



**DEKALB CITY COUNCIL AGENDA
AUGUST 16, 2019**

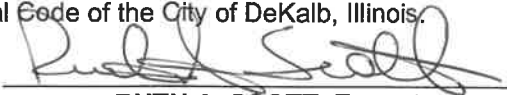
DeKalb Municipal Building
City Council Chambers
Second Floor
200 S. Fourth Street
DeKalb, Illinois 60115

**SPECIAL JOINT MEETING
OF THE
CITY COUNCIL COMMITTEE OF THE WHOLE
&
FINANCE ADVISORY COMMITTEE**

9:00 A.M. – 3:30 P.M.

- A. CALL TO ORDER AND ROLL CALL**
- B. PLEDGE OF ALLEGIANCE**
- C. APPROVAL OF THE AGENDA**
- D. PUBLIC PARTICIPATION**
- E. MORNING SESSION**
 - 1. Visioning**
 - 2. Environmental Scanning**
 - 3. Community Priorities**
 - 4. Break**
 - 5. Capital and Infrastructure**
- F. LUNCH BREAK**
- G. AFTERNOON SESSION**
 - 1. The General Fund Budget Landscape**
 - 2. Pensions Overview**
 - 3. Group Discussion**
 - 4. Session Wrap-up.**
- H. ADJOURNMENT**

Notice of a Special Meeting of the City Council Committee of the Whole and the Finance Advisory Committee of the City of DeKalb for August 16, 2019 at 9:00 a.m., called pursuant to Chapter 2 "City Council", Section 2.05 "Special Meetings", of the Municipal Code of the City of DeKalb, Illinois.



RUTH A. SCOTT, Executive Assistant

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Dr. Greg Kuhn and Jeanna Ballard of the Northern Illinois University (NIU) Center for Governmental Studies will facilitate much of the morning discussion. Dr. Kuhn is the Assistant Director of the Center, and Ms. Ballard is a Research Associate in the Public Management Group at CGS.

This public workshop will be televised, and the Council Chambers will be open to the public, so the most important stakeholders – the residents and businesses of DeKalb – have a front-row seat. **The active participants in the day's discussion will include the following:**

- **The Mayor and Council Members**
- **The City's Executive Team**
- **The Finance Advisory Committee**

- 1. Visioning.** Dr. Kuhn and Ms. Ballard will open the workshop with a participatory exercise to answer two related questions:

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- Two to three years from now, what do we hope to see in DeKalb?
- What do we think we might actually see?

There are no right or wrong answers to these questions. Among a wide range of possible answers, we might hear such phrases as “better streets,” “reduced crime,” “major new employers,” “flattened tax rates,” “budget surpluses,” etc.
Time: 9:00 A.M. to 9:45 A.M.

- 2. Environmental Scanning.** This exercise is designed to prompt the participants to take the priorities identified in #1, above, and identify the challenges and obstacles to achieving them. It invites candid conversation. The participants will break into groups to employ their different skills and experience to respond to a series of prompts and questions. Time will be allotted for each group to report the results of its conversation. **Time: 9:45 A.M. to 10:30 A.M.**
- 3. Community Priorities.** In this follow-on format, the participants will be asked to prioritize the visions identified above. **Time: 10:30A.M. to 11:10 A.M.**
- 4. Break: 11:10 A.M. to 11:20 A.M.**
- 5. Capital and Infrastructure.** The City Manager will review the state of our City’s streets as well as the City organization’s fleet needs, and then invite discussion on some funding options to address these needs. **Time: 11:20 A.M. to 12:00 Noon**

Notes:

Streets. *The winter of 2018-2019 was particularly harsh on our local roads because the average daytime temperature often hovered in the “freeze-thaw” range. The resulting explosion of potholes exacerbated the failing condition of streets around the City and accelerated the cracking at pavement joints and along gutter lines of streets in fair or good condition. The street inventory and pavement condition assessment in the 2018-2022 Financial Plan will be updated this Fall, but it is a safe assumption that many asphalt streets slipped in their pavement condition index (PCI) rating. The total funds allocated for road repair and re-surfacing in FY2019 was \$1,707,421. The sources and uses are portrayed in the table below:*

