

2019 Popular Annual Financial Reporting

for the City of St. Charles, Illinois



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 Popular Annual Financial Report for the City of St. Charles for the year ended April 30, 2019. This is our inaugural version of the report, which is meant to make City finances clear and understandable. The City of St. Charles has a proud tradition of responsible financial stewardship under the direction of our City Council, and I hope you will take away a clear vision of City finances after reading this report.

This Popular Annual Financial Report is a streamlined version of the lengthier Comprehensive Annual Financial Report (CAFR) we produce every year. The CAFR provides detailed financial information as required by the State of Illinois. For the last 33 years the city's CAFR has received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association.

While not required, we felt it was important to produce the simplified Popular Annual Financial Report. We believe increasing the transparency of the City's financial information is good government and promotes accountability to the citizens we serve.

We hope this report clearly presents the City's financial information and 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 an interest in their government.

All of our financial documents are available for anyone to review on the City website. As always, please contact me or our Director of Finance, Christopher Minick, if you have any questions about the City's finances.

Sincerely,

Raymond P. Rogina
Mayor

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City of St. Charles Government Organization

Mayor and City Council



Raymond P. Rogina
Mayor

St. Charles has an Aldermanic-City form of government, which consists of 10 Aldermen, a Mayor and a City Administrator. The Aldermen 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 Aldermen 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 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 eight City departments: Administration, Community & Economic Development, Finance, Fire, Human Resources, Information Systems, Police, and Public Works.



Dan Stellato
Alderman Ward 1



Ronald Silkaitis
Alderman Ward 1



Rita Anne Payleitner
Alderman Ward 2



Arthur J Lemke
Alderman Ward 2



Todd Bancroft
Alderman Ward 3



William Turner
Alderman Ward 3



Lora Vitek
Alderman Ward 4



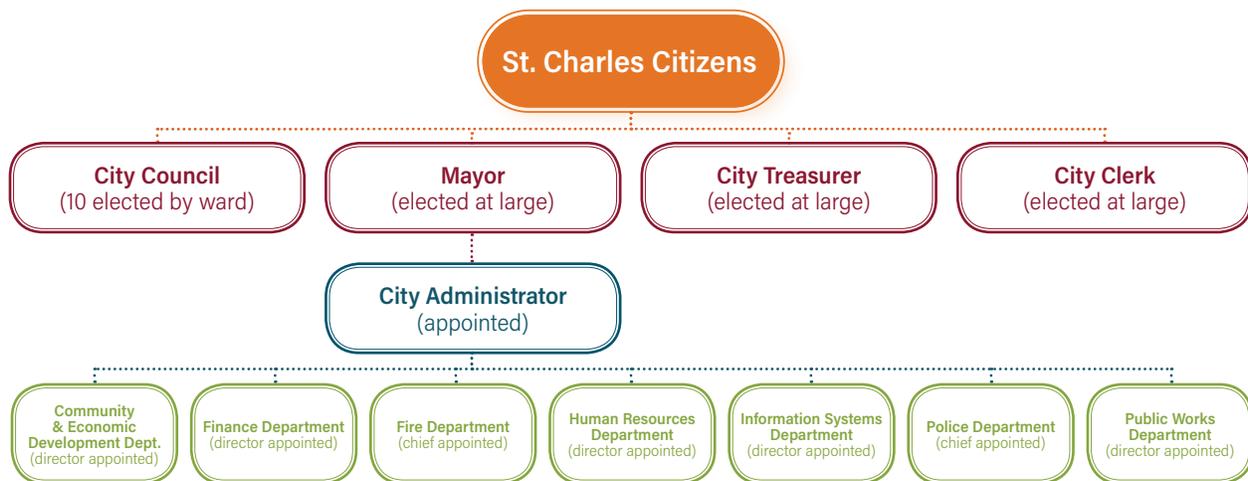
Steven Gaugel
Alderman Ward 4



Ed Bessner
Alderman Ward 5



Maureen Lewis
Alderman Ward 5



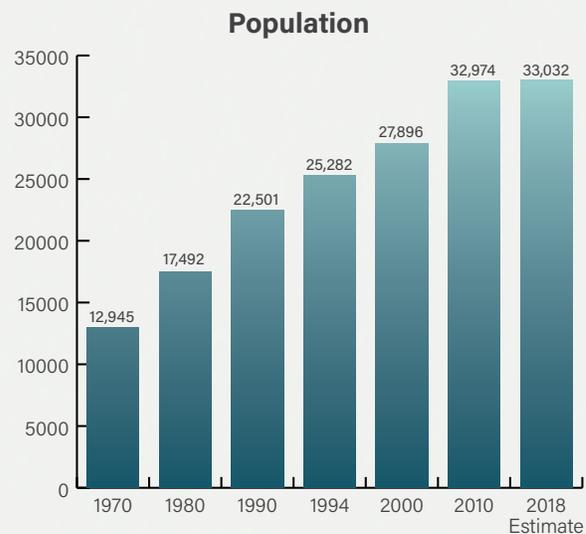
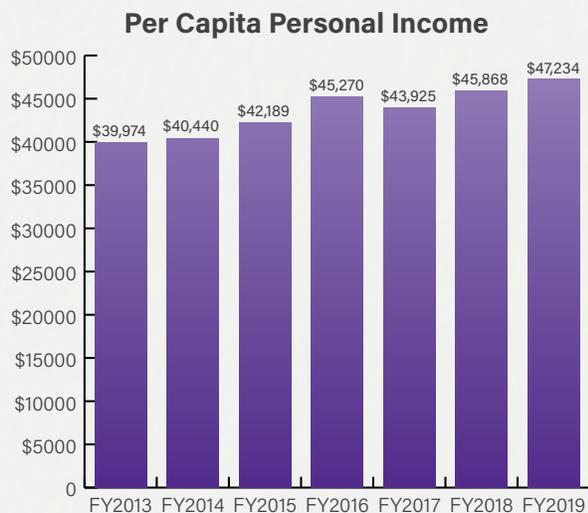
City Profile

