

CM Memo #09-035

DATE: May 1, 2009

TO: Mayor
City Council
Finance Advisory Committee
Department Heads

FROM: Mark Biernacki
City Manager

SUBJECT: Strategic Financial Evaluation Report by Executive Partners, Inc.

Enclosed is the "Strategic Financial Evaluation" report prepared by Executive Partners, Inc. (EPI). This report was prepared at the direction of the City Council to assist them in evaluating a long term financial strategy for the City of DeKalb.

The initial chapters of this report are the result of a collaborative effort amongst Council members, Finance Advisory Committee members, Department Heads, and other City staff who provided initial feedback on the issues and challenges we face as a municipality and a community. The remaining chapters and the list of short and long term recommendations have been independently prepared by EPI. These recommendations have arisen out of their analysis of the input and feedback received.

This report's recommendations are largely long term in nature. Very few, if any, of these recommendations can be used in the preparation of the more immediate FY 2010 budget (a process that will be the City Council's primary focus in the coming months). Instead, the City Council will prepare and adopt a budget for the short term, but will do so with an eye towards the eventual long term solutions needed to deliver services in an affordable and efficient manner.

In later months, the City Council will hold a series of public meetings at which all of the community's stakeholders will be invited to participate and offer comments and opinions on this report's recommendations. These stakeholders will include the Finance Advisory Committee, employee groups, Department Heads and various other community groups.

The City's long term financial health is of paramount importance. Through the collective participation of all of these stakeholders, we will select those recommendations which will allow us to navigate through our financial challenges and end up with a more viable and sustainable way in which services can be delivered in the future.

Enclosure



STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS

PROJECT OVERVIEW

May 2009

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CURRENT STATE

In the recent past, DeKalb enjoyed several years of revenue growth and relative financial stability. However, the City is currently facing multi-faceted challenges in developing balanced budgets while still providing the same level of services to the community. Additionally, long term obligations - pensions, health plans, and capital/infrastructure replacement - have grown past the City's current capacity to fund the appropriate reserves creating significant risks to the City's financial future. The City does not have significant debt, but is finding it increasingly difficult to fulfill all of its obligations from current operating revenues. There are many contributing factors to the current state including:

- Stable/falling revenues due to the recent economic trends
- Increasing unit labor costs due to contractual obligations and City policies
- Increasing non-labor costs due to general economics
- Slow economic development progress
- Tax policies that are very susceptible to economic swings
- Little to no financial reserves combined with no long-range financial planning

DeKalb is also very diverse in its demographics, housing stock, land type/usage, and business mix which drive a diverse set of service needs and priorities as perceived by its various citizen groups. However, the communication of citizen inputs appears to be limited to a "vocal few" and may not represent all constituent groups. The citizens are not heavily invested in City affairs which can be due both to lack of outreach and lack of understanding of what the City is facing. This has made planning - tax, services, capital, and economic development - more difficult and has created a "knowledge gap" between the various stakeholder groups resulting in a lack of universal policy ownership.

CURRENT STATE (continued)



Although DeKalb has many assets - Northern Illinois University - the I-88 corridor - an airport- an entrepreneurial history - a rural/urban setting - a railroad - these assets are not currently being optimized in terms of their potential financial and operational contribution to the City. The utilization of partnerships, alliances, and joint ventures that would leverage limited City assets has significant upside potential.

The City Staff, Council, and Financial Advisory Committee have a sound awareness of the challenges the City is facing and appear resolved to address those challenges knowing that, in many cases, it means re-inventing what has been done in the past. With the renewed and active involvement of all citizens, this provides an excellent platform for progress.

The City is faced with many needed changes. However, with strong leadership and implementation of the recommendations of Executive Partners contained herein, we believe its potential for growth and long-term financial stability is great.

PROJECT OVERVIEW



In December 2008, the City of DeKalb commissioned Executive Partners to review and evaluate the financial practices of the City. Their interest in such an effort was to create long-term financial stability for the City of DeKalb.

The effort began with two strategic planning workshops conducted by Executive Partners. Attending the workshops were the City Council, the Financial Advisory Committee, and City Senior Management. These workshops addressed the long-term vision and priorities of the municipality.

Once the long-term strategic direction was set, Executive Partners went to work benchmarking comparable cities relative to a variety of financial practices and financial indicators.

In addition, a study was conducted of Best Practices – Operational Processes for municipalities across the country.

Numerous interactions with the staff, collectively and individually, to determine the operational processes and practices of the City of DeKalb. Several service level exercises were conducted as well.

Executive Partners reviewed a variety of financial documents, municipal plans and contracts. The results of that analysis are contained within this report.

The report is divided into six sections:

1. Project Overview
2. Strategic Plan 2009 – 2019
3. Benchmarking – Comparable Cities
4. Benchmarking – Best Practices – Operational Processes
5. Various Financial/Plan Reviews
6. Summary Key Recommendations

PROJECT OVERVIEW (continued)



Recommendations are contained throughout and key recommendations are summarized at the end. EPI has modeled the impact of our recommendations and, again, the results can be found in the Summary Key Recommendations section.

The City of DeKalb has many significant opportunities and many important decisions in front of it. EPI believes the future is bright and following the general recommendations laid out in this report will create the desired outcome – a stable financial future. This will require leadership on the part of the City Council and staff. Having worked with all of you for the past several months, EPI knows you are up to the challenge and looks forward to following the City's success.



STRATEGIC PLAN

2009 – 2019

May 2009

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TABLE OF CONTENTS



	<u>Page</u>
Strategic Planning Process	3
Who Participated	4
Desired Future Image	5
Vision/Priorities	6
Goals and Objectives	12
Initial Actions	13
 <u>APPENDIX</u>	
- Strategic Planning Model	19
- SWOT Analysis	20
- Today's Image	25
- Services Exercise	26
- Revenue Exercise	36

STRATEGIC PLANNING PROCESS



As a part of the City of DeKalb's Strategic Financial Evaluation and Planning Process, the City of DeKalb participated in a strategic planning process designed to set the long-term direction of the City, upon which the financial plan could be based.

The strategic planning process involved the City Council, Financial Advisory Committee, and the Department Heads in a two-day workshop held on Saturday, January 10th, 2009 and Saturday, January 24th, 2009. These workshops, lead by Executive Partners, involved a series of discussions and exercises designed to create a strategic plan for the City.

What was clear in the workshop discussions was the commonality and consistency of a vision for the City of DeKalb and the need to continue to develop and leverage the incredible assets of the City.

On the subsequent pages, you will find the key thoughts and discussion summaries which make up the strategic plan for the City of DeKalb.

WHO PARTICIPATED



The following individuals participated in the strategic planning process to create this document:

City Council	Financial Advisory Committee	Staff
Kris Povlsen Betrand Simpson Tom Teresinski Victor Wogen Donna Gorski Ronald Naylor David Baker Brent Keller	Marianne Anderson Cohen Barnes Mike Larson Mac McIntyre Mike Peddle Gary Peele	Mark Biernacki Rudy Espiritu Bill Feithen Joel Maurer Rick Monas Norma Guess Bruce Harrison

DESIRED FUTURE IMAGE

The following is the desired future image for the City of DeKalb:

- A City integrating the best of urban and rural lifestyle (where City and agriculture meet) – a destination City
- A place everyone feels proud to call home
- A place you can make a living
- A quaint, beautiful business district – a place people feel comfortable to shop/eat – downtown is a destination – with lots to do
- A safe community
- A good place to raise a family
- A progressive tech savvy City on the cutting edge of 21st Century work and life style
- The community of choice

- A community of “how can we help” – business friendly – easy to do business with – can do community – gets things done
- A place where innovation happens
- The next gateway West
- A municipal government of transparency, efficiency, and good service
- A community that provides educational opportunities
- A University community – building on our collective strengths - a vibrant City that has a great University
- Attractive to students
- A cross roads community
- An attractive town – “our own” version of Naperville

VISION/PRIORITIES – GENERAL



Generally, our vision/priorities for the City of DeKalb includes:

Vision – General

- ❑ Enhanced economic growth
 - With an economic development director to monitor
 - > Retail
 - > Industrial
 - > Extend commuter rail line
 - > DTMA – commercial air service
- ❑ Enhanced community communications
 - With a person to act as clearing house
 - > Protocols
 - > Technology
- ❑ Enhanced Council – staff communications
 - Retreat with Council and department heads annually
- ❑ Improve DeKalb's appearance
 - Property maintenance
 - Higher end developments
 - Continued down zoning
 - Pride in ownership
- ❑ Continue quality City services community has come to expect
 - Prioritize services
 - Costs for providing service

Priorities - General

- A. Continue to provide quality City services and programs for citizens of DeKalb.
- B. Enhance economic growth.
- C. Improve DeKalb's appearance.

VISION/PRIORITIES – ECONOMIC DEVELOPMENT



Our vision/priorities for economic development is:

Vision - Economic Development

- A full service hotel and conference center
- Diversified tax base
- Planned business development to accommodate firms with roughly 10-100 employees
- More balanced housing stock
- Self-sustaining airport
- More diverse amenities to attract and retain residents (including NIU students/alums)
- Economically thriving and vibrant downtown
- Thriving entrepreneurial community, including incubator
- Joint NIU/DeKalb business park
- Destination resort
- Grade separation and a new passenger railroad

Priorities - Economic Development

- A. Create diversified tax base
 - Balanced housing
 - Economically thriving downtown
 - Commercial/retail development
- B. Develop key amenities
 - Full service hotel
 - Destination resort
 - Airport
 - Passenger rail service
- C. Develop a thriving entrepreneurial community
 - Joint NIU/DeKalb business park
 - Incubator

VISION/PRIORITIES – INFRASTRUCTURE

Our vision/priorities for infrastructure is:

Vision – Infrastructure

- Full capital replacement plan with resource funding
 - Manage the fire station needs
- New, fully operational police facility operational
- New City Hall – 1 stop shopping
- Downtown redevelopment infrastructure
- Complete construction of City entry ways
 - East Lincoln Highway
 - Annie Glidden
 - Peace Road
 - S. 4th Street
- Road improvement projects
 - Peace Road
 - Annie Glidden
 - Bethany and First
- South Loop Watermain and Appurtenances
- Airport
 - West end development
 - Attract at least two corporate tenants

Vision – Infrastructure

- Adequate maintenance and operations staff as the City grows
- Expanded bike paths/trails
- Commuter rail service
- Eliminate/mitigate flooding
 - Acquire strategic properties
 - Raise/add levees
 - County-wide river maintenance program (active)
- Upgraded traffic signal coordination system
- “Green” streets
- Improve street lighting
- West end – bypass
- Develop Pearl Street

Priorities - Infrastructure

- A. Mitigate flooding
- B. Develop a full capital equipment replacement program
- C. Build a new police facility
- D. Provide adequate maintenance/operations staff as the City grows

VISION/PRIORITIES – CITY LIFE



Our vision/priorities for city life is:

Vision – City Life

- Lively, vibrant, harmonious, safe downtown
 - All ages – many activities
 - Quality retail
- More single family homes
- More upscale rentals
- Safe and attractive single family homes and rentals
- Other communities share burden of needed social services
- New, green, efficient police station and increased police presence - gang activity minimized
- NIU and other fine arts expanded in the community
- Ability of long time residents to remain in community and succeed
- Desire of younger residents and NIU students to stay in the community
- A passenger train
- More non-car transportation
- Increased personal interaction in the neighborhoods
- Increased jobs with living wages
 - More information and technology
 - More manufacturing/industry
 - Others, health, education, etc.

Vision – City Life

- Attractive East Lincoln Highway
 - Businesses and homes
- Attractive South 4th Street
 - Businesses and homes
- Profitable and busy airport
- Expanded recreation
 - Another pool
 - More indoor facilities
 - Neighborhood parks
- Shiny, new drainage infrastructure
 - No/minimized flooding
- Increased, effective intergovernmental cooperation, interaction among DeKalb leaders
- Increased “green” uses
 - Landfill planning
 - Recycling in all homes, rentals, businesses
 - More trees, bike paths and lanes
 - Green drainage and energy uses
- DeKalb and NIU as a friendly, collaborative, interactive - a mutually beneficial partnership

Priorities – City Life

- A. Increased jobs with living wages.
- B. Drive appearance improvements throughout the City, i.e., East Lincoln Highway revitalization.
- C. Increase effectiveness of intergovernmental cooperation/mutually beneficial partnership with NIU.

VISION/PRIORITIES – THE WAY WE WORK



Our vision/priorities for the way we work is:

Vision – The Way We Work

- A unified, committed work force that works efficiently and safely
- Good interaction between Council and staff
- Utilize technology to create good communications
- Good interaction with our community partners – NIU, Chamber, etc.
- Rail and air transportation available to support work opportunities
- Staff research is complete
- Interactive communication with the community is vibrant
- Best practices from other communities are applied
- Fair compensation for employees
- One “big” efficient happy family

Priorities – The Way We Work

- A. Develop more effective communication.
- B. Utilize technology to help us work smarter.
- C. Use best practices to improve how we work.

VISION/PRIORITIES – FINANCIALS

Our vision/priorities for financials is:

Vision – Financials

- ❑ Sustainability of fund balance
 - Diversification of resources
 - > Industrial tax base
 - > Become less sales tax reliant
 - > Office park development
- ❑ Funded capital improvement plan
- ❑ 25 year major capital strategy
 - Debt and restructure strategy
 - Improve debt rating
 - Fund pension for the future

Priorities – Financials

- A. Develop sustainability of fund balance
 - Short and long-term
 - > Develop a financial strategy
 - > Diversify our resources
 - * Office, research, light industrial
 - * Industrial – competitive incentives
 - * Become less sales tax reliant
- B. Create a 25 year major capital strategy
 - Lay out funding
 - Examine debt and restructuring
 - Improved debt rating
- C. Develop funding mechanisms for pensions
 - Fully funded by 2033

GOALS AND OBJECTIVES

A. Create a Proactive Economic Development Approach

- A1 - Appoint an economic development Czar
- A2 - Develop a business-friendly environment
- A3 – Impact job/work development
- A4 - Continue work on the downtown attracting destination and entertainment opportunities
- A5 - Regionalize the airport
- A6 - Attract passenger rail service
- A7 - Attract and create high-end housing stock – 300,000+
- A8 – Develop incentives for bottoms up redevelopment

B. Create and Fund a Long-Term Infrastructure Plan

- B1 – Develop a long-term infrastructure plan
- B2 – Determine funding
- B3 – Complete the police facility

C. Manage the Image and Appearance of Our City Life

- C1 - Rebrand the City
- C2 – Develop a property maintenance incentive and inspection program
- C3 - Reinvent the appearance of the entry points of the City

D. Develop a More Effective Way We Work

- D1 – Develop a partnership with the University - NIU
 - > Align common criteria for the community
 - > Determine sharing objectives
 - * Purchasing
 - * Equipment
 - * Etc.
 - > Examine cost reimbursement
 - > Develop a NIU/DeKalb business park
 - D2 - Underwrite other partnership opportunities
 - D3 - Engage the community in a 2025 plan and image building
 - > Schools, parks, library, county, university, students
 - D4 - Provide an effective community education/communication approach
 - > Involve the neighborhoods
 - > Use traditional communication methods
 - > Use web based communication methods –
 - D5 - Determine and refine important services and service levels
 - D6 - Redefine the culture of City Government – customer service focus
- ## E. Create Financial Stability
- E1 - Trim the budget deeper than needed to balance, then relocate some \$\$s to a few new priorities (revenue focused)
 - E2 – Examine and implement additional revenue opportunities

INITIAL ACTIONS

Goal A: Create a Proactive Economic Development Approach

- Hire an economic development Czar – have them assess opportunities and design marketing plan accordingly
- Key areas of focus
 - Downtown business district
 - Sycamore Road corridor
 - Peace and Barber Green
 - I-88 interchange area
- Develop a plan to make DeKalb a business-friendly environment
- Work with the sanitary district to improve I-88 corridor South infrastructure
- Create the case for a regional airport authority

INITIAL ACTIONS (continued)

Goal B: Create and Fund a Long-Term Infrastructure Plan

- Update the long-term infrastructure plan – 25 years
- Integrate into the long-term financial plan
- Bring funding approach to City Council
- Begin to work the first priorities of the plan

INITIAL ACTIONS (continued)

Goal C: Manage the Image and Appearance of Our City Life

- Manage the branding effort to completion
- Update, where necessary, the downtown plan to coincide with the desired image of the community
- Create and bring to Council a concept plan for property maintenance
- Use developer actions and government grant funding to assist in the beautification of entry points
- Hire a communication resource
- Develop a communication strategy to support the desired future image of the community and educate citizenry about municipal programs and policies

INITIAL ACTIONS (continued)

Goal D: Develop a More Effective Way We Work

- Create a dialogue with other governmental bodies regarding the consolidation of certain common services – perhaps utilize a vision 2025 approach
- Finalize determination of core services and service levels
- Review possible outsourcing opportunities
- Open a dialogue with NIU regarding the desired future image for the City of DeKalb

INITIAL ACTIONS (continued)

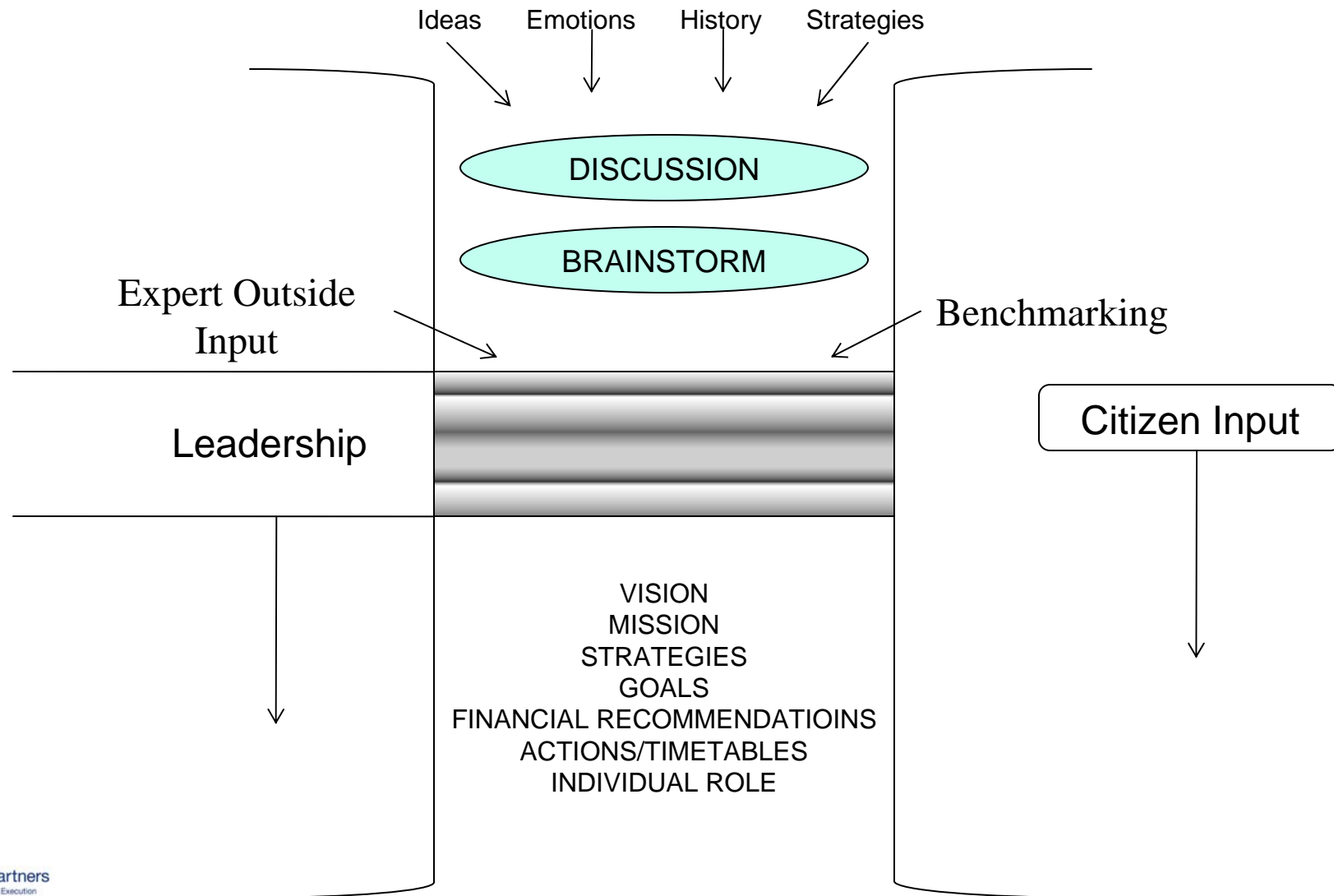
Goal E: Create Financial Stability

- Develop a cash management strategy
- Determine course of action regarding deficit funds, i.e., airport, water, workman's compensation, etc.
- Address the long-term liability of post retirement healthcare and pensions with our financial strategy
- Develop a risk management strategy
- Identify "new" sources of revenue
- Review the process for labor negotiations

APPENDIX

**THE FOLLOWING ARE PIECES OF
WORK THAT HELPED TO FRAME THE
CITY OF DEKALB ISSUES AND
ASSISTED IN CREATING ITS DIRECTION**

STRATEGIC PLANNING MODEL



SWOT ANALYSIS – STRENGTHS

These are the strengths of our community:

Our location: We are an island

- Self reliant
- Independent
- Combining effort and assets of the surrounding communities

Our University: NIU

- Economic stability – staff spending paychecks
- Diversity
- Pride

We are a foundation of innovation

- Barbwire
- DeKalb without genetics
- LMS

Our community involvement

- Small town values
- Sense of community
- We step up when great need presents itself
- Schools
- Hospital
- Downtown – the heart
- Pride
- DCCF

Our public services

- Fire
- Police
- Schools
- Public Works
- Hospital
- Library

Our strong, non-profit community

- Ben Gordon
- Safe Passage
- VAC
- DCCF
- Family service agency
- Hope Haven
- Salvation Army

Our involved business community

- Chamber
- DCEDC
- DCCF

Our transportation

- State routes
- Rail
- Interstate
- Airport with potential to rival Midway and DuPage
- ILS – future corporate growth

Our active Park District

Our growing citizen participation

SWOT ANALYSIS – WEAKNESSES

These are the weaknesses of our community:

- Relationship with NIU and with Kish College
- State of our fund balance - lack of reoccurring source of revenue for capital needs
- Part-time City Council with full-time responsibilities
- Aldermanic form of government vs. “at large”
- DeKalb support of countywide activities, i.e., airport
- Lack of diversified housing – need more upper-end housing
- Perception of our school system, as pertains to education
- Public’s lack of knowledge of City’s operations and finances, i.e., home rule issue
- Citizenry resistant to change for sake of being resistant - lack of understanding
- Lack of “brand” identity
- Disconnect between citizenry and leadership
- Lack of advocacy
- Too many low-end apartments

SWOT ANALYSIS – OPPORTUNITIES



These are the opportunities for our community:

- Many communication opportunities, i.e., home rule issue
- Potential nationwide stimulus package
- Promote neighborhood communication and activities
- Economic development growth
 - Attract technology based firms
 - Transportation – I-88 exits
- Improve communications – participative journalism
- Bring community into process earlier
- Speaking openly without reservation
- NIU – a more collaborative effort
- Use Channel 14 more (PSA)

SWOT ANALYSIS – THREATS

These are the threats facing our community:

- Home rule
 - Community doesn't feel heard
- Economy
- Lack of trust – Council, employees, citizens
- Communication gap
- Employee morale
- State government instability
 - Unfunded mandates
- Aging infrastructure
 - Deferred maintenance
- Rising costs
 - Commodities
 - Healthcare
 - Utilities
- Politics
 - Single issue agendas
- Gang violence

SWOT ANALYSIS – TRENDS

These are trends we considered in our planning:

- Diversity (ethnicity) ↑
 - Rentals ↑
 - Migration from East ↑
 - Non-student ↑
- NIU: sports/visibility ↑
- “Non-invested” new-comers ↑
- Conflict: townies vs. newbie’s ↑
- “Cost of living” ↑ vs. income ↓
- Retail: destination ↑
- Airport/flights ↑
- Volunteers ↑

- “Needs”/low income ↑
- Gang activity ↑
- Less affluence ↑ - more service ↑
- Poor property maintenance ↑
- Higher proportion of NIU staff moving here ↓
- Foreclosures ↑
- Growing medical services ↑



TODAY'S IMAGE – CITY OF DEKALB



The image of our community today:

