

**MINUTES FROM THE PUBLIC HEARING OF THE ST. CHARLES CITY COUNCIL
HELD ON MONDAY APRIL 4, 2016 – 6:45 P.M.
CITY COUNCIL CHAMBERS, IN THE CITY COUNCIL CHAMBERS
2 E. MAIN STREET ST. CHARLES, IL 60174**

1. Call To Order By Mayor Raymond Rogina At 6:45 P.M.

2. Roll Call.

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

3. Presentation.

Public hearing concerning passage of the Proposed Annual City Budget For Fiscal Year 2016/2017.

In accordance with state statute a notice of this public hearing was published in the Kane County Chronicle on March 23, 2016. The budget was made available for public inspection on that date. The presentation of the 2016/2017 will begin shortly. After the public hearing, the City will have taken all necessary legal steps for adoption of this budget.

Chris Minnick, Finance Director

We will be taking the final steps for formal adoption for the proposed 2016/2017 budget. Later this evening, pending the outcome of public hearing, there is a resolution to formally adopt the budget for 2016-17 fiscal year.

This is a similar presentation given to the Government Operations committee. The numbers have not changed that much, so we are going to go through this quickly.

We will be discussion the recent financial trends the City has been experiencing and how those financial trends have impacted the General fund (primarily) along with the three main utility operating funds. We will go through a summary of the major capital projects in the budget. And we will answer any questions or take comments on the budget.

Over the last several fiscal years as the City has gone through and the City has made a recovery from the great recession. The City has made a series of financial decisions where the majority of these decisions have proven to be prudent from a financial standpoint. They have had significant impact and allowed the City to remain structurally sound in operations and results. As a result we have had a period of sustained surpluses in the general fund. And those surpluses have led to healthy reserve levels. Additionally, a lot of decisions have impacted the utility funds and utility fund performance. The City Council dictated that as we went through the great recession, we would have a slow steady approach to rate adjustments over time. We are not seeing the fruits of that labor. Our rate structures are beginning to stabilize. Operating deficits have been eliminated. All of utility funds have returned to a positive reserve position since we have come out of that. The FY 2016/2017 continues that tradition of fiscal conservatism and financial prudence. The budget is balanced. Staff is not proposing any tax increases. We are not proposing any new positions in the new budget, our staffing levels will continue at 2015/2016 levels. We do have some utility rate adjustments that are proposed, however, because of the work done in the past, those utility rate adjustments, the increases are anticipated to be smaller than we projected one year ago. We expect in a couple years to reduce again in terms of extent

and scope. We do have a new fee proposed on the utility side in the wastewater utility. We are proposing an EPA assessment. Essentially this is to finance and fund projects that are necessary to comply with environmental mandates imposed by state and federal government.

We discussed the good financial results that the City has experienced over the last fiscal years and the balanced budget concept. This bar chart puts numbers to that. This chart shows all the funds and financial activity that the City undertakes in a fiscal year. In FY2014/2015 we ended the year with just under \$143 million in revenue and \$132.5 million in expenditures. That good financial fortune carried forward into FY2015/2016, which will end at the end of the month. We are anticipating a \$1 million surplus citywide based on revenues of \$152.8 million and expenditures of \$151.8 million. The FY2016/2017 budget proposal contemplates and projects revenue of \$154.8 million and proposes expenditures of \$152.4 million. Another way to think of this is the essentially the City is at \$150 million to \$155 million corporation on an annual basis.

In terms of the general fund, this chart graphically shows the periods of surpluses that we have experienced. The blue line represents the revenue in the general fund; the red line represents the expenditures in the general fund. From 2012 and on to the projections in 2016, the City has enjoyed a period of surpluses in the general fund during that time. We do anticipate going forward that into 2017 budget we will be in a break-even position. That's how we budgeted the general fund for 2016/2017.

In a more tabular format, this represents the current fiscal year 2015/2016 which ends at the end of the month. We anticipate a \$1.1 million surplus. That's the only number in the presentation that has changed. Last time I presented, I had the January numbers up here. We have finalized the February numbers and the projected surplus has increased to about \$1.1 million. That would mean we would end the year with a reserve level of about \$17.7 million or about 43% of our annual expenditures on an annual basis. We do anticipate a break even budget in FY2016/2017 we will have budgeted about \$43 million in revenue and expenditures. Moving forward into 16/17 we would maintain that \$17 million in reserves that would equate to a reserve level of about 41%.

The next pie chart shows where the money comes from. Of the general fund revenues, about 70% of them come from two primary revenue sources. Property taxes represent about 30% of revenues in the General fund. And as the Council is aware, we have frozen the property tax levy for the seventh consecutive year for the next fiscal year upcoming. The sales tax, which we get from the State of Illinois and our locally imposed sales tax, is about 39-40% of revenue in general fund on an annual basis.

