

DATE: September 14, 2018

TO: Honorable Mayor Jerry Smith
City Council

FROM: Molly Talkington, Interim City Manager
Raymond Munch, Interim Assistant City Manager

SUBJECT: Proposed FY2019 General Fund Budget Balancing Measures.

I. Summary

At the direction of the Finance Advisory Committee (FAC), staff updated the Five-Year Financial Plan (Plan) as part of the Fiscal Year (FY) 2019 budget process. Updates to the Plan revealed the existence of a structural imbalance in the City's revenues and expenditures. Based on the updated figures in the FY2018 Estimate, the FY2018 General Fund ending unassigned fund balance is projected at 23.8% of expenditures, a shortfall of \$457,000. This structural imbalance is carried into the FY2019 through FY2023 projections. An additional \$1.2 million shortfall is projected for the FY2019 budget. Staff has identified a number of budget-balancing measures to bring the FY2019 Proposed Budget in line with the City's financial policy. Those budget-balancing measures are detailed herein and bring the FY2019 General Fund ending unassigned fund balance to \$9.4 million, which is 25% of expenditures or to 30% of expenditures minus property tax revenue. These budget-balancing measures are offered for further consideration by the City Council.

II. Background

Prior Council Action

- On January 8, 2018, City Council supported a [new budget process](#) for the FY2019 Budget to clearly tie the City Council's goals to budget action plans.
- On January 24 and February 20, 2018, City Council identified and prioritized [goals](#) to set five short-term goals to be completed in 12 to 18 months and five long-term goals that extend beyond 18 months.
- Between March 20, 2018, and June 18, 2018, all City departments completed a service level and a Fiscal Year 2018 line item review.

- On March 26, 2018, Finance Director Talkington presented City Council with several options for incorporating a [review of the FY2018 Budget](#) as part of the FY2019 Budget Workshops.
- The [Budget Basics](#) video was debuted at the April 17, 2018, Special Committee of the Whole meeting. The video is an overview of what services the City of DeKalb provides and how an annual budget is created to provide those services.

Schedule Update

Date	Who	Meeting Topic
January 8, 2018	City Council	Fiscal Year 2019 Budget Schedule & Service Level Reviews – Snow and Ice Removal Plan & Refuse, Recyclables, and Yard Waste Contract Update Completed
January 16, 2018	Finance Advisory Committee	Five-Year Financial Plan Review Completed
January 22, 2018	City Council	Service Level Review – Human Services Funding Report & Tax Increment Financing Policy Direction Completed
January 24, 2018	City Council	Strategic Plan and Goal Setting Session Completed
February 12, 2018	City Council	Service Level Review – State of Technology Deferred to March 20, 2018 Completed
February 20, 2018	City Council	Budget Workshop – Service Level Reviews Changed to continued City Council Goal Setting Completed
February 26, 2016	City Council	Fiscal Year 2017 Strategic Plan Update Deferred to March 12, 2018 Completed
February 27, 2018	Finance Advisory Committee	Five-Year Financial Plan Review continued (if needed) & Begin Financial Policies Review Completed
March 5, 2018	Staff	Budget Basics Video Release Released on April 17, 2018



Date	Who	Meeting Topic
March 27, 2017	Finance Advisory Committee	Financial Policies Review continued Completed
April 17, 2018	City Council	Budget Workshop – Service Level Reviews Completed
April 24, 2018	Finance Advisory Committee	Financial Policies Review continued Completed
April 2018 (end of month)	Actuary	Police and Fire Pension Funds Actuarial Reports Final Received
May 15, 2018	Finance Advisory Committee	Financial Policies Review continued (if needed) Completed
May 22, 2018	City Council	Budget Workshop – Service Level Reviews & Financial Policies Review Completed
June 19, 2018 Change to June 18, 2018	City Council	Budget Workshop – Service Level Reviews & Financial Policies Review Completed
June 26, 2018	Finance Advisory Committee	Fiscal year 2018 Year-to-Date Budget Update & Five-Year Financial Plan Review Completed
July 10, 2018	City Council	Budget Workshop – Financial Policies Review continued, Fiscal Year 2018 Year-to-Date Budget Update & Five-Year Financial Plan Review to set Budget Strategy
July 10, 2018	Staff	Fiscal Year 2019 Budget Development Begins - Underway
August 7, 2018	Finance Advisory Committee	Audit & Actuarial Reports Review Completed
August 21, 2018	City Council	Budget Workshop – Audit & Actuarial Reports Review Completed Begin 2019 Budget Review Deferred to Sept 18



Date	Who	Meeting Topic
September 11, 2018 Change to September 12, 2018	Finance Advisory Committee	Property Tax Levy & Fiscal Year 2019 Budget Preview Review Completed
September 18, 2018	City Council	Budget Workshop – Property Tax Levy & Fiscal Year 2019 Budget Preview Review
September 25, 2018	Finance Advisory Committee	Budget Preview Review continued (if needed)
October 16, 2018	City Council	Budget Workshop – Property Tax Levy continued & Fiscal Year 2019 Budget Preview Review continued (if needed)
October 23, 2018	Finance Advisory Committee	Budget Preview Review continued (if needed)
October 2018 (end of month)	DeKalb County	Anticipated Receipt of the Estimated Equalized Assessed Valuation
Late October/Early November	Staff	Release the Fiscal Year 2019 Proposed Budget document
November 6, 2018 Change to November 5, 2018	City Council & Finance Advisory Committee	Joint Meeting to Review the Fiscal Year 2019 Proposed Budget
November 12, 2018	City Council	Estimated 2018 Property Tax Levy Adoption (Determines if Truth in Taxation Notice is Required)
November 26, 2018	City Council	Committee of the Whole – Public Hearing for 2018 Property Tax Levy Regular Meeting – Public Hearing for the Fiscal Year 2019 Annual Budget, First Reading of the Annual Budget & First Reading of the 2018 Property Tax Levy
December 10, 2018	City Council	Second Reading of the Fiscal Year 2019 Annual Budget & Second Reading of the 2018 Property Tax Levy
December 25, 2018	Staff	Last Day to File the Annual Budget and 2018 Property Tax Levy with the County
January 1, 2019		Fiscal Year 2019 Begins

