Meeting Location
DeKalb Municipal Building
City Council Chambers - 2nd Floor
200 S. Fourth Street
DeKalb, Illinois 60115

AGENDA

Special Joint Meeting of the City Council and Finance Advisory Committee

December 4, 2018
5:30 p.m.

A. Roll Call

B. Public Participation

C. Review of the Proposed FY2019 Budget.

Documents:

Proposed FY19 Budget Review.pdf

D. Adjournment

Notice of a Special Joint Meeting of the City Council and the Finance Advisory Committee of the City of DeKalb for December 4, 2018, at 5:30 p.m., called pursuant to Chapter 2 "City Council", Section 2.05 "Special Meetings", of the Municipal Code of the City of DeKalb, Illinois.

Assistive services available upon request.

Hearing assistance devices are available in the Information & Technology Office, which is located on the right, just before entering Council Chambers.

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DATE: November 29, 2018

TO: Honorable Mayor Jerry Smith
City Council

FROM: Raymond Munch, Interim City Manager
Robert Miller, Acting Finance Director

SUBJECT: Review of the FY2019 Proposed Budget.

I. Summary

Staff made public the Fiscal Year (FY) 2019 Proposed Annual Budget on November 15, 2018. The FY19 Proposed Budget is the result of several months of collaborative work on the part of the City Council, Finance Advisory Committee (FAC) and City staff to solve a significant funding gap. A June 2018 update to the Five-Year Financial Plan revealed the existence of a structural imbalance in the City's revenues and expenditures, which at the time, projected a $1.68 million funding gap by the end of FY19 according to the requirements of the City's Fund Balance Policy. Through a collaborative effort, consensus was reached on budget-balancing measures that brought the FY19 Proposed Budget within $240,742 of meeting the FY19 General Fund ending unassigned fund balance to $9.4 million, which is 25% of expenditures.

On November 20, 2018, at a Joint Meeting of the City Council and FAC, staff updated Council and FAC on the currently projected funding gap. Staff identified the additional funding gap after a miscalculation in Hotel/Motel Tax revenue, which significantly over projected revenues; this was realized on November 1, 2018. That miscalculation led to a series of events, which called for further review of the financial forecast. That review revealed the current funding gap may be as much as $1.8 million. On November 20, Council and FAC requested additional meetings to discuss this additional funding gap and requested information on a number of topics to be discussed further at those meetings. This document provides summary information for discussion.

II. Background

A. Current Funding Gap – 11/29/18

After a thorough review of information entered in the FY19 Proposed Budget, it is projected that the FY19 year-end unassigned fund balance is $8,210,241 or 21.9% of expenditures. This represents a $1.17 million funding gap under the current Fund Balance Policy. As noted previously, this funding gap is in addition to the previously identified

$1.68 million gap that was filled through budget-balancing measures directed by City Council on October 16, 2018 (i.e. it assumes that the Council will implement those ~$1.68 million in budget-balancing measures).

On November 20, 2018, staff provided an update on the projections included in the financial forecast. Those updated projections were based on new information that came to light after the error in the Hotel/Motel Tax revenue projection was identified. In summary, staff updated the financial forecast to remove the proposed future use of the $450,000 in Health Insurance Fund transfers to the General Fund and included the $250,000 supplemental payment to IPBC in the FY2018 Estimate Budget.

Staff also undertook a further review of the assumptions used in formulating the financial forecast. That review focused primarily on revenues estimated for FY18 and projected for FY19. During that review, staff identified additional assumptions that do not appear to have been fully publicly vetted and that have the potential to be unrealistic based upon information known to the City at the time of preparation of the forecast and at present. As discussed on November 20, 2018, adjustments to the following assumptions have now been included in the Proposed Budget:

Building Permits: Building Permit revenues for FY19 were adjusted from an estimate of $561,049 to a more conservative estimate of $367,181. This is based on the projects that are known or anticipated for the coming year, as identified by Community Development staff.

TIF Property/Sales Tax Surplus: TIF Property and Sales Tax Surplus for both FY18 and FY19 were adjusted in the Proposed Budget. The adjustment to the Property Tax Surplus results in a revenue increase (included is the final TIF 2 surplus of $5.43M, but not the contemplated $11.25M distribution discussed as a component of TIF 3), but the adjustment to the Sales Tax Surplus results in a revenue decrease.