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 July 1, 2018, the U.S. Bureau of the Census estimates the City's population at 33,032. The City employs 300 people representing approximately 273 full time equivalent employees including 47 full-time sworn firefighters and 58 full-time sworn police officers.

| Top Five Principal Employers | # Of Employees |
|---------------------------------------|----------------|
| St. Charles Community School District | 1,689 |
| RR Donnelley & Sons | 795 |
| Omron Automotive | 709 |
| Smithfield Foods | 315 |
| City of St. Charles | 300 |

| Principal Property Tax Payers | Taxable Assessed Value |
|------------------------------------|------------------------|
| Legia St. Charles Associates LLC | 20,950,229 |
| Q-Center LLC | 17,010,465 |
| AMVF St Charles LLC | 7,468,949 |
| FLT Park Shore LLC | 7,072,974 |
| Axiom St. Charles LLC | 6,896,055 |
| Windy City Re LLC | 6,785,739 |
| St. Charles Country Club | 6,521,271 |
| Prairie Winds LLC | 6,263,651 |
| Main Street Commons | 5,630,736 |
| St. Charles IL Senior Property LLC | 5,364,906 |



City Initiatives

There were a number of major initiatives that began, continued or were completed during Fiscal 2019, including:

Economic Development

The Meijer property located off Randall Road on the City's west side is undergoing transformation in the form of three out lot retail commercial developments. Two of the three buildings are currently under construction and will house a Wahlburger's Restaurant and Starbucks. The 27-acre former St. Charles Mall site on the west side of the city is undergoing a multi-phase redevelopment; the Prairie Center development. This project includes mixed use, commercial, and multi-family residential buildings, totaling up to 670 residential units at full buildout.

The First Street Development is reaching a significant milestone, as Phase 3 of the project approaches completion. Phase 3 of the project includes three mixed use buildings and a public parking garage. To date, two of the buildings and the public parking garage have been completed. The third and final building included in this project is set to be completed in late 2019.

Information Technology Department

In FY 2019, the Information Technology Department engaged a software consultant to assist with the selection of an enterprise software application. A strategic review of the City's enterprise applications determined that the core financials, utility billing, asset management and several ancillary systems need to be purchased, upgraded or replaced.

Public Works

The Public Works Engineering Division continued work on the 7th Avenue Creek and 7th Avenue Creek Tributary project. In FY 2019, the City was awarded a \$1.2 million grant from the IEPA, which provides funding toward final engineering design and construction of Phase I of the project.

As part of the City's commitment to maintaining public roadway infrastructure, 3.68 miles of roadway was improved through the resurfacing and base reclamation of a variety of streets located throughout the City. During FY 2019, the City instituted a 2 cent per gallon local fuel tax to provide additional resources to maintain its roadway infrastructure.





Electric Division

Construction of a new electric utility substation, Substation 9, located in the Legacy Industrial Park, was completed in FY 2019.

Environmental Services

The Environmental Services Division continued construction of the combined Wastewater Phosphorus Removal and Digester Project. This project is mandated as part of the EPA discharge permit for the Main Wastewater Treatment Plant. Construction will be completed in summer 2019.

Police Department

In FY 2018, the City purchased land to build a new Police facility and the design concepts, construction documents, and specifications were prepared. Construction of the Police facility was initiated during the summer of 2018 and is expected to be completed in the fall of 2019.

Fire Department

The St. Charles Fire Department and five other agencies jointly purchased dual band portable and mobile radios, as well as digital pagers, which will operate on a StarCom21 dispatch system. The purchase was funded with a \$1.4 million Department of Homeland Security grant which required a 10% match of funds by each participating agency.



Fiscal Condition

The City uses a Statement of Net Position to demonstrate financial condition based on the year's financial activities. In the case of the City of St. Charles, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$234.1 million at the close of FY2019. The statement distinguishes governmental activities (general government, public safety, highways & streets, and economic development) from business-type activities (e.g. electric, wastewater, water). The following table reflects the condensed Statement of Net Position with a comparison to FY2018.

Net Position

At \$228.5 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 \$4.6 million. Restricted net position represents resources that are subject to use constraints, such as for Highways and Streets and Debt Service.

At April 30, 2019, the City's combined unrestricted net position was \$1.0 million. For business-type activities, the City reported a positive balance of \$31.2 million in unrestricted net position. The deficit net position for the governmental activities of \$30.2 million is the result of the net pension liabilities and related activity for the City's Illinois Municipal Retirement Fund, Police Pension Fund and Firefighters' Pension. The implementation of a new financial reporting standard in FY 2016, resulted in the recognition of net pension liabilities totaling \$52.6 million and deferred outflows of resources amounting to \$11.3 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, 2019 and 2018 (in millions)

| | Government Activities | | Business-Type Activities | | Total Primary Government | |
|--|-----------------------|----------------|--------------------------|----------------|--------------------------|----------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| ASSETS | | | | | | |
| Current and Other Assets | \$75.7 | \$86.4 | \$43.6 | \$39.7 | \$119.3 | \$126.1 |
| Capital Assets | 189.4 | 178.3 | 163.4 | 150.7 | 352.8 | 329.0 |
| Total Assets | \$265.1 | \$264.7 | \$207.0 | \$190.4 | \$472.1 | \$455.1 |
| Deferred Outflows of Resources | 20.6 | 13.0 | 3.5 | 1.5 | 24.1 | 14.5 |
| Total Assets and Deferred Outflows of Resources | \$285.7 | \$277.7 | \$210.5 | \$191.9 | \$496.2 | \$469.6 |
| LIABILITIES | | | | | | |
| Current and Other Liabilities | \$18.3 | \$9.0 | \$11.4 | \$8.2 | \$29.7 | \$17.2 |
| Long-Term Liabilities | 153.6 | 149.6 | 59.0 | 52.4 | 212.6 | 202.0 |
| Total Liabilities | \$171.9 | \$158.6 | \$70.4 | \$60.6 | \$242.3 | \$219.2 |
| Deferred Inflows of Resources | 19.0 | 24.0 | .80 | 3.2 | 19.8 | 27.2 |
| Total Liabilities and Deferred Inflows of Resources | \$190.9 | \$182.6 | \$71.2 | \$63.8 | \$262.1 | \$246.4 |
| NET POSITION | | | | | | |
| Net Investment in Capital Assets | \$120.4 | \$117.7 | \$108.1 | \$103.1 | \$228.5 | \$220.8 |
| Restricted | 4.6 | 4.1 | - | - | 4.6 | 4.1 |
| Unrestricted | (30.2) | (26.7) | 31.2 | 25.0 | 1.0 | (1.7) |
| Total Net Position | \$94.8 | \$95.1 | \$139.3 | \$128.1 | \$234.1 | \$223.2 |

