

City of St. Charles, Illinois

Popular Annual Financial Report

Fiscal Year Ended April 30, 2023



CITY OF
ST. CHARLES
ILLINOIS • 1834

A Message from the Mayor

To the Residents and Businesses of St. Charles:

I am pleased to present the 2023 Popular Annual Financial Report for the City of St. Charles for the fiscal year ended April 30, 2023.

The City of St. Charles has a proud tradition of responsible financial stewardship under the direction of our City Council. This report was produced to make City finances clear and understandable. We believe promoting transparency of the City's financial information is good government and promotes accountability to the citizens we serve.

This Popular Annual Financial Report is an abbreviated version of the lengthier Annual Comprehensive Financial Report with a focus on the General Fund and major utility funds. Both reports have consistently received Certificates of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association.

Inside, you will find information about the City's finances clearly summarized. This report also illustrates how resources are allocated to provide the citizens of St. Charles with professional, reliable services, and a well-maintained infrastructure. You are entitled to this information and I believe we all benefit when our residents and businesses have a greater understanding of how their government operates.

All of our financial documents are available on the City website. I invite you to contact me or our Director of Finance, Bill Hannah, if you have any questions about the City's finances.

Sincerely,

Lora A. Vitek
Mayor

Table of Contents

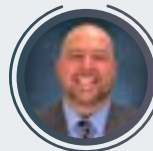
02	A Message from the Mayor	10	Electric Fund
03	Government Organization	12	Sewer Fund
04	City Profile	14	Water Fund
05	City Initiatives	16	Revenue Trends
07	Fiscal Condition	18	Debt Status
08	General Fund	19	About the PAFR

City of St. Charles Government Organization

Mayor and City Council



Lora Vitek
Mayor



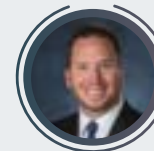
Bill Kalamaris
Alderperson Ward 1



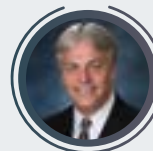
Ronald Silkaitis
Alderperson Ward 1



Rita Anne Payleitner
Alderperson Ward 2



Ryan Bongard
Alderperson Ward 2



Todd Bancroft
Alderperson Ward 3



Paul D. Lencioni
Alderperson Ward 3



Bryan Wirball
Alderperson Ward 4



David A. Pietryla
Alderperson Ward 4



Ed Bessner
Alderperson Ward 5

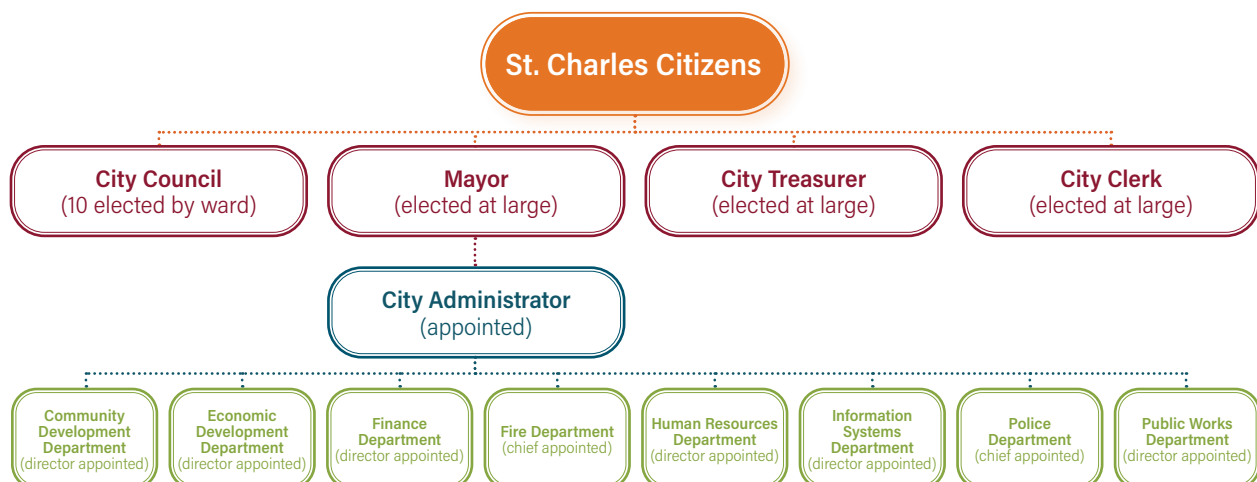


Steve Weber
Alderperson Ward 5

St. Charles has an Aldermanic-City form of government, which consists of 10 Alderpersons, a Mayor and a City Administrator. The Alderpersons and Mayor are elected officials who serve four-year terms on the City Council. The City of St. Charles is divided into five wards. Two Alderpersons from each ward are elected to represent their ward on the City Council and serve staggered terms. The City Clerk and City Treasurer are elected at large. The City Clerk and City Treasurer are elected at large.

The City Council is responsible for establishing policy, passing ordinances, adopting the budget, and appointing the City Administrator and department directors. Other offices and vacancies are filled by appointment by the mayor, with the advice and consent of the City Council.

The City Administrator is responsible for carrying out the policies and ordinances of the City Council and overseeing the day-to-day operations of the City. City services are provided by nine City departments: Administration, Community Development, Economic Development, Finance, Fire, Human Resources, Information Systems, Police, and Public Works.



City Profile

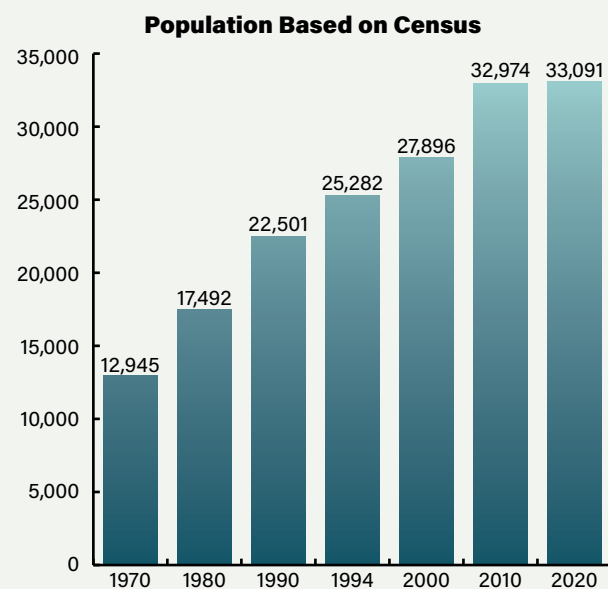
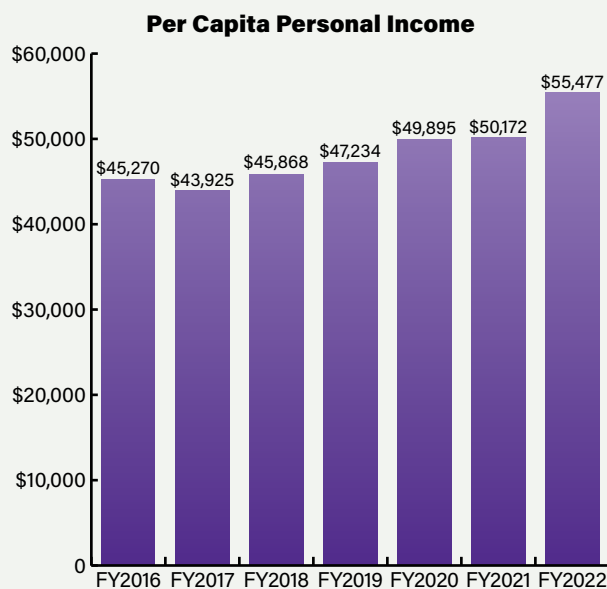
The City, incorporated as a town in 1853 and as a City in 1874, is located approximately thirty-four miles west of Chicago with a land area of about 16.4 square miles. The City became a Home Rule community in 1995 due to a special census count conducted in 1994, which resulted in a population count of 25,282. As a result of its Home Rule

status, the City has greater local authority to regulate and finance its operations. As of April 1, 2020, the U.S. Bureau of the Census estimates the City's population at 33,091. There are approximately 275 full time equivalent employees that work for the City of St. Charles including 47 full-time sworn firefighters and 60 full-time sworn police officers.