Table 1.

	FY18 Budgeted	FY18 Realistic	FY19 Budgeted	FY19 Realistic	Increase / (Decrease)
TIF Property Tax	$252,219	$265,866	$255,153	$768,129	$526,623
TIF Sales Tax	$353,428	$305,447	$344,642	$273,837	($118,786)

TIF Transfers: Despite significant public discussion regarding the City's need and plans to immediately reduce usage of transfers from TIF to the General Fund to cover administrative expenses, the financial forecast as of November 1 included TIF transfers of $678,576 and $558,954 respectively for FY18 and FY19. Those numbers have been adjusted to $160,000 (inclusive of TIF 1 and TIF 2) for FY18 and $100,000 (TIF 1 only) per fiscal year moving forward. This reflects a highly conservative view of a limited portion of the City's projected administrative costs related to TIF. (Note: This was entered correctly in the Proposed Budget document but not in the financial forecast).

B. Water Fund and Airport Fund Balances

As requested by FAC Member Teresinski, staff analyzed the fund balances in both the Water Fund and Airport Fund. That analysis resulted in the following revisions being made:

Water Fund 600

- Included loan proceeds of $1,500,000 that were not included in the original budget document, even though the capital expenditures related to that revenue were included.
- Reduced the transfer to the Capital Fund for FY19 by $500,000.

These revisions result in an FY19 year-end fund balance of $984,451, as opposed to the ($1,015,549) deficit printed in the Proposed Budget.

Airport Fund 650

- Increased the FY18 estimate for Federal Pass-Through Grants by $76,614 to reflect actual receipts in FY18.
- Fuel sales are currently coming in at $45,000 per month. Fuel sales through October are $438,000. Accordingly, the FY18 estimate was increased from $470,000 to $543,000.

These revisions reduce the ($729,406) deficit reflected in the Proposed Budget to a deficit of ($590,542).

C. Budget Balancing Strategies – Expenditures

The recommended budget strategy presented starting in July 2018 was to prepare the FY19 Proposed Budget to meet the General Fund unassigned fund balance policy. This required $1.68 million in budget-balancing measures to be enacted with the FY19 Budget adoption to reach the then proposed General Fund unassigned fund balance policy of 30% of expenditures less property tax revenue. Budget balancing measures were proposed to be expenditure reductions, revenue increases, or a combination of both to bring the fund balance to policy level.

In July, the Interim City Manager/Finance Director tasked each City department to develop service focused budget-balancing options at a level equal to the department's percentage of the total General Fund budget. Department heads were asked to carefully evaluate service levels and identify areas for potential service reduction or elimination. Department heads were instructed to explain the service reduction impact first, then the associated expenditures (staff, materials, equipment, etc.) to be evaluated as part of that reduction. Additionally, department heads were encouraged to evaluate current and potential revenue sources in arriving at their budget-balancing target.

In August, each department head submitted their proposed budget-balancing measures. Those proposals were evaluated by the City Manager's Office and additional information was sought where necessary. City Council was presented with a package of proposed budget-balancing measures for consideration. The proposed expenditure reductions were said to change the way services would be delivered throughout the City, resulting in staffing reorganization and reductions. Staffing changes were evaluated both individually and across the organization based on service needs. The proposed measures used attrition, vacant positions, and relocation of current employees in eliminated positions to another position that was planned to remain in the organizational structure in order to minimize organizational disruption and layoffs. Several alternative measures were detailed as well.

Staff presented various budget-balancing measures to the City Council and the FAC and discussed the proposed measures over the course of several meetings of the respective boards during the months of September and October. These budget-balancing measures included significant expenditure reductions paired with new or increased revenues. In addition to the recommended measures, staff presented a list of alternative measures that were identified as being measures that are possible to implement but not preferred over those on the recommended list. Those measures again included both expenditure reductions and revenue increases.