	MFT Funds	CDBG Funds
<i>N. First St.</i>	<i>\$715,341</i>	<i>\$0</i>
<i>Tilton Park, Wineberry & Manning</i>	<i>\$552,080</i>	<i>\$0</i>
<i>Harvey/Tyler</i>	<i>\$0</i>	<i>\$440,000</i>
<i>Patching</i>	<i>\$0</i>	<i>\$0</i>
Total	\$1,267,421	\$440,000

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The budgeted City MFT revenue in FY2019 was \$1,161,757, which also funded salt purchases (\$100,000) and annual electrical charges for street lights (\$450,000), so the MFT reserve had to be tapped to take advantage of aggressive pricing by the prime paving contractor on N. First Street.

The City owns and maintains about 130 centerline miles of roads, of which 74.8% (97.3 miles) are residential streets. As of January 2019, approximately 25 miles of DeKalb roads (mostly residential) needed immediate maintenance to prevent rapid degradation. In 2019, a total of only 2.75 centerline miles received such maintenance. At this pace, the road mileage needing urgent maintenance is growing much faster than the funds available to maintain good or very good pavement ratings (i.e. a PCI rating above 70). **The average street maintenance expenditures required to keep pace total about \$3.7 million per year.**

It is expected that the recent 19 cent increase in the State motor fuel tax will generate about \$500,000 in additional MFT revenue for the City in FY2020, for a total budget of about \$1.6 million. The following MFT expenses are tentatively planned for 2020, pending Council approval:

- Twombly Road from Edens Garden to Annie Glidden. DeKalb share: \$750,000; DeKalb Township share: about \$300,000. DeKalb County will do the design engineering at no cost to the City.
- North Seventh Street from Lincoln Highway to Sycamore Road. \$350,000.
- N. Thirteenth Street. Estimated \$200,000.
- N. Fourteenth Street. Estimated \$200,000.
- Macom Drive. Estimated \$100,000 for aggressive crack-filling and some Class D patching.
- Salt. \$100,000.
- Electricity for Street Lights. \$450,000.

Total: \$2,150,000

Fleet. The City's fleet of Fire, Police, Public Works and other vehicles totals about 170 units of widely varying description and function. The average age of the overall fleet increased from 5.7 years to 11 years between 2006 and 2017. This trend is a consequence of allowing vehicles to age beyond their useful life before replacing them, due to a lack of replacement funding. In 2018, it was estimated that more than one-half of the overall fleet was beyond its useful life. The total fleet's replacement value is now over \$12 million and the annual maintenance cost on that fleet is now over \$300,000. **Replacing the vehicles rated in declining or critical condition would cost approximately \$4.3 million.**

The preliminary vehicle replacement list for FY2020 includes the following on the "retirement" list:

- *Police: Replace (3) squad cars with (3) Ford Explorer Utility Squad Cars @\$55,000 each or \$165,000.*
- *Fire: Replace International Navistar ambulance @\$150,000 and replace Pierce Saber Engine (#4) @\$550,000.*
- *Public Works (non-Water Fund): Replace 2011 Sterling Dump Truck @\$150,000; replace 2001 Ford 4x4 one-ton truck @\$70,000; replace 2009 Toro 52" riding mower @\$11,000; replace 1998 Chevy 4x4 pickup @\$40,000.*

Total: \$1,136,000

Funding Options. The table below projects the sources and uses for urgent capital spending in FY2020:

