Meeting Location
DeKalb Municipal Building
200 S. Fourth Street
Executive Conference Room – 2nd Floor
DeKalb, Illinois 60115

AGENDA
Finance Advisory Committee Meeting
October 21, 2019
5:00 p.m.

A. Call to Order

B. Roll Call for Attendance

C. Approval of Minutes

1. Minutes of the Finance Advisory Committee Meeting of September 27, 2018.
2. Minutes of the Finance Advisory Committee Meeting of October 10, 2018.
3. Minutes of the Finance Advisory Committee Meeting of October 24, 2018.
4. Minutes of the Finance Advisory Committee Meeting of November 20, 2018.
5. Minutes of the Finance Advisory Committee Meeting of December 4, 2018.
6. Minutes of the Joint City Council and Finance Advisory Committee Meeting of August 16, 2019.

D. Public Participation

E. Old Business—None

This meeting will be video recorded.

The Finance Advisory Committee's role (as listed in Chapter 54 "Financial Administration", Section 54.16 "Finance Advisory Committee", is to provide well-reasoned, financially sound recommendations to the City Council. Meetings and reporting shall be on a project-by-project basis or as otherwise assigned by the City Council. The Finance Advisory Committee shall work in cooperation with the City Council and the City Manager to analyze the City's financial policies, long term financial stability, options for greater efficiencies, and possible revenue and expenditures modifications.

F. New Business

A. Consideration of Preliminary FY2020 Budget Assumptions

1. General Fund.

The City Manager, Assistant City Manager, and Finance staff have compiled the raw, projected FY2020 Budget numbers for each of the City's funds. The final polished budget document with the Letter of Transmittal, Organizational Overview, Budget Overview, narrative sections, and a variety of illustrative charts and tables will be ready for a joint discussion with the FAC and City Council in November.

For the general consideration of the FAC, the advisory meeting on October 21 will focus on (a) the City of DeKalb's general operational needs and goals and (b) the City of DeKalb's general capital and infrastructure needs and goals. These goals are consistent with the City's Five-Year Financial Plan (2018-2022).

Perhaps the top goal of the Five-Year Plan was the "stabilization" of the General Fund. This involved the following principle assumptions:

a) Hold the Municipal tax rate under 1.5%;
b) Raise the General Fund Balance to a threshold at or above 25% of annual GF expenditures, and sustain that level of reserve funds.

Property Tax Rate

The Draft FY2020 Budget proposes a targeted City tax rate of 1.1882% based on an estimated 2019 rate-setting EAV of $592,785,395 and a City levy of $7,043,630. The 2019 City levy option proposed by the City staff has the following features:

- It captures new construction and new EAV growth;
- It reflects the recapture of TIF #2 EAV, plus the recapture associated with the ascendance of TIF #3 on TIF #1 parcels.
- It provides a small cushion to assure the target tax rate of 1.1882% is not exceeded when appeals are registered against the rate-setting EAV this fall and winter.

These assumptions are portrayed in the table that follows:

Capture Full EAV Growth and Recapture of TIF #2 EAV					
	2017 Extended Levy	2018 Extended Levy	2019 Proposed Levy	$ Difference	% Difference
#001 - Corporate					
#003 - Bonds & Interest	493,032	494,117	490,075	-4,042	-0.82%
#005 - IMRF					
#013 - Firefighter Pension	3,225,814	3,220,117	3,473,384	253,267	7.85%
#015 - Police Pension	2,778,807	2,796,623	3,080,171	283,548	10.20%
Total Corporate Levy	6,497,653	6,510,857	7,043,630	532,773	8.20%
Library	2,050,725	2,132,754	2,265,717	132,963	6.48%
#060 - SSA #3	1,000	1,000	1,000		
#061 - SSA #4	5,501	5,501	5,501		
#201 - SSA #6	15,765	16,400	16,400		0.00%
#209 - SSA #14	2,500	2,500	2,500		0.00%
SSA #28			8,704	8,704	
Total with Bond Debt	8,573,145	8,669,012	9,334,748	665,736	7.77%
Total without Bond Debt	8,080,113	8,174,895	8,844,673	669,778	8.29%
Abatements	4,211,725	4,194,333	4,998,314	803,981	19.09%
Total with Abatements	12,784,870	12,863,345	14,333,062	1,469,717	11.50%
2018 Actual EAV	2019 Estimated EAV	% Change	New Growth - TIF Recovery	2019 Est EAV	% Change
547,947,687	572,865,507	4.55%	19,919,888	592,785,395	8.18%
2018 Actual Rate	1.1883%				
2019 Target Rate	**1.1882%**				
2019 Target Corp. Levy	**7,043,630.31**				
2019 Fire/Police Levy	**6,553,555.31**				

This option and three other options (see attached) will be presented to the City Council in the Committee of the Whole meeting on October 28.

General Fund Balance

With the adoption of the FY2019 Budget on December 18, 2018, a fund balance shortfall of $931,158 versus the 25% threshold of $9,238,043 was projected by FY2019 year-end (or a threshold of 22.28%). Management staffing reductions in February, 2019 promised about a $1.1 million in annualized savings. However, in terms of closing the gap in the reserve balance for the General

Fund, almost $213,000 of the salaries of the seven positions came from other City funds, and the seven non-bargaining positions all carried substantial accrued leave balances that were fully paid at the time of separation. The net savings in 2019 was therefore closer to $580,000.

