MINUTES
CITY OF ST. CHARLES, IL
GOVERNMENT OPERATIONS COMMITTEE
MONDAY, MARCH 21, 2011

Members Present: Chair. Carrignan, Ald. Stellato, Monken, Penny, McGuirk, Turner, Krieger, Martin, Bessner, and Lewis

Members Absent: None

Others Present: Mark Koenen, Chief Lamkin, Chris Minick, Kathy Livernois, Peggy Forster, Chief Mullen, Rita Tungare and Brian Townsend

1. Opening of Meeting

The meeting was convened by Chair. Carrignan at 7:18 p.m.

2. Omnibus Vote

None

3. Recommend approval of a Class B2 liquor license for a new restaurant, Nuova Italia West to be located at 18 N 4th Street, St. Charles (formerly Onesti's).

Mayor DeWitte: This is a liquor application for the former Onesti's Supper Club at 18 N 4th Street. The application has been completed and the Police Department has reviewed all the background information and has been approved. I would ask for approval of this application.

Ald. Martin: I don't see anything about the BASSET certification. It is blank.

Mayor: It says on the second page of the report that his expired renewal is pending. His current BASSET has expired and he is waiting for his renewal certificate. His license will not be issued until the new certification is issued.

Ald. Penny: His home address is white out on the application we have?

Mayor: It is white out because this was issued publically as part of tonight's agenda. His full address is on file.

Motion by Ald. Stellato, second by Monken to approve a Class B2 liquor license for a new restaurant, Nuova Italia West to be located at 18 N 4th Street, St. Charles (formerly Onesti's).

Roll Call: Ayes: Stellato, Monken, Penny, McGuirk, Turner, Bessner, Lewis; Nays: Martin and Krieger; None. Chair. Carrignan did not vote as Chair. **Motion carried.**

4. Preliminary Presentation of FY11-12 General Fund Budget

Chrmn. Carrignan: As we come into the budget season and talking with staff, we thought it would be a good opportunity to discuss where we are as we start talking about our 2011-12 budget. There are four things we want to say: 1) the City is in strong financial shape, 2) staff and our public servants in the City have done a very good job of having a very conservative budget last year, 3) they really focused and laser in on spending reductions, and 4) we've seen some improvement in revenue streams from the sales side, tax side, and some of the other franchise fees.

Chris Minick: We would like to review the status of FY10/11 to date and review the forecast. We've been 10-1/2 months into the fiscal year and we've seen some very definite trends and have some very positive news. We would like to review the status of the FY11/12 budget to date and talk about the next steps of the budget process, and answer any questions or comments you may have. We will be bringing forward the budget document for your approval within the next 4 – 6 weeks.

As we entered 2010-11, the economic condition that is being experienced both in the city, state, regionally and even globally has severely impacted the City of St. Charles budget and has for about a year and a half before this point. We were seeing declining revenue streams and we were on the cusp of declining property values and the resulting revenue streams from those declining property values – mainly the property tax and property tax levy. For 2-1/2 years we had to aggressively manage our expenditure levels to keep pace with those revenue streams. We've been through several rounds of across- the-board budget cuts within the General Fund and the major Utility Operating Funds as well. However, there was a bright point. We did have and continue to have strong reserves. Currently our reserve level is about $15.3M that is about a 37% reserve ratio and when we compare that to the level of expenditures in the General Fund and, as we entered into the fiscal year, we passed a budget that contained a deficit of $511K. We did plan to utilize a portion of those reserve accounts to fund the anticipated deficit for FY10/11.

What happened as the year went along? We began see a recovery. Not a great or fast recovery or steep or swift recovery, but a recovery none the less. Our revenues stated to slowly bounce back, particularly the sales tax. Our revenues started to perform more in accordance with our expectations and in a couple of instances, sales tax in particular, we are anticipating to see trends a little better than budget and also our distribution of income taxes from the State of Illinois. We did see declining property values, however, and that is a trend that will continue. We did plan our budget to implement a sales alcohol and beverage tax and made it effective June 1, 2010. The alcohol is performing up to our expectations and we collect about $75K a month at 2% tax and we've been right in that general range as the fiscal year has progressed.

