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**MEMORANDUM**

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**TO:** CHAIRMAN MORAS AND FINANCE COMMITTEE

**FROM:** NICHOLAS MOSTARDO, DIRECTOR OF FINANCE

**SUBJECT:** FY 2020-2021 STORMWATER FINANCING

**DATE:** 5/26/2020

**CC:** KELLY A. AMIDEI, VILLAGE ADMINISTRATOR

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Background

The economic uncertainty caused by the COVID-19 pandemic will impact several of the Village's FY 2020-2021 budget initiatives. One of the most prominent initiatives pertains to projects associated with the Master Stormwater Management Plan.

The FY 2020-2021 adopted budget calls for a \$1,000,000 loan from the General Fund to the Stormwater Fund along with anticipated stormwater utility fee revenues of approximately \$400,000, assuming the fee would start in January 2021. Due to long-term economic concerns, it is no longer fiscally prudent for the General Fund to consider a \$1,000,000 loan to the Stormwater Sewer Fund. The stormwater utility fee remains an option for the Board to implement; however, deferring its implementation to an even later date than January 2021 is understandable due to the economic downturn.

As a result, there will be an appropriately \$900,000 cash deficit in the Stormwater Sewer Fund at the end of FY 2020-2021 if all projects proceed as budgeted, net of removing the revenues mentioned above. Without adjustments, it will be impossible to finance the engineering for the next phase of Rockland Road improvements as well as the Highlands stormwater improvements engineering project.

Stormwater remains a strategic priority for the Village. This memorandum outlines a modified FY 2020-2021 financing strategy that will allow the Village to accomplish its budgeted projects related to stormwater.

Analysis

The subsequent chart provides an overview of the Stormwater Fund cash position with budgeted assumptions versus revised assumptions:

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### Stormwater Cash Flow

	<b><u>Budget Balance</u></b>	<b><u>Revised Balance</u></b>
<b><u>Cash - 5/1/2020</u></b>	<b>\$1,848,982</b>	<b>\$1,848,982</b>
<b>FY 2019-2020 Remaining Expenses</b>		
Rockland Upsizing	(\$1,068,371)	(\$1,068,371)
C. Brown Reservoir	(\$804,049)	(\$804,049)
<b>FY 2020-2021 Revenues</b>		
Stormwater Loan (Transfer)	\$1,000,000	\$500,000
Fee Revenues	\$409,500	\$0
Alternate Revenue Bonds	\$9,582,433	\$0
Non-Home Rule Sales Tax	\$0	\$416,685
<b>FY 2020-2021 Expenses</b>		
Rockland Engineering	(\$1,091,677)	(\$150,000)
Highlands Engineering	(\$1,084,160)	(\$200,000)
Other Capital	(\$390,000)	(\$390,000)
O&M	(\$117,027)	(\$117,027)
<b><u>Cash - 4/30/2021</u></b>	<b><u>\$8,285,632</u></b>	<b><u>\$36,221</u></b>

At the beginning of FY 2020-2021, the Stormwater Sewer Fund had approximately \$1.85 million in cash assets. This balance was established as a result of the sale of 2019 Limited Tax General Obligation bonds and a FY 2019-2020 transfer from the General Fund. Two FY 2019-2020 capital projects were not completed by the end of the fiscal year: Rockland Road stormwater upsizing and the Charles Brown Reservoir rehabilitation. The remaining balance on these projects is expected to be paid in FY 2020-2021.

With respect to revenues, the FY 2020-2021 adopted budget was prepared with the assumption that a stormwater utility fee would be in place prior to the end of the fiscal year. This allowed staff to build a General Fund loan, fee revenue, and an alternate revenue bond into the budget. Without fee revenue, however, the loan and the bond will not be possible during FY 2020-2021.

Major FY 2020-2021 budgeted expenses include two Master Stormwater Management Plan projects: engineering for further expansion of the Rockland Road stormwater infrastructure and engineering for the Highlands neighborhood stormwater improvements. The budget also incorporates expenses for capital maintenance of stormwater assets along with regular O&M costs.

