfaced. This work is performed by an outside contractor.

- ***Milling & Patching:*** This activity removes the surface course of asphalt, undertakes any base repair, and then places a new layer of asphalt. In some instances, patching of streets precedes resurfacing by two or three years and in other cases, it will address isolated problems. To better manage the growing number of streets in the lower end of acceptable limits (PCI of 50-69), an expansion of this program has occurred over the past decade.

- ***Curb and Gutter****:* There are multiple programs designed to extend, repair, and upgrade curb and gutters throughout the Village. These programs include spot curb repair, 50/50 curb replacement, concrete edging, as well as repairs to curbing under the street resurfacing program.

- ***Street Rehabilitation/Reconstruction Program****:* This effort will vary from year to year and started in 2010. The program has evolved to include rehabilitating pavement, improving drainage, and installing concrete curb on roadways serving as the primary entry point into a neighborhood as well as reconstruction of roads when resurfacing no longer makes economic sense. In 2024 this program is targeting the rehabilitation of Illinois Avenue from Quentin to Plum Grove including the application of an $853,000 federal grant. Additionally, the plan includes the reconstruction of Michigan Avenue from Plum Grove to Cedar and Brockway from Michigan to Illinois.

Capital Equipment and Improvements

Separate from our road system, the Village maintains a long-range plan for the systematic maintenance, replacement, and new investment in our equipment and other improvements and facilities throughout the Village. While these investments are all discussed in detail in the budget document, some highlights and higher cost or new items include:

- ***Equipment/Vehicles, Facility Upgrades and Capital Improvements*** **–** The Budget continues with implementation of the Vehicle Equipment and Optimization Plan as well as our other structured replacement programs. Maintaining our front line equipment, computer networks and facilities is critical to delivering on our core services.

The 2024 Budget includes funds to adhere to our plan. Highlights of the equipment, vehicle and facility projects include:

- $500,000 for parking deck maintenance
- $470,000 in sidewalk replacement and extensions
- $350,000 for replacement ambulance
- $312,420 for 5 replacement police vehicles
- $680,460 for public works plow trucks and heavy-duty pick-ups
- $160,000 for electronic data management software

There are many other pieces of equipment and upgrades and modifications to facilities included in the capital budget.

Water and Sewer Funds

One of the easiest to overlook investments is our water and sewer infrastructure. What is out of sight is often out of mind. Fortunately, we have a very robust program to continue our investment in our below ground infrastructure. The 2024 Capital Investment Plan continues to invest in storm water management, sanitary sewers, and our water system. $8,850,000 in improvements are proposed for the water and sewer systems.

In order to fund these programs into the future, the Budget includes a change in the structure of the water and sewer rates. Historically, nearly 95% of water revenues came from the consumption charge for water. The remaining 5% was the basic user charge and other miscellaneous penalties and fees. As we have seen the water consumption continue to drop, we also have seen the costs of maintaining the system steadily increase. To ensure stability in our funding sources, the Budget recommends an increase in the monthly customer charge from $2.85 to $7.50. This is in essence a guaranteed revenue stream which will help fund the maintenance and operations of the water system. This increase will now result in approximately 12% of the revenues coming from fixed sources compared to only 5%. This increase allows us to have a more modest water rate increase of $0.38 per 1,000 gallons or 7.17%. Without the shift in the monthly customer charge, the water consumption rate would have increased by 25% over the next two years to fund our operations. Even with the user fee increase and water rate increase, we continue to be one of the cheapest sources of Lake Michigan Water in the Chicagoland area.

Highlights of our upcoming underground improvements include:

- ***Creek Bank Stabilization ($500,000) –*** Our funds, in addition to a State grant, will allow us to move forward with creek bank stabilization along the creek between Clark and Williams.

- ***Bridge Replacement ($332,000) –*** Also in conjunction with grant funds we have received, the bridge on Baldwin immediately north of Dundee Road will be replaced.

- ***Sewer Televising Equipment ($260,000) –*** This equipment purchase for a new sewer televising vehicle and equipment will allow for an expansion of our televising capabilities as part of our proactive sewer program.

- ***Southwest Elevated Water Storage ($500,000) –*** As part of the final stages of our three-zone water system, we will be installing additional elevated storage in the southwest portion of our community. Sites on the Harper campus are the preferred locations. There is money included in the 2024 Budget for the engineering and design of this elevated storage with construction anticipated in 2025.

- ***Water Main Replacement/Extensions/Looping ($4,460,250) –*** This infrastructure improvement continues to increase as the Village aggressively moves forward with more water main replacements and eliminating dead ends in the system to improve system performance and redundancy.

TIF Districts

The Village continues to promote development within our various TIF Districts to further expand our sales tax revenues and increase shopping, dining, and convenience options for our residents.

The Downtown TIF District was due to expire on December 31, 2022. With the support of the local taxing agencies, the Village successfully received an extension of the TIF District through the Illinois General Assembly in 2022. With the extension as well as the commitments made to our local partners, the Village captured the increment in 2023 and will again capture the increment in 2024. This, coupled with the existing fund balance will allow us to complete all infrastructure improvements that were identified for the District. This will result in over $20 million of investment.

The Rand and Lake Cook TIF Districts continue to perform within expectations.

The Village is in the process of considering a new TIF District at Dundee and Kennedy Drive that would be in place in 2024.

Refuse Fund

Based upon our current contract with Groot and the volume of refuse being collected, there is no increase in the refuse rate for 2024.

Debt Service

The Village maintains an AA+ bond rating from Standard & Poor's. This strong rating helps drive lower interest rates for any borrowing done by the Village, although there is no intention to go to the bond market in the coming year. In fact, based upon action taken by the Village Council in August 2022, the Village is on its way to becoming debt free. It is projected that the Village will have a fully funded Debt Service Reserve by CY 2025. This Debt Service Reserve will have the amount necessary to pay all debt as it comes due with a final payment on December 31, 2029 (five years ahead of schedule). This would allow for the re-programming of the current debt service property tax levy (approximately $2.5 million) beginning in tax levy year 2026. As previously referenced, the 2024 Budget will provide a $1,642,000 addition to the Debt Service Reserve.