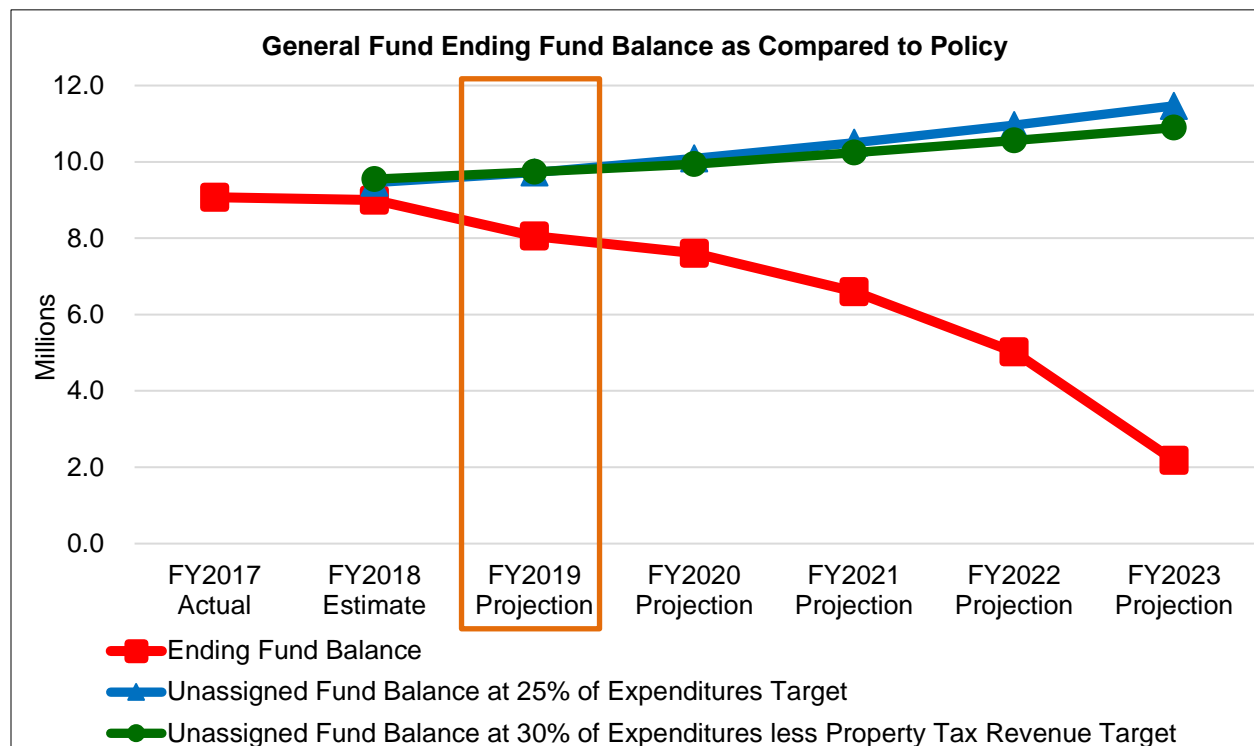


Financial Forecast

At the July 10, 2018, Budget Workshop, staff presented Council with the first annual update of the Five-Year Financial Plan. The revenue and expenditure projection (forecast) included in the Plan indicate that the City is operating in a structural deficit, which in simpler terms means that expenditure growth is outpacing revenue growth. The City's structural imbalance is not unlike many other municipalities, in that, the City has pension obligations that consume a great deal of its fiscal resources. This places greater demand on other revenue sources.

In the Plan, the FY2018 Estimate was updated to reflect information that is now known. Two changes affected the General Fund ending unassigned balance. First is the inclusion of the Peace Road Interchange Agreement expenditure to the County. This was not included in the FY2018 Budget since it was identified through the initial Plan as having met the financial obligations of the agreement. Second, Building Permits and other related permits were updated to reflect current project information. This included removing permit funding related to the STEAM project and the subsequent outgrowth since the STEAM project is no longer under consideration.

Based on all the updated figures in the FY2018 Estimate, the FY2018 General Fund ending unassigned fund balance is projected at 23.8% of expenditures. The City's current financial policy is 25% of expenditures. This is a shortfall of \$457,000. This structural imbalance is carried into the FY2019 through FY2023 projections. The FY2019 budget shortfall is an additional \$1.2 million.



Budget Balancing Strategy

Based on the revenue and expenditure forecast outlined above, the recommended budget strategy is to prepare the FY2019 Proposed Budget to meet the General Fund unassigned fund balance policy. This requires \$1.68 million in budget-balancing measures to be enacted with the FY2019 budget adoption to reach the recommended General Fund unassigned fund balance policy of 30% of expenditures less property tax revenue. Budget balancing measures can be expenditure reductions, revenue increases, or a combination of both to bring the fund balance to policy level. These measures, when taken early in the forecast, help course correct the following years of the financial forecast.

In July, the City Manager 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. While the department heads were formally tasked with developing these options, City Council, all employees, union groups, and the public were asked to share any ideas they may have.

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 is now presented with a package of proposed budget-balancing measures for consideration. The following outline details updated revenue projections, new and increased revenues, and expenditure reductions. The proposed expenditure reductions change the way services are delivered throughout the City, resulting in staffing reorganization and reductions. Staffing changes were evaluated both individually and across the organization based on service needs. Staff recognizes that the decisions required to be made as part of this process are difficult ones and depending on the budget-balancing measure chosen could result in layoffs. The City Manager has taken the utmost effort to minimize layoffs of current employees. The recommended measures use attrition, vacant positions, and relocation of current employees in eliminated positions to another position that is planned to remain in the organizational structure. Should the Council decide that one or more components of the recommended budget-balancing package are not preferred, several alternative measures are detailed as well.

III. Recommended Measures

Revenues

Revenue Adjustments:

Offered on the following page are updated figures on several revenue streams that were detailed in the Plan. These adjustments are based on the most current information available from the Illinois Department of Revenue, Illinois Municipal League, and the



City's actuary. Adjustments were made to the following revenues:

	FY2018 Estimate	FY2019 Projection
Local Use Tax	-	(\$23,336)
State Income Tax	(\$44,030)	\$169,956
Personal Property Replacement Tax	\$13,533	\$251
Property Tax – Police Pension	-	(\$118,864)
Property Tax – Fire Pension	-	(\$173,281)
Miscellaneous Adjustments	-	\$15,000
<i>Subtotal</i>	<i>(\$30,497)</i>	<i>(\$130,274)</i>

During the process of evaluating potential budget-balancing measures, several potential new revenue streams were also identified. All three revenue streams are related to Fire Department operations. Two are based on updates to current fees or services charges and one is a new fee.