At their October 16, 2018 meeting, City Council considered each of the recommended and alternative budget-balancing measures. Out of that discussion came consensus on the implementation of budget-balancing measures totaling over $1.5 million, which effectively achieved the budget-balancing target (based on the then-current financial forecast). This target was based upon a forecast using a proposed 2018 Property Tax Levy following the policy direction provided by City Council at the October 8 Committee of the Whole meeting. At the conclusion of the October 16, 2018, Special Committee of the Whole meeting, City Council engaged in further discussion on the 2018 Property Tax Levy and provided staff with new policy direction related to the levy. Based on the City Council's most recent 2018 Property Tax Levy policy direction, the funding gap increased by an additional $161,687 under the current Fund Balance Policy of 25% of expenditures. If the City Council were to follow the alternative Fund Balance Policy recommended by the FAC, which is 30% of expenditures less property tax revenue, the funding gap would have increased to $240,742. That was the assumption prior to November 1.

The table on the following page represents the expenditure-based measures that have already been built into the FY19 Proposed Budget based on direction staff received from the City Council on October 16, 2018.

Table 2.

Budget-Balancing Measures Incorporated into FY19 Proposed Budget	
Expenditure Reductions:	
1. Police & Fire Pensions – Updated to final actuarial figures for FY19	$319,333
4. Hire Assistant City Manager (mid-range salary)	$21,856
5. Eliminate Human Resources Director	$146,412
6. Eliminate Human Resources Administrative Assistant	$26,259
7. Increase Human Resources Generalist from PT to FT	($27,593)
9. Eliminate (1) Management Intern	$8,334
10. Line Item Reductions: CMO/Legislative/ComDev	$30,551
11. Eliminate Tuition Reimbursement Program	$25,000
12. Elimination of Redundant/Underutilized Software	$41,261
13. Technology Replacement Reduction	$11,000
14. Secondary Internet Connection Savings	$2,200
15. Eliminate Account Technician III	$31,108
17. Eliminate Part-Time Office Associate	$35,186
18. Eliminate One Police Commander – June 1	$84,358
20. Reduce City Council Meeting Security Detail	$7,467
21. Eliminate Street Maintenance Worker	$44,576
22. Increase Cross-Service Delivery/Adjust Funding Split	$88,819
23. Eliminate Snow Removal on Arterial Sidewalks	$35,000
24. Eliminate Snow Removal on CBD Sidewalks	$30,000
25. Administrative Assistant Reduction	$18,088
26. Reduce/Eliminate Municipal Band Funding	$10,000
27. Eliminate Metro West/Metropolitan Mayors' Funding	$20,350
28. Reduce/Eliminate DCCVB Support	$10,000
29. Non-Bargaining Unit Pay Increase Reduction (1.25%)	$77,134
Total	**$1,096,699**

C. Budget Balancing Strategies – Revenues

The following table represents the revenue-based measures that have already been built into the FY19 Proposed Budget based on direction staff received from the City Council on October 16, 2018.

Table 3.

Budget-Balancing Measures Incorporated into FY19 Proposed Budget	
Revenue Increases:	
1. Increase Ambulance Fee	$311,400
2. Restructure False Fire Alarm Fee	$25,500
3. Implement Intercept Ambulance Fee	$9,600
4. Hotel/Motel Tax Increase (0.5%)	$19,000
5. Implementation of a Self-Storage Facility Use Tax (5.0%)	$50,000
Total	**$415,500**

III. Additional Budget-Balancing Considerations

Given the latest update to the FY19 Proposed Budget, the City Council and the FAC should consider how the FY19 Budget can be balanced in terms of aligning with the City's Fund Balance Policy. Generally speaking, there are three options to consider and discuss:

1. Reconsider and implement additional expenditure reductions to close the funding gap.
2. Reconsider and implement revenue increases to close the funding gap.
3. Consider approval of a balanced FY19 budget, which uses fund balance to address the FY18 revenue shortfall.

This is not a one option or another situation. Council and FAC may employ any combination of the above options to address the current funding gap. Additional details are as follows:

<u>Option 1: Additional Expenditure Reductions</u>

The following list of budget-balancing measures includes those items previously considered but not preferred by City Council, as well as items not previously offered for consideration. Following are alternative measures to consider aside from those already indicated as preferred by City Council:

Table 4.