Top Five Principal Employers	# Of Employees
St. Charles Community Unit School District 303	2,145
RR Donnelley & Sons	795
Smithfield Foods	520
Jewel/Osco (2 locations)	400
Coca-Cola Bottling Company	300

US Census Bureau, 2020 ACS 5-Year Estimates	
Median Home Value	\$317,400
Median Age	41.3

Principal Property Tax Payers	Taxable Assessed Value
Legia St. Charles Associates LLC	26,619,537
Prairie Winds LLC	19,664,876
Q-Center LLC	16,061,177
AMVF St Charles LLC	9,203,540
Axiom St. Charles LLC	8,142,535
RMG Fox Run LLC	7,482,482
FLT Park Shore LLC	7,266,640
8895 McThurstan Court LLC	6,519,045
4515 Marlowe LLC	6,315,463
Smithfield Packaged Meats Corp	5,953,590





City Initiatives

There were a number of major initiatives that began, continued or were completed during Fiscal 2023. While all city departments put forth considerable effort, the accomplishments of a select few are provided below.

City Council and Administration

In FY 2023, City Council and staff completed the formation and adoption of a new Strategic Plan to guide the City's overall direction for the next five years. The development of the plan involved discussions and information gathering from the City Council, Department Directors, City employees, community stakeholders, and nonprofit organizations as well as public input from the residential and business community. The process resulted in four Strategic Priorities consisting of (1) Balanced and Thoughtful Development; (2) Community Engagement; (3) Organizational Resiliency and (4) Financial Wellness. Review the Strategic Plan here: <https://www.stcharlesil.gov/projects/strategic-plan>.

During the FY 2023-24 budget process, the City identified the need to establish a new, ongoing revenue source in order to fund improvements to roads and related infrastructure. After considering many options, the City unanimously approved an increase in the City's local home sales tax from 1.0% to 1.5% which took effect on July 1, 2023. During the approval process, the City formally committed that the additional revenue generated by this increase fund improvements to the City's "road and pedestrian network system, including but not limited to right-of-way improvements and related infrastructure." It is estimated that the increase will provide \$4.4 million in annual revenues and allow the City to fund capital improvements with ongoing revenue sources and reduce the need to issue general obligation bonds in future years. Implementing a sales tax increase to fund infrastructure improvements spreads the cost amongst non-residents as well as residents.

Economic Development

The Economic Development Department facilitated the attraction of large developments, such as Whole Foods, Pheasant Run Industrial Park, and the KIA car dealership, as well as nurturing the growth of smaller businesses like Hunt House, Brown Butter, and Dimple Donuts. Other efforts include the issuance of four building improvement grants, the establishment of the Pheasant Run Tax Increment Financing (TIF) district, and providing leadership during the crafting of the City's Strategic Plan. Furthermore, the department fostered relationships with numerous existing businesses creating the business visit program. Staff also acted as liaisons and provided support to both the Business Alliance and Chamber of Commerce. In addition to these roles, staff expanded their reach by establishing connections and building relationships with numerous prospective businesses, developers, and brokers.

Community Development

The Community Development Department oversaw final approval, site work and permitting for a number of large-scale projects on the east side of the City, including: Springs at St. Charles (320 multi-family units); Charlestowne Lakes (105 townhomes and 62 duplex units); and Pheasant Run Industrial Park (1+ million square feet of industrial space). River East Lofts, a new downtown mixed-use redevelopment with 42 rental units, received approval for the planned unit development. Permits and inspections continued with the buildout of Prairie Centre on the west side, with multiple buildings totaling more than 200 units under various stages of construction.

Information Systems Department

During FY 2023, the Information Systems Department initiated the design and development of a new City website, a utility billing customer portal and an online municipal code management system. In addition, the Department partnered with the Finance and Meter Departments to begin the implementation of a new utility billing and customer information system.

Human Resources Department

Conscious of employee and citizen concerns about equity and inclusion, Human Resources partnered with a consultant to conduct an equity and inclusion needs assessment, as workplace diversity is a key differentiator in talent acquisition. Tight labor markets continue to stress City service delivery. Aiming to meet the sustained demand for local government employees, Human Resources is in its third year of

partnership with School District 303, Compass Academy, and Fox Valley Career Center, hosting job shadows for St. Charles North and East students; ushering 73 students through 124 job shadows in the last two years. Human Resources also partnered with Police, Fire, Tri-Com Central Dispatch, and Public Works Water/Wastewater Division helping Compass Academy develop classes geared towards teaching students about those professions. Human Resources was responsible for recruiting 56 new employees in calendar year 2022, with application numbers exceeding the national average. There were 15 internal promotions in 2022 and the City achieved an employee turnover rate of 13.69% compared with 21% nationally in municipal government. Work in FY 2023, was focused on evaluating current and future service demands and then recruiting talent and developing staffing structures to meet those demands. As part of this effort, Human Resources partnered with a consultant to conduct an engineering staffing study focused on establishing a staffing structure in Community Development that enhances services and better supports Public Works.



Fiscal Condition

Net position over time may serve as a useful indicator of a government's financial position. In the case of the City of St. Charles, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$282.7 million at the close of FY 2023. The City uses a Statement of Net Position to demonstrate condition based on the year's financial activities. The statement distinguishes governmental activities (general government, public safety, highways & streets, and economic development) from business-type activities (e.g. electric, sewer, water). The following table reflects the condensed Statement of Net Position with a comparison to FY 2022.

Net Position

At \$230.3 million, the largest portion of the City's net position is its investment in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment); less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future

spending. The next component of the City's net position is restricted net position in the amount of \$7.2 million.

Restricted net position represents resources that are subject to use constraints, such as for Highways and Streets and Debt Service.

At April 30, 2023 the City's combined unrestricted net position was \$45.2 million. For business-type activities, the City reported a positive balance of \$60.5 million in unrestricted net position. The deficit net position for governmental activities of \$15.3 million is the result of the net pension liabilities and related activity for the City's Police, Firefighter and Municipal Employee Pension Funds. The implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, in FY 2016, requires the recognition of future net pension obligations. As of April 30, 2023, the Governmental Funds unrestricted net position reflects net pension liabilities totaling \$82.9 million and deferred outflows of resources amounting to \$20.3 million. Prior to FY 2016, the City's obligations to the pension funds did not impact the City's Statement of Net Position.

