MINUTES
CITY COUNCIL
WINTER BUDGET WORKSHOP
SPECIAL MEETING OF THE CITY COUNCIL
JANUARY 23, 2023, 5:00 PM

1. **Call to Order**
   The meeting was called to order by Mayor Vitek at 5:01 pm.

2. **Roll Call**

Present: Ald. Silkaitis, Ald. Kalamaris (5:08 pm), Ald. Payleitner, Ald. Bongard, Ald. Bancroft, Ald. Lencioni (5:07 pm), Ald. Pietryla, Ald. Wirball, Ald. Bessner, Ald. Weber (5:04 pm)

Staff: Heather McGuire, Bill Hannah, Peter Suhr, Jenn McMahon, Derek Conley, Russell Colby, Police Chief Jim Keegan, Fire Chief Scott Swanson, Larry Gunderson, Tracey Conti

Absent: None

3. **Budget Workshop**

Budget Workshop
2023-01-23.pdf

https://studio.youtube.com/video/FNFVNWOrnFQ/edit

This Workshop intends to give a comprehensive overview of financial management, focusing on capital needs, revenue projections, and debt obligations, and to get Council's direction before implementation into the budget.

Council direction is needed on three main points:

1. Agreement with the Capital Projects List
2. Sales Tax
3. Utility Rates and Connection Fees

FY 2023-24 Budget Process Timeline

Bill Hannah explained that a draft budget will be created to give a clear view of the budget before budget discussions and presenting the final budget document to Council for approval in April. The goal is to bring better budget usability, clarity, and understanding.

The draft budget will be presented at the Government Operations meeting on March 6, 2023, a Public Hearing will likely take place on March 20, 2023, and to the City Council for approval of the Budget Ordinance on April 3, 2023.

City Strategic Plan Priority 4

Financial Wellness: Implement policies, practices, and procedures that manage long-term liabilities, increase understanding and awareness of the City's fiscal condition, and continue efficiently using City resources to ensure ongoing financial strength and sustainability.

The goals for financial wellness that were identified as part of the Strategic Plan Process are:

1. Ascertain the appropriate level of annual revenues needed to fund the City's core capital project programs with ongoing revenue sources.

2. Evaluate and implement utility rates that provide the resources necessary to fund improvements to the City's water, sewer, and electric utility systems.

3. Evaluate the City's charges for services for development-related items to understand better the costs and benefits of doing business in St. Charles.

4. Identify ways to expand fiscal and budget transparency for the community to increase understanding of the City's finances.

5. Maintain an appropriate general fund reserve balance in relation to the City's overall financial position to provide financial stability.

6. Develop a Debt Issuance and Management Policy that will manage current outstanding debt and provide guidance for the evaluation process of issuing new debt (approved 10-17-2022).

Debt Policy - Key Relevant Provisions

- Not issuing debt for operating expenses.
- Looking for alternatives to debt financing to fund capital needs.
- Understanding and evaluating the credit rating metrics used by Moody's and if actions taken by the City could impact the credit rating.
- Capital projects with an estimated cost of $500,000 or less to be funded with on-hand or pay-as-you-go financing.

- The ratio of total annual governmental funds debt (excluding outstanding debt issued for TIF purposes and specific revenue bonds) shall be reduced and maintained to be 10% or less of General Fund Revenues.
- Debt service coverage of at least 1.0 shall be maintained for each enterprise utility fund.

The City's outstanding general obligation debt was reduced from $108,920,000 to $101,885,000 by not doing any new issuances during the current year.

Existing Annual Debt Service Over Time - New software manages long-term debt obligations and other liabilities. The total annual debt service for all obligations is broken down between principal and interest, only the existing obligations, not projected. Over the next two years, it's approximately $14M annually, principal and interest combined. This software will provide good information in the budget document.

City Bond Rating and Moody's Changes - Currently, St. Charles maintains an Aa1 bond rating. Recently, Moody's changed its methodology, and approximately 7% of rated entities were notified that they might be upgraded or downgraded. St. Charles is not under review, and no changes will be made. Some of the most significant changes are:

- Entities will have an Issuer Rating, similar to the underlying rating, and an Instrument Rating.
- Rating is based on the fiscal status of all governmental and enterprise funds. They are looking at the entire entity.
- More focus will be on long-term liabilities such as pensions, debt, and loans.

Arriving at the Issuer Rating – Step 1, Step 2, Step 3 - To determine an issuer rating, Moody's looks scores the following:

Step 1

- Economy including resident income, full value per capita, and economic growth (total 30%). Financial Performance (30%).
- Financial Performance, including available fund balance ratio and liquidity ratio (30%).
- Institutional Framework, the ability to raise revenue, home rule or not, how much you control expenditures, and what the State is doing to pass along costs to municipalities or take away revenues (10%).
- Leverage, long-term liabilities, and fixed cost ratios (30%).