Expenditure Reduction	Cost Savings
Eliminate Information Technology Director	$131,830
Eliminate (1) Management Analyst – City Manager's Office (This reduction has not been discussed as it was only recently added as an option.)	$95,726
Eliminate Firefighter Positions	$95,068 per position
Eliminate Police Officer Positions	$88,815 per position
Further Reduce/Eliminate Municipal Band Funding	Up to $33,250
Reduce/Eliminate Social Service Agreement Funding	Up to $144,500
Reduce/Eliminate DeKalb Chamber of Commerce Support	Up to $45,000
Reduce/Eliminate DCEDC Support	Up to $45,000
Further Reduce/Eliminate DCCVB Support	Up to $40,000
Reduce/Eliminate Local Athletic Sponsorships	Up to $17,500
Eliminate Non-Bargaining Pay Increases	$77,134

As the City Council considers long-term solutions to the budget deficit, the current vacancy in the position of City Manager should be kept in mind. It is possible that the soon-to-be-hired permanent City Manager may have a vision for organizational restructuring that could benefit the City. A potential short-term solution to relieve, but not solve, the funding gap is the implementation of a six to 12-month hiring freeze. A number of vacancies exist within the City's current staffing plan. The City could realize short-term cost savings by freezing some or all the positions detailed in the table on the next page.

In the past, the Council has had discussions regarding hiring freezes in various formats, and there has periodically been discussion or even disagreement regarding the nature of Council action. If the Council wishes to implement a hiring freeze, detailed Council action is recommended so there is a clear record of the Council's direction. In this case, the recommendation would be to approve action that freezes the identified positions for a period to be determined by Council (unless Council approval to deviate from the freeze is granted) but to permit continuing hire/replacement of other positions that may come open via attrition, retirement or other causes. If the Council wishes to implement a general hiring freeze even in cases of attrition, retirement or other causes, that could also be implemented, but the impact upon operational effectiveness should be carefully considered. A detailed listing of positions that will be vacant on January 1, 2019, is provided in the table below.

Table 5.

Position	Department	3-Month	6-Month	12-Month
Line Service	Airport	$3,351	$6,703	$13,405
Line Service	Airport	$3,351	$6,703	$13,405
Superintendent - Streets	Public Works	$31,720	$63,439	$126,878
Water Service Maintenance	Public Works	7,923	$15,846	$31,692
Code Compliance Inspector	Com Dev	$6,800	$13,600	$27,200
Assistant City Manager	CMO	$42,250	$84,500	$169,000
Management Analyst	CMO	$23,932	$47,863	$95,726
Sergeant	Police	$30,000	$60,000	$120,000
Police Officer	Police	$22,204	$44,407	$88,814
Police Officer	Police	$22,204	$44,407	$88,814
Police Officer	Police	$22,204	44,407	$88,814
Telecommunicator	Police	$10,250	$20,500	$41,000
Community Services Officer	Police	$5,700	$11,401	$22,801
Firefighter/Paramedic	Fire	$23,767	$47,534	$95,068
Firefighter/Paramedic	Fire	$23,767	$47,534	$95,068
Total		**$279,421**	**$558,843**	**$1,117,685**

The positions noted above are representative of known vacancies that will exist as of January 1, 2019. However, staff would not recommend freezing certain positions without having further discussion on those individual positions, notably those in the Fire and Police Departments. Further discussion on those positions follows.

Police Department

Command staff has reviewed the possibility of a hiring freeze. Given the service demands currently placed on the department, a full hiring freeze would not be recommended. Command staff has suggested the following model to relieve budgetary pressure while maintaining a sustainable staffing model in the near-term:

<u>Sergeant:</u> It is recommended that this position is filled in January of 2019 when the position is officially vacated by the retirement of a Sergeant who left service in August of

2018 in accordance with the Fraternal Order of Police contractual agreement to use of benefit time at the end of service. It is recommended that this position be filled with the next eligible Police Officer on the Sergeant Eligibility List, with the following justification:

a. On the 10-hour shift schedule, three Sergeants are required to fill first line supervision needs. This is factored on all forms of lost time, which includes regular days off, benefit time off, sick, FMLA, military service, disciplinary lost time, court, and training.

b. Of the 65 authorized sworn Officers, from the Chief to the newest Officer, a third have less than six years of service with the City. As such, the need for effective and professional first line supervision is accentuated by the high level of service demands, especially involving violent crimes in our community.

c. At present, the department is utilizing approximately 40 hours of overtime per pay period to fill shifts without a Sergeant. If this overtime trend continues in FY19, the department will expend $3,039 dollars per pay period filling the vacant Sergeant position, or $79,014 annually.