1. Increase Ambulance Fee – \$311,400

A recent review of billing practices with Andreas Medical Billing revealed that many EMS providers have started charging a higher flat-rate fee for all ambulance transports. The reason for this is that the ambulances and personnel are all equipped and trained for advanced life support. Therefore, the cost of an ambulance transport to the department is the same no matter the type of call. The Fire Department currently utilizes a tiered billing system in which patients are charged based on the type of call (ALS vs. BLS). It is recommended by Andreas that the City adopt a flat-rate fee of \$1,800 plus \$25 per mile, when loaded, for all ambulance transports. Using historical data, this new fee structure has the potential to increase revenue by \$346,183. However, only 90% of this potential increase is accounted for in addressing the funding gap as a cushion to absorb any changes to historical call trends.

2. Restructure False Fire Alarm Fee – \$25,500

The Fire Department charges a False Alarm fee of \$100 after responding to the fourth false fire alarm call at a given property. A Fire Department analysis, which included a sampling of Illinois fire departments, showed that the average false alarm fee structure starts at \$150 for the second false alarm and increases \$50 with each subsequent false alarm. By assuming this model, the City could realize a revenue increase of \$25,500.

3. Implement Intercept Ambulance Fee – \$9,600

When a neighboring fire department has an advanced life support (ALS) patient being transported to the hospital and that department does not have ALS response capabilities, a DeKalb ambulance will meet them and begin ALS protocol and assist during transport. This is done at no charge to the neighboring fire department. DeKalb can charge an intercept fee to the insurance of the patient if the primary department does not bill. In 2017 there were 24 intercepts and DeKalb could only bill for three. It is proposed that the City enter into service agreements with surrounding departments and bill the transporting



department an \$800 intercept fee to cover the cost of services provided by the City's Fire Department. The potential revenue gain of this fee is \$19,200 based on historical calls. However, a conservative estimate of \$9,600 is being used since some departments may choose to continue straight to the hospital instead of incurring the fee.

Expenditures

Following are proposed major expenditure revisions for the FY2019 General Fund budget. Included in these revisions are pension expenditure adjustments and departmental reorganizations and expenditure reductions.

Police & Fire Pension Adjustment – (\$319,333)

Expenditures related to the City's Police and Fire Pension Funds were updated based on final actuarial figures for FY2019. The updated figures reduced pension obligations by \$319,333 as compared to the June 2018 financial forecast figures. The final figures are based on changes to actuarial assumptions, which include assumptions related to the rate of return, salary growth, and mortality tables.

City Manager's Office

Some of the most significant expenditure reductions come from a reorganization of the City Manager's Office, Human Resources Department, and Information Technology Department. This reorganization takes the independent departments of Human Resources and Information Technology and folds them into the City Manager's Office. Under this model, the Assistant City Manager would oversee the operation of these two departments and the day-to-day responsibilities of the City Manager's Office and all the associated employees. The City Manager would maintain responsibility for overseeing the City's remaining operating departments, including Community Development, Finance, Fire, Police, and Public Works. A similar model has previously existed within the City and staff is confident that it represents a feasible service delivery model. Following are the service impacts and expenditure details of this model:

1. Hire Assistant City Manager (at mid-point of the salary range or lower) – (\$21,856)

The Assistant City Manager position would be retained and function as the department head overseeing City Manager's Office, Human Resources, and Information Technology. The position is currently filled on an interim basis. The previous Assistant City Manager's salary was close to the top end of the salary range for that position. By filling the position at the mid-point of the salary range (or lower), the City would realize a cost savings of \$21,856 (or more) to the General Fund.

2. Eliminate Human Resources Director – (\$146,412)

The position of Human Resources Director is currently vacant and would be eliminated under this model. By eliminating this position, the City would realize a savings of \$146,412 to the General Fund. However, there would be some impact to the current service level provided by the Human Resources Department in that the department would be reduced



by one (1.00) FTE.

3. Eliminate Human Resources Administrative Assistant – (\$26,259)

The position of Human Resources Administrative Assistant is currently vacant and would be eliminated. Recently, the employee filling this position was reassigned to the Community Development Department to fill a vacancy in a similar role. By eliminating this position, the City would realize a savings of \$26,259 to the General Fund. However, there would be some impact to the current service level provided by the Human Resources Department in that the department would be reduced by an additional one-half (0.50) FTE.

4. Increase Human Resources Generalist from Part Time to Full Time – \$27,593

To offset the impact of eliminating the Human Resources Director and Administrative Assistant, it is proposed that the part-time Human Resources Generalist is reclassified to a full-time position. This position is primarily responsible for recruitment (excluding Fire and Police) and onboarding of new employees. If the position is increased to full-time, the responsibilities associated with Fire and Police recruitment would be shifted to this position. Staff believes that this change will improve the current recruitment process and hiring timelines for sworn Fire and Police positions, which will hold greater significance given the proposed impact to Fire and Police staffing that will be discussed later. This change represents a cost of \$27,593 to the General Fund. Similarly, the current Assistant Human Resources Director would be reclassified as a Human Resources Generalist. The change is cost neutral as the current employee's salary is only slightly outside the range of Generalist and would not be reduced. It may, however, represent future cost savings when the current employee retires or otherwise vacates the position.

5. Eliminate Information Technology Director – (\$131,830)

The position of Information Technology Director is eliminated under this model. Current staffing, resources, and funding have made it difficult for the Director to achieve the goals set forth when the position was created in 2016. In many instances, the Director is providing general tech support to City staff as a result of staffing reductions in prior years, resulting in already limited resources in the department. The elimination of this position represents a \$131,830 cost savings to the General Fund. However, the service level impact is significant as this department was reduced by one (1.00) FTE in FY2018. A more comprehensive review of the structure and staffing of this department is needed in the upcoming fiscal year.

6. Eliminate Management Intern – (\$8,334)

The City Manager's Office currently employs two (2.00) Management Interns through the Northern Illinois University – Master of Public Administration program. Effective June 30, 2019, one (1.00) Management Intern position would be eliminated. It is unusual for a municipality to employ two interns from this program. By reducing some of the less critical tasks undertaken by the Management Interns, the department could function under this reduced staffing model. The elimination would be effective upon the graduation of our current Management Interns, both of whom will complete their respective internships by



June of 2019. This represents a General Fund savings of \$8,334 in FY2019. That amount increases in future years as full 12-month cost savings would be realized.