As for current debt service, the budget includes an appropriation of $4,949,711 for the annual principal and interest on the Village's outstanding general obligation debt. Only a small portion of this payment comes through the property tax levy. There are two other sources of this debt payment listed in the chart below.

Other Sources of Debt 2024

Source of Payment	Principal & Interest	Percent of Debt
TIF Revenues	$1,582,380	31.97%
Water & Sewer Revenues	894,375	18.07%
Total	**$2,476,755**	**50.04%**

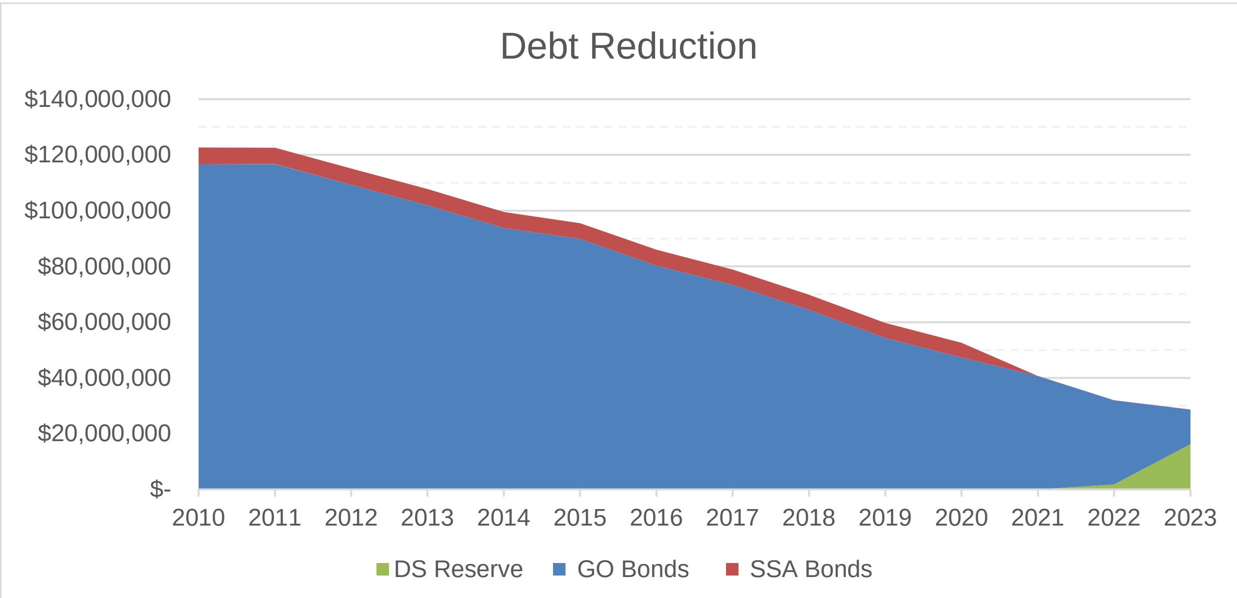
These other sources reduce the property tax burden on our stakeholders by a total of $2,476,755. Slightly more than 50% of our 2024 debt will be paid through sources other than Village-wide property taxes.

Understanding our total outstanding debt is also important as we assess the long-term financial stability of the Village. At the end of 2023, the Village will have $28,680,000 in outstanding bond principal. Several sources outside of the property tax are responsible for guaranteeing these bonds. The following table represents the breakdown of all outstanding debt.

Total Outstanding Debt
(Principal Balance as of December 31, 2023)

Source of Payment	Outstanding Principal	Percent of Total Debt
Property Tax	$23,260,000	81.10%
TIF Districts	3,730,000	13.01%
Water & Sewer Fees	1,690,000	5.89%
Total	**$28,680,000**	**100.00%**

Over the past 14 years, the Village has made great strides in reducing its debt burden. The chart below illustrates the outstanding debt as of December 31 of each year. Calendar year 2010 ended with $122,657,469 of outstanding debt and we are projecting an outstanding balance of $28,680,000 at the end of calendar year 2023. This represents a reduction of approximately $94 million.



The Future

The fiscally conservative approach to Village finances demonstrated by both the Village Manager and Finance Director and supported by the Council has set us up for a successful future. We are on very solid financial ground as we move into 2024. The actions taken by the Council in August 2023 to move the Village towards being debt free within the next 2 years will maintain the solid financial foundation well beyond my tenure as Village Manager.

The Council has approved plans to address our critical infrastructure – roads, water, sanitary sewers, and storm water management. Our capital equipment and facilities are all part of a robust maintenance and replacement program, and we are making meaningful progress in addressing our last major facility – the Combined Service Facility.

While I remain concerned about a pending recession, we are in a position to still move forward and withstand the impacts.

As I have said throughout my tenure as Village Manager, nothing in this budget would be possible without the dedication and commitment of our employees. They serve 24 hours a day, 7 days a week, 365 days a year. You will not find a more committed and efficient Staff anywhere. I could not do my job without all their effort. This Budget demonstrates our commitment to the Village Council, the community, and to all that serve the public.

Thank you for the opportunity to continue to serve and lead this organization.