Statement of Net Position As of April 30, 2023 and 2022 (in millions)

	Government Activities		Business-Type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
ASSETS						
Current and Other Assets	\$92.2	\$93.0	\$86.7	\$73.7	\$178.9	\$166.7
Capital Assets	189.6	190.2	205.5	186.0	395.1	376.2
Total Assets	281.8	283.2	292.2	259.7	574.0	542.9
Deferred Outflows of Resources	22.8	16.2	4.1	1.2	26.9	17.4
Total Assests and Deferred Outflows of Resources	304.6	299.4	296.3	260.9	600.9	560.3
LIABILITIES						
Current and Other Liabilities	7.4	8.5	19.3	10.5	26.7	19.0
Long-Term Liabilities	172.1	164.7	98.2	80.2	270.3	244.9
Total Liabilities	179.5	173.2	117.5	90.7	297.0	263.9
Deferred Inflows of Resources	20.1	28.3	1.1	5.3	21.2	33.6
Total Liabilities and Deferred Inflows of Resources	199.6	201.5	118.6	96.0	318.2	297.5
NET POSITION						
Net Investment in Capital Assets	113.1	109.9	117.2	116.7	230.3	226.6
Restricted	7.2	8.0	-	-	7.2	8.0
Unrestricted	(15.3)	(20.0)	60.5	48.2	45.2	28.2
Total Net Position	\$105.0	\$97.9	\$177.7	\$164.9	\$282.7	\$262.8

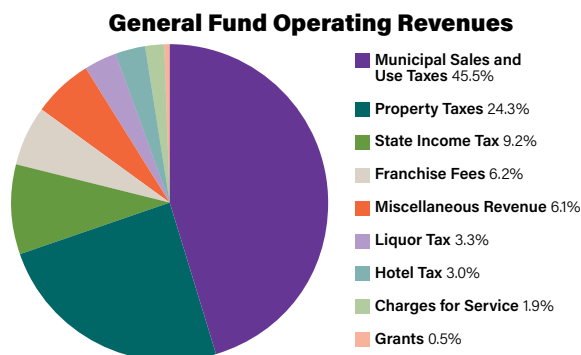
General Fund

The General Fund is the primary operating fund of the City and accounts for resources used to support core municipal services including police and fire protection, public works and community and economic development. In addition, general government services such as administrative and financial services, information technology, human resources, the City Administrator's office and communications are funded primarily through the general fund.

Revenue Trends

Significant sources of General Fund revenue include property, sales, income, hotel, and alcohol taxes as well as franchise fees. Charges for services, license and permit fees, fines, investment income, local fuel taxes, grant and other miscellaneous revenues also provide the General Fund with income. In total, FY 2023 General Fund revenue grew by approximately \$5,255,100 when compared to the previous year.

Municipal sales and use taxes are the largest source of revenue in the General Fund and continue to trend upward. In FY 2023, sales and use taxes surpassed the prior year by \$2,500,500 or 10.5%. This increase was due to strong retail activity, new businesses and the effects of inflation on retail prices over the prior year. Higher than anticipated growth in corporate profits and employee compensation increased income tax receipts by \$592,200 in FY 2023. Property tax collections were \$622,000 more than the previous year as a result of a 4.9% increase in the City's 2021 tax levy. The strong desire for travel and dining out resulted in hotel and liquor tax revenues outpacing FY 2022 by \$223,600 and \$139,000, respectively. Miscellaneous revenues were \$1,422,000 greater year over year due to development activity which increased building permit fees and rising interest rates which generated additional investment earnings. A reduction in special event charges reduced overall service charges in FY 2023.

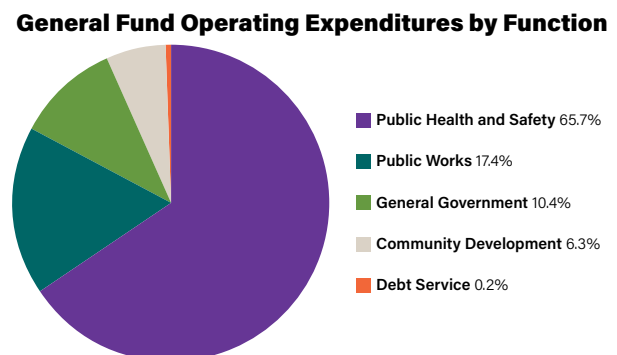


Operating Expense Trends

The single largest expenditure in the General Fund is personnel services. During FY 2023 employee compensation and benefit expenditures grew \$1,051,500 or 3.0%. The increase is attributable to annual cost of living, merit and pay grade increases. A larger quantity of snow and ice removal chemicals were purchased in FY 2023 which caused material and supply expenditures to grow. Also, the rise in gasoline prices resulted in higher fuel costs year over year. In FY 2023, a local auto dealership began receiving sales tax rebates which contributed to increased contractual service expenditures. Other Operating expenditures were higher because the annual funding for vehicle replacements was increased by \$750,000, from \$1,425,800 to \$2,175,800. In past years the funding for this program had been reduced as a cost saving measure so the additional funding strengthens reserve levels.

Other Financing Sources and Uses

In FY 2023, a \$2.4 million transfer-in from the Health Insurance fund to the General fund was made to return previously contributed premium payments. As a result of transitioning the City's health insurance to the Intergovernmental Personnel Benefit Cooperative (IPBC), this fund was closed and the accumulated reserves distributed back to the contributing funds. Also, the Water and Sewer funds returned a total of \$894,750 to the General fund as repayment for reimbursements made to pay infrastructure costs related to an auto dealership expansion. Transfers-out were \$4.0 greater in FY 2023 than FY 2022. A \$3.8 million transfer was made to the First Street Plaza Fund to subsidize phase 2 of the plaza expansion project.



Fund Balance

In FY 2023, total fund balance increased \$1,784.9 million to \$33,641.8 million. The City has established a policy of maintaining a minimum of 25% of the amount of General Fund expenditures and transfers-out in unassigned fund balance. This level of fund balance provides the capacity to 1) offset unexpected economic downturns; 2) offset a loss of a major sales tax contributor; 3) offset negative fiscal changes

due to legislative actions; 4) provide sufficient cash flow for daily financial needs; and 5) provide a funding source for unanticipated expenditures or emergency purchases. As of April 30, 2023, the unassigned portion of fund balance was \$27,456.8 million or 46.1 percent of total General Fund expenditures and transfers-out.