7. Line Item Reductions: City Manager's Office / Legislative / Community Development – (\$30,551)

Line item budgets for all departments were carefully reviewed. Because the operating departments of Fire, Police, and Public Works have very little discretionary spending, those budgets were not significantly altered. Major revisions were made to the line item budgets of the City Manager's Office (CMO), Legislative, and Community Development Departments. Significant savings were realized by reducing training, travel, dues, and subscriptions. Nearly \$15,000 was eliminated from CMO expenditures related to dues and subscriptions and professional development. Note that these reductions were offset by some increases, most notably a \$13,500 increase in fees paid to the Administrative Law Judge overseeing the expanded Administrative Hearing process. The overall net reduction to line items is \$30,551 annually.

Human Resources Department

Eliminate Tuition Reimbursement Program – (\$25,000)

Aside from the staffing changes noted above, the Human Resources Department would realize additional cost savings by eliminating the Employee Tuition Reimbursement Program. This program reimburses eligible employees for tuition expenses to obtain higher education. The program is available to employees in all City departments but is administered and budgeted through the Human Resources Department. It is anticipated that \$25,000 would be saved in FY2019 as employees enrolled in the program were informed in FY2018 that funding for this program was likely to be eliminated. Staff will pursue finding alternatives to support employees seeking higher education with the local colleges.

Information Technology Department

1. Elimination of Redundant/Underutilized Software – (\$41,261)

The Information Technology Department conducted a thorough review of all recurring software subscriptions and license fees and determined that a number of products can be eliminated for one of several reasons. In some instances, software products offer redundant services to employees. In others, the products are not being utilized to their full potential. The following products are targeted for elimination:

- Electronic I-9 (\$1,400)
- NeoGov OnBoard/Perform (\$14,746)
- Adobe Connect Video Conferencing (\$1,500)
- Wrike Project Management (\$8,300)
- Zoll Ambulance Software (\$6,500)
- Weathertop (\$215)



- SQL Upgrade (\$7,000)
- Eventide Replacement (\$1,600)

2. Technology Replacement Reduction – (\$11,000)

Funds are budgeted annually to replace aging hardware such as PCs and monitors. Reducing the funding available will extend the City's technology lifecycle.

3. Secondary Internet Connection Savings – (\$2,200)

In 2018, the City secured more favorable pricing on its secondary Internet connection through an agreement with Northern Illinois University. The new pricing represents an annual savings of \$2,200 to the General Fund.

Finance Department

Eliminate Account Technician III – (\$31,108)

Currently, the Finance Department has two vacancies in the position of Account Technician III. These two positions are mainly responsible for accounts payable and accounts receivable work. It is anticipated that the implementation of the new Enterprise Resource Planning software will create efficiencies that would make it possible to combine these two job responsibilities. Therefore, it is proposed that one (1.00) of the now vacant Account Technician III positions be eliminated beginning in FY2019 for cost savings to the General Fund of \$31,108.

Fire Department

1. Eliminate Deputy Chief of Operations – (\$176,681)

The Fire Department currently operates with a command staff of one (1.00) Fire Chief, one (1.00) Deputy Chief of Operations, and one (1.00) Deputy Chief of Training/Fire Prevention. It is proposed that the position of Deputy Chief of Operations be eliminated, and the duties of that position are assumed by the Fire Chief. The service delivery impact of this reduction is more administrative than operational. Eliminating this position would result in the management style of the Fire Department changing from proactive to reactive. There would be significantly less time for projects and the span of control in the Fire Department would be drastically increased. The elimination of this position represents a cost savings of \$176,681 to the General Fund. The position would be eliminated through attrition.

2. Eliminate One (1.00) Firefighter – (\$99,353)

The Fire Department currently maintains a shift staffing of 13 personnel. The department could eliminate one (1.00) Firefighter position. This would essentially reduce staffing on one of three shifts, which would require the department to backfill using the department's swing shift personnel to maintain shift staffing of 13. The elimination of one (1.00) Firefighter position would be accomplished through attrition on January 4, 2019, through



an announced retirement. The General Fund cost savings for this change is \$99,353.

3. Eliminate Part-time Office Associate – (\$35,186)

The Fire Department maintains a civilian staff equivalent to two (2.00) FTEs. This includes one (1.00) full-time Administrative Assistant, one (1.00) part-time Office Associate, and one (1.00) Intern. It is proposed that the Office Associate position be eliminated. This position is responsible for various administrative support functions in the department, including accounts receivable. Based on the type of work required of this position, staff believes that the employee currently filling this role could be repurposed to fill the remaining Account Technician III vacancy in the Finance Department. The work performed by the Office Associate would be transferred to the Finance Department with the employee, thus making the impact on the Fire Department minimal and streamlining the accounts receivable function into the Finance Department. The savings to the General Fund through this elimination is \$35,186. Under the proposed model, this elimination would avoid a potential layoff.

4. Authorize Firefighter Over-Hire Funding – \$49,676

Given the proposed staffing reductions in the Fire Department, future vacancies created through retirement or resignation could have a more profound impact on service delivery and overtime costs. It is proposed that funding is included in the Fire Department budget to authorize an over-hire at the rank of Firefighter for a period not to exceed six months. Over-hire funding would be used to fill an anticipated vacancy in the Fire Department in a manner that would reduce any significant gap in staffing. This model essentially authorizes the department to exceed the authorized staffing level for short periods of time for the sole purpose of replacing a known vacancy in a more expeditious manner, thus reducing the impact to service delivery. The budgeted cost to the General Fund is \$49,676. However, the funds may not be fully expended in any given year.

Police Department

The Police Department currently maintains an authorized staffing of 65 sworn personnel. This includes every position from Police Chief through Police Officer. While the department's authorized staffing is 65, the reality is that staffing level has not been maintained for several years. The department has been fully staffed on only a few occasions during the Chief's tenure and those occasions were short-lived. The measures detailed below reduce the authorized staffing of the Police Department to 63 sworn personnel. This reduction in force will be achieved through attrition. However, additional resources will be allocated to the department to maintain service delivery and to better maintain staffing at 63 sworn personnel.

1. Eliminate Two (2.00) Police Officers – (\$177,630)

To achieve an authorized staffing of 63 sworn personnel, two (2.00) Police Officer positions would be eliminated. This reduction represents a cost savings of \$177,630 to the General Fund. Currently, three (3.00) Police Officers will retire in January 2019. Those Officers have already been removed from active service but are still on the payroll as the



Fraternal Order Police collective bargaining agreement allows for the use of their accumulated leave to extend service time before retirement. Reduction of two (2.00) Police Officer positions will be effective upon the actual retirement date in January 2019.