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 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 liquor 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, FY2019 general fund revenue increased approximately \$4.3 million when compared to the previous year. Grant revenue grew by approximately \$1.67 million due mainly to the receipt of a Department of Homeland Security grant awarded to the fire department. Municipal sales and use taxes also realized significant growth in FY2019. Taxes generated by automobile sales, parts, supplies and fuel account for 62% of this increase. Additionally, the City implemented a two-cent local fuel tax and increased the City’s existing hotel and alcohol tax rates by one percent during FY2019. These actions contributed approximately \$900,000 to the overall increase in general fund revenues. Like sales tax, the local fuel,

hotel and alcohol tax is paid by the purchaser of the goods or service and therefore the City collects these revenues from non-residents as well as residents.

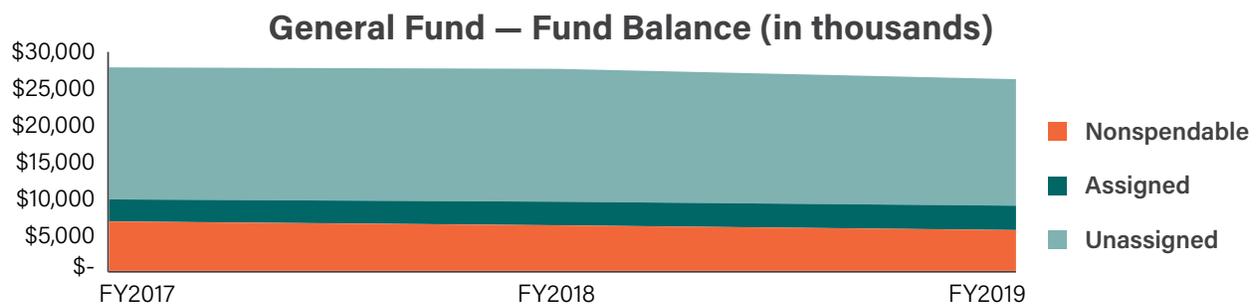
Operating Expenditure Trends

Given that the City is a service organization, the single largest expenditure in the General Fund is personnel services. In FY2019, wages and employee benefit costs increased approximately \$1.4 million. Equipment purchases were \$1.4 million greater than the prior year as a result of the fire department’s purchase of radios utilizing the grant proceeds received from the federal government.

General Fund Transfers out were \$2.4 million more than FY2018 because the City transferred \$3.0 million of available reserves to help fund the construction of the new Police building.

Fund Balance

The fund balance in the General Fund declined by \$1.4 million in FY2019 as a result of utilizing \$3.0 million of previously accumulated reserves to construct the new Police facility. Had this transfer not been made the fund balance would have realized an increase of approximately \$1.6 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. As of April 30, 2019, unassigned fund balance represents 42.2 percent of the total General Fund expenditures.

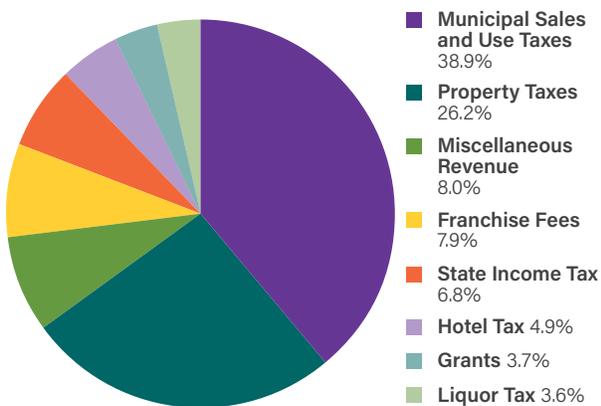


Statement of Revenues, Expenditures, and Changes in Fund Balance

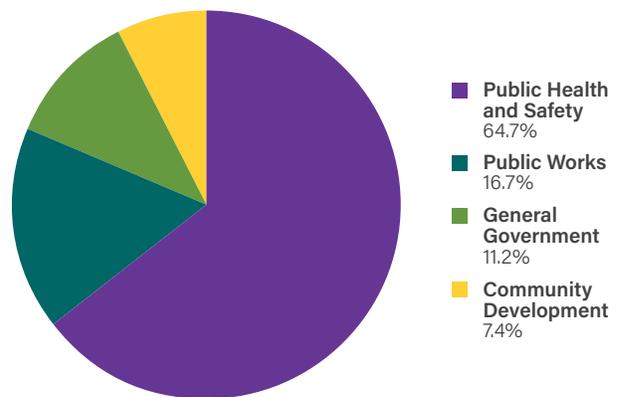
| GENERAL FUND (IN THOUSANDS) | FY2019 | FY2018 | FY2017 |
|---|--------------------|--------------------|--------------------|
| REVENUES | | | |
| Property Taxes | \$12,395.4 | \$12,389.9 | \$12,447.5 |
| Municipal Sales and Use Taxes | 18,397.1 | 17,506.9 | 17,025.8 |
| Franchise Fees | 3,746.6 | 3,695.1 | 3,738.2 |
| State Income Tax | 3,201.4 | 2,990.1 | 3,116.9 |
| Hotel Tax | 2,312.7 | 1,939.8 | 1,905.5 |
| Liquor Tax | 1,671.5 | 1,211.9 | 1,131.0 |
| Grants | 1,763.6 | 95.6 | 57.1 |
| Miscellaneous Revenue | 3,769.6 | 3,132.9 | 3,071.1 |
| Total Revenues | \$47,257.9 | \$42,962.2 | \$42,493.1 |
| EXPENDITURES | | | |
| General Government | \$4,421.8 | \$3,249.6 | \$3,159.8 |
| Public Health and Safety | 25,587.6 | 23,005.9 | 21,754.3 |
| Public Works | 6,598.8 | 7,410.1 | 6,728.1 |
| Community Development | 2,920.1 | 2,589.7 | 2,696.5 |
| Debt Service | 4.6 | 4.6 | 4.6 |
| Total Expenditures | \$39,532.9 | \$36,259.9 | \$34,343.3 |
| Excess Of Revenues Over Expenditures | \$7,725.0 | \$6,702.3 | \$8,149.8 |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from the Sale of Capital Assets | \$2.6 | - | - |
| Transfers In | 165.0 | - | - |
| Transfers (Out)* | (9,307.7) | (6,900.6) | (6,232.5) |
| Total Other Financing Sources (Uses) | \$(9,140.1) | \$(6,900.6) | \$(6,232.5) |
| NET CHANGE IN FUND BALANCES | | | |
| | \$(1,415.1) | \$(198.3) | \$1,917.3 |
| Net Position, May 1 | 27,690.9 | 27,889.2 | 25,971.9 |
| Net Position, April 30 | \$26,275.8 | \$27,690.9 | \$27,889.2 |