Statement of Revenues, Expenditures, and Changes in Fund Balance

GENERAL FUND	FY 2023	FY 2022	FY 2021
REVENUES			
Property Taxes	\$14,070.1	\$13,448.1	\$13,139.9
Municipal Sales and Use Taxes	26,410.6	23,910.1	20,055.8
Franchise Fees	3,580.4	3,607.5	3,516.3
State Income Tax	5,345.2	4,753.0	3,780.1
Hotel Tax	1,723.4	1,499.8	510.3
Alcohol Tax	1,933.5	1,794.5	1,603.3
Charges for Service	1,111.2	1,258.7	1,051.6
Grants	274.5	343.9	2,291.1
Miscellaneous Revenue	3,558.2	2,136.2	2,437.7
TOTAL REVENUES	\$58,006.9	\$52,751.8	\$48,386.0
EXPENDITURES			
Personnel Services	35,746.0	34,694.5	33,000.5
Materials and Supplies	1,606.2	1,339.2	1,545.5
Contractual Services	10,175.1	9,719.6	9,435.4
Other Operating	2,599.8	1,828.7	352.8
Allocated Costs to Other Funds	(5,877.2)	(5,877.2)	(5,082.6)
TOTAL EXPENDITURES	\$44,249.9	\$41,704.8	\$39,251.7
Excess Of Revenues Over Expenditures	\$13,757.0	\$11,047.0	\$9,134.4
OTHER FINANCING SOURCES (USES)			
Proceeds from the Sale of Capital Assets	0.5	3.0	-
Transfers In	3,292.6	1,876.8	659.1
Transfers (Out)*	(15,265.2)	(11,222.3)	(6,772.1)
TOTAL OTHER FINANCING SOURCES (USES)	\$(11,972.1)	\$(9,342.5)	\$(6,113.0)
NET CHANGE IN FUND BALANCES	\$1,784.9	\$1,704.5	\$3,021.4
Net Position, May 1	31,856.9	30,152.4	27,131.0
NET POSITION, APRIL 30	\$33,641.8	\$31,856.9	\$30,152.4
GENERAL FUND BALANCE			
Nonspendable	\$3,154.8	\$3,947.9	\$4,518.4
Restricted	30.2	38.5	24.5
Assigned	3,000.0	3,000.0	6,379.2
Unassigned	27,456.8	24,870.6	19,230.2
TOTAL FUND BALANCE	\$33,641.8	\$31,856.9	\$30,152.4

* Transfers out are comprised of debt service, capital outlay, and the reimbursement of services provided by other funds. These transactions are accounted for and tracked in another fund of the City. The revenue in the General Fund supports these expenditures and therefore transfers money to these funds to cover costs.

Electric Fund

The City of St. Charles has owned and operated its own electric utility since 1892. This fund is the largest of the City's four proprietary funds in terms of revenue generation. Proprietary funds are intended to be fully self-supporting, receive no tax support, and operate exclusively on the revenue generated from the rates paid by customers. The fees charged should support the cost of operating the utility as well as the maintenance and capital improvements that must be undertaken to ensure the stability of the system.

The electric utility distributes power to approximately 16,300 residential, commercial and municipal customers. The City purchases energy from the Illinois Municipal Electric Association (IMEA). The ability to ensure a long-term and stable power supply prompted the City to execute a power purchase agreement with IMEA that remains in force until 2035.

Revenue Trends

Approximately 98% of the revenue in the Electric Fund is derived from the sale of power as well as user fees. The remaining 2% is comprised of expense reimbursements for work performed by the electric division, administrative fees and other miscellaneous income. The Electric utility's rate structure has remained unchanged for the past four fiscal years. The 1.0% decline in service revenue was due to a decrease in the total number of kilowatt hours billed as compared to the previous year. In FY 2023, rising interest rates and larger cash reserves resulted in \$634,000 of additional investment earnings.

Operating Expense Trends

In FY 2023, a new methodology for determining the cost of an electric asset was implemented. This approach eliminated the application of certain operating and maintenance charges (overhead) to the cost of a capitalized asset. The overhead component was comprised mostly of indirect wages and benefits, contractual services and department allocations. In general, this change in methodology reduced the cost of the asset and in turn increased operating expenses.

Personnel services in the Electric fund increased \$1.4 million in FY 2023 for two reasons. The elimination of overhead charges when calculating asset cost contributed to this escalation. Also, IMRF pension expense rose considerably as a result of lower than planned investment returns.

In total, contractual service expenses declined \$327,000 year over year. The single largest expense in the Electric Fund is the cost to purchase power which is included in this expense category. The cost of wholesale power declined \$1.1 million because a fewer number of kilowatt (kWh) hours were purchased in FY 2023. The reduction in power cost was offset as a result of the new asset costing methodology which significantly reduced the amount of contractual services which were capitalized as part of an asset.

Capital additions and improvements to the electric distribution system are ongoing and increase the amount of the fund's depreciable assets causing a rise in depreciation expense. As shown in the table below, the Electric Fund's net capital assets have declined year over year because the annual charge for depreciation expense outpaced the amount of new assets capitalized.

Net Transfers

In FY 2023, approximately \$310,000 was transferred from the Health Insurance fund to the Electric fund to return previously contributed premium payments. This generated the increase in transfers year over year.

Net Position

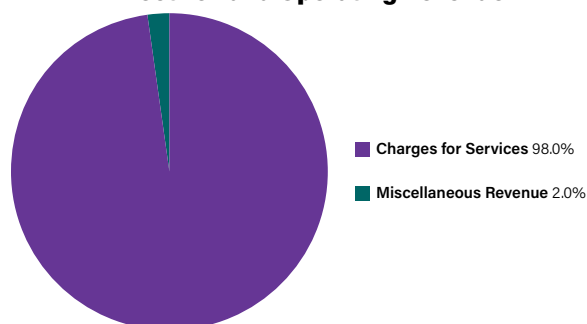
Net position may serve as a useful indicator of the funds financial position. The largest portion of the Electric Fund's net position is its net investment in capital assets (e.g., land, infrastructure, buildings machinery, and equipment) which declined \$1.9 million compared to the previous year. The unrestricted share of net position grew \$8.9 million in FY 2023 and is available for funding future infrastructure and capital projects. The trend of the Electric Fund's net position indicates growth in financial strength.

ELECTRIC FUND OPERATING INDICATORS	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Average Number Monthly Customers Billed	15,866	15,983	16,110	16,228	16,274
Billed Kilowatt Hours	523,955,799	497,320,225	479,368,454	499,747,360	485,818,063
Capital Assets (net of depreciation)	\$72,669,942	\$74,133,605	\$75,224,428	\$78,188,933	\$76,510,172

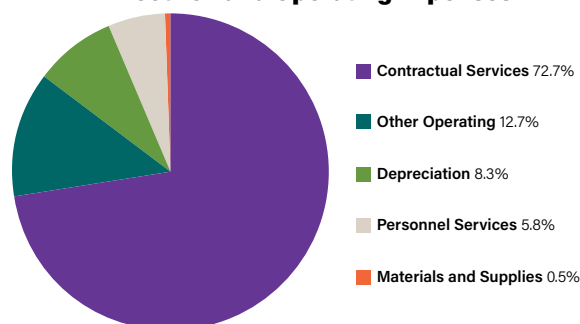
Statement of Revenues, Expenses, and Changes in Net Position