2. Eliminate One (1.00) Police Commander/Add One (1.00) Police Officer – (\$32,549)

The Police Department currently operates with a command staff of one (1.00) Police Chief, one (1.00) Deputy Police Chief, and four (4.00) Police Commanders. It is proposed that one (1.00) Police Commander be eliminated effective June 1, 2019. This elimination would occur through attrition. Upon elimination of the Police Commander position, an additional Police Officer position would be authorized for the department. This model essentially reduces command staff in favor of staffing operations at the Police Officer level. The General Fund cost savings of this elimination is \$32,549, which is the difference in salary between a Commander and an entry-level Police Officer.

3. Authorize Police Officer Over-Hire Funding – \$88,816

Given the proposed staffing reductions in the Police Department, future vacancies created through retirement or resignation could have a more profound impact on service delivery and overtime costs. It is proposed that funding is included to authorize an over-hire of two positions for a period not to exceed six (6) months each. Over-hire funding would be used to fill an anticipated vacancy sooner and reduce any significant gap in staffing thereby making it easier to maintain actual staffing of 63 sworn personnel. This model essentially authorizes the department to exceed authorized staffing level for short periods of time for the sole purpose of replacing a known vacancy in a more expeditious manner, thus reducing the impact to service delivery. The budgeted cost to the General Fund is \$88,816. However, the funds may not be fully expended in any given year.

4. Relocate Office Associate – No Cost

The Police Department employs a full-time Office Associate who functions to support the Crime Free Housing Program and the Records Division. The Office Associate would be relocated to the Community Development Department – Building and Code Compliance Division. Crime Free Housing was moved from the Police Department to Community Development in FY2017, and this would complete that transition. The funding for this position would shift from the Police Department to the Community Development Department.

5. Add Two (2.00) Part-Time Records Clerk Positions – \$44,834

With the loss of the full-time Office Associate noted above, the Police Department will need additional administrative support in the Records Division. It is proposed that two (2.00) part-time Records Clerk positions be added to the Police Department. These would be 999-hour, non-Illinois Municipal Retirement Fund positions, which would equate to one (1.00) FTE. The cost to the General Fund would be \$44,834.



6. Reduce City Council Meeting Security Detail – (\$7,467)

The Police Department provides security at all City Council meetings. That function is typically filled by an on-duty Officer or filled as an overtime detail. Given the fact that the Police Chief attends most meetings, the additional Police presence provided by the security detail can be reduced. This represents a cost savings of \$7,467 to the General Fund. This is a reduction and not an elimination as staff realizes that some meetings will require additional security if a large crowd is expected or a controversial issue is being addressed.

Public Works Department

1. Eliminate Street Maintenance Worker – (\$44,576)

The Public Works Department – Operations Division is divided between Street Maintenance and Water Maintenance. It is proposed that one (1.00) Street Maintenance position be eliminated. This position elimination would be achieved by transferring one (1.00) Street Maintenance employee to a Water Maintenance position and eliminating the vacated Street Maintenance position. There are currently two (2.00) vacant Water Maintenance positions, thus achieving yet another position reduction and avoiding layoff. The cost savings of this elimination to the General Fund is \$44,576 since the positions are funded by both the General and Water funds.

2. Increase Cross-Service Delivery/Adjust Funding Split – (\$88,819)

The Public Works Department has taken several position cuts in recent years, which necessitated a reorganization of the department in FY2018. Based on this reorganization, it has become increasingly necessary to cross-train maintenance workers to perform functions related to both Water and Streets. As the gap between job responsibilities narrows, it is appropriate to reassess the funding allocation for personnel in the department. Currently, a Street Maintenance worker is allocated 70% General Fund/30% Water Fund and a Water Maintenance worker is allocated 70% Water Fund/30% General Fund. It is proposed that the funding allocation is changed from 70/30 to 60/40. This more accurately reflects the cross-service delivery model being utilized in Public Works. The change in allocations results in a General Fund cost savings of \$88,819.

3. Eliminate Snow Removal on Arterial Sidewalks – (\$35,000)

The City contracts for the removal of snow from arterial sidewalks such as Lincoln Highway, Sycamore Road, First Street, and Fourth Street. Eliminating this program would be a \$35,000 cost savings to the General Fund. Responsibility for snow removal could become the responsibility of the adjacent property owner where applicable.

4. Eliminate Snow Removal on Central Business District Sidewalks – (\$30,000)

The City also contracts for the removal of snow from sidewalks in the Central Business District. Eliminating this program would be a \$30,000 cost savings to the General Fund. As a result, business owners could be responsible for snow removal from sidewalks.



Community Development Department

1. Administrative Assistant Reduction – (\$18,088)

During FY2018, the part-time Administrative Assistant serving the Community Development Director, Principal Planner, and Economic Development Planner resigned. The vacancy in that position was filled by moving the Administrative Assistant in Human Resources to this role. The previous Administrative Assistant in Community Development was a 1,456-hour part-time employee with IMRF benefits. The Human Resources Administrative Assistant is a 999-hour, non-IMRF part-time employee. The Community Development position would be held at the 999-hour level for a General Fund cost savings of \$18,088.

2. Reorganization of Crime Free and Commercial Property Inspection Programs

The City inspects residential and commercial properties through various inspection programs. Of these programs, “Crime Free Housing” is the only one that has a dedicated revenue source, which is the Landlord Rental Registration fee. Projected revenue from this fee for FY2019 is \$195,000. The amount does not cover the expenditures associated with the program, which include salary, benefits, and other budgeted expenses totaling \$235,070. In addition to residential property inspections related to Crime Free, the City inspects commercial properties. Commercial property inspections have no dedicated revenue source. The Fire Department conducts commercial property inspections at a cost of \$61,430 annually. The combined, unfunded cost of residential and commercial property inspections is \$101,500. Several options exist to address this funding gap and are offered as follows:

Option A: Eliminate the Crime Free Housing Program and commercial inspections including Revenues and Expenditures.

The City could choose to eliminate the Crime Free Housing and Commercial Inspection Programs. By doing so, it would forego \$195,000 in annual revenue for Crime Free. However, program-related expenses would also be eliminated. This would include one (1.00) Code Compliance Coordinator (\$130,850), one (1.00) vacant part-time Code Compliance Inspector (\$27,537), and the 7G overtime in Fire (\$61,430). The expenditure reduction of \$219,817, when combined with the loss of revenue, would equate to a net cost savings of \$24,817.

Option B: Reduce Crime Free Housing Program Expenditures.

The City could continue to operate some form of the Crime Free Housing Program at a reduced service level by eliminating significant program related expenditures. The most significant program related expenditure is salary and benefits related to the Code Compliance Coordinator. By eliminating that position, a cost savings of \$130,850 would be realized in the General Fund.



