

DATE: November 7, 2017

TO: Mayor Jerry Smith
City Council

FROM: Anne Marie Gaura, City Manager
Molly Talkington, Finance Director

SUBJECT: Fiscal Year 2018 Proposed Budget Recommendations and Revisions

I. Summary

The Fiscal Year (FY) 2018 Proposed Annual Budget was made available to the public via the City's website and submitted to the Finance Advisory Committee (FAC) on October 25, 2017 for review. The FAC held multiple meetings to review and discuss many facets of the City's finances that affect the proposed budget. The FAC provided recommendations for the City Council to consider during their annual budget review.

Since the proposed budget was released publicly on October 25, 2017, there are two events that affect the financial information included in the budget. First, Council voted on October 30, 2017 to purchase the property and amend the FY2017 budget to include expenditures of \$250,000 as long as the General Fund balance reserve remained at or above 25% of expenditure in both FY2017 and FY2018. The second was the release of the November issue of the Illinois Municipal League (IML) Review. The Review provided updated information on the State-shared revenues. The major change in projections is a decrease in Income Tax receipts for FY2017 and FY2018.

II. Background

A. The following is an outline of the FAC meetings and any recommendations that resulted from those meetings.

1. August 15, 2017
 - a. Overview of the FY2016.5 Comprehensive Annual Financial Report (CAFR)
 - b. Overview of the City's Bond Rating Summary Report
 - c. FY2018 General Fund Major Revenue Recommendations

Outcome - No recommendations requested or received.

2. September 21, 2017

- a. Police Pension and Fire Pension Actuarial Reports and Investment Return Study
- b. Five-Year Financial Plan
- c. Water Sales Transfer to Water Capital Fund

Outcome – Recommended inclusion of the Town of Normal as a university comparable in the Five-Year Financial Plan. (No vote taken)

3. October 5, 2017

- a. Preliminary 2017 Levy and 2018 Collection of Taxes In and For the Corporate and Municipal Purposes of the City of DeKalb for the Fiscal Year 2018
- b. 2018-2022 Five-Year Financial Plan

Outcome –

- 1) Recommended that the 2017 Levy for Police Pension and Fire Pension will be at an investment return rate of 7.00%, or 0.50% lower than the current investment rate of return and fully fund through the property tax levy. All in favor. (4-0-2 vote)
- 2) Recommended support of the closure of the Peace Road Interchange Agreement. (4-0-2 vote)

4. October 17, 2017

- a. Asset Management Plan Phase I (Streets & Fleet)
- b. Tax Increment Financing (Interfund Transfers & New TIF)

Outcome –

- 1) FAC failed to recommend support for a phase out of the Interfund Transfers into the General Fund. (0-5-1 vote)
- 2) Recommended support the creation of a new TIF. (4-0-2 vote)

5. October 30, 2017 & November 2, 2017

- a. Review Fiscal Year 2018 Proposed Budget.

Outcome –

- 1) Recommended having Income Tax Revenue from the State be adjusted for FY2017 and FY2018 projections to reflect the November 1, 2017 estimates from the Illinois Municipal League and any future fiscal years after FY2018 be adjusted to reflect these changes.
- 2) Recommended strongly committing to current and future budgets that strictly adhere to the minimum 25% General Fund balance per the City's adopted fund balance and endorses the fact that fund balances above the minimum are preferred.
- 3) Recommended continued support of the present practice with respect to the water system charges in terms of segregating the rate increase portion that is reserved for capital purposes and that regular updates are provided to the City



Council and Finance Advisory Committee as to the capital balance of that account.