<u>Police Officer:</u> The Police Department will have four Police Officer positions to fill effective January of 2019. Based on the command staff review of the current service demands, these positions are critical to meet the needs of the community. However, in order to address the budget concerns for FY19, the department could implement a staggered hiring process instead of filling all vacant Police Officer positions in January of 2019. That process would entail the hiring of two Police Officers in January of 2019 and the promotion a one Police Officer to Sergeant (as noted above). This leaves two vacant Police Officer positions left to fill. The hiring of these two Police Officers could be delayed to a date no later than June 1, 2019. This results in a total cost savings of approximately $74,000, which is 10 months of pay and benefits. The June 1 date is important as available police academy training programs for 2019 are scheduled to begin on April 1 and June 24. There is a high probability that the first two Police Officer hires will come from the certified eligibility list (no academy training required), whereas the next two may come from the entry-level list (academy training is required).

<u>Telecommunicator:</u> Command staff would not recommend delaying the hiring of the vacant part-time Telecommunicator position as the Police Department has utilized part-time Telecommunicators to supplement full-time personnel, thus reducing the need for overtime. While delaying the hiring of a part-time Telecommunicator may result in some cost savings, it is likely that the resultant overtime may consume some or all of that cost savings.

Fire Department:

Command staff has reviewed the possibility of a hiring freeze and has suggested several options to relieve budgetary pressure while maintaining a sustainable staffing model in the near-term.

Option 1: Staff all three shifts with 17 personnel by returning the current swing shift personnel to regular shifts during the hiring freeze. However, based on historical data the following situations may occur:

a. On select days, a one-person buffer will be lost, resulting in overtime from additional non-scheduled contractual time-off. The department overtime budget will increase depending on contractual non-scheduled time-off that occurs.

b. Contractual training (Tier 1 & 2) will be elongated to match available funding. Currently, swing shift personnel are used to fill staffing needs while an individual is away at training. The loss of this ability will require spacing classes further apart to accommodate the budget. For Firefighter and Fire Officer training, spacing classes further apart will prevent personnel from receiving basic skills. For Special Teams (HazMat, Technical Rescue, etc.) training, this has the potential for service reduction as less personnel are trained to respond on a special team required incident.

Initially, it might seem a hiring freeze for two Firefighters would save a substantial sum. However, under this option, the elimination of the swing shift may result in as much as $150,000 in additional overtime, for a net savings of $40,136.

Option 2: With a two-Firefighter hiring freeze, the department could keep one shift at 17 personnel, two other shifts at 16 personnel and retain two swing shift personnel. The two swing shift personnel will relieve most of the overtime burden on a monthly basis. This will allow Fire Administration the ability to flex where personnel is staffed to minimize the overtime impact. It is difficult to predict the exact fiscal impact this option because no historical data exists for this scenario.

Option 3: Hire one Firefighter in January of 2019, postpone the hiring of the second Firefighter six to 12 months, staff two shifts at 17 personnel, one shift at 16 personnel, and retain two swing shift personnel. This is the current model under which the department is operating. Direct cost savings are $47,534 to $95,068 depending on the length of delay in hiring the second Firefighter. Variable costs (i.e. overtime) are dependent on several factors, including benefit time off, sick leave, FMLA leave, disciplinary lost time and training.

Public Works:

Several vacancies exist within the structure of the Public Works Department. With regard to Airport Line Service positions, the vacancies currently exist, however, there has been no reduction in staffing hours at the Airport. Other part-time Line Service employees have made up the difference. Hence, there are no cost savings unless Airport operating hours are reduced.

The Street Superintendent position has been vacant for nearly one year and is currently filled in an acting capacity. That position could remain vacant for the foreseeable future using one of two options: 1) the current acting Superintendent remains in that position; or 2) the Assistant Public Works Director assumes oversight and management of Street operations. It is important to note that the vacant Water Service Maintenance position is tied to this decision as the acting Superintendent's return to an operations position would effectively fill this position.

Based on an evaluation of the vacant positions within each department, the following recommendation is offered for consideration by City Council and FAC.

Table 6.