<u>Through constrained departmental spending and other savings, the year-end FY2019 General Fund balance should be about $8,925,517 or $1,522,660 higher than the actual year-end balance ($7,402,857) in December 2018. However, the variance to the target of 25% is projected to be $110,365 (24.7%) on December 31, 2019.</u>

In recent years, the steady annual rise in Police and Fire Pension Fund obligations has required the diversion of all the City's annual property tax proceeds to meet those obligations. The principal reasons for the steep upward "ramp" are beyond the City's control. They include

- the actuarial cost method which determines the actuarial accrued liabilities. The Illinois Pension Code uses a closed amortization period that relies on an arbitrary date—2040—as the point in time when all funds must be 100% funded. This builds in increasing levels of contribution and volatility as the end of the amortization period approaches.
- The fact that there are more than 650 Police and Fire investment funds that are individually managed with varying success, with an estimated shortfall of as much as 200 basis points (2%) per year in investment returns.

A breakthrough occurred on October 10 when the Governor's Pension Consolidation Feasibility Task Force, in conjunction with the Illinois Municipal League, presented its report. The Legislature meets later this month in veto session and may act on the Task Force recommendations, which include the mandatory consolidation of the 650 Fire and Police Funds into two separate statewide funds operating much like the Illinois Municipal Retirement Fund (IMRF) which currently has a funding level of 90%. The two statewide funds would handle the resulting investment pools through equal labor/management governing boards. The 650 pension groups would retain decision-making over the award of pensions. This will greatly reduce the annual costs of financial management with the consolidation of the investing, auditing and actuary services into the two statewide funds.

Reform of the actuarial cost method will be a next step and will not likely be considered by the Legislature until the regular session in the spring of 2020. This means the City will need to absorb significant pension funding increases for another fiscal year. Nevertheless, encouraging collaboration involving the Associated Firefighters of Illinois, the Illinois Municipal League, and leaders on both sides of the state legislative aisles is at work on the pension question.

2. Capital and Infrastructure Spending

The 2018 Five-Year Financial Plan also provides a detailed "Streets and Fleet" analysis which will be upgraded for the Council's discussion in November. Nevertheless, expected service levels and asset inventories have changed little since 2018 because new or alternative capital and infrastructure funding sources have not been approved.

The following analysis was offered to the FAC and Council and the joint session in mid-August. The detailed assessment and revenue options remain valid.

Streets. The winter of 2018-2019 was particularly harsh on our local roads because the average daytime temperature often hovered in the "freeze-thaw" range. The resulting explosion of potholes exacerbated the failing condition of streets around the City and accelerated the cracking at pavement joints and along gutter lines of streets in fair or good condition. The street inventory and pavement condition assessment in the 2018-2022 Financial Plan will be updated, but it is a safe assumption that many asphalt streets slipped in their pavement condition index (PCI) rating. The total funds allocated for road repair and re-surfacing in FY2019 was $1,707,421. The sources and uses are portrayed in the table below:

	MFT Funds	CDBG Funds
N. First St.	$715,341	$0
Tilton Park, Wineberry & Manning	$552,080	$0
Harvey/Tyler	$0	$440,000
Patching	$0	$0
Total	**$1,267,421**	**$440,000**

The budgeted City MFT revenue in FY2019 was $1,161,757, which also funded salt purchases ($100,000) and annual electrical charges for street lights ($450,000), so the MFT reserve had to be tapped to take advantage of aggressive pricing by the prime paving contractor on N. First Street.

The City owns and maintains about 130 centerline miles of roads, of which 74.8% (97.3 miles) are residential streets. As of January 2019, approximately 25 miles of DeKalb roads (mostly residential) needed immediate maintenance to prevent rapid degradation. In 2019, a total of only 2.75 centerline miles received such maintenance. At this pace, the road mileage needing urgent maintenance is growing much faster than the funds available to maintain good or very good pavement ratings (i.e. a PCI rating above 70). **The average street maintenance expenditures required to keep pace total about $3.7 million per year.**

It is expected that the recent 19 cent increase in the State motor fuel tax will generate about $500,000 in additional MFT revenue for the City in FY2020, for a total budget of about $1.6 million. The following MFT projects are tentatively planned for 2020, pending Council approval:

a) State MFT (Fund 210):
   - Twombly Road from Edens Garden to Annie Glidden. DeKalb share: $750,000; DeKalb Township share: about $300,000. DeKalb County will do the design engineering at no cost to the City.
   - Salt. $100,000.
   - Electricity for Street Lights. $450,000.

b) Local MFT (Fund 400):
   - North Seventh Street from Lincoln Highway to Sycamore Road. $350,000.
   - N. Thirteenth Street. Estimated $200,000.
   - N. Fourteenth Street. Estimated $200,000.
   - Macom Drive. Estimated $100,000 for aggressive crack-filling and some Class D patching.