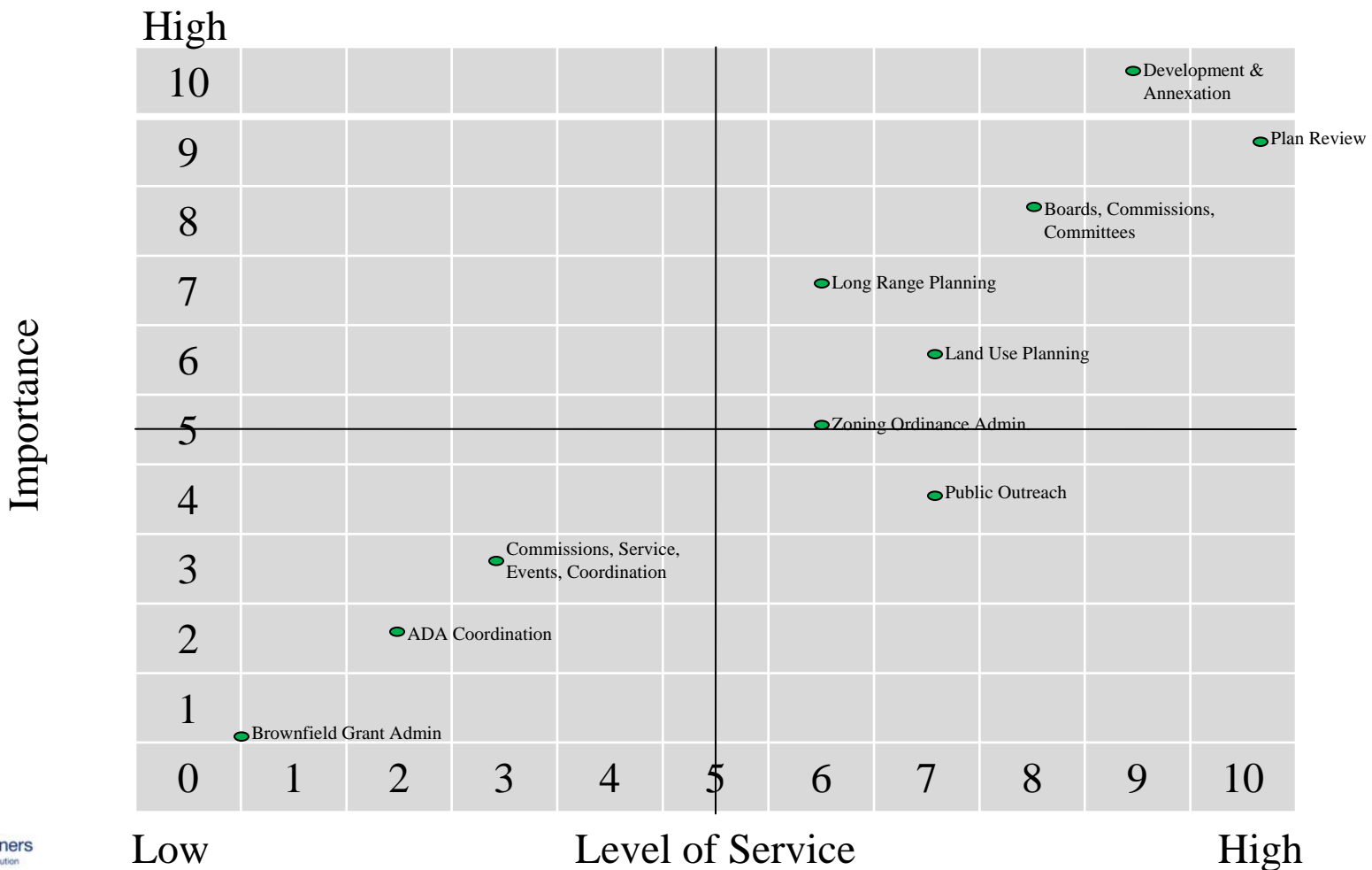
- A challenged community
- A small City located on the best agricultural land on earth
- A University community
- Incompetent, backward, and unsafe
- A community of good social services
- Not the community of choice (not live here)
- The next Naperville – oh my gosh!
- Good place to raise a family
- The trend is not positive – it's negative
- Seems to be changing for the better
- Evolving as a destination – visiting, shopping, University

- Growing pains providing service
- Hard working community
- Over planned
- A “gimmie” mentality
- Show up on weather map – Western edge of metro area
- Close to, yet far away
- Students feel there's nothing to do
- The police are too heavy-handed
- A diamond in the rough
- More difficult to do business with than other communities - from idea to service difficult

SERVICES EXERCISE – PLANNING & ZONING



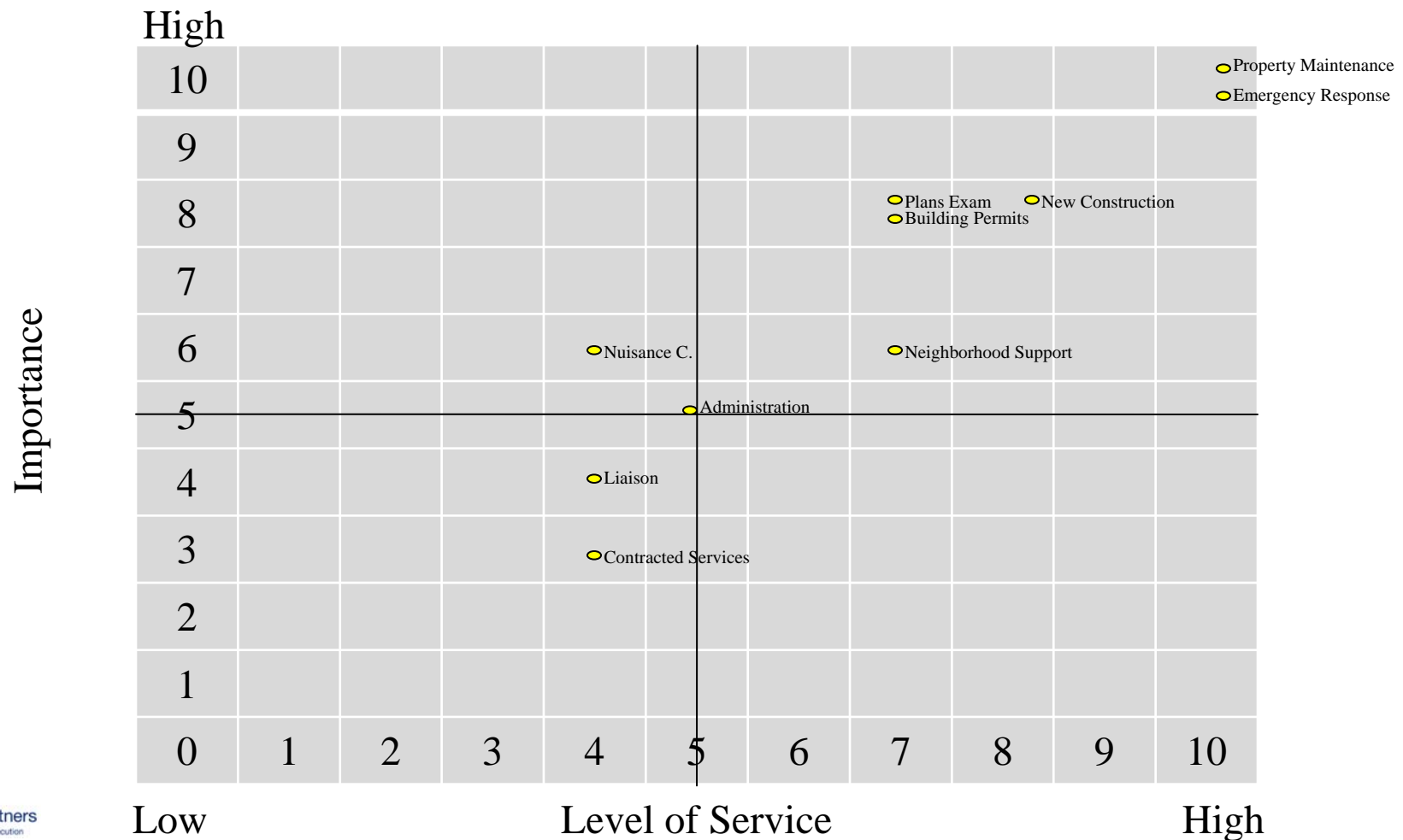
Prioritization by Importance/Level of Service



SERVICES EXERCISE – BUILDING AND CODE

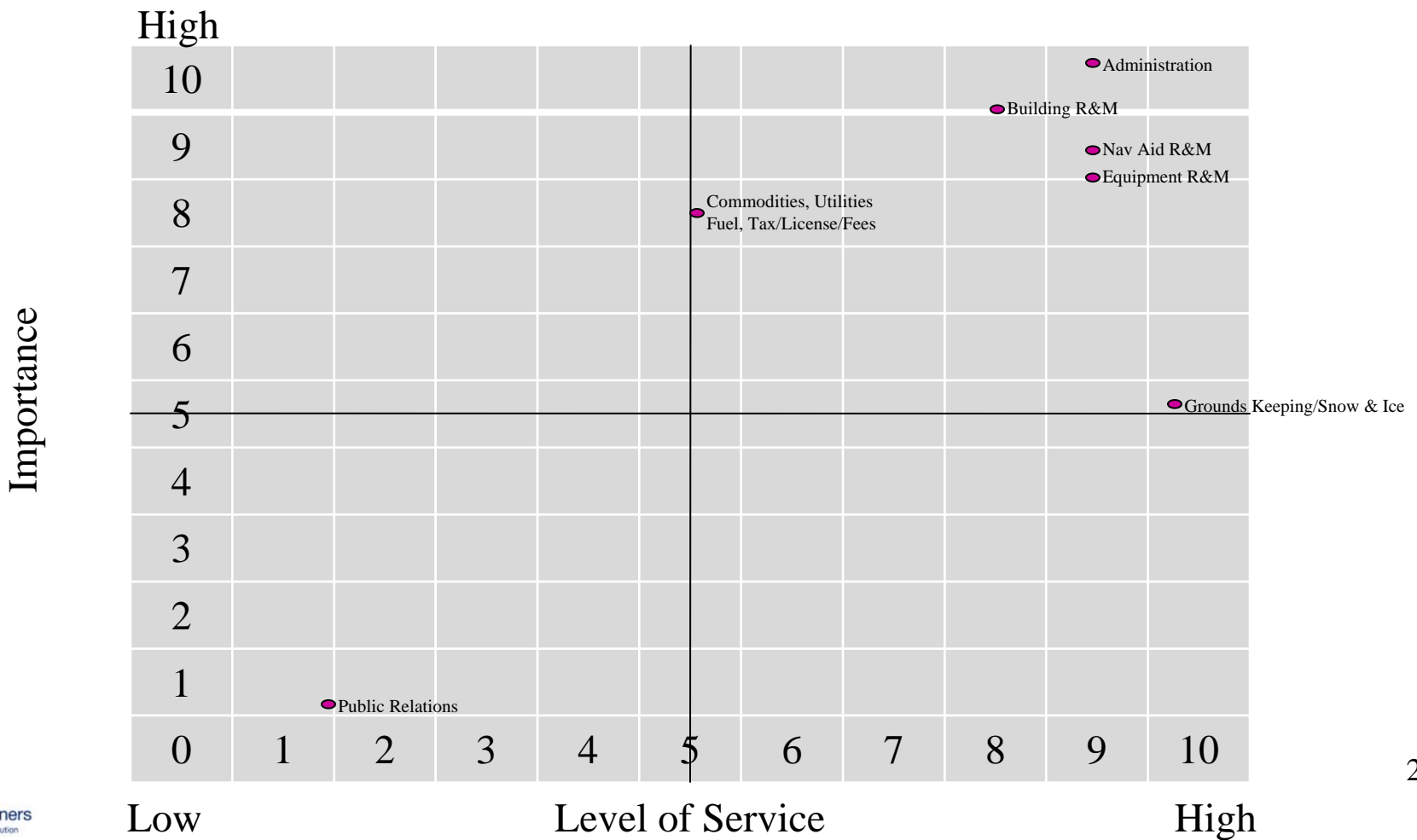


Prioritization by Importance/Level of Service



SERVICES EXERCISE – AIRPORT

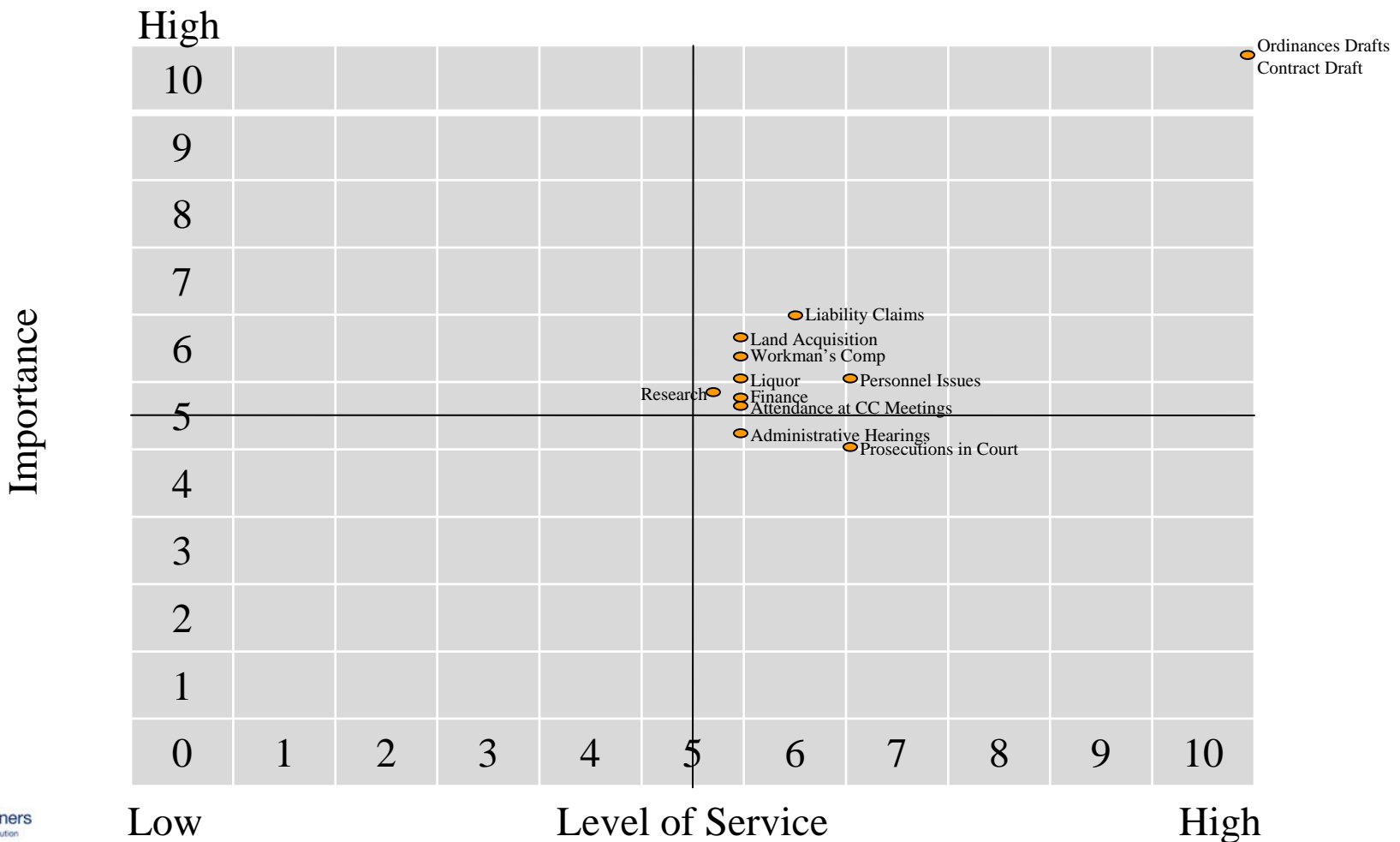
Prioritization by Importance/Level of Service



SERVICES EXERCISE – LEGAL DEPARTMENT

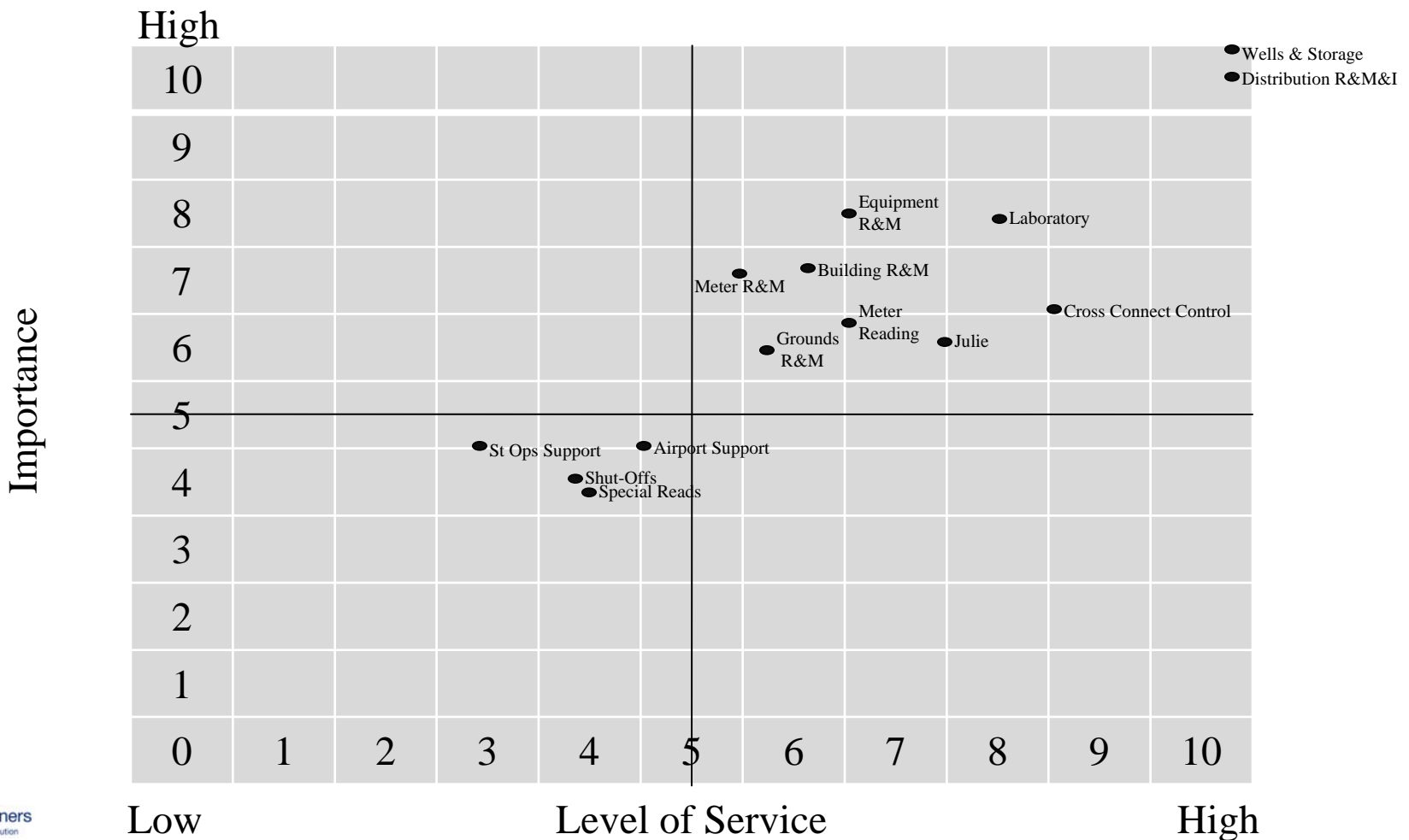


Prioritization by Importance/Level of Service



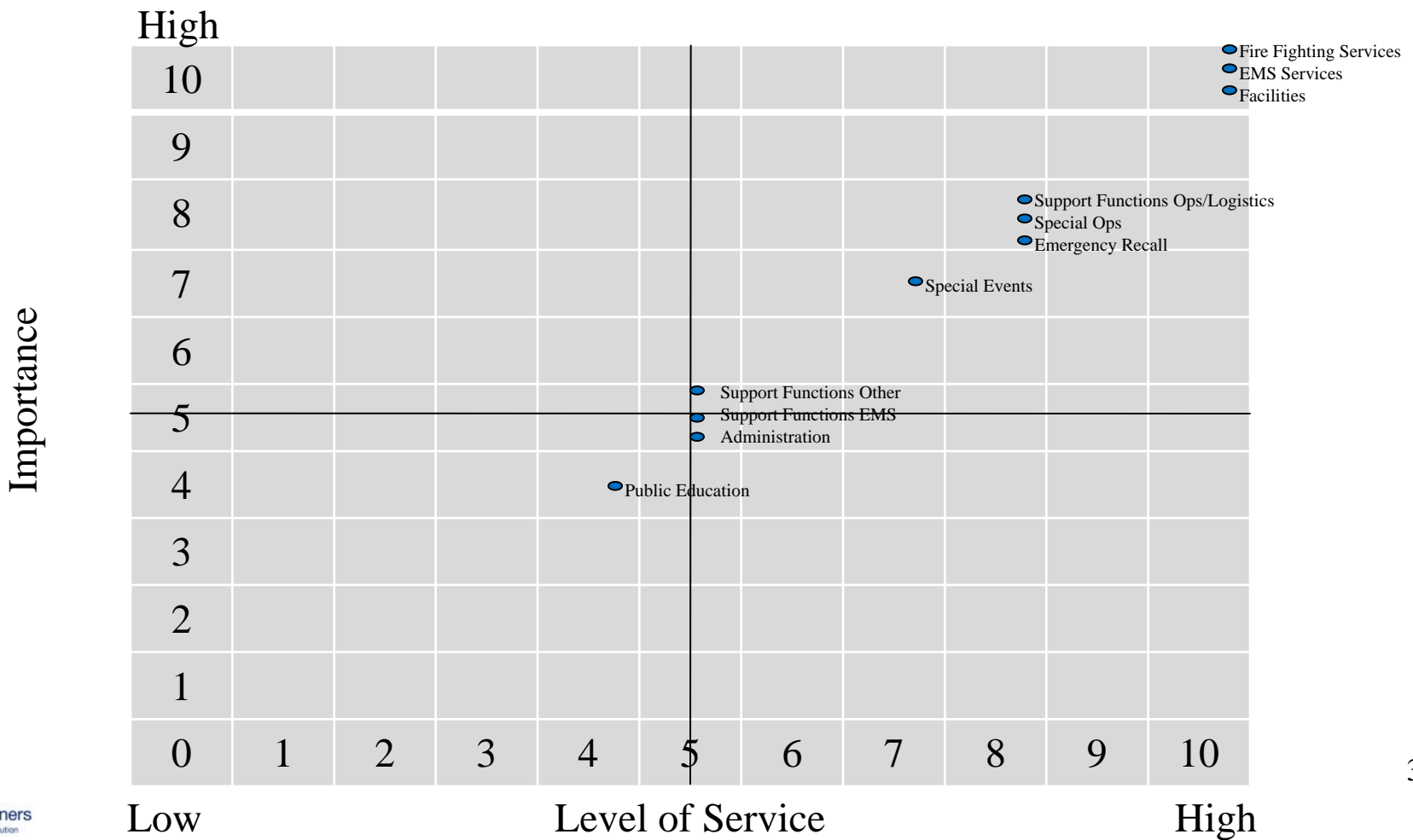
SERVICES EXERCISE – WATER RESOURCES

Prioritization by Importance/Level of Service



SERVICES EXERCISE – FIRE

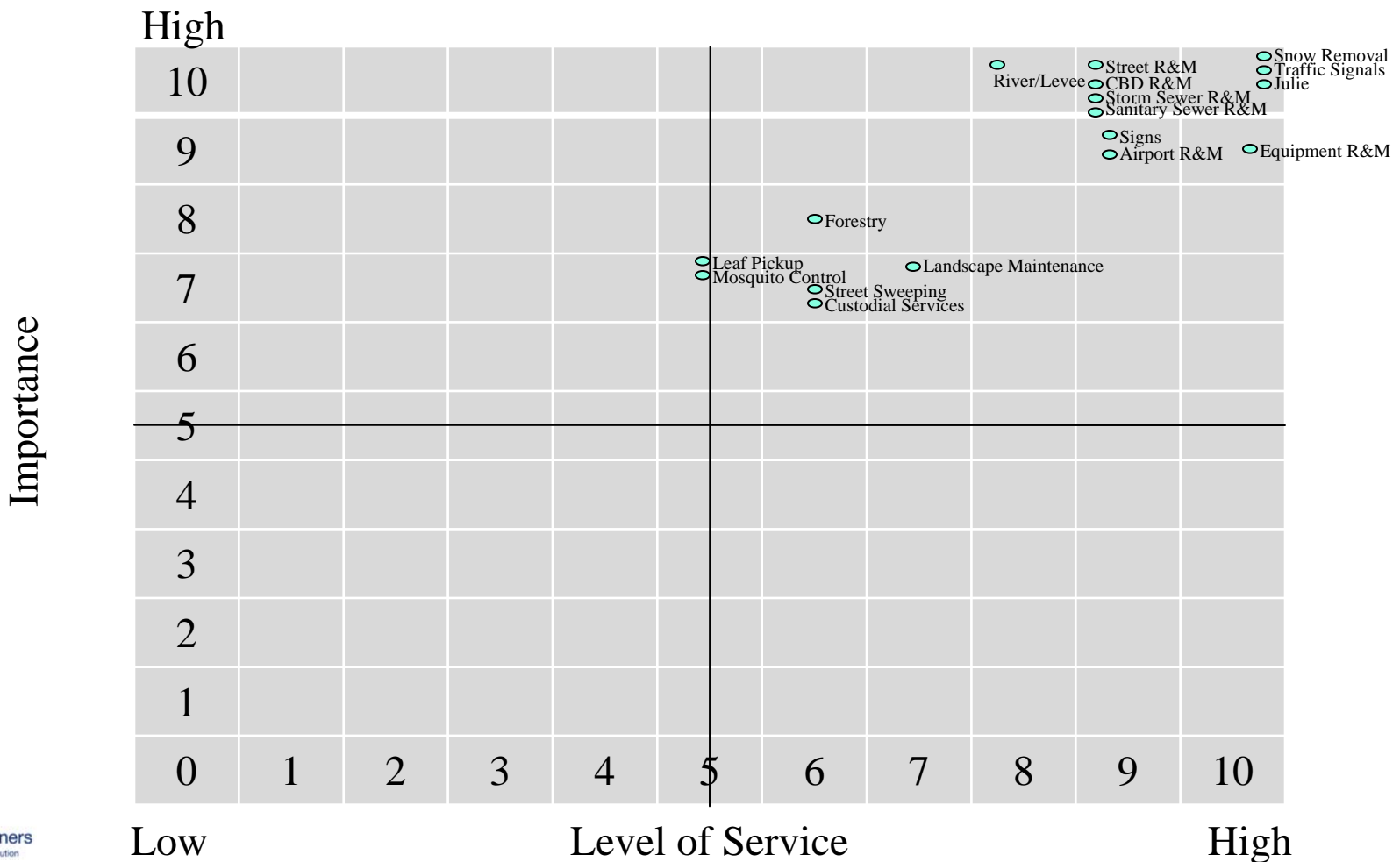
Prioritization by Importance/Level of Service



