



STRATEGIC FINANCIAL REVIEW II

DEPARTMENTAL EFFICIENCY ANALYSIS AND OUTSOURCING REVIEW

CONFIDENTIAL

PROPRIETARY

June 2013

This document should not be shared beyond the City of DeKalb

CRITICAL STRATEGIC TRENDS

- ✓ Organization will face perpetual cost pressures
- ✓ Service demands will only increase
- ✓ Demand levels for services will vary with increased volatility
- ✓ Service portfolio will remain diverse lacking economies of scale
- ✓ City is staffed for current demands, not future demands
- ✓ Current “operating model” of serving increased demands with additional city manpower and labor dollars within a classical government model will be either impossible or yield diminishing payback in each succeeding year

PRIMARY STRATEGIC IMPLICATION/ RECOMMENDATION

“DeKalb must re-invent itself and create a new operating model”

- ✓ Focus on increased productivity per city dollar invested
- ✓ Focus on outcomes, not structure/organization
- ✓ Implementation of long-term strategic financial planning
- ✓ Reinvestment into specific organizational assets
- ✓ Investment ROI yields long term multiples

CRITICAL SUCCESS FACTORS

- ✓ Movement in the city model from “government” to “governance”
- ✓ Development and implementation of a Strategic Operational and Financial Plan
- ✓ Establishment of a robust, strategic relationship with NIU
- ✓ Dramatically increased leverage of technology and partnership options
 - Economies of scale solution
 - Productivity and service enhancements
 - Harness and apply innovation
- ✓ Development and implementation of a Strategic Airport Plan

GOVERNMENT TO GOVERNANCE

- ✓ Governance model stresses importance of win-win synergistic partnerships
- ✓ Harness the strengths of each partner
- ✓ Governance staff possesses key technical skills and expertise
- ✓ Governance decentralizes control when advantageous to deliver better and more cost-effective outcomes
- ✓ Governance is not driven by organization structure, but rather by desired outcomes

STRATEGIC PLANNING – WHY?

- ✓ Provides visibility to future challenges and opportunities
- ✓ Sets long-term priorities which prevents non-aligned short-term actions
- ✓ Allows the city to be proactive versus reactive
- ✓ Ensures the city is not unknowingly creating an unsustainable financial future
- ✓ Prevents “spending” current savings that will be needed for future needs

STRATEGIC OPERATIONAL & FINANCIAL PLAN COMPONENTS

- ✓ Vision & Mission Statements (Update current statements)
- ✓ Strategic Objectives (Update current objectives)
- ✓ Specific tactics to achieve objectives
- ✓ Specific quantitative goals associated with objectives
- ✓ Timelines, roles, and responsibilities
- ✓ Multi-year financial outlook for all financial statements
- ✓ Multi-year capital plan that appropriately addresses infrastructure issues

"A comprehensive Strategic Plan generates a proactive versus reactive environment and drives consensus among all stakeholders."

KEY OPERATIONAL INITIATIVES

- ✓ Organizational/outourcing/privatization plan based upon core competencies, outcomes and critical strategic trends
- ✓ Long-term procurement strategy
- ✓ Long-term IT strategy
- ✓ NIU partnership strategy
- ✓ Airport strategy

THE UNITED STATES' EXPERIENCE WITH OUTSOURCING, PRIVATIZATION AND PUBLIC-PRIVATE PARTNERSHIP

- Source: The National Council for Public-Private Partnerships

“Overwhelmingly, the most frequent use of partnerships is to save costs. The U.S. experience with outsourcing of public services routinely results in 10-20% savings over the traditional delivery system. In some cases, savings as high as 40% have been achieved. Conversely, more and higher quality services can be provided at the same cost as before or less. In the State survey, cost savings are also the result of other reasons given, especially “flexibility and lack of red tape”, and “speedy implementation.” Public bodies have found that they can use private resources and expertise to save precious funds through faster facility design and construction, as well as cheaper operations.”

SOME OUTSOURCING/PRIVATIZATION ENDORSEMENTS

- Stephen Goldsmith - professor of government at the Harvard Kennedy School – formerly two-term mayor of Indianapolis and deputy mayor for operations for New York City.
 - ✓ “Competition brings out the best in organizations and individuals”
 - ✓ “In Indianapolis, we found that theoretical examinations of our public agencies were often way off the actual results produced by competition. For example, a consultant told us that we could save maybe 5 percent by privatizing our wastewater-treatment facility. We held a competition, and wound up saving 44 percent. Even in cases where we didn't contract out, public agencies that were exposed to competition found ways to reduce their costs.”
- PUBLIC FINANCIAL MANAGEMENT, INC.
 - ✓ Outsourcing is a useful tool employed by cities across the country to cut costs, improve quality of service, and raise revenue. Approximately 80 percent of all U.S. cities outsource some services.

THE BENEFITS OF OUTSOURCING/PUBLIC-PRIVATE PARTNERSHIPS

- National Survey by the U.S. Council of State Governments
 - ✓ Cost savings 40.9%
 - ✓ Lack of in-house personnel and expertise 32.5%
 - ✓ Lack of State support of political leadership 30.8%
 - ✓ Flexibility and less red tape 23.8%
 - ✓ Speedy implementation 21.4%
 - ✓ Increased innovations 20.4%
 - ✓ High quality of service 18.5%
 - ✓ Other 10.6%

BENEFITS OF OUTSOURCING/PRIVATIZATION

- Cost savings
- Access to specialized knowledge, capital, and technology
- Focus on service outputs instead of inputs/organization
- Ability to measure improvement
- Shift of liability and
- Support of local companies

CHALLENGES TO OURSOURCING/PRIVATIZATION

- Difficulty in defining outcomes
- Writing and managing contracts
- Collective bargaining
- Political hurdles

SEVEN STEPS TO OURSOURCING/PRIVATIZATION

- Determine core competencies and “utility” functions within city services — *Core competencies are less likely candidates for outsourcing than “utility” functions.*
- Determine what you wish to outsource - *A proposal to outsource a service should be specific as to which service is involved, how much of that service is to be outsourced and in what manner the outsourcing will proceed.*
- Market analysis — *an important factor in a successful outsourcing will be the availability of a sufficient private or other marketplace to provide desired services.*
- Establish baselines for cost and quality — *ensure that targets for both cost and services levels are measureable and straightforward.*
- Develop bid specifications and performance measures — *bid specifications must be specific with well defined roles and responsibilities.*
- Develop a strong contract — *a strong contract will stipulate minimum performance standards, cancellation clauses and financial penalties for failure to meet performance expectations.*
- Ongoing management — *senior management should maintain direct oversight of an outsourced service for a period of time.*

OUTSOURCING/OPERATIONS ANALYSIS - EXPERIENCES

- Springfield, MA*
 - ✓ Outsourcing grounds maintenance reduced costs by an estimated 75 percent.
 - ✓ Outsourcing reduced the cost of managing and processing workers compensation by well over 80 percent.
- Village of Kenilworth, IL
 - ✓ Ongoing Savings on personnel and maintenance costs
 - ✓ Elimination of \$150-200K in pending capital costs
- Oak Park, IL
 - ✓ Village will save about \$40,000 annually by outsourcing street sweeping.
 - ✓ Officials estimated that outsourcing payroll to ADP will save Oak Park about \$900,000 over the next 10 years.
- Island Lake Police Department
 - ✓ Outsourcing dispatch to lake Zurich
 - ✓ Annual savings of \$144,000

*Per Steve Lisauskas - a senior fellow at Pioneer Institute

OUTSOURCING/OPERATIONS ANALYSIS - EXPERIENCES

- Rockford, Illinois – projected budget gap of \$5.5 million for FY2011
- Consulting firm directed to facilitate the assessment of service delivery alternatives ranging from service level approach changes to outsourced service options.
- City initially identified eight functional areas of focus for study: Emergency Medical Services, Community Development Block Grant, Parking System Management, Street Sweeping, Human Services / Head Start Program, Vehicle and Fleet Maintenance, 911 Call Taking and Dispatch, and 311 Non-Emergency Customer Service.
- A Phase II project focused on Human Resources, Legal, and Financial functions.
- **The result (Phase I)—Identified potential savings of \$10.5 million**
- Savings to be realized via outsourcing services, provided vendors were able to commit to their initial assumptions and the City has a strong performance management framework.
- **The result (Phase II)—Identified potential savings of more than \$800,000**
- Eleven decision items totaling more than \$800,000 in potential savings from the employment of primarily internal service delivery and staffing approach changes.
- Potential for additional savings identified via outsourcing of debt collection, collective bargaining negotiations, and diversity procurement oversight.

SOME CITIES PURSUING OUTSOURCED UTILITY BILLING

- Miami Beach, Florida – 2013 RFP
- Newberg, Oregon – 2013 RFP
- Fresno, California - 2010
- Batavia, Illinois - 2010
- Crest Hill, Illinois - 2008
- Elyria, Ohio - RFP Sept 2012

IT INTEGRATED OUTSOURCING – CREST HILL, ILLINOIS

- City of Crest Hill – population 21,000
- Developed IT contract with Springbrook in 2008
- Contract included professional and maintenance support
- Applications included;
 - ✓ Core Finance modules: Accounts Payable, Bank Reconciliation and General Ledger
 - ✓ Accounts Receivable
 - ✓ Purchase Orders
 - ✓ Payroll
 - ✓ Human Resources
 - ✓ Project Accounting
 - ✓ Fixed Assets
 - ✓ Central Cash Management
 - ✓ Utility Billing
 - ✓ Licenses and Permits
 - ✓ Vehicle Stickers
 - ✓ Building Permits and Inspections
 - ✓ Code Enforcement

AN ULTIMATE OUTSOURCING/PRIVATIZATION EXAMPLE – SANDY SPRINGS, GEORGIA

- Incorporated suburb of Atlanta – 100,000 people
- “Spun out” from Atlanta in 2005 – started with a “blank slate” in terms of structure and approach
- Outside of police and fire, city has a staff of 7 people;
 - ✓ City clerk
 - ✓ Court clerk
 - ✓ Finance director
 - ✓ City manager’s office (4)
 - ✓ 401K pension plan
- CH2M Hill (private engineering firm) provided all services from 2005-2011
- In 2012 all services out for bid – winning bid backed up with a no \$ contract to the loser in event winner does not perform
- Current rainy day fund - \$21 million
- City had the advantages of starting from scratch with no legacy issues however;
 - ✓ It does demonstrate that private services can work
 - ✓ Primary issue is transition from cities current state

ANOTHER ULTIMATE OUTSOURCING/PRIVATIZATION EXAMPLE – WESTON, FLORIDA

- Weston, Florida - suburb 25 miles northwest of Miami
- City has used contractors to fulfill virtually every city function
- City of 65,000 has a budget of \$121 million -- 9 of its own employees.
- "I see no reason why we'd ever have to increase the number of employees," says Mayor Eric Hersh, who's led the city for over 10 years.
- Weston has about 35 contracts for services such as parks maintenance, engineering, code enforcement, building permits, public works and custodial service. Fire and police service has been contracted out to Broward County.
- The city has about 285 full-time equivalent employees who are "dedicated staff" provided by contractors. They work in city facilities and are treated like city employees, but on paper, they are actually employees of private companies that get paid by the city.
- Contracts define a particular level of service (or outcomes) versus a particular number of employees.
- When the recession reduced the amount of work facing the building department contracted costs were also reduced.
- "That's the vendor's issue of what he does with the staff," says Daniel Stermer, who served as Weston city commissioner from 2002 to 2010 . "We're not paying for it unless somebody's using it."

ORGANIZATION/OUTSOURCING/PRIVATIZATION STRATEGY RECOMMENDATIONS

Recommendation:

- ✓ Identify core competencies that, on a long term basis, demand city specific knowledge where staff added value is greatest;
 - IT Cloud Management
 - Economic Development
 - Treasury/Finance/Accounting
 - Public Safety - Fire/Police
 - City management/leadership

ORGANIZATION/OUTSOURCING/PRIVATIZATION STRATEGY RECOMMENDATIONS (continued)

Recommendation:

✓ Identify those functions that, on a near term basis, require city specific knowledge but, on a strategic basis, may become candidates for partnerships and collaborative arrangements;

- Procurement
- Ambulance Services
- Communications
- Economic Development
- Centralized Dispatch

PROCUREMENT STRATEGY/PAYBACK

- ✓ Current commodities/commercial contract expenditures just under \$12 million
- ✓ Significant cost savings opportunity

CENTRALIZED PURCHASING ESSENTIALS

- Centralized authority
- Consolidation of requirements
- Standardization of specifications
- Stimulation of competitive bidding
- Centralized storage/inventory control
- Elimination of unnecessary paperwork
- Prompt payment to obtain discounts
- Accountability and openness

CENTRALIZED PURCHASING STEPS - ICMA

- Spend Analysis

- ✓ Identify how money is spent: payables, purchase cards, check requests, petty cash, and contracts.
- ✓ Collect the data: payables, purchase card, purchase order, et a;.
- ✓ Cleanse the data: standardize the information, eliminate duplicates, fix errors.
- ✓ Redact: remove payments to individuals and where security issues may be involved.
- ✓ Classify: align vendors and payments to the proper commodities.
- ✓ Collate: aggregate the spend and related data into one database.
- ✓ Take Action: identify opportunities to create value for your entity.