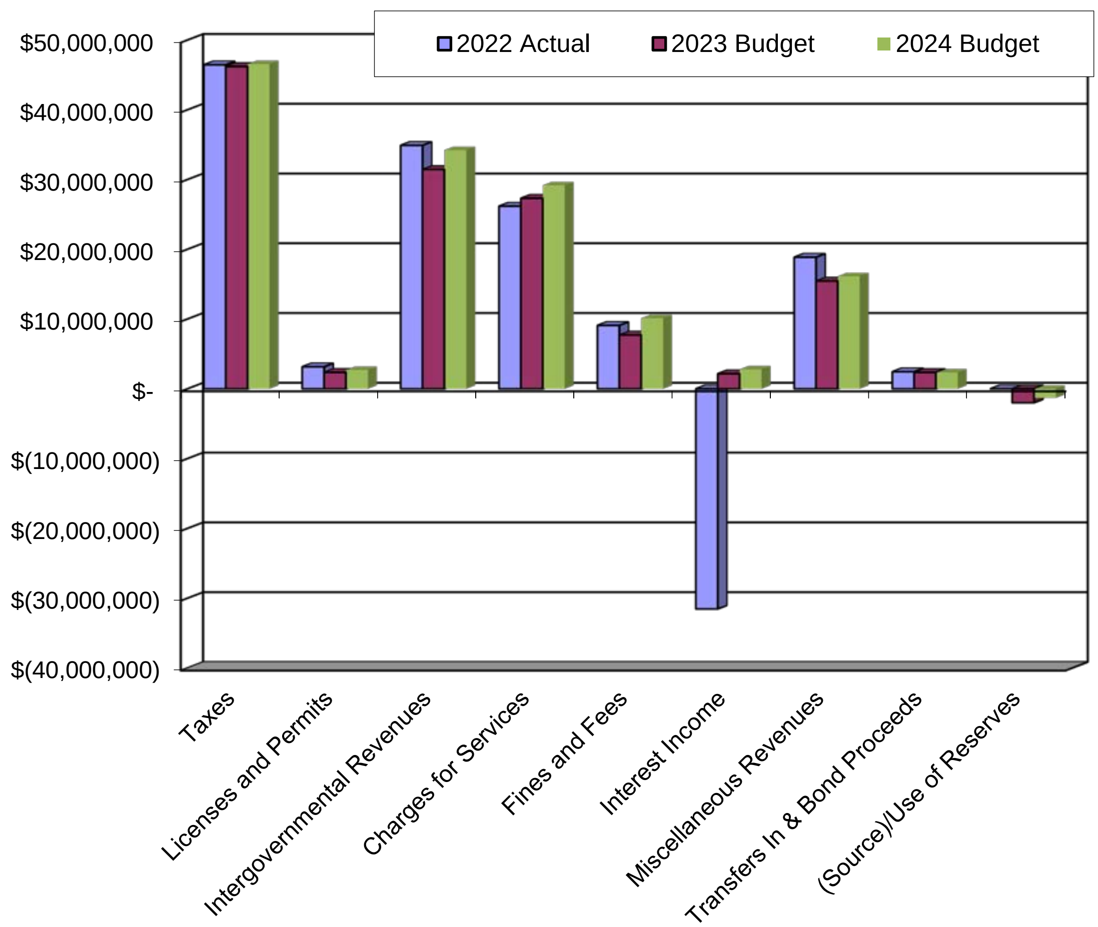
Respectfully submitted,

Reid T. Ottesen
Village Manager

Village of Palatine
CY 2024 Proposed Budget - Budget Overview

All Funds Revenues

	2022 Actual	2023 Adopted Budget	2024 Proposed Annual Budget	% Change
Taxes	$ 46,444,742	$ 46,201,034	$ 46,559,334	0.78%
Licenses and Permits	3,150,845	2,350,000	2,698,000	14.81%
Intergovernmental Revenues	34,897,352	31,437,063	34,221,422	8.86%
Charges for Services	26,179,529	27,311,732	29,177,493	6.83%
Fines and Fees	9,083,420	7,700,600	10,122,800	31.45%
Interest Income	(31,541,517)	2,151,675	2,785,330	29.45%
Miscellaneous Revenues	18,861,243	15,441,060	16,139,430	4.52%
Transfers In & Bond Proceeds	2,439,480	2,338,000	2,337,000	-0.04%
(Source)/Use of Reserves	-	(2,005,030)	(1,304,966)	-34.92%
All Revenues Total	**$ 109,515,094**	**$ 132,926,134**	**$ 142,735,843**	**7.38%**



Attachment: Budget Overview (Proposed CY 2024 Budget Review)