SERVICES EXERCISE – STREET OPERATIONS



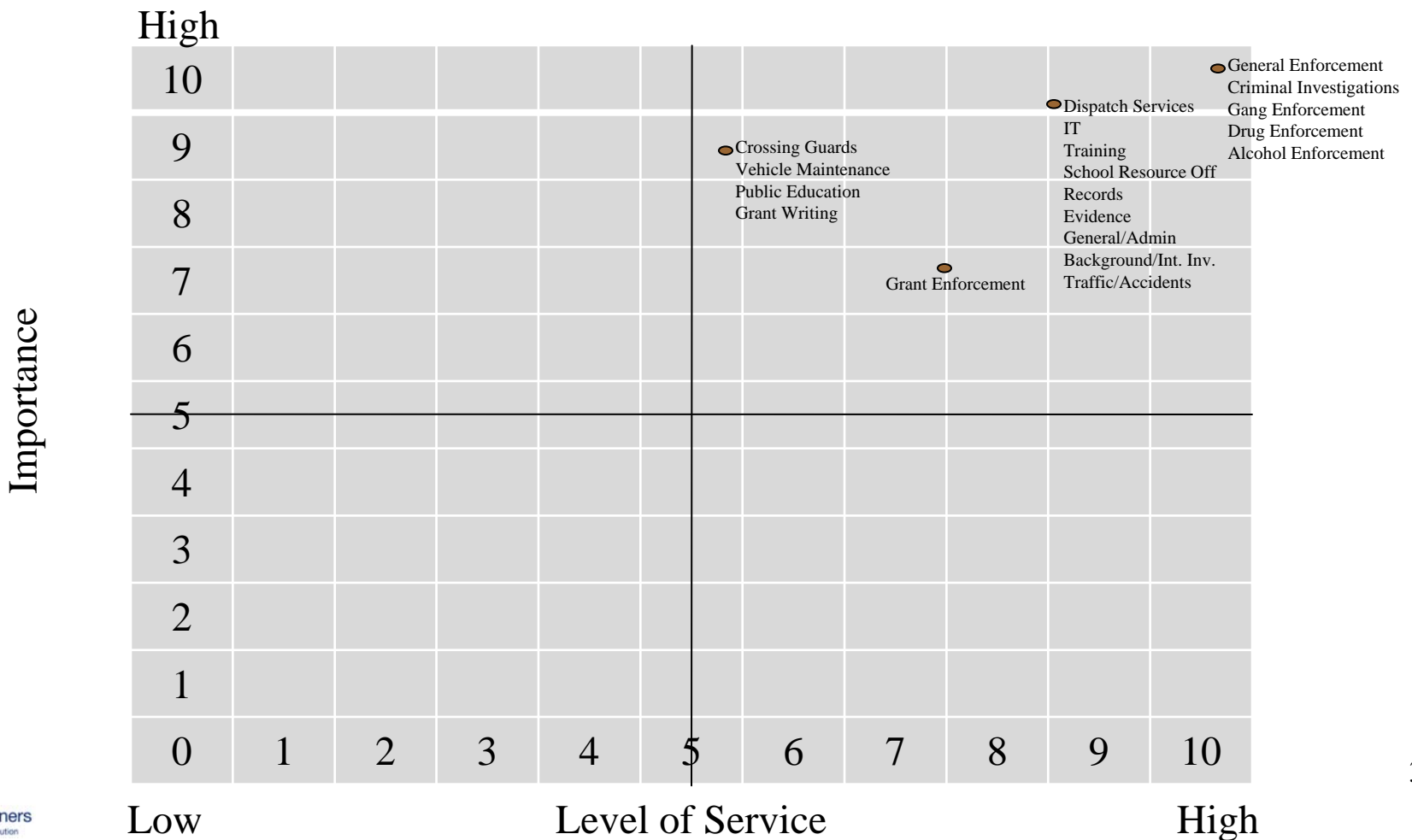
Prioritization by Importance/Level of Service



SERVICES EXERCISE – POLICE



Prioritization by Importance/Level of Service



SERVICES EXERCISE – ADMINISTRATIVE



Prioritization by Importance/Level of Service



SERVICES EXERCISE – ENGINEERING



Prioritization by Importance/Level of Service



REVENUE EXERCISE #1

For FY '09, the general fund is \$30,001,151 – the following are the sources of that revenue:

Home rule sales tax	19.3%
Property Tax	12.5%
State sales tax (1% MROT)	13.96%
State income and use tax	16.62%
Utility tax and telecom	13.24%
Food and beverage	5.66%
All other	18.0%

REVENUE EXERCISE #2



PARTICIPANTS = 18
 MAXIMUM SCORE = 180

	OVERALL RANKING (IMPORTANCE)	SUMMARY/WEIGHTED AVERAGE		Council		FAC		STAFF		UNLABELED	
		TOTAL SCORE	INCREASE-Y/N	MAXIMUM SCORE EQUALS 60		MAXIMUM SCORE EQUALS 50		MAXIMUM SCORE EQUALS 50		MAXIMUM SCORE EQUALS 20	
				RANK	INCREASE	RANK	INCREASE	RANK	INCREASE	RANK	INCREASE
EXISTING REVENUES:											
STATE SALES TAX	1	161	N/A	60	N/A	41	N/A	40	N/A	20	N/A
HOME RULE SALES TAX	2	154	3Y/15N	58	2Y/4N	36	5N	42	1Y/4N	18	2N
PROPERTY TAX-PENSIONS	3	150	11Y/7N	58	3Y/3N	31	1Y/4N	41	5Y	20	2Y
STATE INCOME & USE TAX	4	149	N/A	60	N/A	34	N/A	35	N/A	20	N/A
FOOD & BEVERAGE TAX	5	126	6Y/12N	47	2Y/4N	33	2Y/3N	33	2Y/3N	13	2N
UTILITY TAX	6	122	8Y/10N	45	4Y/2N	28	5N	33	2Y/3N	16	2Y
INCREASED GRANT FUNDS	7	121	15Y/2N/1 NA	43	6Y	39	4Y/1N	24	3Y/1N/1N-A	15	2Y
LICENSES & PERMITS	8	117	8Y/10N	40	4Y/2N	30	1Y/4N	33	2Y/3N	14	1Y/1N
HOTEL TAX	9	111	8Y/10N	44	3Y/3N	22	1Y/4N	33	2Y/3N	12	2Y
TELECOMMUNICATIONS TAX	10	109	N/A	42	N/A	25	N/A	29	N/A	13	N/A
CELLULAR TOWER RENTAL FEES	11	107	16Y/2N	38	5Y/1N	33	4Y/1N	21	5Y	15	2Y
SERVICE CHARGES	12	104	13Y/5N	43	6Y	21	2Y/3N	25	4Y/1N	15	1Y/1N
PARKING & POLICE FINES	13	103	11Y/7N	38	5Y/1N	20	2Y/3N	34	3Y/2N	11	1Y/1N
AMBULANCE FEES	14	101	11Y/7N	41	5Y/1N	20	3Y/2N	25	2Y/3N	15	1Y/1N
INCREASE LOCAL GASOLINE TAX	15	100	9Y/9N	34	3Y/3N	18	5N	31	4Y/1N	17	2Y
PROPERTY TAX FOR DEBT SERVICE	16	98	7Y/11N	27	1Y/5N	26	1Y/4N	30	4Y/1N	15	1Y/1N
HOME RULE NATURAL GAS TAX	17	98	6Y/12N	33	2Y/4N	26	5N	22	2Y/3N	17	2Y
AMUSEMENT TAX	18	97	11Y/7N	30	3Y/3N	22	3Y/2N	32	4Y/1N	13	1Y/1N
CHARGE ADMIN FEE FOR REFUSE	19	95	11Y/7N	29	3Y/3N	24	3Y/2N	25	3Y/2N	17	2Y
CONTRACTUAL FIRE SVCS.	20	94	13Y/4N/1MAYBE	41	5Y/1 MAY	17	3Y/2N	21	4Y/1N	15	1Y/1N
PROPERTY TAX FOR OPERATIONS	21	93	8Y/10N	16	1Y/5N	30	2Y/3N	27	3Y/2N	20	2Y
CHARGE FOR LEAF PICK-UP	22	85	11Y/7N	29	4Y/2N	22	2Y/3N	17	3Y/2N	17	2Y
REAL ESTATE TRANSFER TAX	23	80	10Y/8N	35	5Y/1N	20	2Y/3N	13	2Y/3N	12	1Y/1N
BUSINESS LICENSES	24	75	10Y/7N	22	2Y/4N	16	2Y/3N	24	5Y	13	1Y/1N
TRANSFERS FROM OTHER FUNDS	25	69	2Y/16N	22	1Y/5N	14	5N	23	1Y/4N	10	

37^{2N}

REVENUE EXERCISE #2 (continued)



PARTICIPANTS = 18
 MAXIMUM SCORE = 180

	OVERALL RANKING (IMPORTANCE)	SUMMARY/WEIGHTED AVERAGE		Council		FAC		STAFF		UNLABELED	
		TOTAL SCORE	INCREASE-Y/N	MAXIMUM SCORE EQUALS 60		MAXIMUM SCORE EQUALS 50		MAXIMUM SCORE EQUALS 50		MAXIMUM SCORE EQUALS 20	
				RANK	INCREASE	RANK	INCREASE	RANK	INCREASE	RANK	INCREASE
EXISTING REVENUES:											
OTHER REVENUE SUGGESTIONS:											
STORM WATER FEES	26	11	1Y/1N	3	1N	0		8	1Y	0	
"GROWTH" TAX	27	10	1Y	10	1Y	0		0		0	
OVERWEIGHT VEHICLE FEES	28	7	1Y	0		0		7	1Y	0	
INCREASE USER FEES-FIRE/EMS	29	5	1Y	0		0		0		5	1Y
WATER SURCHARGE FOR POLICE FAC VEHICLE STICKERS	30	0	1Y	0		0		0	1Y	0	
STUDENT SERVICE FEE											
DISPOSITION OF ASSETS											
PROVIDE FEE FOR SERVICE TO SURROUNDING COMMUNITIES											
RAISE FEE FOR GARDEN PLOTS											

OTHER COMMENTS:

- ELIMINATE ORGANIZATIONAL DUPLICATION OF SERVICES
- CUT PAY BY 2% CITYWIDE
- COOPERATIVE PURCHASING WITH OTHER COMMUNITIES

DIVESTMENT OF DEPARTMENTS



STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS

BENCHMARKING – COMPARABLE CITIES

May 2009

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TABLE OF CONTENTS

	<u>Page</u>
Benchmarking Process	3
Benchmarking Study –	
General Data	4
Financial Data	6
Comparison of Assessed Value	7
Pension Fund	9
Benefits	11
Public Safety	13
Contracted Services	16
Risk Management	18
Procurement Policies	19
Airport Authority	20
Economic Development	22
Appendix	23

BENCHMARKING PROCESS



Executive Partners conducted a benchmarking survey of four regional cities, selected based upon discussions with the Financial Advisory Committee. The process for benchmarking was conducted through in-person or telephone interviews of the benchmark cities' staff, economic development directors, and through Internet searches of various websites. EPI also contacted the Quad Cities Airport Authority Executive Director.

EPI reviewed copies of Comprehensive Annual Financial Reports, operating budgets, union contracts, health insurance plans, actuarial studies, and other documents provided by the benchmark cities. EPI also gathered data from the U.S. Census Bureau website or other websites containing quantitative data for each city.

The quantitative data was compared to ensure that the comparisons were being made on an "apples-to-apples" basis, to the extent possible.

STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS – BENCHMARKING STUDY – COMPARABLE CITIES



Side-By-Side Data Comparison

GENERAL DATA	DeKalb	Downers Grove	Wheaton	Normal	Moline	Comments
Population-2007 Census Data	45,749	48,995	54,552	51,716	43,016	
Land Area in Square Miles	14.6	14.4	11.2	17.24	19	
Number of Employees	239.77 FTE	367.28 FTE	340.9 FTE	367 (Includes 37 for parks & rec., 24 for library, and 11 for sewer) net for same services = 295	450 FTE	
Number Per 1,000 Population	5.24/1,000	7.50/1,000	6.25/1,000	7.10/1,000	10.46/1,000	Average 7.31/1,000
Number of Depts. Under Mgr. Control	6	13	10	14	6	
Number of Management Staff and Front-line Supervisors	33	81	51	77	80	
Management - % Total Employ.	7.3	22.1	15	26	17.8	Average 17.64
Daytime Employment	21,552	45,000	29,304	64,603 (For B-N area, separate data not available)	Not Available	
Median Household Income (2000 Census)	\$35,153	\$65,539	\$73,385	\$40,379	48,207	Wheaton – 2000 Census Moline – 2000 Census
Median Home Cost	2008 - \$189,000 2006 - \$204,000	\$364,670	\$357,000	\$273,000 New \$148,000 Resale	\$101,100	Downers Grove – 2006 Price Wheaton–2005–2007 Census Data Normal–2007 Prices Moline–2005-2007 Census Data
Source: (1)	FY 2009 Budget	FY 2009 Budget	FY 2009 Budget	FY 2009 Budget	FY 2009 Budget	

(1) Unless otherwise noted.

BENCHMARKING – COMPARABLE CITIES OBSERVATIONS AND CONCLUSIONS



□ General Data Section:

- The average number of employees for the benchmarked cities was 363.25 FTE. The City of DeKalb has 239.77 FTE in the FY 2009 budget. EPI believes that the City of DeKalb is not overstaffed per se.
- Daytime employment in DeKalb was the lowest of the benchmark cities. The average for the other cities is not available because of combinations with metro areas. However, for the two cities that provided data, the average was 37,152 versus 21,552 for DeKalb. EPI believes that there should be economic opportunity for DeKalb to attract more jobs.
- Median household income using 2000 Census data in DeKalb is \$35,153 and is lower than the other cities, but was very close to the other university community of Normal, IL (\$40,379). EPI concluded that the median household income is impacted greatly by the lower earning student population in both cities.

STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS – BENCHMARKING STUDY – COMPARABLE CITIES



Side-By-Side Data Comparison

FINANCIAL DATA	DeKalb	Downers Grove	Wheaton	Normal	Moline	Comments
E.A.V. (2007)	\$648,167,819	\$2,413,044,414	\$2,131,078,825	\$751,300,000	\$718,052,937	Normal – 2007 CAFR
Total general fund budget	\$29,005,032	\$41,562,195	\$37,831,625	\$38,872,780	\$37,813,575	Normal excludes Parks & Recreation
General fund expenditures per employee in the G.F.	\$127,064.58	\$113,162.15	\$168,445.28	\$146,689.74	\$128,316	Downers Grove-includes communications Dept. 7 FTE
G.O. debt per capita (not overlapping) & excludes TIF debt	\$385.80	\$1,072.15	\$607.59	\$1,374.85	\$2,129	Downers Grove – 2007 CAFR, includes Library District
Revenue bond debt per customer	2003 TIF Bond = \$61.09 per capita	None	None	None	None	
City property tax rate	\$.6000 plus \$.2437 including library = \$.8437	\$.4630+ .1795 library = \$.6425	\$.6039+ \$.1656 library = \$.7965	\$.7490	\$1.6204+ \$.3858 Library = \$2.0062	Downers Grove – 2007 Audit
Total property tax rate	\$7.94969	\$4.52	\$14.5128	\$7.4618	\$8.7456	Downers Grove – 2008 Rate Moline – 2007 rate
General fund property tax revenue	\$3,742,937	\$8,812,699	\$9,474,868	\$5,896,820	\$7,844,335	
General fund reserve – policy as a percent of fund balance	12%	41%	Budget Policy: 30% total fund bal.; 25% total unreserved fund bal.; 20% cash balance	10% target	\$11,081,955 25% of general fund + library fund + park fund	Downers Grove – Actual as a percent of expenditures
General fund budget per capita	\$636.08	\$848.77	\$693.49	\$751.65	\$879.05	
Total expend. per capita (all funds)	\$1,546.09	\$2,207.72	\$1,433.82	\$2,852.60	\$2,783.01	
All property taxes per capita	\$115.03	\$305.36	\$297.60	\$158.07	\$380.34	Wheaton – 2007 Normal – 2009 Budget Moline - 2007
Local option sales tax?	Yes, 1.75%	Yes, .75%	Yes, .50%	Yes, 1.25%	Yes 1%	Wheaton – started 7-1-04
Three highest G.F. revenues:	FY 2009	FY 2009	FY 2009	FY 2009	FY 2009	
1. Home Rule sales tax	\$5,790,942	Not in top 3	Not in top 3	\$7,086,113	Not in top 3	
2. State sales tax	\$4,187,442	\$11,850,000	\$6,200,000	\$7,966,809	\$9,400,000	
Property Tax	Not in top 3	\$8,812,699	\$9,474,868	\$5,896,820	\$7,844,335	
3. State income state	\$4,323,281	\$4,580,000	\$5,092,500	Not in top 3	\$6,454,000	
TIF Districts	2	2	3		4	

STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS – BENCHMARKING STUDY – COMPARABLE CITIES



COMPARISON OF ASSESSED VALUE - 2008

FISCAL YEAR	DEKALB		DOWNERS GROVE		WHEATON		MOLINE		NORMAL	
	6-30 YE 2008 CAFR	%	12-31 YE 2007 CAFR	%	4-30 YE 2008 CAFR	%	12-31 YE 2007 CAFR	%	3-31 YE 2008 CAFR	%
2007 ASSESSED VALUES	33% value		33% value		33% value		33% value		33% value	
RESIDENTIAL	\$ 407,662,378	65.35%	\$ 1,801,429,781	74.65%	\$ 1,796,402,453	84.30%	\$ 473,507,242	62.70%	\$ 511,806,552	68.12%
COMMERCIAL	\$ 163,615,149	26.23%	\$ 539,361,723	22.35%	\$ 327,967,814	15.39%	\$ 266,102,311	35.24%	\$ 225,746,850	30.05%
INDUSTRIAL	\$ 51,250,520	8.22%	\$ 71,840,960	2.98%	\$ 6,161,950	0.29%	\$ 14,878,681	1.97%	\$ 12,083,935	1.610%
FARM	\$ 666,539	0.11%	9,307	0.00%	-	0.00%	\$ 340,243	0.05%	\$ 659,672	0.09%
RAILROAD	\$ 628,255	0.10%	\$ 402,643	0.02%	\$ 546,608	0.03%	\$ 346,494	0.05%	\$ 1,003,150	0.13%
	\$ 623,822,841	100.00%	\$ 2,413,035,107	100.00%	\$ 2,131,078,825	100.00%	\$ 755,174,971	100.00%	\$ 751,300,159	100.00%

BENCHMARKING – COMPARABLE CITIES OBSERVATIONS AND CONCLUSIONS (continued)



□ Financial Data:

- DeKalb had the lowest General Fund budget. The average City's budget was \$39.02 million compared to \$29 million for DeKalb. DeKalb's budget is 34% less than the comparable cities. EPI concludes that DeKalb provides similar General Fund services for much less cost.
- Equalized assessed value is lower in DeKalb. This is due to differences in allocation of classifications and differences in housing prices. For the more rural communities of Normal and Moline, the average EAV was \$734 million compared to DeKalb's \$648 million. EPI believes increased economic development and investment in the community can improve this number.
- DeKalb's property taxes per capita were the lowest of the five cities.
- DeKalb has the lowest debt per capita.
- DeKalb also has the highest home rule sales tax rate by more than .5%.
- DeKalb is overly reliant on sales tax and other economically sensitive revenues.

STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS – BENCHMARKING STUDY – COMPARABLE CITIES



Side-By-Side Data Comparison

PENSION FUNDS	DeKalb	Downers Grove	Wheaton	Normal	Moline	Comments
Fire % funded	46.2%	65% (1)	74.88% (4)	72.19% (2)	58.17% (4)	DeKalb – 7-1-08 Normal – 4-1-08
Fire ARC as a percent of covered payroll	41.1%	10.59% (2)	30.47% (4)	29.88% (2)	36.17% (4)	
IMRF % funded	80.46%	86% (3)	96.12% (4)	89.05% (3)	118.62% (4)	DeKalb/Normal – 12-31-07
IMRF cost as a percent of covered payroll	14.17%	12.5%	9.34% (4)	10.41%	6% (4)	
Police % funded	64.4%	71.1% (1)	65.64% (4)	68.30% (2)	61.69% (4)	DeKalb – 7-1-08 Normal – 4-1-08
Police ARC as a percent of covered payroll	24.75%	8.74% (2)	21.74% (4)	29.23% (2)	25.81% (4)	

1. 2008 most recent actuarial report.
2. Most recent actuarial report.
3. 2007 audit report.
4. 2008 CAFR

BENCHMARKING – COMPARABLE CITIES OBSERVATIONS AND CONCLUSIONS (continued)



❑ Pension Funding:

- DeKalb had the lowest funding percentage of the five cities for the Fire Pension Fund.
- DeKalb had the lowest funding percentage for IMRF Pension.
- DeKalb had the second lowest funding percentage for the Police Pension Fund. EPI recommends more money be contributed to the current pension funds.
- EPI further recommends that DeKalb officials consider lobbying the State Legislature for alternative pension plans for future employees.

STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS – BENCHMARKING STUDY – COMPARABLE CITIES



Side-By-Side Data Comparison

BENEFITS	DeKalb	Downers Grove	Wheaton	Normal	Moline	Comments
Post-retirement benefit plan?	Yes, liability is \$29,419,790	Yes, liability is \$30,018,455	Yes - medical	Yes	Yes – medical	DeKalb – 12-31-07 Downers Grove – 12-31-07
City paid share of premiums/costs	87% paid for retirees, premiums paid for life	City pays \$300/month for life over age 65. Nothing prior to age 65.	Retiree pays full cost-city cost 0%	Retiree pays full cost excluding police which is under negotiation	Retiree pays full cost after 65, city cost 81% from age 50-65	DeKalb – see Exhibit for further details on DeKalb's program
Health insurance plans:	One PPO plan with minor variance for police and fire	2-high ded. & low ded.	BC/BS PPO HMO of IL	PPO Plan	Two PPO plans	
Total cost of PPO-S - \$\$	\$543.77 + dental \$33.38	\$672.29	\$557.53	\$432.80	\$530.32	
Total cost of PPO-F - \$\$	\$1,391.34 + dental \$85.41	\$1,344.57	\$1,597.27	\$1,302.12	\$1,384.17	
Cost of HMO-S \$\$	N/A	N/A	\$410.29	Not Applicable	\$530.32	
Cost of HMO- F \$\$	N/A	N/A	\$1,242.87	Not Applicable	\$1,384.17	
Employee share:						
- PPO-S \$\$ or %	Fire 3% salary, police 2% salary, others 2% salary	\$67.23 10% of current premium	10% of premiums for all plans regardless of coverage	None	19%	DeKalb – 7-1-09 will change to 15% of premium for others
- PPO-F \$\$ or %	Fire 5%, police 4%, others 4% of salary	\$228.58 17% of current premiums		33.5% \$432.90	19%	DeKalb – after 7-1-09 others will pay 15% of premium
- HMO-S \$\$ or %	Not applicable	Not applicable		Not applicable	19%	
- HMO-F \$\$ or %	Not applicable	Not applicable		Not applicable	19%	
High ded PPO-S \$\$ or %	Not applicable	\$30.25; 5%	Not applicable	Not applicable	Not applicable	
High ded PPO-F \$\$ or %	Not applicable	\$121.31; 10%	Not applicable	Not applicable	Not applicable	
Other plans?	Yes, catastrophic plan for retirees only	Yes, direct contract with hospital	No	No	No	
Other benefits: describe	Dental & life insurance	Low cost deductible	Dental & life insurance	Life & dental insurance	Dental, vision, life & voluntary life ins.	