Position	Department	3-Month	6-Month	12-Month
Line Service	Airport	-	-	-
Line Service	Airport	-	-	-
Superintendent - Streets	Public Works	-	-	$126,878
Water Service Maintenance	Public Works	-	-	-
Code Compliance Inspector	Com Dev	-	-	$27,200
Assistant City Manager	CMO	-	$84,500	-
Management Analyst	CMO	-	$47,863	-
Sergeant	Police	-	-	-
Police Officer	Police	-	-	-
Police Officer	Police	-	$37,000	-
Police Officer	Police	-	$37,000	-
Telecommunicator	Police	-	-	-
Community Services Officer	Police	-	-	$22,801
Firefighter/Paramedic	Fire	-	-	-
Firefighter/Paramedic	Fire	-	-	$95,068
Total				**$478,310**

<u>Option 2: Revenue Increase</u>

Based on the current financial forecast, additional adjustments to minor revenue streams or the addition of relatively unproven revenue streams is not recommended but should remain a consideration. If the Council and the FAC wish to increase revenues, it is recommended that the City's most consistent revenue streams be considered for adjustment. These revenue increases represent the most impactful of budget-balancing measures.

1. Home Rule Sales Tax Increase – $1,000,000 per 0.25% increase

The City's current home rule sales tax rate is 1.75% and is the largest source of revenue for the General Fund. This revenue is derived from the consumption of goods and services. Items that are not subject to this tax include groceries, medicine, and licensed personal property such as automobiles. Comparable communities current tax rates are between 1.75% and 2.75%. The City of Sycamore's current rate is 1.75%.

Note that prior information provided to Council calculated the value of a 0.25% increase in home rule sales tax as $3,000,000. This was based upon a miscalculation of the value of a 0.25% increase, computing it against all local sales tax receipts rather than just home rule taxes. The correct estimated value is $1,000,000.

Additionally, it is important to note that the estimated revenues noted above represent a full year capture of the increased revenues and not the actual amounts that would be realized in FY19. The amount collected in FY19 would likely be $500,000 (assuming a 0.25% increase) after meeting the statutory filing requirements with the State.

2. Restaurant, Bar and Packaged Liquor Tax Increase – $250,000 per 0.25% increase

The City's current tax rate imposed upon prepared food items and alcoholic beverages available for immediate consumption, as well as the purchase of alcoholic liquor from retailers, is 2.00%. This is the same rate as in the City of Sycamore. If this tax were increased by 0.25%, the City could realize $250,000 in additional revenue.

Similar to the Home Rule Sales Tax, this estimate assumes a full year of revenue is realized and does not accurately reflect the amount that would be realized in FY19. However, unlike the sales tax, this tax is collected locally, so there would not be as long of a delay in collection. Historically, the City has notified businesses of changes to the local tax codes and provided a two to three-month window to comply. If the City implemented this increase, it would likely collect for nine of 12 months in FY19, capturing $187,500 in additional revenue.

3. Implementation of an Amusement Tax – $150,000 to $350,000 at 5.0% gross receipts

Staff has initiated preliminary exploration of an Amusement Tax, the intent of which is to collect revenue from the sale of ticketing or admissions to various amusement or entertainment events hosted within the City. Examples could include movie theater tickets, live concerts and other shows at venues throughout the City. Some municipalities also include video rental kiosks in their ordinance. Staff has undertaken the initial task of locating communities assessing this type of tax. Staff has identified several municipalities with an Amusement or Entertainment Tax, including Rosemont, Schaumburg, Hoffman Estates, Evanston, Lombard, Villa Park, St. Charles, and Bloomington. Tax rates range from 3% to 10% of gross receipts. As a point of reference, the Village of Lombard and the Village of Villa Park both collect an Amusement Tax at a rate of 5.0%. Lombard's annual revenue is approximately $560,000, while Villa Park's is $120,000. DeKalb is smaller than Lombard but larger than Villa Park. While it is difficult to accurately forecast an initial revenue estimate, it is likely to be within the range of these two municipalities.

4. Levy Property Taxes to Capture Full EAV Growth – $257,594 for FY19

During the budget planning process, several property tax levy options have been offered to both City Council and the FAC. It is clear that the preferred method of determining the City's tax levy is to target the rate, instead of levying for actual dollars needed to meet the City's financial policy. The purpose of targeting the rate is to keep actual taxes paid relatively flat unless the actual EAV of a property increases. On October 8, 2018, City Council provided direction to establish the 2018 tax levy in a manner that captures the City's full EAV growth. That method would result in a corporate levy of $6,274,734. Also on October 8, 2018, City Council provided new direction after learning that DeKalb Township assessed a 4% multiplier on all properties. The new Council direction was to only capture that EAV growth, which resulted from new construction. That method would result in a corporate levy of $6,017,140. On November 26, 2018, the City Council approved on first reading the 2018 tax levy at this amount. Moving forward, Council could reconsider capturing full EAV growth and realize additional in property tax revenue, which would be used to fund Fire and Police Pension Funds, thus reducing pension funding burden on the General Fund.