ELECTRIC FUND	FY 2023	FY 2022	FY 2021
OPERATING REVENUES			
Charges for Services	\$60,894,382	\$61,546,986	\$59,864,958
Miscellaneous Revenue	1,217,896	1,139,772	488,637
TOTAL OPERATING REVENUES	\$62,112,278	\$62,686,758	\$60,353,595
OPERATING EXPENSES			
Personnel Services	3,267,177	1,839,377	1,880,133
Materials and Supplies	266,886	279,882	218,417
Contractual Services	40,705,390	41,032,270	42,211,333
Other Operating	7,139,034	7,072,007	6,290,811
Depreciation	4,632,147	4,427,107	4,258,594
TOTAL OPERATING EXPENSES	\$56,010,634	\$54,650,643	\$54,859,288
OPERATING INCOME (LOSS)	\$6,101,644	\$8,036,115	\$5,494,307
NON-OPERATING REVENUE (EXPENSES)			
Investment Income	688,178	54,023	81,561
Rental Income	25,046	15,000	15,000
Gain (Loss) on Sale of Fixed Assets	52,784	55,025	(15,689)
Interest Expense	(277,965)	(325,212)	(370,846)
Pole Rental	52,556	55,591	53,108
Other Income (Expense)	135,502	89,653	84,995
TOTAL NON-OPERATING REVENUE (EXPENSES)	\$676,101	\$(55,920)	\$(151,871)
NET INCOME (LOSS) BEFORE TRANSFERS, CAPITAL GRANTS, AND CONTRIBUTIONS	\$6,777,745	\$7,980,195	\$5,342,436
TRANSFERS, NET	279,685	(10,773)	(116,774)
CAPITAL GRANTS AND CONTRIBUTIONS	-	-	-
CHANGE IN NET POSITION	\$7,057,430	\$7,969,422	\$5,225,662
Net Position, May 1	102,024,415	94,054,993	88,829,331
Change in Accounting Principle	-	-	-
NET POSITION, APRIL 30	\$109,081,845	\$102,024,415	\$94,054,993
ELECTRIC FUND NET POSITION			
Net Investment in Capital Assets	\$67,064,709	\$68,935,034	\$66,674,298
Unrestricted	42,017,136	33,089,381	27,380,695
TOTAL NET POSITION	\$109,081,845	\$102,024,415	\$94,054,993

Electric Fund Operating Revenue



Electric Fund Operating Expenses



Sewer Fund

In terms of revenue generation, the Sewer Fund is the second largest of the City's proprietary funds. The City of St. Charles's Wastewater Treatment Division is responsible for ensuring that all wastewater produced by City residents is properly treated and disinfected prior to its return to the environment. The sewer system is comprised of fourteen intermediate pumping stations, two wastewater treatment facilities and approximately 353 miles of sanitary and storm sewers. Both treatment facilities were designed and built according to the standards established by the Illinois Environmental Protection Agency (IEPA) and are capable of treating up to 19.4 million gallons of wastewater daily.

Revenue Trends

Sewer user charge revenue is comprised of a usage component and a fixed monthly charge. Nearly 100% of the revenue in the Sewer Fund is derived from usage and service charges. Reimbursements for work performed by the wastewater division and customer account administrative fees are also collected but account for less than 1% of operating revenue. There was a 4.9% increase in service charges in FY 2023 as compared to FY 2022. This growth is due to the 5.0% rate increase that was implemented with the June 2022 billings. Investment income grew \$288,000 year over year due to rising interest rates.

Operating Expense Trends

Personnel service expense is comprised of the wages and employee benefits of staff responsible for operating and maintaining the wastewater treatment system. FY 2023 personnel costs grew by \$354,000. This is attributable to IMRF pension expenses which increased significantly as a result of lower than planned investment returns.

In FY 2023 materials and supply expense rose \$152,000 as compared to the prior year. Chemical costs increased \$71,000 due to the higher price of polymer and the need to acquire larger quantities as a result of the expansion of the westside water treatment plant. The cost of lab supplies has also grown because of the treatment plant expansion. The remainder of the expense variance is attributable to year-over-year increases in road material and equipment part purchases.

Contractual expenses declined by \$457,000 in FY 2023. Fewer sewer lining projects were undertaken during the current year which contributed greatly to the cost reduction. There

was a decline in utility services which decreased costs. Also, a utility risk and resilience assessment was conducted in the prior year which increased FY 2022 expenses.

Depreciation is the single largest expense in the Sewer Fund. Continuous enhancements and expansions of the wastewater system increase the amount of the fund's depreciable assets causing this expense to increase. As depicted in the table below, the Sewer Fund's net capital assets grew by \$16.7 million in FY 2023. This increase reflects construction costs related to the upsizing of the Kautz Road trunk main, expansion of the Westside Water Reclamation Facility and replacement of the Riverside Lift Station.

Interest expense increased by \$217,000 in FY 2023 because the Sewer fund began paying interest on two Illinois Environmental Protection Agency (IEPA) loans which provided funding for the construction of the Country Club lift station and expansion of the westside water treatment facility.

Non-Operating Revenue and Expense Trends

In FY 2023, the Sewer Fund received \$3.6 million of American Rescue Plan Act (ARPA) funds to replace the Kautz Road trunk main. In the previous year, a \$1.1 million Department of Commerce and Economic Opportunity (DCEO) grant was awarded for the construction of a building. Three new housing developments commenced construction on the east side of the City which generated an additional \$467,000 of connection charge income.

Net transfers were less than the previous year due to the Sewer Fund transferring \$710,000 to the General Fund as repayment for a reimbursement of sewer infrastructure costs related to the expansion of an auto dealership. In FY 2022, the Sewer Fund received \$1.66 million from the General Fund to finance the construction of utilities for two new developments.

Net Position

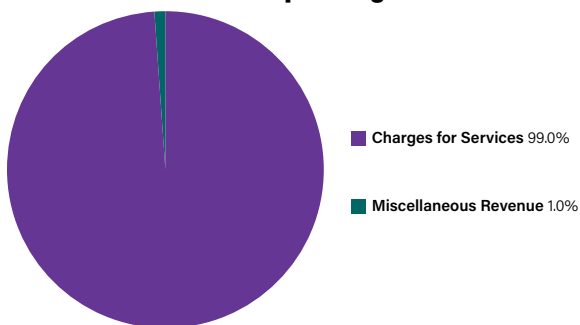
As is true of all of the City's major enterprise funds, the largest portion of the Sewer Fund's net position is its investment in capital assets (e.g., pumping stations, treatment facilities, sewers and machinery). The unrestricted share of net position grew approximately \$2.0 million. The Sewer Fund has several sizable capital projects budgeted in FY 2024 and will utilize these funds as a financing mechanism.

SEWER FUND OPERATING INDICATORS	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Average Number Monthly Customers Billed	15,275	15,402	15,467	15,557	15,612
Billed Usage (gallons)	1,134,336	1,073,705	1,065,974	1,082,257	1,068,799
Capital Assets (net of depreciation)	\$58,402,679	\$59,103,698	\$59,297,099	\$73,778,407	\$90,487,919

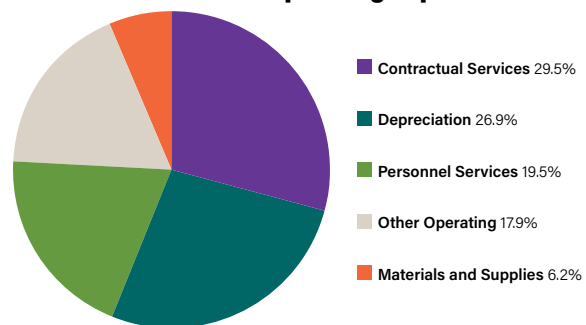
Statement of Revenues, Expenses, and Changes in Net Position