BENCHMARKING – COMPARABLE CITIES OBSERVATIONS AND CONCLUSIONS (continued)



□ Employee Health & Dental Benefits:

- DeKalb's benefit plans compared to the four benchmark cities appear to be competitive as to plan design.
- DeKalb's employees currently pay a percent of premium based on salary, but this is changing from a percent of salary to a percent of premiums. Once this conversion is complete, DeKalb employees will pay the second lowest share (15% of premiums) beginning 7-1-09 for those making under \$70,000, and 20% for those making over \$70,000. The average of the comparables is 19.87% of premium for family coverage, not tied to salaries.
- DeKalb offers the most expensive (to the City) retiree health plan. Only one other city of the four comparables offers post-retirement health plans and the coverage is limited.
- None of the other four cities offers dental benefits to retirees.

STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS – BENCHMARKING STUDY – COMPARABLE CITIES



Side-By-Side Data Comparison

PUBLIC SAFETY STATISTICS	DeKalb	Downers Grove	Wheaton	Normal	Moline	Comments
POLICE:						DeKalb – 2007 report Downers Grove – 2008 report
2007 Part 1 crimes	1,554	1,148	802	1,781	1,840	Data (includes murder, sexual assault, robbery, assault & battery, burglary, vehicle burglary, theft, vehicle theft, and arson)
2007 Part 1 crimes/1,000 pop.	.033	.023	.014	.034	.042	
Total calls for service	41,752	22,422	64,686	62,765	58,965	
# sworn police officers	63	81, includes supervisors	69	78	82	
P.O. per thousand population	1.37	1.65	1.26	1.51	1.9	
False alarms	459	1,165	2,283	668	723	
# police vehicles	29	53	38	Not available	58	
# supervisory staff	12	25	13	16 sworn, 1 civilian	19 sworn 1 civilian	Normal – Chief, Deputies, Lts, Sgts
# civilian staff	19	39.6 FTE	26	13	53	
Average response time: 2008	69% in less than 4 minutes	Not available	6:28	Not available	All – 9.90 min. Emerg. – 5.67 min.	

STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS – BENCHMARKING STUDY – COMPARABLE CITIES



Side-By-Side Data Comparison

PUBLIC SAFETY STATISTICS	DeKalb	Downers Grove	Wheaton	Normal	Moline	Comments
FIRE						
# stations	3	4	3	3, 4 th in planning stages	4	
# FF/PM per thousand pop	1.31	1.67	.64FF/.33PM – Total .97	1.22	1.6 FF/.77 PM 2.37 total	PM contracted in Wheaton
# sworn FF/PM	60	80	35/18 = 53	63	70 ff/33 pm = 103	
# civilian and supervisors not in Union	2 civilians 2 supervisors	8.75 civilian 24 supervisors	2	4	7	
# front-line apparatus (excluding ambulances)	4	5	3	4	6	
# reserve apparatus	2	2	2	4	2	
Average response time: 2008	3-5 minutes No actual given	4:20	4:47 Total 5:4 Fire 4:43 EMS	4:43 minutes	2008 – 4:39 2007 – 5:07	
# false alarms	300	243	538	562	322	
# total calls: 2008	4,977	3,318	5,411	5,115	5,940	
# EMS calls: 2008	4,091	3,218	3,541	3,731	4,306	
# ambulances	3	3 frontline 2 reserve	5	4, 1 reserve	2, +1 reserve	
# jump companies	Two, one at station 2 between engine and ambulance, and one at station 1 between engine and ladder truck	One between engine and squad if staffing at 5, not 8	None	Not available	1 (affects 2 companies)	

BENCHMARKING – COMPARABLE CITIES OBSERVATIONS AND CONCLUSIONS (continued)



❑ Public Safety Statistics

○ *Police:*

- ❖ DeKalb has the second lowest number of police officers per thousand of population.
- ❖ DeKalb's part I crimes per capita was the highest per number of officers. DeKalb may be able to respond more proactively to crimes with more officers.

○ *Fire:*

- ❖ DeKalb has more jump companies than the comparable cities (employees work one apparatus, but are not staffed to utilize the remaining fire station equipment).
- ❖ DeKalb's firefighters per thousand was lower than the average of the benchmark cities (1.31 v. 1.55). DeKalb may be more efficient if there were more firefighters on duty handling calls.

STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS – BENCHMARKING STUDY – COMPARABLE CITIES



Side-By-Side Data Comparison

CONTRACTED SERVICES: (Note General Fund or Other Funds)	DeKalb	Downers Grove	Wheaton	Normal	Moline	Comments
Social services	\$211,900	\$40,000	1 social worker in police dept.	N/A	N/A	Downers Grove – plus has a \$270,266 counseling dept. servicing police department
Tree trimming	In-house	\$556,800 (100%)	In-house	In-house	In-house	
Refuse/recycling	Contracted 100%	Residents pay directly to vendor, stickers \$2.85/container	Citizens pay/ stickers	In-house	\$477,000 recycling Refuse – in-house	
Transportation	\$1,602,177 for VAC service (busing)	In-house	N/A	N/A	N/A	Downers Grove – commuter system (done in house 4.4 FTE non GF)
Street maintenance	In-house	\$123,000	In-house	In-house	In-house	Downers Grove – street sweeping
Economic development	\$42,500 EDC; \$50,000 downtown mktg.; \$50,000 Chamber CVB \$174,415 in-house salaries	\$650,000	In-house \$461,200 budgeted	Data not available	\$331,090	DeKalb – Separate EDC
Sanitary sewer	District	District	Own system	Own system		
Traffic signal maintenance	\$25,000	\$33,000 (100%)	In-house Electrician on staff	Contracted	In-house	
Snow removal	\$60,000 contracted out, \$110,000 for materials	\$22,600 contracted out, \$455,422 budgeted in-house	In-house \$626,107 budgeted	In-house	In-house	
Payroll services	In-house	In-house	In-house	In-house	In-house	
Information technology	\$162,500 for maintenance contracts	Yes, maintenance contracts	\$914,677 budgeted	In-house	\$224,985 Budgeted	
Fleet services	Do most repairs in-house	Yes, certain functions	In-house	In-house	In-house	
Other: describe						

STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS – BENCHMARKING STUDY – COMPARABLE CITIES



Side-By-Side Data Comparison

CONTRACTED SERVICES (Note General Fund or Other Funds)	DeKalb	Downers Grove	Wheaton	Normal	Moline	Comments
Utility billing	None	None	\$21,600 printing \$28,450 mailing	None	None	
Ambulance billing	Done by hospital as a % of revenues	None	N/A	Contracted	6% fees collected \$68,954 in 2008	
Benefits admin.	None	Some outsourced	None	None	\$251,950	
Legal services	\$7,500 outside counsel	No	\$379,000	Partially contracted	\$12,259 outside in 2008; remainder done in-house	

STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS – BENCHMARKING STUDY – COMPARABLE CITIES



Side-By-Side Data Comparison

RISK MANAGEMENT	DeKalb	Downers Grove	Wheaton	Normal	Moline	Comments
In-house or contracted out?	In-house	In-house		Contracted through MICA	WC mostly in-house Liability w/travelers	
Safety policies in every department?	Police, fire & PW City-wide under review	Yes, village wide safety book		Yes, allocated loss control hours, training	Yes	
In-house review board?	No. Just starting one	Yes. Consisting of risk manager and departments		Loss control comm..	No. Consult legal	
Self-insured? Retention amount	No excess coverage, 100% of liability	Yes, SIR for liability is \$1 million, for WC is \$450,000	Yes. \$4,000,000	Yes	Self-insured	
Excess coverage policy in place?	No	Yes	Yes. HELP High level excess liability pool \$6,000,000 in coverage after \$4,000,000 self-insurance retention	Yes, in pool (MICA)	Yes	
Reserves if self-insured (\$ amount) or % of expenditures	Reserve is 0, fund balance is a deficit of \$1 million	No formal reserves in place, but new policy being created		\$350,000 WC \$150,000 Liability	\$1.6 million	
Worker's comp cost/employee	Not available	\$2,602		Not available	Approx. \$5,800 / ee	

STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS – BENCHMARKING STUDY – COMPARABLE CITIES



Side-By-Side Data Comparison

PROCUREMENT POLICIES	DeKalb	Downers Grove	Wheaton	Normal	Moline	Comments
Centralized or decentralized	Decentralized	Decentralized, but have a purchasing assistant in finance department	Primarily decentralized unless over \$20,000	Decentralized	Decentralized	
Department authority	\$20,000 W/O City Council approval	\$4,000	\$20,000	\$1,000	Without Council approval less than \$15,000	
# bids issued/year	Not determined	60	2007 – 32 2008 – 42	20 road bids, use state bid for cars; waive many bids	50 for public works department	
Credit or purchasing cards in use?	Do not use cards	None	Purchasing cards	Do not use cards	322	
City Manager authority for bid approvals without City Council approval in \$\$	\$20,000	\$15,000 \$7,000 for sole source	Everything above \$20,000 goes through Council	Up to \$10,000 \$10,000 & over requires Council approval	Less than \$2,500 – supervisor; \$2,500 - \$15,000 – depart. Head/ City admin. More than \$15,000 requires Council approval	Downers Grove – purchasing policy on website

AIRPORT AUTHORITY



Executive Partners, Inc. (EPI) discussed the creation of an airport authority with Bruce Carter, Executive Director, Quad Cities Airport Authority. The general provisions for the creation of an airport authority are defined in the Illinois Compiled Statutes (70 ILCS Chapter 15 ½).

If the City of DeKalb were to consider the creation of an airport authority, the process begins by a petition of 500 or more electors petitioning the Clerk of the Circuit Court of DeKalb County, requesting a question be placed on the ballot for the creation of an airport authority. The territory must be described in the petition, and may include areas outside of DeKalb County. If the area is larger than the county itself, there are specific requirements for how to handle that in the statutes.

An airport authority has its own taxing powers (.075% of equalized assessed valuation), has the authority to issue bonds equal to 2.3% of the EAV, and is governed by the Board of Commissioners. The statutes are very specific about who is appointed to the board of commissioners, the residency requirements and terms of office. The authority would adopt its own budget and capital plan separate from that of the City of DeKalb.

In our discussions with Bruce Carter, the Quad Cities Airport Authority has both commercial aviation and private aviation services. They have 50,000 landings per year. They generate the majority of their revenues from user fees, landing fees, space rent, concession revenue sharing agreements, fuel sales, rental car concessions, and parking lot revenues. Of the \$10 million annual budget, approximately \$1.2 million comes from property taxes with the balance coming from all other fee types.

EPI strongly recommends the City of DeKalb look into the creation of an airport authority. EPI believes the City has significant potential to leverage the asset of the DeKalb-Taylor Municipal Airport to create new economic development benefits to the City and the region. Since the number of required signatures on a petition is relatively small, EPI believes that getting a petition on the ballot can be easily achieved. EPI encourages the City Council and management to market the concept and benefits to the surrounding communities and the region. Achieving a collaborative effort on an airport authority with Northern Illinois University, the City, and surrounding communities will benefit the residents of DeKalb County and spread the cost of operations over a larger base. Creation of an airport authority will enable the citizens of DeKalb to decrease their share for the operating costs of the airport that benefits the entire county.

BENCHMARKING – COMPARABLE CITIES OBSERVATIONS AND CONCLUSIONS (continued)



- ❑ **Contracted services, risk management, procurement policies, and airport authority recommendations:**
 - DeKalb needs to acquire excess liability coverage if the City remains self-insured.
 - DeKalb would benefit from a proactive centralized procurement program.
 - DeKalb should consider outsourcing more services to save money; comparing total costs including labor, benefits, and overhead (which is often overlooked).
 - DeKalb should convert its airport to an airport authority, then begin a more aggressive process of economic development.

BENCHMARKING – COMPARABLE CITIES OBSERVATIONS AND CONCLUSIONS (continued)



□ Economic development

- The City of DeKalb budgets the least amount of money for economic development, with the other cities spending between two times to 12 times the amount the City of DeKalb is spending.
- Two of the four benchmark cities conduct economic development in-house with staff.
- Two of the benchmark cities utilize a separate economic development organization organized as a non-profit organization that is a public/private partnership and is funded by both City revenues, but also private sector contributions.
- Three of the other cities have a formal policy for the use of economic development incentives and specific criteria for granting incentives to developers.
- All of the other cities had a comprehensive list of incentives, and specific programs regarding facade renovation, assistance to new businesses, or use of TIF funds.
- EPI recommends hiring an in-house Economic Development Director, establishing a plan and incentives, and engaging the community in a proactive approach to appropriate economic development utilizing the many assets of the City.

ICMA General Liability Analysis

The following ICMA comparisons of general liability claims was also reviewed by EPI.



STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS

BENCHMARKING – BEST PRACTICES - OPERATIONAL PROCESSES

May 2009

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TABLE OF CONTENTS



	<u>Page</u>
The Process	3
The Value and Focus of this Benchmarking	5
Managing Principles in a Fiscal Crisis	11
Organizational Costs/Capacity – Budgeting for Outcomes	16
Stakeholder Communications/Involvement	26
Proactive Economic Development	31
DeKalb/NIU Relationship – TownGown Partnerships	36
Long-Term Budgeting and Financial Planning Processes	45
Observations and Conclusions	48
Appendix	78

THE PROCESS

BEST PRACTICES – OPERATIONAL PROCESSES



The following section documents the results of EPI's research into the operational Best Practices that should be applied by the City of DeKalb in its development of tactical and strategic plans and strategies. Excellence in organizational outputs (i.e. levels of service, productivity improvements, economic growth, financial strength, and citizen satisfaction) is the result of the efficacy, efficiency, and appropriateness of its processes. Excellence is achieved by a continuous, critical, and detailed examination of processes with the goal of improvements in output at reduced costs per "unit of output." Each functional area – economic development, public works, legal, City management, or planning et al. - is a culmination of its processes and only by examining these processes can an organization move itself to the "next level" and address its issues.

Best Practices looks at the underlying processes that are inherent in ALL organizations and identifies the "best of breed." This allows learning from others' experience, mistakes, and refinements. Since we are examining the very basic organizational processes, Best Practices have applicability in organizations of all sizes and, in most cases, in different businesses. They are intended to stimulate thinking and act as catalysts for change.

The City of DeKalb is a complex organization and has many areas that would bear fruit from a Process Analysis. EPI examined the potential to be realized and the organizational capacity that currently exists and limited our recommendations to the following categories:

- Managing Principles in a Fiscal Crisis
- Organizational Costs/Capacity – Budgeting for Outcomes
- Stakeholder Communications/Involvement
- Proactive Economic Development
- DeKalb/NIU Relationship – TownGown Partnerships
- Long-Term Budgeting and Financial Planning Processes

THE PROCESS

BEST PRACTICES – OPERATIONAL PROCESSES



For each category in the following Section, EPI has documented:

- ❑ Some of the Best Practices that exist in both the Government and Private Sectors
- ❑ The source of this information; this will allow the Staff, Council, and Citizens to perform additional research and establish contacts in the future.
- ❑ Specific EPI recommendations for the City of DeKalb based upon our examination of the current state of City processes, our belief in what areas would yield maximum leverage, and our assessment of the City's organizational capacity.

The following Section represents EPI's recommendation of a **direction** and inherent **priorities**. However, it is not an implementation plan. It has been our experience that implementation will be a difficult and rigorous process that requires strong leadership and focus from all stakeholders. To achieve long-term financial stability and enhanced outcomes the City must, in many areas, "re-invent itself." Embracing the cultural implications of Best Practices and Continuous Improvement is a vital first step.

BEST PRACTICES

The Value and Focus of this Benchmarking

BEST PRACTICES – RATIONALE

Why look at best practices:

- ❑ Removes the need to “reinvent the wheel.”
- ❑ Leads to “outside-the-box” thinking, encouraging organizations to look for ways to improve that come from outside.
- ❑ Forces organizations to examine current processes, which can often lead to improvement in itself.
- ❑ Accelerates change and restructuring by using tested and proven methods and creating a sense of urgency when gaps are identified.
- ❑ Allows the organization to focus externally and constantly capture opportunities and counter potential threats.
- ❑ Helps prevent complacency and inertia within the organization and its people by setting stretch goals and stimulating new ways to plan for the future.
- ❑ Promotes the emergence and evolution of a “learning culture” throughout the organization.
- ❑ Promotes the development of a customer-centric culture by constantly reminding people of the customer and focusing on critical processes that add value.
- ❑ Overcomes the “not-invented-here” mindset by offering evidence that ideas invented outside the organization can and do work.

BEST PRACTICES – SOURCES

The sources for EPI's research:

- ❑ EPI research database and extensive experience in:
 - Fortune 1000 companies
 - Small to mid cap companies
 - Government and NGO, including Social Service Not-For-Profits

- ❑ Web research, including:
 - Government Innovators Network
 - Government Finance Officers Association
 - International City Manager's Association
 - International Association of Chiefs of Police
 - International Association of Fire Chiefs
 - National Fire Protection Association
 - Economic Development Administration (U.S. Dept. of Commerce)
 - Urban Blogs
 - Alliance for Innovation – Transforming Local Government (ICMA-ASU)
 - Northern Illinois University – Division of Public Administration
 - ASU Center for Urban Innovation
 - TownGown World
 - Multiple City Web Sites
 - Harvard Kennedy School of Government
 - Deloitte Touche Studies

BEST PRACTICES – CRITICAL SUCCESS FACTORS

In considering best practices, the following are critical success factors:

- ❑ Implementation success is dependent on
 - A detailed, critical look at your own work processes
 - Openness to modify these processes and eliminating non-value-added steps
 - Focus on outcomes
 - Letting the customers for those outcomes help define their levels

- ❑ Identify the most critical processes
 - Tactical (short-term)
 - Strategic (longer-term)

- ❑ Align outcomes with key objectives in the budget and strategic plan

- ❑ Tackle what your organization is capable of handling well
 - Don't take on too many changes too fast
 - Allow success to build organizational momentum
 - This is a culture change!

BEST PRACTICES – CRITICAL SUCCESS FACTORS

KEY

Best practices examines processes NOT the scale of the processes. Larger projects in larger cities can yield inherent process ideas that can be implemented on a smaller scale in smaller cities. A mindset of:

- Process thinking
- Outcome orientation

is critical.

BEST PRACTICES – DEKALB AREAS OF FOCUS



EPI chose categories for focus based upon feedback received from all stakeholders in the process, PLUS EPI's assessment of organizational capacity to successfully address multiple "fronts."

Thus, areas of EPI's focus: Best Practices – Operational Processes are:

Tactical

- Managing principles in a fiscal crisis
- Organizational costs/capacity – budgeting for outcomes
- Stakeholder communications/involvement

Strategic

- Proactive economic development
- DeKalb/NIU relationship – TownGown partnerships
- Long-term budgeting and financial planning processes

MANAGING PRINCIPLES IN A FISCAL CRISIS

BEST PRACTICES – MANAGING PRINCIPLES IN A FISCAL CRISIS

Source: ICMA Executive Director, Robert O’Neill

- ❑ Establish an early warning system to determine what external trends and factors will have an impact on strategy and timing
 - *“Continuous review of long-term financial projections”*
- ❑ React quickly to these trends and factors
 - *“Benchmarking and excellent communications”*
 - *“Organizational leadership and alignment”*
 - *“Flexible and empowered organization”*
- ❑ Have “migration” strategies in place early to weather constant change
 - *“Know your ‘plan B’ and be ready to use it”*
 - *“Contingency planning”*
- ❑ Understand community values and make choices based on priorities
 - *“Communications with stakeholders – ongoing”*
- ❑ Apply rigor required to determine if programs are working
 - *“Know when to hold ‘em, know when to fold ‘em”*
- ❑ Never be satisfied with current level of performance
 - *“Continuous improvement”*

BEST PRACTICES – MANAGING PRINCIPLES IN A FISCAL CRISIS (continued)

Source: Deloitte Touche Study

- ❑ Embrace innovation and rethink delivery models
 - Outsourcing – process reengineering
 - Utilize customer data
 - Actively manage social enterprise
- ❑ Exploit the best from the private sector
 - Best practices
- ❑ Build new capabilities that will yield long-term sustainability
 - Partnerships and alliances
 - Organizational development
 - Economic development
- ❑ Embed permanent cost savings
 - Collaboration and joint strategic partnerships across policy areas and regional boundaries
 - Spread classical “fixed labor costs” – cost sharing
- ❑ Tactical actions
 - Centralize procurement functions
 - Eliminate poor performance
 - Review and remove extraneous management levels (span of control)
 - Terminate projects that have no impact on front-line service delivery
 - Review operations cost options
 - Seek short-term revenues from non-statutory services (fees)

BEST PRACTICES – MANAGING PRINCIPLES IN A FISCAL CRISIS (continued)



**Source: Jeff Chapman, Professor, Arizona State University,
Center for Urban Innovation**

- ❑ Short-run solutions
 - “Modest” adjustments to present expenditures and tax rates (“tinkering”)
 - Reduction in some services
 - Short-run solutions must protect future generations’ fiscal abilities

- ❑ Long-run solutions
 - Remove the “free lunch” mentality of citizenry
 - Increased use of user charges and benefits based taxes
 - Establish and communicate a clear connection between program benefits and the commensurate financing mechanism

- ❑ An imperative
 - Be conscious of the long-term consequences of short-run decision making**

BEST PRACTICES – MANAGING PRINCIPLES IN A FISCAL CRISIS (continued)

**Source: Jonathan Justice, University of Delaware,
School of Urban Affairs**

- ❑ Strategies for long-term adaptation to business cycle variations are as critical as short-term coping tactics
- ❑ Short-term coping tactics must be complimentary to long-term adaptation strategies
- ❑ Critical success factors
 - Avoid excessive commitments to fixed expenses (debt service and unfunded post-employment liabilities)
 - Create efficient and flexible organizations
 - Create diverse revenue sources (increase proportion of locally controllable)
 - Engage in long-term financial planning
 - Maintain adequate level of reserves
 - Educate all stakeholders on financial situations and strategic options
- ❑ Seek opportunities to improve productivity and financial management
 - Considering shedding activities that can be divested or eliminated
 - Introduce appropriate charges for appropriate services
 - Conduct zero based budgeting analyses
 - Consider service sharing and consolidation
- ❑ Utilize fully participative (all stakeholders) process
 - Benchmark – Eugene, Oregon

ORGANIZATIONAL COSTS/CAPACITY – BUDGETING FOR OUTCOMES

BEST PRACTICES – ORGANIZATIONAL COSTS/CAPACITY – BUDGETING FOR OUTCOMES



Source: EPI Executives and Database – Private Sector

- ❑ “Across the board” cost reductions can create long-term issues:
 - Will not accurately reflect tactical and strategic City priorities – negative impact on services
 - Will exacerbate organizational capacity issues – lack of back up
 - Will not yield a long-term solution – does not address inherent process and structural inefficiencies
 - Will negatively impact balancing workloads and morale
 - **Can be used for short periods to allow time for restructuring and process analysis**

- ❑ Long-term cost reductions must result from:
 - **A critical reevaluation of service priorities and levels – tie budget \$ to achievable outcomes**
 - Systemic changes in the way “business” is accomplished, i.e., changes in business processes
 - Changes in organizational structure and approaches
 - A critical reevaluation of core competencies
 - A reevaluation of performance appraisal/merit increase policies

BEST PRACTICES – ORGANIZATIONAL COSTS/CAPACITY – BUDGETING FOR OUTCOMES (continued)



Source: EPI Executives and Database – Private Sector (continued)

- ❑ Review and increase spans of control
 - Narrow spans of control increase costs, inhibit communications and employee development and reduce flexibility/process “speed”
 - Current research and trends point to levels of 1:8 to 1:10 in progressive organizations
 - Total management layers of three for small organizations
 - Implementation requires training and modifications in selection policy

- ❑ Create flexible “just-in-time” workforce options
 - Cross training within and across functions
 - Flexible work arrangements creating a reduced cost structure while increasing capacity and service
 - * Job sharing – part-time
 - * Staggered work hours – flex time
 - Create a trained labor “pool” which retains organizational knowledge

BEST PRACTICES – ORGANIZATIONAL COSTS/CAPACITY – BUDGETING FOR OUTCOMES (continued)



Source: EPI Executives and Database – Private Sector (continued)

- ❑ Centralize functions where economies of scale will yield cost savings and consolidate capacity
 - Purchasing – cost savings of 10-20% dependent on strategy
 - * Low end with internal centralizing only
 - * High end via cooperatives with other community organizations
 - Secretarial/administration
 - Communications/dispatch