Step 2 - Notching factors

- Additional strength in local resources
    - Extremely high property values per capita or high median household income is positive.
- Limited scale of operations
    - Small municipalities that have limited flexibility

- <u>Financial disclosures</u>
  - Not reporting according to standards

- <u>Potential cost shift to or from the State</u>
- <u>Potential for significant change in leverage</u>
  - Capital asset depreciation. If you have depreciated assets of 65% or more, that could have a negative impact. St. Charles is approximately 47%-53%.

Step 3 - Other factors that might be taken into consideration:

- Fund-specific financial considerations.
- Competitive enterprise risk in governmental or business-type activities.
- Likelihood of receiving extraordinary or ongoing support.
- Strengths or weaknesses related to economic concentration.
- Unusual risk or benefit posed by long-term liabilities.

<u>Arriving at the Instrument Rating</u> - The following considerations impact the instrument rating:

- **Security Features** – do they enhance or detract from the revenue pledge?
- **Active or Passive** – does the issuer have the ability to adjust or actively manage the pledge?
- **Characteristics of Revenue Base** – What are the pledge revenue base's breadth, stability, and diversity relative to the issuer?
- **Debt Service Coverage** – As applicable, are the pledged revenues significantly limited, with minimal debt service coverage?
- **Other factors** – Essentiality or other elements not present in the issuer rating.

These metrics will be monitored going forward.

Bill was asked about goals regarding ratings, what ratios we try to achieve as we discuss issuing debt, and what we need to spend or fix. Also, what is the cost-benefit of achieving a AAA rating?

Bill indicated that the City will be looking at these measures in the future and that trying to get to a AAA rating is a goal, but we also need to maintain our rating, which is more important than achieving a higher rating, and this new framework from Moody's gives the City a good backdrop to evaluate the City's overall fiscal position.

<u>Overview of the Economic Environment</u> – Inflation and rising interest rates have been the dominating factors of the last one and a half years. Increase in the cost of providing services and capital projects, retaining/recruiting employees, and supply chain issues. A positive is that we've been able to invest some of the City's funds at a higher interest rate. There is some level of economic uncertainty, and we will continue to monitor it.

<u>General Fund Sales Tax Revenue</u> – Consistent increases have been seen in the municipal and home rule sales tax over the last year. The "Leveling the Playing Field Act" has resulted in an increase in the

out of State receipts. An estimated 4% increase in sales tax revenues is predicted for the next fiscal year.

Sales Tax Revenue Municipal 1%, Home Rule 1% - The municipal tax has increased over last year but is flattening. The Home Rule Sales Tax vs. the Municipal 1% sales tax increases are more on the Home Rule side and will be considered when making the revenue projections for next year.

General Fund State-shared Income Tax – Seeing strong receipts in corporate and individual income tax revenue that the State receives and gives to the City per capita. This very unpredictable revenue source will be monitored closely over the next year.
General Fund 6% Hotel Tax – Seeing solid increases in hotel tax revenue. Receipts are up 38%; revenues are estimated to be $1.9M.

Personnel Staffing to Provide City Services - Currently, the City has approximately 277 full-time equivalents (FTE) staffing. Discussions have been made about what additional resources are needed to meet service demands and other organizational needs. We have fewer FTEs than we did ten years ago. It's challenging to meet service demands, and in the future, some additions may be recommended in the draft budget.

Bill was asked how St. Charles compares to similar communities regarding full-time employees. Bill explained that it's hard to compare based on the services provided. It's based on the service needs of each community. Bill further clarified that the numbers provided do not include open positions. If a need is identified in a particular department, there are policies and procedures to evaluate those needs.

Approximately ½ the staff is at Police and Fire, and we're struggling to keep the right amount of staff in those departments. Hiring and retaining employees across the board is challenging.

Compensation Adjustments May 1 – Based on what's happening in the market and keeping with the attract and retain philosophy, the recommendations for the upcoming budget are a 3% market adjustment for non-union employees and a 3% merit pool to be allocated. This is slightly higher than usual but is recommended based on the inflationary increases and trouble attracting and retaining employees.

Police and Fire Pension Funding – The police and fire pension funding goal is 100% by 2040. Fire is funded at 66%, Police are funded at 50%, and the Net Pension Liability for Fire is $24.3M, with $44M for Police. All the investments are at the newly created state-wide entities, and there is no longer any local control over the investment funds. We meet with our actuary annually to look at the investment and actuarial assumptions to make sure they are current. We are within range of other pension funds. We plan to talk with our actuary to review funding strategies on the police and fire pension side. Heather explained that the idea is to look at excess revenue or surpluses at year-end to tackle the 2040 goal of 100% and not struggle year after year to catch up.