CENTRALIZED PURCHASING STEPS – ICMA (continued)

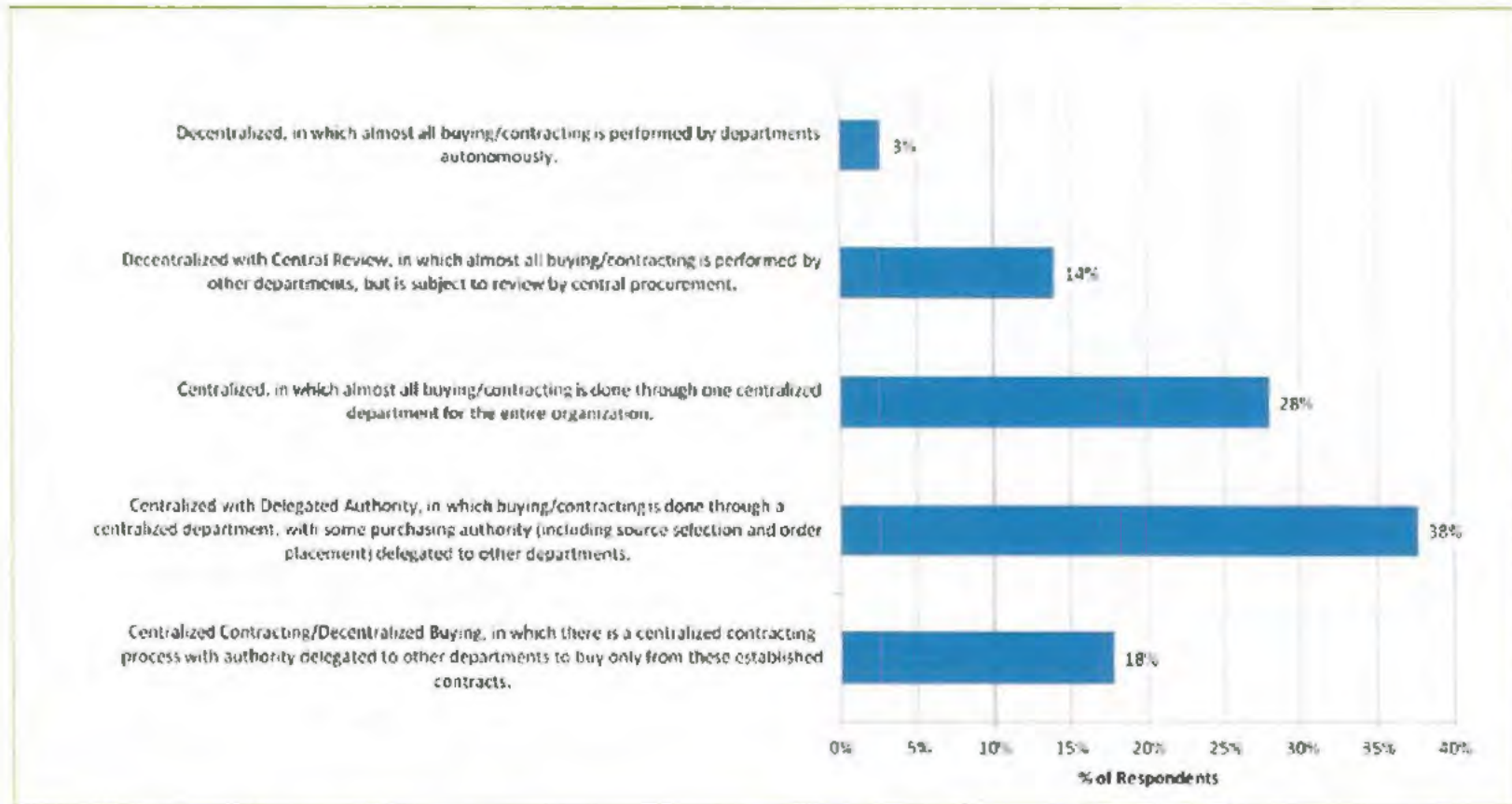
- Spend Analysis Subsequent Actions

- ✓ Consolidate invoices.
- ✓ Identify duplicate payments.
- ✓ Insure existing contracts are being used.
- ✓ Verify correct prices are being charged.
- ✓ Insure the optimum number of vendors for each commodity.
- ✓ Negotiate best terms.
- ✓ Coordinate and cooperate with neighboring jurisdictions.

Naperville Savings After Process Implementation - \$750,000
“pale in comparison to the possibilities of integrated cooperative purchasing”

2012 PUBLIC PROCUREMENT BENCHMARK SURVEY OF U.S. CITIES

- 188 Cities Responded



SOME EXISTING CENTRALIZED PURCHASING CITIES IN ILLINOIS

- Wheaton
- Peoria
- Rockford
- Aurora
- Bloomington
- Buffalo Grove
- Quincy
- Naperville
- Springfield

CENTRALIZED/COOPERATIVE PURCHASING - EXPERIENCES

- Illinois Municipal Review Survey
 - ✓ Respondents indicated savings of 15-20%
- 2013 ILCMA Conference – Municipal Partnering Initiative (MPI) Feedback
 - ✓ 2010 Inception
 - ✓ Municipality joint bidding on multiple public works projects
 - ✓ 16 jointly bid projects in 2012
 - ✓ 3 communities resurfacing savings - \$100K-120K
 - ✓ Total savings for these communities- \$390K-530K
- *“Butler County (Ohio) has saved nearly \$650,000 on contracts for the next three years, a direct result of re-establishing and filling a central purchasing position . . . but as I grow into central purchasing, more opportunities will become evident.”*
- *“According to the Illinois Association of Public Procurement Officials Buffalo Grove could achieve between a 15 and 20 percent cost savings per year through volume buying and improving the Village's bidding and quotation procedures.”*

CENTRALIZED/COOPERATIVE PURCHASING – EXPERIENCES

(continued)

- Kingston, MA - *organized eight towns in its region to collaborate in a cooperative purchase agreement for office supplies. Piggybacked the office supply needs of eight new municipalities onto the existing Kingston contract.*
- The winning bid for the office supply contract - *submitted by WB Mason*
- Offered up to a 51% discount on a host of popular office materials.
- 23 municipal participants - *collective office supply expenditures exceed \$900,000 annually potential cost savings as high as \$450,000*

PROCUREMENT STRATEGY/PAYBACK

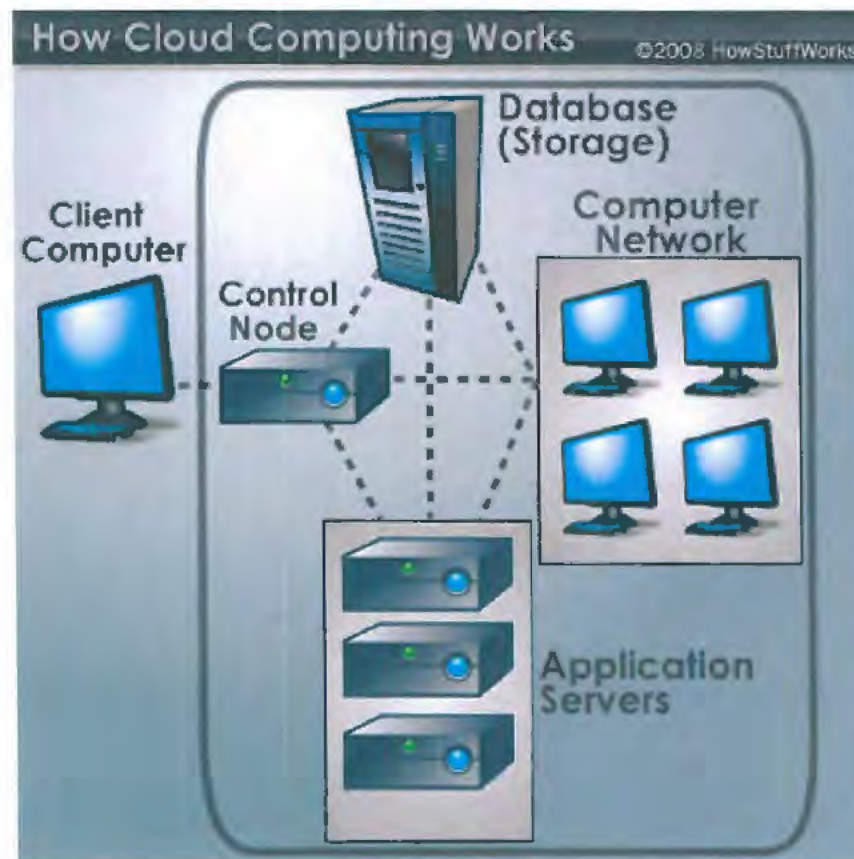
Recommendation:

- ✓ Acquire experienced procurement/supply chain specialist
- ✓ Centralize city procurement operations with revised policies/procedures to include all purchases and contracts
- ✓ Consolidate vendors and revise contracts where appropriate
- ✓ Utilize existing public (state and federal) buying group opportunities (currently utilized to some degree)
- ✓ Pursue partnership arrangements with NIU and large local private sector organizations
- ✓ Potential tactical savings (without NIU/others) - \$600,000
- ✓ Potential incremental strategic savings (with partnership) - \$600,000
- ✓ Cost of incremental professional - \$70-80K

INFORMATION TECHNOLOGY STRATEGY/ PAYBACK

RECOMMENDATION:

"Investigate implementation of a complete cloud computing environment"



CLOUD ENVIRONMENT, OPTIONS

- **Public cloud:** Applications and/or data are stored on shared servers at third-party providers that supply cloud solutions to many clients.
 - ✓ **Pros:** Public cloud options offer cost savings and flexibility, as well as initial speed of deployment.
 - ✓ **Cons:** Users may resist having key data off-site or away from IT's direct control, and may not trust the security of data stored on servers shared with other customers.

CLOUD ENVIRONMENT, OPTIONS (continued)

- **Private cloud:** A cloud infrastructure operated solely for an individual organization. It may be managed by the organization or a third party and may exist on premises or off premises.
 - ✓ **Pros:** Possible to achieve many of the cost and flexibility benefits of public cloud computing without the concerns associated with having data stored in a public environment
 - ✓ **Cons:** Initial cost savings are less than with a public cloud, but long-term cost savings will in some cases exceed the savings of public cloud implementations. This solution also likely requires in-house expertise that current IT team members may not possess if the private cloud is kept on-premises.

CLOUD ENVIRONMENT, OPTIONS (continued)

- **Community cloud:** Several organizations share a dedicated cloud. They can freely exchange data among themselves while keeping it secure from the outside world.
 - ✓ **Pros:** A community cloud provides a secure channel for the seamless transfer of vital data.
 - ✓ **Cons:** Requires a great deal of coordination among the members of the cloud community, who must also all agree on a provider or central location for the cloud.

CLOUD ENVIRONMENT, OPTIONS (continued)

- **Hybrid cloud:** A cloud infrastructure composed of two or more clouds (private, community, or public) that remain unique entities but are bound together by standardized or proprietary technology that enables data and application portability (e.g., cloud bursting for load-balancing between clouds).
 - ✓ **Pros:** Hybrid clouds can offer the flexibility and cost savings of the public cloud along with the security and data protection of the private cloud.
 - ✓ **Cons:** This is the most complex cloud solution to manage, and integrating the public and private clouds requires special expertise.

INFORMATION TECHNOLOGY STRATEGY/ PAYBACK

✓ Current state of City IT environment

- Multiple platforms
- Siloed department software
- Significant technological “catch-up” mode in servers, workstations, et al.
- Dramatically increased IT needs (many already identified) to enhance customer service, decrease labor costs, and increase efficiency and effectiveness
- Lack of a sufficient equipment replacement fund

INFORMATION TECHNOLOGY STRATEGY/ PAYBACK (continued)

✓ Advantages of a cloud environment

- Greater flexibility: scale up operations quickly to meet greater usage needs, and scale down just as quickly if resources are going unused.
- Quicker deployments: even assuming equivalent application performance, implementing new applications - creating and eliminating environments – is a faster process, increasing development team efficiency and ability to react to rapidly changing customer/user requirements.
- Resource sharing: cloud allows organizations to share resources among many users in a single branch or across multiple locations.
- Less equipment: workstations interface with cloud servers dramatically decreasing equipment replacement costs and technical obsolescence.
- Reduce overall costs: decreased costs for maintenance, equipment acquisition, troubleshooting, setup, implementation, and hardware as well as licensing

INFORMATION TECHNOLOGY STRATEGY/ PAYBACK (continued)

- ✓ Per recent Booz Allen government study cloud computing may yield;
 - Life-Cycle Costs that are 65 percent lower than current architectures
 - Benefit-Cost Ratios ranging from 5.7 to nearly 25, depending on the cloud deployment model selected
 - Payback on investments in 3-4 years
- ✓ Per Diversity Limited Study total expenses savings from migration to cloud environment approached 30% over 3 years.

DeKalb Opportunity:

- ✓ Estimated savings for DeKalb dependent upon cloud model chosen and potential collaboration with other entities (public and private); however, a reasonable short term assumption based on a total current budget of \$800,000;
 - \$100,000 – 12.5%
- ✓ Additional strategic savings of \$100,000 via competitive environment for these services and refinement of city requirements

SUMMARY OF POTENTIAL OPERATIONAL SAVINGS

	TACTICAL	STRATEGIC	TOTAL
Outsourcing	\$100,000	\$500,000	\$600,000

	TACTICAL	STRATEGIC	TOTAL
Procurement	\$600,000	\$600,000-\$800,000	\$1,200,000-\$1,400,000
IT Cloud	\$100,000	\$100,000-\$200,000	\$200,000
Total	\$800,000	\$1,200,000-\$1,500,000	\$2,000,000-\$2,200,000

	TACTICAL	STRATEGIC	TOTAL
Investment	\$80,000	\$TBD	\$TBD

ADDITIONAL STRUCTURE/PROCESS RECOMMENDATIONS

Recommendations:

- ✓ Modify organization and management/staff focus
 - Economic Development should report directly to City Manager
 - New purchasing professional should report to Public Works – highest usage and knowledge of needs – with Financial Director oversight
- ✓ Pursue Process enhancements in all departments
 - Implement a Lean Process analysis and techniques for core staff functions
 - City of Cincinnati implemented Lean Office in 2003;
 - 63 process redesigns
 - 48 continuous improvements identified
 - \$ millions saved with improved service

ADDITIONAL STRUCTURE/PROCESS RECOMMENDATIONS

(continued)

Recommendations:

- ✓ Continuously re-evaluate partnerships, consolidations, outsourcing and collaborative arrangements for;
 - Procurement
 - Communications
 - Economic Development
 - Centralized Dispatch
 - Ambulance services
 - Selective Public Works functions
- ✓ Long term outsourcing options will continue to offer >20% cost savings with no increase in legacy costs.
- ✓ Based on DeKalb's current operating budget "potential" operations savings by continuing to examine the options outlined above as well as any other current services ***could approach two million dollars***

DEKALB – AND ALL CITIES – MUST HEED:

- *“From 2013 into the foreseeable future, we can expect to see rising financial pressure on municipalities, due to: cuts in Federal support, a drop in local revenue, high pension costs, populations moving to larger cities, lower property values and a sluggish economy. Whatever fix that municipalities implement needs to have a big impact, and must last for years to come. Some municipalities have already turned to outsourcing.”*
- *“For many municipalities, outsourcing isn't just an interesting option, it's a necessary step in order to survive. It's not just a matter of cost. Not all municipal services meet minimal expectations, and too many of services follow an outmoded delivery model.”*
- *“Outsourcing may be the best option for many municipalities to get budgets under control and still provide necessary services.”*

**Chris Nicolls - New York based Operations Executive –
Outsourcing Expert/Consultant**

CURRENT CITY/NIU RELATIONSHIP

- ✓ Lack of communication
- ✓ Unaligned objectives/priorities
- ✓ Lack of joint planning
- ✓ Lack of leadership to improve current situation
- ✓ Town Council public opinion of University not complimentary
- ✓ City opinion of student population not complimentary
- ✓ Cost pressures abound
- ✓ University not focused on town needs
- ✓ Relationship flourishes for emergencies

WHY ESTABLISH A ROBUST STRATEGIC RELATIONSHIP WITH NIU?

- ✓ NIU is singular in its potential to offer economies of scale on many operational fronts
 - Procurement
 - Police
 - Fire
 - Information Technology
 - Economic Development & Planning
 - Innovation Initiatives
- ✓ NIU offers the potential for long-term sustainable relationships
- ✓ Broader more formal relationship yields “true cost” contracts
 - Fire currently at least \$900K “underpaid”
 - Police help some offset; however, begs need for two police departments – major consolidation opportunity

POTENTIAL NIU/CITY MODELS TO CATALYZE LONG-TERM RELATIONSHIP

- ✓ Service Learning - University initiatives engaging students in community learning/service activities as part of regular coursework.
- ✓ Service provision - faculty and student initiatives of coordinated, sustained, long-term projects targeted towards a specific community/need.
- ✓ Faculty involvement - individual initiatives where faculty becomes the driving force behind particular community activities.
- ✓ Student volunteerism - individual and voluntary initiatives where students engage in community activities separate and apart from service learning initiatives.
- ✓ "Community in the classroom" - initiatives involving the design of University courses that enhance community building and community capacity.
- ✓ Applied research - initiatives involving the University, faculty and students in data collection, analysis, and reporting on community issues of the day.
- ✓ Major institutional change - initiatives are designed to bring about internal organizational cultural change (e. g., changes in mission, promotion and tenure criteria, awards, course offerings, etc.) in universities in order to promote more University-community engagement.
- ✓ Operation alliances – the sharing of costs to deliver mutually beneficial/required services formalized with contracts.