- ❑ Centralization conserves cash via tighter inventory and expense control
 - Facilitates opportunities for positive incentive plans tied to reduced costs

BEST PRACTICES – ORGANIZATIONAL COSTS/CAPACITY – BUDGETING FOR OUTCOMES (continued)



Source: EPI Executives and Database – Private Sector (continued)

- ❑ Outsourcing of non-core competencies and variable demand services will yield cost savings and permit organizational focus/investment on key priorities
 - *Vehicle maintenance*
 - * Potential savings – 12-15% of current in-house expenditures
 - * Continuous access to specialized service over time contractually
 - * Simplified budgeting – stable fixed fee forecast
 - * Ability to set quality/service standards contractually
 - *Information technology*
 - * Potential savings – 15-20% of current total costs
 - * Minimizes exposure to hardware obsolescence
 - * Reduces capital outlays while providing upside capacity
 - * Eliminate extensive technical training costs while ensuring access to latest applications software
 - *Building inspection/code enforcement*
 - * Allows for precisely matching to demand
 - * No idle capacity – no overhead for full-time employees
 - * Training costs eliminated for constantly evolving technical field

BEST PRACTICES – ORGANIZATIONAL COSTS/CAPACITY – BUDGETING FOR OUTCOMES (continued)



Source: EPI Executives and Database – Private Sector (continued)

- ❑ Outsourcing of non-core competencies and variable demand services will yield cost savings and permit organizational focus/investment on key priorities
 - Billing and other generic functions
 - * Similar to TPA (Third Party Administrator) concepts
 - * Variable demand service

- ❑ Create an outcomes based budget and performance appraisal system
 - Individual objectives tied to organizational goals
 - Pay for performance vs. tenure – eliminate poor performance
 - Stakeholders see relationship between \$ and services

BEST PRACTICES – ORGANIZATIONAL COSTS/CAPACITY – BUDGETING FOR OUTCOMES (continued)



Program: City of San Jose “Investing in Results” Initiative

- ❑ Initiative components:
 - Performance based budgeting (outcomes)
 - Managed public/private competition
 - Organizational development
 - Yield a customer focused, results based service organization

- ❑ The results – significant achievements in:
 - Front-line service delivery – increased production with reduced costs
 - Budgeting – restructured from organizational focus to service delivery focus – ties resources to outcomes
 - Cost reductions – employee teams identified significant opportunities to reduce manpower
 - Strategic planning and policy making – translation of plans and policies to service delivery (outcomes)

- ❑ The steps:
 - Prepare the organization
 - Keys: Create commitment
 - Identify customers and determine needs
 - Clarify mission and recheck alignment
 - Identify gaps
 - Develop measures
 - Keys: Stakeholder input
 - Specific, measurable, sustainable standards
 - Identify opportunities
 - Keys: Best practices
 - Process reengineering
 - Manage for results
 - Keys: Performance based budgeting
 - Alignment and accountability

BEST PRACTICES – ORGANIZATIONAL COSTS/CAPACITY – BUDGETING FOR OUTCOMES (continued)



Source: Ottawa Police Strategic Staffing Initiative

- ❑ Created a “just-in-time” inventory of fully trained individuals
 - Retired police officers
 - Flex time/part-time incentives

- ❑ Part of a much larger initiative to
 - Create seamless service levels in spite of leaves, absences, retirements
 - Increase response effectiveness to community identified problems
 - Tied resources to specific outcomes
 - Respond to new kinds of crime

- ❑ Critical process components
 - Detailed data and current process analyses
 - Brainstorming/employee involvement
 - “Business rules” for managers designed and implemented – “executive dashboard”

- ❑ Results
 - Internal efficiencies identified
 - Culture change
 - Positions added at a much reduced overall cost/position
 - Service levels increased

**BEST PRACTICES –
ORGANIZATIONAL COSTS/CAPACITY –
BUDGETING FOR OUTCOMES** (continued)
THE OLD BUDGET GAME VS. THE NEW GAME



Source: In Their Book, The Price of Government, David Osborne and Peter Hutchinson Describe a Best Practices Budgeting Approach

	<i>Cost/Agency Based Budget</i>	<i>Budgeting for Outcomes</i>
Starting Point:	Last year as the base “entitlement”	Price of government: how much citizens are willing to spend for services
Focus:	Add/subtract from base entitlement	Buying results that matter to citizens from competing offers
Addition:	Autopilot increase = new base	Since there is no base, there is no adding and subtracting
Subtraction:	“Cut” from new base	
Submission:	Justification for needs and costs, plus extra	Offer to deliver results at the set price
Incentives:	Build up costs and make cuts hard	Produce the most results that matter, at the set price
Analyst’s job:	Find hidden/unnecessary costs	Validate offers or find better choices
Elected official’s job:	Choose to cut services or raise taxes, and get blamed (or blame someone else)	Choose the best offers, to get the most results for citizens at the price they will pay
Debate:	What to cut, what to tax	How to get even better results

BEST PRACTICES – ORGANIZATION COSTS/CAPACITY – BUDGETING FOR OUTCOMES IN 12 EASY AND NOT-SO-EASY-STEPS



Source: The Price of Government – Osborne and Hutchinson

1. Set the price of government: how much citizens are willing to spend.
2. Determine the priorities of government: the outcomes that matter most to citizens, along with indicators to measure progress.
3. Decide the price for each priority outcome.
4. Decide how best to deliver each priority outcome at the set price: create steering organizations to act as purchasing agents and have them develop “cause-and-effect” strategy maps and purchasing strategies.
5. Set outcome goals and indicators for each of the strategies and programs, and make sure the results are measured.
6. Solicit offers, then choose which programs and activities to purchase.
7. Negotiate performance agreements with those providers, spelling out the key outputs and outcomes to be produced, the indicators to be used to measure progress, the consequences for performance, and the flexibilities granted to help the organization maximize performance.
8. Eliminate line items in your budget below the program or strategy level; appropriate lump sums for the results of each strategy and program.
9. Develop full-cost accounting, which attributes all direct and indirect costs to a program or strategy, so you know the real cost of each program and strategy.
10. Create a process to review performance against the targets, in both the executive and legislative branches. Ideally, this should take place in executive-branch steering organizations and legislative committees organized to focus on the same outcomes.
11. Use data on results and performance management to drive improvement in programs, strategies, outputs, and work processes.
12. When performance dictates it, make changes in the organization chart, in both the executive and legislative branches.

STAKEHOLDER COMMUNICATIONS/ INVOLVEMENT

BEST PRACTICES – STAKEHOLDER COMMUNICATIONS/ INVOLVEMENT

Source: Ash Institute – Harvard Kennedy School of Government

- ❑ Accountability and transparency are key
 - Transparency and accountability go hand-in-hand
 - Transparency of data is required for accountability
 - Distrust is the biggest obstacle to development at all levels

- ❑ Citizen participation is vital to making transparency and accountability work
 - Social audit is an important citizen mechanism to influence policy
 - Awareness of and engagement in participatory democracy is key
 - Grass roots efforts must be supported

- ❑ Access to information is a critical government function
 - Information is a tool for change
 - Information structure is as important as transparency
 - It is essential to stimulate demand for accurate facts
 - Must be aware of information overload – which data? – what’s the purpose?

- ❑ Role of leadership
 - Cultivate and “invest” in leadership
 - Have courage and ability to “react” to results at political level
 - Accountability
 - Listen to their citizenry
 - Encourage citizen involvement in problem solving

BEST PRACTICES – STAKEHOLDER COMMUNICATIONS/ INVOLVEMENT (continued)



Source: Ash Institute – Harvard Kennedy School of Government (continued)

- ❑ Role of citizens
 - Access and supply information
 - Engage in processes that include and encourage citizen participation
 - Responsibility to know, organize, and act

- ❑ Indicators and reporting results
 - Agreed upon community level indicators of success
 - Tie results to budget formulation and execution (transparent)

- ❑ Rewards and incentives
 - Reward actions (trying, piloting, inside government)
 - Reward good reporting (failures and successes)
 - Performance outcomes and rewards – positive incentives/environment

- ❑ Facilitate innovation
 - Encourage reasonable risk taking
 - Balance transparency with the desire for innovation and creativity
 - Allow for mistakes

BEST PRACTICES – STAKEHOLDER COMMUNICATIONS/ INVOLVEMENT (continued)



Source: Ash Institute – Harvard Kennedy School of Government (continued)

- ❑ Public private partnerships play an important role
 - NGOs enable stronger collaborations
 - PPPs produce participation and lead to empowerment

- ❑ Citizen participation is key
 - Participation is a way to “solve” public apathy
 - Engage community as early as possible
 - Decentralization is critical – neighborhood empowerment

- ❑ Education is required
 - Builds “capacity” and ownership
 - Develops new skills and yields a benefit to citizens

- ❑ Leverage existing institutions
 - Use both formal (churches, schools, et. al.) and informal institutions
 - Engage with organizations, agencies at all levels

BEST PRACTICES – STAKEHOLDER COMMUNICATIONS/ INVOLVEMENT (continued)



Source: City of Eugene, Oregon Study – Neighborhood Services

- ❑ Created a service organization that
 - Fosters development and growth of residential neighborhood and business associations
 - Improves sense of connectedness and community
 - Helps neighbors collaborate on local issues
 - Provides information flow on service changes, capital improvements, and local impact of city-wide policy decisions

- ❑ Created a planning tool for citizens
 - Neighborhood action plan
 - Prioritizes needs and ties to required citizen actions
 - Facilitated by City staff
 - Provides data and fosters relationships for citizen/City collaboration
 - Covers broad issues from economic development to traffic

- ❑ Additional benchmark cities with similar programs and processes
 - Madison, Wisconsin
 - Bellevue, Washington
 - Vancouver, Washington
 - Fort Collins, Colorado
 - Raleigh, North Carolina

PROACTIVE ECONOMIC DEVELOPMENT

BEST PRACTICES – PROACTIVE ECONOMIC DEVELOPMENT



Source: EPI Database – Critical Process Elements

- Promote and maintain a ***pro-business*** attitude
- Organize and facilitate regular ***business networking*** events
- Visit existing enterprises*** and let them know what you are doing
- Encourage enterprise leaders to be ***community*** leaders
- Recognize volunteers who contribute to ***economic development*** efforts
- Find and network with ***area development*** allies within your community
- Find and network with outside ***contacts*** interested in your area's development
- Have education leaders and resource personnel as ***allies***

BEST PRACTICES – PROACTIVE ECONOMIC DEVELOPMENT (continued)



Source: Centralia, Illinois – Winner of 2008 ICMA Sustainability Award

- ❑ City determined that old incentives were not meeting the needs of the customers (businesses)
 - TIF districts and enterprise zones had district boundaries
 - Community development assistance program loans and grants had low to moderate income requirements
 - Each had its own project eligibility costs and scheduling restrictions
- ❑ Staff needed to design a flexible program that could better meet potential customer needs
- ❑ Created the “Centralia Opportunities Fund”
 - Start up injection of \$100,000
 - Ongoing funding via 70% of unexpended contingency fund at year-end
- ❑ Fund provides; to developer, investor, or existing business a grant, forgivable loan, or low interest loan
 - Project must be within City’s corporate limits
 - Must create positive, economic impact and new jobs
 - Vetting of applications is rigorous
- ❑ Results
 - Used successfully for several years, retaining, attracting, and revitalizing businesses
 - Local business community considers Centralia business-friendly

BEST PRACTICES – PROACTIVE ECONOMIC DEVELOPMENT (continued)



Source: State of Washington – 2008 Award Winners

- ❑ Longview City Council – Weyerhaeuser partnership/joint venture to finance and develop 300 acre industrial park – created 600 family wage jobs and increased tax revenues
- ❑ Southwest Washington Workforce Development and Columbia River Economic Development Council – put territories aside and agreed to consolidate staff and activities

BEST PRACTICES – PROACTIVE ECONOMIC DEVELOPMENT U.S. FISCAL STIMULUS PACKAGE INPUT



Some Strategic Economic Development Possibilities for DeKalb Based on U.S. Fiscal Stimulus Package Priorities

- ❑ Support regional innovation clusters
 - DeKalb/NIU innovation center?

- ❑ Support job creation with technology investment
 - DeKalb innovation center a catalyst for private sector development?

- ❑ Support creating a network of public/private business incubators
 - Leverage DeKalb entrepreneurial history/image
 - Start-up “park”

- ❑ Joint government/DeKalb investments will yield sustainable models absent U.S. government funding in the future

DEKALB/NIU RELATIONSHIP – TOWNGOWN PARTNERSHIPS

BEST PRACTICES – DEKALB/NIU RELATIONSHIP – TOWNGOWN PARTNERSHIPS



- ❑ Wide array of partnerships in existence throughout the U.S.
- ❑ Constructive/collaborative relationship is a critical success factor
- ❑ Financial pressures on academic environments similar to those being experienced by municipalities
 - Catalyst for cooperation
 - Create win/win situations on efficiencies and cost reductions
- ❑ Leveraging resources of two entities yields more capital (intellectual and \$) for investment
- ❑ **Community organizations can build relationship momentum and outreach**

BEST PRACTICES – DEKALB/NIU RELATIONSHIP – TOWNGOWN PARTNERSHIPS (continued)



Source: Community Interactions and Collaborations Peer Institutional Study – University of Cincinnati - 2006

- ❑ University of Akron/City of Akron/Summa Health Systems Alliance
 - Economic development, housing, neighborhood revitalization, education
 - Seed capital provided by University and \$200,000 foundation grant

- ❑ Duke University – Durham Neighborhood Partnership
 - K-12 education, public safety, affordable housing, neighborhood revitalization, accessible healthcare
 - All-inclusive: input from City, County, Federal, churches, not-for-profits, businesses, and citizens
 - Duke University and private funding (some local donations)

- ❑ Louisiana State University/Old South Baton Rouge
 - Neighborhood revitalization, economic development, community organization
 - Multi-faceted funding model, University, business, HUD

BEST PRACTICES – DEKALB/NIU RELATIONSHIP – TOWNGOWN PARTNERSHIPS (continued)



**Source: Community Interactions and Collaborations
Peer Institutional Study – University of Cincinnati – 2006** (continued)

- ❑ Ohio State University – City of Columbus
 - Formed to lead redevelopment in neighborhoods surrounding OSU
 - Improved rental housing
 - Increased home ownership
 - Revitalized retail space
 - Encouraged faculty, staff, student involvement with neighborhoods
 - Oversight board – University and City staff, students, community, and business representatives

BEST PRACTICES – DEKALB/NIU RELATIONSHIP – TOWNGOWN PARTNERSHIPS (continued)



Neighborhood Community Organizations

- ❑ Action Sandy Hill – Ottawa Canada
 - Maintains ongoing dialogue with University administration and students
 - Represents interests of community on planning, development, housing, transportation
 - Supports City plans and promotes a sense of total community
 - Hosts web site and facilitates flows of information
 - Citizen volunteer led and managed

- ❑ The Arbor District – Carbondale, Illinois
 - Located in area of student rentals, retirees, University employees, and business professionals
 - Created, supported, and passed an agenda that included
 - * Monetary incentives for conversion of rentals to family ownership
 - * Mandatory rental inspection paid by landlord fees
 - * Enhanced code enforcement
 - * Enhanced communications with City departments
 - Citizen staffed and led

BEST PRACTICES – DEKALB/NIU RELATIONSHIP – TOWNGOWN PARTNERSHIPS (continued)



Wall Street Journal – March 24, 2009 – “Why College Towns Are Looking Smart”

- ❑ College towns have unemployment rates significantly below U.S. rates
 - Morgantown, West Virginia
 - Logan, Utah
 - Ames, Iowa
 - Gainesville, Florida
 - Ann Arbor, Michigan
 - Manhattan, Kansas
 - Boulder, Colorado

- ❑ Major education and health centers not as adversely impacted by economic downturns as other equivalent areas

- ❑ Colleges drive demand for a more highly skilled workforce and its requisite city wide benefits
 - Graduates “stay put”

- ❑ “Apart from weather, human capital has been the best long run predictor of urban success in the last century” – Edward Glasser; Harvard University

- ❑ College towns helped by the concept of “Communiversities”
 - Partnerships between universities and home cities
 - A new movement in higher education

BEST PRACTICES – DEKALB/NIU RELATIONSHIP – TOWNGOWN PARTNERSHIPS (continued)



Morgantown, West Virginia University

- ❑ 1991 – reform minded group including the current Mayor and Council members determined that TownGown relationship was a key strategic priority
- ❑ Timing was pivotal
 - Decades long decline of railroad and heavy industry in Morgantown meant City urgently needed a new engine of growth!
- ❑ Council began working more closely with WVU administration
 - Started small; road paving and public safety
- ❑ 2001 – after ten years of working the relationship
 - University re-located a major new administration building in City's blighted Wharf District
 - Building became a catalyst for significant redevelopment – new hotel and restaurants; \$28 million event center; \$34 million student recreation center
- ❑ Construction now underway on 88 acre research park and \$50 million commercial development featuring a Hilton Garden Inn

BEST PRACTICES – DEKALB/NIU RELATIONSHIP – TOWNGOWN PARTNERSHIPS (continued)



Community Planning – University of North Carolina – Chapel Hill “Partners for Life” Initiative

- ❑ Formed Chapel Hill Downtown Partnership - funded and staffed by
 - Town government
 - The University
 - Business and property owners

- ❑ Monthly meeting of representatives
 - Nurtures and strong relationship between town and University
 - Broad agenda from parking to safety
 - Beginning to tackle business mix and marketing
 - University is a business partner

- ❑ Partnership professionals act as mentors and facilitators for new business opportunities
 - Proactively seek opportunities

BEST PRACTICES – DEKALB/NIU RELATIONSHIP – TOWNGOWN PARTNERSHIPS (continued)



Community Planning – Dalhousie University – Halifax, Nova Scotia

- ❑ Relationship between University and neighbors initially strained
- ❑ Initiative developed to mend fences
 - Community survey
 - Longitudinal – multiple year
 - Provided objective database
- ❑ Results
 - Measurable survey improvement took 2 ½ years
 - Surveys provided credible data to prioritize resource allocation and investments
 - Facilitated outcomes budgeting process
 - Less likely that agendas will be “hi-jacked” by future administrations

LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES

BEST PRACTICES – LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES



Sources: EPI Executives and Municipal Database

- ❑ Link budget development to long-term City strategy
 - Resource prioritization and allocation
- ❑ Leverage technology to facilitate continuous budget planning and forecasting
 - Long-term as well as short-term
- ❑ Tie employee incentives to performance measures that exceed budget targets
 - Create contingency plans
- ❑ Incorporate cost reduction into budgeting
 - Continuous improvement tasks
- ❑ Budget based upon specific outcomes
 - Ties dollars to service levels
 - Eliminates “free lunch” mentality

BEST PRACTICES – LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES (continued)



Sources: EPI Executives and Municipal Database (continued)

- Capital is an investment and must be treated as such
 - What is the payback?

- Analyze capital investment and allocation decisions
 - Does it yield long-term cost reductions? How much and when?
 - Does it impact outcomes and to what extent?
 - Have all capital alternatives (or alternatives to capital) been financially analyzed and what is the result of comparative analysis?
 - Have financing costs and all alternatives been analyzed?
 - Have operational performance enhancements and incentives been included in financial analysis?

- Budget those items that have been vetted as above

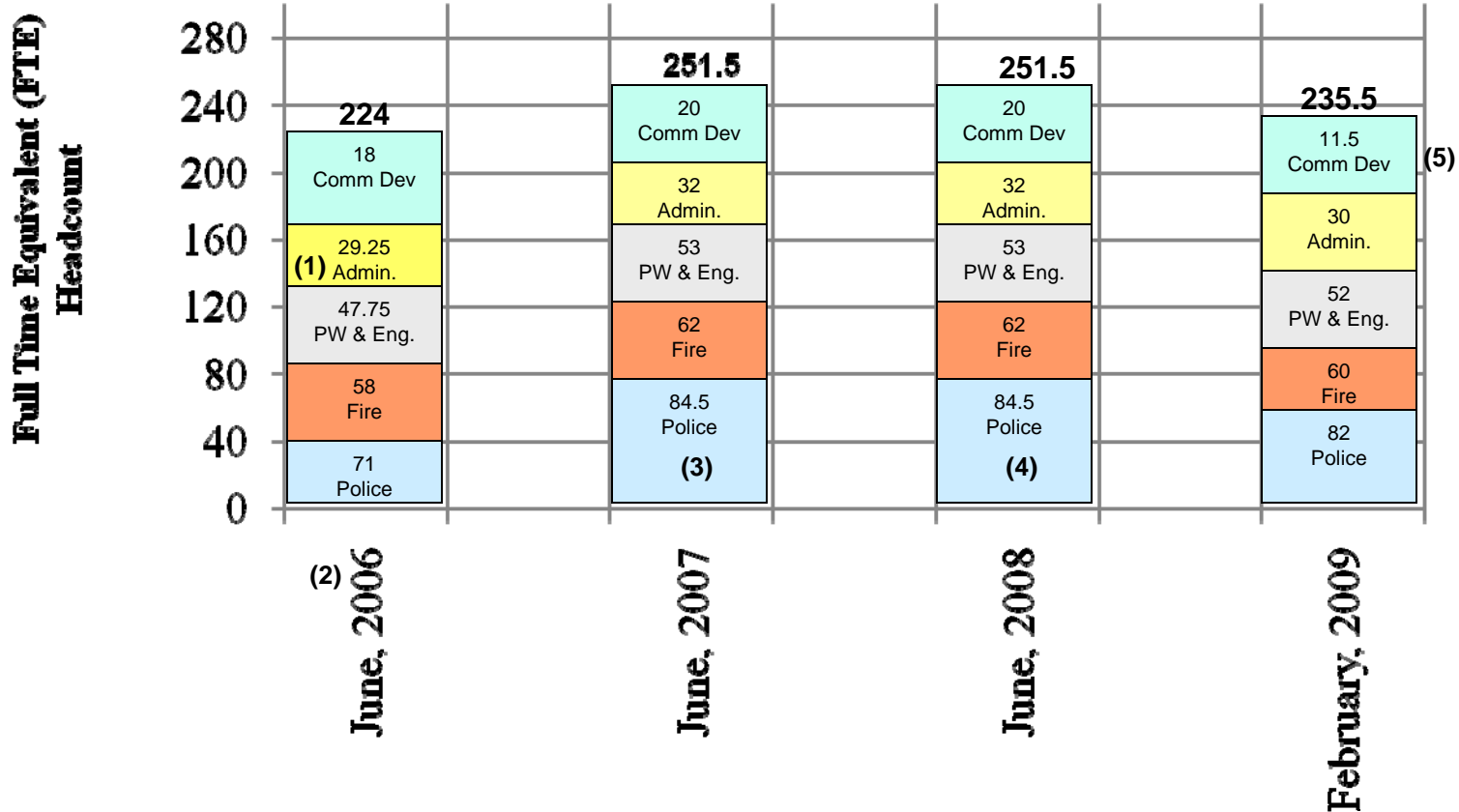
**BENCHMARKING –
BEST PRACTICES –
OPERATIONAL PROCESSES**

OBSERVATIONS AND CONCLUSIONS

FULL-TIME EQUIVALENT (FTE) AND EXPENSE TRENDS

OBSERVATIONS AND CONCLUSIONS

ANALYSIS – DEKALB FTE HEADCOUNT TRENDS



- (1) Admin includes City management, clerk's office, legal and IT.
- (2) 2006 adjusted to reflect future organization changes.
- (3) Police FTE increase in part-time crossing guards and CSO.
- (4) Fire battalion Chief structure created while reducing firefighters.
- (5) Community development now reports to department of Public Works.