Option C: Maintain Current Inspection Programs, Funding Commercial Program Through New Fee.

Both the residential and commercial inspection programs could be maintained if revenue were generated to support the commercial inspection program. As stated previously, the unfunded portion of inspection related services is \$101,500. That gap could potentially be funded through a new fee associated with commercial building inspections. It is estimated that 700 commercial properties fall within the guidelines of the commercial inspection program. If an average commercial inspection fee of \$150 were to be imposed on those businesses (which is in line with the average “Crime Free” fee), the program would generate \$105,000 in new revenue and cover the current funding gap.

Option D: Restructure All Inspections Programs and Fees into a Singular Business License.

Given the fact that some, but not all, inspections incur a fee, a new model could be considered under which all current business-related fees could be restructured. This business registration fee could be applied to every business operating in the City at a flat rate, with additional fees added for specific, specialized inspections, such as a Fire-Life Safety Inspection. Establishing this model would require significant work by City staff to restructure licenses and fees and determine the proper fee structure to cover the City’s expenses related to inspection of residential and commercial properties.

IV. Alternative Considerations

While the above budget-balancing measures are recommended, City Council may choose other measures to fill the budget’s funding gap and several alternatives are offered. These alternatives were not made part of the proposed budget-balancing measures for one of several reasons. Mainly, the alternative had previously been offered and City Council chose to maintain the service. Following are alternative measures to consider:

Expenditures

1. Reduce/Eliminate Municipal Band Funding – (\$43,250)

In FY2018, the City's contribution to the Municipal Band was reduced by \$10,000 as a budget-balancing measure. Given the City’s current fiscal situation, the contribution to the Municipal Band could be reduced further or eliminated in the FY2019 budget. It should be noted that elimination of the Municipal Band contribution does not necessarily eliminate the existence of the band as it has been granted not-for-profit status with the ability to independently raise funds to support its continued operation. This reduction could represent up to \$43,250 in savings to the General Fund.

2. Eliminate Metro West/Metropolitan Mayors’ Funding – (\$20,350)

The City maintains memberships in several organizations responsible for lobbying and public policy direction at the regional level. These organizations include the Illinois Municipal League (IML), Metro West Council of Governments, and Metropolitan Mayors’



Caucus. Some of the benefits of these organizations are redundant and could be considered for reduction or elimination. For example, the Illinois Municipal League lobbies on behalf of municipalities across the state and Metro West lobbies on behalf of DeKalb, Kane, and Kendall counties. Additionally, the Metropolitan Mayors' Caucus' primary focus is on the Chicago metropolitan area. Support for DeKalb is secondary for the organization. If the City were to eliminate membership in Metro West and Metropolitan Mayors' Caucus, the City would realize a cost savings of \$20,350 between membership fees and travel expenses.

3. Reduce/Eliminate Social Service Agreements – (\$144,500)

In many communities, social services are typically covered by the township, county or other social service agencies. City funding of social service programs has a long tradition in the community. During the FY2018 Budget process, social service program funding was considered for reduction. Last year, Council approved a minimal reduction based on the non-performance of a particular entity that had been funded for several years. If so desired, Council could consider further reductions of social service funding.

4. Reduce/Eliminate DeKalb Chamber of Commerce Support – (\$45,000)

Annually, the City supports the Chamber of Commerce with \$45,000 in funding, which covers the cost of a Chamber employee that coordinates special events in the community. This service used to be the responsibility of a City employee. Changing to this fee-based model allowed the City to still have special events throughout the City without maintaining the cost of employee compensation and benefits. The Council could, however, consider reducing or eliminating this funding for cost savings of up to \$45,000 in the General Fund.

5. Reduce/Eliminate DeKalb County Economic Development Corporation (DCEDC) Support – (\$45,000)

The City also supports the DCEDC in the amount of \$45,000 annually. The DCEDC plays a critical role in the administration of the County Enterprise Zone, which is an important economic development tool to prospective new businesses. The DCEDC also represents the City when the State forwards requests for proposals from businesses considering an Illinois location. The Council could, however, consider reducing or eliminating this funding for cost savings of up to \$45,000 in the General Fund.

6. Reduce/Eliminate DeKalb County Convention & Visitors Bureau (DCCVB) Support – (\$50,000)

The City supports the DCCVB in the amount of \$50,000 annually. This organization is also important to the City's success, as they seek out events and programs whose participants will stay in local hotels and spend money at local businesses and restaurants. The Council could, however, consider reducing or eliminating this funding for cost savings of up to \$50,000 in the General Fund.



7. Reduce/Eliminate Local Athletic Sponsorships – (\$17,500)

For several years, the City has offered support in the form of a \$12,500 sponsorship to Destination DeKalb, which brings the Illinois High School Association State High School Football Championships to DeKalb every other year. In addition, the Illinois Elementary School Association State Wrestling Tournament returns to DeKalb this year, and \$5,000 has been budgeted to sponsor that event. Either or both of these sponsorships could be reduced or eliminated for a cost savings of up to \$17,500 in the General Fund.

8. Transition Airport to Fixed-Base Operator Model – (\$75,000)

DeKalb Taylor Municipal Airport is fully operated by the City at present. The City could consider shifting to a Fixed-Base Operator (FBO) model whereby the City would grant to a private entity the right to operate the airport and provide services such as fueling, deicing, cargo handling, aircraft maintenance, flight instruction, and similar services. Under this model, the City would essentially lease the airport operations to the FBO and capture a percentage of fuel sales or some other revenue mechanisms. If this measure were enacted, it would require the elimination of the Airport Manager and Airport Line Service positions. Between the revenue generated through the FBO and the cost savings to the General Fund, the net gain would be \$75,000.

9. Eliminate Non-Bargaining Unit Salary Increase – Dependent on prior service reductions

A 2.5% cost of living salary increase has been included in the FY2019 budget for Non-Bargaining Unit (NBU) employees, which is on par with employees in all three collective bargaining units. If the increases were eliminated, the savings to the General Fund would be \$116,449. However, this increase is included in the recommended budget-balancing measures cost for positions. Any reduction to a NBU position would reduce this reduction amount. The NBU salary increases were eliminated from the FY2018 budget. A second year without salary increases would create further compression and internal equity issues related to compensation within the City. For example, Sergeants in the Police union will continue to receive salary increases while Commanders would not, thus narrowing the gap between those two positions.