Capital Use	MFT	CDBG*	Local Gas Tax**	Available	Needed	Gap
Roads	\$1,050,000	\$0	\$0	\$1,050,000	\$1,600,000	-\$550,000
Vehicles	\$0	\$0	\$390,879	\$390,879	\$1,136,000	-\$745,121
Facilities						
Barb City Manor	\$0	\$0	\$250,000	\$250,000	\$250,000	\$0
Other						
Streetlights	\$450,000	\$0		\$450,000	\$450,000	\$0
Salt	\$100,000	\$0		\$100,000	\$100,000	\$0
Sycamore Rd. Snow Removal	\$0		\$0	\$0	\$30,000	-\$30,000
Total	\$1,600,000	\$0	\$640,879	\$2,240,879	\$3,566,000	-\$1,325,121
*FY2019: \$440,000 was spent on a qualifying low-to-moderate income neighborhood street						
**FY2019: \$0.04/gal to Capital Fund (\$640,879); \$0.015 to Airport Fund (\$284,299)						

The funding "gap" in the table, above, does not include the longer list of degraded streets and alleys that would fill out the \$3.7 million in annual street maintenance spending needed to hold our own. It also does not make a dent in the growing list of aging vehicles and equipment. [\(Click here for further information\)](#)

Some capital funding options to close the "gap" are offered below. City Council guidance is welcome as we proceed toward the preparation of the FY2020 Budget.

- a) *Property tax rate increase. Not recommended.*
- b) *Home Rule Sales Tax Increase. The current rate--1.75%--ranks second highest among the comparable cities established by the Sikich accounting firm in the City's Five-Year Financial Plan (2018). Carpentersville has a home rule tax rate of 2.00%. **A .25% rate hike would produce about \$963,411 in new revenue that could be dedicated exclusively to street improvements.** With a .25% hike, the total tax on a meal from a local restaurant would be 10.25 cents on the dollar.*
- c) *Local Fuel Tax Increase. The current rate of 5.5 cents per gallon is split between roads (4 cents) and airport expenses (1.5 cents). In 2019 they are expected to raise \$640,879 and \$284,299, respectively. The dollars can be spent on any capital item. The table above shows a part of the FY2020 local fuel tax revenue dedicated to the fulfillment of the Barb City Manor agreement in 2020, which calls for an annual allocation of \$50,000 plus whatever spending is associated with the "carryover" the Council approved on June 24. Most of that carryover will not be spent in 2019 and cannot be spent from TIF funds in 2020. **For every two-cent increase, the local fuel tax produces an estimated \$320,000 in revenue.***

F. LUNCH BREAK – NOON TO 12:45 P.M.

G. AFTERNOON SESSION

- 1. **The General Fund Budget Landscape.** Assistant City Manager Ray Munch and the City Manager will provide a snapshot of FY2019 trends half-way through the City's third quarter, and invite discussion on possible assumptions for the 2019 corporate levy and the funding of general operations in FY2020.
Time: 12:45 p.m. to 1:30 P.M.

Notes:

In July of 2018, the City staff presented the City Council with an update to the City's five-year financial forecast which revealed a structural imbalance in the General Fund. Revenue and expenditure projections showed that the City would fall approximately \$500,000 short of meeting the City Council's fund balance policy requiring the equivalent of 25% of General Fund expenditures to be held in reserve. The staff and City Council undertook exhaustive efforts to balance the budget; however, by November of 2018, additional budget shortfalls were identified. It was ultimately determined that the total shortfall in the General Fund balance was nearly \$1.7 million. Numerous cost-cutting measures were included in the FY2019 Adopted Budget. In the first quarter of 2019, the newly appointed City Manager announced additional cost-cutting measures which required the elimination of a number of top management positions in various departments across the City. The City Manager estimated that those personnel reductions would

reduce General Fund expenditures by approximately \$500,000 in FY2019 and \$1,000,000 in the following years.