ANALYSIS – DEPARTMENT EXPENSE TRENDS



Gross Revenue	<u>FY 2007/2006</u>	<u>FY 2008/2007</u>	<u>FY 2009 est./2008</u>
% Growth	2.7%	7.4%	3.8%

Total Expenses As A % of Gross Revenues				
Department	FY 2006	FY 2007	FY 2008	FY 2009 est.
Legislative	1.76	1.78	1.69	2.1
City Clerk	.7	.7	.7	.77
Administration	9.9	10.3	9.6	9.2
Legal	1.6	1.6	1.5	1.6
Police	30.6	31.2	31.0	30.9
Fire	30.4	31.1	30.5	31.2
Community Development	5.4	5.8	5.4	4.2
Public Works	12.2	13.6	12.9	12.0
Engineering	1.6	1.7	1.7	1.6

DEPARTMENT FTE AND EXPENSE TRENDS – OBSERVATIONS AND CONCLUSIONS



- ❑ Current full-time FTE's at 2006 levels
 - Increase of 5% in total FTE's due to 10.5 FTE increase in part-time positions – primarily police

- ❑ 82.4% of City labor force in direct service positions; therefore tied to outcomes
 - Police 34.8%
 - Fire 25.5%
 - Public Works 22.1% (includes engineering, but excludes community development)

- ❑ Organization is relatively siloed with pockets of narrow spans of control – “1 on 1” reporting relationships
 - Minimal cross-training within and across functions

- ❑ Organizational turnover is very low yielding “cost creep” (salaries keep going up)
 - 2.6% - 7.2% including retirements – 2006 to 2008
 - 1.3% - 3.0% - “performance/resignation”
 - Increased longevity based benefits
 - Tenure based job upgrades

- ❑ Salary increases not based on relative performance – “across the board,” except for non-union

- ❑ Little to no back up for absences, vacations, demand variations

- ❑ Several centralized function opportunities

- ❑ Some vertical integration in non-core competencies

DEPARTMENT FTE AND EXPENSE TRENDS – OBSERVATIONS AND CONCLUSIONS (continued)



- ❑ Most departments' expenditures growing as fast as gross revenues
 - Exceeds inflation
 - No productivity offsets
- ❑ Lack of increased productivity - and subsequent reduced costs per unit of labor - taps general fund and prohibits building of contingencies
- ❑ "Lean" process analysis appropriate in all departments

ORGANIZATIONAL COSTS/CAPACITY – BUDGETING FOR OUTCOMES

OBSERVATIONS AND CONCLUSIONS

OBSERVATIONS AND CONCLUSIONS – ORGANIZATIONAL COSTS/CAPACITY – BUDGETING FOR OUTCOMES

Process Recommendations

- ❑ Develop and implement a performance based appraisal system
 - All management, all non-Union, eventual Union contract changes
 - Personal objectives tied to outcomes
 - Merit based salary increases
 - Incentives for productivity improvements
 - “Turnover” poor performers
 - Need strong HR administration

- ❑ Develop and implement budgets based on specific service outcomes
 - Correlate levels of service to \$
 - Commit only to affordable levels of service

- ❑ Establish a culture of continuous improvement
 - Each budget cycle should embrace increased productivity targets
 - Performance appraisals and incentives tied to productivity
 - Implement process reengineering to achieve productivity goals

OBSERVATIONS AND CONCLUSIONS – ORGANIZATION COSTS/CAPACITY – BUDGETING FOR OUTCOMES (continued)



Centralize Functions Where Economies Of Scale Will Yield Cost Savings - Recommendations

- ❑ City purchasing
 - Potential savings – 10-20% dependent on strategy
 - Would require 1 additional FTE or training of current employee
 - Low-end of savings with internal centralizing only
 - High-end savings via cooperative arrangements with other institutions
 - > NIU
 - > Businesses
 - > Catalyst to build relationships
 - Provides centralized cost and inventory (cash) control
 - > Performance incentive options

- ❑ City secretary/administrative assistant/office associates
 - Currently, City has 12 FTE's in these positions
 - They perform administrative reporting and data entry tasks
 - Excellent opportunity for cross training and flex work arrangements
 - Potential elimination of 3 FTE's after consolidation

OBSERVATIONS AND CONCLUSIONS – ORGANIZATION COSTS/CAPACITY – BUDGETING FOR OUTCOMES (continued)



Restructuring and Outsourcing - Recommendations

- ❑ The following chart reflects best practice observations and conclusions
 - Examine outsourcing in:
 - * IT
 - * Billing
 - * Vehicle maintenance
 - * Building inspection and code enforcement
 - Centralize functions in:
 - * Purchasing
 - * Administration
 - Increase spans of control and redefine position descriptions in:
 - * Police
 - * Fire
 - * Public Works
 - Increase productivity in:
 - * City clerk office

CHART A SPECIFIC DEPARTMENTAL RECOMMENDATIONS ORGANIZATION COSTS/CAPACITY – BUDGETING FOR OUTCOMES



Department	Action	Impact		Rationale
		FTE Costs/ (Savings)	\$ Costs/ (Savings)	
Public Works	- Consolidate engineering services under Public Works	-	(\$20,000)	- Increase director span of control - Engineering service head an assistant director level
	- Eliminate engineering aide	(1)	(\$100,000)	- Original funding mechanism gone - Reengineer work processes to cover field coverage
	- Consolidate water and street operation's management/supervision	(3)	(\$300,000)	- Increase spans of control – eliminate 1 assistant director – consolidate crew leaders from 9 on 15 to 7 on 15
	- Pursue outsourcing of vehicle maintenance	(3)	(\$30,000)	- Non-core competency – best practice
	- Pursue outsourcing of building inspection/code enforcement	(5.5)	(\$50,000)	- Outsource variable demand non-core competency - Best practice
Fire	- Convert Captain's positions into firefighter positions - Upgrade Lieutenant position responsibilities and pay	-	(\$40,000)	- Eliminate 1 on 1 span of control - Reduce costs - Reduce OT with additional firefighters - Reduce hierarchical structure

CHART A SPECIFIC DEPARTMENTAL RECOMMENDATIONS ORGANIZATION COSTS/CAPACITY – BUDGETING FOR OUTCOMES (continued)



Department	Action	Impact		Rationale
		FTE Costs/ (Savings)	\$ Costs/ (Savings)	
Police	- Convert IT Sergeant to civilian and consider as part of outsourcing strategy	-	(\$15,000)	- Non-City core competency
	- Eliminate Sergeant position in investigations	(1)	(\$100,000)	- Eliminate 1 on 1 span of control
	- Convert 4 Corporal positions to Officers	-	(\$25,000)	- Cost reduction yielding more Officers – reduce hierarchical structure
Administration	- Pursue outsourcing of IT and billing	(8)	(\$150,000)	- Outsource non-core competency – best practice
	- Eliminate special projects coordinator position	(1)	(\$100,000)	- Redevelop and consolidate work processes
	- Add 1 Chief Financial Officer	1	\$160,000	- City needs competency for imperative strategic financial planning requirements
City Clerk	- Eliminate 1 FTE	(1)	(\$100,000)	- Productivity benchmarking based on City size and processes

CHART A SPECIFIC DEPARTMENTAL RECOMMENDATIONS ORGANIZATION COSTS/CAPACITY – BUDGETING FOR OUTCOMES (continued)



Department	Action	Impact		Rationale
		FTE Costs/ (Savings)	\$ Costs/ (Savings)	
Economic Development	- Add 1 full time economic development director	1	\$160,000	- Key strategic priority and focus
Communications	- New position	1	\$100,000	- City needs focus and competency for imperative community relations and outreach
General	- Centralized purchasing - Centralized clerical/admin	1 (3)	(\$100,000) (\$300,000)	- Best practices - Best practices
	TOTALS:			
	Savings	(26.5)	(\$1,430,000)	
	Costs	<u>4.0</u>	<u>420,000</u>	
	Net	22.5	(\$1,010,000)	

**STAKEHOLDER
COMMUNICATIONS/INVOLVEMENT
PROACTIVE ECONOMIC DEVELOPMENT
TOWNGOWN PARTNERSHIPS
OBSERVATIONS AND CONCLUSIONS**

OBSERVATIONS AND CONCLUSIONS – LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES (continued)



Stakeholder Participation/Collaboration Process - Recommendations

City should incorporate participation from:

- All stakeholders in planning budgeting and performance measurement
- City should:
 - Establish the purpose for participation
 - Identify the different perspectives
 - Develop timing and approaches
 - * Surveys – phone, internet, mail
 - * Focus groups
 - * Public Town Halls
 - * Public/neighborhood groups
 - Develop timing and processes for subsequent information sharing
 - Use technology!
- Determine how information will be used in decision-making
- Provide feedback to stakeholders on how their input affected ultimate budget decisions

BEST PRACTICES – OPERATIONAL PROCESSES – OBSERVATIONS AND CONCLUSIONS



Stakeholder Communications/Involvement - Recommendations

- ❑ Create a focused communications department with a dedicated FTE addition
 - Develop a communications plan covering all methods/means
 - Organize and facilitate communications/outreach programs
 - Create a City focal point for external stakeholders
 - Tie objectives to strategic City priorities

Proactive Economic Development - Recommendations

- ❑ Create a separate economic development director office reporting to the City Manager
 - One professional FTE addition
 - Create and execute an integrated economic development plan that includes active participation from all stakeholders

TownGown Partnerships - Recommendations

- ❑ Charge Mayor and City Manager to develop and execute engagement plan to improve and strengthen the relationship
 - Use best practice ideas to determine best catalyst for engagement
 - Engage University in the development of City plans (strategic plans, economic development, budgets ...)
 - Create a list of potential win/win productivity programs as a basis for discussion
 - * Consolidate police force
 - * Centralized purchasing

LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES

OBSERVATIONS AND CONCLUSIONS

OBSERVATIONS AND CONCLUSIONS – LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES



A Revised Enterprise Approach

	From	To
Focus	Line item budget development	Service based by citizen priorities
Timing	Annual plan	Rolling forecast
Process	Sequential	Simultaneous/continuous
Control	Top down information silos	Shared control/shared information
Collaboration	Fragmented	Open dialogue/common assumptions
Accountability	Disputed	Clear, defined

Enterprise can be defined as all stakeholders – staff, council, citizens
EPI recommends this approach

OBSERVATIONS AND CONCLUSIONS – LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES (continued)



Service Based Budget Development Process - Recommendations

- Provide an executive summary outlining all inputs
- Link budget development to City service priorities
- Leverage technology to facilitate continuous budget development
- Tie employee incentives to performance measures
- Incorporate cost management into budgeting – continuous improvement
- Design flexible budgets that accommodate change
- Establish allocation procedures that support key service priorities

OBSERVATIONS AND CONCLUSIONS – LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES (continued)



Government Finance Officers Association Best Practices Recommendations

Following are best practice recommendations from GFOA. EPI recognizes that the City is currently performing many of these tasks. However, EPI recommends an audit of procedures and a strong focus in the areas of:

- Stakeholder participation and input
- Clearly defined risks and opportunities
- Alternative analyses
- Tie between budget and departmental and individual objectives
- Service based budget development
- Financial policy development
- Measuring outcomes
- Long-range financial forecasts

OBSERVATIONS AND CONCLUSIONS – LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES (continued)



Government Finance Officers Association Best Practices Recommendations (continued)

Element 1 – Assess community needs, priorities, challenges, and opportunities

- Identify stakeholder concerns, needs, and priorities
- Evaluate community condition, external factors, opportunities, and challenges

Element 2 – Identify opportunities and challenges for government services, capital assets, and management

- Assess services and programs and identify issues, opportunities, and challenges
- Assess capital assets and identify issues, opportunities, and challenges
- Assess governmental management systems and identify issues, opportunities, and challenge budget practices

Element 3 – Develop and disseminate broad goals

- Identify broad goals
- Disseminate goals and review with stakeholders

OBSERVATIONS AND CONCLUSIONS – LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES (continued)



Government Finance Officers Association Best Practices Recommendations (continued)

Element 4 – Adopt financial policies

- Develop policy on stabilization funds
- Develop policy on fees and charges
- Develop policy on debt issuance and management
- Develop policy on debt level and capacity
- Develop policy on use of one-time revenues
- Evaluate the use of unpredictable revenues
- Develop policy on balancing the operating budget
- Develop policy on revenue diversification
- Develop policy on contingency planning

Element 5 – Develop programmatic, operating and capital policies and plans

- Prepare policies and plans to guide the design of program and services
- Prepare policies and plans for capital asset acquisition, maintenance, replacement, and retirement

OBSERVATIONS AND CONCLUSIONS – LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES (continued)



Government Finance Officers Association Best Practices Recommendations (continued)

Element 6 – Develop programs and services that are consistent with policies and plans

- Develop programs and evaluate delivery mechanisms
- Develop options for meeting capital needs and evaluate acquisition alternatives
- Identify functions, programs, and/or activities of organizational units
- Develop performance measures
- Develop performance benchmarks

Element 7 – Develop management strategies

- Develop strategies to facilitate attainment of program and financial goals
- Develop mechanisms for budgeting compliance
- Develop the type, presentation, and time period of the budget

OBSERVATIONS AND CONCLUSIONS – LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES (continued)



Government Finance Officers Association Best Practices Recommendations (continued)

Element 8 – Develop a process for preparing and adopting a budget

- Develop a budget calendar
- Develop budget guidelines and instructions
- Develop mechanisms for coordinating budget preparation and review
- Develop procedures to facilitate budget review, discussion, modification, and adoption
- Identify opportunities for stakeholder input

Element 9 – Develop and evaluate financial options

- Conduct long-range financial planning
- Prepare revenue projections
- Analyze major revenues
- Evaluate the effect of changes to revenue source rates and bases
- Analyze tax and fee exemptions
- Achieve consensus on a revenue forecast
- Document revenue sources in a revenue manual
- Prepare expenditure projections
- Evaluate revenue and expenditure options
- Develop a capital improvement plan

OBSERVATIONS AND CONCLUSIONS – LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES (continued)



Government Finance Officers Association Best Practices Recommendations (continued)

Element 10 – Make choices necessary to adopt a budget

- Prepare and present a recommended budget
- Describe key policies, plans and goals
- Identify key issues
- Provide a financial overview
- Provide a guide to operations
- Explain the budgetary basis of accounting
- Prepare a budget summary
- Present the budget in a clear, easy-to-use format
- Adopt the budget

Element 11 – Monitor, measure, and evaluate performance

- Monitor, measure, and evaluate program performance
- Monitor, measure, and evaluate stakeholder satisfaction
- Monitor, measure, and evaluate budgetary performance
- Monitor, measure, and evaluate financial condition
- Monitor, measure, and evaluate external factors
- Monitor, measure, and evaluate capital program implementation

OBSERVATIONS AND CONCLUSIONS – LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES (continued)



Government Finance Officers Association Best Practices Recommendations (continued)

Element 12 – Make adjustments as needed

- Adjust the budget
- Adjust policies, plans, programs, and management strategies
- Adjust broad goals, if appropriate

OBSERVATIONS AND CONCLUSIONS – LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES (continued)



Long-Term Forecasting - Recommendations

- Multiple year detailed financial outlooks are essential – they should:
 - Reflect long-term ramifications of near term decisions
 - Include “best estimate” macro economic trends
 - Clearly highlight all assumptions
 - Be directly tied to City service priorities
 - Include risk management assessment
 - Clearly highlight long-term liability status/changes

- Financial outlooks must be continuously updated for:
 - Changing economic conditions
 - New planning assumptions
 - New priorities
 - Unexpected one-time events

- Development and communications must be continuous and synchronous

OBSERVATIONS AND CONCLUSIONS – LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES (continued)



Capital Budgeting

- Do not fund capital expenditures from General Operating Funds
 - Capital is an inter-generational commitment
 - Pay-as-go carries significant short-term financial risks and can lower debt rating

- Develop financial and policy criteria for capital expenditures and practices
 - Segregate recurring (replacement) and non-recurring projects

- Detail individual capital projects
 - Provide description including project's purpose, funding sources, needs assessment, and justifications
 - List operating impacts; quantified productivity impacts; comparative analyses of alternatives/options
 - Provide a timetable for implementation and funding
 - Provide links to Strategic Plan Priorities

- Develop and implement a prioritization process with detailed prioritization criteria

- Create capital reserves and commit annual revenues to fund them
 - Balance VERY limited pay-as-go with debt financing

- Create a viable debt financing strategy
 - Maintain/improve the City's bond rating
 - Create a plan to sell and manage debt
 - Integrate debt financial plan into the multi-year financial forecasts

OBSERVATIONS AND CONCLUSIONS – LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES (continued)



Capital Budgeting (continued)

- Without all of the above**, EPI strongly recommends DeKalb NOT embark on any major capital expenditures
 - City financial status is precarious and will adversely affect bond ratings and cost of capital
 - Capital needs and priorities are unclear and not based on detailed analyses
 - Borrowing costs are increasing particularly for lower bond ratings

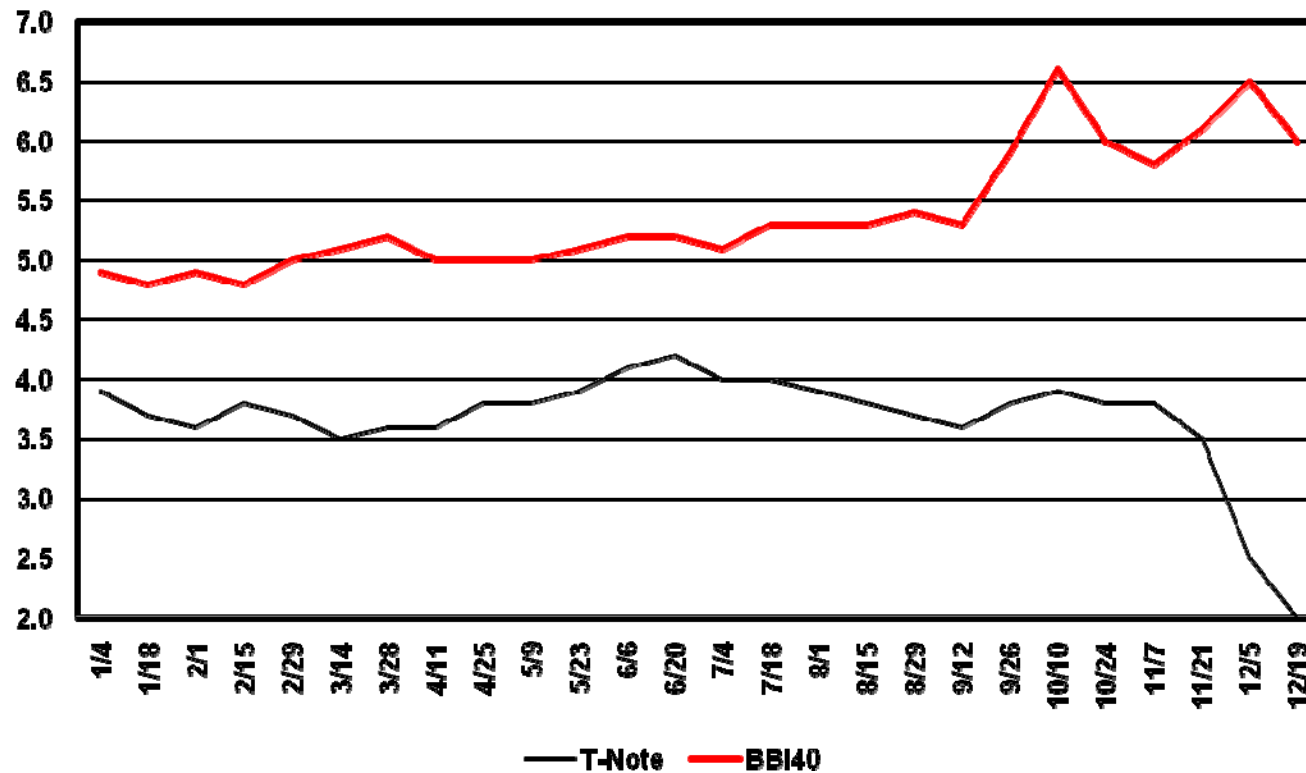
(See following chart)

- DeKalb must improve its overall financial picture including long-term unfunded liabilities and risk management policies before effectively entering the debt market and committing to inter-generational debt.**

RECOMMENDATIONS LONG-TERM BUDGETING AND FINANCIAL PLANNING PROCESSES



MUNICIPAL BORROWING TRENDS



Source: The Bond Buyer – BBI (Bond Buyer Index)

- Borrowing costs increasing
- On 12/31/2008
 - 10 year AAA – 3.52%
 - 10 year A – 4.95%
- Spread is wider with rating changes
 - Historical spread (from turn of century to 2008) between AAA and A - .3%
- Credit rating is critical!

Core/Non-Core Service Evaluation

The following represents the beginning of a core/non-core service evaluation conducted by the DeKalb staff. Although not complete, it begins to identify the opportunities referenced in this report and, for that reason, has been included.



STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS

Various Financial/Plan Reviews

May 2009

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INTRODUCTION

The City of DeKalb (City) appointed Executive Partners, Inc. (EPI) to conduct a strategic planning and financial analysis for the City. In the scope of services, EPI was asked to benchmark DeKalb against four other regional cities. EPI was also asked to review several financial policies, union contracts, budgetary practices, pension funding, and recommend best practices in order to give the City recommendations that will produce a sustainable financial model for the future.

This section of the report includes several recommendations regarding the financial policies, union contracts, pension funding, and the post-retirement health care plan. The benchmarking and best practices sections are covered in other parts of the report.

In order to review the financial and other policies of the City, a series of interviews were conducted with the City Manager, Assistant City Manager, Controller, and all Department Directors. A thorough review of existing policies, interviews with the City's auditor, financial advisor, and actuary were also conducted. EPI also reviewed policy recommendations of the Government Finance Officers Association (GFOA) and other authoritative bodies to arrive at the recommendations contained in this report.

Debt projections were obtained from the City's financial advisor and used in making recommendations.

A. FINANCIAL POLICIES AND PRACTICES:

In reviewing the City's current policies and practices, Executive Partners, Inc. (EPI) sees several opportunities to improve the effectiveness and accountability in the financial management of the City.

EPI has broken down these recommendations into functional areas. Each area includes a short-term (one to two years) and a long-term recommendation (two to five years).

1. DEBT ISSUANCE:

Debt policy.

Overview: The City of DeKalb (City) does not have a formal policy on the issuance of debt. Many communities have a formal debt management policy that outlines the general policies of the City with regards to all types of debt issuance (general obligation bonds, revenue bonds, capital leases, tax anticipation notes, bond anticipation notes, and private activity bonds). The purpose of this policy would be to set guidelines for the issuance of debt, and to specify the purposes for which debt proceeds may be used or prohibited. The policy should include the term, type of debt, use of financial advisors and underwriters, responsibilities for reporting to the bond market, investment of proceeds, criteria for determining method of sale, and use of derivatives.

Also, the policy should contain policy goals related to the Capital Improvement Program, economic development, tax-increment financings, and public-private partnerships. The Government Finance Officers Association has many great examples of debt management policies and EPI encourages the City to review them and adopt a policy that fits the needs of the City of DeKalb. A copy of the GFOA recommended practices is attached as Exhibit A.

Short-Term Recommendation:

EPI recommends that the City consider adoption of a Debt Management Policy. EPI encourages the City to seek advice from both the financial advisor and outside bond counsel in the formulation of this policy.

Paying for Debt.

Overview: EPI urges the City Council to reconsider its long-standing policy to pay for debt service by a transfer from the General Fund operating budget. Debt service payments are the payment for general obligation bonds issued to finance capital expenditures of a long-term nature.

It is important to consider the taxpayer and intergenerational equity of the City's existing policy. Intergenerational equity exists when taxpayers who will use the infrastructure and other capital assets over a long period pay for the capital cost over the life of the asset. That equity does not exist when current resources are used to pay for long-term capital because current taxpayers are paying for resources that will be used in the future, but future taxpayers who move into the community get use of those long-term resources without paying for them. The current policy of the City does not provide intergenerational equity. Similarly, under the present policy, taxpayers who move from the community pay for assets that they will not use in the future from current resources. That is why in most public sector entities, debt service is paid for through property taxes over the life of the capital items.

EPI further recommends that the City not utilize other short-term revenues such as sales tax, hotel tax or water surcharges to pay for buildings or other long-term assets, but rather use general obligation bonds to finance the construction and property taxes to pay for an asset that will have a ten year (or longer) life expectancy

Short-term Recommendation: EPI recommends the City pay for all tax supported general obligation bonds with property tax instead of transferring operating revenues to pay for general obligation debt. This recommendation is supported by the City's financial advisor. If the City were to change its policy, more than \$1.4 million dollars per year would be freed up to use for current operations without adopting any new revenue sources.

This recommendation will require an increase in property taxes to pay for debt. This recommendation gives DeKalb flexibility in managing the general fund expenditures and revenues. This also provides the stability necessary to manage Moody's.

2. **INVESTMENT POLICY:** The City has a current investment policy. EPI recommends that this policy is reviewed and, if necessary, updated to best practices in accordance with the Government Finance Officers Association on an annual basis. Some of the missing elements in the current policy are: 1) bond requirements for the Comptroller and City Manager are not specified in the policy and are inadequate in the City's current code. The amount of bond for the Comptroller should be equal to the maximum amount of investments under his control at any one time. 2) the investments in the monthly report to the City Council should be stated at market value. The policy specifies this only at quarterly intervals. Given the volatility of the markets, EPI recommends that market values be reported monthly on any report.
3. **CASH-FLOW NEEDS:** The City has revenues that are received throughout the year, but not in equal monthly payments. Due to this, the cash position of the City may become so low that the ability to make payroll and other fixed costs is difficult. The City may wish to consider a line of credit to cover cash-flow needs. It is particularly important to have this line of credit in place before debt payments are due, especially if property taxes or revenues from the State of Illinois have not been received. The line of credit would only be used when there is insufficient cash to keep operations going without incurring a fund deficit.

Short-term Recommendation: EPI recommends that the City obtain a line of credit of at least \$5 million from a local bank to cover cash flow needs throughout the year. EPI further recommends that the rate of interest on this line of credit be competitively bid.

4. **POST-RETIREMENT HEALTH PLAN:**
Overview: Recent pronouncements Statements No. 43 & 45 by the Governmental Accounting Standards Board (GASB) require that local governments recognize the liability and expenses for other post-employment benefit plans (OPEB) in addition to pension plans.

