

**MINUTES FROM THE PUBLIC HEARING OF THE ST. CHARLES CITY COUNCIL
HELD ON MONDAY, APRIL 7, 2014 – 6:55 P.M.
CITY COUNCIL CHAMBERS, IN THE CITY COUNCIL CHAMBERS
2 E. MAIN STREET ST. CHARLES, IL 60174**

1. Call To Order By Mayor Raymond Rogina At 8:16 P.M.

2. Roll Call.

Present: Stellato, Silkaitis, Payleitner, Lemke, Turner
Bancroft, Martin, Krieger, Bessner, Lewis

Absent: None

3. Public Hearing concerning passage of the Proposed Annual City Budget for Fiscal Year 2014/2015. A presentation of the budget will be given by Director of Finance Director Chris Minnick.

Chris Minnick

In accordance with State statute, a notice of this public hearing was posted in the Kane County Chronicle on March 25, 2014. The budget was made available as of that date. The Staff will bring forth a formal resolution for formal approval of the budget at the next City Council meeting on April 21, 2014. Briefly what I would like to do is walk you through a summary of our recent financial performance of the City. Also to provide a summary of the funds contained within the 2014/15 budget. Then we will zero in on the general fund and utilities funds and talk about the conditions and trends over the last few years. We will then discuss the significant capital projects and staffing proposals. I will discuss next steps in the process. Finally it would be appropriate to answer any questions that you or the public have.

When you consider the financial performance of the City over the last several fiscal years. Two words come to mind to describe our performance, strong and sustained or sustainable. When you think about our last completed fiscal year, 2012/2013 we had a 1.4 million dollar surplus in the confines of the general fund. Fiscal year 2013/2014 we are anticipating a small deficit, but the amount of the deficit will be nowhere near the amount of the surplus we experienced on year ago. Additionally in the utility funds we had operating income for the water and the electric for the fiscal year end of the 2012/13. That is the first time that has occurred in over 10 years. We are making progress and we continue to notice the utility fund performance improving. The time period over the last fiscal years has been marked by prudent and smart financial decisions. We have seen a period of declining and slowly recovering revenues. But we have been able to match our expenditure streams to those revenue streams thereby living within our means and making sure that our financial performance is sustainable. In fact the expenditure level for the general fund is for 2014/15, is approximately \$1 million below 2008 levels. Improving utility fund performance. We continue to implement the rate study that was done three years ago. And give the changes in the rate structure that we have enacted over the last few years, our utility rates remain the lowest in the Tri Cities. This graphic depicts the economic activity for all of the

funds; we have 28 funds, at the City. In fiscal year 2014/15 we are anticipating approximately \$144 million in revenue, approximately \$145.3 million in expenditures. This is very consistent with results we expect with the current fiscal year will be ending in the next three weeks. We have \$144.6 million projected for 2013/14 with approximately \$152 million in expenditures. I mentioned the concept of consistency, stable revenue and stable expenditures. Fiscal year 2012/13 appears to break that trend and the revenues and expenditures appear to be higher than the other two years depicted. Until you take into account that during 2012/13 we undertook a significant restructuring and refinancing of much of the debt with regards to the first street development. The impacts of that one time transaction are included in the totals reflected. It totaled about \$35 million. When you take the \$35 million out of those numbers you have revenues of about \$144 million and expenditures of approximately \$149 million, right inline with the activity in the forecast.

The general fund budget for 2014/15 is balanced. We are aiming to achieve that balance budget by no new taxes or tax increases proposed. We are maintaining our programs and services at the same levels. We are suggesting a couple of staffing changes. Even with changes proposed, and that we are not proposing any tax increases or new taxes, we will maintain our reserves well in excess of our 25% policy. And we do have a few changes to leaf and yard waste, which will be discussed.

This chart goes back over the last 10 years and shows some of the concepts discussed. You can see revenues and expenditures have a significant growth streak up until you get to FY 2008 where we peak. In 2009 it is the beginning of the recession and we see a significant drop in revenues. Concurrent with that, when we realize that revenue is dropping the City enters into a period sustained budget cuts, from 2008-2010 we cut about \$5 million dollars out of the general fund of the City. That is about an 11.5% reduction in the general fund. Those are real dollar savings that were removed from the expenditure stream. Then you can see in 2010, the recovery begins to take hold a little bit. Revenues and expenses kind of bounce around a little bit, but noting exceeding the \$40 million dollar mark. In 2013, the lines are on top of each other which shows we are in a balanced, break even budget situation. Until you get to 2013 where we experienced the \$1.4 million dollar surplus that I just talked about.