CASE EXAMPLES OF MODELS

- ✓ Service Learning – Northeastern University & Boston's Jamaica Plain
- ✓ Service Provision – University of Pennsylvania & West Philadelphia
- ✓ Faculty Involvement – UCLA & Los Angeles
- ✓ Student Volunteerism – College of William & Mary & Williamsburg
- ✓ "Community in the classroom" - MIT & Boston's Roxbury
- ✓ Applied Research – University of Central Florida & Orlando
- ✓ Major Institutional Change – Howard University
- ✓ Operational Alliances – DeKalb Fire (Police informally)

NORTHEASTERN & JAMAICA PLAIN – SERVICE LEARNING

- ✓ Student teams studied neighborhood demographics and finance
- ✓ Community needs polled by the students
- ✓ Created visions of mixed use centers
- ✓ Three detailed models created based upon identified needs
- ✓ Students not paid – only awarded grades
- ✓ Built trust with the community

UNIVERSITY OF PENNSYLVANIA & WEST PHILADELPHIA – SERVICE PROVISION

- ✓ Series of long-term, sustained service initiatives as part of large scale neighborhood revitalization effort – faculty and student driven
- ✓ University became an investor in local housing restoration, retail development projects, and lighting installation
- ✓ University created incentive plans to entice faculty and staff to live in community
- ✓ University created working relationships with community based organizations to acquire and use IT for neighborhood development/enhancement
- ✓ Center for Community Technology opened – staffed by grad students & AmeriCorps – recycle electronics and manage community portal

UCLA & LOS ANGELES – FACULTY INVOLVEMENT

- ✓ Faculty became a driving force behind particular community activities
- ✓ Advise local governments on strategic planning issues including; housing, economic development, transportation and the environment
- ✓ Technical assistance provided to community based organizations
- ✓ Administratively handled through UCLA's Advanced Policy Institute

COLLEGE OF WILLIAM & MARY & WILLIAMSBURG – STUDENT VOLUNTEERISM

- ✓ Students engage in community activities outside of service learning
- ✓ Administered through Office of Student Volunteer Services
- ✓ Activities focused on tutoring programs for local schools
- ✓ Students also identify special academic needs
- ✓ Community imaged of students significantly enhanced

MIT & BOSTON'S ROXBURY – “COMMUNITY IN THE CLASSROOM”

- ✓ Design of University courses that enhance community building and capacity
- ✓ Developed a Neighborhood Technology Center program
- ✓ Provides residents access to computer training to improve community safety, recreation, continuing education, and employment opportunities
- ✓ Community resource data base created
- ✓ Program created and driven by graduate students
- ✓ Once resident was considered “computer literate” internet connected computer placed in their home

UNIVERSITY OF CENTRAL FLORIDA & ORLANDO – APPLIED RESEARCH

- ✓ Faculty and students involved in data collection, analysis, and reporting on community issues of the day
- ✓ City asked University to review operations of multi-functional mental health facility
- ✓ Review included site visits, interviews, data collection, analysis, and a final report over a six month period
- ✓ UCF had created a Center for Community Partnerships as a conduit for activities of this kind

HOWARD UNIVERSITY – MAJOR INSTITUTIONAL CHANGE

- ✓ Major initiatives within the University to bring about cultural change to promote more University-community engagement
- ✓ To overcome image of isolation, the University President established a Howard University Community Association (HUCA) and Center for Urban Progress (CUP)
- ✓ CUP run by faculty staff and students – mission to mobilize University community to address urban issues
- ✓ Tools include development of academic programs, community leadership training, applied research, technical assistance, and direct projects
- ✓ HUCA serves as a liaison between area residents and the University – supports volunteerism, community design and planning, and clearing house for information
- ✓ Community Technology Center opened to provide training and support services to community-based organizations

NIU RELATIONSHIP CRITICAL SUCCESS FACTORS

- ✓ Alignment
- ✓ Funding
- ✓ Communication
- ✓ Synergy
- ✓ Measureable Outcomes
- ✓ Visibility & Dissemination of Knowledge
- ✓ Technology
- ✓ Organizational Compatibility/Culture
- ✓ Simplicity

ABOVE ALL: LEADERSHIP

CITY – NIU RELATIONSHIP – NEXT STEPS

Recommendation:

- ✓ City, University, and Business Leaders form a Leadership Team with specific objectives;
 - Develop a framework and process for communications and collaboration
 - Identify some “first steps” and/or programs that will yield early successes and demonstrate new culture
- ✓ Membership must include Mayor and University President – others could include staff, council, faculty, business owners, community leaders, et. al.
- ✓ On a longer term basis;
 - Appoint and work with a group to develop a Vision and Mission for University and City collaboration
 - Develop a Joint Strategic Plan
 - Determine key next actions within the larger vision

KINGSTON ONTARIO & QUEENS UNIVERSITY – JOINT STRATEGIC PLAN

- ✓ 2011-2014
- ✓ Town and Gown Mission and Vision
- ✓ Town and Gown Priority Areas
- ✓ Implementation Structure: Leadership Team and Working Groups
 - Quality of Life Working Group
 - Community Planning Working Group
 - Student Engagement Working Group
 - Economic Development Working Group
- ✓ Process for Reporting
- ✓ Role of the Strategic Leadership Team
- ✓ Objectives and Actions of the Working Groups
- ✓ Performance Measurement

AIRPORT AUTHORITY

Recommendation:

- ✓ Per 2009 study, Airport is a strategic asset
- ✓ Prior EPI recommendations still valid
 - Create a separate taxing authority
 - Leverage the asset
- ✓ 2012 Study indicated opportunity
 - Perform additional needs assessment to calibrate revenue opportunities
- ✓ Develop a comprehensive strategic plan
- ✓ Invest in the asset per the developed opportunities and strategic plan including staffing and strategic leadership

AIRPORT AUTHORITY (continued)

Recommendation:

- ✓ Airport assets have potential to contribute both net profits **and** catalysts for region wide economic development.
 - Schaumburg Regional Airport generates \$16.5 million in annual economic impact
- ✓ Critical success factor is correctly matching key customer needs with offered services and strategic investments.
- ✓ Innumerable studies substantiate that correctly matching needs with services financially justify regional airport development.



STRATEGIC FINANCIAL REVIEW II

REVENUE OPPORTUNITIES REVIEW

CONFIDENTIAL PROPRIETARY

JUNE 2013

**This document should not be shared beyond
the City of DeKalb**



EXECUTIVE PARTNERS
EXPERT STRATEGY. EXECUTED. EMBRACED.

GO BEYOND.



Crowe Horwath.



Revenue Introduction

The City of DeKalb is a home rule municipality, enabling the City to set revenue types and rates as deemed appropriate. As stated in Article VII Section VI of the Illinois State Constitution, "the City therefore may exercise any power and perform any function pertaining to its government and affairs including, but not limited to, the power to regulate for the protection of the public health, safety, morals and welfare; to license; to tax; and to incur debt." The City ultimately has full authority to set tax rates, fines and fees, and collect additional revenues as it is considered appropriate.

In addition to authority from the State, DeKalb City ordinances offer additional authority to raise revenues through taxes, fines and fees, permits, and charges for service. This section will identify areas where the City has the potential to increase current revenue sources or create additional revenue sources. In most cases, estimated financial impact is offered along with recommendations.

Major Revenue Stream Identification

The City of DeKalb received \$47,422,256 in revenue from governmental activities and \$8,534,986 in revenue from business like activities in Fiscal Year (FY) 2012 according to the 2012 Comprehensive Annual Financial Report (CAFR). Below is the breakdown of revenue received in FY 2012.

CITY OF DEKALB

DeKalb, Illinois

Change in Net Assets (Revenue)

<u>Source</u>	<u>Revenue</u>
Property Taxes	\$ 12,961,236
Sales Taxes	14,142,695
Utility Taxes	3,788,953
State Income Taxes	3,745,298
Other Taxes	822,434
TIF Property and Sales Tax Surplus	715,450
Interest Income	38,162
Miscellaneous	839,738
Charges for Service	11,121,838
Operating Grants/Contributions	1,143,618
Capital Grants/Contributions	6,637,820
Total Revenues	\$ 55,957,242



Like many municipalities, The City of DeKalb currently receives the bulk of revenue from various taxes. State and Home Rule Sales tax is the top revenue generator, resulting in approximately \$14 million annually. Property tax is the second highest revenue generator, at almost \$13 million annually and Charges for Service, such as fire protection, ambulance fees, and planning and building fees, resulted in around \$11 million in revenue annually.



TIF Revenue Analysis

Background

The City of DeKalb currently has two active TIF areas with two additional TIF areas in the initial feasibility study phase. The current TIFs generate total revenue of approximately \$10 million; however, both TIF areas will be expiring in the near future. The sales tax portion of Central Area TIF (TIF #1) expires in 2013, with the property tax portion, and the TIF area, fully expiring in 2020. TIF #2 will expire in 2018. Both TIFs are self-sustaining, with revenues funding debt service payments. TIF #1 has reimbursed the City's general fund to cover administrative costs and the City has declared tax surplus.

Data Points

In FY 2012, TIF #1 and TIF #2 had ending fund balances of \$5,249,495 and \$5,435,922 respectively as compared to FY11 balances of \$6,196,879 and \$4,132,015. Of particular note is that TIF #1 distributes a significant portion of its property tax revenues and sales tax revenues back to the various taxing districts (including the DeKalb School District, DeKalb Public Library, and others) through declaration of surplus.

TIF #1 generated over \$8 million in FY 2012. A portion of the TIF balance was transferred to the City's General Fund to cover administrative costs associated with the TIF district, as well as a surplus from property and sales tax, and a distribution to other taxing units.

Finally, the table below shows the revenue and declared surplus for TIF #1 for the last five years, according to the CAFR for each respective year.

CITY OF DEKALB

DeKalb, Illinois

TIF #1 Revenue and Surplus

<u>Year</u>	<u>Revenue</u>	Administrative Cost <u>Reimbursement</u>	<u>Surplus</u>
2012	\$ 8,090,981	\$ 631,737	\$ 715,450
2011	8,393,095	674,191	758,577
2010	8,424,669	852,484	-
2009	8,505,106	527,491	-
2008	7,252,421	350,000	-



Recommendation:

As the life of TIF #1 is coming to a close, it is important for the City to consider how to maintain levels of operation without the annual reimbursement to the General Fund. Considering that with the discontinuance of the TIF, the need for the transfer of TIF revenues to cover TIF administrative expenses should be no longer. The declared surplus is the result of the captured increase in taxes received, and will continue to come to the general fund as tax revenue instead of under the TIF line item.

TIF #1 is not eligible for an extension; however, the TIF could be reestablished with a new base year. Two new TIFs are currently undergoing a feasibility study and will be implemented later this year. Current TIFs will provide the financial support to establish the two new TIFs.

It is recommended the City review the strategic plans of TIF #1 and TIF #2 and determine if additional economic development is needed in each TIF district and decide to extend or end the TIFs. TIF #1 area could be reestablished by setting a new base year, while TIF #2 could be extended through state legislative action.



Home Rule Sales Tax

Background

As a home rule municipality, DeKalb has the authority from the State of Illinois (65 ILCS 5/8-11-1, 65 ILCS 5/8-11-5) to charge Home Rule Sales Tax on certain purchases or sales of goods within the City. Home rule sales tax is currently a portion of the largest source of revenue for the City of DeKalb, with total revenues of \$5,869,880 in 2012 and \$5,948,654 in 2011.

A review of comparable neighboring communities was conducted to determine whether or not the City has the opportunity to raise sales tax.

Data Points

A survey of neighboring communities was conducted to assess where DeKalb's current home rule sales tax ranks. In the past, EPI has used the communities of Normal, Moline, Downers Grove, and Wheaton as the nearby comparable Cities. In addition to those communities, Geneva, St. Charles, and North Aurora were also considered because of their large commercial areas that are accessible to DeKalb residents. Sycamore, was also included as it is a commonly used comparison point by the City. The results are in the following table.

CITY OF DEKALB DeKalb, Illinois

Survey of Sales Tax Rates Comparable Cities

City/Town	2010 Census Population	Sales of Tangible Personal Property
DeKalb	43,862	1.75 %
Sycamore	17,519	1.75
Normal	52,497	1.50
Moline	43,483	1.25
Downers Grove	47,833	1.00
Geneva	21,495	1.00
St. Charles	32,974	1.00
Wheaton	52,894	1.00
North Aurora	16,760	0.50



Home rule sales tax in the communities selected range from 0.50% to 1.75%. Currently, DeKalb falls at the top of the comparison communities.

Recommendation:

It is not recommended that the City take any action on the current sales tax rate. Sales tax raises a significant amount of revenue for the City at the current rate; however, since DeKalb's tax rate falls at the top of the list of comparable communities, it should not be increased at this time. It is recommended that the City review these communities' tax rates yearly to make sure DeKalb remains competitive.



Emergency Services

Background

The DeKalb Fire Department (Department) service area includes the City of DeKalb, Northern Illinois University (NIU), and the DeKalb Fire Protection District (District). The Department receives monies from the District's fire protection tax as well as revenue through run collections, or calls, and a contract with NIU.

Data Points

Collection rate

The average collection rate for run collections for the City of DeKalb is 66%, which is considered to be low compared to communities with a similar socioeconomic make-up.

Treat-not-transport runs

The City of DeKalb does not currently charge for runs referred to as "treat-not-transport" runs which require the fire department to respond to a 911 call and administer a treatment needed at the scene. At that point, the individual receiving treatment can deny transport to the hospital, and is not charged for the treatment received. The fire department estimates that about one-third of the treat-not-transport calls result in more involved treatment, such as administering an IV, while the remainder might result in a more minor treatment, such as a blood pressure read or administration of Tylenol.

The net cost per run for 2012 was estimated by the Department at \$1,300, and in 2012, the Fire Department answered 273 treat not transport runs. By using the average cost times the number of runs, the fire department could capture up to an additional \$350,000, annually, in addition to the current fees collected. The actual collection could be slightly higher or lower based on the types of runs, and the extent of treatment needed. The potential revenue calculation was not adjusted to account for the assumption that one-third of the runs result in more involved treatment methods, which are the instances that tend to result in higher run costs.

NIU contract

Reviewing the NIU contract could be an opportunity for the fire department to recover additional revenue. The current contract with NIU is \$500,000; however the total cost to provide service to NIU is around \$1 million. The contract expires in 2014, and will need to be renegotiated at that time. It was noted that the contract amount has not been adjusted through the past few negotiations.