In the case of the City of DeKalb, this means that the City recognizes, *for the first time*, the cost of the City's post-retirement health plan. The plan covers a significant amount of the premiums (approximately 87% of the cost) for health and dental insurance for retired employees *for life*, starting as early as age 50.

Analysis: The current post-retirement health plan has a **\$29.4 million** unfunded liability as of 7-1-08 (see Exhibit B). This liability is **2.3 times** the 7-1-08 unfunded liability of the Police Pension Fund (\$12,372,542) and **1.43 times** the 7-1-08 unfunded liability of the Fire Pension Fund (\$20,502,912).

Currently the City is not making an annual contribution towards any of the unfunded future liability and is only funding the current annual costs, which were approximately \$1 million in fiscal year 2009. As with any defined benefit plan, EPI recommends that the City contribute the entire amount of the annual required contribution (ARC) each year, as recommended by the City's actuary. This would increase the amount of tax levy for health insurance by approximately \$1.4 million per year. If the City continues to not fully fund the ARC the unfunded liability will grow even more quickly each year the City does not fund the plan as recommended.

Further, it is EPI's belief that the actuary is using assumptions for medical inflation and investment returns that are not reasonable. EPI believes the medical inflation rate should be higher and the rate of return on investments should be lower. Based upon EPI conversations with the City actuary, it is not clear how the City can invest the assets of the fund, and there is no separate trust set aside to accumulate the assets. EPI's recommendation for using a lower investment return is based upon the assumption that the City can invest these funds only in accordance with statutory requirements for cities, and not the Police & Fire Pension Plans. The result is that EPI believes the unfunded liability for this plan is understated.

Short-term recommendation: EPI recommends that the City contact its actuary and discuss the assumptions being used in the plan and determine if they are reasonable. Alternatively, the City may wish to hire a "review actuary" and ask them to review the calculations of the current actuary to conformance with current "best practices" for similar types of plans. EPI suggests a review of the assumptions, the funding formula, and suggest the City establish a trust for holding the assets, and adopt an investment policy for investing the assets. EPI recommends that the City discuss the types of investments allowed by law for an OPEB plan with the City auditor before embarking on any investment policy for this plan.

Long-term recommendation: If the City continues to offer this plan as a benefit to retirees, the plan should be funded according to the actuarial requirements through property taxes.

However, EPI does not recommend the City continue this plan. Below is a separate section describing the issues with continuing the plan and some alternatives to providing this benefit to retirees and employees. In summary, the plan is too expensive and it is not possible to sustain it without large increases in property tax levies to pay for it. Given the other needs the City

has to fund current operations, this is the first place EPI recommends the City consider to achieve significant savings.

POST-RETIREMENT HEALTH PLAN ISSUES:

Overview: The City of DeKalb currently pays approximately 87% of retiree premiums for its 118 retirees in fiscal year 2009. As noted above, the City has a \$29.4 million liability for post-retirement health benefits as of June 30, 2008. The City has not been funding this liability in accordance with the actuarial requirements, but has only made contributions for the premium costs incurred by current retirees each year. The payment for retirees in fiscal year 2009 is \$1,029,000.

The liability for this plan will continue to grow if the City continues to underfund the annual required contribution. Further, as noted above, medical inflation is outpacing the rate for investment returns on contributions even if made in full each year. Under this scenario, even if the City fully funded the liability as required, the costs would continue to outpace contributions to infinity. Unless medical costs ultimately decrease or increase at a rate less than all other inflation and outpace the return on investments, the plan will **never** reach full funding.

Given that the City is striving to build a sustainable long-term financial plan, **it is imperative that this plan and its policy and financial implications be reconsidered.**

Analysis: In its present form, this plan cannot be continued without a significant increase in property taxes that will **never stop growing.**

For example, if the ARC were made as suggested for the year ending 6-30-09, the tax levy requirements would be \$2,271,185, and the tax levy for the year 2008 would have increased from \$4,930,256 to \$7,201,441. This change alone would increase the property tax rate, based upon the 2007 equalized assessed value of \$623,822,841 to \$1.154 from the current rate of \$.7903 per \$100 of equalized assessed value (including the Library). This increase in taxes does not factor in any property tax increases that may be needed to fund future operations, future capital projects (paid for with debt) and increases in pension funding that will be necessary due to the poor investment returns that most pension funds are experiencing.

EPI staff discussed this matter with the current actuary and current auditor. EPI's conclusion is that this plan is unaffordable for the City of DeKalb. The liability is greater than the liability for either the police or fire pension plans, and the cost of health care continues to increase at a rate much greater than core inflation. Even if the City were to see significant economic recovery, EPI believes this plan is unaffordable in both the short-term and long-term. As the requirements of GASB 43 & 45 have hit the balance sheets of the local

governments, many are realizing that the cost of such a plan is just too great and are making the tough decision to terminate the benefit.

Short-term recommendation: EPI recommends the City terminate the plan as soon as possible. EPI realizes this is a significant departure from current policy and will have an impact on many former and current employees.

Since the current plan benefits may be a subject of bargaining, EPI's recommendation is to negotiate a change to the contracts as soon as possible for all current employees covered by bargaining agreements. For all non-union employees and retirees, EPI recommends termination of this plan as soon as possible.

While EPI's recommendation is that the plan be terminated, the Council may want to consider a phase-out period in which both active employees and retirees could adjust their financial expectations regarding post-retirement health benefits. A five-year phase-out plan, as described below, would save the City \$3.2 million over the next five years. EPI suggests that the retirees be required to increase their contribution by 17.4% per year over the next five years until the retirees are paying 100% of the premiums. For example, if they are currently paying 13%, then the remaining 87% paid by the City would be reduced by 17.4% each year until retirees are paying 100% of the premiums within five years. For example, in FY 2010 retirees would pay 30.4%, FY 2011 47.8%, FY 2012 65.2%, FY 2013 82.6%, and FY 2014 100%.

Long-term recommendation:

Alternative Plan. An alternative would be to terminate the existing plan, but provide a defined contribution plan such as a VEBA or Post-Employment Health Plan (PEHP). If the City were replacing the existing plan with a defined contribution plan, one method for funding a plan is to provide a set dollar amount for each qualifying employee per year. In the comparable communities that have such a plan, a contribution of \$500-\$600 per qualifying employee is made each year. As the City is converting to a PEHP, the initial contribution could be based upon years of service. For on-going contributions, EPI recommends the City consider a flat dollar amount per year, starting after a certain vesting period, such as three to five years. Contributions made by the City would be held in trust for the employees and employees would choose how to invest the assets that are accumulated, similar to how the City's 457 plan works.

If the City were to adopt a defined contribution plan, EPI estimates that the City would save over \$2 million per year compared to the required actuarial contribution under the current retirement health plan in the first year. This savings would increase as health care premiums continue to increase, but the contribution stays flat.

EPI does not have sufficient information to calculate an initial contribution to a plan for converting from a defined benefit plan to a defined contribution plan for active employees since EPI does not have years of service information, but EPI knows the savings would be significant because the on-going liability is terminated and medical inflation is not a factor in future funding requirements. This type of calculation could be done by staff, and the savings computed by an actuary, and compared to the current plan to determine actual potential savings.

EPI recommends that funding for the plan stop upon termination or retirement of the qualifying employee. This change would eliminate the post-retirement benefit liability to the City in the future. Under the alternative plan, employees would use the monies accumulated in the defined contribution plan to pay for their own health care premiums. The City employees could choose to continue group health and dental coverage through the City of DeKalb, or may choose a lower cost alternative through another plan, while utilizing the monies contributed on their behalf to pay premiums upon retirement.

Many defined contribution plans offer either a tax deferred or tax-free withdrawal for employees, depending on the plan. The defined contribution model for post-retirement plans is used in many other cities and most private sector employers. Also, EPI finds that, in many cities, employees must pay 100% of their health care after retirement, although most cities allow employees to continue on a group health plan which lowers the overall cost to retirees. Virtually no private sector employers and very few public sector employers continue to have a defined benefit post-retirement health plan because the cost is just too great.

5. RISK MANAGEMENT FUNCTION:

Overview: Currently, the City is self-insured for liability and workers' compensation, and health and dental insurance. There is no one person responsible for risk management in the City and, according to the Assistant City Manager, there is no formal risk management program. The City is self-insured, but operating without any excess coverage for either liability or workers' compensation and has no self-insured retention policy, nor a reserve fund to cover risk management costs. In fact, at the end of FY 2008, there was a deficit fund balance of more than \$500,000 in the Self-Insurance Fund.

Short-term recommendations: EPI recommends that the City: 1) adopt a risk management policy which sets a maximum limit on self-insurance retention, 2) immediately obtain excess coverage for both liability and workers' compensation, 3) consider a thorough risk management audit, and 4) set aside funds in a reserve account equal to the amount of self-insurance retention to cover future losses.

The audit is suggested because there is no over-riding policy regarding risk management practices and safety policies. Many insurance companies will provide this service for the City of DeKalb.

Further, EPI recommends the City also consider joining a Risk Management Pool, but only do so once the City has written safety policies in place for the entire City. In the meantime, the City should acquire excess coverage immediately.

Long-term recommendations: EPI recommends that the Risk Management function be coordinated under the Finance Department upon the hiring of a new CFO. The CFO would be responsible for implementing a comprehensive risk management program that addresses all exposures in the City.

While the public works, police, and fire departments all have “safety policies,” they do not appear to be coordinated and the remainder of the City needs to have policies governing what happens when an employee is injured, or a claim is reported. Each department should have risk management goals to reduce claims, and a safety committee that regularly reviews injuries and claims to determine what changes can be made to work practices and procedures that will minimize the likelihood of a similar accident recurring in the future. Workers’ compensation costs are expensive because for police and fire, a lost time accident means that overtime is incurred to reach minimum staffing requirements.

Further, EPI recommends a proactive approach to reducing liability potential. The City has potential for a hazardous materials incident with the rail line running through the City and a manufacturing base, plus miles of sidewalks and streets in which liability claims may be incurred. The City needs to do everything it can to protect the public from liability exposure by adopting an aggressive risk management approach.

These recommendations apply even if the City joins a risk management pool.

6. FUNDING OF POLICE & FIRE PENSIONS:

Overview: The City of DeKalb has two “down-state” pension plans, one for sworn police employees and one for sworn firefighters in accordance with state statutes. The City currently has large unfunded liabilities in both plans, with the fire pension fund having the lowest funded percentage as of July 1, 2008. The City has been levying the minimum annual required contribution based upon the City’s current actuarial analysis. The Police and Fire Pension Funds are required to be fully funded by 2033.

Analysis: EPI reviewed the actuarial analysis from the City's current actuary and believes that the assumptions used by the City's present actuary are too aggressive. EPI believes that the investment rate assumption of 8% is too high given the mix of investments that are allowed by state statutes. State statutes allow investment of up to 45% in equities and 55% in fixed income investments.

EPI does not have information on the investment mix of the two plans, but even if the investment mix between equities and fixed income is at the maximum limits, the total return of this mix would not approximate 8%, based upon historical results.

To validate our belief, EPI reviewed the ten year returns of the S & P 500 and the Barclays Capital US Government Intermediate Bond Index. EPI then computed what the total return would be for a portfolio comprised of the ten year return of 45% S & P 500 and 55% Intermediate Bond Index. The total return for the last ten years would be 1.44%.

This compares to the total return of the Police Pension Fund of 5.27% and the Fire Pension Fund return of 4.11% for the last ten years. This implies that the actual investment mix of both plans has been more conservative than the scenario created above. However, even though the pension plans have beat the EPI scenario, they have significantly underperformed the 8% investment rate actuarial assumption, validating EPI's belief that the interest rate assumption is too high. Also, the unfunded liability for both pension plans is increasing more each year because the investment assumptions are not being met. This underperformance of the investment assumption will cause the tax levy that funds the pensions to continue to increase at a faster rate.

EPI also believes the wage progression of 5% may be too low, based upon the pay increases in current union contracts, which have averaged 5.675% for Police over the last four years and 7.5% for Fire.

The Police Pension Fund, as of July 1, 2008, was 64.4% funded using what EPI believes to be overly aggressive assumptions. The Fire Pension Fund was only 46.2% funded as of July 1, 2008 using the same assumptions. If the City is to reach full funding, the amount of contributions over the next 25 years will increase.

The defined benefit pension plans for Police and Fire are designed to earn the benefits over thirty years, with a payout of 75% of final salary. However, in reality, the payment of those benefits is increased well beyond the 75% of pay because public safety pension benefits by law are compounded by 3% per year. Benefits over a typical life span may be paid out over a period of more than thirty years as people are living well into their eighties. The point here is that the system is set up to pay in far less than what is paid out.

The defined benefit plan for all other local government employees is through the Illinois Municipal Retirement Fund. This fund has been managed well and the funding levels already exceed 75%. The IMRF also provides a significantly lower benefit at 30 years of service (55% of the highest 48 months of service in the last ten years). To reach 75% of pay, the City must have 40 years of service.

Short-term recommendation: EPI recommends that the City discuss the assumptions used by the current actuary for the Police and Fire Pension Plans, or hire a review actuary to determine if the assumptions being used are best practices in accordance with the pension industry. If it is proven that the assumptions should be lowered to be more in line with a ten or twenty year average return of the investment mix, then the assumptions should be modified.

EPI further recommends that the Mayor utilize his appointment powers to the Police & Fire Pension Boards to appoint two financial or investment experts to sit on the Boards. EPI believes that both Boards would benefit from such expertise in evaluating the performance of the investment advisors that are hired by the pension boards.

Long-term recommendation: EPI recommends the City increase its funding of both police and fire pension plans to achieve at least a 75% funded status within ten years. EPI recommends the City hire an actuary to determine the necessary contribution and then contribute the amount necessary to achieve the funding level by 2019.

Additionally, EPI recommends the City Council consider lobbying state legislators to consider implementation of a defined contribution plan for all new local government employees, as is currently being considered by Governor Quinn. Considering such a plan is the only way to keep pension benefits affordable for the taxpayers at all levels of state and local governments in the future. Also, employees may be required to increase their own contributions to the plan to keep it affordable for the long-term.

Please see Exhibit C on Pension Funding.

B. COMPARISON OF UNION CONTRACTS:

The City of DeKalb currently has three unions. They cover approximately 83% of the City's employees. EPI compared the Police and Fire union contracts of the four benchmark cities to those of the City of DeKalb. The AFSCME union contract covering other City of DeKalb employees (excluding exempt employees) was not benchmarked because each of the four cities had different positions covered by contracts and the comparison to the benchmark cities would not have been meaningful.

In general, the City of DeKalb Police and Fire union contracts progress more quickly from the minimum step to the maximum step (in just four to five years) compared to those of the other benchmark cities, which move through the steps in six to eight years on average, with one City having a top step at 25 years (Normal). Also, the increase between steps for DeKalb is larger than the other communities. This is because there are fewer steps in the DeKalb contracts.

Police Contract Comparisons: For all of the comparison cities, there was no rank of Corporal, which is a rank in City of DeKalb. EPI recommends eliminating the rank and grandfathering incumbents, but not promoting anyone into the rank in the future. EPI suggests those positions return to the rank of Police Officer as vacancies occur.

The City of DeKalb's starting pay was \$5,000 higher than the average of the other comparison cities, but the top step was competitive with the average. In some areas of the contract, the City of DeKalb is more generous than the comparable cities, but in a few areas, it was less generous. The attached table (Exhibit D) shows all of the comparisons. Wheaton is the only City that had Lieutenants as part of the union.

Fire Contract Comparisons: Three of the four cities had firefighter/paramedics, but Wheaton contracts for paramedic services. None of the other contracts had separate pay for paramedic lieutenants or captains, and it was implied in all of those contracts that the officer ranks would keep the paramedic certification. This is reflected in the difference in the pay at the top steps for the officer ranks in the other communities. Normal, Illinois has an unusual step plan that has five steps, and then adds another step at 10, 15, & 20 years of service, which increases the top pay by more than just the cost of living adjustment. However, their base pay was lower than DeKalb's and in their contract you do not reach "100% full pay" until five years of service, which was \$15,000 per year lower than top step for DeKalb.

Overall recommendations: For both unions, EPI recommends the Human Resource staff conduct a comprehensive compensation comparison at the time of union negotiations, including vacation pay, sick leave, sick leave payouts, and other benefits such as contributions towards health and dental insurance, and post-retirement health contributions. Total compensation should be compared for all ranks in total dollars paid or earned per year as if the benefits were converted into cash in the year earned. This information should be used to determine the City's negotiations strategy.

One of the drivers of needing additional staff is the level of vacation and sick leave benefits that are earned and minimum staffing requirements, which require hire-backs on overtime. Ultimately the City will have a huge budgetary impact when the accumulated benefit days are cashed out at retirement, but have not been budgeted. The City of DeKalb is significantly more generous with its time off for firefighters compared to the benchmark communities:

1. The vacation schedule in DeKalb is more generous when compared to the four comparable communities by an average of two shifts per year.
2. DeKalb firefighters work less hours per week when compared to the other four comparables. This appears to be related to the number of Kelly days.
3. Firefighters earn more sick days than the other four comparable communities. The average is 6.41 shift days compared to the 12 shift days earned in DeKalb.
4. Longevity pay is paid out after one year compared to no longevity or a payment after nine or ten years of service in the other communities.
5. Sick leave payout in DeKalb starts sooner than comparable communities. In most communities, this is only a benefit upon retirement and only after ten or twenty years of service.
6. DeKalb is the only City to pay disability pay to firefighters if injured before they are vested in the pension. This benefit is not required by state law.

Short and Long-Term Recommendations: The City of DeKalb should consider adopting a formal compensation philosophy/policy. The compensation philosophy would specify the level at which the City compensates its employees. The percentile comparison should include all types of compensation including wages and all benefits.

For example, the City could adopt a philosophy that it wants to compensate its employees at the 60th percentile. This would mean that total compensation for employees would be above average (50th percentile), but not at the top (100th percentile). The City Council and senior management should discuss this policy and agree on a percentile that will make the City competitive and attractive to current and potential future employees. A total compensation study may be necessary to determine the current relative position with other comparable communities before embarking on the policy discussion.

EPI realizes that our benchmarking has only used four comparable communities and the City has traditionally used more cities for purposes of wage benchmarking. However, related to the Police and Fire union contracts, EPI suggests the following:

1. Increase the number of steps to a minimum of seven or eight, adjust the step increases to be evenly spread out between steps, and adjust the pay to be more competitive based upon total compensation.
2. A review of the hours worked per week for the Fire contract when comparing annual salary to comparable communities.

3. Management should review the benefit days (vacation days off related to years of service, sick leave, sick-leave payout, disability and longevity pay) and negotiate all future contracts based upon what comparable cities are receiving. All changes to benefits should be tied to the total compensation philosophy, if one is adopted.
4. Eliminate the disability benefit for firefighters who have not reached the seven year vesting period, and offer a disability insurance product that could be purchased by the employees at their own cost, for employees who are not vested in the pension plan.
5. Negotiate all union contracts so that the City has the same contract length and expiration date to enable the City of DeKalb to negotiate uniform provisions for benefits in all contracts.

Please see Exhibit D for a complete comparison of the Police & Fire contracts compared to the four benchmark communities.

C. OTHER BENEFITS TO EMPLOYEES:

Overview: EPI reviewed the administration section of the Municipal Code and specifically reviewed the compensation for non-union employees. In general, the City of DeKalb appears to be generous in its time off to non-union employees by offering compensatory time to staff.

Generally, it is expected that the City Manager and Department Directors will work more than 40 hours per week, and their salaries are based upon the need to attend night meetings and work overtime to meet the responsibilities of their positions.

For the non-union employees, EPI also noted that the number of steps from minimum to maximum is twelve. This is too high a number, compared to the union contracts.

Further, EPI noted that employees receiving workers' compensation receive full pay and benefits while out on workers' compensation. While the difference between the two-thirds of pay for workers' compensation and full pay is required for Police and Fire sworn employees for up to one year, the same benefit is not required by law for all other employees.

Short-term recommendations: EPI recommends decreasing the number of steps for non-union employees to a maximum of eight.

EPI recommends that the City change its municipal code to eliminate the supplemental pay for employees receiving workers' compensation and allow them to supplement the workers' compensation temporary and total disability benefit (TTD) pay of 66% with sick leave, if available.

Long-term recommendation: EPI recommends that the City Council request senior staff to benchmark their salaries, vacation, sick time, and compensatory benefits against other communities to determine if the benefits are comparable. If other communities do not give an hour-for-hour comp time benefit, EPI suggests a review of the comp time policy be conducted. The City Council may wish to give recognition of the extra hours worked by the senior staff through a fixed amount of benefit time to be given in either extra vacation days, or an annual cash payout of up to an amount determined to be comparable to other City managers and department directors. The goal of this exercise will be to determine if the key management employees are being fairly compensated including salaries and all benefits.

D. HEALTH INSURANCE PLAN DESIGN:

Overview: EPI compared the plan designs of the four comparable communities to the City of DeKalb's plans. Normal and Wheaton only offer a PPO Plan. Moline offers two plans, each with varying benefits. The Village of Downers Grove offers a PPO and a high-deductible PPO Plan. In general, the City of DeKalb's plan design is competitive with the other plans. Please see Exhibit E showing the plan basics for the five communities and how each plan compares. Although the benefits provided under the health plans were comparable, with health costs continuing to increase, the only way to save costs is to modify the plan design to shift more costs to the consumer of those benefits.

Analysis: There are a few areas where DeKalb could change its benefits which would result in a cost savings:

1. Change the out of network coverage from 80% of covered services to 70% of covered services. This is an area where DeKalb is more generous than the comparable communities.
2. Increase the deductible to \$500 for single, \$1,000 for a single plus one, and to \$1,500 for family.
3. Increase the maximum out of pocket maximum from \$750/\$1,000/\$1,500 to \$1,000/\$2,000/\$3,000.
4. Change the office visit from paying 10% co-insurance after the deductible to meeting the deductible plus a co-pay of \$20 per visit, and \$50 co-pay for specialists. If an average office visit is \$75, the cost shift is from \$7.50 to \$20, or a savings of \$13.50 per visit. This type of co-payment is very common in plan design.
5. Limit the visits to chiropractic service providers to a maximum number per year, and set a dollar cap. For example, the City could limit the visits to 25 per year and a maximum dollar payment of \$2,500 per year.
6. Increase the pharmacy co-pays for formulary and brand name drugs to \$35 and \$50, respectively. This will encourage the use of generic drugs (\$15 co-pay) which generally cost between 60-80% less than the cost of brand name drugs. Mandate the use of generic drugs when available.

7. Set a limit on the number of visits for speech, occupational, and physical therapy, and set a maximum dollar cap for each.
8. Conduct extensive employee education on the cost of health care, being a good consumer, and mandate the use of lower cost generic drugs, when available.

EPI is not an actuary or an underwriter, and has not calculated the savings from making these suggested changes to plan design. However, in general, by shifting the up-front costs to higher deductibles, increasing the maximum out-of-pocket and increasing co-pays, the employee becomes a better consumer of health care and the taxpayers will generally save money.

Short-term recommendation: EPI recommends the City discuss these changes with the City's provider to calculate possible cost savings. Further, the City may want to amend the Section 125 benefit plan to increase the maximum set-aside for employees so they may achieve pre-tax savings on the costs they do incur per year.

Long-term recommendation: Currently the Fire and Police Union contracts make premium payments based upon a percent of salary versus a percent of premiums for all other City employees. EPI recommends that one system be adopted for the payment of the employee's cost of health and dental insurance, for ease of administration.

Also, the plans for Police and Fire are slightly different than for all other employees. EPI recommends that the health and dental plan designs be identical for all employees to save on administration time.

E. DEBT MANAGEMENT STRUCTURE:

Overview: The City has significant debt capacity when compared to the benchmark cities. The City's debt per capita is the lowest of all benchmark cities. However, EPI believes the need for infrastructure is much greater than what is planned in the current capital improvement plan. For example, during several interviews with staff, they indicated that even though there is a need for capital improvements for storm water or flooding problems, or to fix streets and buildings, few capital costs are identified because of the staff's belief they will not get funded by the City Council. The need for increased infrastructure financing was repeated in virtually all departments.

Also, the flooding issue was mentioned repeatedly during the Strategic Planning workshops and should be addressed.

Short-term recommendations: EPI recommends the City Council have an open honest discussion with the City staff regarding the true capital needs of the City so infrastructure problems get addressed before the cost to fix the problem becomes unmanageable. The capital improvements plan should be a reflection of the total infrastructure needs of the City so that proper debt planning may occur.

While the debt per capita is relatively low, EPI does not recommend the issuance of new debt until the City has stabilized its operating budget. Once the City has a financial plan that is sustainable and will produce balanced operating budgets, with proper reserves, then additional debt may be considered. At this time, EPI recommends that the City put the Police Station building plans on hold, and consider a lower cost alternative of hiring a space planner to evaluate the Municipal Building and Annex to see if the staff can be accommodated in those two buildings by remodeling existing spaces to achieve greater efficiencies.