Village of Palatine
CY 2024 Proposed Budget - Budget Overview

Fund Revenue Summary

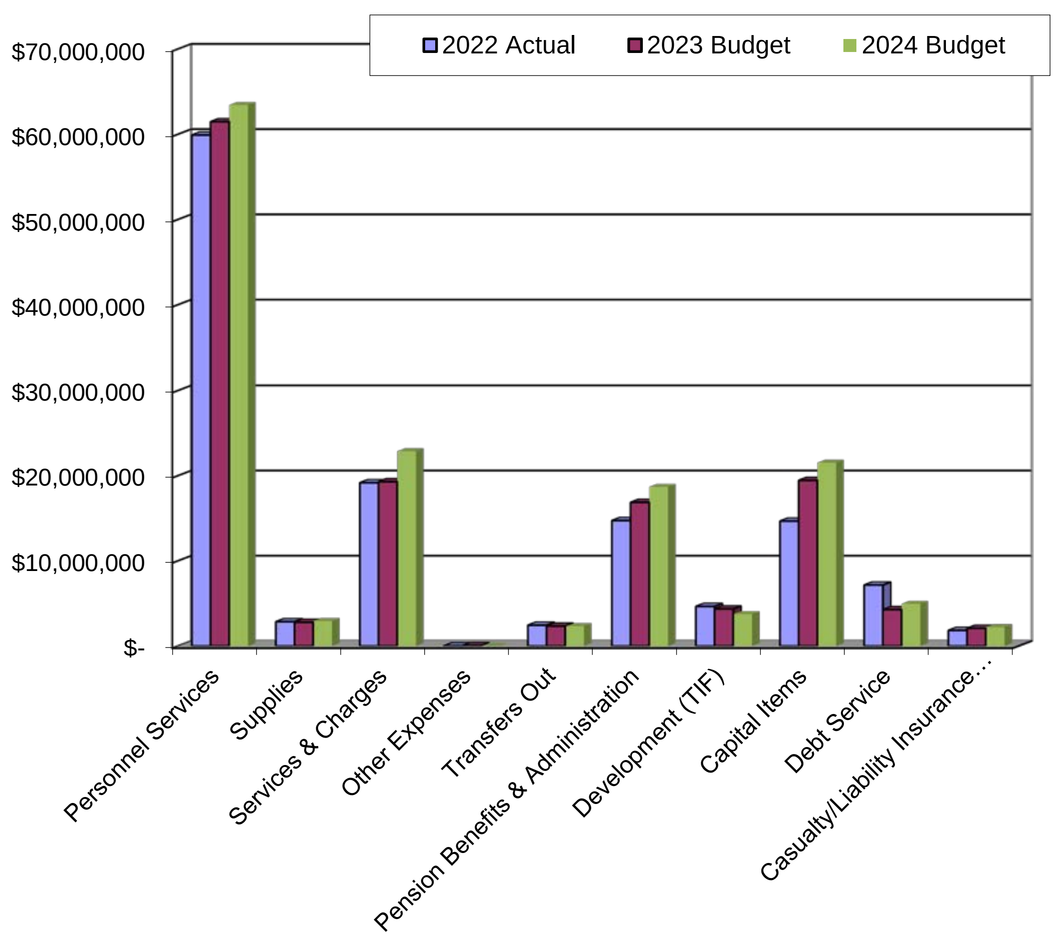
		2022 Actual	2023 Adopted Budget	2024 Proposed Annual Budget	% Change
100	General	$ 74,173,126	$ 68,859,310	$ 73,060,105	6.10%
205	Motor Fuel Tax	4,300,317	2,582,990	3,614,045	39.92%
210	CDBG	194,166	479,813	497,467	3.68%
221	Federal Equitable Sharing	43,270	20,000	132,020	560.10%
222	State Equitable Sharing	530,494	43,500	82,000	88.51%
224	Foreign Fire Insurance Tax	139,320	70,000	100,000	42.86%
233	Downtown TIF (TIF #3)	7,667,946	5,740,000	4,290,000	-25.26%
234	Rand Corridor TIF (TIF #4)	3,827,202	4,713,180	3,910,740	-17.03%
235	Rand/Lake Cook TIF (TIF #5)	1,111,455	1,505,000	1,505,000	0.00%
300	Debt Service	3,221,936	1,780,581	2,474,381	38.96%
401	Capital Equipment	1,566,850	832,405	1,994,640	139.62%
402	Capital Improvements	1,795,227	1,287,140	2,646,070	105.58%
605	Waterworks	12,758,956	14,076,285	15,233,930	8.22%
610	Sewerage	4,411,306	4,601,260	4,623,035	0.47%
615	Refuse	4,617,871	4,697,470	4,861,755	3.50%
620	Parking System	332,892	607,020	611,915	0.81%
702	Liability Insurance	1,708,935	2,076,225	2,213,000	6.59%
710	Fleet Services	1,734,579	2,086,955	2,194,740	5.16%
801	Police Pension	(8,828,477)	8,583,500	9,483,250	10.48%
802	Fire Pension	(5,792,277)	8,283,500	9,207,750	11.16%
All Funds Revenue Total		**$ 109,515,094**	**$ 132,926,134**	**$ 142,735,843**	**7.38%**

Attachment: Budget Overview (Proposed CY 2024 Budget Review)

Village of Palatine
CY 2024 Proposed Budget - Budget Overview

All Funds Expenditures

	2022 Actual	2023 Adopted Budget	2024 Proposed Annual Budget	% Change
Personnel Services	$ 59,908,307	$ 61,469,825	$ 63,435,960	3.20%
Supplies	2,848,676	2,782,010	2,937,165	5.58%
Services & Charges	19,173,731	19,293,198	22,871,788	18.55%
Other Expenses	6,701	27,500	27,500	0.00%
Sub-Total Operations	**$ 81,937,415**	**$ 83,572,533**	**$ 89,272,413**	**6.82%**
Transfers Out	2,439,480	2,338,000	2,337,000	-0.04%
Pension Benefits & Administration	14,730,880	16,867,000	18,691,000	10.81%
Development (TIF)	4,648,308	4,350,000	3,741,860	-13.98%
Capital Items	14,664,715	19,448,515	21,526,834	10.69%
Debt Service	7,156,081	4,273,861	4,953,736	15.91%
Casualty/Liability Insurance Administration	1,830,625	2,076,225	2,213,000	6.59%
All Expenditures Total	**$ 127,407,504**	**$ 132,926,134**	**$ 142,735,843**	**7.38%**



Attachment: Budget Overview (Proposed CY 2024 Budget Review)

Village of Palatine
CY 2024 Proposed Budget - Budget Overview

Fund Expenditure Summary

		2022 Actual	2023 Adopted Budget	2024 Proposed Annual Budget	% Change
100	General	$ 68,470,179	$ 68,859,310	$ 73,060,105	6.10%
205	Motor Fuel Tax	4,301,315	2,582,990	3,614,045	39.92%
210	CDBG	194,165	479,813	497,467	3.68%
221	Federal Equitable Sharing	39,506	20,000	132,020	560.10%
222	State Equitable Sharing	199,473	43,500	82,000	88.51%
224	Foreign Fire Insurance Tax	148,770	70,000	100,000	42.86%
233	Downtown TIF (TIF #3)	3,785,347	5,740,000	4,290,000	-25.26%
234	Rand Corridor TIF (TIF #4)	4,402,079	4,713,180	3,910,740	-17.03%
235	Rand/Lake Cook TIF (TIF #5)	2,101,030	1,505,000	1,505,000	0.00%
300	Debt Service	1,285,581	1,780,581	2,474,381	38.96%
401	Capital Equipment	1,985,252	832,405	1,994,640	139.62%
402	Capital Improvements	994,657	1,287,140	2,646,070	105.58%
605	Waterworks	13,464,763	14,076,285	15,233,930	8.22%
610	Sewerage	2,598,468	4,601,260	4,623,035	0.47%
615	Refuse	4,611,219	4,697,470	4,861,755	3.50%
620	Parking System	469,827	607,020	611,915	0.81%
702	Liability Insurance	1,830,625	2,076,225	2,213,000	6.59%
710	Fleet Services	1,794,369	2,086,955	2,194,740	5.16%
801	Police Pension	7,508,055	8,583,500	9,483,250	10.48%
802	Fire Pension	7,222,824	8,283,500	9,207,750	11.16%
All Funds Expenditure Total		**$ 127,407,504**	**$ 132,926,134**	**$ 142,735,843**	**7.38%**