On the expenditure side we continue to aggressively manage our expenditures – particularly those expenditures related to personal services. We had some positions come forward through attrition that we did not fill and we realize the savings from those salary expenses. Also in terms of commodities and contractual services, some of our capital expenditures, we have aggressively manage those expenditure levels with the challenge and key to that whole process of matching our expenditures with the revenue streams that we have had coming in over the last few fiscal years.

The results have been success and we do anticipate right now that the General Fund will end the fiscal year with a very small deficit of $75K or about 0.18% of the total budget of the General Fund. That is approximately $435K better than we anticipated when we entered the fiscal year. It is evidence and proof that the City is living within its means and has been successful in matching those expenditures in those revenue streams. If we had been having this conversation about a month ago, we would be talking of a small surplus, but early February we had a blizzard that required the expenditure of some extensive resources on part of the City. That event has turned our small surplus into a very small deficit. However it does appear that some reimbursement from FEMA will be forthcoming for some of those expenditures and any money we would get back from FEMA would positively impact those results and would flow right to the bottom line of the General Fund. So that is a quick recap of 2010/11 to date and where we anticipate ending the fiscal year, but what about 2011/12?

The bottom line is that the General Fund will be balanced for 2011/12 and we are achieving that balance budget with no new taxes proposed for the General Fund and no tax increases proposed for the General Fund. We do anticipate some small user fee increases for the refuse program. Those are called out in our contract with Veolia and those very small increases will cover the costs of those contractual services for that refuse program.

Diving a little deeper into the projections and assumptions within the General Fund budget for FY11/12, we do not expect quick recovery. We are looking at projecting and anticipating flat revenue streams continuing. We also anticipated that we will continue to see property values flat to declining based on the assessment cycle and the way those property values will be determined. However, despite these two factors our fiscal health will be maintained as we go through FY11/12. We do have some one time revenue sources that will help us out and contribute to that fiscal health and we also continue to control our expenditures and match our expenditure levels to our revenue streams and our reserve levels continue to be strong. We anticipate for the next two fiscal years the General Fund will remain at the 37% to 40% reserve level and we will then see some deficits return in the next couple of fiscal years; and if we do nothing we will end FY13/14 with a 25% reserve level which is our current policy floor.

Behind the numbers are some conservative projections. Our revenues will essentially be flat. They are going to increase by 1% annually. That is really a flat revenue stream compared to what we had before the economic downturn. We are expecting our expenditure levels to increase by approximately 3% annually. Since we are essentially in a balance position, when you have revenues increasing by 1% and expenditures by 3% that equation goes out of balance quickly and we do expect and anticipate if those items are not addressed we would have some future deficits in some future fiscal years. However, our reserve levels are adequate that we could address those deficits with reserves if we so chose to do so. Also contain in the assumptions and projections are the strategic sustainability initiative measures. Those are included within the budget where they are appropriate. The Voluntary Separation Incentive Plan is not included in tonight's presentation. We do anticipate some additional long term savings from that program, but the deadlines have not passed on that particular program and we are unable to make a projection at this point in time to what extent those projections might be. And the last major assumption contained within the budget is the impacts from the withdrawal of the Fire Protection District. Those amounts of revenues and cost reduction are indeed reflected in the numbers that you are going to see

Chris showed a chart for the next three fiscal years moving out from FY2010/11 and talked on it.

Chrmn. Carrignan: Regarding the strong reserve position, what does that get us in the bond market? I think its important to understand where we are with the strong financial position, what impact that has in the bond market when we go out to finance a project?

Chris: It's certainly not insignificant. The bond rating translates into real dollars. In the past to what is referred to a bond market there were several forms that offered levels of insurance. So if you didn't have a healthy bond rating or simply wanted to apply for that level of insurance you would go out and purchase bond insurance that would guarantee the payment of the principal and interest in the event that the government on the deed was not able to meet those obligations. By and large bond insurance is a thing of the past. No one offers it any more so what you are rated on and the interest rate that you pay on that is directly tied to your underlying credit rating now. By having that healthy reserve level, what it does for the City is gives the bond market a measure of comfort that the City will be able to meet their obligations of bond issues, principle, and interest payments due. That in turn rates in a higher bond rating which in turn results in lower interest rates because our bonds are viewed as less risky in the market place. So it does have a real dollar impact in terms of the bond market in the rate of interest we pay on our bonds.