Further, the length of most of the City's debt issues is relatively short (10 years). The City may wish to consider issuing debt for a longer period of fifteen to twenty years, but should do so only in consultation with the City's financial advisor and the bond rating agencies.

Long-term recommendation: Work aggressively to maintain or improve the City's bond rating. Borrowing costs increase significantly if the bond rating is lowered. EPI recommends that the City diversify the revenue mix in the General Fund and utilize more stable revenue sources for operating funds.

The City's current bond rating is Aa3. Given the budgetary issues the City is facing, it is more likely than not that a rating downgrade is possible without strong actions to improve the budget stability. EPI strongly recommends that the City consider the bond rating criteria used by the rating agencies before making any significant financial policy decisions. The City's financial advisor can help the City walk through any financial and policy decisions that are necessary to avoid a possible downgrade.

Rating agencies are taking notice of pension liabilities and related funding levels in considering ratings and are looking unfavorably upon post-retirement health plan liabilities that are not being funded in accordance with actuarial requirements.

To maintain the City's current rating, consider increasing the size of the General Fund reserve to 15-25%, depending upon the revenue mix. The City is currently overly reliant on economically sensitive revenues such as sales tax and income tax. Rating agencies prefer the use of either: 1) a greater share of General Fund revenues from property taxes, or 2) a higher General Fund reserve to offset the risk of over-reliance on sales and income taxes, which are both economically sensitive.

F. FUNDING VEHICLES AND OTHER CAPITAL EQUIPMENT:

The City of DeKalb has more than \$5.8 million in equipment and vehicles in the fleet. Currently there is no funding mechanism to pay for the replacement of vehicles. Vehicles have been purchased through lease-purchase agreements in recent years or by cash from the operating budgets.

EPI has recommended under the best practice section that the City consider leasing some or all of its vehicles. While that may be possible for many of the vehicles, it may not be possible for some vehicle types and certain capital equipment. In that case, the City should consider establishing a long-term funding mechanism to provide a stable source of funding for vehicles.

Many cities, including the benchmark cities, utilize a Vehicle Replacement Fund. This type of fund is an internal service fund which collects funds in advance of the replacement of a vehicle over its useful life. In other words, the costs are amortized in advance of the replacement. For example, if a vehicle costs \$20,000 and has a useful life of 7 years, the City should be setting aside in a reserve fund \$238.10 per month to have sufficient replacement funds on hand at the end of the useful life. The monthly amortization should be adjusted annually to provide for inflation, if any, in the cost of the vehicle as well. EPI recommends this type of funding for any vehicle or equipment that has a useful life of ten years or less.

Some vehicles have such a long life and are so expensive, that it may be best to bond finance those types of vehicles. Some examples may include ambulances, fire trucks, and heavy equipment such as dump trucks. The bond issue should not be longer than the estimated useful life of the equipment.

Short-term recommendation: EPI recommends the City adopt a funding mechanism for replacement of vehicles and equipment, and remove such costs from the capital outlay of the General Fund. The Water Utility Fund should pay its own costs for equipment and vehicles and should contribute to a Vehicle Replacement Fund, if one is established.

Long-term recommendation: Evaluate the fleet to determine if there is a need for every vehicle, and eliminate vehicles that have low usage. Consider renting heavy equipment that is used infrequently instead of purchasing. Consider paying mileage or auto allowances to employees that are currently assigned vehicles that are not required for emergency responses, in lieu of purchasing and maintaining vehicles with low usage.

G. REVENUE ENHANCEMENTS:

EPI recommends the City of DeKalb increase some revenues and adopt new ones to enhance the long-term viability of the General Fund. During the Strategic Planning work sessions, the following three revenue areas were identified as areas the City Council would consider an increase.

Short-term recommendations: EPI recommends the following increases to existing taxes or additions of new taxes and fees:

1. **Electric Utility Tax:** The City currently taxes the kilowatt sales of electricity and this tax generates \$1.8 million per year. The tax is equivalent to a 3% tax on electric consumption. EPI recommends that the electric utility tax be increased to 5%, which would produce an increase in revenues of \$800,000 to \$1,400,000 per year. This change alone will eliminate the projected deficit for FY 2010.
2. **Real Estate Transfer Tax:** EPI recommends adoption of a real estate transfer tax. This revenue requires a referendum and EPI recommends this tax be directed to pay for infrastructure or capital equipment, perhaps to fund vehicle replacement costs. If approved by the citizens, EPI recommends a real estate transfer tax of \$5.00 per \$1,000 of sales price tax. This would generate

approximately \$250,000 per year from single family home sales. This estimate is based upon an average sales price of \$200,000 for single family homes, with an average of 250 homes sold per year. The average number of homes sold per year for the last 14 years was 291 homes. In 2008 during a tough economy, the sales were 221 homes. The average sales price for the last five years was \$191,665.

If commercial and industrial properties sales of \$5 million per year were added to this mix, EPI believes the City could realize total revenues of up to \$500,000 per year. EPI believes this is a conservative estimate of the revenue potential.

Note: EPI did not have sales data for commercial and industrial sales for the past 14 years, so the amount of revenue realized will vary with the dollar value of commercial and industrial real estate sold per year. Staff should verify the sales data for this segment of the market to determine the total revenue potential of this tax.

3. **Other General Fund Revenues:** The City of DeKalb should consider a policy in which certain services are covered by user fees. The policy should consider how much of the cost for providing a service should be borne by general revenues and taxes, and how much should be borne by the user. For example, the City may decide that 25% of the cost of EMS service should be covered by ambulance fees. The City would study the actual cost of providing the service, including all overhead for stations, equipment, and administrative personnel, and direct costs for firefighter and paramedic salaries and benefits, and medical supplies, and compute the total cost. For building permits, the City may decide that 100% of the cost of providing this service should be paid by the person or developer seeking the permit.

Revenues to be reviewed against such a policy should include:

- a. Ambulance fees
 - b. Licenses-all types
 - c. Building permits-all types
 - d. Planning and zoning fees
 - e. Plan review fees
 - f. Engineering fees
4. Water Fees: EPI recommends that any future rate studies for water rates be done on a cost of service basis by a qualified engineering consultant. The last study done in 2007 was completed in-house by staff based upon a comparison to the "Carbondale study of 17 communities" per Rick Monas, Public Works Director.

A cost of service rate study determines rates by evaluating the demand for water usage placed on the entire system by class of user, such as commercial, industrial, and residential. The fixed, variable, and capital costs are determined for the entire water system by projecting the system costs for the next five years. The rates are allocated to the user class based upon the demand they generate for the primary services provided in the system: water treatment, pumping, storage, distribution, and administration costs.

EPI recommends that if a cost-of-service rate study is implemented, that a repeat study is done on a three-to five-year cycle. EPI believes that going to a cost of service rate-setting system will provide the true cost of providing water including the long-term capital replacement needs of water towers, treatment facilities and pumping to the customers on an equitable basis.

5. Increase the use of property taxes for operations and/or debt. As noted in the benchmarking section, the City has a low per capita property tax rate and suffers from an over reliance on sales and income taxes. To generate a more stable tax base, property tax revenues should be a larger percent of General Fund revenues. This recommendation ties in with the debt management recommendation in Section E above.
6. Transfer of Funds from Motor Fuel Tax Fund: EPI recommends that the City stop transferring Motor Fuel Tax Funds to the General Fund, except to cover actual engineering costs for maintenance projects. It appears that the increased use of MFT funds has subsidized the General Fund while limiting the ability of the MFT Fund to address longer-term maintenance of streets and other infrastructure needs. The MFT Fund needs to keep its revenues to fund proper maintenance of streets in the City.



STRATEGIC FINANCIAL EVALUATION AND PLANNING PROCESS

SUMMARY KEY RECOMMENDATIONS

May 2009

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SUMMARY KEY RECOMMENDATIONS



Short-Term

\$ Impact Costs/(Savings)

1. Wage Actions

1A. Based on the economic conditions, freeze wages for 1 year with a review every six months

(\$589,000) for 2010

2. Organizational Efficiencies

2A. See attached (Chart A) for position and outsourcing recommendations

(1,430,000)

2B. Rethink senior management organizational structure (Chart B) 0

2C. Fully engage human resources as a business partner enhancing review of human resource implications in City decision-making

0

CHART A SPECIFIC DEPARTMENTAL RECOMMENDATIONS ORGANIZATION COSTS/CAPACITY – BUDGETING FOR OUTCOMES



Department	Action	Impact		Rationale
		FTE Costs/ (Savings)	\$ Costs/ (Savings)	
Public Works	- Consolidate engineering services under Public Works	-	(\$20,000)	- Increase director span of control - Engineering service head an assistant director level
	- Eliminate engineering aide	(1)	(\$100,000)	- Original funding mechanism gone - Reengineer work processes to cover field coverage
	- Consolidate water and street operation's management/supervision	(3)	(\$300,000)	- Increase spans of control – eliminate 1 assistant director – consolidate crew leaders from 9 on 15 to 7 on 15
	- Pursue outsourcing of vehicle maintenance	(3)	(\$30,000)	- Non-core competency – best practice
	- Pursue outsourcing of building inspection/code enforcement	(5.5)	(\$50,000)	- Outsource variable demand non-core competency - Best practice
Fire	- Convert Captain's positions into firefighter positions - Upgrade Lieutenant position responsibilities and pay	-	(\$40,000)	- Eliminate 1 on 1 span of control - Reduce costs - Reduce OT with additional firefighters - Reduce hierarchical structure

CHART A SPECIFIC DEPARTMENTAL RECOMMENDATIONS ORGANIZATION COSTS/CAPACITY – BUDGETING FOR OUTCOMES (continued)



Department	Action	Impact		Rationale
		FTE Costs/ (Savings)	\$ Costs/ (Savings)	
Police	- Convert IT Sergeant to civilian and consider as part of outsourcing strategy	-	(\$15,000)	- Non-City core competency
	- Eliminate Sergeant position in investigations	(1)	(\$100,000)	- Eliminate 1 on 1 span of control
	- Convert 4 Corporal positions to Officers	-	(\$25,000)	- Cost reduction yielding more Officers – reduce hierarchical structure
Administration	- Pursue outsourcing of IT and billing	(8)	(\$150,000)	- Outsource non-core competency – best practice
	- Eliminate special projects coordinator position	(1)	(\$100,000)	- Redevelop and consolidate work processes
	- Add 1 Chief Financial Officer	1	\$160,000	- City needs competency for imperative strategic financial planning requirements
City Clerk	- Eliminate 1 FTE	(1)	(\$100,000)	- Productivity benchmarking based on City size and processes

CHART A SPECIFIC DEPARTMENTAL RECOMMENDATIONS ORGANIZATION COSTS/CAPACITY – BUDGETING FOR OUTCOMES (continued)

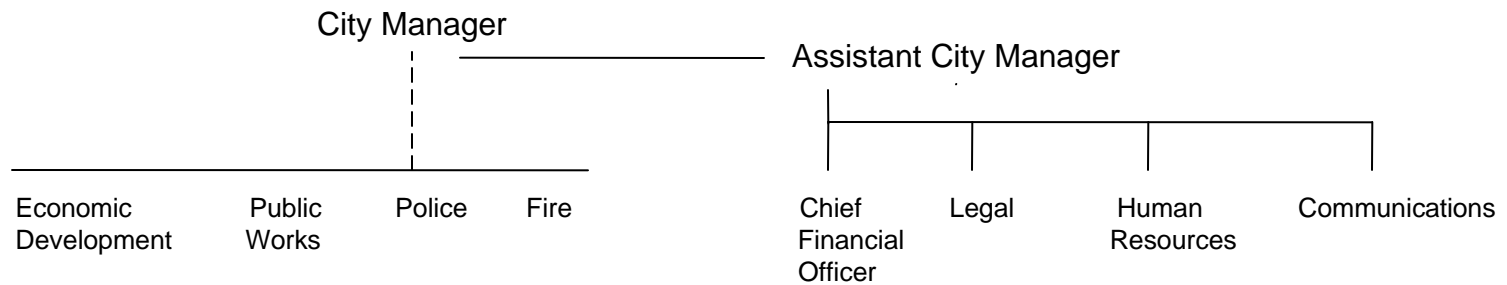


Department	Action	Impact		Rationale
		FTE Costs/ (Savings)	\$ Costs/ (Savings)	
Economic Development	- Add 1 full time economic development director	1	\$160,000	- Key strategic priority and focus
Communications	- New position	1	\$100,000	- City needs focus and competency for imperative community relations and outreach
General	- Centralized purchasing - Centralized clerical/admin	1 (3)	(\$100,000) (\$300,000)	- Best practices - Best practices
	TOTALS:			
	Savings	(26.5)	(\$1,430,000)	
	Costs	<u>4.0</u>	<u>420,000</u>	
	Net	22.5	(\$1,010,000)	

CHART B SUMMARY KEY RECOMMENDATIONS



Proposed Organizational Structure Senior Management



SUMMARY KEY RECOMMENDATIONS (continued)



Short-Term (continued)

\$ Impact Costs/(Savings)

3. Benefit Management

- | | |
|---|---|
| <p>3A. Since the City is self-insured, acquire excess liability coverage to protect the City against unforeseen claims</p> <p>3B. Eliminate the supplemental pay for non-sworn public safety and other employees receiving workers' compensation and allow them to supplement workmen's compensations temporary and total disability benefit pay of 66% with available sick leave</p> <p>3C. Raise the level of % of health insurance premium contributed by employees (\$35,000/each 1%)</p> <p>3D. Consider changing existing health plan coverage to the following:</p> <ul style="list-style-type: none"> - Out of network coverage 80% to 70% - Deductibles to \$500 single, \$1,000 single+one, \$1,500 family - Out-of-pocket max \$750/\$1,000/\$1,500 to \$1,000/\$2,000/\$3,000 - Office visits from 10% to \$20 per (\$50 specialists) - Limit the number of chiropractor visits/year and set a maximum - Increase co-pays for formulating and branded drugs to \$35 and \$50, respectively - Set a limit on number of visits to speech, occupational and physical therapists and set a maximum - Educate employees in the Section 125 Plan on cost of health coverage and use of generic drugs - Increase the maximum set-aside for employees so they may achieve pre-tax savings on incurred medical costs - Discuss with provider to determine actual savings | <p>Estimated additional
\$75,000-\$150,000</p> <p>(Internal analysis needed)</p> <p>(Estimated \$100,000 -
\$150,000)</p> |
|---|---|

SUMMARY KEY RECOMMENDATIONS (continued)

Short-Term (continued)

\$ Impact Costs/(Savings)

3. Benefit Management

3E. Eliminate the retiree health plan (reduce for existing retirees over time) - subject to legal review and negotiations with union contracts

(\$1,000,000/year
done immediately or
\$640,000/year over
five years)

4. Operational Efficiencies

4A. Although DeKalb already provides general fund services at lower cost than the benchmarked cities, EPI recommends a further review of core service levels and non-core services for elimination or fees for use (see revenue section of this document)

4B. Centralized purchasing (see organizational efficiencies section)

See Chart A

4C. Centralized administrative support
(see organizational efficiencies section of this document)

See Chart A

4D. Outsource IT, billing, vehicle maintenance and building inspection
(see organizational efficiencies section of this document)

See Chart A

SUMMARY KEY RECOMMENDATIONS (continued)



Short-Term (continued)

\$ Impact Costs/(Savings)

4.Operational Efficiencies

- 4E. EPI also believes a lean process analysis would yield opportunities in key departments (TBD)
- 4F. Develop a performance based appraisal process with pay for performance opportunities for all management and non-union employees 0
- 4G. Develop a budget process based on specific service outcomes and priorities 0
- 4H. Work to establish a culture of continuous improvement 0
 - 4I. Develop a shareholder participation and collaboration process 0
 - 4J. Make it a practice to do long-term financial forecasts with monthly updates 0
 - 4K. EPI also recommends looking at shared service and purchasing opportunities with other governmental bodies (TBD)
 - 4L. Adopt new HR policies to reflect the changes recommended in this document 0
- 4M. Consider the creation of a fire district representing several communities (Needs internal analysis)

SUMMARY KEY RECOMMENDATIONS (continued)



Short-Term (continued)

\$ Impact Costs/(Savings)

5. Financial Policies, Management and Systems

5A. Adopt a debt management policy

0

5B. EPI recommends not making debt service payments from the general fund - use property taxes over the life of the capital items instead – use general obligation bonds to finance construction and property taxes to pay down the bonds over the life of the asset – DeKalb should not use any other short-term revenue sales tax, hotel tax, water surcharges to pay for building and long-term assets – some increase in property tax may be necessary

(\$1,400,000 to General Fund Operating Budget)

5C. Update investment policies in accordance with GFOA standards – review on an annual basis

0

5D. Obtain a line of credit of \$5M to manage cash flow needs – competitively bid Dependent upon use the rate

5E. Regarding OPEB plans: Review actuary assumptions, the funding formula, establish a trust for holding assets and adopt an investment policy for investing the assets – review types of investments allowed by law for an OPEB plan – determine if using best practices in the pension industry

Estimated \$4,000-\$6,000

SUMMARY KEY RECOMMENDATIONS (continued)



Short-Term (continued)

\$ Impact Costs/(Savings)

5. Financial Policies, Management and Systems

5F. Adopt a risk management policy which sets limits on self-insurance retention 0

5G. Set aside funds in a reserve account equal to the amount of self-insurance retention to cover future losses Depends upon amount retained – suggest \$1,000,000-\$2,000,000 reserve

5H. Consider a risk management audit Estimated \$0 - \$25,000

5I. Appoint two financial/investment experts to the police and fire pension boards 0

6. Infrastructure/Facilities and Equipment

6A. Put the police station on hold and develop a need and alternative study 0

6B. Hire a space planner to evaluate the municipal building and annex \$25,000 Estimated

6C. Develop a long-term infrastructure plan including building facilities and equipment 0

SUMMARY KEY RECOMMENDATIONS (continued)

Short-Term (continued)

\$ Impact Costs/(Savings)

6. Infrastructure/Facilities and Equipment

6D. Develop a system for evaluating ongoing infrastructure needs (i.e., criteria for evaluation, payback period, prioritization relative to other needs, etc.)

0

6E. Consider issuing debt for longer periods than current 10 year practice - over life of 15 – 20 years

(Debt spread

various assets)

6F. Analyze the lease vs. buy option for vehicles (internal analysis)

(Needs

6G. Create a vehicle replacement fund and fund monthly – not, however, as estate transfer

(Use real

capital outlay from the general fund. The water utility fund should pay for the costs of its own equipment, contributing to the vehicle maintenance fund – this requires a referendum

tax to fund)

6H. Evaluate the vehicle fleet, determine need for every vehicle and eliminate (internal analysis)

(Needs

all vehicles with low usage – rent heavy equipment as needed – pay mileage or an allowance to employees that are currently assigned vehicles that are not required for emergency responses in lieu of purchasing and maintaining vehicles

SUMMARY KEY RECOMMENDATIONS (continued)



Short-Term (continued)

\$ Impact Costs/(Savings)

7. Organization Adds

7A. Chief Financial Officer (see organizational efficiencies section)	\$160,000
7B. Economic Development Director (see organizational efficiencies section)	\$160,000
7C. Communications Assistant Director (see organizational efficiencies section)	\$100,000
7D. Purchasing Manager (see organizational efficiencies section)	See Chart A

8. Revenue Sources

8A. Raise electric utility tax from 3% to 5% \$1,000,000)	(\$800,000-
8B. Adopt a real estate transfer tax of \$500 per \$1,000 of sale price – this should include commercial and industrial real estate (\$500,000-\$750,000)	
8C. Review and establish a policy regarding user fees for services including \$100,000 – elimination and reduction of some services (core and non-core)	(Estimated \$300,000) (very conservative)

SUMMARY KEY RECOMMENDATIONS (continued)

Short-Term (continued)

\$ Impact Costs/(Savings)

8.Revenue Sources

8D. Conduct future water rate studies using a qualified engineering consultant on a cost of service basis

(Costs offset by additional fee opportunities)

8E. Motor fuel tax funds should not be transferred to the general fund except for actual engineering costs for maintenance projects – use MFT funds for maintenance of street and other infrastructure needs

(Use to build

fund)

Long-Term

9.Funding

9A. Overtime, become less reliant on sales tax revenue while making property tax revenue a larger part of the general fund revenue

(Needs internal analysis)

SUMMARY KEY RECOMMENDATIONS (continued)



Long-Term (continued)

\$ Impact Costs/(Savings)

10. Fund, Risk and Debit Management

<p>10A. Proactively approach reducing DeKalb's liability potential – have risk exposure) management report to new CFO</p>	<p>(Less liability)</p>
<p>10B. Increase funding to police and fire pension plans to achieve 75% funded by actuary status within 10 years</p>	<p>Determined</p>
<p>10C. Consider joining a risk management pool internal analysis</p>	<p>Needs</p>
<p>10D. Work aggressively to improve DeKalb's bond rating for 15% - Increase size of general fund reserve to 15-25%</p>	<p>\$1,000,000 reserve; \$4,000,000 for 25% reserve</p>
<p>10E. Get financial house in order then consider increasing capacity for issuing more debt</p>	<p>0</p>
<p>10F. Develop a flood management plan and create a fund to manage costs internal analysis over time</p>	<p>Needs 15</p>

SUMMARY KEY RECOMMENDATIONS (continued)

Long-Term (continued)

\$ Impact Costs/(Savings)

11. Contract Management

11A. Conduct a comprehensive compensation comparison including all by additional forms of benefits converted to cash earned per year

(Costs off-set savings opportunities)

11B. Set a compensation policy and pay line

0

11C. Regarding police and fire contract:

(Needs internal analysis)

- Increase number of steps to 7 or 8; increase spread evenly across steps, adjust pay to be competitive with total compensation
- Review hours worked to comparables and adjust accordingly
- Review benefit days (vacation, sick, disability, longevity pay, etc.) – compare to comparables
- Eliminate disability benefit for firefighters who have not reached 7 years vesting
- Offer disability insurance product for employees to purchase on their own for those not vested in pension plan
- Negotiate uniform contract lengths and expirations so DeKalb can more efficiently manage benefit provisions
- Make plan designed for health and dental the same for all employees (police, fire, everyone else)
- Adopt consistent premium basis either % of salary or % of premium

SUMMARY KEY RECOMMENDATIONS (continued)



Long-Term (continued)

\$ Impact Costs/(Savings)

11. Contract Management

11D. Decrease the number of steps from minimum to maximum (now 12) for non-Union employees to 8 to coincide with union contracts 0

12. Pay and Benefit Management

12A. Regarding the pension plans, lobby state legislators to consider implementation from 25% to Reduce cost
of a defined contribution plan for all new local government employees (or other alternatives) 40% of pay to a flat % of pay per employee

12B. Lobby state legislators for modifications in existing pension plans (TBD)

12C. For senior management, benchmark salaries, vacation, sick time and internal analysis) (Needs
compensatory benefits against comparable communities, then sort comp time policy and fair compensation - salary and benefits for senior management

SUMMARY KEY RECOMMENDATIONS (continued)

Long-Term (continued)

\$ Impact Costs/(Savings)

13. Economic Development

13A. Focus on economic development of higher end housing and commercial development (TBD)

13B. Begin formation of an airport authority (TBD)

14. Revenue Source

- 14A. Consider other possible revenue sources (TBD)
- Increase parking and police fines
 - Increase ambulance fees
 - Increase contractual fire services and/or fees
 - Charge for leaf pick up
 - Implement vehicle stickers and fee
 - Consider student service fees

WHERE TO BEGIN

As this report indicates, there is much work to be done to create a stable financial future for the City of DeKalb. Having said that, this is quite doable. It will require leadership on the part of the Council and staff. Initially, it will require some sacrifice; however, over time, it will create real opportunity for all City of DeKalb stakeholders. The City has many assets which today are under utilized which, in the future, can help create the strategic vision identified in this report.

In thinking about all that needs to be accomplished, EPI recommends the following priorities as “where to begin”:

1. In this economic time, freeze employees wages for 1 year as the City is already considering.
2. Stop the post retirement healthcare immediately for new retirees and phase out for existing retirees.
3. Hire an Economic Development Director to create a proactive business-friendly economic development approach.
- 4A. Hire a Chief Financial Officer to manage the financial circumstances of the City and help Council and staff with the financial implications of their decisions.
- 4B. Hire a Purchasing Manager (reporting to the CFO) and centralize the purchasing function. Provide a savings target to be achieved or exceeded.
5. Raise the electric utility tax.
6. Conduct a thorough services review identifying core and non-core services, services that can be eliminated, services where level of service can be reduced, and services where pay for service opportunities can be instituted.

WHERE TO BEGIN (continued)

7. Implement the staff productivity, outsourcing, reorganizations, and reductions identified in the specific departmental recommendations chart – Chart A.
8. Purchase excess liability coverage to protect the City against unforeseen claims.
9. Restructure the medical benefits as outlined in this report. Increase employee contributions to medical and pension plans.
10. Over time (3-4 years), raise the tax levy slightly to manage general fund needs and restructure the union contracts to create consistency as outlined in this report.

Leadership from the Council and staff will be required to drive, manage, and review the financial health and progress of the City of DeKalb.