10. Utilize a Sports Utility Vehicle (SUV) Fast Response Fire Vehicle – \$60,000

At the request of one Alderman, the utilization of fast response fire vehicles was considered. The premise behind a fast response fire vehicle is that it reduces wear and tear on very expensive, front-line firefighting apparatus. Utilization of a fast response vehicle brings with it staffing considerations that likely diminish the cost savings realized. Further, there is an upfront cost of approximately \$60,000 to purchase a properly equipped SUV. This may present an opportunity down the road to preserve capital when it comes time to replace a fire engine. However, replacing a pumper with an SUV could have a negative impact on the recently improved ISO rating.



11. Utilize Mini-Pumper Fast Response Fire Vehicle - \$225,000

An alternative to the SUV version of a fast response vehicle is the purchase of a mini-pumper. These vehicles possess similar capabilities and equipment as the City’s current fire engines with the exception of ground ladders. They offer greater firefighting capabilities than an SUV fast response vehicle but come at a greater cost. A mini-pumper costs approximately \$225,000, which is almost one-half the cost of a full fire engine. Again, this may be a consideration for the future.

Revenues

Council could choose to keep some or all of the current service levels and not reduce expenditures. This would shift the need to balance the budget to using fund balance and remaining below financial policies target, increasing existing revenues or adding new revenues to fund the current service levels. Below is a listing of potential revenues Council could consider:

1. Home Rule Sales Tax Increase - \$3,000,000

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, ad licensed personal property such as automobiles. Comparable cities tax rate is between 1.75% and 2.75%. The City of Sycamore’s current rate is 1.75%. Potential impact of a tax rate increase:

Positive effect:

- An increase of 0.25% could result in an additional \$3.0 million of revenue.
- A small increase is unlikely to impact purchasing behavior, as DeKalb has retail stores that are unavailable elsewhere in the immediate area.

Negative effect:

- The City’s finances could become more volatile since this revenue is tied to the overall economic health of the City.
- Being the largest source of revenue for the General Fund, the City’s overall tax structure would be less diverse, which is contrary to an objective of the City’s Financial Policies.
- The City would have a higher sales tax rate than surrounding communities.
- As online sales increase, it is anticipated brick and mortar sales will decline.

2. Restaurant, Bar and Packaged Liquor Tax Increase – \$480,000

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 0.50%, the City could realize \$480,000 in additional revenue. Potential impact of a tax rate increase:

Positive effect:

- An increase of 0.50% could result in an additional \$480,000 of revenue.
- Would meet several criteria established in the City’s Financial Policies for consideration of new revenues. These include:
 - i. Would diversify the City’s revenues, because at present this tax makes up only 5.30% of all City revenues.
 - ii. Tax has outgrown the Consumer Price Index (Inflation) by an average of 3.00% since its inception.
 - iii. Tax meets several criteria for fairness. These reasons include:
 - a. Visitors to the community (who use the City’s services) would pay the tax, as well as residents;
 - b. Most people could avoid paying the tax if they desire to do so by not eating out; and
 - c. Tax payments increase in accordance with taxpayers’ income to a greater extent than other taxes.
- A small increase is unlikely to affect people’s purchasing behaviors, as a large portion of the restaurants and bars in the area are in DeKalb.

Negative effect:

- Much of the increased revenues would result from a limited number of consumer preferences (eating and drinking away from home), which some residents consider unfair.
- In the past, some restaurant owners have objected to increasing this tax, stating that they were “singled out”, especially if they thought the increased revenues would not directly benefit them.
- A small increase is likely to affect people’s purchasing behaviors, resulting in residents traveling to Sycamore.

3. Hotel/Motel Tax Increase – \$84,000

This tax is imposed on hotel and motel room receipts at a rate of 7.00%, 6.00% going to the General Fund and 1.00% going to Debt Service. If this tax were increased by 1.00%, an additional \$84,000 of revenue could be realized.



Positive effect:

- An increase of 1.00% could result in an additional \$84,000 of revenue.
- The tax burden is mainly on non-residents.

Negative effect:

- The City would have a higher tax rate than surrounding communities.

4. Electric Utility Tax Increase – \$87,500

The City imposes a tax on the privilege of using or consuming electricity. This tax is scaled upon the number of kilowatt hours consumed. In FY2017, \$1.75 million was collected through this tax. The City of Sycamore does not impose this tax. A 5% increase in the electric utility tax rate would equate to \$87,500 in additional revenue annually. Current breakdown as follows:

- For the first 2,000 kilowatt-hours used or consumed in a month; 0.61 cents per kilowatt-hour;
- For the next 48,000 kilowatt-hours used or consumed in a month; 0.40 cents per kilowatt-hour;
- For the next 50,000 kilowatt-hours used or consumed in a month; 0.36 cents per kilowatt-hour;
- for the next 400,000 kilowatt-hours used or consumed in a month; 0.35 cents per kilowatt-hour;
- For the next 500,000 kilowatt-hours used or consumed in a month; 0.34 cents per kilowatt-hour;
- For the next 2,000,000 kilowatt-hours used or consumed in a month; 0.32 cents per kilowatt-hour;
- For the next 2,000,000 kilowatt-hours used or consumed in a month; 0.315 cents per kilowatt-hour; (10-28)
- For the next 5,000,000 kilowatt-hours used or consumed in a month; 0.31 cents per kilowatt-hour;
- For the next 10,000,000 kilowatt-hours used or consumed in a month; 0.305 cents per kilowatt-hour; and (10-28)
- For all electricity used or consumed in excess of 20,000,000 kilowatt-hours in a month; 0.300 cents per kilowatt-hour



Potential impact of a tax rate increase:

Positive effect:

- Tax can be raised in small incremental amounts to match the desired revenue goal.

Negative effect:

- Utility taxes are among the more regressive of the City's taxes because they tax items that are less discretionary than many other taxes such as prepared food and beverages services and some general merchandise.

5. Gas Utility Tax Increase – \$45,326

The City imposes a \$0.04 per therm tax on the consumption of natural gas. In FY2017, the City realized \$725,226 through this tax. If this tax were increased by \$0.0025 to \$0.0425, the City could realize \$45,326 in additional revenue. The City of Sycamore does not impose this tax. Potential impact of a tax rate increase:

Positive effect:

- Tax can be raised in small incremental amounts to match the desired revenue goal.

Negative effect:

- Utility taxes are among the more regressive of the City's taxes because they tax items that are less discretionary than many other taxes such as prepared food and beverages services and some general merchandise.

6. Implementation of a Self-Storage Facility Use Tax – \$62,921

In February of 2018, Community Development staff brought forth an agenda item for consideration by Council to raise additional revenue through the implementation of a tax on self-storage facilities. At that time, staff estimated \$62,920 in new revenue that could be generated from 5% tax on gross revenues. At the time, that revenue option did not have Council support and was not implemented.