*Transfers out are comprised of debt service and capital outlay. These are accounted and tracked in another fund of the City. The revenue in the General Fund supports these operations and therefore transfers money to these funds to cover costs. In FY2019, the General Fund transferred \$3 million of previously accumulated fund balance to the Police Building construction fund.

General Fund FY2019 Operating Revenues



General Fund FY2019 Operating Expenditures



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 more than 15,900 residential, commercial and municipal customers. The City purchases energy from the Illinois Municipal Electric Agency (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 99% of the revenue in the Electric Fund is derived from the sale of power as well as user fees. The remaining 1% is comprised of expense reimbursements for work performed by the Electric Division, administrative fees and other miscellaneous income. Service charges increased 2.1% in FY2019 as compared to FY2018. The additional revenue is attributable to greater demand for kilowatt hours and utility rate increases which took effect on June 1, 2018.

Operating Expense Trends

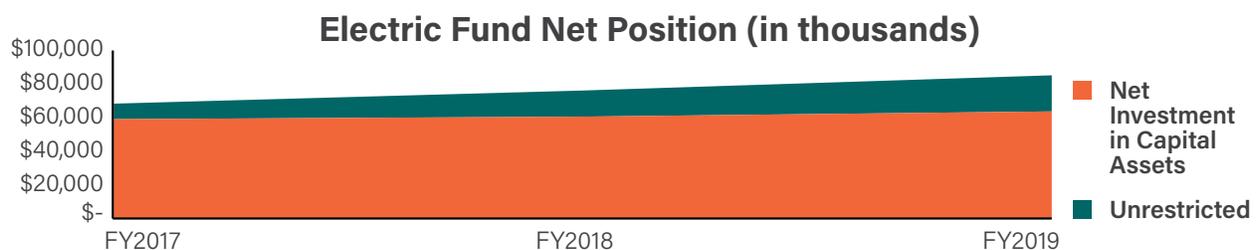
The single greatest expense in the Electric Fund is the cost to purchase power which is included in the contractual services expense category. The cost of power in both FY2019 and FY2018 was \$41.5 million.

Depreciation expense is the second largest cost within the utility fund. Capital additions and improvements to the electric distribution system increase the amount of the fund's depreciable assets causing a rise in depreciation expense. During FY2019, construction of a new electric utility substation, Substation 9, was completed. Also, the Electric Utility completed the installation of a multitude of overhead and underground distribution circuits.

The two key components of the other operating expenses category are Electric Excise Tax and Municipal Franchise Fees. The State of Illinois requires the City of St. Charles to collect an excise tax equal to the lower of 5% of total electric charges or .0032 cents per kilowatt-hour. The City of St. Charles charges a 5% Franchise Fee on the total utility revenue generated in the Electric Fund. The franchise fee is remitted to the General Fund to support the general operations of the City and allows the City of St. Charles to levy lower property taxes.

Net Position

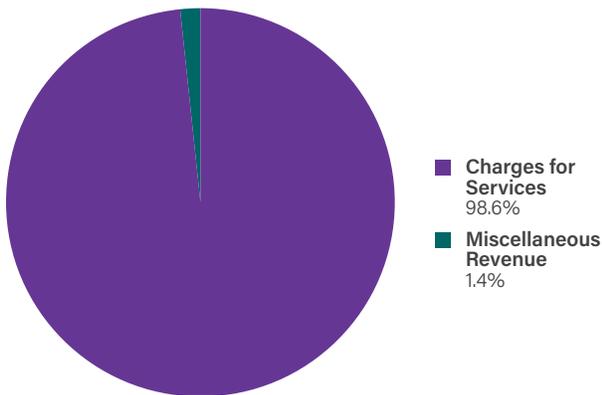
Over time, net position may serve as a useful indicator of the fund's financial position. The largest portion of the Electric Fund's net position is its investment in capital assets (e.g., land, infrastructure, buildings machinery, and equipment). The unrestricted share of net position is available for spending. The trend of the Electric Fund's net position indicates growth in financial strength.