Proposals for both major FY 2020-2021 capital engineering projects have been received and evaluated by staff. Both sets of proposals include costs that are less than what was incorporated in the FY 2020-2021 budget and less than what was estimated in the Master Stormwater Management Plan (approximately \$150,000 for the Rockland Road project and \$900,000 for Highlands of a combined difference from budget of \$1,125,837). Staff also discussed changes to project timing in order to minimize the cost impact in FY 2020-2021.

Financing Strategy

In order to effectuate a positive year-end cash position in the Stormwater Sewer Fund, staff is proposing the changes illustrated in the right-hand column of the above-referenced chart. Such recommendations were prepared with the assumption that the Village would not revisit the policy question of a stormwater utility fee until later this year with implementation sometime in FY 2021-2022.

Staff proposes to reduce the \$1,000,000 loan from the General Fund to the Stormwater Fund to \$500,000 and to reclassify it as a transfer. This is necessary because there will likely be no fee in place by the end of FY 2020-2021 to justify classifying the transfer as a loan. This change also relieves pressure off of the General Fund, which is already expected to be stressed on account of COVID-19. Finally, without the fee, it will be impossible to issue the alternative revenue bonds contemplated in the Stormwater Utility Rate Study during FY 2020-2021.

To replace a portion of the diminished revenue, staff is recommending that the Village allocate a portion of the new non-home rule sales tax to offsetting the expenses in the Stormwater Sewer Fund. The first non-home rule sales tax distribution is scheduled to be received in October 2020. Based on the current economic conditions, it is anticipated that the Village will likely only receive 50% of its estimated non-home rule sale tax revenues on a monthly basis (\$125,000) versus the anticipated amount prior to the economic effects of COVID-19 (\$250,000). The proposed schedule of non-home rule sales tax expenditures for October 2020 through April 2021 would be as follows:

<b>Month</b>	<b>Estimated Total (50% of normal)</b>	<b>Places for Eating Replacement (1/3<sup>rd</sup>)</b>	<b>Capital Reserve</b>	<b>Stormwater</b>
October	\$125,000	\$41,663		\$83,337
November	\$125,000	\$41,663		\$83,337
December	\$125,000	\$41,663		\$83,337
January	\$125,000	\$41,663		\$83,337
February	\$125,000	\$41,663		\$83,337
March	\$125,000	\$41,663	\$83,337	
April	\$125,000	\$41,663	\$83,337	
<b>Total</b>	<b>\$875,000</b>	<b>\$291,641</b>	<b>\$166,674</b>	<b>\$416,685</b>

It is important to remember that capital projects such as roads, sidewalks, etc. in FY 2020-2021 are all funded from existing reserves. The FY 2020-2021 budget was not prepared with the assumption that the Village would gain the authority to impose a non-home rule sales tax. In the absence of COVID-19, the non-home rule sales tax dollars received from October 2020 to April 2021 would have just accumulated in the Non-Home Rule Sales Tax Fund to be used in a subsequent year.

The arrangement above would only be utilized for the remainder of FY 2020-2021. Beginning in FY 2021-2022, the non-home rule sales tax receipts would be used primarily for general infrastructure projects such as roads. At that point, ongoing stormwater expenses would need to be funded by utility fee revenues.

Finally, as it relates to FY 2020-2021 expenses, due to favorable bidding and project timing, staff is incorporating into its financial model cost revisions to the Rockland and Highlands engineering projects. Specifically, while staff will be seeking Board approval of the above-referenced contracts as early as the June 9, 2020 Board meeting, it is unlikely that we would be able to proceed into construction as intended during FY 2021-2022 due to COVID-19 economic uncertainty and the delayed implementation of the fee. As a result, the billable activities of the two engineering projects will be restructured based on a one year delay in the overall program. This has the effect of reducing the costs of the projects allocated to FY 2020-2021.

Recommendations

1. Determine if implementation of a stormwater utility fee should be deferred from January 2021 to FY 2021-2022.
  - a. If yes, take action on Item #2. Staff will revisit the Stormwater Utility Fee with the Board in the fall.
  - b. If no, staff will amend the revised cash flow model and make arrangements for the Village's Stormwater Utility Rate Study consultant to present Phase I of the study to the Board sometime in June or July.
2. Consider directing staff to implement the revised Stormwater Utility Fund financial plan as outlined above.