7. Increasing Video Gaming Terminal Renewal Fees - \$21,500

The City imposes fees on businesses for the privilege of operating video gaming terminals in their establishments. Currently, businesses pay a \$500 application fee and \$250 annual renewal fee per terminal, with the exception of not-for-profit entities who only pay \$25 per terminal. Earlier this year, staff surveyed comparable communities and found that annual terminal fees range anywhere between \$25 and \$1,000 per terminal. The City of Sycamore charges a fee of \$100. There are currently 103 licensed terminals in the City, with 17 being operated by not-for-profits. If the City were to increase the annual fee from \$250 to \$500, an additional \$21,500 in revenue could be realized. Potential impact of a tax rate increase:



Positive effect:

- Fee is relatively discretionary, so businesses can avoid them to some extent.
- This tax would diversify the City's revenues.
- Tax can be raised in small incremental amounts to match the desired revenue goal.

Negative effect:

- Businesses would have an additional workload to pay the tax.
- Could discourage businesses from having video gaming terminals, which may also be a positive depending on one's preference for or against video gaming.

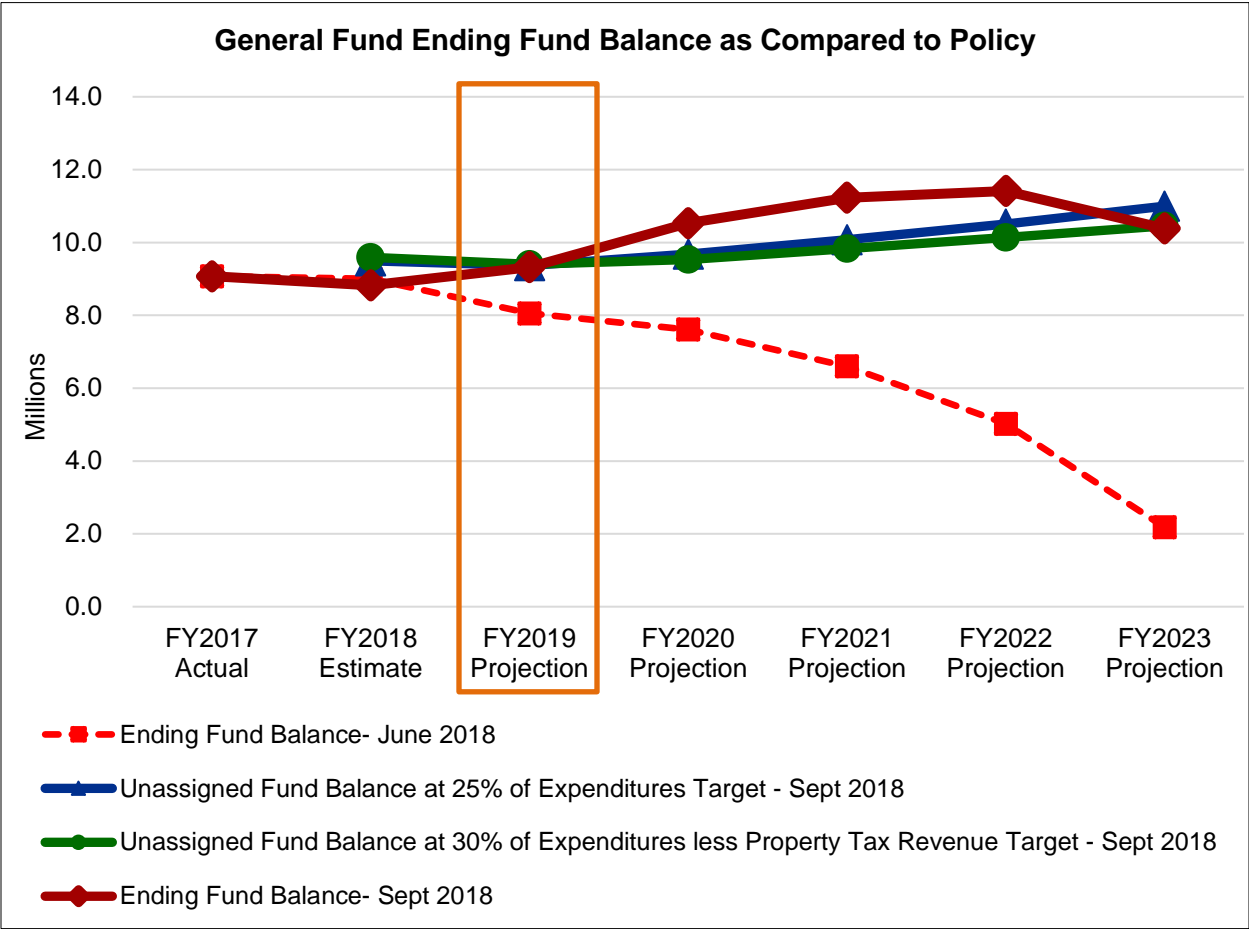
8. Implementation of an Amusement/Entertainment Tax – To Be Determined

Staff has initiated preliminary exploration of an Amusement/Entertainment 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. At this point, staff is not prepared to provide a revenue estimate for this type of tax. However, staff has undertaken the initial task of locating communities in the region assessing this type of tax. Staff has identified several municipalities with an Amusement or Entertainment Tax, including Rosemont, Schaumburg, Hoffman Estates, Evanston, Lombard, and St. Charles. Tax rates range from 3% to 10% of gross receipts. As a point of reference, the Village of Lombard is a similarly sized municipality collecting an Amusement Tax at a rate of 5%. Their annual revenue is approximately \$560,000. At this point, staff would seek direction from Council on their preference for this type of tax and additional research could be conducted to better estimate potential revenue.

V. Recommendation

Staff has presented Council with a list of recommended budget-balancing measures, as well as a list of alternative measures. Based on the funding gap identified in the financial forecast within the Five-Year Financial Plan, difficult decisions must be made to ensure the City's fiscal health now and in the future. While the options contained in this memorandum may not be desirable for some, the recommended budget-balancing measures represent a workable solution to addressing the funding gap. The following graph shows the changes to the financial forecast trends when the recommended budget-balancing measures are incorporated into the General Fund.





Should Council choose to retain current service levels for some or all of the budget-balancing measures, other budget-balancing measures should be implemented in their place or Council could consider a lower threshold from the current Fund Balance Policy. Staff requests Council consider and provide direction on the proposed recommendations to bring the FY2019 Annual Budget in line with the City's General Fund Balance Policy.