SEWER FUND	FY 2023	FY 2022	FY 2021
OPERATING REVENUES			
Charges for Services	\$11,778,604	\$11,232,949	\$10,885,511
Miscellaneous Revenue	113,067	97,133	61,199
TOTAL OPERATING REVENUES	\$11,891,671	\$11,330,082	\$10,946,710
OPERATING EXPENSES			
Personnel Services	1,888,265	1,533,884	1,516,976
Materials and Supplies	599,435	447,867	423,216
Contractual Services	2,844,532	3,301,718	2,490,740
Other Operating	1,734,107	1,812,004	1,474,138
Depreciation	2,604,244	2,432,604	2,460,602
TOTAL OPERATING EXPENSES	\$9,670,583	\$9,528,077	\$8,365,672
OPERATING INCOME (LOSS)	\$2,221,088	\$1,802,005	\$2,581,038
NON-OPERATING REVENUE (EXPENSES)			
Investment Income	283,361	(4,873)	24,395
Grants and other allotments	3,595,667	1,179,234	-
Connection Charges	717,360	250,111	290,989
Rental Income	1,622	3,060	3,060
Gain (Loss) on Sale of Fixed Assets	22,093	6,725	6,608
Interest Expense	(862,218)	(644,943)	(670,270)
Other Income (Expense)	1,949	2,708	5,858
TOTAL NON-OPERATING REVENUE (EXPENSES)	\$3,759,834	\$792,022	\$(339,360)
NET INCOME (LOSS) BEFORE TRANSFERS, CAPITAL GRANTS, AND CONTRIBUTIONS	\$5,980,922	\$2,594,027	\$2,241,678
Transfers, Net	(770,661)	1,411,640	(251,105)
Capital Grants and Contributions	159,407	414,163	-
CHANGE IN NET POSITION	\$5,369,668	\$4,419,830	\$1,990,573
Net Position, May 1	40,460,940	36,041,110	34,050,537
Change in Accounting Principle	-	-	-
NET POSITION, APRIL 30	\$45,830,608	\$40,460,940	\$36,041,110
SEWER FUND NET POSITION			
Net Investment in Capital Assets	\$32,473,591	\$29,091,568	\$27,772,308
Unrestricted	13,357,017	11,369,372	8,268,802
TOTAL NET POSITION	\$45,830,608	\$40,460,940	\$36,041,110

Sewer Fund Operating Revenue



Sewer Fund Operating Expenses



Water Fund

The Water Fund is also considered a major utility fund with revenue levels exceeding \$8.6 million. The Water Division maintains seven water supply wells, six storage reservoirs, 238 miles of water main and more than 12,700 domestic service connections and meters. The water supply is chlorinated and fluoridated as required by State and federal Regulations. Presently, water usage averages about 4.5 million gallons per day.

Revenue Trends

Water service revenue is comprised of a usage component and a fixed monthly charge. Substantially all of the revenue in the Water Fund is derived from charges for service. Customer account administrative fees account for the remainder of operating revenue. User charges were 9.5% higher in FY 2023 compared to FY 2022. This increase is due to the 12.0% rate increase that was implemented with the June 2022 billings. Billed usage declined in FY 2023 as compared to FY 2022 which caused revenue growth to fall short of the revenue rate increase. Investment income grew \$187,000 year over year due to rising interest rates.

Operating Expense Trends

Personnel costs increased by \$405,000 in FY 2023. The main reason is that IMRF pension expenses grew significantly as a result of lower than planned investment returns. Also, overtime costs more than doubled because there were multiple main breaks which needed to be repaired outside of normal business hours.

Materials and supplies expenses were \$119,000 higher compared to FY 2022. The cost of street repair materials grew \$93,000 year over year because there were a greater number of water line repairs resulting in the need to purchase additional patching product.

There was a \$755,000 increase in the Water Fund contractual services expense when compared to the prior year. Expenses associated with water line repairs rose \$328,000 due to an increase in number and size of water main breaks. Utility infrastructure repairs are made in conjunction with the City's

annual street resurfacing program. With respect to the Water Fund, these repairs include the replacement of residential water lines, b-boxes, fire hydrants, valve vaults and valves. Normally, the cost of these individual components does not meet the established threshold for capitalization and therefore are expensed. In FY 2023, the Sewer Fund incurred costs of \$430,000 related to this program.

Continuous improvements to the water distribution system increase the amount of the fund's depreciable assets causing a rise in depreciation expense. As shown in the table below, the Water Fund's net capital assets have risen \$4.5 million in comparison to FY 2022. Construction to redirect water pumped at Well 7 to the treatment facility at Well 13 was initiated in FY 2023 giving rise to the increase in capital assets.

Non-Operating Revenue and Expense Trends

During FY 2023 three new housing developments commenced construction on the east side of the City which generated an additional \$391,000 of connection fee income. In conjunction with the project to reroute the water at Well #7 to Well #13, the well house at Well #7 was demolished. The well house had not been fully depreciated and therefore the disposal created the \$80,000 loss on sale of fixed assets.

Net transfers were less than the previous year due to the Water Fund transferring \$185,000 to the General Fund as repayment for a reimbursement of sewer infrastructure costs related to the expansion of an auto dealership.

Net Position

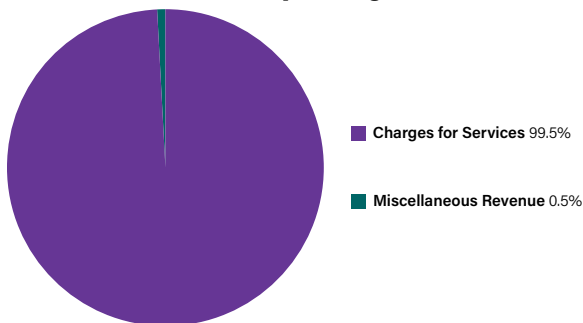
The Water Fund's net position increased in FY 2023 when compared to FY 2022. The unrestricted balance increased \$1.5 million while the investments in capital assets component of net position (e.g., supply wells, storage reservoirs, buildings and machinery) declined approximately \$1.1 million. The Water Fund has several large capital improvements budgeted in FY 2023 and will be utilizing unrestricted funds to finance these projects.

WATER FUND OPERATING INDICATORS	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Average Number Monthly Customers Billed	12,514	12,564	12,616	12,662	12,712
Water Gallons Billed	1,215,590	1,170,088	1,199,203	1,222,452	1,177,180
Capital Assets (net of depreciation)	\$32,333,258	\$32,579,057	\$32,771,317	\$34,053,331	\$38,540,412

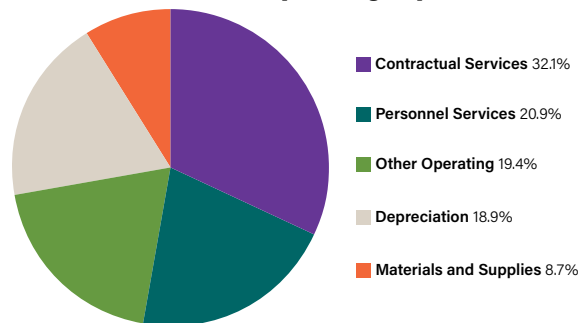
Statement of Revenues, Expenses, and Changes in Net Position