The next pie chart shows where the money goes. Of our budgeted expenditures of about \$43.4 million, a little over half goes to support the operations of police, fire and public safety. And public works represents another 18-19% on an annual basis.

The next slide discusses the history of the utility funds. For a variety of factors our revenues have not kept pace with expenses that we had in utility funds. In response to that in 2011/2012 timeframe, the City undertook a utility rate study in all three of the operating utilities. The recommendations that came out of that study were implemented by the City Council. During that rate study, the Council directed a long-term collective action. Making small manageable increases to utility rates over time to correct the financial situation that has occurred over the previous few years. In that strategy was an annual review of financial conditions and performances of all three operating utilities and a direction to staff to come forward to with a rate structure that mirrored the financial performance and condition of all three of those utilities. We

are now anticipating a surplus for all three utilities combined of \$600,000 for fiscal year that ends at the end of the month. That would leave us with a reserve level of about 10.3 million. Into 16/17 we anticipate the surplus to be approximately 1.9 million. Which would leave us with a reserve level of just under \$12.2 million. We do have some rate adjustments that are contemplated for 16/17. Our typical residential customer pays approximately \$2,329 for a year worth of utility service for all three utilities combined. We anticipate that to increase to about \$2,460 on an annual basis under our proposal this evening.

We did talk about the concept of the EPA assessment. That would represent a monthly fixed charge on a wastewater bill (15,500). That charge would finance projects need to meet environmental standards. Currently we have one project on our drawing board. We have a mandate from the EPA to comply with a more stringent phosphorus discharge standard. We anticipate that would be a \$7.5 million project. We would begin at \$.45/month and this would be added to the bills in June 2016 and we anticipate the \$.45 charge would increase over time dependent on project costs and depending on other projects the EPA would mandate that the City comply with over the next fiscal years. We anticipate that this would be an escrow type account where we would track revenues and expenditures separately so at any point in time, we can tell you what revenue was taken in and exactly what that money was spent on. Even with the rate adjustments in the EPA assessments, we anticipate that the proposal tonight will allow the City to retain its position as the lowest cost provider of utilities in the tri cities. We have annual billings for a typical customer at about \$2,460 annually; Geneva and Batavia go above \$2,500 and Naperville is slightly below what our City is. However Naperville is enacting rate to assess some rate increases that may catch our surpass us. Com Ed is comparable as well to the City of St. Charles.

In terms of capital projects, the following are capital projects that are projected in the budget for next fiscal year or next few fiscal years. We have discussed the police facility in recent public meetings, design beginning in FY17 and construction in FY18. In terms of Seventh Ave Creek flood mitigation project we have made funds available for continued property acquisition. We also anticipate in FY 16/17 we will begin developed of the plans and project analysis and design for the particular project with construction currently project during FY19 and continuing to FY20. Also contained in the 2017 budget, we have funds set aside for the rehab of the George's sports building. We also have streetscaping improvements budgeted for phase 3 of the First Street development. Additionally, we anticipate restoring the detention areas around the detention basins at Stuart Crossing and various bridge repairs and resurfacing of roadways. And there are several infrastructure projects related to the utilities including the phosphorus removal project. The engineering will begin soon and the construction to begin 2017/2018. Now it's appropriate to take any public comment or answer any questions.

Alder. Payletner

We are voting tonight on the budget, down the road there will be votes on the expenditures, for the most part.

Chris Minick

For the most part. We approve significant contracts, construction projects, significant design engineering projects and things of that nature. Yes these will come back for separate votes once we have the quotes actually received. The budget is an estimate in a lot of cases, we do need to vote on individual expenditures once we get the quotes from vendors.

Alder. Krieger

Well done as usual.

Mayor Rogina

I concur.

No comments filed with Clerk Office

Robert L. Brown, 1 Southgate Course

I wanted to say, that Alderman Turner had a good observation at the last meeting. And that observation was regarding the reserve. In the last 10 years how many times have we had to use reserve dollars?

Chris Minick

I alluded to some instances where, the electric fund in particular, borrowed some money from General fund to subsidize some of the operations while we were going through the period of rate adjustments. Additionally, we anticipate that there would be a one-time expenditure of reserves for some of the streetscape implements for First Street development. We have programed those into the budget as well.

Mr. Brown

Those dollars will come out of the reserve funds?

Chris Minick

Yes

Mr. Brown

How much?

Chris Minick

The total improvements that we anticipate for First Street are approximately \$1 million.

Mr. Brown

So \$1 million out of the \$12 that we are forecasting?