Recommendation:

First, it is recommended that the fire department consider a cost of services study to fully assess the current costs incurred by the department, in addition to a breakdown of cost per run and cost of services provided to the NIU. The study will provide additional support for conversations with NIU in order to renegotiate the current service contract, with the goal to recover departmental costs for the department through the process. Additionally, the cost of services study could include revenue analysis; mainly concluding whether or not the current rate for ambulance fees covers the cost to make an ambulance run, not including treatment.

The second recommendation is to move forward with billing for treat-not-transfer runs. It is estimated that the City could be losing up to \$350,000 in additional revenue by not charging and collecting for these runs. Additionally, it was indicated, by the Department, that the number of treat-not-transport runs is on the rise.

Finally, it is recommended that the City review the collection process policy to determine alternative ways to collect payment and increase the collection rate. One option may be implementing a payment plan so that individuals who can't afford to pay all upfront, can pay in installments.



Water Utility – PILOT Transfer

Background

The purpose of a Payment in Lieu of Taxes (PILOT) payment is to provide local units of government a revenue stream to help offset losses in property taxes due to nontaxable lands or assets. Given the Utilities are owned by the City, they do not make property tax payments. However, if the Utilities were privately owned (and therefore, taxable), they would be required to pay property taxes based on the net assessed valuation (NAV) of both their real and personal property. The PILOT transfer accounts for the monies lost by not taxing this unit, by moving funds from the Water Enterprise Fund to the City General Fund.

Data Points

As noted in the 2012 CAFR, the City budgets for up to \$500,000 to be transferred from the Water Fund to the General Fund to cover administrative costs. Additional revenue could be transferred to the general fund by collecting payment in lieu of taxes (PILOT), which is a tax assessed on all water assets. In order to estimate the NAV of the Utilities, the net historical value of the Utilities' capital assets are used including land, buildings, improvements other than buildings, and machinery and equipment as provided in the 2012 CAFR. The Plant NAV was then multiplied by the City's Payable 2012 corporate tax rate of \$0.7205 per \$100 of Plant NAV.

CITY OF DEKALB

DeKalb, Illinois

Payment in Lieu of Taxes (PILOT Calculation)

Utility Plant in Service as of October 31, 2011	\$ 42,730,781
Less: Accumulated Depreciation as of October 31, 2011	<u>(16,864,583)</u>
Estimated Net Assessed Valuation	25,866,198
Times: Pay 2011 Corporate Tax Rate (per \$100 Assessed Valuation)	<u>0.7205</u>
Pro Forma PILOT	\$ 186,366
Add: Current Budgeted Transfer	<u>500,000</u>
Total PILOT to be paid to General Fund	<u>\$ 686,366</u>

The PILOT calculation estimates an additional \$186,000 could be transferred to the City General Fund to compensate for the non-taxable water assets. Note that assessed value used in the calculation above can be changed, if the City sees fit. This estimate is to show that there is merit in the City exploring this additional revenue source.



Recommendation:

Consider the viability of the PILOT transfer for the City of DeKalb. This transfer moves funds from the Water Enterprise Fund to the General Fund, freeing the funds to a broader range of uses. The calculation identified \$186,000 to be transferred.



Water Utility – Rate Analysis

Background

There are two recommendations for the water utility. The first was the previous section, recommending the PILOT transfer. The second consideration is to conduct a detailed cost of service and rate study for the Water Utility. It is generally recommended that a rate study be conducted every 3-5 years to make sure the revenues received are covering the costs incurred for providing the service. Although the City makes adjustments for an increase in the Consumer Price Index CPI if applicable, a full rate study has not been completed in the past ten years.

Data Points

A survey of the comparable communities was executed to create a picture of where DeKalb's current residential rate fell in terms of other communities. The survey compared DeKalb to Normal, Downers Grove, Moline, Wheaton, and Sycamore. As noted, the survey is only for residential 5/8" meter monthly service. Larger customers are generally charged a higher rate.

DEKALB MUNICIPAL WATER UTILITY

DeKalb, Illinois

Survey of Water Rates Comparable Cities

<u>City/Town</u>	<u>2010 Census Population</u>	<u>Effective Date of Water Rate</u>	<u>Residential 5/8" Meter Monthly Water Billing for 6.68 CCF or 5,000 Gallons</u>
Normal	52,497	2012	\$ 33.70
Downers Grove	47,833	2012	32.24
Moline	43,483	2013	31.56
Wheaton	52,894	2013	31.31
DeKalb	43,862	2013	25.37
Sycamore	17,519	2005	18.72

The table demonstrates that the current DeKalb water rate falls toward the bottom when compared to other neighboring communities. Please note that many factors are considered when a city sets a water rate, especially with the proximity of these communities to the



Great Lakes and the availability of water reservoirs. The table demonstrates that the City should consider a rate study to maximize revenue and validate that revenue is covering the cost to provide water service.

If the City charged a rate around \$32, which would be consistent with the average of the comparable communities, that would result in a potential rate increase (26%) for residential 5/8" meters. The impact on revenue could be as much as \$800,000. This quick comparison shows that there is a case for a more in depth cost of service and rate study. Anecdotal evidence also shows that a rate study has not been completed in the last 3-5 years.

Recommendation:

Pursue a detailed cost of service and rate study. The quick comparison of neighboring communities gives merit to the need of a rate study, as DeKalb falls toward the bottom of the list. The rate study will support the City's decision to adjust or not adjust the current rates, based on whether or not current revenues collected from water sales are covering the cost of providing the resource.

As explained in the above analysis, when compared to other municipal utilities, the City's water rates are low; therefore, there is room to increase the rates. In order to truly understand what the water rates should be, the City should prepare a capital plan, in addition to a rate study. Consideration of the City's long term capital needs should be accounted for in setting a new water rate. A capital plan should cover a period of 3-5 years and should include an identification of needs, costs associated with the capital needs, a prioritization of capital requests, and a financing strategy.



Stormwater Utility

Background

Under Illinois State Code (55 ILCS 5/5-1062.2), DeKalb has authority to establish a stormwater utility with the intent to collect fees for stormwater use. A stormwater utility, and the associated fees, can raise revenue to maintain infrastructure, such as drains and ditches. Properly maintained stormwater infrastructure benefits the community by controlling surface runoff and potential flooding.

Implementing a stormwater utility does come with some up-front cost. Determining the appropriate fee to charge residential, commercial, and industrial customers requires complex calculations and impervious surface analysis; however, after the initial set-up costs, stormwater fees could be a viable new revenue source for the City of DeKalb.

Data Points

The City does not currently have an established stormwater utility, and does not charge a stormwater fee; therefore, stormwater efforts are paid for by general tax revenues. The Public Works Department has demonstrated an interest in pursuing this type of utility, especially because the City does experience some flooding on a periodic basis.

Other neighboring communities do charge a fee, and can serve as a benchmark in this case to show the potential merit of additional analysis to determine the proper course for establishing a stormwater utility. The benchmark communities are in the following table.

CITY OF DEKALB DeKalb, Illinois

Survey of Stormwater Rates **Comparable Cities**

<u>City/Town/Village</u>	<u>2,010 Census Population</u>	<u>Effective Date of Stormwater Rate</u>	<u>Residential Rate</u>	<u>Rates Based On</u>
Downers Grove	47,833	2013	\$ 8.40	Per ERU. Assumes ERU is equivalent to 2,501-4,000 square feet.
Normal	52,497	2013	4.60	Per ERU. Assumes ERU is equivalent to 3,200 square feet.
Wheaton	52,894	2013	4.34	Per monthly CCF water usage
Moline	43,483	2013	3.75	Assumes medium lot size equivalent to 1/4 to 1/2 acre.



In the table above, Downers Grove, Normal, Wheaton, and Moline all currently have stormwater utilities and charge a monthly fee for residential customers between \$3.75 and \$8.40.

The City of DeKalb has 11,309 total water meters within city limits, of which 10,600 are residential customers. Assuming DeKalb charged a stormwater fee around \$4.00 a month, there is a potential to raise \$542,832 in annual revenue. Note that this potential revenue is calculated on an average residential rate and only for residential water customers. Larger commercial and industrial customers could be charged at a higher rate, which would be determined during impervious surface analysis.

The upfront cost for establishing a stormwater utility is estimated at approximately \$75,000 for consulting fees, based on a past quote received by the City.

Recommendation:

It is recommended that the City work with a stormwater utility consulting group, which the City has done in the past, to explore the option of setting up a stormwater utility. The revenue captured through stormwater fees could be significant, and help the city maintain Critical infrastructure.



Fines and Fees

Background

Fines and fees make up a significant part of the City's annual revenue. Fines and forfeitures (fines) resulted in about \$600,000 of revenue for 2012, while charges for services (fees) resulted in almost \$2 million. Fines include items such as property management, building code enforcement and parking enforcement, while fees include items such as planning and zoning fees, building permits, and ambulance fees.

Currently, the City's fee list contains about 375 separate fines and fees. The language found in the ordinances establishes wide price ranges for many of the fines and fees, which can make financial enforcement difficult. Additionally, it is not known with certainty the last time the fines and fees were fully reviewed. The City could be losing out on revenue if they are not charging the maximum or market rate for certain fines and fees.

Through discussions with department heads and City Council members, it was determined that there is more potential in maximizing revenue generated from fees rather than fines. It is important for the City to focus on compliance, through activities such as warnings, not imposing fines on residents. Fees are an area the city would like to further explore.

Data Points

As previously mentioned, the City currently has a compiled list of about 375 separate fines and fees that cover the areas of code enforcement, parking enforcement, user fees, and ambulance fees.

Often, the ordinance language establishes ranges for financial enforcement that leaves it up to the City official assessing the fee to determine the appropriate amount of the fine or fee. For example, If the City Manager, or his designee, shall determine that any of the provisions of 14.06 (requirement and restrictions of a rooming house) has occurred or exists, he may fine the licensee in an amount not to exceed \$1,000.00, per violation.

Recommendation:

First, it is recommended that the City better track fines and fees collected for each item. Currently, there are no financial statements tracking fines and fees in a detailed manner.

Once fines and fees are tracked, identify top areas of collection and determine if there is ability to increase the current rates. The City should consider the cost of enforcement for fines and fees as rates are reviewed.

Second, a full review of code is necessary, in addition to a rate study or survey of comparable neighbor communities. Evaluate the relevance and need for each fine and fee. Determine where it is necessary to have a fee range for administration purposes and what fees might be able to be increased.

Once fines and fees are assessed and validated, establish a set fee schedule to be used by administrators



Natural Gas Tax

Background

Natural Gas is supplied to the City by a private utility company, Nicor. Initially, municipalities assessed a tax to natural gas distribution under a municipal utility tax; however, when natural gas utilities became deregulated, some customers began to purchase their gas from outside of state suppliers (not for resale). As a result, that purchase was no longer taxed by the municipal utility tax. Some municipalities adopted a Gas Use tax to avoid a loss of revenue from customers choosing to purchase their gas from out of state.

There are two types of taxes that can be assessed to capture the purchase of natural gas. A municipality can impose a utility (cost-based) tax or a use (volume-based) tax. Utility taxes can only be imposed on in-state sales. Use taxes can be imposed on either in-state or out-of-state sales. DeKalb imposes a use tax under Chapter 62, which could tax both in state and out of state sales, but presently is not being applied to out of state sales.

In reviewing how other municipalities administer the taxes, there is not much difference between the City's ordinance and that of other communities. For example, Naperville collects revenues for natural gas sales and distribution under the municipal utility tax and gas use tax. When gas is purchased from Nicor within the state, the purchase is taxed by the five percent (5%) municipal utility tax. When the gas is supplied from an out of state utility, but distributed in Naperville, the volume is taxed by the four cent (\$.04) per therm gas use tax. Gas consumption is not taxed twice, but the implementation of the use tax allows the City to continue to tax all of the natural gas consumed in the City regardless of where the source of supply originated.

Data Points

Comparing Naperville's use tax ordinance with that of the City of DeKalb, the only significant difference is that Naperville expressly indicates that they impose the tax on the privilege of distributing, supplying, furnishing, or selling gas for use or consumption within the corporate limits of the City..." By comparison, the City of DeKalb's ordinance imposes a tax on the "privilege of using or consuming natural gas in the City", and does not reference distributing, supplying or furnishing. In looking at the provisions of 65 ILCS 5/8-11-2 (the enabling legislation for the use tax), it specifically uses the terminology of "distributing, supplying, furnishing or selling." That is a relatively minor distinction, but potentially a critical distinction.



A breakdown of the contribution from the natural gas use tax and the natural gas municipal utility tax for the City of Naperville is in the following table. Over the past four years, the City has received almost 40% of total natural gas tax revenues from the use tax, which amounts to almost \$5 million in additional revenue for the City of Naperville, which might otherwise have not been accounted for. The City of DeKalb might also have the opportunity to capture additional revenue through the assessment of a tax on out of state supplied natural gas.

CITY OF NAPERVILLE, IL
 Naperville, IL

Natural Gas Tax Revenues

<u>Year</u>	<u>Natural Gas Use Tax</u>	<u>Percentage of Total Revenue</u>	<u>Natural Gas Municipal Utility Tax</u>	<u>Percentage of Total Revenue</u>	<u>Total Natural Gas Tax Revenue</u>
2013	\$ 1,218,510	41%	\$ 1,733,482	59%	\$ 2,951,992
2012	1,214,727	39%	1,901,403	61%	3,116,130
2011	1,168,165	35%	2,147,974	65%	3,316,139
2010	1,342,840	37%	2,256,639	63%	3,599,480
Total	<u>\$ 4,944,242</u>	38%	<u>\$ 8,039,498</u>	62%	<u>\$ 12,983,741</u>

In Naperville, Nicor bills and collects on both taxes and distributes the tax revenue back to the City. Customers supplied with gas from Nicor are assessed the municipal utility tax, while those customers using gas purchased from an out of state supplier are assessed a tax based on natural gas use.

Recommendation:

The City should explore the opportunity of taxing the use of natural gas (out of state purchase) that is not currently being captured. First, the City must work with Nicor to review an updated collection agreement with them, and confirm the required language to assess the use tax. Second, the City must make a minor revision of the City's ordinance to clarify that it applies to distribution of gas, in addition to use and consumption.



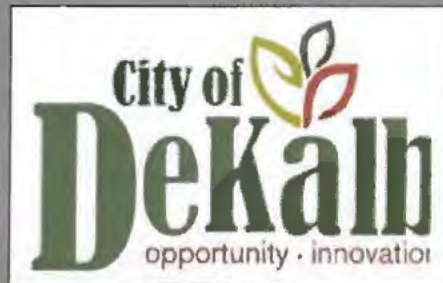
Closing Summary – Final Recommendation

Revenue areas reviewed were TIF, sales tax, emergency services, water utility, stormwater utility, fines and fees, and natural gas use tax. These areas were considered for their potential for raising additional significant revenue to the City or their potential impact on revenue in the future. Recommendations for increasing revenue for each area were presented in the respective section. Additionally, some recommendations were tied to dollar amount estimates and are presented in the table below.