Tax Increment Financing Funds – Bill presented the 6-year history of the revenue that each TIF district has been generating. The Hotel Baker (TIF 1) and the Moline Foundry (TIF 2) are closed. There was a significant increase in increment from 2020 – 2021 for the St. Charles Mall (TIF 3) - We will probably be able to repay ourselves the advances we made to the fund several years ago to subsidize the fund. The Lexington TIF was dissolved, and there was a more than anticipated increase in the Central Downtown (TIF 7). We won't know the updated numbers for 2022 until March or April of this year.

Major Capital Projects (1-3+ Years) – Bill reviewed the significant capital projects. These projects are not recommended to all be done next year, but over 3+ years, and are only highlights. Other projects will be included in a more comprehensive draft budget document.

- Typical MFT Street Resurfacing Projects ($1.5-$2.5 million yearly, depending on available funds).
- Street Base Reconstructions Swenson, Stern, Prairie, Southgate, Kautz ($500K/Yr. to $1,500,000/Yr.).
- Red Gate Bridge Railings ($750,000).
- Piano Factory Bridge Repairs/Replacement ($2.4M total; 75% grant possible).
- Prairie Street Bridge Repairs ($150,000).
- Police Range Facility Improvements ($600,000 net after grant).
- Fox River Retaining Wall ($3,000,000).
- 7th Avenue Creek/Culvert Replacement/Improvements ($1,300,000 per Year).
- Public Works Roof Replacement ($1,900,000).
- City Hall Council Chamber Improvements ($875,000).
- City Admin Office Repairs/Improvements/Remodel ($500,000).

A question was asked about the 7th Avenue Creek Project and why the budget is $1.3M. Peter answered that the project is on Phase 2 of 3, mostly culvert replacement from the southern end of where Phase 1 ended to the river. The strategy for Phase 2 is to replace the culverts one at a time over the next 5-6 years. We also have some infrastructure work on State Street Creek as well. The next focus will be in the area of Dean St.

Ald. Bancroft stated that if there are more significant issues in other areas of town, 7th Avenue Creek may have to be put on hold to focus on other projects.

2023 Road Program – Bill presented the anticipated road program for 2023. It includes 4.7 miles of road and is MFT funded. The work will take place in summer and fall. The Pavement Assessment will be presented at an upcoming meeting.

Street Condition Assessment Update – last year an assessment was done of the City streets. Some of the streets included in the assessment have moved into the poor range since that time. Approximately 44% of streets are in the Poor range. The condition index has slipped over the last five years. The resurfacing cost per mile is roughly $500,000, reconstruction of the road is $1.6M.

One of the Council Members asked why this wasn't focused on more in the past. Peter Suhr explained that in the 2017 Conditions Study, that chart predicted street conditions in 2022. It is very similar to what is being presented today. It was submitted for consideration then, and the funding stayed the same. That brings us to where we are today. Over the past 2 – 3 years, we funded the program on a 30 - 40 year cycle. However, in the critical years, we funded at a 50-year cycle.

A question was asked about the cost and if there are any strategies. Peter stated that there are many strategies to discuss that will be presented as part of the study that's currently being completed. Heather added that investing in resurfacing and extending the life of streets before getting to the reconstruction phase is more cost-effective.

<u>Current Street-Related Funding</u> – to get to the 30-40 year cycle, the City would need to spend $6.5M – $7M annually.

<u>Street Improvement Funding Options</u> – There are a variety of options. Such as increasing the Local Fuel Tax, increasing the Alcohol Tax, creating a Natural Gas Use Tax, increasing the Local Hotel Motel Tax, going to a referendum to establish a Real Estate Transfer Tax, establishing a Local Food and Beverage Tax, increasing the Local Home Rule Sales Tax, or increase property taxes to be levied annually going forward.

Mayor Vitek reminded the Council that in 2018 a Local Fuel Tax was implemented; the alcohol tax was increased, as well as the Hotel/Motel Tax. Heather stated that there was once a Food and Beverage Tax, but it was removed in 2004 when the Local home rule sales tax was increased.

Heather noted that increasing the Home Rule Sales Tax made the most sense when this was being reviewed by staff and would generate the amount of revenue needed. An increase in this tax would not be only be paid by residents; it would be paid by non-residents as well, and is not borne by only one segment of the business/retail community. It makes sense to also dedicate this money formally for road improvements and infrastructure.

It was confirmed that if the Home Rule Sales Tax increase were implemented, the dollar amount would be specifically codified to go towards funding street improvements and related infrastructure, and moving the street maintenance and improvement program closer to a 30-year cycle. Additionally, the Home Rule Sales Tax estimated to be paid by non-residents is estimated to be from 40% - 60%.