Based on audited FY2018 financials, we now know that the City ended FY2018 with a fund balance of 19.7%, which is a shortfall of \$2.02 million. The FY2019 Adopted Budget reduced that shortfall to \$931,158, bringing the fund balance back to 22.5%. Based on current trends, it is estimated that FY2019 will end with a fund balance of 24%, representing a \$391,110 shortfall. Aside from the \$51,338 in accrued leave benefits paid to the top managers laid off on March 1, another \$500,000 in accrued leave benefits have been paid from the General Fund reserve since January 1, 2019 for 22 other employee separations. These significant separation payouts will impact the improving General Fund balance which is presently hovering within 1% of reaching the 25% target by the end of FY2020. ([Click here for further information](#))

Revenue Trends: *Our staff closely monitor trends across all major revenue categories. Several positive trends are emerging that will aid the City in its efforts to maintain a balanced budget. Most notable are increases in state-shared revenues, such as state income tax and local use tax. State income tax returns are rising due to favorable economic conditions and rising employment rates. The current Illinois Municipal League (IML) estimate for 2020 projects an increase of more than \$330,000 over the budgeted FY2019 state income tax payments. Local use tax has been positively impacted by the collection of sales taxes on Internet purchases. Revenues resulting from online sales should continue to rise as new state legislation has been enacted to collect from more online retailers. The IML estimate for use tax collection in 2020 is more than \$250,000 above the FY2019 budgeted amount. Additionally, positive trends can be seen in the revenue categories of Service Charges and Fines. The collection of ambulance fees is coming in higher than expected for the first half of 2019, and the City is gaining insight into the revenue associated with fines collected through the expanded administrative hearing process. Municipal utility taxes are also trending slightly higher than expected for the first half of 2019.*

Some revenue streams are not trending so well and will continue to be closely monitored. Most notably, building permit revenues are trending below budgeted estimates. Additionally, telecommunications and franchise taxes are also coming in below estimates. This trend may continue as more residents choose to "cut the cord" on telephone and cable television services.

Expenditure Trends: *As noted above, our staff are in the very early stages of estimating FY2019 expenditures. Early estimates show that personnel costs are well below budgeted totals, which is not surprising given the staffing reductions implemented in the first quarter. However, full savings will not be realized in this category due to significant benefit payouts for a*

number of employees who retired or resigned in 2019. Those payouts totaled more than \$575,000 in vacation and sick time due to employees upon separation. Most other expenditure lines are trending at or below budgeted amounts. Several notable exceptions are observed and suggest trends across a number of departments. Overtime costs are exceeding budgeted totals across all three major service departments of Fire, Police, and Public Works. These overages can be attributed to staffing shortages in Fire and Police and a harsh winter for Public Works. The impacts of this past winter can also be seen in other areas of the Public Works budget, such as snow/ice control materials (road salt) and pothole patching materials. All three departments are experiencing increasing costs associated with vehicle maintenance. As the City fleet continues to age, the cost to keep vehicles on the road is rising rapidly.

[\(Click here for further information\)](#)

The Road Ahead... *While significant headway has been made to correct the fund balance shortfall in the General Fund, there is still work to be done to ensure fiscal sustainability for the City. Below are some bright spots and challenges that lie ahead.*

Bright spots:

- *Positive revenue trends are forming across several major categories. These trends may be further supported by redevelopment in the downtown area.*
- *Additional property tax revenue should be realized as TIFs 1 and 2 reach expiration. As TIF districts reach expiration, the tax increment should be added to the regular property tax levy. For 2020, that could mean an additional \$170,000 in "new property" tax revenue.*
- *Long-term, the move of City Hall to a much smaller facility may reduce operating expenses associated with the maintenance of buildings and grounds.*
- *Recent steps to sell various City-owned parcels may provide additional General Fund support.*

Challenges:

- *Public safety pension contributions will continue to rise to levels that cannot be supported by the property tax. The required contribution for FY2020 will be \$7,397,938, an increase of \$815,167 from FY2019. This increase is projected to be absorbed by the General Fund.*
- *Personnel costs continue to rise. PPO health insurance premiums are projected to rise by 10% due to the number of significant claims being reported.*

- *IMRF contributions will increase from 12% to 14.89% of salary in 2020 due to a change in assumptions by IMRF.*
- *Positive revenue trends are dependent upon current economic conditions, which have been sustained for several years now. Any significant downturn in the overall economy would present another challenge.*
- *The 2020 Census will be critically important to the City as per capita revenues are based on a 2010 population. Any loss in population will result in lower shared revenues from the state. A loss of 1,000 residents could result in a loss of approximately \$140,000 in General Fund revenue annually.*

2. Pensions Overview. Pat Devaney, chair of Governor Pritzker's Bipartisan Legislative Pension Advisory Committee, will review a number of "reform" proposals that have recently been considered by the state legislature, including measures to:

- a) Consolidate funds (there are an estimated 650 public safety pension funds in the state).
- b) Enhance investment returns.
- c) Adjust the funding formula and timeline.