REVENUE AREA	POTENTIAL REVENUE
Emergency Services – <i>Collect treat not transport run fees</i>	Up to \$350,000 additional
Emergency Services – <i>Review NIU Contract</i>	Up to \$500,000 additional
Water Utility – <i>Establish PILOT transfer to general fund</i>	\$186,366 transfer to general fund
Water Utility – <i>Revenue from a rate increase, after a rate study</i>	\$800,000 additional
Stormwater Utility	\$500,000 additional

As the City of DeKalb continues to pursue additional revenue opportunities outside of items listed above, we recommend that the City of DeKalb perform a Debt Management Review including debt restructuring analysis, rating agency metrics, creating a long-term capital improvement plan, reviewing Balance Sheet which includes cash position analysis, asset identification analysis, review fund balance policy and practices, liability management practices, prepare bench mark analysis and overall revenue best practice analysis.

It has been identified that the City has many capital needs, and it is imperative that a capital plan is developed. A multi-year capital plan identifies and prioritizes expected needs based on a community's strategic plan, establishes project scope and cost, details estimated amounts of funding from various sources, and projects future operating and maintenance costs. A capital plan should cover a period of at least three years, preferably five or more.



STRATEGIC FINANCIAL REVIEW II

MEDICAL COST- CONTAINMENT REVIEW

CONFIDENTIAL PROPRIETARY

JUNE 2013

**This document should not be shared beyond
the City of DeKalb**



EXECUTIVE PARTNERS
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 **Crowe Horwath.**



Health Insurance Overview

EPI conducted a thorough review of the current contracts, reports and services provided to the city of DeKalb through its membership in the Intergovernmental Personnel Benefits Cooperative (IPBC). We engaged in a number of conversations with the assistant city manager and director of human resources for the city. We also had a face-to-meeting with the brokerage team and Blue Cross Blue Shield.

IPBC is a local government cooperative that currently provides the structure through which approximately sixty-five local governments in Illinois receive employee, dependent and retiree healthcare. Based on the agreements in place at the time DeKalb joined IPBC, brokerage services were pre-selected for DeKalb to be Gallagher Benefit Services (GBS). Similarly, Blue Cross Blue Shield (BCBS) of Illinois is a carrier/payor and is part of the family of plans offered to members by IPBC and selected by the city.

EPI's primary focus was on healthcare contracts, cost containment services and wellness. Based on our knowledge of the healthcare industry and the needs of the city of DeKalb, we believe the focus on these specific elements of the healthcare system, of which DeKalb is a part, will yield to DeKalb the greatest opportunity for:

- Long term cost savings
- Engaging employees and all covered lives in cost reduction and their own well-being
- Ensuring the GBS and BCBS play a more active role in managing the benefit plans

Before we present our specific recommendations, we advise DeKalb to be aware of and avoid the following industry trends:

Initial Observations and What to Avoid: EPI urges DeKalb to "change the conversation" with IPBC, GBS and BCBS so that these common industry practices are no longer (and over time) acceptable to DeKalb:

1. GBS has typically provided recommendations to DeKalb that are common of most brokers nationwide. On various occasions, GBS has notified DeKalb of a coming cost increase and generally recommended that the city can offset the effect of the increase by reducing benefits or shifting additional costs to employees, dependents or retirees. In other words, the responsibility for absorbing cost increases falls only on the city of DeKalb and its employees or retirees. Without a realistic alternative strategy, this cycle has no foreseeable end. As will be explained later, DeKalb may choose to continue down this path. Alternatively, armed with the information and recommendations in this report, the city will be able to bend the cost curve back in its favor by initiating efforts in regards to contracts, cost containment and wellness.
2. While GBS is able to provide DeKalb numerous reports regarding trends and cost centers, in reality, the reports lack significance in terms of tracking GBS' and BCBS' contractual obligations. Most importantly, GBS and BCBS did not have any data that showed how the cost of medical claims has been controlled through common medical claim audits. When asked, neither GBS nor BCBS could provide DeKalb



- with reports that describe how they are addressing contractual terms and the use of standard medical claim cost containment practices. We believe that these common industry reports are not available because GBS and BCBS do not perform a substantive and measurable medical claim cost containment service.
3. There is a direct link between on-going high costs and medical claims associated with preventable chronic diseases. It is our opinion that GBS and BCBS have not provided timely and appropriate recommendations to control preventable chronic disease and engage employees in their health. It is our consorted opinion that if GBS and BCBS had acted more aggressively regarding the obligations in the ASO or implemented best practices in wellness, the city of DeKalb's healthcare costs would be lower by 5% or more from its 2012 costs. Indeed, coupled with a standard cost containment program, the savings to DeKalb could reach 10% to 15% or more. We caution DeKalb against concluding that the city should therefore switch brokers or carriers or leave IPBC. Quite the contrary. We believe DeKalb is in the best position to lower costs and improve employee health by remaining a member of IPBC.
 4. Related to wellness, based on a meeting with GBS, GBS indicated that any action regarding wellness should depend on 'what DeKalb wanted to do and DeKalb's culture'. We believe GBS' approach is short-sighted. While EPI understands the importance of DeKalb's freedom and decision making process, we equally understand that DeKalb could have benefited from a thoughtful and data driven recommendation from GBS several years ago. The data regarding prevention of chronic disease is irrefutable and should have been formed into recommendations instead of essentially leaving the client to learn about wellness, prevention and best practices almost entirely on its own.
 5. We find GBS and BCBS to be indifferent towards DeKalb's rising healthcare costs. Specifically, we see GBS and BCBS locked into a business model that generally pushes costs to the employer and employee with little regard for taking their own initiative in areas such a medical claim cost containment, case management and nurse coaching.

Overview of Key Issues:

Under current circumstances, the cost of healthcare for the city of DeKalb is likely to continue to escalate. Given all of its other needs, the city of DeKalb will find the challenge of paying the cost of healthcare beyond the pale. Recognized experts in examining healthcare cost are estimating that over the next 3 - 4 years, the cost of healthcare for individual and employer sponsored plans will increase 20% to 35%. This means that DeKalb's total annual cost (employer and employee shares) will most likely increase by \$1 to \$1.5 million in the aftermath of this adjustment period. The reasons for this anticipated increase includes:



- ✓ Normal cost increases – inflation
- ✓ Implementation of next steps in PPACA (e.g., minimum essential benefits, etc.)
- ✓ Unknowns related to new healthcare taxes and penalties
- ✓ Questions regarding the adequate availability of providers including physicians
- ✓ Expected costs to Medicare and Medicaid
- ✓ Increases in the incidence and severity of preventable chronic disease
- ✓ And, in the opinion of EPI:
 - Stagnant bill processing systems
 - Unused billing and coding reviews/audits
 - PPO contracts
 - Lack of medical necessity oversight
 - Un-incentivized contracts with brokers and payors

Given these and other factors likely to drive DeKalb's cost up, if DeKalb wishes to improve the likelihood of reversing these increases, DeKalb must follow a strategy that requires a higher level of responsibility by all parties: the city, each covered person, IPBC and especially GBS and BCBS.

Healthcare Recommendations:

1. [REDACTED]
2. **Wellness:** With urgency, we recommend that DeKalb pursue an education and incentive based comprehensive wellness program. We recommend that this project build on the current effort but set a goal of implementing a progressive plan with proven attributes as soon as possible. While we also recommend that DeKalb remain plugged into the current IPBC wellness effort, we observe that the IPBC effort may take too long and is not geared up for action at the level we believe is required to address costs and employee well-being. If the IPBC effort moves forward immediately with a comprehensive offering that includes the elements noted below, the IPBC wellness plan should be considered as an option. The recommended elements include:
 - a. DeKalb should establish a strategic goal in regards to employee and dependent wellness. The basis for the effort and emphasis is twofold: First, DeKalb is in the midst of new increases in health care cost; employees are feeling this in their pocketbooks as well. Second, emphasis on employee and dependent well-being helps to define a great working environment. "Well" employees – and employees who see that their employer takes their health



seriously – are more likely to take fewer sick days and are known to be more productive.

- b. Given the level of expenditure and complexity, we recommend that DeKalb consider hiring a part-time healthcare and wellness specialist. This is justified for several reasons. First, managing costs is appropriate. The right attention will bring deeper management and innovation into this major opportunity to cut costs and improve employee engagement. We find the current team to be insightful and aggressive regarding these issues. However, the issues warrant more dedicated focus and time under the direction of the Human Resources Director. Second, the twin issues of healthcare and wellness are interlinked. Indeed, based on national trends, DeKalb is paying approximately half to three-quarters its healthcare budget on preventable chronic conditions. Without more oversight at the level of medical claims and employee interaction, costs will continue to escalate unabated. Worse, DeKalb's approach must be aggressive and not accept that rising healthcare costs are a fait accompli. Literally, when it comes to controlling costs and employee/dependent wellness, DeKalb has to go more on the offense with vendors, culture and those covered by the health plan
- c. If done correctly, wellness can generate a 3:1 or better return on investment starting with year 2.
- d. Receive competitive "open-end" wellness proposals where known industry experts present for DeKalb's consideration, best-practices and proven results. DeKalb must invite vendors to present proposals that demonstrate leading practices including education, health based incentives and nurse coaching.
- e. Involve employees and union representatives in all discussions covering program goals, proposal requirements, costs, vendor selection and incentives. We encourage DeKalb to set a wellness mandate and then invite employees to assist in creating standards, interviewing vendors and making final recommendations consistent with the mandate.
- f. Require that wellness companies to propose how to detect chronic diseases and present a plan that specifically targets the population for improved health including the use of current medical claims.
- g. Continue a participatory/voluntary wellness benefit. We recommend that an employee wellness committee be given responsibility to explore updating the current plan.
- h. Elevate employee, dependent and retiree knowledge of the cost of treating preventable diseases by encouraging a culture that is health-minded.
- i. A systematic effort to provide on-going education regarding the cost of healthcare, the need for sex/age specific prevention/detection tests and related steps.



- j. A deep look at positive and negative incentives that address behaviors related to known preventable diseases. Based on the options available, EPI recommends that DeKalb select and implement an incentive program that addresses behaviors linked to preventable diseases.
- k. As a result of j, implement incentives as a means of encouraging good health, prevention of behaviors that lead to high cost and disease specific claims, and shift additional costs to employees who are non-compliant. Under PPACA, DeKalb may implement a Health Based wellness program. With final regulations due in January, 2014, DeKalb can still proceed with implementing an incentive plan now that rewards or penalizes based on a health condition such as smoking. An expert wellness company should be hired to assist in creating and managing the program.

l. [REDACTED]

3. **Contracts.** DeKalb directly or indirectly is party to a series of contracts which are intended to set forth the terms and conditions of services from GBS and BCBS. The key contracts and attributes are discussed below:

- a. **ASO BPA.** This is the Administrative Services Only Benefit Program Application. This contract presents many significant obligations on the part of BCBS and the fees DeKalb pays. We offer the following observations and recommendations.
 - i. DeKalb is charged an administrative fee of \$45.76 per covered employee per month. Based on GBS and BCBS unwillingness to unbundle the fee, we are not able to render an opinion regarding the appropriateness of the fee. This is significant because of what is discussed in the next point.
 - ii. The ASO BPA indicates that DeKalb has contracted for "Blue Care Connection" as a line of business. These services are listed in a separate document called the Benefits Summary Report. According to the ASO BPA, the Benefits Summary Report and comments from GBS, DeKalb is entitled to the following services:



1. Pre-authorization
 2. Utilization management
 3. Case management
 4. Predictive modeling
 5. Disease condition management
 6. Personal health manager
 7. Targeted wellness information
 8. Online health content
 9. Twenty-four-seven nurse line
 10. Special beginnings maternity program
 11. E-mail a trainer
 12. E-mail a nurse
 13. E-mail a dietician
 14. E-mail a coach
 15. Targeted wellness outreach with age/gender specific recommended screenings and expanded wellness advice
 16. Blue Care Advisor including lifestyle management, moderate condition management, severe condition management, intensified case management and local care management
 17. BH Inpatient only
 18. Worksite wellness
 19. Fitness program with any access health club and activity monitor
 20. Personal health manager with weight loss, smoking cessation, Ask A Features and a Health Risk Assessment
 21. Disease management program
 22. Preventative Health Benefits Include:
 - a. Health education/counseling services
 - b. Bone density tests
 - c. Routine breast exam
 - d. Routine colonoscopy
 - e. Smoking cessation
 - f. Ten additional preventive health benefits
- b. This list is critical to acknowledge for two reasons. First, many of these services are typical of a comprehensive wellness program. In other words, the above list of services covered under BCBS' Blue Care Connection line of business for which DeKalb is paying a monthly fee, are typical of most best-practice wellness programs. Second, based on interviews with staff, a meeting with GBS and BCBS and a written response from BCBS, there are no reports or other normal business measures or tracking that would indicate that any of these services were actually rendered. Just as important, there are no reports or other normal business measures or tracking that would



indicate that any of these services were promoted or offered to DeKalb employees, dependents or retirees. In the words of BCBS, "Based on the size of the city of DeKalb a report is not available to track this information." We find their response to be incredible.

Based on EPI's knowledge of the industry, these services are as easily tracked by insurance companies as any other service or cost. Indeed, based on a similar experience the authors had, a different nation-wide insurance company agreed to reverse Per Employee Per Month charges that allowed the employer to separately contract for wellness services.

- c. Further, the list of services that BCBS has not been able to report any activity includes many vital services such as Disease Management and Case Management. Both of these services are crucial to managing care and costs. Indeed, these services are considered to be essential healthcare services that should be provided by BCBS – exactly as DeKalb has already contracted for. BCBS or GBS should provide evidence that they are actually performing these services based on their contractual obligations. BCBS should be able to demonstrate the cases (de-identified) where these services were rendered and what hard or soft cost savings were achieved.
- d. Rightly so, GBS provides many valuable services and is compensated for these services. In person and in writing, representatives of GBS were asked by EPI to give a simple accounting of their specific services and fees. For an employer interested in understanding all fees, The ASO BPA states that DeKalb may simply "contact its broker/consultant" to obtain fee information. To date, GBS has not provided an accounting of the fees it has been paid. Instead, GBS has referred DeKalb to read "funding sheet detail and IPBC audits".
- e. The contracts offered by GBS and BCBS include a statement that indicates that BCBS and/or GBS will use "Predictive Modeling." Based on EPI's experience, Predictive Modeling in healthcare is an essential and sophisticated method of using historical claims and related data to help employers predict costs and address services aimed at addressing and even preventing expected claims. Although the service is contracted for, GBS stated in writing that Predictive Modeling "is not used in creating this projection".
- f. Overall we find many of GBS recommendations needing to be more specific and followed-up on by GBS. For example, in a recent independent study, it was shown that up to 70% of ER visits with employer paid healthcare are unnecessary. In a GBS report to DeKalb dated 9/19/12, GBS indicates that DeKalb's cost for ER visits exceeds the benchmark. GBS writes: "Plan design features may require changes to ensure appropriate use of the benefit plan in this area." We have not seen an indication that GBS follows-



up and makes the changes as suggested or recommended. We have not seen a chain of evidence that links problem – solution – implementation.