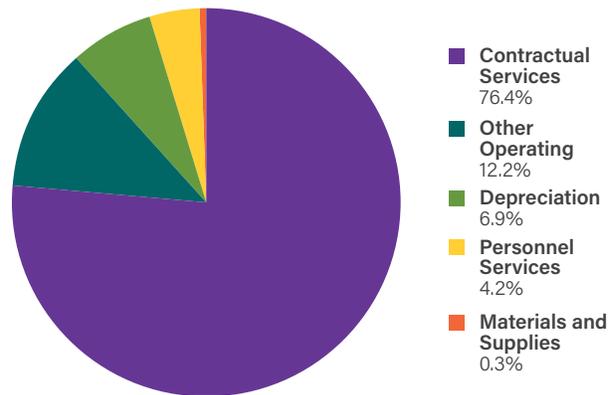
Statement of Revenues, Expenses, and Changes in Net Position

| ELECTRIC FUND | FY2019 | FY2018 | FY2017 |
|---|---------------------|---------------------|---------------------|
| OPERATING REVENUES | | | |
| Charges for Services | \$63,141,325 | \$61,835,798 | \$62,273,904 |
| Miscellaneous Revenue | 888,502 | 1,060,135 | 933,424 |
| TOTAL OPERATING REVENUES | \$64,029,827 | \$62,895,933 | \$63,207,328 |
| OPERATING EXPENSES | | | |
| Personnel Services | \$2,300,016 | \$2,263,476 | \$2,496,391 |
| Materials and Supplies | 167,035 | 267,644 | 184,176 |
| Contractual Services | 42,137,670 | 42,212,056 | 42,344,815 |
| Other Operating | 6,736,729 | 6,898,435 | 7,180,554 |
| Depreciation | 3,784,296 | 3,588,607 | 3,443,424 |
| TOTAL OPERATING EXPENSES | \$55,125,746 | \$55,230,218 | \$55,649,360 |
| OPERATING INCOME (LOSS) | \$8,904,081 | \$7,665,715 | \$7,557,968 |
| NON OPERATING REVENUE (EXPENSES) | 328,864 | 153,485 | 2,037 |
| NET INCOME (LOSS) BEFORE TRANSFERS, CAPITAL GRANTS AND CONTRIBUTIONS | \$9,232,945 | \$7,819,200 | \$7,560,005 |
| TRANSFERS, NET | (176,551) | (149,692) | (129,681) |
| CAPITAL GRANTS AND CONTRIBUTIONS | - | - | - |
| CHANGE IN NET POSITION | \$9,056,394 | \$7,669,508 | \$7,430,324 |
| Net Position, May 1 | 75,774,285 | 67,960,939 | 60,530,615 |
| Change in Accounting Principle | - | 143,838 | - |
| Net Position, April 30 | \$84,830,679 | \$75,774,285 | \$67,960,939 |
| ELECTRIC FUND NET POSITION | | | |
| Net Investment in Capital Assets | \$63,331,426 | \$60,225,020 | \$58,713,958 |
| Unrestricted | 21,499,253 | 15,549,265 | 9,246,981 |
| TOTAL NET POSITION | \$84,830,679 | \$75,774,285 | \$67,960,939 |

Electric Fund FY2019 Operating Revenue



Electric Fund FY2019 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 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 179 miles of sanitary 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 9.7 million gallons of wastewater daily.

As a matter of good practice and prudent management, the Wastewater Utility has completed a Facility Master Plan which is used to help ensure that the Utility is on course to meet the needs of the community for the next decade.

Revenue Trends

Wastewater user charge revenue is comprised of a usage component and a fixed monthly charge. Nearly 100% of the revenue in the Sewer Fund comes from usage and service charges. Reimbursements for work performed by the Wastewater Division and customer account administrative fees are also collected and account for less than 1% of operating revenue. Service charges grew 6.3% in FY2019 as compared to FY2018. This growth is due to the rate increases that were implemented with the June 2018 billings as well as additions to the number of meter connections.

Operating Expense Trends

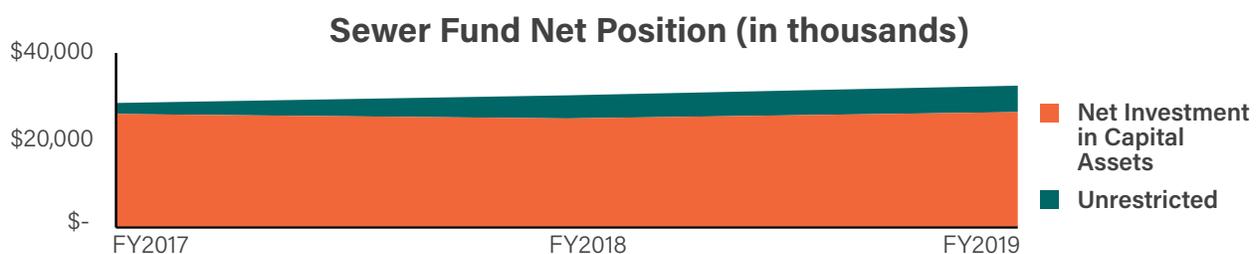
The single greatest expense of the Sewer Fund is depreciation expense. This cost has remained relatively flat when compared to the previous fiscal year. However, this cost is expected to increase in FY2020 as construction of the combined Phosphorus and Digester Rehabilitation project should be completed in the summer of 2019. Construction began in FY2017 and the total cost of the combined project is estimated to be \$14.8 million. The construction and rehabilitation of the Digesters at the main waste water treatment plant and implementing of a permit mandated Phosphorus removal project was mandated by the IEPA.

Personnel service expense is the second largest cost within this utility fund. This expense category is comprised of the wages and benefits of those employees responsible for operating and maintaining the wastewater treatment system. The reduction in personnel costs in FY2019 is due to several positions being vacant for part of the year.

Contractual services increased approximately \$376,000 in FY2019 as compared to FY2018. The City contracted out work related to wastewater flow monitoring, manhole rehabilitation and various Capacity, Management, Operations and Maintenance (CMOM) programs.

Net Position

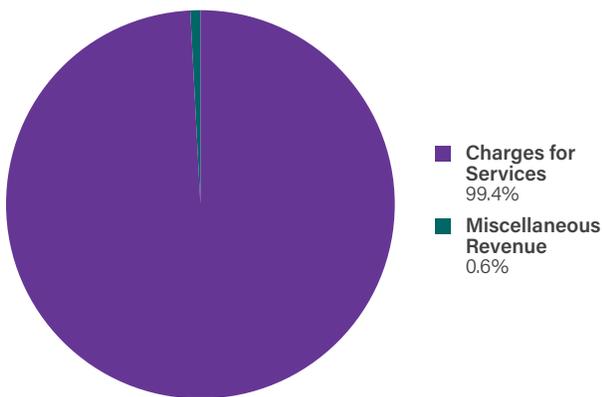
Like the Electric Fund, the largest portion of the Sewer Fund's net position is its investment in capital assets (e.g., pumping stations, treatment facilities, sewers and machinery). The unrestricted share of net position is available for spending. The trend of the Sewer Fund's net position indicates growth in financial strength.