Village of Palatine
CY 2024 Proposed Budget - Budget Overview

Fund Balance Summary

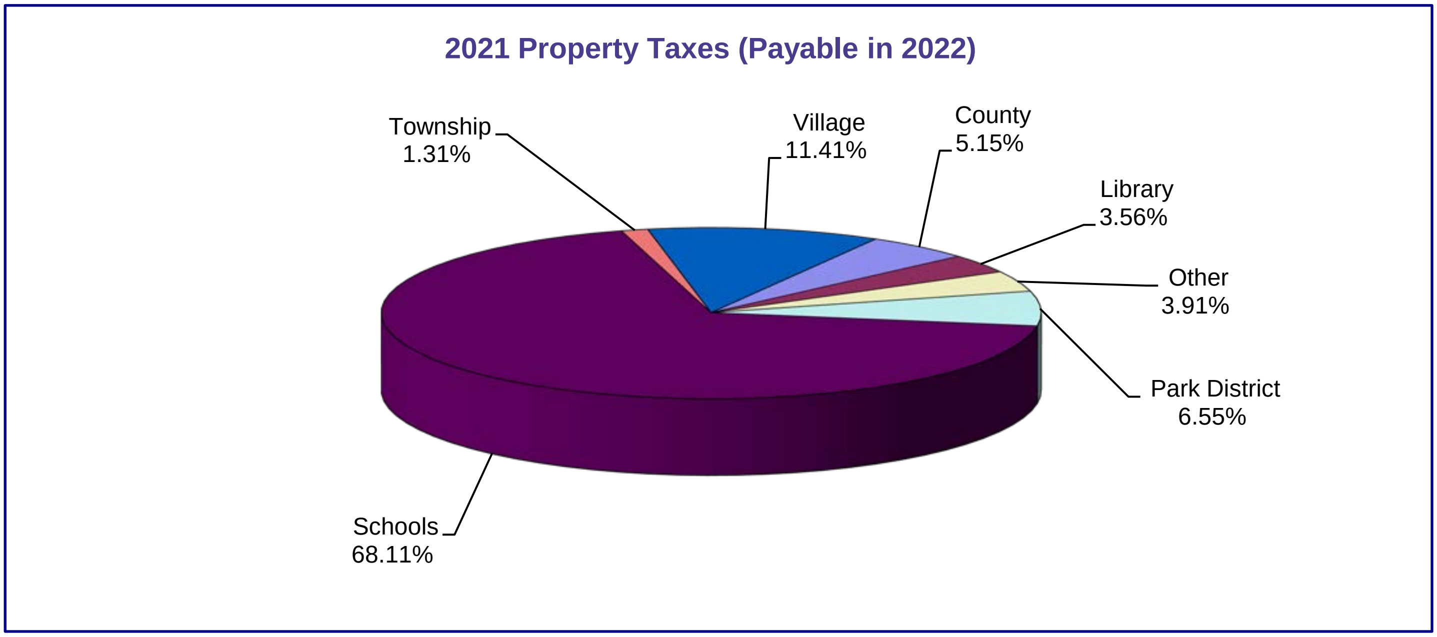
		Estimated Beginning Fund Balance	2024 Projected (Source)/Use of Reserves	Estimated Ending Fund Balance
100	General (Includes Economic Stabilization Reserve)	$ 28,888,737	$ (102,521)	$ 28,991,258
205	Motor Fuel Tax	1,481,498	243,945	1,237,553
210	CDBG	-	-	-
221	Federal Equitable Sharing	353,409	32,020	321,389
222	State Equitable Sharing	572,537	62,000	510,537
224	Foreign Fire Insurance Tax	207,395	-	207,395
233	Downtown TIF (TIF #3)	14,838,295	(3,312,500)	18,150,795
234	Rand Corridor TIF (TIF #4)	3,196,781	158,240	3,038,541
235	Rand/Lake Cook TIF (TIF #5)	2,477,930	272,000	2,205,930
255	CDBG - CV Fund	-	-	-
256	ARPA Fund	164,695	-	164,695
300	Debt Service	15,609,099	(2,274,405)	17,883,504
401	Capital Equipment	6,004,244	(359,610)	6,363,854
402	Capital Improvements	4,303,555	507,570	3,795,985
605	Waterworks	5,543,790	883,335	4,660,455
610	Sewerage	1,698,604	11,825	1,686,779
615	Refuse	255,575	(51,865)	307,440
620	Parking System	1,101,119	267,535	833,584
702	Liability Insurance	4,187,873	487,700	3,700,173
710	Fleet Services	678,223	68,765	609,458
801	Police Pension	100,403,801	938,250	99,465,551
802	Fire Pension	89,162,186	862,750	88,299,436
All Funds Total		**$ 281,129,346**	**$ (1,304,966)**	**$ 282,434,312**