- g. As related to contracts, EPI recommends that DeKalb pursue:
 - i. Performance based contracts with GBS and BCBS. The performance based contracts should address each key services performed by the vendor together with reporting requirements and standards for service levels.
 - ii. The performance based criteria should cover specific requirements for:
 - 1. Claim turnaround
 - 2. Specific review for coding and billing errors
 - 3. Specific review for medical necessity reviews for high-dollar claims
 - 4. Specific follow-up and implementation of recommendations by GBS
 - 5. That 50% or more of fees and commissions paid by DeKalb be tied directly to the negotiated key performance indicators.
 - 6. All key services in the ASO
 - iii. Renegotiation of the ASO fee paid to BCBS based on the apparent inability of BCBS to report on the services required under the contracts. Once BCBS provides a breakdown of the PEPM fee, DeKalb will be able to ascertain the value of the work that may not have been performed.
 - iv. DeKalb, with the full backing of IPBC, should again approach GBS and BCBS about detailing the services provided under Blue Care Connection. BCBS should be required to disclose all services or provide a reimbursement for past years fees. At a minimum, DeKalb should direct GBS to resolve the issue by agreeing to a means of tracking and measuring each service going forward.
 - v. DeKalb must further explore the already contracted wellness services in the ASO contract. The ASO and BSR detail services linked closely to wellness programs. Yet, it appears that DeKalb has not received services based on what is in the contract and being paid for by DeKalb as part of the PEPM fee. At a minimum, DeKalb should not have to pay a portion of its PEPM fee for wellness activities contracted in the ASO and additional fees for seemingly similar services presented by the Ad-Hoc Wellness Committee.



4. **Cost Containment:** In healthcare, cost containment can refer to many services and programs aimed at reducing the cost of health care to the system, to employers, to the patient and the government. In independent reports, including reports completed by CMS, it is estimated that over 30% of all healthcare spending is for waste, fraud or abuse. With healthcare spending now at \$2.8 trillion annually, this means that over \$840,000,000,000 in annual costs are unnecessary. How does this apply to DeKalb? Waste, fraud and abuse can be prevented by insurance companies, TPA's and all payers having an active cost containment program. Such programs are often managed by software (e.g., billing and coding reviews) and other services require clinical specialists hired to review certain high dollar claims commonly known to be overpriced or questionable.

Based on our discussions with GBS and BCBS, and in a follow-up in writing with BCBS, there are no reports or evidence that DeKalb's medical claims are being reviewed in this manner before they are paid. In other words, regardless of known trends, BCBS is unable to report how it specifically audits claims for potential errors. It is likely that once eligibility is confirmed and a contracted discount is applied, that the claim is simply paid.

BCBS indicates that claims above a certain dollar value are pended and reviewed before they are paid. What BCBS is unable to produce is a standard industry report that indicates what actually happened at each level, how many claims were rejected and what cost savings was achieved. BCBS has indicated that while they have triggers for reviews, they are unable to report how any of the triggered claims were treated. That is, what outcome was achieved as a result of the trigger?

GBS provided IPBC and DeKalb with a "Summary of Findings" related to cost containment. GBS indicated that IPBC and its members could find savings in pharmacy management, site of care optimization and health risk management. In addition, GBS provided a "Bend the Trend – Cost Containment Considerations (January 2013) two page report. Our observations:

1. Based on the report from BCBS regarding claim reviews, "mini-audit checks" are being done already.
2. NCCI edits should be built into the review process already.
3. GBS and the PBM should already be managing the generic substitutes based on patient costs and audit.
4. Plans often have incentives for advanced imaging. The broker or the plan will often demonstrate the site availability and start directing the care through pre-cert or other means.
5. Under "Bending the Curve", it is EPI's contention that GBS and BCBS are already under contract for the listed wellness and disease management services.



6. BCBS has provided a list of "Cost Containment Services" which we agree it should be performing.

As related to cost containment, EPI recommends that DeKalb pursue:

[REDACTED]

Retiree Healthcare

The city of DeKalb has made progress in reducing its financial exposure for retiree healthcare. Over the past few years, DeKalb implemented a strategy that has partially extricated the city from the financial obligations associated with comprehensive employer paid retiree healthcare.

The most objective measure for tracking obligations and trends in this regard is GASB Statement 45. According to this GASB statement within DeKalb's 2012 CAFR, DeKalb has made good progress in reducing its obligation. From a high of \$40 million in 2009, DeKalb's obligation or unfunded liability rests at \$20.8 million. This is meaningful progress. The city predicts a further drop in its liability this October when the next measure of liability is calculated.

[REDACTED]

This October, DeKalb will have a clearer sense for its on-going financial obligation for the paid retiree healthcare that remains in-place. While substantially lower than the 2009 trend line, we predict that the current obligation will be significant.



For example, subsequent to EPI's 2009 report, DeKalb decided to continue to pay for healthcare for existing retirees. In 2009, EPI strongly recommended against this.

In addition, the city has agreed to continue to pay retiree healthcare for many existing employees as outlined in the municipal code and labor contracts. In some cases, the city has agreed to contribute \$2,000 per year *after* the retired employee reaches Medicare eligibility. Even after Medicare kicks in, DeKalb provides some employees with city healthcare as a supplement plan or continues to annually pay into a plan for the employee.

For the FOP and IAFF the date of January 1, 2011, for Chapter 3 employees the date of January 1, 2012, and for AFSCME the date of December 31, 2011, are significant. For employees hired after these dates, the city is released from paying for any retiree healthcare and, ceases to contribute toward "any 457 plan, PEHP or other similar plan".

While DeKalb made substantial progress, the city continues to have a significant obligation towards retiree healthcare and additional annual cash payments to employees and retirees into tax-deferred accounts, e.g., 457 (matching) and PEHP.

Consequently, DeKalb will continue to incur a significant financial liability. This excess strain on DeKalb's budget will be evident for many years to come.

By way of comparison, DeKalb will continue to face annual retiree healthcare costs at a level/ratio that most Chicago area municipalities do not face. EPI conducted a survey of 6 communities that in our opinion are useful. We calculated a simple ratio of OPEB liability divided by the number of full time employees.

Town:	Per-employee cost ratio:
St Charles:	\$27, 777
Bartlett:	\$36,196
Carpentersville:	\$23,391
Streamwood:	\$36,363
Glendale Heights:	\$22,612
Naperville:	\$9,000
DeKalb:	\$105,000

The average OPEB obligation for the other five communities is \$25,890 compared to DeKalb at \$105,000.

The good news is that DeKalb expects this figure to drop. None of these other communities offer employer paid retiree healthcare (higher costs may reflect retiree paid access to the plan only). Not offering paid retiree healthcare is the norm.

While DeKalb has made significant progress in this regard, what remains will continue to be a serious drag on DeKalb's annual operating budget.



There are worse situations. The city of Joliet has amassed an unfunded OPEB obligation in excess of \$220,000,000. According to an official with Joliet, the annual retiree healthcare cost is a major constraint on the city's ability to pay for other normal operating and capital needs. Joliet's per employee ratio is \$269,000.

In 2009, EPI also recommended that DeKalb require retirees to pay, perhaps over five years, more towards their healthcare.

[REDACTED]

DeKalb's revised statement under GASB will be reported later this year; it will be telling regarding the progress that has been made with the labor contracts and Chapter 3 Employees. Until this updated dollar amount is known, a more complete picture of DeKalb's annual and accumulated liability is unknown. Regardless, DeKalb's annual cost/obligation for retiree healthcare will continue to be substantial for the foreseeable future.

Since EPI's original recommendation, it appears that the most significant change DeKalb made was the elimination of retiree healthcare for future employees. While this is an important change, there remains a substantial annual obligation.

[REDACTED]



STRATEGIC FINANCIAL REVIEW II

OTHER OPPORTUNITIES
Long-Term Planning
Image Building

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June 2013

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LONG-TERM PLANNING PROCESS

The City of DeKalb began a strategic planning process four years ago. Since then, the Council and staff have met to develop a vision for the City and goals for 2013. It is EPI's belief that this process needs additional financial depth and rigor. With the changes in Council and City management, the timing is right for a long-term plan process.

The long-term plan should begin with a drill down on the meaning and specifics of the 2025 vision. This would also be an important time to gather citizen input. Forming a taskforce made up of Council, staff, citizen leaders, the University, and partners of DeKalb, can be the focal point for this drill down and definition of the future. This process should include a review of service levels wanted and interest level in paying for them.

Once that is in place, the capital and expense needs can be laid out on a timeline projecting financial needs. This should also include current commitments (i.e., union contracts) projected into the future. A similar exercise should be conducted on the revenue side. Also, projected into the future. On comparing the revenue, expense and capital sides of the equation with an educated and honest perspective, that is when the "fun" begins. This will then be the opportunity to make decisions about what's possible, identification of key priorities, and the allocation of limited resources. This process will set the tone and direction for future Council actions and a stable financial future.

Quarterly progress reviews should be conducted between Council and management to review progress and key measures. There are very few municipalities in the Chicago land area that we deal with that don't have some version of this process in place.

LONG-TERM PLANNING PROCESS (continued)

In a recent article published by IBM, entitled Flat Lined, Rethinking the local government business model for a future of zero revenue growth. In it, they lay out guidelines for transforming the municipal government business model and creating fiscally, sustainable cities over the long-term. Below are principles from the article:

1. **Focus on revenues by making revenue growth an explicit strategic goal.** They need to adopt policies and programs that drive improved top line performance.
2. **Adopt a return on investment approach to all spending, supported by advanced analytics.** Local governments need to evaluate alternative capital and operating spending options in terms of their impact on their fiscal sustainability. All expenditure decisions should be based on their long-term net impacts on revenue and expenses. The ability of local governments to do this has deepened dramatically with the expansion in available data and the ability to apply advanced analytics to that data. Most cities already have the data; they just need to turn it into insights that can drive decision-making.
3. **Restructuring long-term operating cost structures by institutionalizing efficiency and effectiveness programs.** Drive continuous improvement in capital and labor productivity across the local government enterprise.
4. **Recalibrate service levels as targeted outcomes are achieved.** Cities need to assess how their investments deliver targeted outcomes and adjust those investments over time as those outcomes are achieved.
5. **Apply the savings generated by efficiency programs to invest in neglected infrastructure.** This will allow cities to rebalance spending on capital and services after decades of starving infrastructure to fund services. Revitalized infrastructure will provide new productive capacity that will spur future growth in private investment and residential populations.

LONG-TERM PLANNING PROCESS (continued)

We have attached the full article for your interest. It clearly reinforces EPI's recommendations to DeKalb on long-term planning.

Recommendation:

Create a long-term planning process involving citizenry and the University to lay out the desired future state of DeKalb then compare that to the possible revenue opportunities and capital and expense needs. Make decisions based on this data regarding resource allocations laying out a long-term roadmap. Track progress on the roadmap with a financial quarterly review.

Although it is helpful to have outside expertise to assist DeKalb that is not absolutely necessary. Should you choose that direction, EPI would recommend allocating \$150,000 for this process. That's the cost side, the opportunity side is the dollars saved and created through appropriate decision making and allocation of resources.

ADDENDUM

IBM White Paper

Flat lined

Rethinking the local government business model for a future of zero revenue growth

[http://upag.ash.harvard.edu/resources/?action=file_download&col_file=file&col_title=title&col_type=type&file_id=17&file_table=user_resources.](http://upag.ash.harvard.edu/resources/?action=file_download&col_file=file&col_title=title&col_type=type&file_id=17&file_table=user_resources)

IMAGE BUILDING

The City of DeKalb has many great assets including its downtown, the University, rail lines, fiber optic cable, airport, and nearby expressways. Many of these are assets that are not well understood or promoted in the surrounding region.

The Council recognized this issue when they took EPI's advise and established a contract economic development position and in 2013 set related goals:

- Goal 3: Enhance the overall image and perception of the community
- Goal 6: Increase economic growth and further diversify the tax base

EPI believes these are valuable steps in the right direction, but is it enough? We think probably not.

Attracting growth opportunities (i.e., business opportunities) is a very competitive space. The opportunities for growth are limited and in order to attract them, municipalities are gearing up to attract businesses and residents.

In the Chicago land region, there are several communities we have worked with who have put more focus/resources in this area with valuable results. These would include Arlington Heights, Deer Park, Park Ridge, and Lincolnwood. Others, who have less assets than the City of DeKalb are engaging in promoting their opportunities more effectively.

EPI believes this would be an important next step for the City of DeKalb. We would suggest this be considered as a part of the long-term planning process and be resourced appropriately after the conclusion of that process.

IMAGE BUILDING (continued)

The chart below is reflective of the elements necessary to manage and promote the image and economic development of the City of DeKalb.

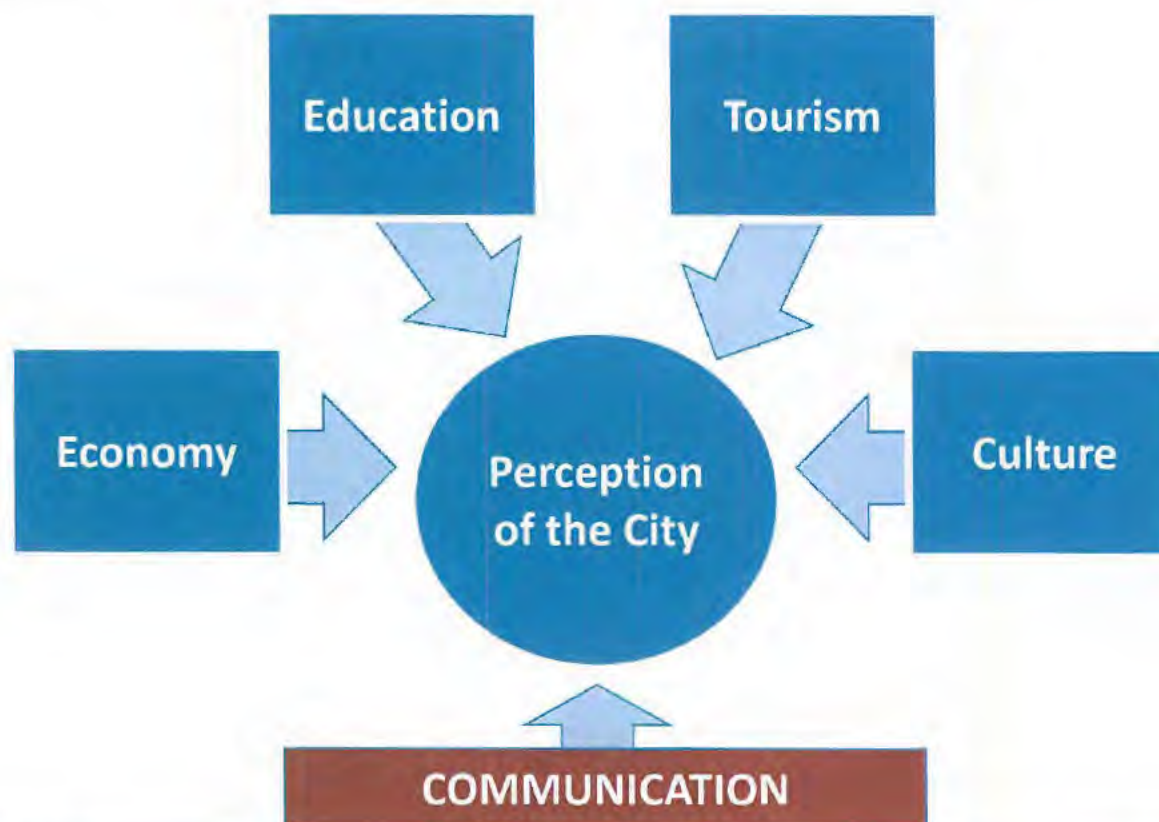


Image Builders

- ✓ Investments and the presence of sufficient infrastructures have a positive impact on people's perception of the City
- ✓ The presence of the University has a positive impact on people's perception of the City
- ✓ Tourism has a positive impact on people's perception of the City
- ✓ Culture has a positive impact on people's perception of the City
- ✓ Effective/powerful communications has a positive impact on people's perception of the City

IMAGE BUILDING (continued)

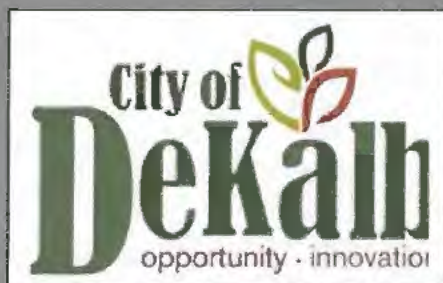
The resources required to image build and promote the City of DeKalb are readily available by contract in the Chicago land area. We would suggest two separate contracts, a communications firm and a promotional/marketing firm, managed by the City and integrated with economic development. These resources might also be shared with the University and the Chamber.