One of the Council Members asked if this was a sustainable solution. Heather said there is no easy answer because of State mandates and inflation. Some recent examples are lead service lines and body cams for police officers. We have to do what is in the community's best interest and find sustainable and diversified revenue sources that aren't the sole responsibility of our taxpayers. We're also trying to reduce the City's overall debt burden so more of the revenues that are currently repaying annual debt payments can be put into other needs and projects.

Bill further explained that the increase would generate approximately $4.4M in additional annual revenues. This would provide flexibility to address future capital improvements and possibly consider reducing the level of future property tax levy increases because with the roads funded, other resources can be leveraged into other priorities.

Bill informed the Council Members that there is a deadline with the Illinois Department of Revenue (IDOR) to implement the change. The ordinance would have to be filed with the IDOR by March 31 for a July 1 implementation or September 30 for a January 1 implementation. If Council agrees to do this by March 31 for a July 1 implementation, the revenue that starts coming in after July 1 would be collected and used to budget for FY 24/25 to begin the increased road improvement program.
Heather asked for formal direction from Council on the recommendation to increase the local home rule sales tax from 1% to 1 ½%.
Ald. Weber - Yes
Ald. Bessner - Yes
Ald. Wirball - Yes
Ald. Pietryla - Yes
Ald. Lencioni - Yes
Ald. Bancroft - Yes
Ald. Bongard – No. Would like to explore other solutions.
Ald. Payleitner - Yes
Ald. Kalamaris - Yes
Ald. Silkaitis – Yes

Ald. Bancroft requested a spreadsheet showing the effects of the reinvestment plan over the next 20 years with the appropriate adjustments for inflation.

Mayor Vitek confirmed that there is a majority of support with some caveats to dedicate the funds for streets and infrastructure. Additionally, she asked that the 2017 Street Study be distributed to the Council Members along with any other information that would be helpful.

Key Water and Sewer Capital Projects - Bill went over the listing of water and wastewater capital projects. Many of the projects are funded with the Illinois Environmental Protection Agency (IEPA) Loan proceeds; once completed, we will need to begin repaying our debt service to the IEPA. Bill explained that a significant amount of water main replacement is required over the next several years.

Water Sewer Connection Fees –Staff began looking into this and realized that a significant amount of work was done in 2019 on this item. Staff worked with the consultant that did the study in 2019 and provided them with updated information. The study was essentially redone. The results recommend an increase in water connection fees of 28%, a sewer connection fee increase of 9% (East/Main), and a 42% increase for the West system. Council members indicated that they supported the implementation of the increases.

Utility Rate Changes – A utility rate study was done in 2019. There were three annual years where rate increases were recommended. We have four years remaining from what was recommended as part of the Study. One of the best practices, if you have or want to apply for more IEPA loans, is to implement utility rate increases for a multi-year period. This shows the IEPA that something is in place to fund the additional debt service repayment obligations.

Bill reviewed the recommended rate increases for water, sewer, and electric for the remaining four years and explained that the rate increases are necessary to fund operations, repayment of debt service obligations, and funding the critical water and sewer system improvements currently underway.

Heather asked for direction from Council to implement the utility rate increases by ordinance.

Ald. Weber - Yes
Ald. Bessner - Yes
Ald. Wirball - No
Ald. Pietryla - Yes
Ald. Lencioni - Yes
Ald. Bancroft - Yes
Ald. Bongard – Yes
Ald. Payleitner - Yes
Ald. Kalamaris - Yes
Ald. Silkaitis – Yes

Ald. Wirball asked about the water and sewer increases and whether they could spread it out more evenly over the next four years. Bill answered that he would look into it.

Mayor Vitek stated that more information and discussion are needed on this topic. Additionally, she asked for a Q&A sheet and information about comparable communities.

Ald. Lencioni commended the Finance Department on the improvements and said he appreciated the work.

4. **Public Comment -** None

5. **Additional Items from Mayor, Council or Staff** - None

6. **Executive Session (5 ILCS 120/2 (c)(4))**
    - Personnel –5 ILCS 120/2(c)(1)
    - Pending, Probable or Imminent Litigation – 5 ILCS 120/2(c)(11)
    - Property Acquisition – 5 ILCS 120/2(c)(5)
    - Collective Bargaining – 5 ILCS 120/2(c)(2)
    - Review of Executive Session Minutes – 5 ILCS 120/2(c)(21)

7. Adjourn

Motion by Ald. Wirball, second by Ald. Bessner to adjourn the meeting at 7:38 pm.

Roll Call Vote: Ayes: Ald. Silkaitis, Ald. Kalamaris, Ald. Payleitner, Ald. Bongard, Ald. Bancroft, Ald. Pietryla, Ald. Wirball, Ald. Bessner, Ald. Weber; Nays: None. Motion Carried

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Nancy Garrison, City Clerk

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Nancy Garrison, City Clerk