We are anticipating that we will break the \$40 million dollar budget barrier for 2014/15 primarily related to two factors: 1) income tax receipts from State of Illinois and 2) continue to look at rebound or our sales tax revenues over the last few months as Route 64 as reopened after the construction. We are projecting \$49.8 million in expenditures. We do have some reimbursements that we anticipate coming out of the TIF set asides that will result in a change in our reserve levels of about \$10,000 maintaining a fund balance of about \$14.5 million or 35% of our expenditure level. As you recall, we do have a policy that our reserve percentage has to be maintained at 25%. We are definitely maintaining that reserve level as we go through the 2014/15 budget.

Where does the revenue come from? It is pretty consistent with prior years. We get about 90% of our general fund from seven sources. Property taxes and sales taxes account for about two thirds of the revenue of the general fund with the remaining third made up by the electric

franchise fee, telecommunications tax, income tax receipts from State of Illinois, hotel tax revenue and alcohol tax revenue. Those seven sources make up 90% of general fund. The other 100 line items in the general fund make up the other 10%. Where does the money go? About two thirds of our revenue for the City goes to public health and safety, fire and police, or public works expenditures. These are the most visible types of services that a general government will offer to its citizens. This tends to be the bulk of expenditures go. Another 6.6% goes to community and economic development, 7.8% funds general government, about 15% gets transferred other funds (capital projects and debt service related to the bonds). Speaking of capital improvements, we do have some improvements budgeted for 2014/15. Related to general infrastructure, about \$3.4 million projects, primarily the municipal center parking lot improvements; also resurfacing of Tyler Road from Route 64 to Kirk road; and the annual street resurfacing program, primarily funded by motor vehicle tax revenues that we receive from the State of Illinois by law we must expend those revenues on street maintenance expenditures. We are anticipating approximately \$630,000 in grant money for the parking lot and Tyler Road.

Regarding the leaf and yard waste program. Currently Kramer Tree Service provides these services for the community and have done so for several years. And the contract with them is due to expire and renewal in 2104/15. We have indicated and requested quotes from Kramer Tree Service. We anticipate that our service levels will be three leaf pickups and seven brush pick ups. We anticipate that annual charge will be roughly \$50/year. This is a \$.74 increase in the monthly charges. Even with this increase we do have the lowest costs in the Tri City area. A more detailed presentation and the contract renewal process will be presented at the April 28th government services committee.

Any questions regarding the general fund?

Some of the trends we have seen recently, we have had some ongoing challenges with the utilities with regards to financial performance. In the past we have had revenues not match projections and have not matched expenditure streams in the amount of revenues or timing of revenues. We have had some cash flow issues primarily related to the rate structure of the electric fund specifically. We have also seen some periods of time with declining consumption levels. These factors combined have created some operating deficits as we have gone forward. Even with the changes with the by market driven wholesale power cost contract and the federal and state mandated improvements we have had to make in the water and waste water utilities, there are those areas where the City can control the cost. We have controlled the cost and they have remained stable over time. Another quick look back, the trends are somewhat similar yet different. In 2004 and 2007 it's a bit mixed in terms of financial performance with periods of deficits and surpluses. In 2007 and 2008 there is a big gap between revenues and expenditures. There are primarily two factors that account for this. First, the expiration of the wholesale power purchase contract with Commonwealth Edison. This was a fixed rate contract that expired in the 2006/2007 timeframe. We went to a market base contract, which drove up expenses within the electric utility and at the same time we saw consumption levels declining and decreasing the revenues due to economic issues at that time. We then see a similar phenomenon that we saw in the general fund that is the recovery starts around 2010 and the City, also, entered into the rate study in 2010. And we start to incorporate those recommendations, you notice the gap narrows