The costs for this, we believe, will be minimal, approximately \$100,000 and the opportunity for results significant. This does not include the development of a redesigned website, which probably also needs to be done.

Recommendation:

EPI recommends that on the completion of the long-term planning process, the City of DeKalb embark on a image building/promotion initiative including communication and promotional resources. This would be integrated with economic development initiatives. Community partners (i.e., University) should be engaged as a part of this process. Promotion of the City of DeKalb within the City government organization can also be helpful for workforce pride. The costs are in the \$100,000 to \$150,000 range with ROI covered by the first project closed.

The Council and management told us the City of DeKalb wants to be more user-friendly for business. This is a major step in that direction.



STRATEGIC FINANCIAL REVIEW II

MANAGEMENT PAY PLAN REVIEW

CONFIDENTIAL PROPRIETARY

JUNE 2013

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MANAGEMENT PAY PLAN REVIEW

EPI has reviewed DeKalb's Management Pay Plan (MPP). The MPP lists 43 positions as covered by the Plan.

Features of the MPP include:

1. 37.5 hour work week for exempt positions.
2. [REDACTED]
3. Annual step increases, similar to labor contracts, for all management employees including department directors and the city manager subject to an annual performance review.
4. No flexibility in rewarding better performers a higher merit increase. Better performance is compensated in the same manner as average performance.
5. A formal comp-time program for hours, up to a maximum with payout, worked in excess of 37.5 for exempt employees.

Recommendation:

1. While specific features of DeKalb's MPP occur in the comparable marketplace, EPI could not identify another comparable community that offered the identical package to its management employees. As was recommended in 2009, we now recommend in detail and specifically that the city update its MPP to bring it in line with common professional standards for management pay and benefits. [REDACTED]
2. DeKalb's MPP, inclusive of the merit and comp-time systems, has not been formally reviewed by an independent expert for 10 years. Given that this is the pay plan for all of DeKalb's management team, we recommend that DeKalb contract with an external firm to complete this study in 2013.
3. EPI recommends that the following key issues be reviewed in detail. [REDACTED]



- b. A true merit pay plan with goal-based performance reviews with variable merit pay.
- c. Pay ranges should be examined for market compatibility.
- d. All positions tested as being exempt should be moved from a 37.5 hour workweek to a 40 hour workweek. For exempt employees, this is not so much a 'schedule' as it a recognized method for calculating regular payroll. Indeed, exempt schedules may float somewhat with the understanding that 40 hours is a minimum under most circumstances. [REDACTED]

- e. The formal step plan for exempt employees should be eliminated.

- f. [REDACTED]
- g. [REDACTED]

Approximate Comp-Time and Work-Week Savings

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]



STRATEGIC FINANCIAL REVIEW II

SUMMARY OF KEY RECOMMENDATIONS

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PROPRIETARY

June 2013

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EXECUTIVE SUMMARY

The City of DeKalb has made good progress on its financial health overall the last four years.

Many of EPI's recommendations from Financial Review I have been implemented. Several are still pending.

EPI's approach this time was a more focused approach in specific areas of opportunity. We addressed:

Revenue opportunities and organizational opportunities including:

- ☐ Outsourcing
- ☐ Medical cost-containment
- ☐ Labor agreements

The benchmarking that we did was specific to the various issues and possible opportunities. We looked at appropriate benchmarks both locally and nationally depending on the right source for comparison.

What EPI found relative to general financial health of the City of DeKalb was that it was clearly improved. For this, the City Council and Management should be congratulated. The next steps, however, don't get easier and we believe require a long-term view and even more leadership on the part of the Council and Management. Many of the financial problems faced by the City of DeKalb have been the results of a short-term, some times ad hoc approach to solving the problems. Many changes for the next phase of financial health work require systemic changes. Further, as always, the pie is limited and requires making tough choices about where to allocate resources. To do this effectively and accurately, requires this long-term view we mentioned, as well as understanding the cost implications of both previous decisions and future need decisions.

EXECUTIVE SUMMARY (continued)

For this review, EPI has identified recommendations from the 1st study, which have not been completed and should be addressed, as well as new areas for revenue opportunity and cost opportunity. EPI has also suggested the City engage in a long-term planning process including analysis of revenue, cost and capital (including infrastructure) needs.

We have also recommended, based on the results of the long-term planning process, that an image building campaign be engaged. DeKalb has many assets which, from EPI's perspective, viewing other municipalities could be more effectively promoted and utilized.

Laying out a long-term "realistic" roadmap, determining where investment of resources are needed, and promoting the City in a way that attracts growth, is a way of bringing vibrancy and health to the City and, of course, financial stability and opportunity.

One last very important recommendation is the relationship with Northern Illinois University. This relationship needs to be improved and tightened. The futures of both the City and the University are integrally linked. This future is one that could be fashioned in the best interest of both institutions. With the change in leadership for both the City and the University, EPI believes this is a great opportunity to develop the relationship into something of real value for both groups.

In the following several pages, EPI has summarized its key recommendations noting the potential impact of these actions. We have also included the May 2009 summary, key recommendations with indications of recommendations completed and those still open.

If the City of DeKalb were to take action on all of our current recommendations and those not completed from EPI's first review, the total opportunity for the City of DeKalb minus the additional costs would be over \$6, 000,000.

SUMMARY OF KEY RECOMMENDATIONS

A. Revenue Opportunities Review

<u>Recommendations</u>	<u>\$ Impact (Costs)/Opportunities</u>
A1. Determine TIF #1 and #2 economic development needs and if appropriate, reestablish TIF #1 by setting new base year and TIF #2 extend through legislative action	Minimizes any impact on annual reimbursements to general fund
A2. Maintain existing sales tax percentage	Maintain current revenue from sales tax
A3. Emergency services <ul style="list-style-type: none"> - Evaluate current cost of services to NIU - Implement changes for treat-not-transfer services - Implement a new collection payment process for emergency services to include a payment plan option 	<ul style="list-style-type: none"> Estimated cost: (\$50,000) Opportunity: \$500,000 Opportunity: \$350,000 Additional review collected
A4. Water utility <ul style="list-style-type: none"> - Implement water utility pilot transfer - Implement detailed cost of service and rate study 	<ul style="list-style-type: none"> Opportunity: \$186,000 transferred from water utility to general fund Estimated cost: (\$75,000) Opportunity: \$800,000
A5. Work with a storm water consulting group to set up a storm water utility	<ul style="list-style-type: none"> Estimated cost: (\$75,000) Opportunity: \$542,832


SUMMARY OF KEY RECOMMENDATIONS (continued)

A. Revenue Opportunities Review

<u>Recommendations</u>	<u>\$ Impact (Costs)/Opportunities</u>
A6. Fines and fees - Establish a process to more effectively track fines and fees and administer collections and simplify scope - Review code and determine area to increase fees	No additional cost Additional revenue opportunity
A7. Create taxing capability for use of natural gas, out-of-state, that is currently not being captured	Additional revenue opportunity

SUMMARY OF KEY RECOMMENDATIONS (continued)

B. Departmental Efficiencies Analysis and Outsourcing Review

<u>Recommendations</u>	<u>\$ Impact (Costs)/Opportunities</u>
	
B2. Establishment of centralized purchasing	Additional procurement professional (\$70,000 - \$80,000/year) Short-term opportunity: \$600,000 Long-term opportunity: \$600,000 – \$800,000 based on partnerships
B3. Investigation and implementation of a complete cloud computing environment	Short-term opportunity: \$100,000 Long-term opportunity: \$100,000 - \$200,000

SUMMARY OF KEY RECOMMENDATIONS (continued)

B. Departmental Efficiencies Analysis and Outsourcing Review

<u>Recommendations</u>	<u>\$ Impact (Costs)/Opportunities</u>
B4. Consider implementation of lean process analysis and enhancements	Costs: (\$100,000 SME consultant)
B5: Establish strategic and tactical working relationship with NIU	Opportunity: \$\$\$ in coordinated savings
B6. Reevalue other areas for partnership/outsourcing and consolidations	Opportunity: 20% savings
B7: Continue to develop airport strategy	Costs: Some staffing and asset developing Opportunity: Net profit and catalyst for region wide economic growth. Partnerships helpful.

SUMMARY OF KEY RECOMMENDATIONS (continued)

C. Medical Cost-Containment Review

Recommendations

C1: Implementation of performance based contracts with GBS and BCBS and renegotiate and align fees

C2: Implement healthcare cost-containment management process

C3: Implement a more comprehensive wellness program

\$ Impact (Costs)/Opportunities

Estimated cost: Medical consulting services (\$100,000)

Opportunity: \$100,000 annually

Short-term annual savings: \$250,000 - \$500,000

Long-term: Some of these savings shift to wellness program savings over time

Estimated additional cost: \$12,000-\$20,000/year

Estimated start up cost: \$25,000/\$30,000

Estimated opportunity: Besides above cost-containment savings, additional rate reductions and cost-containment savings conservatively well over \$500,000 annually

SUMMARY OF KEY RECOMMENDATIONS (continued)

E. Management Pay Plan

Recommendations

- E. - Conduct a comprehensive review of MPP ultimately creating a program with merit increases for exempt employees
 - Eliminate comp time payout
 - Shift to 40 hour work week for exempt employees

\$ Impact (Costs)/Opportunities

Cost: (\$100,000)

Opportunity: \$417,000

Productivity opportunity: \$201,300

SUMMARY OF KEY RECOMMENDATIONS (continued)

F. Other Opportunities

<u>Recommendations</u>	<u>\$ Impact (Costs)/Opportunities</u>
F1. Execute a long-term planning process including capital, expense commitments, forecasting and revenue projections	Cost: (\$150,000) one time Opportunity: Effective utilization of available \$s. Cover capital needs.
F2. Execute an image building/promotion initiative for the City of DeKalb	Cost: (\$100,000 - \$150,000) Opportunity: Significant economic development opportunities. One deal more than returns investment.

**Prior EPI Strategic Financial Review
(May 2009)**

Summary of Key Recommendations

Level of Completion

SUMMARY OF KEY RECOMMENDATIONS

Short-Term

\$ Impact Costs/(Savings)

1. Wage Actions

1A. Based on the economic conditions, freeze wages for 1 year with a review every six months

(\$589,000) for 2010
Done

2. Organizational Efficiencies

2A. See attached (Chart A) for position and outsourcing recommendations

(1,430,000)
See Chart A

2B. Rethink senior management organizational structure (Chart B)

See Chart B

2C. Fully engage human resources as a business partner enhancing review of human resource implications in City decision-making

Done

CHART A SPECIFIC DEPARTMENTAL RECOMMENDATIONS ORGANIZATION COSTS/CAPACITY – BUDGETING FOR OUTCOMES

Department	Action	FTE Costs/ (Savings)	\$ Costs/ (Savings)	Rationale
Public Works	- Consolidate engineering services under Public Works - Done	-	(\$20,000)	- Increase director span of control - Engineering service head an assistant director level
	- Eliminate engineering aide - Done	(1)	(\$100,000)	- Original funding mechanism gone - Reengineer work processes to cover field coverage
	- Consolidate water and street operation's management/supervision – Not Done	(3)	(\$300,000)	- Increase spans of control – eliminate 1 assistant director – consolidate crew leaders from 9 on 15 to 7 on 15
	- Pursue outsourcing of vehicle maintenance – Not Done	(3)	(\$30,000)	- Non-core competency – best practice
	- Pursue outsourcing of building inspection/code enforcement – Done for Electrical Inspector	(5.5)	(\$50,000)	- Outsource variable demand non-core competency - Best practice
Fire	- Convert Captain's positions into firefighter positions – Not Done - Upgrade Lieutenant position responsibilities and pay – Not Done	-	(\$40,000)	- Eliminate 1 on 1 span of control - Reduce costs - Reduce OT with additional firefighters - Reduce hierarchical structure

CHART A SPECIFIC DEPARTMENTAL RECOMMENDATIONS ORGANIZATION COSTS/CAPACITY – BUDGETING FOR OUTCOMES (continued)

Department	Action	FTE Costs/ (Savings)	\$ Costs/ (Savings)	Rationale
Police	- Convert IT Sergeant to civilian and consider as part of outsourcing strategy – Not Done	-	(\$15,000)	- Non-City core competency
	- Eliminate Sergeant position in investigations – Not Done	(1)	(\$100,000)	- Eliminate 1 on 1 span of control
	- Convert 4 Corporal positions to Officers – Not Done – Made one Corporal into Commander	-	(\$25,000)	- Cost reduction yielding more Officers – reduce hierarchical structure
Administration	- Pursue outsourcing of IT and billing – Reduced staff by half	(8)	(\$150,000)	- Outsource non-core competency – best practice
	- Eliminate special projects coordinator position – Not Done – Reorganized as economic development coordinator	(1)	(\$100,000)	- Redevelop and consolidate work processes
	- Add 1 Chief Financial Officer - Done	1	\$160,000	- City needs competency for imperative strategic financial planning requirements
City Clerk	- Eliminate 1 FTE - Done	(1)	(\$100,000)	- Productivity benchmarking based on City size and processes