Moved on to the pie chart that shows where the General Fund gets its resources on an annual basis. There are nine revenue streams that are listed on this chart. Property tax is a third of our revenue on an annual basis for the General Fund. Sales and Home Rule Sales tax represent roughly another third. Then we combine the next four revenue sources in terms of actual dollars. Those are the top six revenue sources of the General Fund. On historical basis, those six revenue sources typically provide anywhere between 85% and 90% of the resources of the revenues for the General Fund to be able to provide services for the citizens of St. Charles on an annual basis. Typically as those six revenues go, so go the fortunes of the General Fund. The Alcohol tax is a new tax and is put in there just for a sense of scale. The Other revenues represent anything else that is not in the other six such as, building permits, tickets, fines, charges or reimbursement of services, etc. in the performance of the duties of the department in terms of the General Fund.

Property tax levy is roughly a third of the revenue stream for the General Fund. Showed slides of the impact of the declining property values. Because of the way the assessment cycle works it is typically a 3-year cycle that is in arrears. We do anticipate that this trend will be continuing into the next couple of fiscal years as well. The City has taken the position of maintaining our tax operating levy at the exact same level for 2010 as we did in 2009. We are not requesting any additional money via the property tax for the 2010 levy as compared to the 2009 levy. Thus there is no tax increase. Showed a slide of Tax Levy Comparison for 2009 and 2010 showing no tax increase. This is a fairly fiscal approach we are taking with this tax levy. Many other governmental entities are not taking quite a conservative approach and are actually increasing the amount of property tax levy but we are not doing that. We are keeping the dollar amount of our tax levy the same. This approach also allows us to maintain our consistently high service levels to our citizens. We don't know what our future property evaluations are going to be. It is very likely that the decline in our property evaluations are going to continue for the next couple of years.

Another big variable is the State of Illinois which is suffering through its own budget crunch. There are ideas/talks/proposals floating around in Springfield to reduce or eliminate revenue streams that they could share with municipalities. The biggest turn right now in terms of our General Fund would be our income tax payments that we get from the State of Illinois and sales tax. Those two revenue sources combined equal about 40% of the General Fund's budget. If those two revenue sources would to be eliminated in their entirety, there would be between an $11M - $12M hole in our budget that we would need to look at how to make up; and those measures are being discussed in Springfield right now to determine if that is something they are going to pursue to help them out of their budget crunch. Our wage/benefit/pension costs, particularly in Public Safety, are out of the City's control. The pension costs for all city employees are determined by state statue. Right now there is quite a spike in fuel cost which is another variable. Lastly TIF projects, with the property evaluations providing less increment in terms of our TIF districts; any reduction in the increments could impact our ability to make those bond payments from that incremental revenue stream. If that happens we would need to make up any shortfall out of the General Fund.

Showed a graphic of where our reserve level is. It puts a picture to our bottom line to the numbers of the spreadsheets that were discussed earlier.

Conclusions: The City has been successful managing the current economic situation. We've been very successful matching our expenditures with our revenues and have instituted new, discretionary revenue sources when and where appropriate, such as the 2% alcohol tax, and have prudently use our reserves when and, if necessary, to bridge any short term or temporary gaps that we might need to utilize in our funding models. However, the numbers also reveal that continued vigilance will absolutely be necessary.

We will need to address the anticipated future deficits as we go forward and this is going to be an ongoing process.

We will be presenting the Enterprise/Utility Funds at the April 4 Government Operations Committee meeting, Budget Public Hearing will be held on April 18 and we'll be bringing forward the Budget document for your consideration on that evening. Our fiscal year will begin May 1.

Chrmn. Carrignan: Thank you for the update. Its gives us a good base for this final push of where we are and what we need to do going forward.

Ald. Bessner: Wrt the reimbursements from Illinois, are they still at the 90-day delay that we were talking about? Do you see it getting any worse or better or is it just a consistent trend?

Chris: Roughly, anywhere between 3 and 5 months. Right now they are in a 3 to 4-month time period. This is consistent to slightly better. It was running closer to 5 months earlier in the fiscal year.

Ald. Bessner: Going back to the slide talking about home values and what they pay last year vs. this year. Is it fair to say that every resident is going to pay a fixed amount? I'm trying to figure out how the amount will stay the same unless it's just a given that we are going to charge that same amount.