WATER FUND	FY 2023	FY 2022	FY 2021
OPERATING REVENUES			
Charges for Services	\$8,645,821	\$7,892,950	\$7,173,655
Miscellaneous Revenue	45,460	46,637	1,650
TOTAL OPERATING REVENUES	\$8,691,281	\$7,939,587	\$7,175,305
OPERATING EXPENSES			
Personnel Services	1,792,699	1,348,381	1,383,000
Materials and Supplies	744,510	625,265	726,245
Contractual Services	2,752,079	1,997,443	2,929,329
Other Operating	1,658,962	1,676,242	1,476,410
Depreciation	1,620,632	1,492,677	1,460,166
TOTAL OPERATING EXPENSES	\$8,568,882	\$7,140,008	\$7,975,150
OPERATING INCOME (LOSS)	\$122,399	\$799,579	\$(799,845)
NON-OPERATING REVENUE (EXPENSES)			
Investment Income	169,609	(17,455)	28,118
Grants and other allotments	566,975	175,708	169,707
Connection Charges	94,303	83,891	82,588
Rental Income	72,069	76,005	49,728
Gain (Loss) on Sale of Fixed Assets	(79,985)	-	-
Interest Expense	(366,122)	(431,631)	(397,366)
Other Income (Expense)	18,929	858	24,349
TOTAL NON-OPERATING REVENUE (EXPENSES)	\$475,778	\$(112,624)	\$(42,876)
NET INCOME (LOSS) BEFORE TRANSFERS, CAPITAL GRANTS, AND CONTRIBUTIONS	\$598,177	\$686,955	\$(842,721)
Transfers, Net	(225,110)	8,720	(162,605)
Capital Grants and Contributions	37,535	295,017	-
CHANGE IN NET POSITION	\$410,602	\$990,692	\$(1,005,326)
Net Position, May 1	22,262,583	21,271,891	22,277,217
Change in Accounting Principle	-	-	-
NET POSITION, APRIL 30	\$22,673,185	\$22,262,583	\$21,271,891
WATER FUND NET POSITION			
Net Investment in Capital Assets	\$17,639,718	\$18,715,247	\$19,090,902
Unrestricted	5,033,467	3,547,336	2,180,989
TOTAL NET POSITION	\$22,673,185	\$22,262,583	\$21,271,891

Water Fund Operating Revenue



Water Fund Operating Expenses



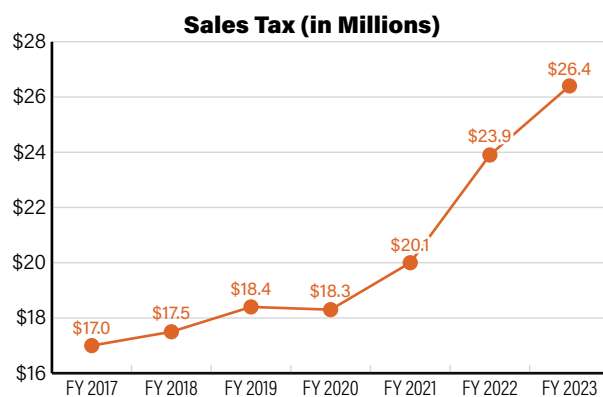
Revenue Trends

The City of St. Charles benefits from a diversified revenue base. Sales tax, property tax, and income tax are three significant governmental revenue sources that the City relies on to provide a high-level of municipal services to residents and businesses.

Sales Tax

The City of St. Charles receives 16% of the revenue generated by the 6.25% State sales tax on general merchandise (or 1% of gross sales). In addition, the City receives 100% of the revenue produced by the 1.00% State sales tax on food and qualifying drugs. Also, St. Charles has implemented a 1.00% local "home rule" sales tax which is collected on the same general merchandise, food and qualifying drugs. The tax revenue that the City receives is generated from the actual sales made within the City of St. Charles corporate limits. Other taxing districts encompassing the City have also imposed a sales tax. The City's total sales tax rate was 8.00%.

The City has also enacted a 3.00% sales tax on recreational cannabis purchases which became effective on July 1, 2020. The combined amounts from state, home rule and municipal use taxes are reflected in the chart below.



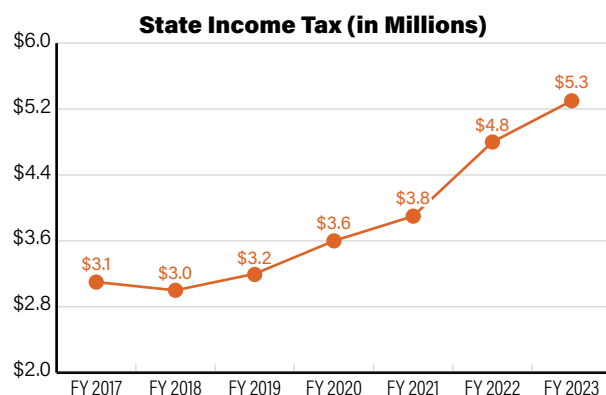
FY 2022 sales tax revenue surpassed the prior year by \$3.9 million. The sales tax produced by pharmaceutical and eating establishments was substantially greater than FY 2021 due in part to inflation and secondly as a result of lifting COVID restrictions. Also, the sales tax revenue generated

from automobile sales rose significantly because of higher demand and price inflation. During FY 2023, sales tax revenue continued to experience significant growth due to heightened economic activity, retail price increases and the opening of new businesses within the community.

Income Tax

The State of Illinois imposes an income tax on individuals and corporations. Illinois municipalities and counties receive a share of the income tax collected by the state through the Local Government Distributive Fund (LGDF). The LGDF distributions are based on a set distribution percentage and the local government's official census population.

On July 1, 2017, the State's income tax rates increased from 3.75% to 4.95% for individuals and 5.25% to 7.00% for corporations. However, these increases did not flow down to the municipalities or counties. To the contrary, the LGDF distribution percentage was reduced to 6.06% from 8.00% for individual income tax collections and to 6.85% from 9.14% for corporate income tax collections. Beginning August 1, 2022, and through July 31, 2023, the 6.06% rate for individual income tax collections was increased to 6.16%.

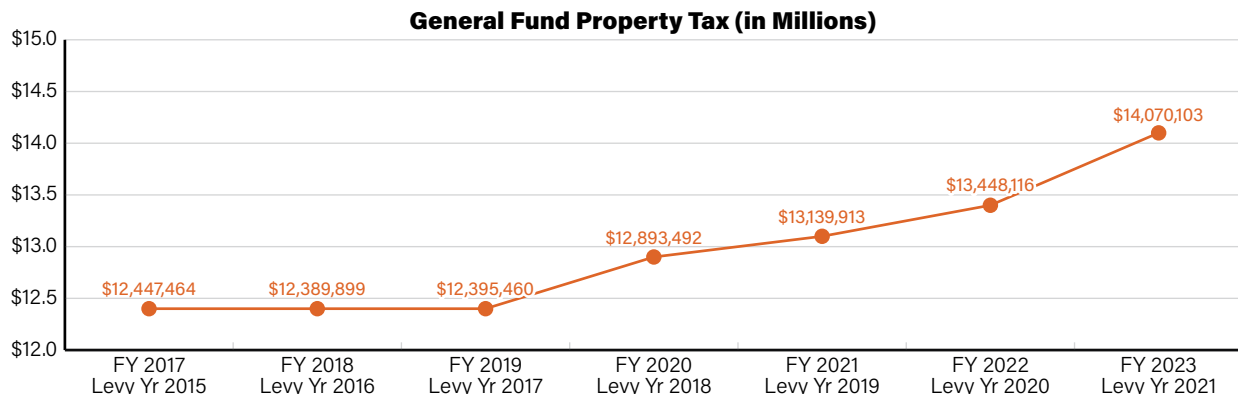


Several positive economic factors including an improved labor market, extraordinary corporate income tax receipts and higher tax payments from individuals contributed to the growth in FY 2022 income tax revenues. These same factors continued to benefit LGDF income tax distributed in FY 2023.