CHART A

SPECIFIC DEPARTMENTAL RECOMMENDATIONS

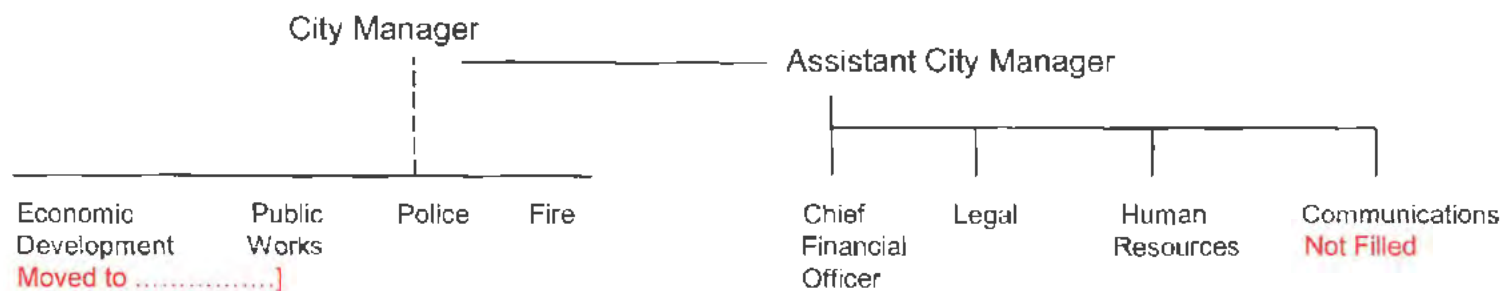
ORGANIZATION COSTS/CAPACITY – BUDGETING FOR OUTCOMES (continued)

Department	Action	FTE Costs/ (Savings)	\$ Costs/ (Savings)	Rationale
Economic Development	- Add 1 full time economic development director – Done – ED Consultant Hired	1	\$160,000	- Key strategic priority and focus
Communications	- New position – Not Done	1	\$100,000	- City needs focus and competency for imperative community relations and outreach
General	- Centralized purchasing – Not Done	1	(\$100,000)	- Best practices
	- Centralized clerical/admin – Done	(3)	(\$300,000)	- Best practices
	TOTALS:			
	Savings	(26.5)	(\$1,430,000)	
	Costs	<u>4.0</u>	<u>420,000</u>	
	Net	22.5	(\$1,010,000)	

CHART B

SUMMARY OF KEY RECOMMENDATIONS (continued)

Proposed Organizational Structure Senior Management



SUMMARY OF KEY RECOMMENDATIONS (continued)

Short-Term (continued)

\$ Impact Costs/(Savings)

3. Benefit Management

3A. Since the City is self-insured, acquire excess liability coverage to protect the City against unforeseen claims

Estimated additional
\$75,000-\$150,000
Done

3B. Eliminate the supplemental pay for non-sworn public safety and other employees receiving workers' compensation and allow them to supplement workmen's compensations temporary and total disability benefit pay of 66% with available sick leave

(Internal analysis needed)
Not Done

3C. Raise the level of % of health insurance premium contributed by employees -

(\$35,000/each 1%)
Done

3D. Consider changing existing health plan coverage to the following:

(Estimated \$100,000 -
\$150,000)
Done - EPI plan design

- Out of network coverage 80% to 70%
- Deductibles to \$500 single, \$1,000 single+one, \$1,500 family
- Out-of-pocket max \$750/\$1,000/\$1,500 to \$1,000/\$2,000/\$3,000
- Office visits from 10% to \$20 per (\$50 specialists)
- Limit the number of chiropractor visits/year and set a maximum
- Increase co-pays for formulating and branded drugs to \$35 and \$50, respectively
- Set a limit on number of visits to speech, occupational and physical therapists and set a maximum
- Educate employees in the Section 125 Plan on cost of health coverage and use of generic drugs
- Increase the maximum set-aside for employees so they may achieve pre-tax savings on incurred medical costs
- Discuss with provider to determine actual savings

SUMMARY OF KEY RECOMMENDATIONS (continued)

Short-Term (continued)

\$ Impact Costs/(Savings)

3. Benefit Management

- 3E. Eliminate the retiree health plan (reduce for existing retirees over time) - subject to legal review and negotiations with union contracts

(\$1,000,000/year
done immediately or
\$640,000/year over
five years
Partially Completed

4. Operational Efficiencies

- 4A. Although DeKalb already provides general fund services at lower cost than the benchmarked cities, EPI recommends a further review of core service levels and non-core services for elimination or fees for use (see revenue section of this document)

Not Done

- 4B. Centralized purchasing (see organizational efficiencies section)

See Chart A
**Hired Finance/Purchasing
Director**

- 4C. Centralized administrative support
(see organizational efficiencies section of this document)

See Chart A
Done

- 4D. Outsource IT, billing (**Reduced Staff**), vehicle maintenance and inspection (**Only Electrical Inspections**) (see organizational efficiencies section of this document)

See Chart A

SUMMARY OF KEY RECOMMENDATIONS (continued)

Short-Term (continued)

\$ Impact Costs/(Savings)

4. Operational Efficiencies

- | | |
|---|---------------------------------------|
| 4E. EPI also believes a lean process analysis would yield opportunities in key departments | No Progress |
| 4F. Develop a performance based appraisal process with pay for performance opportunities for all management and non-union employees | Status Quo |
| 4G. Develop a budget process based on specific service outcomes and priorities | Status Quo |
| 4H. Work to establish a culture of continuous improvement | Done |
| 4I. Develop a shareholder participation and collaboration process | Not Done |
| 4J. Make it a practice to do long-term financial forecasts with monthly updates | Done |
| 4K. EPI also recommends looking at shared service and purchasing opportunities with other governmental bodies | Done – joint purchasing program |
| 4L. Adopt new HR policies to reflect the changes recommended in this document | Done |
| 4M. Consider the creation of a fire district representing several communities | (Needs internal analysis)
Not Done |

SUMMARY OF KEY RECOMMENDATIONS (continued)

Short-Term (continued)

\$ Impact Costs/(Savings)

5. Financial Policies, Management and Systems

5A. Adopt a debt management policy

Done

5B. EPI recommends not making debt service payments from the general fund - use property taxes over the life of the capital items instead – use general obligation bonds to finance construction and property taxes to pay down the bonds over the life of the asset – DeKalb should not use any other short-term revenue sales tax, hotel tax, water surcharges to pay for building and long-term assets – some increase in property tax may be necessary –

(\$1,400,000 to General Fund Operating Budget)

Status Quo

5C. Update investment policies in accordance with GFOA standards – review on an annual basis

Done

5D. Obtain a line of credit of \$5M to manage cash flow needs – competitively bid the rate

Dependent upon use
Done

5E. Regarding OPEB plans: Review actuary assumptions, the funding formula, establish a trust for holding assets and adopt an investment policy for investing the assets – review types of investments allowed by law for an OPEB plan – determine if using best practices in the pension industry

Estimated \$4,000-\$6,000
Done

SUMMARY OF KEY RECOMMENDATIONS (continued)

Short-Term (continued)

\$ Impact Costs/(Savings)

5. Financial Policies, Management and Systems

5F. Adopt a risk management policy which sets limits on self-insurance retention

Done

5G. Set aside funds in a reserve account equal to the amount of self-insurance retention to cover future losses

Depends upon amount retained – suggest \$1,000,000-\$2,000,000 reserve

Done

5H. Consider a risk management audit

Estimated \$0 - \$25,000
Done as part of getting risk insurance

5I. Appoint two financial/investment experts to the police and fire pension boards

Status Quo

6. Infrastructure/Facilities and Equipment

6A. Put the police station on hold and develop a need and alternative study

Building police station

6B. Hire a space planner to evaluate the municipal building and annex

Estimated \$25,000
Done

6C. Develop a long-term infrastructure plan including building facilities and equipment

More work to be done

SUMMARY OF KEY RECOMMENDATIONS (continued)

Short-Term (continued)

\$ Impact Costs/(Savings)

6. Infrastructure/Facilities and Equipment

6D. Develop a system for evaluating ongoing infrastructure needs (i.e., criteria for evaluation, payback period, prioritization relative to other needs, etc.)

Not Done

6E. Consider issuing debt for longer periods than current 10 year practice - 15 – 20 years

(Debt spread over life of various assets)

Done

6F. Analyze the lease vs. buy option for vehicles

(Needs internal analysis)

Done – no longer lease

6G. Create a vehicle replacement fund and fund monthly – not, however, as capital outlay from the general fund. The water utility fund should pay for the costs of its own equipment, contributing to the vehicle maintenance fund – this requires a referendum

(Use real estate transfer tax to fund)

Done

6H. Evaluate the vehicle fleet, determine need for every vehicle and eliminate all vehicles with low usage – rent heavy equipment as needed – pay mileage or an allowance to employees that are currently assigned vehicles that are not required for emergency responses in lieu of purchasing and maintaining vehicles

(Needs internal analysis)

Done

SUMMARY OF KEY RECOMMENDATIONS (continued)

Short-Term (continued)

\$ Impact Costs/(Savings)

7. Organization Adds

7A. Chief Financial Officer (see organizational efficiencies section)	\$160,000 Done
7B. Economic Development Director (see organizational efficiencies section)	\$160,000 Done – outsourced consultant
7C. Communications Assistant Director (see organizational efficiencies section)	\$100,000 Not Done
7D. Purchasing Manager (see organizational efficiencies section)	See Chart A Combined with finance director

8. Revenue Sources

8A. Raise electric utility tax from 3% to 5%	(\$800,000-\$1,000,000) Done
8B. Adopt a real estate transfer tax of \$500 per \$1,000 of sale price – this should include commercial and industrial real estate	(\$500,000-\$750,000) Not Done - needs referendum
8C. Review and establish a policy regarding user fees for services including elimination and reduction of some services (core and non-core)	(Estimated \$100,000 – \$300,000) (very conservative) Not Done

SUMMARY OF KEY RECOMMENDATIONS (continued)

Short-Term (continued)

\$ Impact Costs/(Savings)

8. Revenue Sources

8D. Conduct future water rate studies using a qualified engineering consultant on a cost of service basis

(Costs offset by additional fee opportunities)

Not Done

8E. Motor fuel tax funds should not be transferred to the general fund except for actual engineering costs for maintenance projects – use MFT funds for maintenance of street and other infrastructure needs

(Use to build infrastructure fund)

Done

Long-Term

9. Funding

9A. Overtime, become less reliant on sales tax revenue while making property tax revenue a larger part of the general fund revenue

(Needs internal analysis)

Status Quo

SUMMARY OF KEY RECOMMENDATIONS (continued)

Long-Term (continued)

10. Fund, Risk and Debit Management

10A. Proactively approach reducing DeKalb's liability potential – have risk management report **ACM**

\$ Impact Costs/(Savings)

(Less liability exposure)
Done. Use risk control consultant

10B. Increase funding to police and fire pension plans to achieve 75% funded status within 10 years

Determined by actuary
In progress

10C. Consider joining a risk management pool

Needs internal analysis
Done. Chose excess liability coverage

10D. Work aggressively to improve DeKalb's bond rating - **Done**
- Increase size of general fund reserve to 15-25% - **In progress**

\$1,000,000 for 15% reserve; \$4,000,000 for 25% reserve

10E. Get financial house in order then consider increasing capacity for issuing more debt

Done - ongoing

10F. Develop a flood management plan and create a fund to manage costs over time

Needs internal analysis
In progress

SUMMARY OF KEY RECOMMENDATIONS (continued)

Long-Term (continued)

\$ Impact Costs/(Savings)

11. Contract Management

- | | |
|---|---|
| 11A. Conduct a comprehensive compensation comparison including all forms of benefits converted to cash earned per year | (Costs off-set by additional savings opportunities)
Not Done |
| 11B. Set a compensation policy and pay line | Status Quo |
| 11C. Regarding police and fire contract: | (Needs internal analysis) |
| - Increase number of steps to 7 or 8; increase spread evenly across steps, adjust pay to be competitive with total compensation | Fire yes; police no |
| - Review hours worked to comparables and adjust accordingly | Done |
| - Review benefit days (vacation, sick, disability, longevity pay, etc.) compare to comparables | Done |
| - Eliminate disability benefit for firefighters who have not reached 7 years vesting | Status Quo |
| - Offer disability insurance product for employees to purchase on their own for those not vested in pension plan | In progress |
| - Negotiate uniform contract lengths and expirations so DeKalb can more efficiently manage benefit provisions | In progress/ongoing |
| - Make plan designed for health and dental the same for all employees (police, fire, everyone else) | Finally done |
| - Adopt consistent premium basis either % of salary or % of premium | In progress |

SUMMARY OF KEY RECOMMENDATIONS (continued)

Long-Term (continued)

\$ Impact Costs/(Savings)

11. Contract Management

- 11D. Decrease the number of steps from minimum to maximum (now 12) for non-Union employees to 8 to coincide with union contracts

No progress

12. Pay and Benefit Management

- 12A. Regarding the pension plans, lobby state legislators to consider implementation of a defined contribution plan for all new local government employees (or other alternatives)
- 12B. Lobby state legislators for modifications in existing pension plans
- 12C. For senior management, benchmark salaries, vacation, sick time and compensatory benefits against comparable communities, then sort comp time policy and fair compensation - salary and benefits for senior management

Reduce cost from 25% to 40% of pay to a flat % of pay per employee
Done – joined pension reform group

Done – joined pension reform group

(Needs internal analysis)
Not Done

SUMMARY OF KEY RECOMMENDATIONS (continued)

Long-Term (continued)

\$ Impact Costs/(Savings)

13. Economic Development

13A. Focus on economic development of higher end housing and commercial development

In progress

13B. Begin formation of an airport authority

In progress

14. Revenue Source

14A. Consider other possible revenue sources

- Increase parking and police fines
- Increase ambulance fees
- Increase contractual fire services and/or fees
- Charge for leaf pick up
- Implement vehicle stickers and fee
- Consider student service fees

Done

Done

Done

Not Done

Not Done

Not Done

WHERE TO BEGIN

As this report indicates, there is much work to be done to create a stable financial future for the City of DeKalb. Having said that, this is quite doable. It will require leadership on the part of the Council and staff. Initially, it will require some sacrifice; however, over time, it will create real opportunity for all City of DeKalb stakeholders. The City has many assets which today are under utilized which, in the future, can help create the strategic vision identified in this report.

In thinking about all that needs to be accomplished, EPI recommends the following priorities as “where to begin”:

1. In this economic time, freeze employees wages for 1 year as the City is already considering.
Done
2. Stop the post retirement healthcare immediately for new retirees and phase out for existing retirees.
Done
3. Hire an Economic Development Director to create a proactive business-friendly economic development approach.
Done
- 4A. Hire a Chief Financial Officer to manage the financial circumstances of the City and help Council and staff with the financial implications of their decisions.
Done
- 4B. Hire a Purchasing Manager (reporting to the CFO) and centralize the purchasing function. Provide a savings target to be achieved or exceeded.
Done – combined with CFO

WHERE TO BEGIN (continued)

5. Raise the electric utility tax.
Done
6. Conduct a thorough services review identifying core and non-core services, services that can be eliminated, services where level of service can be reduced, and services where pay for service opportunities can be instituted.
Not Done
7. Implement the staff productivity, outsourcing, reorganizations, and reductions identified in the specific departmental recommendations chart – Chart A.
See pages 14-16
8. Purchase excess liability coverage to protect the City against unforeseen claims.
Done
9. Restructure the medical benefits as outlined in this report. Increase employee contributions to medical and pension plans.
Done
10. Over time (3-4 years), raise the tax levy slightly to manage general fund needs and restructure the union contracts to create consistency as outlined in this report.
Done

Leadership from the Council and staff will be required to drive, manage, and review the financial health and progress of the City of DeKalb.