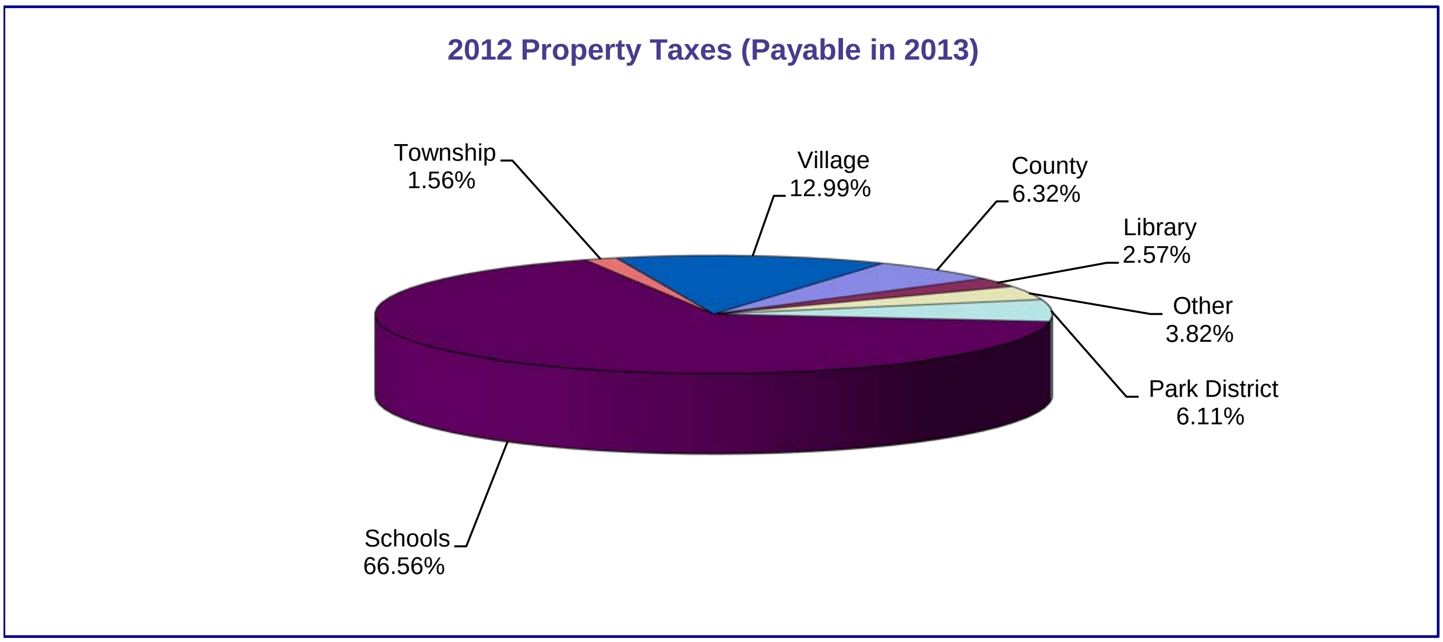
An operating reserve is set aside to provide a cushion against unexpected events, losses of revenue, and large unbudgeted expenditures. The most common trigger for use of reserves is on the income side, such as when a previously reliable source is reduced or withdrawn. Another common reason for either creating or using reserves is when there is a timing difference between when a revenue is recorded and the underlying expenditure is made.

In many cases, one of the main purposes of a fund is to accumulate funds today for a known or planned future outlay. Pension funds and funds that provide for capital outlay (Capital Projects and Enterprise Funds) are a good example of this accumulation of funds today for future outlays.

Village of Palatine
CY 2024 Proposed Budget - Budget Overview

Property Taxes



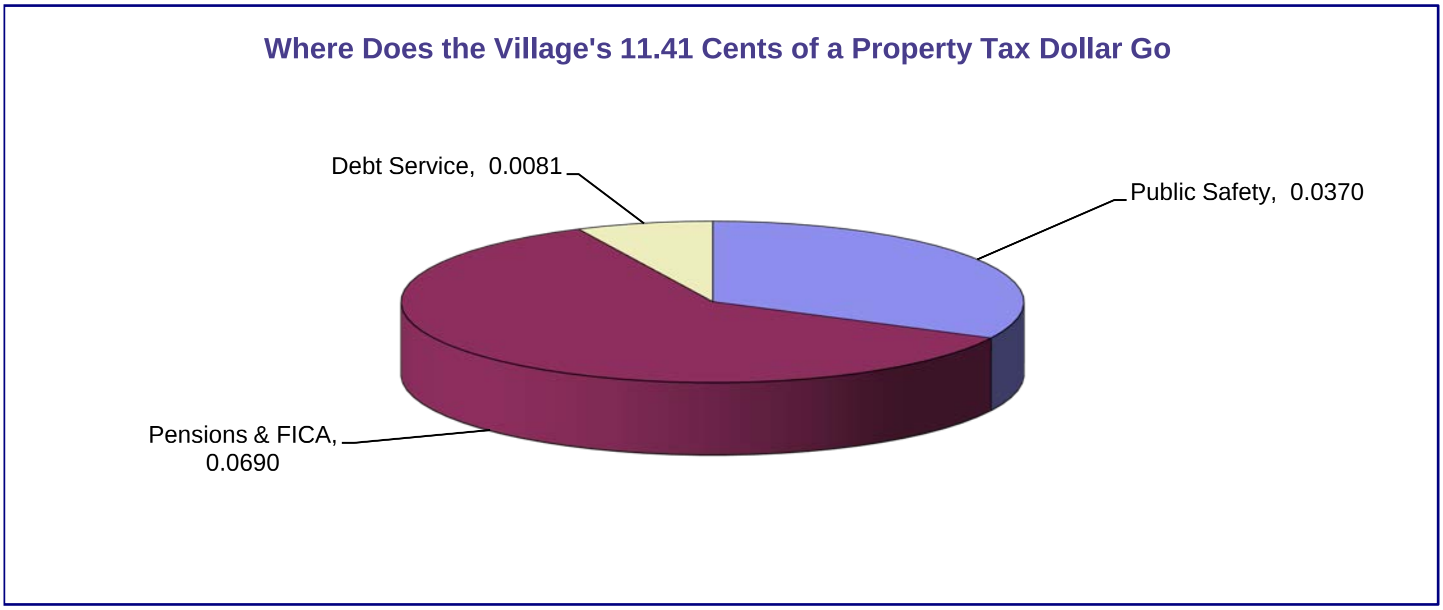


Property Taxes

Property Taxes fund Public Safety (Police and Fire Protection), the Village's share of Retirement Plan funding (FICA, IMRF, Police and Firefighters' Pensions), and Debt Service.

The Village has been diligent in monitoring its use of property taxes; the level of the Village's EAV; and the resultant tax rate. It has been the policy of the Village to be cognizant of the impact that the use of property taxes has upon its citizenry. This fact is represented in 6 consecutive years of either decreasing or constant property tax levies (2012-2017). Additionally, as can be seen from the graphs on the previous page, as compared to the other taxing districts within the Village, the Village's portion of the tax bill has remained fairly constant and relatively minor in relation to the total tax bill.

For 2024, the Village is proposing No increase to the property tax levy.