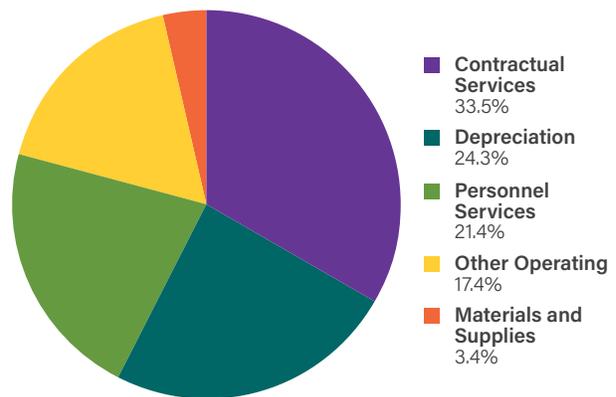
Statement of Revenues, Expenses, and Changes in Net Position

| SEWER FUND | FY2019 | FY2018 | FY2017 |
|---|---------------------|---------------------|---------------------|
| OPERATING REVENUES | | | |
| Charges for Services | \$10,154,067 | \$9,551,128 | \$8,891,308 |
| Miscellaneous Revenue | 62,289 | 57,440 | 52,403 |
| TOTAL OPERATING REVENUES | \$10,216,356 | \$9,608,568 | \$8,943,711 |
| OPERATING EXPENSES | | | |
| Personnel Services | \$1,822,721 | \$1,979,982 | \$2,002,845 |
| Materials and Supplies | 293,607 | 282,097 | 263,210 |
| Contractual Services | 2,852,686 | 2,476,301 | 2,153,265 |
| Other Operating | 1,487,215 | 1,425,141 | 1,410,097 |
| Depreciation | 2,075,587 | 2,083,144 | 2,082,195 |
| TOTAL OPERATING EXPENSES | \$8,531,816 | \$8,246,665 | \$7,911,612 |
| OPERATING INCOME (LOSS) | \$1,684,540 | \$1,361,903 | \$1,032,099 |
| NON OPERATING REVENUE (EXPENSES) | (303,557) | 331,881 | (355,305) |
| NET INCOME (LOSS) BEFORE TRANSFERS, CAPITAL GRANTS AND CONTRIBUTIONS | \$1,380,983 | \$1,693,784 | \$676,794 |
| TRANSFERS, NET | (285,895) | (247,728) | (248,692) |
| CAPITAL GRANTS AND CONTRIBUTIONS | 1,121,739 | 136,983 | 27,500 |
| CHANGE IN NET POSITION | \$2,216,827 | \$1,583,039 | \$455,602 |
| Net Position, May 1 | 30,125,148 | 28,373,685 | 27,918,083 |
| Change in Accounting Principle | - | 168,424 | - |
| Net Position, April 30 | \$32,341,975 | \$30,125,148 | \$28,373,685 |
| SEWER FUND NET POSITION | | | |
| Net Investment in Capital Assets | \$26,292,156 | \$24,831,236 | \$25,851,191 |
| Unrestricted | 6,049,819 | 5,293,912 | 2,522,494 |
| TOTAL NET POSITION | \$32,341,975 | \$30,125,148 | \$28,373,685 |

Sewer Fund FY2019 Operating Revenue



Sewer Fund FY2019 Operating Expenses



Water Fund



The Water Fund is also considered to be a major utility fund with revenue levels exceeding \$6.1 million. The City of St. Charles' Water Division is responsible for providing safe water to approximately 35,000 customers. The Water Division maintains seven water supply wells, six storage reservoirs, 233 miles of water main and approximately 12,500 domestic service connections and meters. The water supply is chlorinated and fluoridated as required by State and federal Regulations.

A Ten Year Master Plan was completed for the Water Utility which plots a course of action that will allow the utility to service all current and prospective customers of the water system.

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 1.4% higher in FY2019 compared to FY2018. Although a rate increase was implemented on June 1, 2018, there has been very little revenue growth year over year. The impact of the water usage rate increase has been offset by a decline in water consumption.

Operating Expense Trends

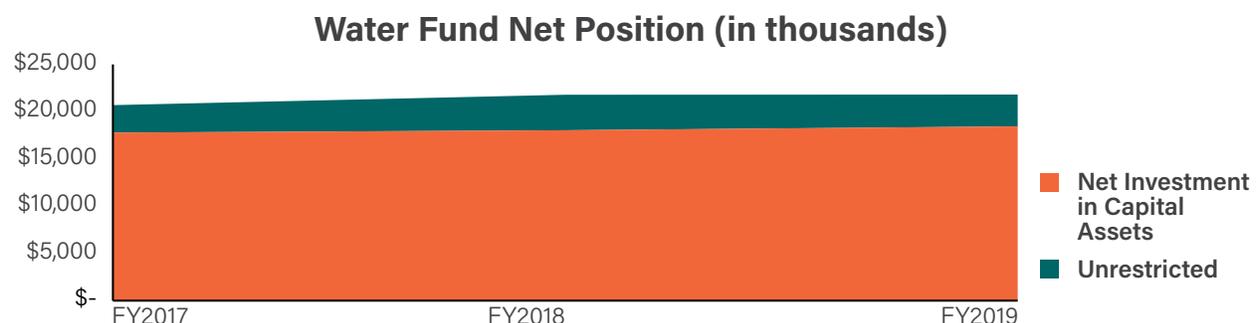
There was a significant increase in the Water Fund contractual services expense category when compared to the prior year. The painting and repair of the Campton Hills water tower and the replacement of water main account for approximately \$940,000 or 92% of this increment.

The second largest cost within this utility fund is for personnel services. These expenses encompass the wages and benefits of those employees responsible for operating and maintaining the water distribution system.

The overhead allocation related to facilities occupied by the Water Division was adjusted in FY2019 and resulted in the increase in other operating expenses.