Chris: We can't fix the property tax bill in that manner. Essentially on that slide if those properties experience the same decline on their individual property values as the overall city property value declined, they would pay exactly the same dollar amount in taxes between those two fiscal years. It is individualized and if someone's property doesn't decline as much as that 6% or declines a little more than that 6%, their results will vary slightly, but that is what we anticipate on the average.

Ald. Stellato: Good job, this is a good warm-up for the upcoming budget discussion. Is this presentation tonight available to the audience?

Chris: We will put it on the website.

Ald. Krieger: Wrt the blizzard refunds, I understand Kane County is listed as one of the counties that will receive funding? I also understand there is a meeting on March 30 at Hemmens.

Chris: That is what has been indicated to us and yes I have that meeting on my calendar.

Ald. Martin: I'm concerned about the unstable state of Illinois and would ask the Mayor or Brian a question – what are the chances of the state actually taking that 30% away from us?

Mayor: This subject came up last year during the Spring Legislation Metro West Mayors and Managers Drive Down and preventing this from happening was on every Mayor's list as they went and visited their respective legislators. I get the feeling that people throw things on the wall to see what will stick. I signed two letters today to both of our senators asking them to oppose any action that the legislation would consider in sweeping the funds. There is also legislation floating that would require the state to wire, on a monthly basis as a much more expeditious manner, to each community the funds they would receive and that is actually getting a lot of support in Springfield. However, any time there appears to be support the Governor always seems to catch it and make a trade off of some sort. We will be down in Springfield the second week of April and I'm sure this issue will be voiced with strong opposition.

Chrmn. Carrignan: Which goes further to ensure that our strong reserve positions are there as we watch Springfield navigate their course. We really need that strong reserves to make sure that the services our citizens are used to; that we are able to keep that service where it belongs.

Chris: The reserves give us options and time, both very good assets to have in the event that something should happen.

Ald. Lewis: Would like to commend city staff on a job well done on the budget. I know how hard it is to make ends meet and I am very proud of everyone.

Ald. Penny: I would like to reiterate what everyone else is saying about the staff and I would also like to say that I have read through the legislation on the action about the money that is suppose to come to municipalities, and if anyone reads that, they should be very thankful that we do have the reserves we do. It is pretty scary. I don't want to believe that politically that this can't possibly happen, but I don't think we know. We have to be prepared for the worse.

Ald. Turner: On these TIFs, the rise in the value is supposed to pay off the bond and what was there originally goes to the City. As this value goes down on the property, does that affect the amount of money that goes to the City? It seems to affect the increment, but does it also affect other areas?

Chris: The TIF revenue stream is anticipated to be utilized for TIF related expenditures. To the extent that revenue would decline, the incremental revenue that is generated to pay the principal and interest, the City would need to make up that difference.

Ald. Turner: My understanding is that we were getting $100K to begin with; the TIF puts it up to $200K because of the increase. Do we still get the $100K or does the whole thing go down between the increment and what the City was originally anticipating?

Chris: To do the extent that we would exceed what the taxable values still exceeds; the original taxable value of when the TIF district was established, there would not be an impact of the amount of money to the City because the way the TIF works. The TIF works at the increased valuation and the money you would get from the increment is the increased valuation over and above the amount. So as long as you don't fall below that base amount, the amount coming to the City would not change.

Chrmn. Carrignan: Relative to the sales tax, it has increased with relative to having lost two car dealers in town? Somehow if we get something back into those buildings, we can see some optimistic continued growth in the sales tax fund?

Chris: That is correct and the projections going forward do not anticipate everything in there so anything we would get in there would be gravy.

Chrmn. Carrignan: We are holding our levy consistent? What are we hearing from other government entities: park district, school district, Batavia, Geneva, some of our comparables?

Chris: Most governmental entities, particularly those that are not Home Rule or subject to the tax cap, typically do increase to the full extent of the CPI and we are hearing that is the plan.

5. Additional Items

None.

6. Adjournment

Motion by Ald. Stellato second by Monken to adjourn meeting at 7:57.m.

Voice vote: unanimous; Nays: None. Chair. Carrignan did not vote as Chair. **Motion carried.**