Attachment B provides a comparison of the current five-year property tax levy projection versus other methodologies. The projections include estimates for new property growth (i.e. Devonaire Farms, Home2 Suites, etc.), increment realized from the expiration of TIFs 1 and 2, and the 3M development agreement property tax abatement.

Option 3: Adoption of a Budget with Fund Balance Shortfall

If the City Council is unable to reach consensus on budget-balancing measures that close the full funding gap, it could approve a deficit budget for FY19 and continue to work to close the funding gap under the leadership of a new City Manager while drawing upon existing fund balances. While the drawdown of fund balance is not something that Council has previously been supportive of, it's an option available to the Council for consideration. It is important to note the FY19 Proposed Budget, as of November 29, 2018, is itself balanced as General Fund revenues exceed expenditures by $256,231. The funding gap identified herein is largely the result of revenue shortfalls in FY18.

IV. Streets and Fleet Funding

Budget discussions thus far have focused on the City's General Fund revenues and expenditures. Towards the conclusion of the October 16, 2018, Special Committee of the Whole meeting, staff reminded City Council that significant needs still exist as it relates to funding street maintenance and fleet replacement. At this point in the budget process, there has been little to no discussion on the topic of funding street maintenance and fleet replacement. That remains a critical discussion point based upon the past several years of Council discussions, and the City continues to experience challenges with its aging fleet and public infrastructure. However, with the issues identified above regarding structural concerns in the City's operating costs, Council may wish to defer resolution of this issue to a future budget year.

V. Recommendation

Based on updated revenue and expenditure projections, a $1.17 million funding gap exists for FY19 as detailed in Attachment A. This remaining funding gap is that which resulted from the change in policy direction related to the 2018 Property Tax Levy, which was discussed on October 16, 2018, and updates to the financial forecast that include corrections identified as part of the inquiry into use of IPBC funds. In order to close this funding gap, Council would need to reach consensus on additional budget-balancing measures, as identified herein, to align the financial forecast with the Fund Balance Policy of 25% of expenditures.

Staff has provided three broad options for discussion amongst the City Council and the FAC, which include:

1. Reconsider and implement additional expenditure reductions to close the funding gap.
2. Reconsider and implement revenue increases to close the funding gap.
3. Consider approval of a balanced FY19 budget, which uses fund balance to address the FY18 revenue shortfall.

The City Council and the FAC are asked to reevaluate the options detailed within this memorandum. Staff requests that the City Council provide clear direction moving forward as the first and second reading of the annual budget ordinance are scheduled for December 10, 2018, and December 18, 2018, respectively.