Net Position

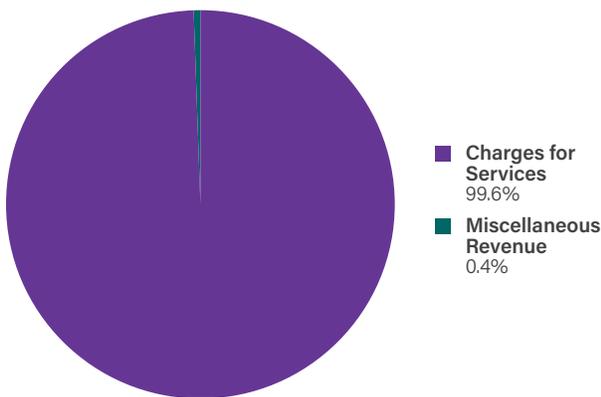
The Water Fund's net position remained relatively constant in FY2019 when compared to FY2018. The \$400,000 growth in the investments in capital assets component of net position (e.g., supply wells, storage reservoirs, buildings and machinery) was offset by a \$385,000 decline in the unrestricted balance.



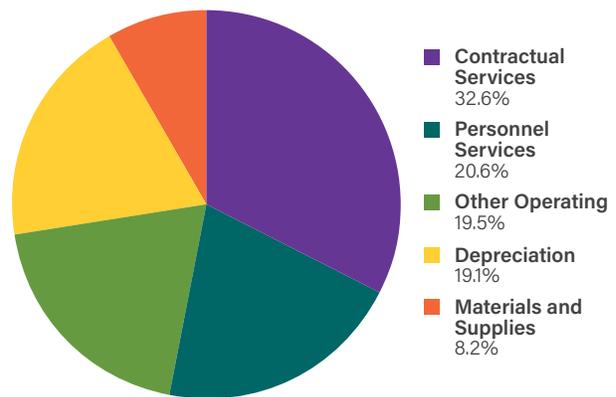
Statement of Revenues, Expenses, and Changes in Net Position

| WATER FUND | FY2019 | FY2018 | FY2017 |
|---|---------------------|---------------------|---------------------|
| OPERATING REVENUES | | | |
| Charges for Services | \$6,148,299 | \$6,062,171 | \$5,711,490 |
| Miscellaneous Revenue | 27,513 | 24,177 | 24,850 |
| TOTAL OPERATING REVENUES | \$6,175,812 | \$6,086,348 | \$5,736,340 |
| OPERATING EXPENSES | | | |
| Personnel Services | \$1,443,561 | \$1,450,388 | \$1,423,804 |
| Materials and Supplies | 576,956 | 537,055 | 416,819 |
| Contractual Services | 2,291,862 | 1,266,469 | 1,217,643 |
| Other Operating | 1,369,752 | 977,808 | 824,038 |
| Depreciation | 1,337,535 | 1,282,379 | 1,202,297 |
| TOTAL OPERATING EXPENSES | \$7,019,666 | \$5,514,099 | \$5,084,601 |
| OPERATING INCOME (LOSS) | \$(843,854) | \$572,249 | \$651,739 |
| NON OPERATING REVENUE (EXPENSES) | 29,784 | 217,782 | (28,023) |
| NET INCOME (LOSS) BEFORE TRANSFERS, CAPITAL GRANTS AND CONTRIBUTIONS | \$(814,070) | \$790,031 | \$623,716 |
| TRANSFERS, NET | (193,211) | (135,596) | (136,115) |
| CAPITAL GRANTS AND CONTRIBUTIONS | 1,026,199 | 341,228 | 313,210 |
| CHANGE IN NET POSITION | \$18,918 | \$995,663 | \$800,811 |
| Net Position, May 1 | 21,788,478 | 20,688,551 | 19,887,740 |
| Change in Accounting Principle | - | 104,264 | - |
| Net Position, April 30 | \$21,807,396 | \$21,788,478 | \$20,688,551 |
| SEWER FUND NET POSITION | | | |
| Net Investment in Capital Assets | \$18,436,156 | \$18,032,271 | \$17,776,279 |
| Unrestricted | 3,371,240 | 3,756,207 | 2,912,272 |
| TOTAL NET POSITION | \$21,807,396 | \$21,788,478 | \$20,688,551 |

Water Fund FY2019 Operating Revenue



Water Fund FY2019 Operating Expenses

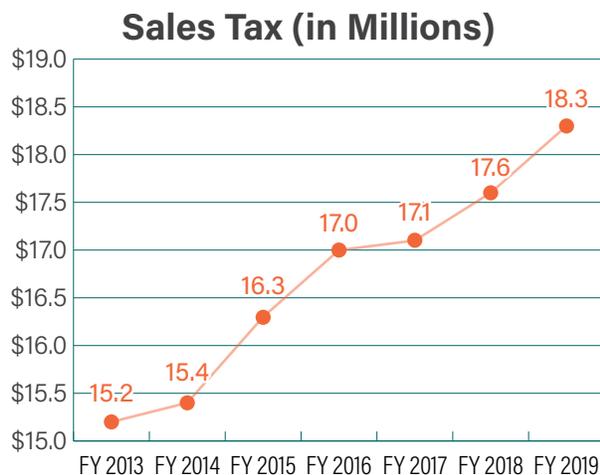


Revenue Trends

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 our residents and businesses.

Sales Tax

Sales taxes are the largest revenue source for the City. Sales tax is collected by the State and remitted back to the City on a monthly basis. Sales tax has been trending upward since FY2011 in the City of St. Charles due to the stronger economy and numerous economic development activities which have attracted new businesses. The Illinois Department of Revenue retained an administrative fee of 2% of locally imposed sales taxes collected on behalf of municipalities in FY2018, and retained an administrative fee of 1.5% on Home Rule sales tax collections in FY2019. In FY2019 general sales tax revenues were \$12,059,848 and Home Rule sales tax revenues were \$6,273,795.