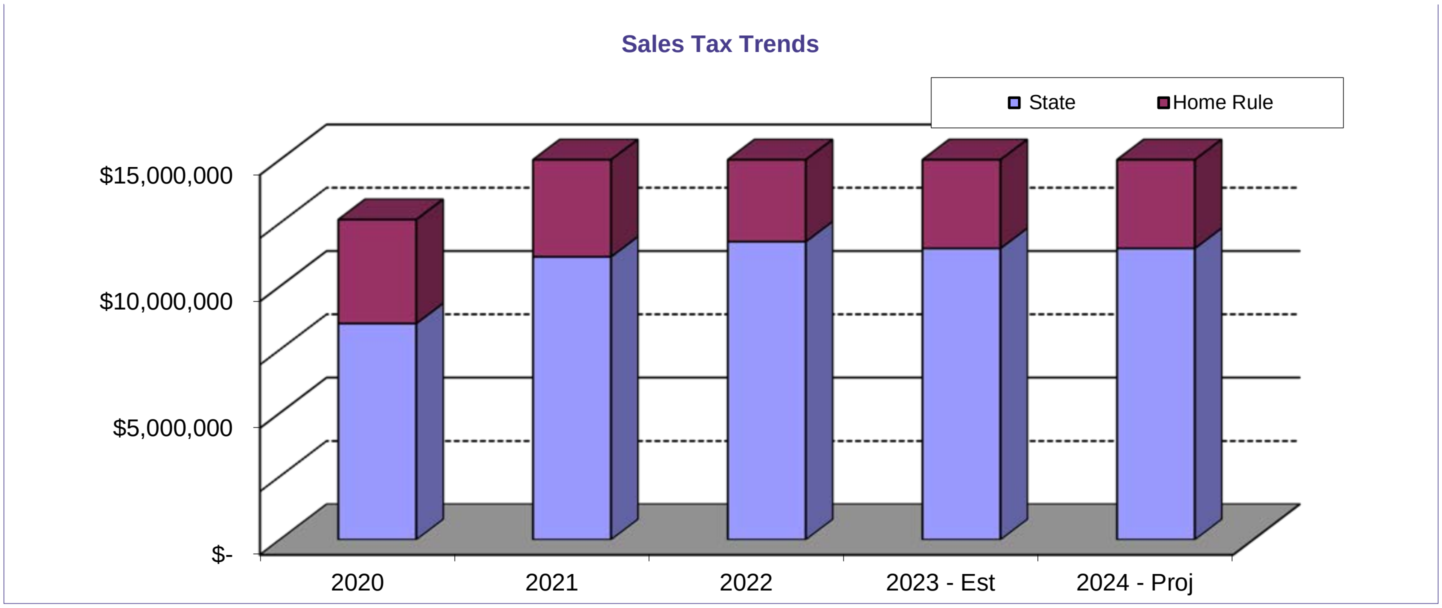
Village of Palatine
CY 2024 Proposed Budget - Budget Overview

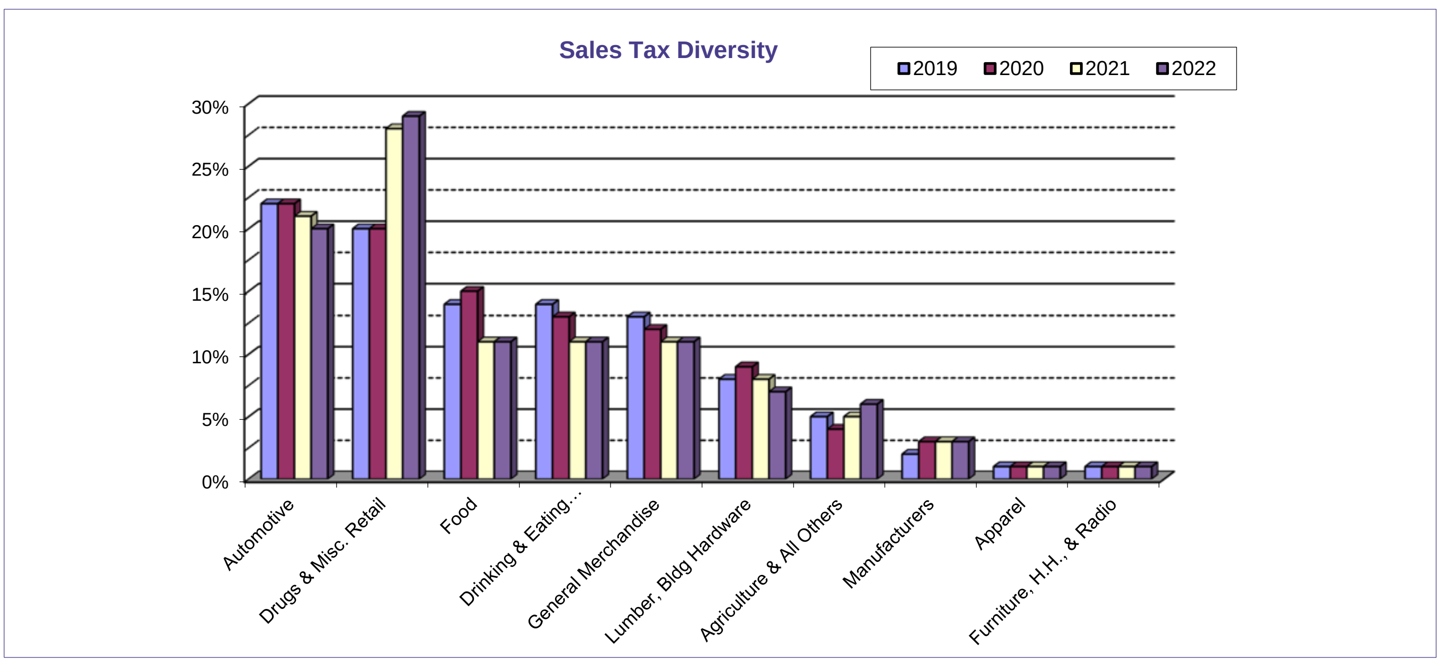
Sales Tax

The CY 2024 projection is based upon the current trend of receipts. This revenue source is very dependent on the strength of the economy and is a significant source of revenue to the general fund. The first graph below illustrates the trend of total collections.

The major strength in this revenue source for the Village of Palatine is the relative diversity in our sales tax generators. As can be seen in the second chart on this page, Palatine does not rely solely on one main sector of the local economy.

The diversity of the sales tax generators means that if one sector were to experience a downturn, the other sectors would compensate for it. As can be seen, four of the top five producers, excluding automotive, account for 61% of sales tax dollars and are for sectors that are not generally discretionary in nature.