Attachment A

	FUND NAME	12/31/2017	FY 2018 BUDGET PROJECTION REVENUES	EXPENSES	12/31/2018	FY 2019 BUDGET REVENUES	EXPENSES	12/31/2019
	CITY OF DEKALB							
	PRELIMINARY FUND BALANCE SUMMARY							
	100 - General Fund	**9,073,797**	36,898,910	38,018,697	**7,954,010**	37,785,409	37,529,178	**8,210,241**
	200 - Transportation Fund	**0**	4,931,445	4,931,445	**0**	11,302,811	10,505,978	**796,833**
	210 - Motor Fuel Tax Fund	**3,505,635**	1,188,998	1,687,011	**3,007,622**	1,161,757	1,540,000	**2,629,379**
	223 - Special Service Area #3	**2,968**	1,000	1,500	**2,468**	1,010	1,500	**1,978**
	224 - Special Service Area #4	**(285)**	5,500	4,500	**715**	5,510	4,500	**1,725**
	226 - Special Service Area #6	**(4,935)**	15,671	10,736	**0**	18,010	18,000	**10**
	234 - Special Service Area #14	**4,144**	2,500	3,000	**3,644**	2,510	3,000	**3,154**
	260 - TIF District #1	**1,229,458**	7,204,202	7,923,116	**510,544**	6,612,073	5,503,924	**1,618,693**
	261 - TIF District #2	**8,598,606**	1,744,268	10,354,467	**(11,593)**	1,521,644	20,690	**1,489,361**
	280 - CDBG Fund	**0**	86,126	86,126	**0**	979,230	979,230	**0**
	285 - Housing Rehab Fund	**66,230**	50	12,320	**53,960**	1,050	54,924	**86**
	290 - Foreign Fire Insurance Tax	**55,267**	48,000	34,757	**68,510**	48,000	46,472	**70,038**
	300 - Debt Service Fund	**(8,757)**	1,894,927	1,888,827	**(2,657)**	1,892,827	1,885,829	**4,341**
	375 - TIF Debt Service Fund	**0**	1,193,200	1,193,200	**0**	1,192,400	1,192,400	**0**
	400 - Capital Projects Fund	**179,208**	616,455	391,565	**404,098**	614,719	800,000	**218,817**
	420 - Capital Equipment Replacement Fund	**408,582**	756,877	803,971	**361,488**	392,397	147,161	**606,724**
*	600 - Water Fund	**1,081,709**	5,327,207	6,372,955	**35,961**	7,086,443	6,137,953	**984,451**
**	610 - Water Construction Fund	**1,139,588**	22,000	0	**1,161,588**	20,000	0	**1,181,588**
*	620 - Water Capital Fund	**1,001,378**	1,310,000	1,172,852	**1,138,526**	850,000	1,911,977	**76,549**
*	650 - Airport Fund	**(735,880)**	1,378,199	1,248,667	**(606,348)**	1,233,435	1,217,629	**(590,542)**
	680 - Refuse & Recycling Fund	**63,911**	2,263,440	2,215,265	**112,086**	2,009,674	1,988,452	**133,308**
	700 - Worker's Comp / Liability Insurance Fund	**1,451,438**	928,359	1,286,796	**1,093,001**	898,159	1,050,852	**940,308**
	710 - Health Insurance Fund	**273,602**	6,405,898	6,246,993	**432,507**	6,372,795	6,671,575	**133,727**
	830 - Police Pension Fund	**35,206,228**	5,585,974	3,563,909	**37,228,293**	5,709,437	3,882,858	**39,054,872**
	850 - Fire Pension Fund	**29,305,878**	6,211,458	3,679,477	**31,837,859**	6,532,588	3,798,304	**34,572,143**
**	900 - DeKalb Library	**2,383,415**	2,974,205	2,974,205	**2,383,415**	2,854,004	2,833,804	**2,403,615**
		104,483,879	88,994,869	96,106,357	**97,372,391**	97,097,892	89,726,190	**104,744,093**

General Fund Balance = 21.8% of Expenditures

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Property Tax Levy Projection Comparison

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Current 5-Year Property Tax Levy Projection	$ 6,004,594	$ 6,017,140	$ 6,658,170	$ 7,403,494	$ 8,113,432	$ 9,677,714
2% Growth in Dollars Levied Only	$ 6,004,594	$ 6,017,140	$ 6,137,483	$ 6,260,232	$ 6,385,437	$ 6,513,146
New Property Levy Estimate (1.2% rate)	$ 6,004,594	$ 12,946	$ 173,733	$ 34,464	$ 35,153	$ 726,011
3M - 1650 Macom Abatement Reduction		$ 16,156	$ 48,005	$ 1,641	$ 1,673	$ 82,060
New Property Levy Only		$ 6,017,140	$ 6,190,873	$ 6,225,337	$ 6,260,491	$ 6,986,501
New Prop. + 3M Abatement Reduction		$ 6,033,296	$ 6,238,878	$ 6,226,978	$ 6,262,164	$ 7,068,561
New Property + 2% Growth in Levy		$ 6,137,632	$ 6,311,216	$ 6,471,904	$ 6,636,496	$ 7,495,236
New Prop. + 2% + 3M Abatement Reduct.		$ 6,153,788	$ 6,359,221	$ 6,473,545	$ 6,638,169	$ 7,577,297

*It is somewhat unclear how the City "captures" this abatement. The full assessment was captured in last year's New Property EAV, so we did levy against that, but the abatement happens at the County, not in our levy…so we may already realize the gain without taking

** TIF 2 Increment

*** TIF 1 Increment