- 4) Recommended that revenues collected for capital purposes should be segregated for capital matters and are not diverted to operations.
- 5) Recommended no new debt be incurred by the City or on the City's behalf until a financially balanced Five-Year Financial Plan iteration is completed. (6-0-0 Omnibus Vote for # 1- 5)
- 6) Failed to recommend a 1.0% increase of the Home Rule Sales Tax to be split in accordance to the staff recommendation. (0-6-0 vote)
- 7) Recommended increasing the spending from the TIF funds on roads from \$500,000 to \$1 million with the difference to be made up by reducing what is spent on other capital projects within the TIF. (5-1-0 vote)
- 8) Recommended \$1.5 million in budget balancing measures. (4-2-0 vote)
Note – There was lengthy discussion on this recommendation as to what the dollar amount should be. The three amounts discussed were \$1.5 million, \$1 million, and \$900,000.
- 9) Recommended to increase the Home Rule Sales Tax rate by 0.75% with a six-year sunset date to be used solely for streets and fleet. (4-2-0 vote)
- 10) Recommended to increase the Home Rule Sales Tax rate by 0.25% to be used solely for three additional Police Officers in accordance to the proposed FY2018 budget and the remaining to be dedicated to capital. (4-2-0 vote)

B. Below are revisions to the FY2018 Proposed Budget as publically released on October 25, 2017 for actions and information received after the budget release.

1. On October 30, 2017, City Council held a Special Meeting to discuss the purchase of 912 Edgebrook. This property is a four-story apartment building that has sat vacant for a number of years, following its closure after a series of internal building code violations were discovered. Council voted to purchase the property and amend the FY2017 budget to include expenditures of \$250,000 as long as the General Fund balance remained at or above 25% of expenditures in both FY2017 and FY2018. The proposed budget on October 25, 2017 had the FY2017 General Fund balance at 28.6% or \$10.20 million. With this revision to the budget, the FY2017 General Fund balance reserve is lowered to 27.7% or \$9.95 million. As well, the FY2018 General Fund balance is revised by this purchase. The proposed budget on October 25, 2017 had the FY2018 General Fund balance at 26.2% or \$10.12 million. The revised FY2018 General Fund balance is 25.6% or \$9.87 million.
2. The Illinois Municipal League (IML) released updated State-shared revenue projections in their November 2017 Review magazine. The proposed budget on October 25, 2017 included revenue estimates for Income Tax for FY2017 of \$4.5 million and FY2018 of \$4.4 million. The reduction in Income Tax is really a question of what is happening when the revenues are collected at the State level before the municipal share is distributed. This is because the State currently has positive wage growth and low unemployment rates which should lead to higher



Income Tax returns. However, in reviewing the municipal distributions, the Individual Income Tax receipts decreased by 6% compared to May Fiscal Year (MFY) 2016 (May 1 to April 30). Additionally, Corporate Income Tax declined more at 32% below MFY 2016. IML stated that “for seven out of 12 months in MFY 2017, [Corporate Income Tax] receipts were lower than [Corporate Personal Property Replacement Tax]’s, something that had never happened before. The cumulative impact of these declines yielded a MFY 2017 [Local Government Distributive Fund] per capita of \$95.22, a significant decrease of \$11.56 or 11% from the MFY 2016 actual of \$106.78” (IML Review, Nov. 2017). Today, the Executive Director, Brad Cole, of IML is in Springfield trying to determine the drastic shift in municipal receipts.

Based on this information, IML reduced the Income Tax projections for FY2017 to \$95.21 per capita or \$4.2 million for the City and FY2018 to \$89.50 per capita or \$3.9 million for the City. Overall, this is a reduction in revenue of \$320,979 for FY2017 and \$477,358 for FY2018. After the adjustment for the property purchase, the General Fund balance reserve is further reduced to 27.0% or \$9.7 million in FY2017 and 23.5% or \$9.1 million in FY2018.

III. Community Groups/Interested Parties Contacted

The Proposed FY2018 Annual Budget and the 2017 Estimated Property Tax Levy have been through the Finance Advisory Committee (FAC) review (August through November 2017) with community input at the meetings and through email. Citizen input was received on November 6, 2017 at the City Council meeting on the proposed budget. Citizen input is welcomed at the November 7 City Council meeting. The public hearings on the tax levy and proposed budget are scheduled for November 27, 2017 City Council Committee of the Whole Meeting and the Regular City Council Meeting. The first reading for the tax levy and the proposed budget are scheduled for November 27, 2017 and the second reading on December 11, 2017. The FY 2018 Proposed Budget is available on the City’s website (<http://www.cityofdekalb.com/267/Budget-Annual-Reports>) and at the Finance Department.