Total: $2,150,000

Fleet. The City's fleet of Fire, Police, Public Works and other vehicles totals about 170 units of widely varying description and function. The average age of the overall fleet increased from 5.7 years to 11 years between 2006 and 2017. This trend is a consequence of allowing vehicles to age beyond their useful life before replacing them, due to a lack of replacement funding. In 2018, it was estimated that more than one-half of the overall fleet was beyond its useful life. The total fleet's replacement value is now over $12 million and the annual maintenance cost on that fleet is now over $300,000. **Replacing the vehicles rated in declining or critical condition would cost approximately $4.3 million.**

The preliminary vehicle replacement list for FY2020 includes the following on the "retirement" list:

- Police: Replace (3) squad cars with (3) Ford Explorer Utility Squad Cars @$55,000 each or $165,000.

- Fire: Replace International Navistar ambulance @$150,000 and replace Pierce Saber Engine (#4) @$550,000.

- Public Works (non-Water Fund): Replace 2011 Sterling Dump Truck @$150,000; replace 2001 Ford 4x4 one-ton truck @$70,000; replace 2009 Toro 52" riding mower @$11,000; replace 1998 Chevy 4x4 pickup @$40,000; Misc. Equipment = $20,000.

Total: $1,156,000

Funding Needs. The table below projects the sources and uses for urgent capital spending in FY2020:

	Needed Annual Capital Spending+	FY20 Available	Funding Gap
MFT (210)*			
Roads/Eng	1,420,000	1,420,000	
Electricity	425,000	425,000	
Salt	125,000	125,000	
Total	$ 1,970,000	$ 1,970,000	$ (0.00)
CDBG (280)**			
Infrastructure	-		
Total	$ -	$ -	$ -
Capital Projects (400)***			
Roads/Alleys	2,280,000	1,325,000	(955,000)
Facilities	500,000	310,000	(190,000)
Total	$ 2,780,000	$ 1,635,000	$ (1,145,000)
Capital Equipment (420)****			
Vehicles/Equip.	1,075,000	1,156,000	+81,000
Total	1,075,000	1,156,000	+81,000)
Total All Funds	**$ 5,825,000**	**$ 3,372,245**	**$ (2,452,755)**

+Street maintenance: $3.7 million per year.
+Vehicles in critical condition: $4.3 million. Because it is unrealistic to hope to replace all of these declining vehicles at once, a 4-year accelerated replacement initiative is proposed. This does not keep pace with annual depreciation but does aggressively reduce the backlog.

* Motor Fuel Tax: Funded by State MFT funds. Annual amount increased by about $500,000 due to state MFT increase. Includes $670,000 in engineering fees for all City projects in FY2020.

** Community Development Block Grant: $440,000 was spent on infrastructure in low-to-moderate income neighborhoods in FY2019. This was a one-time shift in accumulated CDBG funds from other annual eligible uses such as housing rehabilitation in neighborhoods with a high percentage of low-to-moderate income families.

*** Capital Project Fund: Funded by Local Motor Fuel Tax of $0.04/gallon ($695,000 in FY19). Another $0.015 per gallon goes to Airport Fund ($260,000 in FY19).

**** Capital Equipment Replacement Fund: Funded by various small revenues, such as cell tower leases, a reimbursement tied to a sales tax IGA, and a portion of Police fine revenues.

The budgeted expenditures in the table, above, attack the longer list of degraded streets and alleys that would fill out the $3.7 million in annual street maintenance spending needed to hold our own. It also reduces the list of aging vehicles and equipment in critical condition, presently valued at about $4.3 million.

Funding Options. Some capital funding options to partially close the funding "gap" in road repairs and fleet replacements are offered below.

a) Property tax rate increase. The City Council has a very strong consensus behind a steady or falling City tax rate.

b) Home Rule Sales Tax Increase. The current rate--1.75%--ranks second highest among the comparable cities established by the Sikich accounting firm in the City's Five-Year Financial Plan (2018). Carpentersville has a home rule tax rate of 2.00%. **A .25% rate hike would produce about $963,411 in new revenue that could be dedicated exclusively to street improvements.** With a .25% hike, the total tax on a meal from a local restaurant would be 10.25 cents on the dollar.

c) Local Fuel Tax Increase. The current rate of 5.5 cents per gallon is split between roads (4 cents) and airport expenses (1.5 cents). In 2019 they are expected to raise $695,000 and $260,000, respectively. <u>The dollars can be spent on any capital item</u>. The table above shows a part of the FY2020 local fuel tax revenue dedicated to the fulfillment of the Barb City Manor agreement in 2020, which calls for an annual allocation of $50,000 plus whatever spending is associated with the "carryover" the Council approved on June 24. Most of that carryover will not be spent in 2019 and cannot be spent from TIF funds in 2020. **For every two-cent increase, the local fuel tax produces an estimated $345,000 in revenue.**

   <u>The proposed FY2020 Budget includes a four-cent local fuel tax increase of approximately $690,000. This proposed increase would cut the FY2020 funding gap ($2,452,755) by 28%.</u>

FAC recommendations are welcome as we proceed with the preparation of the FY2020 Budget.

F. Adjournment