Mr. Devaney brings a wealth of knowledge to this topic and is very close to the most recent developments at the state level. He will field questions after his presentation. **Time: 1:30 P.M. to 2:30 P.M.**

Notes:

By way of background to the topic of public pensions and the relationship between funding ratios and taxpayer contributions, the following notes are provided for the Council's review.

DeKalb's Pension Program.

The City of DeKalb makes payments to three employee pension plans. The Police Pension and Fire Pension plans are held by locally appointed boards of trustees consisting of one retiree, two active employees, and two persons appointed by the Mayor. The City pays into the Illinois Municipal Retirement Fund (IMRF) but the Fund plan is controlled by a not-for-profit board of trustees selected from participating public employers across the state.

*There are two elements to the calculation of a municipality's annual pension contribution: the "**normal cost**" and "**unfunded liability**." The normal cost of a pension plan is the present cost of future pension benefits incurred during the current year. The calculation of the normal cost involves determining the present value of the pension benefits attributed to the affected employees and their wages for the current year, and is adjusted*

by a number of factors including expected retirement, future wage increases, mortality, disability, the rate of return on investments, and the administrative costs of the fund. These calculations are performed by actuaries certified by the Illinois Department of Insurance. The actuary calculates the unfunded liability for the pension plan which is the difference between the actuarial value of the assets in the pension fund and the actuarial liabilities, or 100% funding. For the Fire and Police pension funds, the annual City contribution is the normal cost, plus an additional payment to bring the assets in the fund up to 90% of the total actuarial liabilities by the end of fiscal year 2040.

In FY2019, the total amount necessary to fund the pensions at the **required actuarial level of funding** was \$6,582,770 or an increase of \$578,149 over FY2018. For the Police and Fire funds, the total annual funding contribution exceeded the total of the City property tax levy (\$6,017,140) by \$565,630. The "gap" was filled from the General Fund reserve (see table below).

	FY2019 Funding	FY2019 Levy	GF Reserve Contribution
Fire Pension	\$3,503,332	\$3,220,517	\$282,815
Police Pension	\$3,079,438	\$2,796,623	\$282,815
	\$6,582,770	\$6,017,140	\$565,630

Some local factors increase the pension contribution, including higher wages and more pension-eligible employees. Other significant factors are beyond the City's reach, such as increases in life expectancies, increases in benefits like a reduction in the time of service required to reach maximum pension eligibility, increases in survivor benefits, and the actuarial lowering of the expected rate of return on investments, which increase the City's annual contributions. Municipalities are also not able to seek additional contributions from pension participants. ([Click here for further information](#))

Issues for Discussion:

- The funded ratios of our Police and Fire pension plans are low. The funding ratio looks at how many assets the fund has on hand today compared to the present value of the total benefits it has to pay out in the future. Collectively, our Police and Fire pension funds owe \$154,167,861 in benefits but have only \$60,646,394 on hand to pay for them. All of the City's annual property taxes are already going into pension obligations and then some.
- Local taxpayers are feeling tapped out. In Council meetings and Ward meetings they are not voicing a willingness to see their annual tax rate increase for employee pensions.

- *In 2018, the City paid 18.3% of its General Fund revenues on pension contributions, up from 10.4% in 2014.*
- 3. Group Discussion.** Dr. Kuhn and Ms. Ballard will lead the participants in a general discussion of key General Fund and related budget issues for FY2020.
Time: 2:30 P.M. to 3:30 P.M.
- 4. Session Wrap-Up.**

H. ADJOURNMENT

[FULL AGENDA PACKET](#)