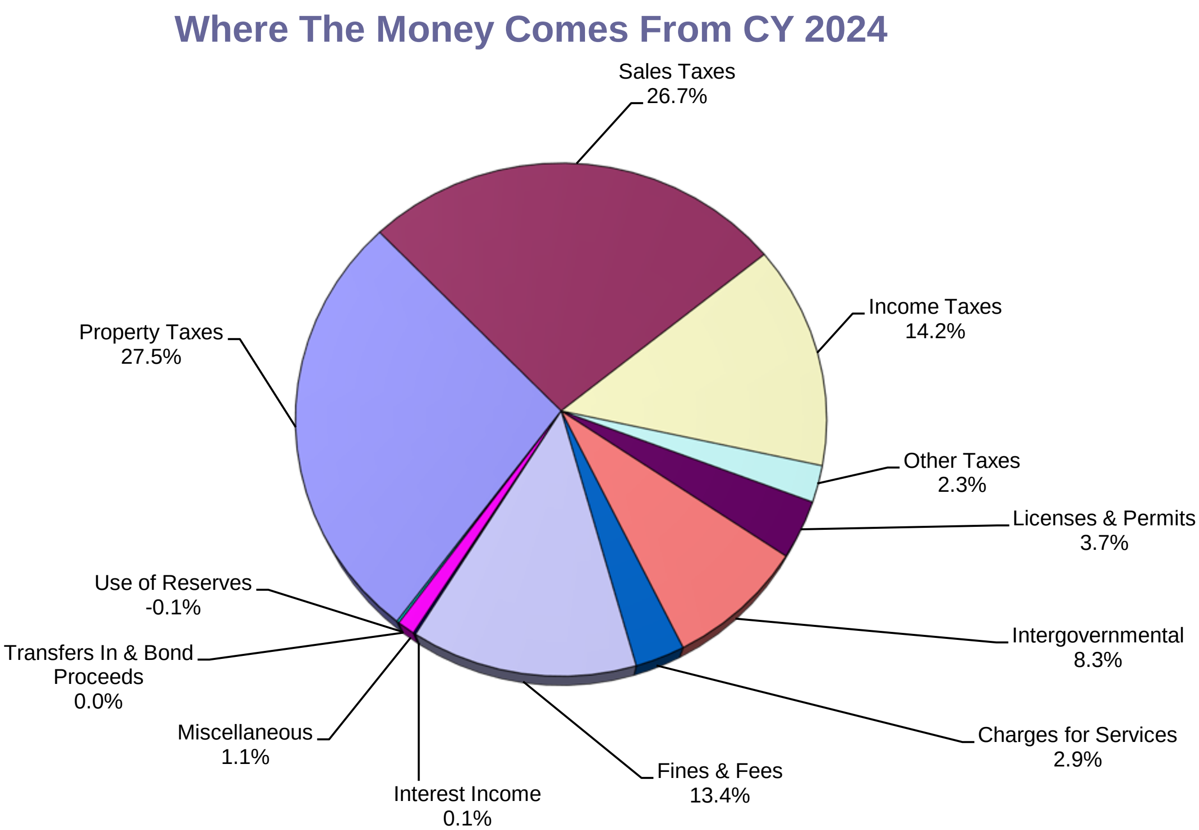




Attachment: Budget Overview (Proposed CY 2024 Budget Review)

Village of Palatine
CY 2024 Proposed Budget - Budget Overview

General Fund Revenue

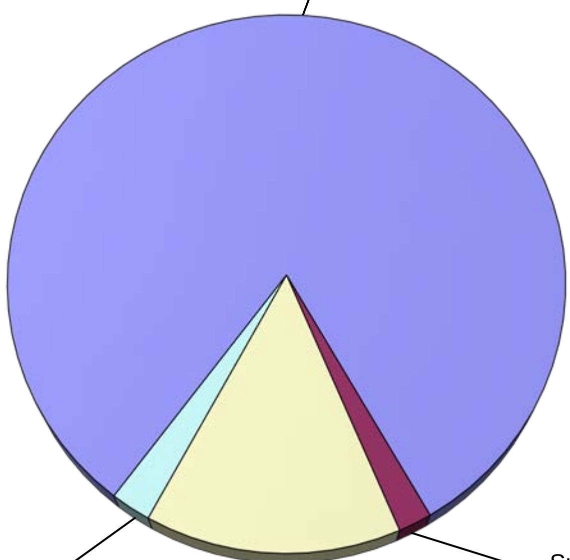


Revenues By Type	2022 Actual	2023 Adopted Budget	2024 Proposed Annual Budget	% Change
Taxes	$ 30,699,963	$ 29,282,678	$ 28,753,878	-1.81%
Licenses & Permits	3,137,926	2,337,000	2,685,000	14.89%
Intergovernmental	29,407,002	27,754,050	28,906,855	4.15%
Charges for Services	1,552,988	1,521,962	2,153,493	41.49%
Fines & Fees	8,615,339	7,398,100	9,792,800	32.37%
Interest Income	(55,988)	100,000	100,000	0.00%
Miscellaneous	815,896	749,675	770,600	2.79%
Transfers In & Bond Proceeds	-	-	-	-
Use of Reserves	-	(284,155)	(102,521)	-63.92%
Total Revenues	**$ 74,173,126**	**$ 68,859,310**	**$ 73,060,105**	**6.10%**

Attachment: Budget Overview (Proposed CY 2024 Budget Review)

General Fund Expenditures

Where The Money Goes in CY 2024



Expenditures by Type	2022 Actual	2023 Adopted Budget	2024 Proposed Annual Budget	% Change
Personnel Services	$ 57,203,569	$ 57,746,885	$ 59,464,100	2.97%
Supplies	1,166,669	1,353,275	1,388,350	2.59%
Services & Charges	8,323,760	8,089,650	10,538,155	30.27%
Other Expenses/Transfers Out	1,776,181	1,669,500	1,669,500	0.00%
Total Expenditures	**$ 68,470,179**	**$ 68,859,310**	**$ 73,060,105**	**6.10%**