Chris Minick

Twelve million is for the three utility funds combined. The General Fund is approximately \$17 million. The \$1 million is coming out of the General fund.

Mr. Brown

Wasn't there an observation by Alderman Turner, why don't we combine some of these reserve funds. And, I will add this, once we do that maybe we don't need as much in reserves, and maybe we don't need to hike our rates.

Chris Minick

There is a difference between the General fund and the utility funds. The utility funds are accounted for as their own separate business enterprises. They are intended to be totally self-supporting from the rate structure and the rates that the consumers pay. The utilities are not intended to be subsidized by any tax dollars. The general fund is different. It is not accounted for as if it were a business enterprise. It accounts for the general government things of the City. Things like police services, fire services and any expenses related to administration, community development, snow plowing, those kinds of things. So, I would avoid mixing the reserves of the two funds for that reason. It changes the nature of scope of the utility funds. You kind of corrupt the pure business accounting of making sure those utility funds are self supporting based on the revenue structure.

Mr. Brown

Do we have an analysis of reserve funds from other cities? What percentage of available capital they allocate to reserves?

Chris Minick

I don't have that kind of analysis under utility funds. We are in a position now with the electric fund that I believe we are more of in a maintenance mode. We wholesale purchase power from the IMEA and then redistribute it to all of our customers and we charge based on those power purchases. That accounts for roughly 70-75% of the expenditures in the electric fund. On the electric side, I think our cost increases will now mirror our power increases. We have only budgeted about a 2% increase in the rates for this coming fiscal year, because we anticipate our power cost increases of about 2%. I think that is going to be the trend in the electric fund over the next coming few years.

In terms of water fund and waste water fund. The Water fund is through its period of significant capital projects. It also had a period of it had to comply with some EPA mandates. We had some significant expenditures related to that. We have gone through that construction period and we are in the process of absorbing some of those cost increases but I think over the next couple of fiscal years we are going to see this occur. Then I think we are going to be able to step down significantly the rate we are going to see on the water side.

For waste water side is about where the water fund was three to five years ago. Its coming into a period, I mentioned the digesters will be a significant expense. The digesters are coming to the end of their operational life. We have this new phosphorus compliance standard, we have some infiltration standards. We are going to need to have some capital expenditures on the waste water side over the next fiscal years to comply with the mandates.

Mr. Brown

That has nothing to do with the reserves, my understanding. I suggest to the Council to charge staff to see an analysis of reserves compared to other municipalities in the area. What kind of percent are we running at 12%?

Chris Minnick

If we hit the numbers we project, we will be at about 12%.

Mr. Brown

And our reserves are going from \$10-12 million? So in an environment where our reserves are going from \$10-\$12 million we are asking for slight rate increases from our homeowners.

Mayor Rogina

Who said that?

Mr. Brown

Isn't that right Chris?

Mayor Rogina

You are talking about utilities?

Mr. Brown

Yes

Chris Minnick

In relation to level of reserves. The City has two policies. For general fund we are required to maintain a 25% reserve level as compared to our annual expenditures. Right now we are above that on the general fund side. On the utility side we are mandated to obtain a reserve between 25-50%. That was the policy that was put in many years ago.

Mr. Brown

But this is driven by City Council.

Chris Minnick

It is.

Mr. Brown

What I am suggesting is, it might be beneficial to look at other reserves set aside in other municipalities. And see if ours are we at the same level. If we are asking to homeowners to pay more we don't want to also defend increasing reserves \$10-\$12 million a year. Thanks

Chris Minnick

The auditors will also have some suggestions and some levels they would like to see those reserve levels at. As well as the bond rating agency.

Alder Turner

Chris what I would like to see, coming in from of my committee this year, I think that is a good idea a rate comparison with the other cities. I would also like a history of 10-15 years how much we have had to draw from reserves for an emergency. Policy is old, we should take a look at it

and maybe we should revise some of these policies as well. And maybe we can use the reserves to get a bond down. We should all take a look at it. Thank you.

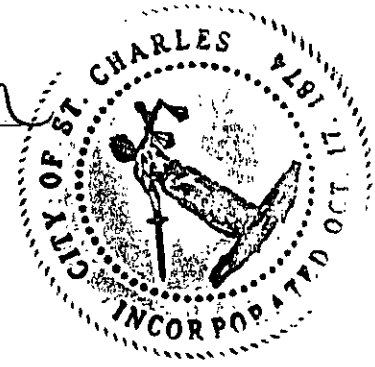
4. **Adjournment.**

Motion By Stellato, seconded by Silkaitis, to adjourn meeting

VOICE VOTE UNANIMOUS MOTION CARRIED

Meeting adjourned at 7:15 P.M.


Nancy Garrison, City Clerk



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Nancy Garrison, City Clerk