Property Tax

The City maintains a balanced mix of property types comprised of residential (66.7%), commercial (23.1%) and industrial (10.2%). The revenue generated by property tax funds fundamental City services including police and fire protection, roadway and streetlight maintenance, forestry preservation and code enforcement. The City has the authority to levy property taxes to pay the principal and interest on outstanding General Obligation Bonds. However, past practice has been to abate the debt service portion of the property tax levy and satisfy the annual principal and interest payments utilizing other revenue sources.

Property tax is the second largest revenue source in the General Fund. In FY 2023, it comprised 24.3% of total operating revenue. The taxable equalized assessed value (EAV) of all property within the City has risen each of the last eight years. The City's 2021 taxable EAV increased 2.2% or \$34,198,255 to 1,611,315,769. The increase was due to the addition of new property EAV of \$8,738,007, annexed property EAV of \$457,436 and a rise in existing property EAV of \$25,002,812. The 2021 property tax levy (collected in FY 2023) was approximately \$622,000 more than the previous year as a result of an overall tax levy increase of approximately 4.9%.



A common misconception about property tax is that the entire amount a property tax owner pays is remitted to the City. As indicated by the graphic below, the City of St. Charles will receive 10.4 percent of every dollar of property tax levied in 2022, collected in FY 2024. This important

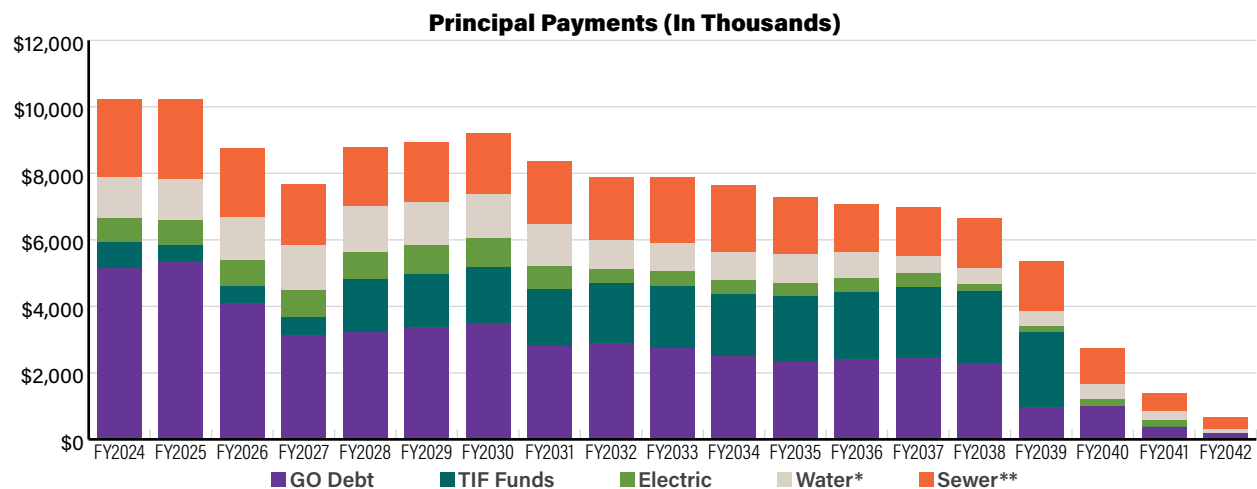
revenue source pays the City's employer contributions to the Police pension and Fire pension funds as well as supports public safety, public works and mental health services. The remaining portion of each dollar, 89.6 cents, was allocated to other taxing districts.



Debt Status

In the past, the City has issued two major forms of debt as a means of funding significant capital purchases and projects. General Obligation (GO) Bonds are direct obligations and pledge the full faith and credit of the City and are payable from both the governmental funds and proprietary funds. In addition, the Illinois Environmental Protection Agency (IEPA)

has extended the Water and Sewer Funds low interest or no-interest loans for various projects. As of April 30, 2023, the City had \$101,885,000 of GO Bonds, \$1,810,000 of Revenue Bonds and \$61,685,913 of IEPA loans outstanding. The chart below provides information regarding the amortization of principle on these loans.



*As of April 30, 2023, the Water Fund has received initial loan proceeds of \$4,326,673 from the IEPA to fund the Well 7 to Well 13 project. The loan agreement provides \$7,325,100 of funding to complete this project. The graph above does not include the loan amounts received as of fiscal year end.

**As of April 30, 2023, the Sewer Fund had received initial loan proceeds of \$19,133,887 and \$8,241,426 from the IEPA to fund the Westside Water Reclamation Facility (WWRF) expansion and the Riverside Lift Station replacement, respectively. The WWRF loan agreement provides for \$20,822,600 of funding to complete this project and the Riverside Lift Station loan agreement provides for \$16,713,495 of funding to complete this project. The graph above does not include the loan amounts received as of fiscal year end.

Debt Rating

Many municipalities use Moody's Investors Service ("Moody's") to calculate their bond rating. The bond rating is an important process because the rating alerts investors to the quality and stability of the bond. To that end, the rating greatly influences interest rates, investment appetite and

bond pricing. In conjunction with the issuance of the 2021 General Obligation Bonds, the City of St. Charles received a rating of Aa1 from Moody's, the second highest possible bond rating issued by Moody's. Below is the standard rating scale utilized by Moody's.

Global Long-Term Rating Scale

- | | |
|--|---|
| <p>Aaa Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.</p> <p>Aa Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.</p> <p>A Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.</p> <p>Baa Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.</p> <p>Ba Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.</p> | <p>B Obligations rated B are considered speculative and are subject to high credit risk.</p> <p>Caa Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.</p> <p>Ca Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.</p> <p>C Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.</p> |
|--|---|

NOTE: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Additionally, a "(hyb)" indicator is appended to all ratings of hybrid securities issued by banks, insurers, finance companies, and securities firms.

About the PAFR

The Popular Annual Financial Report (PAFR) is intended to provide selected information about the City's financial condition in a summarized and easily understandable format.

The PAFR is based upon the City's Annual Comprehensive Financial Report (ACFR). The selected information presented in the PAFR is consistent with Generally Accepted Accounting Principles (GAAP). However, the primary focus of the PAFR is the City's General Fund, Electric Fund, Sewer Fund and Water Fund. These are considered to be the City's most significant funds. The City maintains several other accounting funds. For more comprehensive information about the City's finances view an electronic version of the Annual Comprehensive Financial Report at <https://bit.ly/STC22-23ACFR>.

Questions concerning this report or requests for additional financial information should be directed to:

Bill Hannah, Director of Finance
City of St. Charles, 2 E. Main Street
St. Charles, Illinois 60174
630-377-4478
bhannah@stcharlesil.gov





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