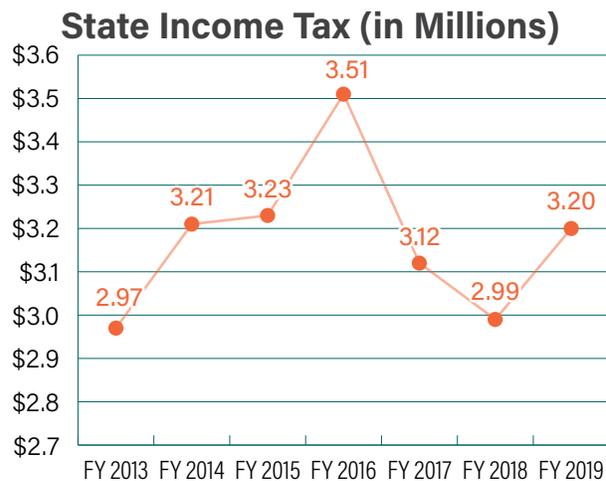


Sales tax collected in the City of St. Charles is comprised of four different components as follows:

| | |
|---|--------------|
| State of Illinois | 5.00% |
| City of St. Charles (Municipal and Home Rule) | 2.00% |
| County | 0.25% |
| RTA | 0.75% |
| Total | 8.00% |

Income Tax

On July 1, 2017, the State of Illinois instituted a 10% reduction in Income tax allotments remitted to the City. This action by the State had a negative impact on the City's FY2018 income from this revenue source. The 10% reduction in Local Government Distributive Fund (LGDF) disbursements was initially set to conclude after twelve months. However, the State of Illinois commenced a 5% reduction in Income tax allotments effective for an additional twelve months beginning July 1, 2018 (FY2019). With the exception of FY2016, State Income Tax trends within a narrow band of \$2.9 million to \$3.2 million. The spike in FY2016 is thought to be the result of tax law changes regarding the treatment of long-term capital gains.



Property Tax

Property tax is the second largest revenue source in the General Fund. In response to the decline in property tax values experienced during the economic downturn the amount of the property tax levy has

been held constant over the past 9 years at \$12,055,117. The City has abated the debt service property tax levies and made the principal and interest payments from other revenue sources. After six straight years of declines in Equalized Assessed Value (EAV), the last four years have seen modest increases in the EAV.

General Fund Property Tax



A common misconception about property tax is that all of the money a property tax owner pays is remitted to the City. As indicated by the graphic below, the City of St. Charles received 10.2 percent of every dollar of property tax levied in 2018. The remaining portion of

each dollar, 89.80 cents, was allocated to other taxing districts. This important revenue source pays the City's employer contributions to the Police pension and Fire pension funds as well as supports public safety and public works services.



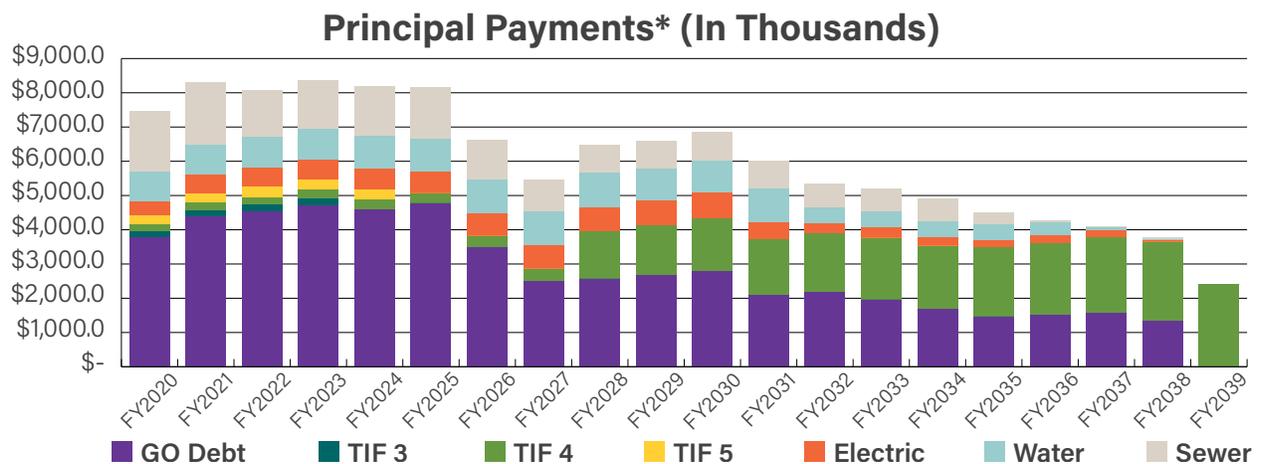
THE CITY OF ST. CHARLES RECEIVES A PORTION OF YOUR PROPERTY TAXES

About 10% of the total property tax bill.

Debt Status

In the past, the City has issued two major forms of debt in order to fund significant capital purchases and projects. General Obligation Corporate Purpose (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, 2019, the City had \$92,225,000 of GO Bonds, \$5,035,000 of Revenue Bonds and \$23,703,833 of IEPA loans outstanding. The chart below provides information regarding the amortization of principal on these loans.



*The City has also issued additional IEPA loans, in the amount of \$14,879,549 during FY2019. The loan documentation will become final upon the completion of these projects in FY2020. In addition, on June 25, 2019 (FY2020), the City issued \$13,960,000 of GO Bonds, Series 2019, for the purpose of paying the costs related to certain capital improvements in and for the City. The principal payments related to this debt are not included above.

DEBT RATING

Many municipalities use Moody's Investors Service to calculate their bond rating. In conjunction with the issuance of its 2019 General Obligation Bonds the City of St. Charles received a rating of Aa1 from Moody's Investors Service. Moody's long-term obligation ratings

are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. These ratings reflect both the likelihood of default and any financial loss suffered in the event of default. Below is the standard rating scale.

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. A PDF version of this document is located at www.stcharlesil.gov/departments/finance.

The PAFR is based upon the City's Comprehensive Annual Financial Report (CAFR). However, the primary focus of the PAFR is the City's General Fund, Electric Fund, Wastewater 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 you may view an electronic version of the Comprehensive Annual Financial Report at www.stcharlesil.gov/departments/finance.

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

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