significantly until you get to 2013 when we had a slight operating surplus I spoke of previously. One thing to keep in mind with that performance in 2012/2013 was generally weather related. The summer of 2012 was a very hot and dry summer. The water and electric fund benefited significantly from the extra air conditioning that people did that year along with additional water and irrigation. Current trends, we did have that one time infusion in 2012/13, but we are seeing some deficits occurring. The wastewater funds are using their reserve to cover their shortfalls. The electric fund reserves continue in the negative position and will be subsidized by the general fund. The utility funds challenge us a little but some progress is being made. The deficits that we are projecting in the next couple fiscal years are narrowing because of adjustments to rate structures over the past fiscal years. Projections show if we maintain that current plan, as recommended in the rate study, we will return to sustainability in all three utilities within 2-4 years and positive reserves coming to the electric fund a year or two after that. This chart shows the combined operation of the utility funds. We are expecting approximately \$80.2 million in revenue that is a slight increase over the \$79.5 million in projected revenue for 2013/2014. We are expecting that expenditures will decline to about \$80.8 million. The \$86.1 million is a bit misleading; it has a significant capital project that is the bio solids building that is being paid for out of the waste water utility. So we do anticipate seeing small deficits in each of the utilities accumulating to about \$500,000 with a combined reserve level of about \$1.6 million to the negative in 2014/2015. However I will state our projections for the 2-4 year time frame show utilities will be back to a more sustainable position. In terms of rate structure changes in terms of the utilities, for 2014/2015, in terms of the residential electric rate, we anticipate that the monthly charge will change to \$15/month. We are looking at the non-summer rate to be 10.5 cents per kilowatt-hour with the summer rate to be 11.1 cents per kilowatt-hour. If you recall we discussed the cash flow issues, timing of revenue, timing of expenditures, one concept that was in the rate study, was the wide disparity between the summer and non-summer rates. One concept was to merge up and combine those rates so that we have one year round electric rate for residential customers. Then you can see we are proposing some changes to monthly charge for water and sewer along with consumption and treatment charges for water and sewer. However, even with the charges we have contemplated and reflected above, the City of St. Charles has the lowest annual utility charges of the Tri City area. Our charges are approximately \$2,227, which is about \$110 less than Batavia and little more than \$100 less than in Geneva, about \$50 different from Com Ed. The City of Naperville is a little bit cheaper in terms of annual charges, but if you have read the papers recently, they are entering a period of electric rate increases as well. This graph breaks out the individual components of electrical, water and wastewater.

We also have some capital improvements planned within the utilities. We are anticipating using the Illinois environmental protection agency's low interest loan program as we have had in the past. To assist with finance and construction of water tower number 3. A section of water main along 5th Avenue that is prone to breakage and leaks will be fixed in 2014/15. In terms of the electrical utility, we anticipate that we will have some circuit improvements at Kirk Road and Route 64, that has been described as creating some alternate routes to allow electricity flow this will enhance service levels in that area. Also anticipating the beginning of a long-term project called Substation 9 taking on the initial site preparation at Legacy Park to allow that substation to be constructed.

Some of the staffing changes proposed in the budget will represent all the funds, not utilities.

The overall staffing level of the City will increase about 2.1 full-time equivalent employees. We do propose the addition of one new police officer. Also we propose a part-time GIS technician. This was formally a contract position. In addition, we propose 2.1 full-time equivalent senior and summer interns. This labor pool is a very cost effective alternative. Some projects would be in public works and human resources. This method also allows us to evaluate if that level of staffing is required. We are also proposing the reduction of 1.5 full time equivalent positions through attrition. Currently we have three part time positions that are not filled. We have determined through staffing evaluations that those positions are no longer necessary and should be removed from the budget.

The concept of strong and sustained financial performance has been demonstrated by the City over the last fiscal years. In spite of the recovery and the pace of the recovery we have been able to continue to live within our means and match expenditure levels to our revenue streams making those prudent financial decisions keeping our expenditures levels low and improving our utility fund performance. We have continued to implement the recommendations of the rate study. We also have been able to maintain our utility rates as the lowest levels in the Tri Cities.

Next steps, we will be asking for formal budget approval via a resolution at the next City Council meeting on April 21. We will present the utility rate change ordinances and the leaf and brush contract on April 28. The fiscal year begins May 1. The utility rate changes will be effective after June 1. Any questions?

Alder. Stellato

Great job Chris. Is this PowerPoint available online?

Chris Minnick

Will be posted tomorrow.

Alder. Lewis

Great job.

No comments to City Clerk.

Mayor Rogina

Thanks Chris.

F. Adjournment

Motion By Stellato, seconded by Silkaitis, to adjourn meeting \

VOICE VOTE

UNANIMOUS

MOTION CARRIED

Meeting adjourned at 8:45 P.M.

Nancy Garrison, City Clerk

CERTIFIED TO BE A TRUE COPY OF ORIGINAL

Nancy Garrison, City Clerk